AKITA DRILLING LTD.

2021

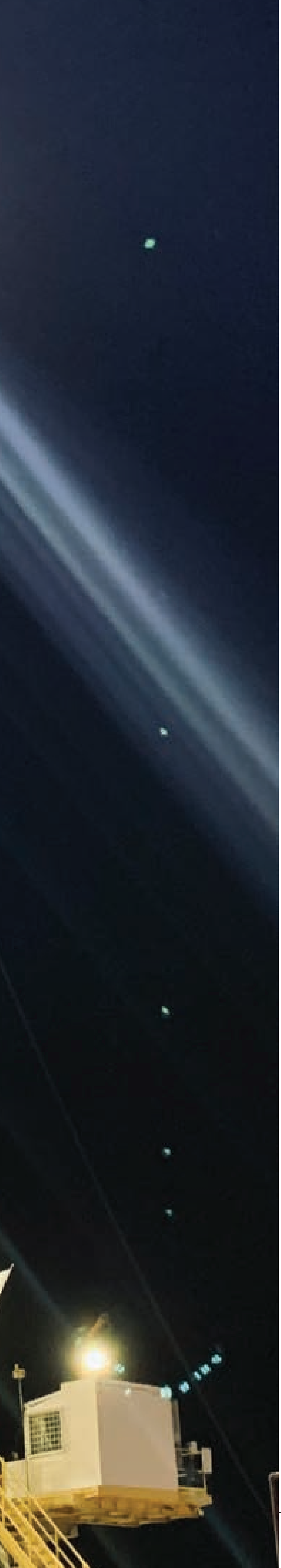
ANNUAL REPORT


AKITA
56
AKITA
56

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, at full operations, approximately 1,000 people. The Company has ownership in 36 drilling rigs in all depth ranges.

CONTENTS



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 factors such as prevailing economic conditions (including as may be affected by the COVID-19 pandemic); 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.

Additional information about these and other factors can be found under the "Business Risk and Risk Management" section of the Management's Discussion and Analysis of this 2021 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 10, 2022 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

AKITA Drilling Ltd.'s net loss for the year ended December 31, 2021 was $20,990,000 (net loss of $0.53 per share (basic and diluted)) on revenue of $110,088,000 compared to a net loss of $93,274,000 ($2.35 loss per share (basic and diluted)) on revenue of $119,664,000 in 2020. The Company recorded an asset impairment loss of $80,000,000 in 2020. Adjusting for the asset impairment loss, the Company's net loss in 2020 was $20,674,000 (net loss of $0.52 per share (basic and diluted)). Funds flow from operations for 2021 was $7,454,000 compared to $10,322,000 in 2020, while net cash used in operating activities for 2021 was $3,461,000 compared to net cash from operating activities of $22,860,000 in 2020.

The impact of the mitigation strategies to lessen the spread of the global pandemic eased over the course of 2021, and the price of oil began to recover, increasing 37% in the year. At the same time, the price of natural gas increased 67% in the year. These significant improvements in commodity prices increased demand for drilling services in both Canada and the United States and resulted in improved activity for both AKITA's Canadian and US operations.

In Canada, the Company's operating days increased to 1,594 in 2021 from 945 in 2020, a 69% increase. Operating margin increased in 2021 to $9,068,000 from $8,254,000 in 2020, however, this increase was only 10% compared to the 69% increase in activity. The Canadian operating margin was not commensurate with the level of increased activity, as low day rates established in 2020 continued to characterize industry day rates over 2021. Costs also increased in the year, largely attributable to supply chain disruptions and escalating input and labour costs. However, these inflationary costs were largely offset by the Canadian Emergency Wage Subsidy ("CEWS") of $3,450,000 which mitigated increased operating costs (2020 - $1,820,000).

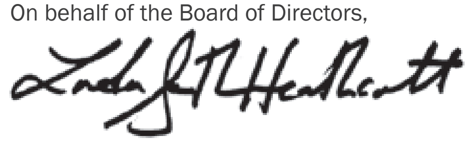
On November 23, 2021, the Canadian Association of Energy Contractors ("CAOEC") released its 2022 industry drilling forecast, estimating 58,111 operating days for the Canadian drilling industry in 2022 up from 45,843 actual operating days in 2021. The 2021 forecast was based upon commodity price assumptions of USD $62.37 per barrel for crude oil and CAD $2.99 per mcf for natural gas. Based on the CAOEC forecast it would appear that 2022 will be better than 2021, however, increased activity in Canada may be tempered by the availability of experienced crews which are in very short supply in the industry.

In the US, AKITA's operating days increased to 2,817 in 2021 from 2,555 in 2020, a 12% increase in operating days. This increase in operating days did not translate into higher operating margins, however, which fell to $13,427,000 in 2021 from $20,297,000 in 2020. Operating rates were significantly lower on average in 2021 than in 2020 for the Company in the US as the active rig count in the US over 2021 did not reach activity levels that resulted in materially improved day rates. The active rig count has continued to improve in the US, and the Company is expecting to secure steady day rate improvements as 2022 unfolds.

In both Canada and the US, our focus for 2022 will be to keep a firm grip on expenses while pushing dayrates higher as activity in the industry builds. Further, the Canadian division has an opportunity to improve its activity level as it works to resolve critical crew labour constraints that have limited activity levels over Q1 of 2022. A modest capital budget is planned for the year and debt repayment is the overarching focus moving forward.

We would like to express a special thanks to AKITA's employees for their hard work and sacrifices through these challenging times impacted by the pandemic as well as labour shortages. 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,

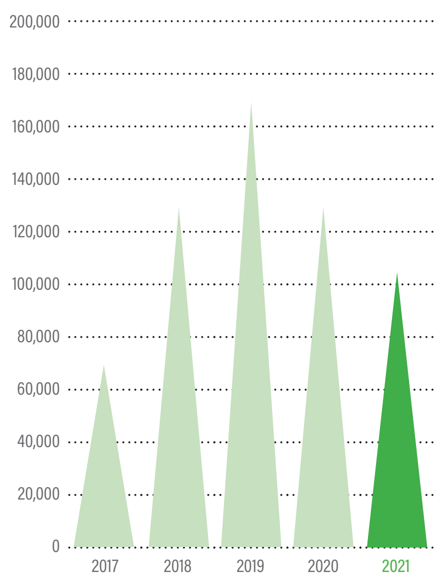


Linda A. Southern-Heathcott
Executive Chair and Chief Executive Officer

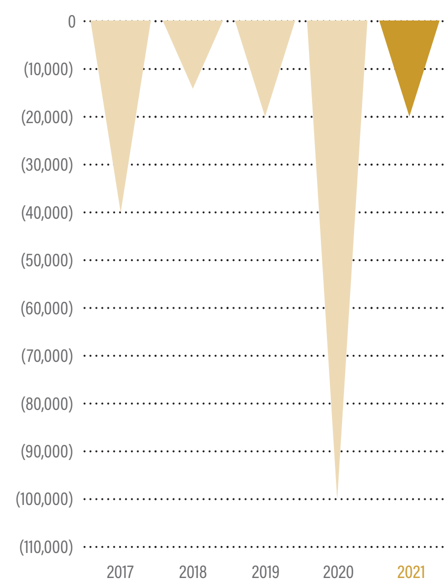
March 10, 2022

OPERATIONAL PERFORMANCE

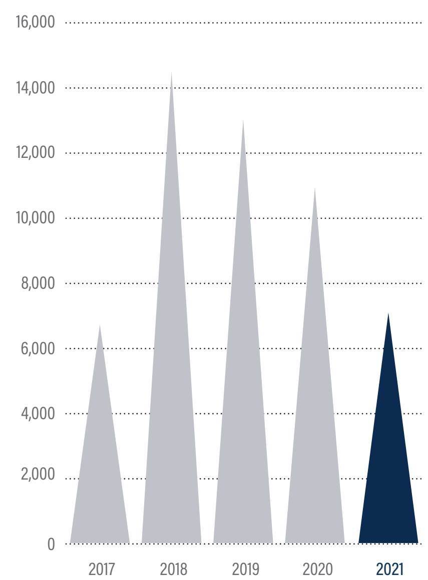
Revenue ($000's)



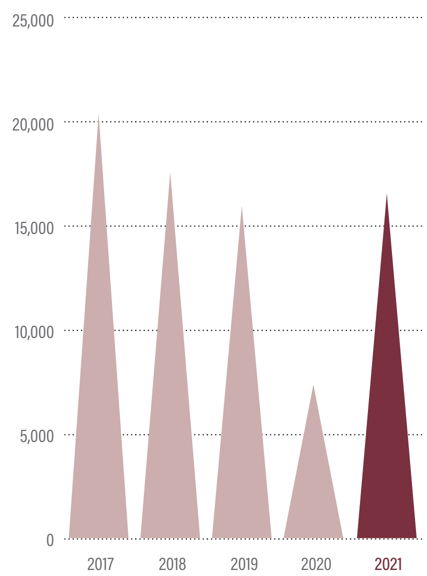
Net Loss ($000's)



Funds Flow from Continuing Operations ($000's)



Capital Expenditures ($000's)



At AKITA - integrity, respect and commitment are the foundational values and guiding principles engrained into every aspect of our operations.

FOUNDATIONAL VALUES

RESPECT

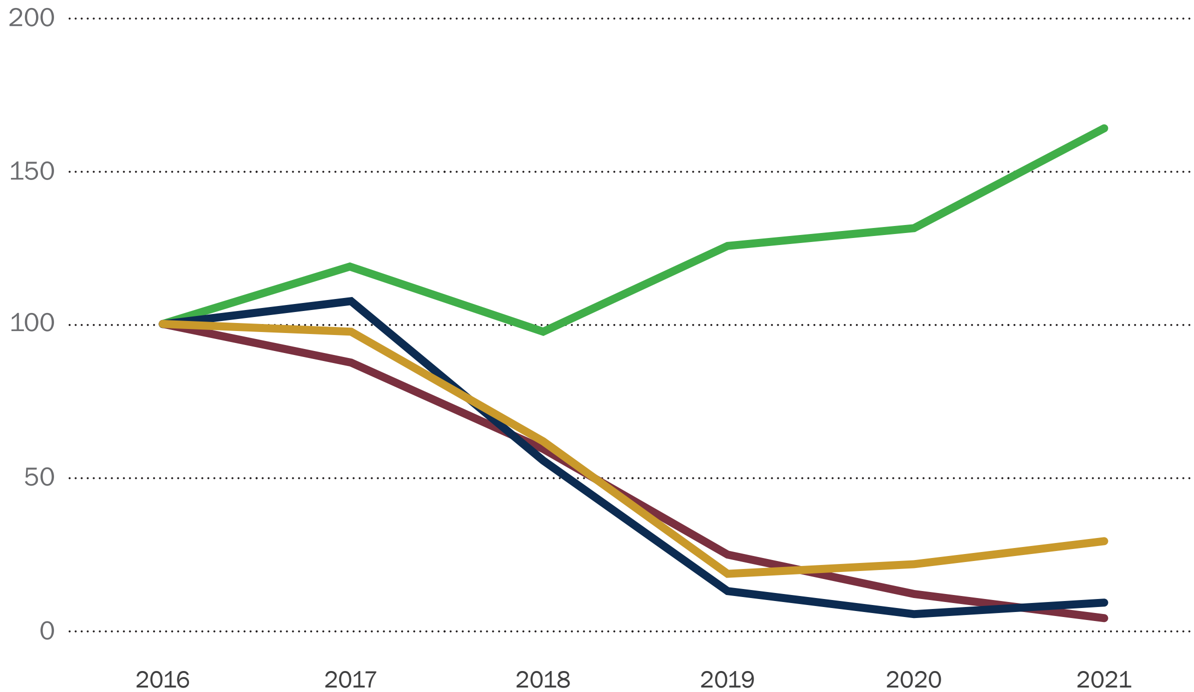
COMMITMENT

INTEGRITY

SHARE PERFORMANCE

The graph below compares the cumulative return over the last five years on the Class A Non-Voting shares and Class B Common shares of the Company from December 31, 2021 with the cumulative total return of the S&P/TSX Composite Stock Index and the TSX Energy Services Sub-Index over the same period, assuming reinvestment of dividends.

Five Year Total Return on $100 Investment



	Dec 31, 2016	Dec 31, 2017	Dec 31, 2018	Dec 31, 2019	Dec 31, 2020	Dec 31, 2021
AKITA Class A Non-Voting Shares	100	105	54	17	7	13
AKITA Class B Common Shares	100	99	60	21	27	33
S&P/TSX Composite Index	100	109	99	122	129	161
TSX Energy Services Sub-Index	100	78	56	39	12	8

Share Performance

		2017	2018	2019	2020	2021
Weighted average number of Class A and Class B shares		17,988,552	17,969,415	24,551,542	39,608,191	39,608,191
Total number of Class A and Class B shares		17,945,661	39,608,191	39,608,191	39,608,191	39,608,191
Market prices for Class A Non-Voting shares	High	$ 9.88	$ 8.38	$ 4.42	$ 1.22	$ 1.54
	Low	$ 6.52	$ 3.41	$ 0.75	$ 0.25	$ 0.50
	Close	$ 7.36	$ 4.07	$ 1.19	$ 0.48	$ 0.94
Volume		1,324,111	2,192,522	8,875,748	21,339,080	7,153,646
Market prices for Class B Common shares	High	$ 9.95	$ 8.16	$ 4.48	$ 2.89	$ 3.00
	Low	$ 6.94	$ 3.77	$ 1.25	$ 0.67	$ 0.98
	Close	$ 7.61	$ 4.60	$ 1.57	$ 0.77	$ 2.46
Volume		41,479	19,313	53,746	45,986	28,601

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.

	2017	2018	2019	2020	2021
Dividends per share ($)	0.34	0.34	0.17	0.00	0.00

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, 2021, is dated March 10, 2022, 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, 2021. The MD&A should be read in conjunction with the audited annual consolidated financial statements and related notes for the year ended December 31, 2021, 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) and stated in thousands unless otherwise identified.

Introduction

AKITA is a premier Canadian oil and gas drilling contractor with a fleet of 36 drilling rigs. AKITA provides contract drilling services through two geographical segments: Canada and the United States ("US"). With a fleet of 20 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., a joint venture between AKITA and Saulteau First Nation, Akita Equtak Drilling Ltd., a joint venture between AKITA and the Inuvialuit Development Corporation, and Akita Wood Buffalo Drilling Ltd., a joint venture between AKITA and Chipewyan Prairie First Nation, Fort McMurray 468 First Nation, Fort McKay Métis Nation, Fort Chipewyan Métis Local 125, and Conklin Métis Local 193. Each joint venture has defined geographical boundaries and an equity interest in select AKITA rigs. AKITA's US division conducts operations with a fleet of 16 rigs in Colorado, Wyoming, Texas, Utah, 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.

Financial Highlights

$Thousands except per share amounts	2021	2020	Change	% Change
Revenue	110,088	119,664	(9,576)	(8%)
Operating expenses	89,835	91,855	(2,020)	(2%)
Operating margin (1)	20,253	27,809	(7,556)	(27%)
Margin % (1)	18%	23%	(5%)	(22%)
Net cash from (used in) operating activities	(3,561)	22,860	(26,421)	(116%)
Adjusted funds flow from operations (1)	7,454	10,322	(2,868)	(28%)
Per share	0.19	0.26	(0.07)	(27%)
Net loss	20,990	93,274	(72,284)	(77%)
Per share	0.53	2.35	(1.82)	(77%)
Capital expenditures	16,416	7,593	8,823	116%
Weighted average shares outstanding	39,608	39,608	-	0%
Total assets	247,574	251,521	(3,947)	(2%)
Total debt	86,156	74,303	11,853	16%

(1) See "Non-GAAP and Supplementary Financial Measures" near the end of this MD&A for further detail.

General Overview

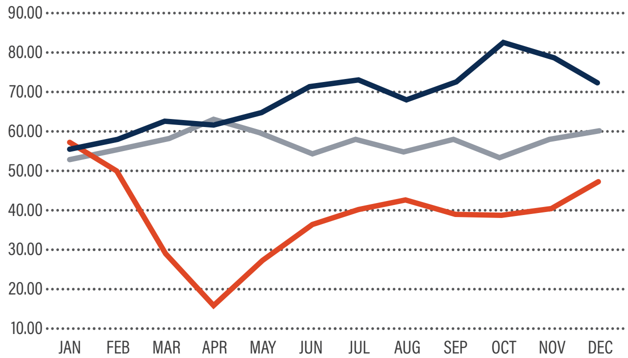
A number of forces converged in 2021 to create a turbulent environment for the North American drilling industry. Substantially improved commodity pricing led to an increase in oil and gas drilling and overall improved industry rig utilization. The Company's operating days increased to 4,465 in 2021, up from 3,500 in 2020. This increase in activity did not translate into higher results however, as day rates in the industry remained at very low levels for the majority of the year, and only beginning to increase near the end of the year as activity continued to strengthen. The effect of low day rates was exacerbated by increased costs over the course of the year. The Company recorded a net loss of $20,990,000 in 2021 compared to a loss of $93,274,000 ($20,674,000 after adjusting for the $80,000,000 asset impairment loss) in 2020. Adjusted funds flow from operations decreased to $7,454,000 in 2021 from $10,322,000 in 2020.

The Company more than doubled its capital spending in 2021 to $16,416,000 from $7,593,000 in 2020. This capital was required to reactivate idle assets, upgrade equipment to meet customer demand and replace old or worn out drill pipe. This high capital spend compared to adjusted funds flow from operations ($7,454,000) was required to position the fleet well for a successful and active 2022. Funding for this capital investment was primarily through drawing on the Company's credit facility, which increased to $86,156,000 at December 31, 2021 from $74,303,000 at the same time in the prior year

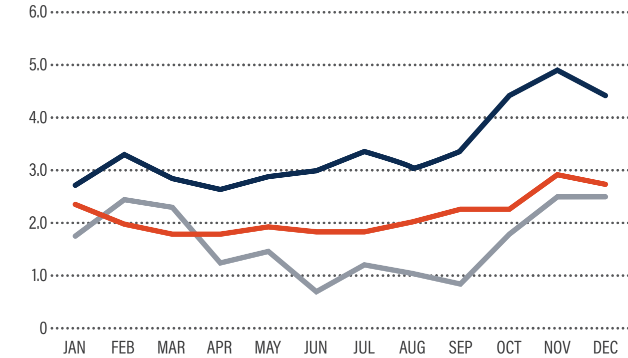
Industry Overview

2021
2020
2019

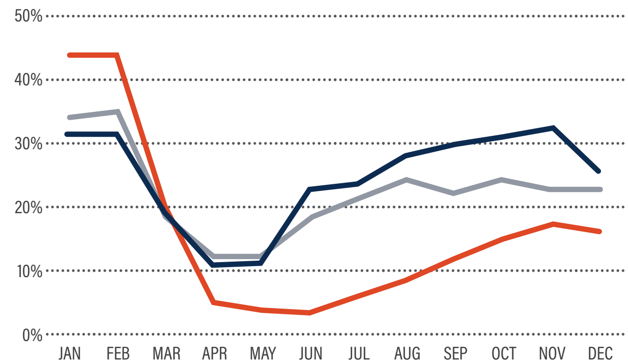
WTI Prices ($USD/bbl) (1)



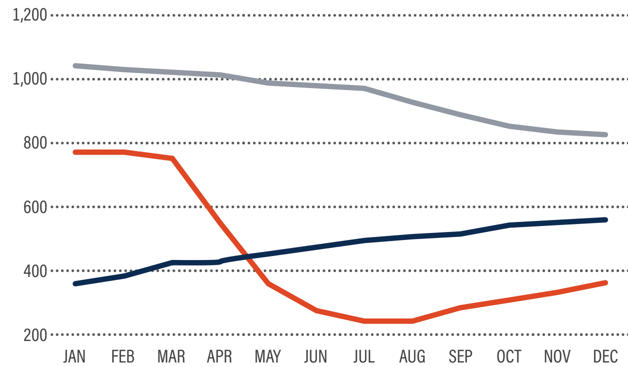
Alberta Natural Gas Price ($CAD/GJ) (2)



Industry Utilization Canada (3)



US Active Rig Count (4)



1) Source: U.S. Energy Information Administration
2) Source: Natural Gas Exchange ("NGX")
3) Source: Canadian Association of Energy Contractors ("CAOEC")
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, North American natural gas prices and increasingly international LNG pricing. Crude oil prices have been recovering since the lows in April of 2020, reaching levels not seen since 2014 by the end of 2021. Natural gas prices, which were not impacted as heavily as crude oil prices by the global pandemic, have increased well above 2019 and 2020 levels, and like WTI prices, are now at levels not seen since 2014. The demand for crude oil has continued to grow as the effects to mitigate the impact of the pandemic lessen and supply has not kept up with this demand, causing prices to continue to rise.

In Canada, industry utilization, which collapsed in the first quarter of 2020 because of the global pandemic, is now above 2019 levels. Activity levels in the Canadian industry have reached a point where drilling contractors are able to increase day rates for the first time in several years and a recovery in the Canadian industry appears to be starting in earnest. This positivity in the Canadian industry is being tempered by the fact that rates are increasing from extremely low benchmark rates that were established in the downturn, then further depressed during the height of the pandemic due to significant supply chain issues which are driving costs higher, and by an inability to secure additional labour. Access to labour is expected to be the key constraint to a rapid recovery in drilling activity in the Canadian industry.

In the US, industry activity has been slowly increasing since the lows seen in the third quarter of 2020 but is still well below 2019 levels, with 586 active rigs at the end of 2021 compared to 805 active rigs at the end of 2019. Despite high oil and gas prices, changing fundamentals in the US oil and gas industry have meant large multinational oil and gas companies have not increased their demand for drilling services, which has kept the active rig count low. This slower recovery in the US has constrained the industry's ability to raise operating rates, which have been declining since the first quarter of 2020 up until the second quarter of 2021.

Results by Segment

Canada

$Thousands except per day amounts	2021	2020	Change	% Change
Revenue Canada	28,290	28,466	(176)	(1%)
Revenue from joint venture drilling rigs	15,893	5,094	10,799	212%
Flow through charges [(1)]	(3,512)	(6,835)	3,323	(49%)
Adjusted revenue Canada [(1)]	40,671	26,725	13,946	52%
Operating and maintenance expenses Canada	21,489	20,954	535	3%
Operating and maintenance expenses from joint venture drilling rigs	13,626	4,352	9,274	213%
Flow through charges [(1)]	(3,512)	(6,835)	3,323	(49%)
Adjusted operating and maintenance expenses Canada [(1)]	31,603	18,471	13,132	71%
Adjusted operating margin[(1)]	9,068	8,254	814	10%
Margin %[(1)]	22%	31%	(9%)	(29%)
Operating days	1,594	945	649	69%
Adjusted revenue per operating day [(1)]	25,515	28,280	(2,765)	(10%)
Adjusted operating and maintenance per operating day [(1)]	19,826	19,546	280	1%
Adjusted operating margin per operating day [(1)]	5,689	8,734	(3,045)	(35%)
Utilization [(1)]	22%	13%	9%	69%
Rig count	20	20	-	0%

[(1)] See "Non-GAAP and Supplementary Financial Measures" near the end of this MD&A for further detail.

Utilization rates are a key statistic for the drilling industry since they typically directly affect total revenue and influence pricing. During 2021, AKITA achieved 1,594 operating days in Canada, which corresponds to an annual utilization rate of 22%, compared to a 2021 industry average of 25% and a 2020 utilization rate for the Company of 13% (945 days). The increase in AKITA's operating days in 2021 compared to 2020 is attributable to the increase in activity for AKITA's joint venture rigs that increased 496 days year over year as activity in the oil sands improved in the second half of 2021.

Canadian adjusted revenue of $40,671,000 in 2021 was 52% higher than 2020 adjusted revenue of $26,725,000, due to increased activity in 2021 but was offset by lower average day rates. Adjusted revenue per day decreased to $25,515 in 2021 from $28,280 in 2020. Lower adjusted revenue per day in Canada compared to 2020 was due to two factors: the mix of rigs working in 2021, with more lower margin rigs working in 2021, and labour contract revenue earned in 2020 that was not earned in 2021 which accounted for $1,034 of the total decrease in adjusted revenue per day. 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.

Adjusted operating and maintenance expenses are tied to activity levels and increased to $31,603,000 in 2021 from $18,471,000 in 2020, equal to a 69% increase in operating costs, which is in-line with the 69% increase in operating days. On a per day basis, adjusted operating and maintenance costs remained essentially flat, year over year. Increasing costs in the industry for supplies as well as labour costs were offset by the Canadian Emergency Wage Subsidy ("CEWS") of $3,450,000 in 2021 compared to $1,820,000 in 2020.

In 2021, AKITA delisted one of its single rigs in Canada and moved a high specification AC triple rig from the northern United States to Canada to address the growing demand for efficient high specification triple drilling rigs. The Canadian rig fleet therefore, remained constant at 20 rigs in both 2021 and 2020.

AKITA's Canadian segment provided drilling services to 15 different customers in 2021 (2020 - eight different customers), including four customers that each provided more than 10% of AKITA's Canadian revenue for the year (2020 – four customers).

United States

$Thousands except per day amounts (CAD)	2021	2020	Change	% Change
Revenue US	81,798	91,198	(9,400)	(10%)
Flow through charges [1]	(10,374)	(10,821)	447	4%
Adjusted revenue US [1]	71,424	80,377	(8,953)	(11%)
Operating and maintenance expenses US	68,371	70,901	(2,530)	(4%)
Flow through charges [1]	(10,374)	(10,821)	447	4%
Adjusted operating and maintenance expenses US [1]	57,997	60,080	(2,083)	(3%)
Adjusted operating margin [1]	13,427	20,297	(6,870)	(34%)
Margin % [1]	19%	25%	(6%)	(24%)
Operating days	2,871	2,555	316	12%
Adjusted revenue per operating day [1]	24,878	31,459	(6,581)	(21%)
Adjusted operating and maintenance per operating day [1]	20,201	23,515	(3,314)	(14%)
Adjusted operating margin per operating day [1]	4,677	7,944	(3,267)	(41%)
Utilization [1]	46%	41%	5%	12%
Rig count	16	17	(1)	(6%)

[1] See "Non-GAAP and Supplementary Financial Measures" near the end of this MD&A for further detail.

Activity levels in the US over 2021 improved for both AKITA and in industry over the low levels seen in 2020, albeit at a measured pace. Operating days increased 12% to 2,871 in 2021 from 2,555 in 2020. The active rig count for AKITA grew from nine rigs in January of 2021, to 13 rigs by the end of 2021.

Despite the increase in operating days, adjusted revenue decreased to $71,424,000 in 2021 from $80,377,000 in 2020. The decrease in adjusted revenue per day to $24,878 in 2021 from $31,459 in 2020 drove the decrease in total adjusted revenue. High day rates in 2019 that carried into the first half of 2020 declined significantly in the second half of 2020, due to the demand destruction resulting from efforts to mitigate the spread of the global pandemic. Low day rates persisted through the first three quarters of 2021 causing average day rates to decrease 21% year-over-year. The Company also received contract cancellation revenue in the first quarter of 2020 of $1,655,000 which contributed to higher day rates in 2020. Revenue in the US accounted for 62% of the Company's total 2021 adjusted revenue, down from 76% in 2020.

Adjusted operating and maintenance costs decreased to $57,997,000 in 2021 from $60,080,000 in 2020 despite higher operating days in 2021. Adjusted operating and maintenance costs per day decreased to $20,201 in 2021 from $23,515 in 2020 due to two factors. First, the rigs that operated in 2021 had steadier drilling programs throughout the year and experienced lower daily maintenance costs by working longer without interruption. Second, move costs incurred in 2020 of $1,000,000 added to operating and maintenance costs in 2020.

In the US, AKITA provided drilling services to 29 different customers in 2021 (2020 – 13 customers), including one customer that provided more than 10% of AKITA's US revenue for the year (2020 – two customers).

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 drilling rigs and other heavy equipment. The peak Canadian drilling season ends with "spring break-up" at which time drilling operations are curtailed due to seasonal road bans (temporary prohibitions on road use) and restricted access to agricultural land as frozen ground 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 AKITA's operations in northern Canada. Other areas in the US where AKITA conducts drilling operations are infrequently subject to weather constraints, especially in the southern states, but may experience operational restrictions for other reasons.

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

Depreciation and Amortization Expense

$Millions	2021	2020	Change	% Change
Depreciation and amortization expense	28.8	32.7	(3.9)	(12%)

The decrease in depreciation and amortization expense to $28,838,000 during 2021 from $32,681,000 during 2020, is due to the impact of the $80,000,000 asset impairment loss the Company recorded in 2020.

AKITA depreciates its drilling rig assets on a straight-line basis where the estimated useful lives and residual values of various rig components have been chosen to match the expected life of that component. In 2021, drilling rig depreciation accounted for 97% of total depreciation expense, compared to 97% in 2020.

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	2021	2020	Change	% Change
Selling and administrative expenses	12.2	12.7	(0.5)	(4%)

Selling and administrative expenses decreased to $12,213,000 in 2021 from $12,686,000 in 2020 due to the payment of a one-time long service retiring allowance of $3,117,000 in 2020 and was offset by additional staffing requirements needed to meet increased activity levels in 2021. Also contributing to the decrease in selling and administrative costs is the receipt of COVID-19 related government grants totaling $552,000 in 2021 and $448,000 in 2020.

Selling and administrative expenses equated to 11% of revenue in both 2021 and 2020. The single largest component of selling and administrative expenses is salaries and benefits which accounted for 44% of these expenses in 2021 (2020 – 75%).

Asset Impairment

$Millions	2021	2020	Change	% Change
Asset impairment loss	-	80.0	(80.0)	(100%)

The Company did not identify any changes in the indicators of asset impairment or impairment reversals or any new indicators of asset impairment since the asset impairment test that was carried out as at December 31, 2020. Therefore, no further assessment on asset impairment was performed as there have been no changes in circumstances that indicate that the carrying amount of property, plant and equipment does not exceed its recoverable amount as at December 31, 2021.

In the first quarter of 2020, the Company recorded an impairment loss of $30,000,000 in each of its Canadian and US Cash Generating Units ("CGUs") respectively. In the fourth quarter of 2020, both CGUs were tested again for impairment and the Company's US CGUs carrying amount exceeded the recoverable amount, resulting in an additional impairment of $20,000,000. The total impairment loss for the year ended December 31, 2020 was $80,000,000.

The recoverable amounts of these CGUs were determined using a discounted cash flow model. Assumptions used in the discounted cash flow models include the Company's Board of Directors approved budgets and an average revenue growth rate ranging from 5% to 15% over a 10 year period depending on the CGU being analyzed. In forecasting its projected cash flows the Company assumed a slow recovery commencing in 2021 for both Canada and the US with improvements in activity and revenue per day over the forecast period. Discounted future cash flows are determined by applying a discount rate of 14.5%. This valuation has an IFRS fair value hierarchy of Level 3. Additionally, in the fourth quarter, management also obtained external equipment appraisals from independent third party experts which supported the fair value less cost to sell.

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

- Changed future revenue assumptions by 5% resulting in increases to the Company's CGUs from $15 million to $35 million per CGU and reductions ranging from $15 million to $35 million per CGU; and

- Changed the Company's pre-tax discount rate by 1% resulting in reductions between $4 million and $11 million per CGU and increases from $4 million to $10 million per CGU.

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

As the base case test represented management's best estimates, these sensitivity reductions were not included in the asset impairment loss reported.

Equity Income from Joint Ventures

Equity income from joint ventures is comprised of the following:

$Millions	2021	2020	Change	% Change
Proportionate share of revenue from joint ventures	15.9	5.1	10.8	212%
Proportionate share of operating & maintenance expenses from joint ventures	13.6	4.4	9.2	209%
Proportionate share of selling and administrative expenses from joint ventures	0.3	0.1	0.2	200%
Equity income from joint ventures	2.0	0.6	1.4	233%

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 increase in revenue for the Company's proportionate share of joint ventures year-over-year relates to the increased activity in SAGD drilling which is the key market for the Company's joint venture rigs.

Other Income (Loss)

$Millions	2021	2020	Change	% Change
Interest income	-	-	-	n/a
Interest expense	(3.6)	(5.6)	2.0	36%
Loss on sale of assets	-	(0.2)	0.2	100%
Net other gains	0.6	-	0.6	n/a
Total other loss	(3.0)	(5.8)	2.8	48%

During 2021, the Company recorded interest expense of $3,553,000 (2020 – $5,637,000). The reduction of the Company's interest expense relates to the repayment of the Company's high interest US dollar denominated debt that was assumed with the acquisition of Xtreme Drilling Corp. in 2018 and repaid during 2020.

During 2020, the Company disposed of non-core assets resulting in a loss of $156,000 with total proceeds of $2,142,000 (2021 – nil). In 2021 the Company had a net other gain of $559,000 compared to a loss of $35,000 in 2020. The net other gain in 2021 was due primarily to the disposition of fully depreciated property.

Income Tax Recovery

$Millions, except income tax rate (%)	2021	2020	Change	% Change
Current tax recovery	-	(0.1)	0.1	100%
Deferred tax recovery	(0.8)	(9.3)	8.5	91%
Total income tax recovery	(0.8)	(9.4)	8.6	91%
Effective income tax rate	24.5%	24.6%		

AKITA had an income tax recovery of $792,000 in 2021 compared to an income tax recovery of $9,427,000 in 2020. Deferred tax recovery decreased to $792,000 in 2021 from $9,311,000 in 2020 due to the impact of the asset impairment loss recorded in 2020. A net deterred tax asset has not been recognized for $69 million (2020 - $67 million). This amount is primarily related to non-capital losses carried forward.

Total gross tax losses available to the company are $400,537,000 with $369,866,000 in the US and $30,671,000 in Canada. The first of these losses will begin to expire in 2031.

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

$Millions	2021	2020	Change	% Change
Net loss	(21.0)	(93.3)	72.3	77%
Net cash from (used in) operating activities	(3.5)	22.9	(26.4)	(115%)
Adjusted funds flow from operations [(1)]	7.5	10.3	(2.8)	(27%)

[(1)] See "Non-GAAP and Supplementary Financial Measures" near the end of this MD&A for further detail.

During 2021, the Company recorded a net loss of $20,990,000 (net loss of $0.53 per Class A Non-Voting and Class B Common share (basic and diluted)) compared to a net loss of $93,274,000 (net loss of $2.35 per Class A Non-Voting and Class B Common share (basic and diluted)) in 2020. The primary factor influencing net income in 2020 was the $80,000,000 asset impairment loss. After adjusting for the impairment and the deferred tax impact, the Company's net loss for 2020 was $20,674,000, which was in line with the loss of $20,990,000 in 2021.

Net cash from (used in) operating activities decreased to a loss of $3,461,000 in 2021 compared to a gain of $22,860,000 in 2020 primarily due to changes in non-cash working capital between 2021 and 2020. The strong start to 2020 followed by a steady decrease created a positive change in non-cash working capital of $12,975,000 in 2020 compared to opposite conditions in 2021; a weak start to the year and building activity through the year which created a negative change in non-cash working capital of $8,867,000.

Adjusted funds flow from operations, which is not impacted by changes in non-cash working capital decreased in 2021 compared to 2020 but to a lesser extent than net cash from operations. Adjusted funds flow from operations decreased to $7,454,000 in 2021, down from $10,322,000 in 2020, a 30% decrease year-over-year. The 8% decrease in revenue in 2021 from 2020 with only a 2% corresponding decrease in costs are the cause of the decrease in adjusted funds flow from operations, offset somewhat due to lower interest expenses in 2021 ($3,553,000) compared to 2020 ($5,637,000).

Summary of Quarterly Results

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

	Three Months Ended				
$Thousands, except per share (unaudited)	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Annual Totals
2021					
Revenue	**27,171**	**18,651**	**29,906**	**34,360**	**110,088**
Net loss	**(3,651)**	**(6,108)**	**(6,433)**	**(4,798)**	**(20,990)**
Loss per share (basic and diluted) ($)	**(0.09)**	**(0.15)**	**(0.16)**	**(0.13)**	**(0.53)**
Adjusted funds flow from operations (1)	**3,719**	**1,056**	**252**	**2,427**	**7,454**
Cash flow from (used in) operations	**(5,692)**	**10,118**	**(1,560)**	**(6,327)**	**(3,461)**
2020					
Revenue	53,572	26,359	18,849	20,884	119,664
Net loss	(52,257)	(5,221)	(8,203)	(27,593)	(93,274)
Loss per share (basic and diluted) ($)	(1.32)	(0.13)	(0.21)	(0.69)	(2.35)
Adjusted funds flow from (used in) operations (1)	10,154	2,099	(669)	(1,263)	10,321
Cash flow from operations	4,583	13,621	3,374	1,282	22,860
2019					
Revenue	52,342	39,119	42,610	41,819	175,890
Net loss	(1,470)	(5,067)	(5,397)	(7,941)	(19,875)
Loss per share (basic and diluted) ($)	(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

(1) See "Non-GAAP and Supplementary Financial Measures" near the end of this MD&A for further detail.

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

- Revenue in the first quarter of 2019 and 2020 was very similar but the impact of COVID-19 on demand can be seen when comparing the second to the fourth quarters of 2020 to the same periods in 2019;
- The impact of COVID-19 continued into 2021 where revenue in the first and second quarters was well below 2020 and 2019;
- The effect of increased activity can be seen in the increased revenue in the third and fourth quarter of 2021; 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

During the fourth quarter of 2021, activity for the Company increased significantly compared to the prior year. Operating days in Canada increased to 498 in the fourth quarter of 2021 from 100 in the same period of 2020. US activity increased to 829 operating days from 507 operating days in the fourth quarter of 2020. Higher oil prices drove activity higher in the quarter. The decrease in revenue per day was a result of having more lower margin rigs working in both Canada and the US.

AKITA incurred a net loss of $4,798,000 (net loss of $0.13 per Class A Non-Voting and Class B Common share (basic and diluted)) for the fourth quarter of 2021 compared to a net loss of $27,593,000 (net loss of $0.69 basic and diluted) in the fourth quarter of 2020. The decrease in net loss in 2021 from 2020 is a result of the asset impairment loss recorded in the Company's US CGU in the fourth quarter of 2020. Adjusted funds flow from operations increased to $2,427,000 in the fourth quarter of 2021 from a loss of $1,262,000 in the fourth quarter of 2020. The increase in funds flow from operations is due to a long service retiring allowance of $3 million that was recorded in the fourth quarter of 2020 as well as increased activity in the fourth quarter of 2021.

Three Year Annual Financial Summary

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

$Thousands, except per share (unaudited)	2021	2020	2019
Revenue	110,088	119,664	175,890
Net loss	(20,990)	(93,274)	(19,875)
Loss per share (basic and diluted)	(0.53)	(2.35)	(0.50)
Dividends per Class A Non-Voting and Class B Common share (1)	-	-	0.17
Adjusted funds flow from operations (2)	7,454	10,322	12,925
Net cash from (used in) operating activities	(3,633)	22,860	21,558
Year-end working capital	6,502	8,683	4,155
Year-end shareholders' equity	131,485	152,266	245,134
Year-end total assets	247,574	251,521	369,116

(1) The Company's dividend program was suspended in July of 2019.
(2) See "Non-GAAP and Supplementary Financial Measures" near the end of this MD&A for further detail.

Liquidity and Capital Resources

At December 31, 2021, AKITA had $6,502,000 in working capital (working capital ratio of 1.27:1) with $1,773,000 of cash, compared to a working capital of $8,683,000 (working capital ratio of 1.56:1) and $7,108,000 cash for the previous year. In 2021, AKITA used $3,461,000 in cash from operating activities. Positive cash was generated from joint venture distributions ($492,000) and from proceeds on sales of assets ($272,000). During the same period, cash was used for capital expenditures of $16,416,000 which was funded primarily through debt, which increased by $11,717,000 in the year. Accounts payable at year-end included $12,095,000 in accrued expenses, the majority of which relates to routine operations with 18% related to one-time items.

The Company has a syndicated credit agreement with the Company's principal banker as the agent on the syndication and three other Canadian banks in the syndication. The operating loan facility totals $110,000,000 with the term ending in 2023. The credit agreement was amended on July 17, 2020, to include a covenant relief period that extended to June 30, 2021. The facility has been further amended to add additional quarters of covenant relief, to June 30, 2023. The interest rate during the covenant relief period ranges from 225 to 350 basis points over prime interest rates depending on the Funded Debt [1] to Tangible Net Worth [1] Ratio until September 2022 at which time it reverts to a 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. The Funded Debt[1] to Tangible Net Worth[1] Ratio: the Company shall ensure that for the fiscal quarters ended December 31, 2021 to June 30, 2022, the Funded Debt[1] to Tangible Net Worth[1] Ratio shall not be more than 0.75:1.00. For the fiscal quarters ended September 30, 2022 and beyond, the Funded Debt[1] to Tangible Net Worth[1] reverts back to a Funded Debt[1] to EBITDA[1] Ratio at the following levels:

   (i) 5.00:1.00 as at the Fiscal Quarter ending September 30, 2022;

   (ii) 4.50:1.00 as at the Fiscal Quarter ending December 31, 2022;

   (iii) 4.00:1.00 as at the Fiscal Quarter ending March 31, 2023; and

   (iv) 3.50:1.00 as at the Fiscal Quarter ending June 30, 2023.

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

2. The EBITDA[1] to Interest Expense[1] Ratio: the Company shall ensure that:

   (i) For the fiscal quarter ended December 31, 2021, the EBITDA[1] to Interest Expense[1] Ratio shall not be less than 2.00:1.00;

   (ii) For the fiscal quarter ended March 31, 2022, the EBITDA[1] to Interest Expense[1] Ratio shall not be less than 2.50:1.00;

   (iii) For the fiscal quarter ended June 30, 2022, the EBITDA[1] to Interest Expense[1] Ratio shall not be less than 2.75:1.00; and

   (iv) For the fiscal quarter ended September 30, 2022 and beyond, the EBITDA[1] to Interest Expense[1] Ratio shall not be less than 3.00:1.00.

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

3. A minimum trailing twelve month EBITDA[1] test is required quarterly until June 30, 2022, with the minimum EBITDA[1] varying each period in line with agreed upon forecasts.

   Upon the end of the Covenant Relief Period the Company's covenants revert back to:

   (i) Funded Debt[1] to EBITDA[1] Ratio of not more than 3.00:1.00, and

   (ii) EBITDA[1] to Interest Expense[1] Ratio of not less than 3.00:1.00

Financial Covenants at December 31, 2021

At December 31, 2021, the Company was in compliance with its covenants with a Funded Debt[1] to Tangible Net Worth[1] Ratio of 0.65:1.00, an EBITDA[1] to Interest Expense[1] Ratio of 2.45:1.00 and a trailing twelve month EBITDA[1] in excess of the $7,721,000 minimum threshold.

[1] See "Non-GAAP and Supplementary Financial Measures" near the end of the MD&A for further detail on terms defined in the Company's credit facility.

The facility also includes a borrowing base calculation which is the sum of:

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

(ii) 50% of orderly liquidation value of all Eligible Rig Assets[1]; less

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

At December 31, 2021, the Company's borrowing base totalled $135,742,000.

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. The Company borrowed $85,000,000 from this facility as at December 31, 2021 (December 31, 2020 - $75,000,000).

The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and

- to augment existing resources in order to meet further 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.

Property, Plant and Equipment

Capital expenditures totaled $16,416,000 in 2021 ($7,593,000 in 2020). Capital spending in 2021 was as follows: $9,750,000 (2020 - $2,920,000) for certifications and overhauls, $2,429,000 (2020 - $1,592,000) in drill pipe and drill collars and $3,824,000 (2020 - $3,081,000) for drilling rig equipment and upgrades and $413,000 in other capital assets.

During 2021, the Company sold ancillary assets for $272,000 (2020 - $2,142,000) that resulted in a loss of $26,000 (2020 – gain of $156,000).

Future Outlooks 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 outlook for the drilling industry has improved significantly over the past year. With oil and gas prices at levels not seen since 2014 demand for drilling services continues to improve.

The drilling industry in Canada has improved significantly over the year with activity recovering enough to see meaningful improvements in day rates. These higher rates will be somewhat offset by higher costs as supply issues and labour shortages impact the industry. The Company is anticipating SAGD drilling to be the most active for the Company in 2022 with steady programs currently scheduled for the balance of the year.

The recovery in the US has been much slower in than in Canada, but continues at a measured pace. The active rig count finally passed the 600 rig mark in early January nearing the point where pricing power will return to the industry. The Company is optimistic that this growth trend will continue through 2022 allowing meaningful rate increases for the Company's US fleet. As the Company is currently

[1] See "Non-GAAP and Supplementary Financial Measures" near the end of the MD&A for further detail on terms defined in the Company's credit facility.

only working on shorter term contracts, multiple rate increases are possible in the year. The focus in the US for 2022 will be on keeping the rigs that are currently working active and continue to drive efficiencies and stability in the US operations.

A focus of the Company in 2022 will be on strengthening it's balance sheet, by focusing on debt repayment with a limited capital program. With rates improving and the activity forecast looking strong for the year, the Company is optimistic that 2022 will be a far stronger year than the last few.

Financial Instruments

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

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.

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 credit losses.

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 2021 and 2020 were made in the normal course of business with regular payment terms and have been recorded at the paid amounts. In 2021, operating purchases totalled $781,000, and included sponsorship and advertising of $175,000, operational costs of $534,000 and other miscellaneous purchases of $72,000. At December 31, 2021, 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 2021 were $175,000 (2020 - $175,000). Costs and related services are consistent with parties dealing at arm's length.

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	2021	2020
Operating and maintenance expenses	**2,880**	837
Selling and administrative expenses	**350**	115
Year-end due to AKITA from joint venture partners	**1,709**	991
Year-end due to AKITA from joint ventures	**1,564**	123

Commitments and Contingencies

From time to time, the Company enters into drilling contracts with its customers that are for extended periods. At December 31, 2021, the Company had no drilling rigs with multi-year contracts.

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, 2021, the Company had capital expenditure commitments of $1,743,000 (2020 – $422,000).

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, 2020	37,954,407	144,898	1,653,784	1,366	39,608,191	146,264
Shares issued in 2021	-	-	-	-	-	-
December 31, 2021	**37,954,407**	**144,898**	**1,653,784**	**1,366**	**39,608,191**	**146,264**

At March 10, 2022, 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 1,332,500 stock options outstanding, of which 490,500 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, however, can differ materially from such 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. Impairment losses recognized in prior periods are assessed at each reporting date for any indicators that the impairment loss may no longer exist or may have decreased. In the event that an impairment loss reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the carrying amount does not exceed the amount that would have been determined had no impairment loss been recognized on the asset in prior periods.

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

A significant estimate used in the preparation of AKITA's consolidated financial statements relates to the long-term defined benefit pension liability for certain employees and retired employees that was recorded as $5,188,000 at December 31, 2021 (2020 - $5,710,000). 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 2021, a key assumption is the 2.9% discount rate (2020 – 2.3%).

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

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 an indefinite period 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 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 services.

Pandemic Risk

On March 11, 2020, the World Health Organization declared a global pandemic in relation to the spread of COVID-19. As the virus spread across the world, many businesses closed and isolation and social distancing practices were implemented to reduce the spread. The virus and its impact on transacting business resulted in a decline in the world economy. Among other effects, demand for oil decreased materially over the balance of 2020, which resulted in a significant reduction in demand for the Company's drilling services. In addition to the reduced demand for drilling services, the pandemic presented operational challenges for the Company's staff and rig crews as an outbreak of COVID-19 at a rig site could lead to suspended or cancelled operations.

The COVID-19 pandemic persisted throughout 2021, and by the fourth quarter caused severe disruptions with the emergence of the omicron variant. While AKITA implemented a policy to mitigate the negative effects of the virus in 2020, COVID-19 related risk remains, and we are not able to estimate the ongoing severity or duration of the pandemic impact going forward.

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.

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 indebtedness, thereby reducing cash available for other initiatives; and
2. certain borrowings are at variable rates of interest, which exposes AKITA to the risk of increased interest rates.

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

AKITA's credit facilities contain certain customary operating covenants that limit the discretion of management to incur additional indebtedness, to create liens or other encumbrances, to pay dividends or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, AKITA is required to satisfy and maintain two financial ratio tests, Debt to EBITDA and EBITDA to Interest Expense. A failure to comply with the obligations in the agreements 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. Currently AKITA is in a covenant relief period whereby the financial covenants are relaxed or waived until June 30, 2023.

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, 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 33% of its total revenue in 2021 from one major customer. This was the only customer 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 in the southern states, but the Company may experience operational constraints such as floods, blizzards and other extreme winter conditions in the Rocky Mountain region in addition to operational restrictions for a variety of other reasons. These restrictions could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Volatility of Industry Conditions

The demand, pricing and terms for contract drilling services are dependent upon the level of industry activity for Canadian and US crude oil and natural gas exploration and development. Industry conditions are influenced by numerous factors which AKITA does not control including (without limitation): current crude oil and natural gas prices, expectations about future crude oil and natural gas prices, the cost of exploring for, producing and delivering crude oil and natural gas, the expected rates of decline in current production for AKITA's customers, discovery rates of new oil and gas reserves by AKITA's customers, sufficient crew labour, 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. Recent global economic events and uncertainty have significantly affected commodity pricing. While commodity pricing has recovered over the course of 2021 to pre-pandemic levels, a return to a prolonged substantial reduction in crude oil and natural gas prices would likely lead to a reduction in 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 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 work force, while maintaining a cost structure that varies with activity levels.

In 2021, by the fourth quarter, crew labour shortages were common throughout the drilling industry and became a restraint to expanded drilling activity. AKITA has implemented measures to improve its ability to attract and retain additional drilling hands, but there is no certainty that the crew labour shortage will be alleviated, or when.

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. Although new build rigs have not materialized over the last five years, high demand typically spurs greater capital expenditures by drilling contractors which could, 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. The cyclical nature of AKITA's business makes the impact of this risk significant.

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. Further, 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. Access to financing also impacts AKITA's customers, potentially limiting capital budgets and therefore the demand for AKITA's services.

Foreign Exchange and Foreign Operations Risk

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

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

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 activism impact could reduce demand for hydrocarbons in favour of lower carbon intense fuels. Further, within Canada, increased climate change activism has translated to opposition to new pipeline approvals, to ongoing oil sands development and to the practice of hydraulic fracturing. In the US, the Biden Administration has implemented restrictions of drilling permits on federal lands and has stopped the construction of the Keystone pipeline.

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 and 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.

Supply Chain Risk

AKITA purchases equipment, raw materials, components and parts from suppliers located in Canada and the US, and from time to time, international suppliers. Global supply chain disruptions began in March of 2020 after economic activity was curtailed in order to contain the outbreak of the COVID-19 pandemic. The supply chain disruptions manifested in reduced inventory for many of the Company's suppliers. Recognizing the risks presented by the disruptions to the supply chain, AKITA's operations team aims to anticipate the equipment, raw materials, components and parts it may need with sufficient lead time to procure same. Notwithstanding this effort, however, the ongoing supply chain disruptions may result in AKITA's vendors delaying delivery, or being unable to deliver, such equipment, raw materials, components or parts when ordered. As drilling activity increases, so too does the risk of an undersupplied inventory of equipment, raw materials, components and parts. In the event the Company is not able to secure equipment, raw materials, components or parts that are critical to it's operations, it could force the Company to suspend operations and have a material adverse effect on AKITA's business and financial condition.

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 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 rigorous safety policies and procedures;*
- *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;*
- *exploring opportunities to decarbonize its operations;*
- *developing and maintaining a succession plan to provide for a smooth transition in the event of key personnel turnover;*
- *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 and which allows AKITA to generate revenue denominated in US currency; and*
- *expanding beyond oil and natural gas to drill geothermal wells, carbon capture wells and hydrogen storage wells in an aim to ensure it plays a meaningful role in energy transition.*

Furthermore, in response to the COVID-19 pandemic, the Company actively assessed and responded to the effects of the COVID-19 pandemic on employees, customers, suppliers and service providers, and evaluated governmental actions being taken to curtail its spread. The Company successfully implemented a mandatory work-from-home program for those employees who could perform their day-to-day activities working remotely. At our operation facilities and for active rig personnel, in accordance with applicable laws, the Company implemented measures to safeguard employees unable to work remotely through enhanced administrative controls, employee monitoring strategies, more rigorous cleaning practices, as well as physical distancing and through provision of personal protective equipment.

Disclosure Controls and Internal Controls Over Financial Reporting

As of December 31, 2021, 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 Executive Chair 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, 2021.

As of December 31, 2021, 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, 2021.

There was no change in the Company's internal control over financial reporting that occurred during the period that began on October 1, 2021, and ended December 31, 2021 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, 2021.

Non-GAAP and Supplementary Financial Measures

Non-GAAP Financial Measures

Adjusted Revenue and Operating and Maintenance Expenses in Canada

Revenue and operating and maintenance expenses in AKITA's Canadian operating segment include revenue and expenses from AKITA's wholly-owned drilling rigs as well as its share of joint venture revenue and expenses. Excluded from the adjusted revenue and expenses in AKITA's Canadian operating segment are flow through charges that are billed to operators and repaid to the Company. The volume and timing of the flow through charges can artificially impact the operational per day analysis and, as a result, management and certain investors may find the comparability between periods is improved when these flow through charges are excluded from revenue per day and operating and maintenance expense per day. The flow through charges do not have any impact on the Company's net earnings as the amounts offset each other.

Adjusted Revenue and Operating and Maintenance Expenses in the United States

Excluded from adjusted revenue and expenses in AKITA's US operating segment are flow through charges that are billed to operators and repaid to the Company. The volume and timing of the flow through charges can artificially impact the operational per day analysis and as a result management and certain investors may find the comparability between periods is improved when these flow through charges are excluded from revenue per day and operating and maintenance expense per day. The flow through charges do not have any impact on the Company's net earnings as the amounts offset each other.

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. Nonetheless, 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	2021	2020
Net cash from (used in) operating activities	(3,461)	22,860
Income tax recoverable	-	(275)
Current income tax recovery	-	116
Interest paid	3,422	5,479
Interest expense	(3,553)	(5,637)
Post-employment benefits paid	198	104
Equity income from joint ventures	1,981	650
Change in non-cash working capital	8,867	(12,975)
Adjusted funds flow from operations	7,454	10,322

Terms Defined in the Company's Credit Facility

The following terms are defined in the Company's credit facility and are used in the calculation of the Company's financial covenants:

"EBITDA" means, for any fiscal period, the Net Income of the Canadian Borrower on a consolidated basis in accordance with GAAP but without duplication, plus (in each case, for the Canadian Borrower on a consolidated basis but without duplication):

a) all amounts deducted in the calculation of Net Income in respect of Interest Expense;

b) all amounts deducted in the calculation of Net Income in respect of the provision for income taxes (in accordance with Generally Accepted Accounting Principles);

c) all amounts deducted in the calculation of Net Income in respect of non-cash items including, without limitation, depletion, accretion (to the extent not included in clause (a) above), depreciation, amortization and future income tax liabilities;

d) all amounts deducted in the calculation of Net Income in respect of equity loss, minority interests, extraordinary losses, non-recurring losses (including losses on the sale of property, plant and equipment) and any non-cash impairment charges and any other non-cash charges;

e) all cash distributions received in such period from persons which are not Guarantors;

f) all amounts deducted in the calculation of Net Income in respect of discretionary management bonuses, fees and other compensation declared and payable to the directors or shareholders of the Canadian Borrower on commercially reasonable terms. For the avoidance of doubt, bonuses, fees or other compensation that the Canadian Borrower, on a consolidated basis, is contractually required to pay may not be added back;

g) all amounts deducted in the calculation of Net Income in respect of share based compensation;

h) unrealized foreign exchange losses incurred in the ordinary course of business;

"Funded Debt" means, as of any date of determination, with respect to the Canadian Borrower on a consolidated basis, all Indebtedness, but excluding obligations owing between any Loan Parties and less all cash and Cash Equivalents denominated in Canadian Dollars and U.S. Dollars held by the Loan Parties up to a maximum of $10,000,000 and which are: (i) in accounts with the Agent which are subject to Perfected Security Interests and rights of set-off in favour of the Agent; or (ii) in accounts with a financial institution acceptable to the Agent (acting reasonably) which are subject to Perfected Security Interests and a blocked account control agreement in favour of and satisfactory to the Agent.

"Interest Expense" means for any fiscal period, in respect of the Canadian Borrower on a consolidated basis as determined in accordance with GAAP, the aggregate cost of credit outstanding during that period including, without limitation, interest charges (including for postponed Indebtedness), capitalized interest, the interest component of Financial Leases, fees payable in respect of letters of credit and letters of guarantee, discounts incurred and fees payable in respect of bankers' acceptance advances.

"Eligible Accounts Receivable" means at any time, any Account Receivable of the Loan Parties (net of any credit balance, returns, trade discounts, or unbilled amounts or retention) that meets and at all times continues to meet all of the standards of eligibility (and the Canadian Borrower by including such account in any computation of the Borrowing Base shall be deemed to represent and warrant to the Agent and the Lenders that to the knowledge of the Canadian Borrower all of the following statements are accurate and complete with respect to such account):

a) it is a valid and legally enforceable obligation of the applicable Account Debtor;

b) such account is genuine as appearing on its face or as represented in the books and records of the Canadian Borrower on a consolidated basis;

c) such account is free from valid claims regarding rescission, cancellation or avoidance, whether by operation of Applicable Law or otherwise, and except to the extent of any reduction made pursuant to paragraph (e) of this definition is net of all then applicable holdbacks and prepayment credits;

d) such account does not relate to services not as of yet completed;

e) without limiting the generality of paragraph (c) of this definition, is not subject to any offset, counterclaim or other defence on the part of the Account Debtor or any claim by the Account Debtor that denies liability in whole or in part; and, if the Account Debtor denies liability only in part, the undisputed portion of the Account Receivable shall be allowed so long as the Account Debtor has agreed that it will pay such portion not in dispute in accordance with its terms;

f) such Account Receivable is not outstanding more than 90 days after billing date, provided that the under 90 day portion may be included; (i) where the over 90 day portion is less than 10% of all Accounts Receivable of such Account Debtor and its Related Parties; (ii) the Agent and the Lenders have nevertheless designated the Account Receivable as good; or (iii) where the Account Debtor has long term debt obligations rated no worse than BBB by S&P or DBRS Limited;

g) it is owed by an Account Debtor whose principal place of business is located in Canada or the United States, unless otherwise supported by a letter of credit acceptable to the Agent, in its discretion;

h) it is denominated in either Canadian Dollars or United States Dollars;

i) it is subject to a Perfected Security Interest in favour of the Agent;

j) such account is, and at all times will be, free and clear of all Security Interests other than Priority Payables (to the extent deducted in calculating the Borrowing Base) and any Permitted Encumbrances;

k) such account is not in respect of a builders lien or similar holdbacks;

l) the Account Receivable does not arise from a sale or lease to or rendering of services to a Related Party of any Loan Party, or, in each case, to their respective Affiliates;

Any Eligible Accounts Receivable which are at any time Eligible Accounts Receivable but which subsequently fail to meet any of the foregoing requirements shall immediately cease to be an Account Receivable.

"Tangible Net Worth" means, as of any date of determination, with respect to the Canadian Borrower on a consolidated basis, the sum of Shareholders' Equity and Subordinated Debt, less:

a) any amount that would be included on the consolidated balance sheet of the Canadian Borrower prepared in accordance with GAAP as an investment in or as amounts owed by any Related Party which does not constitute Subordinated Debt; and
b) any amount included in the assets column on the consolidated balance sheet of the Canadian Borrower in respect of Intangibles.

Non-GAAP Ratios

“Adjusted funds flow from operations per share” is calculated on the same basis as net loss per class A and class B share basic and diluted, utilizing the basic and diluted weighted average number of class A and class B shares outstanding during the periods presented.

“Adjusted revenue per operating day” may be useful to analysts, investors, other interested parties and management as a measure of pricing strength and is calculated by dividing adjusted revenue by the number of operating days for the period.

“Adjusted operating and maintenance expenses per operating day” may be useful to analysts, investors, other interested parties and management as it demonstrates a degree of cost control and provides a proxy for specific inflation rates incurred by the Company.

Supplementary Financial Measures

A supplementary financial measure:

a) is, or is intended to be, disclosed on a periodic basis to depict the historical or expected future financial performance, financial position or cash flow of the Company;
b) is not presented in the financial statements of the Company;
c) is not a non-GAAP financial measure; and
d) is not a non-GAAP ratio.

Supplementary financial measures presented and discussed in this MD&A are as follows:

- “Operating Margin %” – represents operating margin as a percentage of revenue.
- “Adjusted Operating Margin %” – represents adjusted operating margin as a percentage of adjusted revenue.
- “Utilization” – represents the operating days achieved divided by the maximum operating days based on the number of days in the year and the rigs available.

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. In particular, forward-looking information in this MD&A includes, but is not limited to, references to the outlook for the drilling industry (including the demand for drilling services and day rates, supply issues and labour shortages), the Company's SAGD drilling activity, debt repayment, and the Company's capital program.

Although the Company believes that the expectations reflected in the forward-looking information are reasonable based on the information available on the date such statements are made and processes used to prepare the information, such statements are not guarantees of future performance and no assurance can be given that these expectations will prove to be correct. 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.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of, among other things, prevailing economic conditions (including as may be affected by the COVID-19 pandemic); 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 10, 2022. Copies of these documents including additional copies of the Annual Report for the year ended December 31, 2021 may be obtained upon request from the Vice President, Finance and Chief Financial Officer of the Company at 1000, 333 – 7th Avenue S.W., Calgary, Alberta, T2P 2Z1 or at www.sedar.com.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

Management ensures the integrity of the consolidated financial statements by maintaining a system of internal control. This

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

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

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

Linda A. Southern–Heathcott
Executive Chair and
Chief Executive Officer

Darcy Reynolds
Vice President, Finance
and Chief Financial Officer

March 10, 2022

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, 2021 and 2020, 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, 2021 and 2020;
- the consolidated statements of net loss and other comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated cash flow statements for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2021. These matters were

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addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Assessment of indicators of impairment or impairment reversal for property, plant and equipment (PP&E) *Refer to note 10 – Property, Plant and Equipment and note 8 - Segmented Information to the consolidated financial statements.* As at December 31, 2021, the total net book value of PP&E, which mainly consists of drilling rig assets, amounted to $211 million, of which $60 million and $151 million related to the Canadian and US Cash Generating Units (CGUs), respectively. At each reporting period, management considers both internal and external factors (indicators) when assessing whether there are indicators of impairment. When impairment indicators of PP&E exist, an impairment assessment is conducted at the level of the CGUs (a group of assets that generate independent cash inflows). An impairment loss is recognized when the carrying amount of a CGU exceeds its recoverable amount. Impairment losses recognized in prior periods are assessed at each reporting date by management for any indicators that the impairment losses may no longer exist or may have decreased. In the event that an impairment loss reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the carrying amount does not exceed the amount that would have been determined had no impairment loss been recognized on the asset in prior periods. As at December 31, 2021, management concluded that no indicators of impairment or impairment reversal existed. Management applies significant judgment in assessing whether indicators of impairment or	Our approach to addressing the matter included the following procedures, among others: • Evaluated management's assessment of indicators of impairment and impairment reversal, which included the following: – Assessed the completeness of external or internal factors that could be considered as indicators of impairment or impairment reversal of the Company's PP&E. – Assessed significant changes in the market capitalization of the Company, which may indicate a change in value of the Company's net assets. – Assessed significant changes in the condition of the drilling rig assets of the Company, which may indicate a change in value of the drilling rig assets. – Assessed changes in oil and gas prices, forecasted activity or earnings and changes in interest rates or other market rates of return by considering the current and past performance of the CGUs, external market data and evidence obtained in other areas of the audit, as applicable.

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Key audit matter	How our audit addressed the key audit matter
impairment reversal exist that would necessitate either impairment testing or impairment reversal calculations. Internal and external factors such as (i) a significant change in the market capitalization of the Company's share price, (ii) changes in conditions of drilling rig assets, (iii) changes in oil and gas prices in the market, (iv) changes in forecasted activity or earnings and (v) changes in interest rates or other market rates of return, are evaluated by management in determining whether there are any indicators of impairment or impairment reversal. We determined that this is a key audit matter due to (i) the significance of the PP&E balance and (ii) the significant audit effort and subjectivity in applying audit procedures to assess the internal and external factors evaluated by management in its assessment of indicators of impairment or impairment reversal, which required significant management judgment.	

Other information

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

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- 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
March 10, 2022


AKITA
57
AKITA
57

Consolidated Statements of Financial Position

$Thousands		December 31 2021	December 31 2020
ASSETS			
Current Assets			
Cash		$ 1,773	$ 7,108
Accounts receivable	Note 12	27,228	15,128
Prepaid expenses and other		1,222	1,834
		30,223	24,070
Non-current Assets			
Other long-term assets		1,677	1,782
Investments in joint ventures	Note 11	2,376	887
Right-of-use assets	Note 9	1,829	2,199
Property, plant and equipment	Note 10	211,469	222,583
TOTAL ASSETS		$ 247,574	$ 251,521
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	Note 12	$ 20,748	$ 13,916
Deferred revenue		282	422
Current portion of lease obligations	Note 15	974	1,049
Current portion of long-term debt	Note 14	1,717	-
		23,721	15,387
Non-current Liabilities			
Deferred income taxes	Note 7	1,138	1,859
Deferred share units	Note 18	262	77
Pension liability	Note 19	5,188	5,710
Lease obligations	Note 15	1,341	1,919
Long-term debt	Note 14	84,439	74,303
Total Liabilities		116,089	99,255
SHAREHOLDERS' EQUITY			
Class A and Class B shares	Note 17	146,264	146,264
Contributed surplus		5,452	5,197
Accumulated other comprehensive income (loss)		(35)	11
Retained earnings (deficit)		(20,196)	794
Total Equity		131,485	152,266
TOTAL LIABILITIES AND EQUITY		$ 247,574	$ 251,521

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

Approved by the Board,

Loraine M. Charlton

Director

Director

Consolidated Statements of Net Loss & Comprehensive Loss

$Thousands, except per share amounts		For the Year Ended December 31 2021	2020
REVENUE	Note 4	$ 110,088	$ 119,664
COSTS AND EXPENSES			
Operating and maintenance	Note 6	89,835	91,855
Depreciation and amortization	Note 10	28,838	32,681
Asset impairment loss	Note 10	-	80,000
Selling and administrative	Note 6	12,213	12,686
Total Costs and Expenses		130,886	217,222
Revenue Less Costs and Expenses		(20,798)	(97,558)
EQUITY INCOME FROM JOINT VENTURES	Note 11	1,981	650
OTHER INCOME (LOSS)			
Interest income		5	35
Interest expense		(3,553)	(5,637)
Gain (loss) on sale of assets		26	(156)
Net other gains (losses)		557	(35)
Total Other Loss		(2,965)	(5,793)
Loss Before Income Taxes		(21,782)	(102,701)
Income tax recovery	Note 7	(792)	(9,427)
NET LOSS FOR THE PERIOD ATTRIBUTABLE TO SHAREHOLDERS		(20,990)	(93,274)
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will not subsequently be reclassified to profit or loss			
Remeasurement of pension liability and other		(220)	314
Items that may be subsequently reclassified to profit or loss			
Foreign currency translation adjustment		266	(90)
Total Other Comprehensive Income		46	224
COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO SHAREHOLDERS		$ (20,944)	$ (93,050)
NET LOSS PER CLASS A AND CLASS B SHARE	Note 3		
Basic		$ (0.53)	$ (2.35)
Diluted		$ (0.53)	$ (2.35)

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

Consolidated Statements of Changes in Shareholders' Equity

	Attributable to the Shareholders of the Company						
$Thousands	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 (Deficit)	Total Equity
BALANCE AT DECEMBER 31, 2019	$ 144,898	$ 1,366	$ 146,264	$ 5,015	$ (213)	$ 94,068	$ 245,134
Net loss for the year	–	–	–	–	–	(93,274)	(93,274)
Foreign currency translation adjustment	–	–	–	–	538	–	538
Remeasurement of pension liability	–	–	–	–	(314)	–	(314)
Stock options expense	–	–	–	182	–	–	182
BALANCE AT DECEMBER 31, 2020	$ 144,898	$ 1,366	$ 146,264	$ 5,197	$ 11	$ 794	$ 152,266
Net loss for the year	–	–	–	–	–	(20,990)	(20,990)
Foreign currency translation adjustment	–	–	–	–	(266)	–	(266)
Remeasurement of pension liability	–	–	–	–	220	–	220
Stock options expense	–	–	–	255	–	–	255
BALANCE AT DECEMBER 31, 2021	$ 144,898	$ 1,366	$ 146,264	$ 5,452	$ (35)	$ (20,196)	$ 131,485

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

Consolidated Statements of Cash Flows

$Thousands		For The Year Ended December 31 2021	2020
OPERATING ACTIVITIES			
Net loss		$ (20,990)	$ (93,274)
Non-cash items included in net loss:			
Depreciation and amortization	Note 10	28,838	32,681
Asset impairment loss		-	80,000
Deferred income tax recovery	Note 7	(792)	(9,311)
Defined benefit pension plan expense	Note 19	20	19
Stock options expense	Note 18	255	182
Deferred share units expense (recovery)		252	(131)
Gain (loss) on sale of assets		(26)	156
Gain on windup of subsidiary		(103)	-
Change in non-cash working capital	Note 13	(8,867)	12,975
Equity income from joint ventures	Note 11	(1,981)	(650)
Post-employment benefits		(198)	(104)
Interest expense		3,553	5,637
Interest paid		(3,422)	(5,479)
Current income tax recovery	Note 7	-	(116)
Income taxes recoverable		-	275
Net Cash From (Used In) Operating Activities		(3,461)	22,860
INVESTING ACTIVITIES			
Capital expenditures	Note 10	(16,416)	(7,593)
Change in non-cash working capital related to capital	Note 13	3,929	(930)
Distributions from investments in joint ventures	Note 11	492	1,411
Change in long-term assets		(82)	(10)
Proceeds from sale of assets		272	2,142
Net Cash Used In Investing Activities		(11,805)	(4,980)
FINANCING ACTIVITIES			
Change in debt	Note 14	11,717	(9,953)
Change in lease obligations		(1,328)	(1,187)
Loan commitment fee		(192)	(165)
Net Cash From (Used In) Financing Activities		10,197	(11,305)
Effect of Foreign Exchange on Cash		(266)	533
Increase (Decrease) In Cash		(5,335)	7,108
Cash, beginning of year		7,108	-
CASH, END OF YEAR		$ 1,773	$ 7,108

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

NOTES CONTENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2021 and December 31, 2020

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 36 drilling rigs (35.65 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, 2021, 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 stated within these notes.

These consolidated financial statements were approved by the Company's Board of Directors on March 10, 2022.

Consolidation

The consolidated 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 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”).

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 7 - Income Taxes
- Note 9 - Right of Use Assets
- Note 10 - Property, Plant and Equipment
- Note 12 – Financial Instruments
- Note 19 – Employee Future Benefits

In March 2020, the World Health Organization declared a global pandemic related to COVID-19. To date, the COVID-19 related economic slowdown has resulted in significant volatility in the stock markets, global oil demand and prices resulting in ongoing uncertainty surrounding the future impact of COVID-19 on demand and prices for the Company's drilling services. In the current environment, assumptions about future commodity prices, exchange rates, interest rates and customer credit performance are subject to greater variability than normal resulting in a higher amount of uncertainty in the estimates and judgments contained in the Company's financial statements.

RESULTS FOR THE YEAR

3. Net Loss per Share

Basic earnings per share is calculated by dividing the net income (loss) 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 2021	December 31 2020
Net loss ($Thousands)	**$ (20,990)**	$ (93,274)
Weighted average outstanding shares	**39,608,191**	39,608,191
Incremental shares for diluted loss calculation [1]	**-**	-
Weighted average outstanding shares for loss per share - diluted	**39,608,191**	39,608,191
Loss per share - basic	**$ (0.53)**	$ (2.35)
Loss per share - diluted	**$ (0.53)**	$ (2.35)

[1] For the year ended December 31, 2021 and the year ended December 31, 2020, 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 revenue.

Significant Estimates and Judgments – Relative Stand-Alone Selling Price

The majority of the Company's contracts contain both a lease and a service element. IFRS 15, "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.

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

	Year Ended	
$Thousands	**December 31 2021**	December 31 2020
Contract drilling services	**$ 59,082**	$ 62,491
Rig lease rental	**51,006**	57,173
Total revenue	**$ 110,088**	$ 119,664

Significant Customers

During 2021 one customer (2020 – two customers) 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. Government Subsidies

Government subsidies are recognized when there is reasonable assurance that the subsidy will be received and that the Company will comply with all relevant conditions. Government subsidies related to current expenses are recorded as a reduction of the related expenses.

The Company qualified for the Canada Emergency Wage Subsidy ("CEWS") program. The program was in effect from March 15, 2020 to October 23, 2021 and provided a 75 percent wage subsidy, to a maximum of $847 per employee per week. For the year ended December 31, 2021, the Company recorded $4,002,000 (December 31, 2020 - $2,269,000) from the CEWS program.

The Company qualified for the Canada Emergency Rent Subsidy ("CERS") program. For the year ended December 31, 2021, the Company recorded $242,000 (December 31, 2020 - $nil) from the CERS program.

6. Expenses by Nature

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

$Thousands	Year Ended December 31 2021	Year Ended December 31 2020
Expenses		
Salaries, wages and benefits	$ 57,202	$ 60,855
Materials and supplies	16,294	18,340
Repairs and maintenance	19,674	15,707
External services and facilities	8,878	9,639
Total expenses	**$ 102,048**	$ 104,541
Allocated to:		
Operating and maintenance	$ 89,835	$ 91,855
Selling and administrative	12,213	12,686
Total expenses	**$ 102,048**	$ 104,541

7. Income Taxes

Income taxes are comprised of current and deferred income taxes.

Current taxes are calculated using tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting 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 2021	Year Ended December 31 2020
Current tax recovery	$ -	$ (116)
Deferred tax recovery	(792)	(9,311)
Total income tax recovery	**$ (792)**	$ (9,427)

The following table reconciles the income tax expense (recovery) using a weighted average Canadian federal and provincial rate of 24.48% (2020 – 25.17%) to the reported tax recovery. The rate decrease is due to changes in the jurisdictions the Company operates in. 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 2021	Year Ended December 31 2020
Loss before income taxes	$ (21,782)	$ (102,701)
Expected income tax at the statutory rate	(5,328)	(25,853)
Add (deduct):		
Change in income tax rates	2,331	36
Permanent differences	44	47
Jurisdictional rate difference	361	1,193
Change in unrecognized deferred tax asset	2,001	15,248
Return to provision adjustment	(223)	(40)
Other	22	(58)
Total income tax recovery	$ (792)	$ (9,427)

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, 2019	$ 41,857	$ (1,286)	$ (23,518)	$ (5,781)	$ 11,272
Charged (credited) to net loss	(8,177)	(37)	2,971	(4,068)	(9,311)
Credited to OCI	-	(102)	-	-	(102)
Balance as at December 31, 2020	33,680	(1,425)	(20,547)	(9,849)	1,859
Charged (credited) to net loss	**1,267**	**16**	**(2,744)**	**669**	**(792)**
Charged to OCI	**-**	**71**	**-**	**-**	**71**
Balance as at December 31, 2021	**$ 34,947**	**$ (1,338)**	**$ (23,291)**	**$ (9,180)**	**$ 1,138**

A net deferred tax asset has not been recognized for $69 million (2020 – $67 million). This amount is primarily related to non-capital losses carried forward.

Total gross tax losses available to the Company are $400,537,000 with $369,866,000 in the US and $30,671,000 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.

8. 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.

Geographical information is provided below:

	Year Ended December 31, 2021			Year Ended December 31, 2020		
$Thousands	Canada	US	Total	Canada	US	Total
Revenue	$ 28,290	$ 81,798	$ 110,088	$ 28,466	$ 91,198	$ 119,664
Revenue less costs and expenses	$ (9,965)	$ (10,833)	$ (20,798)	$ (43,106)	$ (54,452)	$ (97,558)

	December 31, 2021			December 31, 2020		
$Thousands	Canada	US	Total	Canada	US	Total
Property, plant and equipment	$ 60,496	$ 150,973	$ 211,469	$ 53,394	$ 169,189	$ 222,583

LONG-TERM ASSETS

9. Right-of-Use Assets

IFRS 16 "Leases" - Accounting 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.

Lease right-of-use ("ROU") assets arising from a lease are initially measured on a present value basis. The initial measurement of the ROU assets is comprised 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.

ROU assets are depreciated over the lease term on a straight-line basis.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the statement of net income and comprehensive income. Short-term leases are leases with a lease term of 12 months or less. Low-value assets are comprised of office and IT software.

ROU assets are reviewed for internal and external indicators of impairment at each reporting date or when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. If indicators of impairment exist, the recoverable amount of the ROU asset is estimated as the greater of value-in-use ("VIU") and fair value less costs of disposal ("FVLCOD"). VIU is estimated as the present value of the future cash flows expected to arise from the continuing use of the ROU asset. FVLCOD is determined by estimating the discounted after-tax future net cash flows. If the recoverable amount of the ROU asset is less than the carrying amount, an impairment loss is recognized.

Continuity of ROU Assets

$Thousands	Land and property	Rig equipment	Office equipment and software	Vehicles	Total
Balance as at December 31, 2019	$ 1,743	$ 486	$ 548	$ 174	$ 2,951
Additions	187	-	204	-	391
Amortization expense	(474)	(210)	(317)	(142)	(1,143)
Balance as at December 31, 2020	1,456	276	435	32	2,199
Additions	**-**	**-**	**763**	**-**	**763**
Disposals	**-**	**(114)**	**-**	**(4)**	**(118)**
Amortization expense	**(449)**	**(162)**	**(376)**	**(28)**	**(1,015)**
Balance as at December 31, 2021	**$ 1,007**	**$ -**	**$ 822**	**$ -**	**$ 1,829**

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).

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.

10. Property, Plant and Equipment

Accounting Policies

Property, plant and equipment (PP&E) is recognized at cost less accumulated depreciation and impairment.

Cost includes expenditures directly attributable to the acquisition of the asset. 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 PP&E are capitalized. Costs incurred to repair or maintain PP&E are charged to expense as incurred. The carrying amount of a replaced asset is derecognized when replaced.

The PP&E cash generating units ("CGUs") are reviewed for internal and external indicators of impairment at each reporting date or when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Internal and external factors such as (i) a significant change in the market capitalization of the Company's share price; (ii) changes in conditions of drilling rig assets; (iii) changes in oil and gas prices in the market; (iv) changes in forecasted activity or earnings and (v) changes in interest rates or other market rates of return, are evaluated by management in determining whether there are any indicators of impairment or impairment reversal.

If indicators of impairment exist, the recoverable amount of the CGU is estimated as the greater of VIU and FVLCOD. VIU is estimated as the present value of the future cash flows expected to arise from the continuing use of a CGU. FVLCOD is determined by estimating the discounted after-tax future net cash flows or through the use of external equipment appraisals obtained from independent third party valuation experts, less an estimated cost to sell. If the recoverable amount of the CGU is less than the carrying amount, an impairment loss is recognized. An impairment loss is allocated to the CGU and then to reduce the carrying amounts of the assets in the CGU.

Impairment losses recognized in prior periods are assessed at each reporting date for any indicators that the impairment losses may no longer exist or may have decreased. In the event that an impairment loss reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the carrying amount does not exceed the amount that would have been determined had no impairment loss been recognized on the asset in prior periods. The amount of the reversal is recognized in net earnings.

Significant Estimates and Judgments

Useful Lives of Drilling Rigs

Depreciation is recognized on PP&E 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.

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.

Future Cash Flows

Impairment testing involves the use of estimates and judgments in the calculation of future cash flows which include future revenue projections, discount rates, probabilities of cash flow variability, future capital and operating costs, salvage values and income taxes and may consider the report of an external appraiser.

Depreciation Methods

A summary of depreciation methodologies for the Company's PP&E classes as at December 31, 2021 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.

Impairment of Assets

The Company did not identify any changes in the indicators of asset impairment or impairment reversals or any new indicators of asset impairment since the asset impairment test that was carried out as at December 31, 2020. Therefore, no further assessment on asset impairment was performed as there have been no changes in circumstances that indicate that the carrying amount of PP&E does not exceed its recoverable amount as at December 31, 2021.

In the first quarter of 2020, the Company recorded an impairment loss of $30,000,000 in each of its Canadian and US CGUs respectively. In the fourth quarter of 2020, both CGUs were tested again for impairment and the Company's US CGUs carrying amount exceeded the recoverable amount resulting in an additional impairment of $20,000,000. The total impairment loss for the year ended December 31, 2020 was $80,000,000.

The recoverable amounts of these CGUs were determined using a discounted cash flow model. Assumptions used in the discounted cash flow models include the Company's Board of Directors approved budgets and an average revenue growth rate ranging from 5% to 15% over a 10 year period depending on the CGU being analyzed. In forecasting its projected cash flows the Company assumed a slow recovery commencing in 2021 for both Canada and the US with improvements in activity and revenue per day over the forecast period. Discounted future cash flows are determined by applying a discount rate of 14.5%. This valuation has an IFRS fair value hierarchy of Level 3. Additionally, in the fourth quarter, management also obtained external equipment appraisals from independent third party experts which supported the fair value less cost to sell.

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

- Changed future revenue assumptions by 5% resulting in increases to the Company's CGUs from $15 million to $35 million per CGU and reductions ranging from $15 million to $35 million per CGU; and
- Changed the Company's pre-tax discount rate by 1% resulting in reductions between $4 million and $11 million per CGU and increases from $4 million to $10 million per CGU.

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

As the base case test represented management's best estimates, these sensitivity reductions were not included in the asset impairment loss reported.

Property, Plant and Equipment Continuity

Cost $Thousands	Land and Buildings	Drilling Rigs	Other	Total
Balance as at December 31, 2019	$ 8,302	$ 561,716	$ 9,410	$ 579,428
Additions	94	7,230	269	7,593
Disposals	(1,261)	(8,786)	(574)	(10,621)
Balance as at December 31, 2020	7,135	560,160	9,105	576,400
Additions	**-**	**15,828**	**696**	**16,524**
Disposals	**-**	**(3,380)**	**(162)**	**(3,542)**
Balance as at December 31, 2021	**$ 7,135**	**$ 572,608**	**$ 9,639**	**$ 589,382**

Accumulated Depreciation $Thousands	Land and Buildings	Drilling Rigs	Other	Total
Balance as at December 31, 2019	$ 1,874	$ 241,406	$ 7,821	$ 251,101
Disposals	(72)	(7,834)	(417)	(8,323)
Depreciation expense	316	30,123	600	31,039
Asset writedown and impairment loss	-	80,000	-	80,000
Balance as at December 31, 2020	2,118	343,695	8,004	353,817
Disposals	**-**	**(3,137)**	**(160)**	**(3,297)**
Depreciation expense	**290**	**26,441**	**662**	**27,393**
Balance as at December 31, 2021	**$ 2,408**	**$ 366,999**	**$ 8,506**	**$ 377,913**

Net Book Value $Thousands	Land and Buildings	Drilling Rigs	Other	Total
As at December 31, 2019	$ 6,428	$ 320,310	$ 1,589	$ 328,327
As at December 31, 2020	$ 5,017	$ 216,465	$ 1,101	$ 222,583
As at December 31, 2021	**$ 4,727**	**$ 205,609**	**$ 1,133**	**$ 211,469**

At December 31, 2021, the Company had $2,039,000 in PP&E that was not being depreciated, as these assets were under construction (December 31, 2020 – $468,000).

In addition to depreciation on its PP&E, the Company had amortization expense of $1,445,000 for the year ended December 31, 2021 (2020 - $1,642,000).

11. 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 drilling rigs. These equity investments are facilitated through joint venture agreements. Each joint venture operates the drilling rig with the joint venture partners' owning a share of each drilling rig directly. The equity ownership of the drilling rigs 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 as equity income from investments in joint ventures on the consolidated Statements of Net 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, 2019	$ 1,648
Net income for the year ended December 31, 2020	650
Distributions for the year ended December 31, 2020	(1,411)
Balance as at December 31, 2020	887
Net income for the year ended December 31, 2021	**1,981**
Distributions for the year ended December 31, 2021	**(492)**
Balance as at December 31, 2021	**$ 2,376**

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, 2021			December 31, 2020		
$Thousands	AKITA %	JV Partner %	Total	AKITA %	JV Partner %	Total
Cash	$ 685	$ 175	$ 860	$ 231	$ 68	$ 299
Other current assets	3,857	790	4,647	915	159	1,074
Non-current assets	55	-	55	55	-	55
Total assets	4,597	965	5,562	1,201	227	1,428
Current liabilities	(2,221)	(513)	(2,734)	(314)	(103)	(417)
Net assets	$ 2,376	$ 452	$ 2,828	$ 887	$ 124	$ 1,011

	Year Ended December 31, 2021			Year Ended December 31, 2020		
$Thousands	AKITA %	JV Partner %	Total	AKITA %	JV Partner %	Total
Revenue	$ 15,893	$ 3,433	$ 19,326	$ 5,094	$ 769	$ 5,863
Operating and maintenance expenses	13,626	2,957	16,583	4,352	690	5,042
Selling and administrative expenses	286	60	346	92	12	104
Net income and comprehensive income	$ 1,981	$ 416	$ 2,397	$ 650	$ 67	$ 717

WORKING CAPITAL

12. 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

The Company classifies its financial instruments in the following measurement categories depending on the Company's business model for managing financial assets and the contractual terms of the cash flows:

(i.) Financial assets at amortized cost:

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains or losses, together with foreign exchange gains and losses. As at December 31, 2021, 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 rate method. As at December 31, 2021, 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 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 or losses and impairment expenses are presented as a separate line item on the statement of profit or loss. As at December 31, 2021, 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 or 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, 2021, 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 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 2021	December 31 2020
Within 30 days	$ 22,195	$ 11,934
31 to 60 days	3,747	2,078
61 to 90 days	852	-
Over 90 days	1,109	1,791
Estimated credit losses	(675)	(675)
Total accounts receivable	$ 27,228	$ 15,128

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, 2021, this risk was limited by $7.4 million in a positive working capital balance and $25.0 million available in the Company's undrawn banking facility.

If future results do not meet the Company's expectations there is a risk that the Company could be offside with its financial covenants in its banking facility and lose the ability to draw on the facility to meet its financial obligations or have to repay the amounts outstanding on the facility. The Company maintains a positive working relationship with the banks in its syndicated facility and on July 17, 2020, entered into an amending agreement with its lenders in the syndicate to provide a five quarter covenant relief period. The facility was further amended quarterly to add additional quarters of covenant relief to June 30, 2023 (Note 14).

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

$Thousands	Less than 1 Year	1-3 Years	Total
Bank credit facility - principal	$ 1,717	$ 84,439	$ 86,156
Bank credit facility - interest	3,946	3,538	7,484
Total	**$ 5,663**	**$ 87,977**	**$ 93,640**

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

$Thousands	Less than 1 Year	2-3 Years	4-5 Years	Total
Lease obligations	$ 974	$ 1,326	$ 15	$ 2,315
Lease obligations - interest	103	72	1	176
Total	**$ 1,077**	**$ 1,398**	**$ 16**	**$ 2,491**

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 2021	December 31 2020
Trade payables	$ 6,987	$ 7,415
Statutory liabilities	503	504
Accrued expenses	12,916	5,907
Post-employment benefits	342	90
Total accounts payable and accrued liabilities	**$ 20,748**	$ 13,916

13. Change in Non-Cash Working Capital

	For The Year Ended	
$Thousands	December 31 2021	December 31 2020
Change in non-cash working capital:		
Accounts receivable	$ (12,113)	$ 16,980
Prepaid expenses and other	612	130
Accounts payable and accrued liabilities	6,692	(5,026)
Deferred revenue	(129)	(39)
Change in non-cash working capital	**$ (4,938)**	$ 12,045
Pertaining to:		
Operating activities	$ (8,867)	$ 12,975
Investing activities	3,929	(930)
Change in non-cash working capital	**$ (4,938)**	$ 12,045

DEBT AND EQUITY

14. Debt

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 Canadian banks in the syndication. The operating loan facility totals $110,000,000 with the term ending in 2023. The credit agreement was amended on July 17, 2020, to include a covenant relief period that extended to June 30, 2021. The facility has been further amended to add additional quarters of covenant relief, to June 30, 2023. The interest rate during the covenant relief period ranges from 225 to 350 basis points over prime interest rates depending on the Funded Debt[1] to Tangible Net Worth[1] Ratio until September 2022 at which time it reverts to a 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. The Funded Debt[1] to Tangible Net Worth[1] Ratio: the Company shall ensure that for the fiscal quarters ended December 31, 2021 to June 30, 2022, the Funded Debt[1] to Tangible Net Worth[1] Ratio shall not be more than 0.75:1.00. For the fiscal quarters ended September 30, 2022 and beyond, the Funded Debt[1] to Tangible Net Worth[1] reverts back to a Funded Debt[1] to EBITDA[1] Ratio at the following levels:

   (i) 5.00:1.00 as at the Fiscal Quarter ending September 30, 2022;

   (ii) 4.50:1.00 as at the Fiscal Quarter ending December 31, 2022;

   (iii) 4.00:1.00 as at the Fiscal Quarter ending March 31, 2023; and

   (iv) 3.50:1.00 as at the Fiscal Quarter ending June 30, 2023.

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

2. The EBITDA[1] to Interest Expense[1] Ratio: the Company shall ensure that:

   (i) For the fiscal quarter ended December 31, 2021, the EBITDA[1] to Interest Expense[1] Ratio shall not be less than 2.00:1.00;

   (ii) For the fiscal quarter ended March 31, 2022, the EBITDA[1] to Interest Expense[1] Ratio shall not be less than 2.50:1.00;

   (iii) For the fiscal quarter ended June 30, 2022, the EBITDA[1] to Interest Expense[1] Ratio shall not be less than 2.75:1.00; and

   (iv) For the fiscal quarter ended September 30, 2022 and beyond, the EBITDA[1] to Interest Expense[1] Ratio shall not be less than 3.00:1.00.

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

3. A minimum trailing twelve month EBITDA[1] test is required quarterly until June 30, 2022, with the minimum EBITDA[1] varying each period in line with agreed upon forecasts.

Upon the end of the Covenant Relief Period the Company's covenants revert back to:

(i) Funded Debt[1] to EBITDA[1] Ratio of not more than 3.00:1.00, and

(ii) EBITDA[1] to Interest Expense[1] Ratio of not less than 3.00:1.00.

At December 31, 2021, the Company was in compliance with its covenants with a Funded Debt[1] to Tangible Net Worth[1] Ratio of 0.65:1.00, an EBITDA[1] to Interest Expense[1] Ratio of 2.45:1.00 and a trailing twelve month EBITDA[1] in excess of the $7,721,000 minimum threshold.

[1] Readers should be aware that each of the EBITDA, Funded Debt, Interest Expense, Eligible Accounts Receivable, Priority Payables and Eligible Rig 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 facility also includes a borrowing base calculation which is the sum of:

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

(ii) 50% of orderly liquidation value of all Eligible Rig Assets[(1)]; less

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

At December 31, 2021, the Company's borrowing base totalled $135,742,000.

The credit facility includes a $10,000,000 operating line of credit that is classified as current, given the Company expects to settle the balance within a normal operating cycle. The maturity date aligns with the total credit facility. At December 31, 2021, the current portion of debt was $1,717,000 (December 31, 2020 – $ Nil). The balance outstanding under the credit loan facility, net of unamortized loan fees, is classified as long-term debt as the credit agreement has no required repayment obligations prior to the end of the loan facility term. The Company borrowed $86,700,000 in total from this facility as at December 31, 2021 (December 31, 2020 - $75,000,000).

Continuity of Debt

$Thousands		Debt
Balance as at December 31, 2020	$	74,303
Drawn on credit facility		16,590
Repayment of debt		(4,873)
Net deferred loan fees		136
Balance as at December 31, 2021	**$**	**86,156**
Current portion	$	1,717
Long-term portion		84,439
Balance as at December 31, 2021	**$**	**86,156**

15. Lease Obligations

IFRS 16 "Leases" – Accounting 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.

(1) Readers should be aware that each of the EBITDA, Funded Debt, Interest Expense, Eligible Accounts Receivable, Priority Payables and Eligible Rig 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.

Lease obligations 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.

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 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. The discount rates range from 5.01% to 6.06%.

Lease Obligations

The Company recorded $171,000 in interest expense related to its lease obligations for the year ended December 31, 2021 (2020 - $198,000).

Continuity of Lease Obligations

$Thousands	Land and property	Rig equipment	Office equipment and software	Vehicles	Total
Balance as at December 31, 2019	$ 2,563	$ 501	$ 613	$ 181	$ 3,858
Change in lease obligations	(635)	(162)	(244)	(146)	(1,187)
Lease additions	187	-	219	-	406
Lease terminations	-	-	(109)	-	(109)
Balance as at December 31, 2020	2,115	339	479	35	2,968
Change in lease obligations	**(629)**	**(163)**	**(332)**	**(32)**	**(1,156)**
Lease additions	**-**	**-**	**682**	**-**	**682**
Lease terminations	**-**	**(176)**	**-**	**(3)**	**(179)**
Balance as at December 31, 2021	**$ 1,486**	**$ -**	**$ 829**	**$ -**	**$ 2,315**

$Thousands	Land and property	Rig equipment	Office equipment and software	Vehicles	Total
Current portion	**$ 636**	**$ -**	**$ 338**	**$ -**	**$ 974**
Long-term portion	**850**	**-**	**491**	**-**	**1,341**
Balance as at December 31, 2021	**$ 1,486**	**$ -**	**$ 829**	**$ -**	**$ 2,315**

16. 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.

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, 2021 and December 31, 2020 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.

The holders of Class A Non-Voting shares have no right to participate if a takeover bid is made for Class B Common shares unless:

- an offer to purchase Class B Common shares is made to all or substantially all holders of Class B Common shares;
- at the same time, an offer to purchase Class A Non-Voting shares on the same terms and conditions is not made to the holders of Class A Non-Voting shares; and
- holders of more than 50% of the Class B Common shares do not reject the offer in accordance with the terms of AKITA's articles of incorporation.

If these three pre-conditions are met, then the holders of Class A Non-Voting shares will be entitled to exchange each Class A Non-Voting share for one Class B Common share for the purpose of depositing the resulting Class B Common shares pursuant to the terms of the takeover bid.

The Class A Non-Voting shares and Class B Common 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 compensation plan while deferred share units ("DSUs") and share appreciation rights ("SARs") qualify as cash-settled share-based compensation 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 2021	December 31 2020
Reserved under the current stock option plan	3,100,000	3,100,000
Balance at beginning of year	855,500	292,000
Expired	-	172,500
Cancelled	-	746,000
Granted	(490,000)	(355,000)
Available for future issuance	365,500	855,500

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

	2021			2020		
	Number of Options		Weighted Average Exercise Price	Number of Options		Weighted Average Exercise Price
Options outstanding at January 1	842,500	$	2.80	1,406,000	$	8.20
Granted	490,000	$	1.01	355,000	$	0.44
Cancelled	-	$	-	(746,000)	$	10.55
Expired	-	$	-	(172,500)	$	8.50
Options outstanding at December 31	1,332,500	$	2.14	842,500	$	2.80
Options exercisable at December 31	490,500	$	2.79	249,000	$	3.60

The following table summarizes outstanding stock options at December 31:

		2021			2020		
Vesting Period (Years)	Exercise Price	Number Outstanding	Remaining Contractual Life (Years)	Number Exercisable	Number Outstanding	Remaining Contractual Life (Years)	Number Exercisable
5	$ 5.62	162,500	6.7	97,500	162,500	7.7	97,500
5	$ 3.93	327,500	7.2	81,000	327,500	8.2	81,000
5	$ 0.44	352,500	6.5	70,500	352,500	7.5	70,500
5	$ 1.01	490,000	7.3	98,980			
Weighted Average Contractual Life			7.0			7.8	

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 (recovery) recognized in selling and administrative expense. The Company assumes a zero forfeiture rate.

A summary of the Company's DSU plan is presented below:

	2021			2020		
	Deferred Share Units (#)		Fair Value ($000's)	Deferred Share Units (#)		Fair Value ($000's)
Deferred share units outstanding as at January 1	159,882	$	77	187,011	$	222
Granted	190,000		190	-		-
Redeemed	-		-	(27,129)		(14)
Change in fair value			62			(131)
Deferred share units outstanding as at December 31	349,882	$	329	159,882		$77

	2021			2020		
Deferred share units allocated to:	Deferred Share Units (#)		Fair Value ($000's)	Deferred Share Units (#)		Fair Value ($000's)
Accounts payable and accrued liabilities	71,157	$	67	-	$	-
Non-current liabilities	278,725		262	159,882		77
Deferred share units outstanding as at December 31	349,882	$	329	159,882	$	77

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 (recovery) consists of the following:

	Year Ended			
$Thousands	December 31 2021		December 31 2020	
Stock option expense	$	255	$	182
Deferred share unit expense (recovery)		252		(131)
Total share-based compensation expense	$	507	$	51

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.

	2021	2020
Risk-free interest rate	1.10%	0.72%
Expected volatility	79%	72%
Dividends yield rate	0.00%	0.00%
Option life	5.4 years	5.4 years
Weighted average share price	$ 1.01	$ 0.44
Forfeiture rate	0.00%	0.00%
Fair value of options	$ 0.66	$ 0.27

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, Canadian 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.

The Company has a 401(k) plan, registered under the Employment Retirement Income Security Act of 1974, which covers all of its United States employees. Under the provisions of the plan, the Company contributes 3% of regular earnings for eligible employees on a current basis.

Contributions to the Company's defined contribution pension plan, group RRSP and the 401(k) plan are recognized as employee benefit expense when they are due.

The Company has 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 12, 2022, and was utilized in measuring the December 31, 2021 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.

Continuity of Defined Benefit Pension Liability

$Thousands	2021	2020
Actuarial present value of defined benefit obligation as at January 1	$ 5,800	$ 5,298
Interest cost	132	158
Current service cost	21	19
Benefits paid	(198)	(90)
Unrealized actuarial (gain) loss	(292)	415
Actuarial present value of defined benefit obligation as at December 31	$ 5,463	$ 5,800

$Thousands	2021	2020
Pension liability allocated to:		
Accounts payable and accrued liabilities	$ 275	$ 90
Non-current liabilities	5,188	5,710
Pension liability outstanding as at December 31	$ 5,463	$ 5,800

Key Assumptions

	Year Ended	
	December 31 2021	December 31 2020
Discount rate at beginning of the year	2.3%	3.0%
Anticipated retirement age of plan members	66 years	65 to 67 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 2021	December 31 2020
Defined benefit pension plan		
Interest cost	$ 132	$ 158
Service cost	21	19
Expense for defined benefit plan	153	177
Expense for defined contribution plans	1,664	1,893
Total expense	$ 1,817	$ 2,070

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 $5,188,000 at December 31, 2021 (December 31, 2020 - $5,710,000). 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, 2021, a key assumption is the discount rate of 2.9% (2020 – 2.3%). From the perspective of a sensitivity analysis, a 1% decrease in the discount rate would result in a $701,000 increase in the defined benefit obligation while a 1% increase in the discount rate would result in a $581,000 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 $109,000. 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, 2021, the Company had no drilling rigs with multi-year contracts.

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, 2021, the Company had capital expenditure commitments of $1,743,000 (2020 – $422,000).

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 in the following table:

$Thousands	Year Ended December 31 2021		December 31 2020	
Revenue (computer services, rent)	$	89	$	85
Purchases				
Property, plant and equipment (wellsite trailers)	$	-	$	57
Sponsorship and advertising (Note 20)	$	175	$	175
Selling and administrative	$	72	$	49
Operating	$	534	$	570
Year-end accounts payable	$	47	$	31

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 balances with AKITA are presented in the following table:

$Thousands	Year Ended December 31 2021		December 31 2020	
Operating costs	$	2,880	$	837
Selling and administrative costs	$	350	$	115

$Thousands	December 31 2021		December 31 2020	
Due to AKITA from joint venture partners	$	1,709	$	991
Due to AKITA from joint ventures	$	1,564	$	123

c) 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 in the following table:

$Thousands	Year Ended December 31 2021		December 31 2020	
Salaries, director's fees and other short-term benefits	$	1,335	$	1,431
Long-service retiring allowance	$	-	$	3,177
Post-employment benefits	$	72	$	141
Share-based payments	$	498	$	132
Long-service retiring allowance payable	$	-	$	1,500

We value our people, our partners, and our environment
both in our words and our actions.
We treat all those we encounter with dignity—
demonstrating care and concern by
listening to understand
and speaking to be understood.

10 YEAR FINANCIAL REVIEW

$Thousands (except per share)	Annual Ranking		2021		2020		2019
Summary of Operations							
Revenue	8	$	110,088	$	119,664	$	175,890
Income (loss) before income taxes	6	$	(21,782)	$	(102,701)	$	(24,679)
Income taxes expense (recovery)	6	$	(792)	$	(9,427)	$	(4,804)
Net income (loss)	7	$	(20,990)	$	(93,274)	$	(19,875)
As a percentage of average shareholders' equity	8		(16.0%)		(61.3%)		(8.1%)
Earnings (loss) per Class A and Class B share (basic)	6	$	(0.53)	$	(2.03)	$	(0.50)
Funds flow from operations	9	$	7,454	$	10,322	$	12,925
As a percentage of average shareholders' equity	7		5.7%		6.8%		5.3%
Financial Position at Year End							
Working capital (deficiency)	8	$	6,496	$	8,683	$	4,032
Current ratio	8		1.27		1.56		1.14
Total assets	9	$	247,574	$	251,521	$	369,116
Shareholders' equity	10	$	131,485	$	152,266	$	245,134
per share	10	$	3.32	$	3.84	$	6.19
Other							
Capital expenditures (net)	7	$	16,416	$	7,593	$	15,238
Depreciation and amortization	5	$	28,838	$	32,681	$	36,763
Dividends paid	9	$	-	$	-	$	10,101
per share	9	$	-	$	-	$	0.17

2018	2017	2016	2015	2014	2013	2012
$ 118,361	$ 71,198	$ 61,061	$ 112,488	$ 165,274	$ 168,111	$ 203,440
$ (12,228)	$ (53,230)	$ 7,535	$ (44,544)	$ 28,121	$ 35,682	$ 38,413
$ 3,651	$ (14,053)	$ 2,206	$ (10,579)	$ 7,042	$ 9,167	$ 9,658
$ (15,939)	$ (39,177)	$ 5,329	$ (33,965)	$ 21,079	$ 26,515	$ 28,755
(5.9%)	(22.5%)	2.4%	(14.2%)	8.3%	11.3%	13.5%
$ (0.65)	$ (2.18)	$ 0.30	$ (1.89)	$ 1.17	$ 1.48	$ 1.60
$ 14,306	$ 6,607	$ 34,500	$ 38,510	$ 56,195	$ 57,619	$ 59,474
5.3%	3.8%	15.7%	16.0%	22.2%	24.6%	28.0%

$ 11,166	$ 15,528	$ 34,907	$ 16,002	$ (5,028)	$ 40,645	$ 31,214
1.31	2.02	4.49	2.45	0.90	2.93	1.70
$ 403,641	$ 207,497	$ 257,907	$ 254,516	$ 340,926	$ 291,748	$ 292,994
$ 271,728	$ 174,455	$ 219,646	$ 220,200	$ 259,841	$ 245,288	$ 223,998
$ 6.86	$ 9.72	$ 12.24	$ 12.27	$ 14.48	$ 13.65	$ 12.49

$ 17,546	$ 20,348	$ 13,193	$ 17,960	$ 103,949	$ 35,113	$ 65,356
$ 26,614	$ 27,126	$ 23,959	$ 36,748	$ 30,200	$ 26,825	$ 24,342
$ 7,942	$ 6,100	$ 6,100	$ 6,101	$ 6,015	$ 5,567	$ 5,038
$ 0.34	$ 0.34	$ 0.34	$ 0.34	$ 0.34	$ 0.32	$ 0.28


AKITA
34
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CORPORATE INFORMATION

Directors

Loraine M. Charlton
Corporate Director
Calgary, Alberta

Douglas A. Dafoe
President and CEO
Ember Resources Inc.
Calgary, Alberta

Harish K. Mohan
Corporate Director
Calgary, Alberta

Dale R. Richardson
Vice President,
Sentgraf Enterprises Ltd.
Calgary, Alberta

Nancy C. Southern
Chairman, President and
Chief Executive Officer,
ATCO Ltd., Canadian Utilities Limited, and
CU Inc.
Calgary, Alberta

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

Henry G. Wilmot
Corporate Director
Calgary, Alberta

Charles W. Wilson
Corporate Director
Boulder, Colorado

Officers

Linda A. Southern-Heathcott
Executive Chair and Chief Executive Officer

Darcy Reynolds
Vice President, Finance and
Chief Financial Officer

Raymond T. Coleman
President, USA Division

Colin A. Dease
President, Canadian Operations,
Corporate Secretary and Legal Counsel

Craig W. Kushner
Director of Human Resources

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Banker

ATB Financial
Calgary, Alberta

Counsel

Bennett Jones LLP
Calgary, Alberta

Auditors

PricewaterhouseCoopers LLP
Calgary, Alberta

Registrar and Transfer Agent

TSX Trust Company
Calgary, Alberta and Toronto, Ontario
1.800.387.0825

Share Symbol/TSX

Class A Non-Voting (AKT.A)

Class B Common (AKT.B)

Website

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