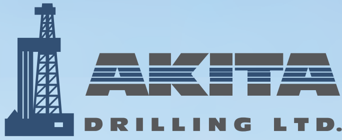


2022
ANNUAL REPORT

AKITA
520
AKITA
520
SAFETY DAYS

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

1 Corporate Profile

4 Letter to the Shareowners

6 Operational Performance

8 Share Performance

10 Management's Discussion and Analysis

36 Management's Responsibility for Financial Reporting

38 Independent Auditor's Report

44 Consolidated Financial Statements

48 Notes to the Consolidated Financial Statements

78 10 Year Financial Review

81 Corporate Information

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; 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 Risks and Risk Management” section of the Management’s Discussion and Analysis of this 2022 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 9, 2023 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.

AKITA Drilling's net income for the year ended December 31, 2022 was $4,288,000 (net income of $0.11 per share (basic and diluted)) on revenue of $200,996,000, compared to a net loss $20,990,000 (net loss of $0.53 per share (basic and diluted)) on revenue of $110,088,000 in 2021. This marks the first year of positive earnings for the Company since 2016 and the highest revenue earned in the last decade. Funds flow from operations for 2022 was $34,813,000 compared to $7,454,000 in 2021, while net cash from operating activities for 2022 was $18,198,000 compared to net cash used in operating activities of $3,461,000 in 2021. Both of the Company's operating segments, the US division and the Canadian division, had improved results that contributed to the significant increase in the year-over-year profitability of the Company.

In Canada, 2022 was a much more active year for the industry and for AKITA. For the industry, total operating days increased to 58,833 in 2022 from 43,840 in 2021, a 34% improvement. This compared to 2,518 operating days in 2022 for the Company compared to 1,594 in 2021, a 58% improvement for AKITA. The increase in activity for AKITA was realized across all rig categories with the oilsands rigs increasing in activity the most. In Canada the operating margin increased to $19,803,000 in 2022 from $9,068,000 in 2021. This 118% increase in operating margin was attributable to a combination of the overall activity increase as well as a 38% increase in operating margin per operating day, that was in turn driven by improved day rates. One of the most significant factors that

LETTER TO THE SHAREOWNERS

impacted the number of rigs that AKITA was able to put to work in 2022 was crew availability. This limiting factor eased towards the end of 2022 as the Company implemented several initiatives to mitigate this constraint. In Canada, the Company spent $6,648,000 on capital in 2022, largely related to the recertification of equipment.

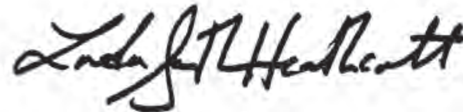
On November 23, 2022, the Canadian Association of Energy Contractors ("CAOEC") released its 2023 industry drilling forecast, estimating 70,495 operating days for the Canadian drilling industry in 2023, up from 58,833 actual operating days in 2022. The 2023 forecast was based upon commodity price assumptions of USD $83.00 per barrel for crude oil and CAD $3.19/GJ for natural gas. Based on the CAOEC forecast, 2023 should see further improvements from what was achieved in 2022, which should result in corresponding increases for the Company.

Results in the US were even stronger than in Canada with the US operating margin increasing to $35,631,000 in 2022 from $13,427,000 in 2021. The active rig count for the US increased from 586 active rigs at the end of 2021 to 779 at the end of 2022. This 33% increase in activity significantly improved the pricing power for the drilling industry. Activity in the US for AKITA improved year-over-year to 4,088 operating days in 2022 from 2,871 in 2021, a 42% increase. While the increase in activity contributed to the improvement in operating margin, it was day rate increases in the US that made the largest impact on the improvement to operating margin. The operating margin per operating day increased 86% to $8,716 in 2022 from $4,677 in 2021. The focus placed on increasing day rates while keeping costs increases to a minimum, despite the inflationary environment, was successful in the US. In the US $11,334,000 was spent on capital which was allocated among equipment recertifications, drill pipe and rig upgrades.

The improvements seen in 2022 are expected to continue in 2023 which should result in continued improvement in profitability for the Company. The focus of the Company in 2023 is on meaningful debt repayment and improving the Company's financial flexibility for the future.

We would like to express a special thanks to AKITA's employees for their hard work and sacrifices through the challenging last few years. 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,

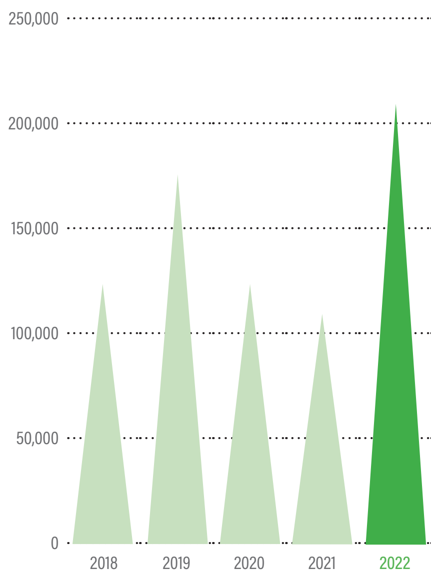


Linda A. Southern-Heathcott
Executive Chair and Chief Executive Officer

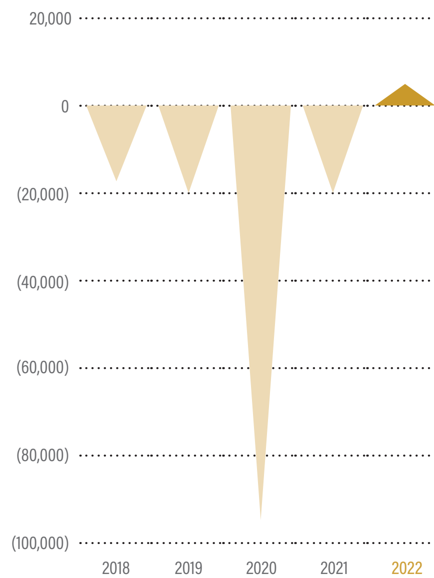
March 20, 2023

OPERATIONAL PERFORMANCE

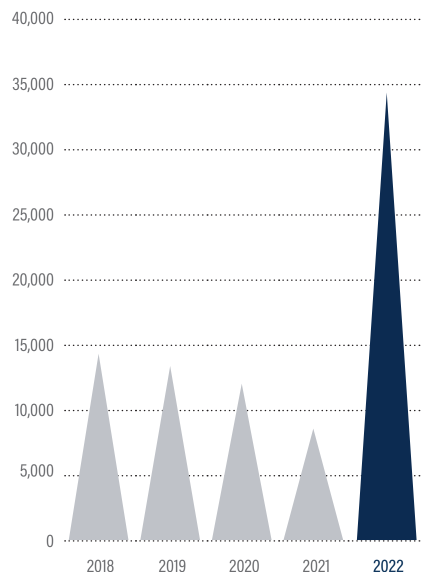
Revenue ($000's)



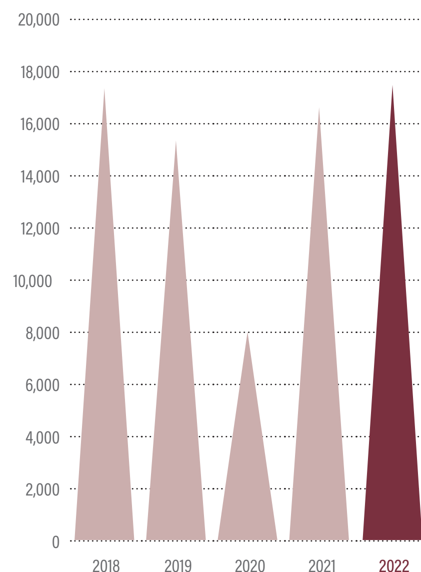
Net Earnings (Loss) ($000's)



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.

RESPECT

COMMITMENT

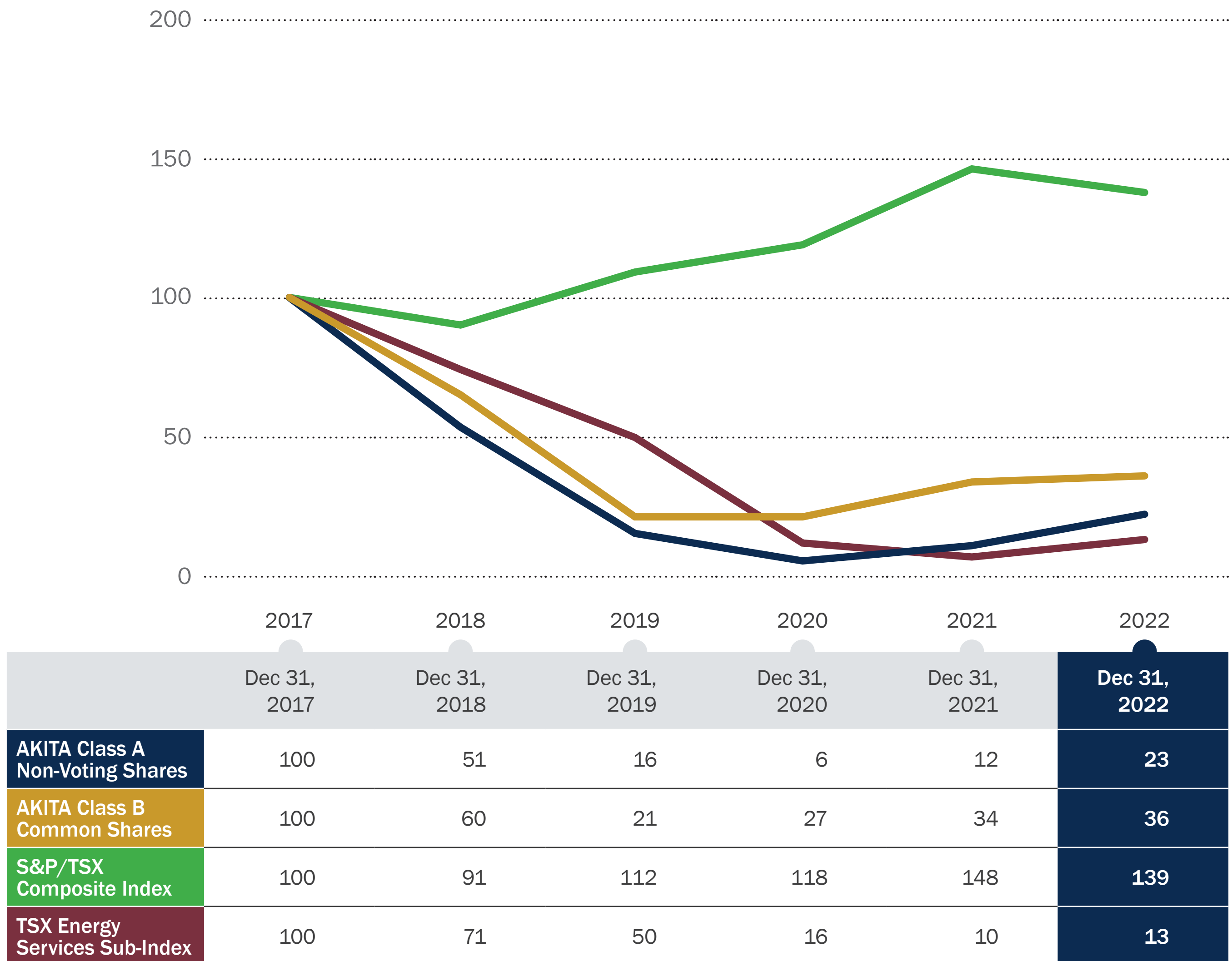
FOUNDATIONAL VALUES

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, 2022 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, 2017	Dec 31, 2018	Dec 31, 2019	Dec 31, 2020	Dec 31, 2021	Dec 31, 2022
AKITA Class A Non-Voting Shares	100	51	16	6	12	23
AKITA Class B Common Shares	100	60	21	27	34	36
S&P/TSX Composite Index	100	91	112	118	148	139
TSX Energy Services Sub-Index	100	71	50	16	10	13

Share Performance

		2018	2019	2020	2021	2022
Weighted average number of Class A and Class B shares		24,551,542	39,608,191	39,608,191	39,608,191	39,622,805
Total number of Class A and Class B shares		39,608,191	39,608,191	39,608,191	39,608,191	39,650,191
Market prices for Class A Non-Voting shares	High	$ 8.38	$ 4.42	$ 1.22	$ 1.54	$ 2.96
	Low	$ 3.41	$ 0.75	$ 0.25	$ 0.50	$ 0.89
	Close	$ 4.07	$ 1.19	$ 0.48	$ 0.94	$ 1.73
Volume		2,192,522	8,875,748	21,339,080	7,239,647	20,529,992
Market prices for Class B Common shares	High	$ 8.16	$ 4.48	$ 2.89	$ 3.00	$ 4.98
	Low	$ 3.77	$ 1.25	$ 0.67	$ 0.98	$ 1.50
	Close	$ 4.60	$ 1.57	$ 0.77	$ 2.46	$ 2.60
Volume		19,313	53,746	45,986	14,172	19,530

Dividend History

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

	2018	2019	2020	2021	2022
Dividends per share ($)	0.34	0.17	0.00	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, 2022, is dated March 20, 2023, 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, 2022. The MD&A should be read in conjunction with the audited annual consolidated financial statements and related notes for the year ended December 31, 2022, 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 Nations, 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; together AKITA's First Nation, Métis and Inuit joint venture partners hold equity interest in six of AKITA's Canadian drilling rigs. AKITA's US division conducts operations with a fleet of 16 rigs, currently operating in Colorado, Texas and New Mexico.

With a focus on the efficient provision of drilling services, rigorous crew training, rig maintenance, safety processes and adherence to a leading quality assurance-quality control program, AKITA strives to ensure it is well positioned to meet the demanding requirements of global operators while remaining flexible enough to tailor its services to operator requests.

Financial Highlights

	For the three months ended December 31				For the year ended December 31			
($Thousands except per share amounts)	2022	2021	Change	% Change	2022	2021	Change	% Change
Revenue	59,525	34,360	25,165	73%	200,996	110,088	90,908	83%
Operating and maintenance expenses	40,666	30,568	10,098	33%	151,884	89,835	62,049	69%
Operating margin	18,859	3,792	15,067	397%	49,112	20,253	28,859	142%
Margin %	32%	11%	21%	191%	24%	18%	6%	33%
Net cash from (used in) operating activities	8,035	(6,327)	14,362	227%	18,198	(3,461)	21,659	626%
Adjusted funds flow from operations [(1)]	16,144	2,427	13,717	565%	34,813	7,454	27,359	367%
Per share	0.41	0.06	0.35	583%	0.88	0.19	0.69	363%
Net income (loss)	8,813	(4,798)	13,611	284%	4,288	(20,990)	25,278	120%
Per share	0.22	(0.13)	0.35	269%	0.11	(0.53)	0.64	121%
Capital expenditures	4,917	7,544	(2,627)	(35%)	17,982	16,416	1,566	10%
Weighted average shares outstanding	39,650	39,608	42	0%	39,623	39,608	15	0%
Total assets					268,281	247,574	20,707	8%
Total debt					93,514	86,156	7,358	9%

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

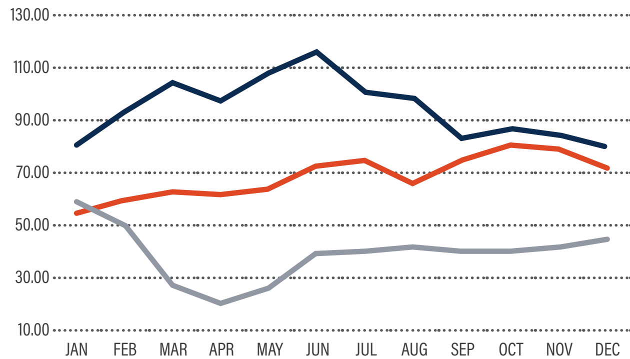
General Overview

AKITA ended the year with net earnings of $4,288,000 in 2022 compared to a net loss in 2021 of $20,990,000, marking a significant turning point for the Company. This significant improvement in the Company's results is primarily due to strong results in the Company's US division. While the Company was more active in both Canada (2,518 operating days in 2022 compared to 1,594 operating days in 2021) and the US (4,088 operating days in 2022 compared to 2,871 operating days in 2021) the most substantial driver for the improved results was the 165% increase in the Company's adjusted operating margin in the United States in 2022, most of which was generated in the second half of the year. Funds flow from operations increased to $34,813,000 in 2022, the highest annual funds flow from operations since 2015. The Company's net earnings and funds flow from operations were both weighted heavily to the fourth quarter which generated 46% of the funds flow from operations for the entire year. Capital spending for the year was 10% higher in 2022 than in 2021, with 36% of the 2022 capital being spent in the first quarter of the year. This weighting of capital spending early in the year when significantly improved results were not yet realized, increased the Company's total debt to $95 million in the first quarter of 2022, with the balance of the Company's capital program for the year funded through cash flow.

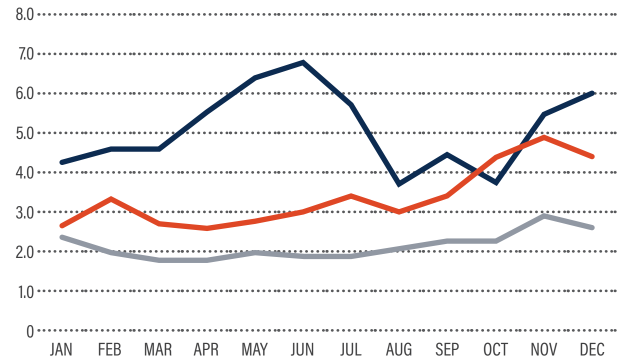
Industry Overview

2022
2021
2020

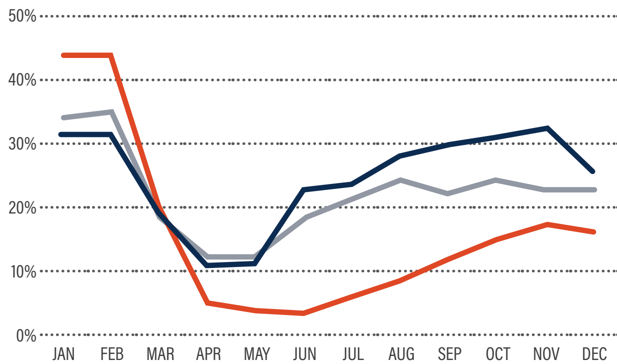
WTI Prices ($USD/bbl) [1]



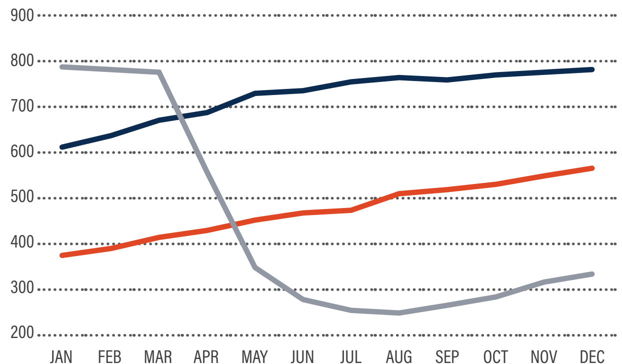
Alberta Natural Gas Price ($CAD/GJ) [2]



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 international LNG (liquified natural gas) pricing. Crude oil prices have been recovering since the lows in April of 2020, reaching levels by the end of 2021 not seen since 2014, and continuing higher amidst the current geopolitical situation which has disrupted the global oil market and pushed oil prices higher. Oil prices peaked in June 2022, before worldwide recessionary concerns led to decreased pricing through the second half of 2022 as global economies struggled with inflation and uncertainty. Natural gas prices, which were not impacted as heavily as crude oil prices by the global COVID-19 pandemic, also decreased significantly from June of 2022.

In Canada, industry utilization has now recovered to pre-pandemic levels and continues to strengthen. Activity levels in the Canadian drilling industry have reached a point where drilling contractors are able to increase day rates for the first time in several years, a signal that a recovery is underway. This encouraging development is tempered by the fact that rates are increasing from extremely low unsustainable benchmark rates that were established in the downturn, and then further depressed during the height of the pandemic. Consequently, despite the recent day rate improvements, there remains a large delta between current rates and peak rates last seen in 2014. In Canada, the speed of the recovery has three limiting factors: two affecting the demand for drilling rigs and one impacting the ability to supply rigs. The industry was challenged by well licensing issues in British Columbia which impacted opportunities for drilling (and therefore demand), resulting in the indefinite postponement of drilling programs that were scheduled to commence in 2022. There was partial resolution to this licensing issue in January of 2023 with delayed projects beginning work in the first half of 2023. Supply chain issues are the second factor weighing on demand for drilling in 2022 as the Company's customers are having difficulty sourcing casing, a required component to complete a well. The short supply of casing means operators have to curtail some drilling programs as they prioritize work based on casing they already have. Labour shortages affect the supply of drilling rigs and are expected to remain a key third 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, with industry activity still slightly below the pre-pandemic levels of 800 active rigs. When the US active rig count surpassed 750 active rigs however, pricing power returned to the drilling contractors. Day rates have improved significantly in 2022 and could continue to improve if activity continues to climb. The growth in the active rig count slowed in the second half of 2022 and there are concerns that ongoing uncertainty in the North American economy may reduce demand for oil in the near term, which in turn, would impact the demand for drilling rigs as some operators elect to preserve capital during uncertain times.

Results by Segment

Canada

	For the three months ended December 31				For the year ended December 31			
$Thousands except per day amounts	2022	2021	Change	% Change	2022	2021	Change	% Change
Revenue Canada	14,686	10,127	4,559	45%	55,279	28,290	26,989	95%
Revenue from joint venture drilling rigs	6,546	4,431	2,115	48%	25,958	15,893	10,065	63%
Flow through charges [1]	(712)	(1,465)	753	51%	(3,800)	(3,512)	(288)	(8%)
Adjusted revenue Canada [1]	20,520	13,093	7,427	57%	77,437	40,671	36,766	90%
Operating and maintenance expenses Canada	10,806	9,134	1,672	18%	41,799	21,489	20,310	95%
Operating and maintenance expenses from joint venture drilling rigs	4,470	3,428	1,042	30%	19,635	13,626	6,009	44%
Flow through charges [1]	(712)	(1,465)	753	51%	(3,800)	(3,512)	(288)	(8%)
Adjusted operating and maintenance expenses Canada [1]	14,564	11,097	3,467	31%	57,634	31,603	26,031	82%
Adjusted operating margin[1]	5,956	1,996	3,960	198%	19,803	9,068	10,735	118%
Margin %[1]	29%	15%	14%	93%	26%	22%	4%	18%
Operating days	583	498	85	17%	2,518	1,594	924	58%
Adjusted revenue per operating day [1]	35,197	26,291	8,906	34%	30,753	25,515	5,238	21%
Adjusted operating and maintenance expenses per operating day [1]	24,981	22,283	2,698	12%	22,889	19,826	3,063	15%
Adjusted operating margin per operating day [1]	10,216	4,008	6,208	155%	7,864	5,689	2,175	38%
Utilization [1]	32%	27%	5%	19%	34%	22%	12%	55%
Rig count	20	20	-	0%	20	20	-	0%

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

Results in Canada improved significantly in 2022 with adjusted operating margin increasing 118% to $19,803,000 in the year from $9,068,000 in 2021. This increase was driven by two factors, increased activity and improved day rates. During 2022, AKITA achieved 2,518 operating days in Canada, which corresponds to an annual utilization rate of 34%, compared to a 2022 industry average of 35% and a 2021 utilization rate for the Company of 22% (1,594 days). The increase in AKITA's operating days in 2022 compared to 2021 was a general increase spread out amongst all classes of rigs in the Canadian fleet. In 2022, activity for the Company followed the typical seasonal trend with the first quarter being the most active.

Day rates were the other contributing factor to the increased operating margin in Canada. Adjusted revenue per operating day increased 21% to $30,753 in 2022 from $25,515 in 2021. Rates have increased not only year-over-year but also quarter-over-quarter, with average day rates ending the year at $35,197 for the fourth quarter of 2022 compared to $29,173 in the first quarter of 2022. 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 for its wholly-owned rigs.

Adjusted operating and maintenance expenses are tied to activity levels and increased 82% to $57,634,000 in 2022 from $31,603,000 in 2021, which is not in-line with the 58% increase in operating days as the per day cost also increased. On a per day basis, adjusted operating and maintenance costs increased to $22,889 in 2022 from $19,826 in 2021. The 2021 operating and maintenance expense was reduced by the Canadian Emergency Wage Subsidy ("CEWS") of $3,450,000 in 2021 or $2,164 per day (2022 – nil).

AKITA's Canadian segment provided drilling services to 27 different customers in 2022 (2021 - 15 different customers), including five customers that each provided more than 10% of AKITA's Canadian revenue for the year (2021 – four customers).

United States

	For the three months ended December 31				For the year ended December 31			
$Thousands except per day amounts	**2022**	2021	Change	% Change	**2022**	2021	Change	% Change
Revenue US	**44,839**	24,233	20,606	85%	**145,717**	81,798	63,919	78%
Flow through charges [1]	**(5,383)**	(3,277)	(2,106)	(64%)	**(14,919)**	(10,374)	(4,545)	(44%)
Adjusted revenue US [1]	**39,456**	20,956	18,500	88%	**130,798**	71,424	59,374	83%
Operating and maintenance expenses US	**29,861**	21,459	8,402	39%	**110,086**	68,371	41,715	61%
Flow through charges [1]	**(5,383)**	(3,277)	(2,106)	(64%)	**(14,919)**	(10,374)	(4,545)	(44%)
Adjusted operating and maintenance expenses US [1]	**24,478**	18,182	6,296	35%	**95,167**	57,997	37,170	64%
Adjusted operating margin US[1]	**14,978**	2,774	12,204	440%	**35,631**	13,427	22,204	165%
Margin %[1]	**38%**	13%	25%	192%	**27%**	19%	8%	42%
Operating days	**1,046**	829	217	26%	**4,088**	2,871	1,217	42%
Adjusted revenue per operating day [1]	**37,721**	25,279	12,442	49%	**31,996**	24,878	7,118	29%
Adjusted operating and maintenance expenses per operating day [1]	**23,402**	21,932	1,470	7%	**23,280**	20,201	3,079	15%
Adjusted operating margin per operating day [1]	**14,319**	3,347	10,972	328%	**8,716**	4,677	4,039	86%
Utilization [1]	**71%**	56%	15%	27%	**70%**	49%	21%	43%
Rig count	**16**	16	-	0%	**16**	16	-	0%

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

The Company's US operating segment had a strong year with meaningful day rate increases throughout the year and improved activity compared to the prior year. Adjusted operating margin increased 165% to $35,631,000 in 2022 from $13,427,000 in 2021. Of the total operating margin in the year, 70% was generated in the second half of the year as the day rate increases began to significantly improve results. Activity increased in 2021 in the US operating segment and remained constant through 2022 averaging 1,000 operating days per quarter. The key driver for improved results was higher day rates. Revenue per day improved from $26,089 in the first quarter of 2022 to $37,721 in the fourth quarter as the Company was able to secure incremental day rate increases throughout the year. Revenue in the US accounted for 63% of the Company's total 2022 adjusted revenue, consistent with 62% in 2021. Adjusted operating margin in the US was 64% of the total for the Company in 2022, up from 60% in 2021.

Adjusted operating and maintenance costs increased to $95,167,000 in 2022 from $57,997,000 in 2021 due to increased activity as well as an increase in adjusted operating and maintenance expenses per day which increased 15% to $23,280 in 2022. Operating and maintenance expenses in the fourth quarter of 2022 were positively impacted by the receipt of a $2.0 million Employee Retention Credit ("ERC") from the IRS. The ERC is a COVID-19 related credit, granted to employers that retained a certain number of employees while experiencing significant decreases in revenue during the pandemic. This amount reduced the total operating costs in the quarter.

In the US, AKITA provided drilling services to 27 different customers in 2022 (2021 – 29 customers), including two customers that provided more than 10% of AKITA's US revenue for the year (2021 – one customer).

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	2022	2021	Change	% Change
Depreciation and amortization expense	30.3	28.8	1.5	5%

The increase in depreciation and amortization expense to $30,263,000 in 2022 from $28,838,000 in 2021, is due to an increase in the Company's depreciable assets ($607,185,000 at the end of 2022 compared to $589,382,000 at the end of 2021).

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 2022, drilling rig depreciation accounted for 97% of total depreciation expense, unchanged from 2021.

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	2022	2021	Change	% Change
Selling and administrative expenses	14.5	12.2	2.3	19%

Selling and administrative expenses increased to $14,541,000 in 2022 from $12,213,000 in 2021 due to higher salary, stock based compensation and inflationary costs in the year as well as the receipt of COVID-19 related government grants totaling $552,000 in 2021 that were not received in 2022.

Selling and administrative expenses equated to 7% of revenue in 2022 and 11% in 2021. The single largest component of selling and administrative expenses is salaries and benefits which accounted for 42% of these expenses in 2022 (2021 – 44%).

Asset Impairment

The Company did not identify any changes in the indicators of asset impairment or any new indicators of asset impairment during 2022. 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, 2022.

Equity Income from Joint Ventures

Equity income from joint ventures is comprised of the following:

$Millions	2022	2021	Change	% Change
Proportionate share of revenue from joint ventures	26.0	15.9	10.1	64%
Proportionate share of operating & maintenance expenses from joint ventures	19.6	13.6	6.0	44%
Proportionate share of selling and administrative expenses from joint ventures	0.4	0.3	0.1	33%
Equity income from joint ventures	6.0	2.0	4.0	200%

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	2022	2021	Change	% Change
Interest income	-	-	-	n/a
Interest and financing expense	(6.8)	(3.6)	(3.2)	(89%)
Gain on sale of assets	0.1	-	0.1	n/a
Unrealized loss on risk management contracts	(0.3)	-	(0.3)	n/a
Net other gains	0.2	0.6	(0.4)	(67%)
Total other loss	(6.8)	(3.0)	(3.8)	(127%)

The Company recorded interest and financing expense of $6,777,000 for 2022, up from $3,553,000 in 2021. This increase is due to a higher average debt balance in 2022 of $94,750,000 compared to $79,175,000 in 2021, as well as increased interest rates which averaged 7.06% in 2022, up from 4.64% for 2021.

The Company is exposed to changes in interest rates on borrowings under its operating loan facility, which is subject to floating interest rates. To mitigate this risk the Company entered into an interest rate swap with its principal banker as the agent in the syndication with two other Canadian banks in June of 2022. The term of the interest rate swap is June 15, 2022 to June 15, 2026 and the notional amount of the swap is $50,000,000. The fixed rate is 4.24% while the floating rate is indexed to the Canadian Dollar Offered Rate ("CDOR"). At period end the interest rate swap is valued at fair value with any unrealized gain (loss) recorded as other income (loss) on the consolidated income statement. For the year ended December 31, 2022 the Company recorded an unrealized loss of $290,000 (2021 – nil).

During 2022, the Company realized a gain of $93,000 on the sale of spare equipment with proceeds of $133,000 (2021 - $26,000 on proceeds of $272,000). Net other gains in 2022 were primarily foreign exchange gains and in 2021 the sale of fully depreciated assets.

Income Tax Recovery

$Millions, except income tax rate (%)	2022	2021	Change	% Change
Current tax recovery	-	-	-	n/a
Deferred tax recovery	(0.7)	(0.8)	0.1	13%
Total income tax recovery	(0.7)	(0.8)	0.1	13%
Effective income tax rate	23.5%	24.5%		

AKITA had an income tax recovery of $749,000 in 2022 compared to an income tax recovery of $792,000 in 2021. A net deferred tax asset has not been recognized for $76 million (2021 – $69 million). This amount is primarily related to non-capital losses carried forward.

Total gross tax losses available to the Company are $434,694,000 with $398,191,000 in the US and $36,503,000 in Canada. The first of these losses will begin to expire in 2031.

Net Income (Loss), Net Cash and Adjusted Funds Flow

$Millions	2022	2021	Change	% Change
Net income (loss)	4.3	(21.0)	25.3	120%
Net cash from (used in) operating activities	18.2	(3.5)	21.7	620%
Adjusted funds flow from operations [1]	34.8	7.5	27.3	364%

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

During 2022, the Company recorded net income of $4,288,000 (net income of $0.11 per Class A Non-Voting and Class B Common share (basic and diluted)) compared to 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)) in 2021. Increased activity and higher day rates were the cause of the significant improvement in net income.

Net cash from (used in) operating activities increased to $18,198,000 in 2022 up from $3,461,000 used in 2021. Both years followed the same path, becoming more profitable and more active as the year progressed and therefore building non-cash working capital through the year, however, 2022's net income compared to 2021's net loss offset this non-cash working capital build.

Adjusted funds flow from operations, which is not impacted by changes in non-cash working capital, increased in 2022 to $34,813,000 from $7,454,000 in 2021 due to higher net income and the factors discussed above.

Summary of Quarterly Results

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

	Three Months Ended				
$Thousands, except per share (unaudited)	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Annual Totals
2022					
Revenue	**44,986**	**42,960**	**53,526**	**59,524**	**200,996**
Net income (loss)	**(2,933)**	**(4,252)**	**2,660**	**8,813**	**4,288**
Income (loss) per share (basic and diluted) ($)	**(0.07)**	**(0.11)**	**0.07**	**0.22**	**0.11**
Adjusted funds flow from operations [1]	**4,996**	**4,716**	**8,957**	**16,144**	**34,813**
Cash flow from operations	**247**	**6,189**	**3,727**	**8,035**	**18,198**
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 (used in) operations	4,583	13,621	3,374	1,282	22,860

[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:

- The impact of COVID-19 on demand can be seen after the first quarter of 2020 when there was a significant decrease in activity and revenue which lasted until the third quarter of 2021, when the US and Canadian drilling markets began to recover;
- Revenue in the first quarter of 2022 was split relatively equally between Canada and the United States in comparison to the first quarter of 2020 when US revenue comprised 68% of total revenue, highlighting the significantly improved Canadian results and the moderately improved US results at that time. The majority of revenue has shifted back to the US in the fourth quarter of 2022;
- The impact of increased activity in Canada in 2022 can be seen when comparing the second quarter of each year;

- The impact of the significant improvement in the profitability of the US operating segment can be seen in the third and fourth quarters of 2022 comparing those quarters to any other; and
- The seasonal nature of the Canadian operations can been seen in the cash from operations balances peaking in the second quarter of each year.

Three Year Annual Financial Summary

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

$Thousands, except per share	2022	2021	2020
Revenue	200,996	110,088	119,664
Net income (loss)	4,288	(20,990)	(93,274)
Income (loss) per share (basic and diluted)	0.11	(0.53)	(2.35)
Adjusted funds flow from operations [1]	34,813	7,454	10,322
Net cash from (used in) operating activities	18,198	(3,461)	22,860
Year-end working capital	31,121	6,502	8,683
Year-end shareholders' equity	137,851	131,485	152,266
Year-end total assets	268,281	247,574	251,521

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

Liquidity and Capital Resources

At December 31, 2022, AKITA had $31,121,000 in working capital (working capital ratio of 2.01:1) with $13,311,000 of cash, compared to a working capital of $6,502,000 (working capital ratio of 1.27:1) and $1,773,000 cash for the previous year. In 2022, AKITA generated $18,198,000 in cash from operating activities. Positive cash was also generated from joint venture distributions ($5,443,000) and from proceeds on sales of assets ($133,000). During the same period, cash was used for capital expenditures of $17,982,000 which was funded through cash from operations and debt. Total debt increased by $7,283,000 in the year. Accounts payable at year-end included $15,636,000 in accrued expenses, the majority of which relates to routine operations.

The Company has a syndicated credit agreement with the Company's principal banker as the agent on the syndication along with three other Canadian banks. The operating loan facility totals $110,000,000. On July 15, 2022 the credit facility was extended by one year to September 2024. 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 July 2023 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 EBITDA[1] Ratio: the Company shall ensure that the Funded Debt[1] to EBITDA[1] Ratio shall not be more than the following:
   (i) 4.50:1.00 as at the Fiscal Quarter ending December 31, 2022;
   (ii) 4.00:1.00 as at the Fiscal Quarter ending March 31, 2023;

[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.

(iii) 3.50:1.00 as at the Fiscal Quarter ending June 30, 2023; and

(iv) 3.00:1.00 as at the Fiscal Quarter ending September 30, 2023 and beyond.

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

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

   For the fiscal quarter ended December 31, 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.

   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, 2022, the Company was in compliance with its covenants with a Funded Debt[1] to EBITDA[1] Ratio of 2.05:1.00, and an EBITDA[1] to Interest Expense[1] Ratio of 6.16:1.00

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, 2022, the Company's borrowing base totaled $148,375,000.

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, 2022, the current portion of debt was nil (December 31, 2021 – $ 1,717,000). 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 $94,000,000 in total from this facility as at December 31, 2022 (December 31, 2021 - $86,700,000).

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.

[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.

Property, Plant and Equipment

Capital expenditures totaled $17,982,000 in 2022 ($16,416,000 in 2021). Capital spending in 2022 was as follows: $10,322,000 (2021 - $9,750,000) for certifications and overhauls, $3,206,000 (2021 - $2,429,000) in drill pipe and drill collars and $4,393,000 (2021 - $3,824,000) for drilling rig equipment and upgrades and $61,000 in other capital assets.

During 2022, the Company sold ancillary assets for $133,000 (2021 - $272,000) that resulted in a gain of $93,000 (2021 – gain of $26,000).

Future Outlooks and Strategy

The drilling industry is cyclical and certain key factors that impact 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, and with oil and gas operators continuing to generate strong profits, demand for drilling services is expected to continue to improve.

Canadian activity levels in 2022 significantly improved compared to the last two years as crude oil and natural gas prices have strengthened significantly over that time. This growth trend in demand for drilling services is expected to continue into 2023 but is somewhat opaque as the Canadian oil and gas industry rebuilds after eight years of challenged profitability. Supply chain issues, labour shortages and some uncertainty about future investment are all having an impact on demand for drilling services. The Company is optimistic that its active rig count will continue to improve through 2023 with the second half of the year potentially stronger than the first half. It is expected that SAGD oil sands drilling, an area that the Company specializes in, will continue to generate the majority of the Canadian operations revenue. The capital budget planned for 2023 is in line with the 2022 capital budget with no major expenditures planned at this time.

In the US, the active rig count improved from 600 active rigs at the start of 2022 and ended the year at 780 active rigs. This increase in activity brought a significant tightening in the supply of drilling rigs and therefore a level of pricing power that was not present during the pandemic, resulting in significant day rate increases for AKITA. Looking to 2023, activity seems to have leveled off and the potential for continued rate increases of the magnitude achieved over the second half of 2022 is unlikely. To maximize efficiency and activity, the Company is consolidating all of its US drilling rigs to the Permian Basin, in the first half of 2023, to facilitate steadier operations and improved efficiencies. The Company is anticipating that 2023 will remain steady from an activity perspective with potential rate increases on select rigs. Like Canada, the US capital budget in 2023 is similar to 2022 with no significant capital expenditures planned at this time.

The Company's focus in 2023 will be on managing working capital and increasing free cash flow to enable debt repayment. The Company is optimistic that profitability will continue to increase as demand in the industry strengthens.

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 US 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 2022 and 2021 were made in the normal course of business with regular payment terms and have been recorded at the paid amounts. In 2022, operating purchases totaled $1,000,000, and included sponsorship and advertising of $175,000, operational costs of $744,000 and other miscellaneous purchases of $81,000. At December 31, 2022, the annual outstanding commitment of the Company's multi-year sponsorship and advertising contract with Spruce Meadows is $350,000. Costs incurred related to this contract during 2022 were $175,000 (2021 - $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	2022	2021
Operating and maintenance expenses	**4,613**	2,880
Selling and administrative expenses	**493**	350
Year-end due to AKITA from joint venture partners	**1,801**	1,709
Year-end due to AKITA from joint ventures	**858**	1,564

Commitments and Contingencies

From time to time, the Company enters into drilling contracts with its customers that are for extended periods. At December 31, 2022, 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, 2022, the Company had capital expenditure commitments of $740,000 (2021 – $1,743,000).

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, 2021	37,954,407	144,898	1,653,784	1,366	39,608,191	146,264
Stock options exercised	42,000	42	-	-	42,000	42
December 31, 2022	**37,996,407**	**144,940**	**1,653,784**	**1,366**	**39,650,191**	**146,306**

At March 20, 2023, the Company had 37,996,407 Class A Non-Voting shares and 1,653,784 Class B Common shares outstanding. At that date, there were also 1,422,500 stock options outstanding, of which 652,000 were exercisable.

Accounting Estimates

The preparation of AKITA's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as at the date of the consolidated financial statements as well as reported amounts for revenue and expenses for the year. Estimates and judgments are continually evaluated and are based upon historical experience and other factors including expectations of future events that are believed to be reasonable in the circumstances. Actual outcomes, 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 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.

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 retired employees that was recorded as $3,964,000 at December 31, 2022 (2021 - $5,188,000). 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 2022, a key assumption is the 5.1% discount rate at year end (2021 – 2.9%).

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 and vaccination programs have resulted in a more positive worldwide outlook with respect to the pandemic, 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, 2024 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.

Advancements in technology could impact AKITA's ability to remain competitive. New technology is required to meet demands for complex drilling programs and improve efficiency and there is a risk that competitors may have access to technologies that put them at a competitive advantage and render some of AKITA's services or equipment obsolete. Access to or development of new technology could be costly.

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 of the Company.

Dependence on Major Customers

AKITA earned 25% of its total revenue in 2022 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 recovered over the course of 2022 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.

AKITA's customers rely on access to pipelines and liquified natural gas facilities to increase transportation and refinery capacity. There has been downward pressure on oil and natural gas prices in Western Canada due to delays to critical infrastructure construction projects as a result of political pressure, both within Canada and the US, and societal pressures leading to permit cancellations. These delays may depress AKITA's customers' overall exploration and production activities which could impact the demand for drilling services.

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. There is a risk of unionization efforts to parts of the Company's workforce that could lead to increased costs due to strikes, work stoppages, other labour disruptions and collective bargaining agreements. 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.

Over 2022, crew labour shortages remained prevalent throughout the drilling industry and continued to act as, and have remained, a restraint to expanded drilling activity. Although AKITA has implemented measures to improve its ability to attract and retain additional drilling hands, there is no certainty if or when the crew labour shortages will be entirely alleviated.

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. High demand typically spurs greater capital expenditures by drilling contractors which may, in turn, lead to excessive supply in future periods. A potential capital overbuild could lead to a general reduction in rates in the industry as a whole, which could have a material adverse effect on AKITA's business, financial condition, results of operations and cash flows. 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. 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.

AKITA's customers also rely on favourable access to credit and debt capital markets to fund capital budgets. They may face the same risks relating to the state of markets, interest rates and appetite for investment in hydrocarbons. Customers may choose to reduce their capital budget if the cost of accessing additional funding is unfavourable which would lower the demand for drilling services.

Foreign Exchange and Foreign Operations Risk

AKITA's operations in the United States increase 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 US dollars and, accordingly, a material decrease in the value of the US 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.

Cybersecurity

AKITA's business is becoming increasingly reliant on information technology for delivery of services to its customers both in the field and in the office. An increasing reliance on information technology exposes the Company to cybersecurity issues through either malicious attacks, unauthorized access or human error. These issues could lead to disruption of services, potential loss of information or improper use of assets, any of which could have a material effect on the Company's reputation and financial position.

Safety Issues

The Company is governed by industry safety standards in both Canada and the United States. These regulatory standards outline safety frameworks that serve as the minimum baseline for AKITA's safety policies and procedures. Failure to comply with these guidelines could result in a reduction in demand for the Company's services as safety performance is an important criteria for contractor selection by AKITA's customers and could have a material financial impact to the Company.

Litigation and Unknown Liabilities

From time to time AKITA is subject to legal proceedings relating to its business. Legal actions against the Company may have a material impact on the Company's financial position despite having insurance to cover such claims. The Company's assessment of the financial impact of these matters is based on historical claims and management's assessment of the likelihood of such a claim resulting in a material financial impact to the Company.

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 COVID–19.

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 our vendors delaying delivery of, 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 AKITA'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 whenever possible, but especially when tailoring rig construction or reconfiguration to customer demand;*
- *maintaining an efficient fleet of drilling rigs through a rigorous ongoing maintenance program;*
- *continually upgrading its rig fleet;*
- *employing well-trained, experienced and responsible employees;*
- *ensuring that all employees comply with clearly defined safety standards;*
- *reducing health, safety and operational risk by maintaining its 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 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.*

Disclosure Controls and Internal Controls Over Financial Reporting

As of December 31, 2022, 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, 2022.

As of December 31, 2022, 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, 2022.

There was no change in the Company's internal control over financial reporting that occurred during the period that began on October 1, 2022 and ended December 31, 2022 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, 2022.

Non-GAAP and Supplementary Financial Measures

Non-GAAP Financial Measures

Adjusted Revenue and Adjusted Operating and Maintenance Expenses

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

Excluded from the revenue and expenses in AKITA's Canadian and 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	2022	2021
Net cash from (used in) operating activities	18,198	(3,461)
Interest paid	6,622	3,422
Interest expense	(6,777)	(3,553)
Post-employment benefits paid	584	198
Equity income from joint ventures	5,954	1,981
Change in non-cash working capital	10,232	8,867
Adjusted funds flow from operations	34,813	7,454

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 North American economy and the drilling industry (including the demand for drilling services, day rates, supply issues and labour shortages), the demand for oil, future investment, the Company's SAGD drilling activity, the Company's existing credit facility, the Company's operating performance and cash flows, future investment, debt repayment, tax rates, 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 liquefied natural gas (LNG) demand;
- Access to capital markets;
- Government policies;
- Fluctuations and uncertainty surrounding the future price of commodities;
- Fluctuations in the cash flow available to customers and subsequent demand for drilling services provided by AKITA;
- Continuing success of COVID-19 vaccinations;
- Variations in interest rates and principal repayments under the terms of the Company's credit facility;
- The Company's ability to make scheduled payments of principal and interest on, or to refinance, its indebtedness;
- The sufficiency of AKITA's assets to repay indebtedness under its credit facility in the event repayment were to be accelerated following an event of default;
- Increased competition, including as a result of the movement of drilling rigs among regions or reduced levels of activity in the oil and gas industry;
- The adequacy of AKITA's insurance coverage or contractual indemnity rights to cover losses, and the applicability of anti-indemnification legislation;
- The loss of one or more major customers;
- The impact of weather on operations and facilities;
- The impact of the level of industry activity for Canadian and US crude oil and natural gas exploration and development on the demand, pricing and terms for contract drilling services;
- The Company's ability to attract, develop and maintain a skilled and safe workforce and maintain a cost structure that varies with activity levels;
- A general reduction in rates in the drilling industry caused by a capital overbuild;
- AKITA's ability to obtain additional debt or equity financing;
- Fluctuations in foreign exchange, interest and tax rates;
- Changes to existing laws and regulations, and the introduction of new laws and regulations, including those governing the management, transportation and disposal of hazardous substances and other waste materials and otherwise relating to the protection of the environment;
- The impact of climate change activism;
- The availability of qualified management personnel;
- The impact of dilutive financings or other transactions;
- The impact of global supply chain disruptions;
- The impact of a change in demand for crude oil, natural gas or other liquid hydrocarbons on the demand for drilling services;
- The impact of changes in our relationships with First Nations, Metis and Inuit groups.

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 20, 2023. Copies of these documents including additional copies of the Annual Report for the year ended December 31, 2022 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"), 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 20, 2023

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, 2022 and 2021, 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, 2022 and 2021;
- the consolidated statements of net income (loss) and comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flow 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.

PricewaterhouseCoopers LLP
111-5th Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F: +1 403 781 1825

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

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, 2022. These matters were 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, 2022, the total net book value of PP&E, which mainly consists of drilling rig assets, amounted to $201 million, of which $57 million and $144 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.	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 by considering the current and past performance of the CGUs, external market data and evidence obtained in other areas of the audit, as applicable.

Key audit matter	How our audit addressed the key audit matter
As at December 31, 2022, management concluded that no indicators of impairment or impairment reversal existed. Management applies significant judgment in assessing whether indicators of impairment or 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, 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.

- 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.

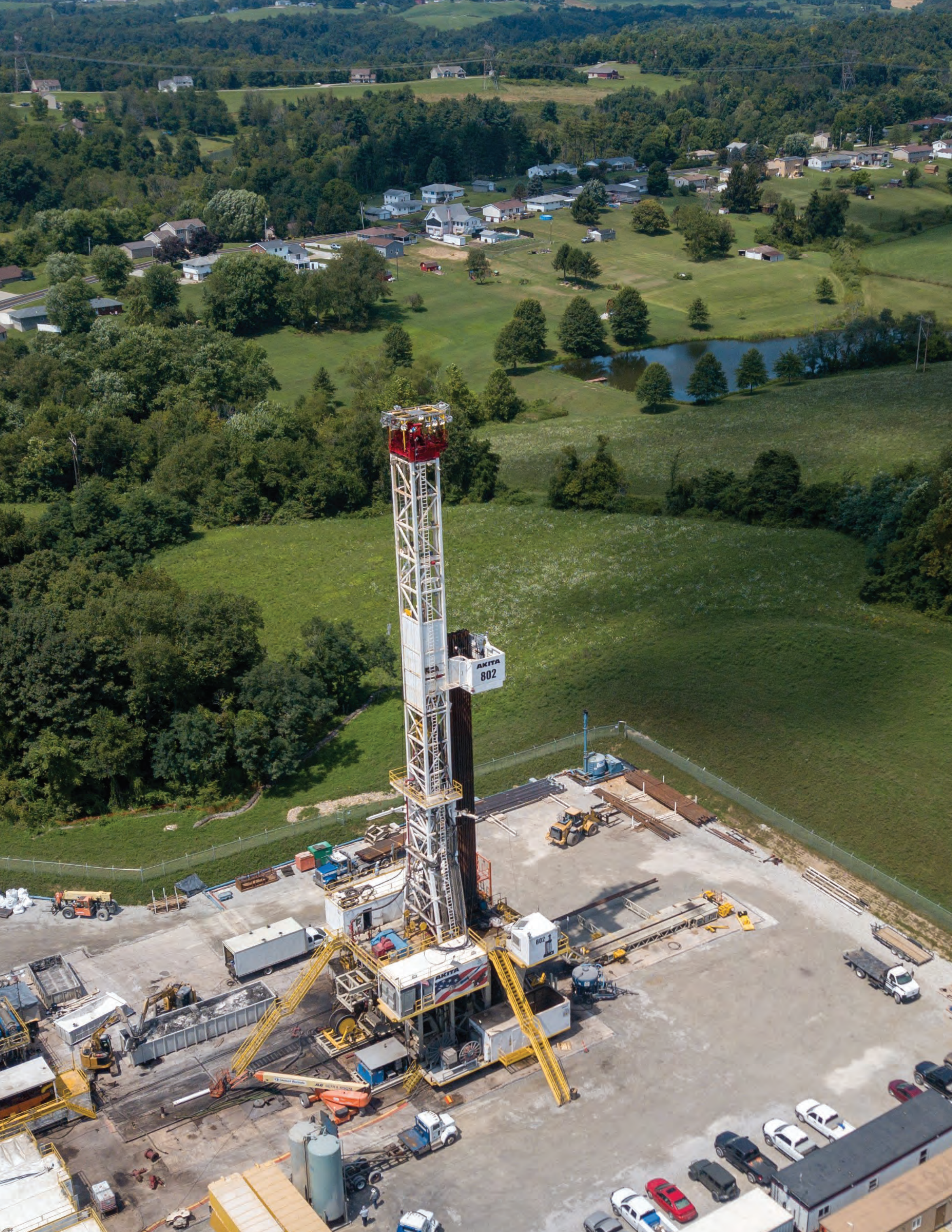
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law 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 20, 2023


AKITA
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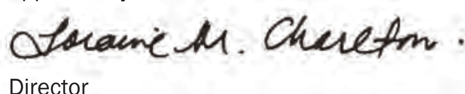
Consolidated Statements of Financial Position

$Thousands		December 31 2022	December 31 2021
ASSETS			
Current Assets			
Cash		$ 13,311	$ 1,773
Accounts receivable	Note 12	46,868	27,228
Prepaid expenses and other		1,599	1,222
		61,778	30,223
Non-current Assets			
Other long-term assets		1,551	1,677
Investments in joint ventures	Note 11	2,887	2,376
Right-of-use assets	Note 9	1,515	1,829
Property, plant and equipment	Note 10	200,550	211,469
TOTAL ASSETS		$ 268,281	$ 247,574
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	Note 12	$ 29,461	$ 20,748
Deferred revenue		206	282
Current portion of lease obligations	Note 15	990	974
Current portion of long-term debt	Note 14	-	1,717
		30,657	23,721
Non-current Liabilities			
Risk management contracts	Note 12	290	-
Deferred income taxes	Note 7	644	1,138
Share-based compensation plans	Note 18	558	262
Employee future benefits	Note 19	3,964	5,188
Lease obligations	Note 15	803	1,341
Long-term debt	Note 14	93,514	84,439
Total Liabilities		130,430	116,089
SHAREHOLDERS' EQUITY			
Class A and Class B shares	Note 17	146,306	146,264
Contributed surplus		5,693	5,452
Accumulated other comprehensive income (loss)		1,760	(35)
Deficit		(15,908)	(20,196)
Total Equity		137,851	131,485
TOTAL LIABILITIES AND EQUITY		$ 268,281	$ 247,574

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

Approved by the Board,



Director

Director

Consolidated Statements of Net Income (Loss) & Comprehensive Income (Loss)

$Thousands, except per share amounts		For the Year Ended December 31 2022	2021
REVENUE	Note 4	$ 200,996	$ 110,088
COSTS AND EXPENSES			
Operating and maintenance	Note 6	151,884	89,835
Depreciation and amortization	Note 10	30,263	28,838
Selling and administrative	Note 6	14,541	12,213
Total Costs and Expenses		196,688	130,886
Revenue Less Costs and Expenses		4,308	(20,798)
EQUITY INCOME FROM JOINT VENTURES	Note 11	5,954	1,981
OTHER INCOME (LOSS)			
Interest income		41	5
Interest and financing expense	Note 5	(6,777)	(3,553)
Unrealized loss on risk management contracts	Note 12	(290)	-
Gain on sale of assets		93	26
Net other gains		210	557
Total Other Loss		(6,723)	(2,965)
Income (Loss) Before Income Taxes		3,539	(21,782)
Income tax recovery	Note 7	(749)	(792)
NET INCOME (LOSS) FOR THE PERIOD ATTRIBUTABLE TO SHAREHOLDERS		4,288	(20,990)
OTHER COMPREHENSIVE INCOME INCOME (LOSS)			
Items that will not subsequently be reclassified to profit or loss:			
Remeasurement of pension liability and deferred tax		827	(220)
Items that may be subsequently reclassified to profit or loss:			
Foreign currency translation adjustment		968	266
Total Other Comprehensive Income		1,795	46
COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD ATTRIBUTABLE TO SHAREHOLDERS		$ 6,083	$ (20,944)
NET INCOME (LOSS) PER CLASS A AND CLASS B SHARE	Note 3		
Basic		$ 0.11	$ (0.53)
Diluted		$ 0.11	$ (0.53)

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

Consolidated Statements of Changes in Shareholders' Equity

$Thousands	Class A Non-Voting Shares	Class B Common Shares	Total Class A and Class B Shares	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total Equity
	Attributable to the Shareholders of the Company						
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
Net income for the year	**–**	**–**	**–**	**–**	**–**	**4,288**	**4,288**
Foreign currency translation adjustment	**–**	**–**	**–**	**–**	**968**	**–**	**968**
Remeasurement of pension liability	**–**	**–**	**–**	**–**	**827**	**–**	**827**
Stock options exercised	**42**	**–**	**42**	**(9)**	**–**	**–**	**33**
Stock options expense	**–**	**–**	**–**	**250**	**–**	**–**	**250**
BALANCE AT DECEMBER 31, 2022	**$ 144,940**	**$ 1,366**	**$ 146,306**	**$ 5,693**	**$ 1,760**	**$ (15,908)**	**$ 137,851**

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

Consolidated Statements of Cash Flows

$Thousands		For The Year Ended December 31 2022	2021
OPERATING ACTIVITIES			
Net income (loss)		$ 4,288	$ (20,990)
Non-cash items included in net income (loss):			
Depreciation and amortization	Note 10	30,263	28,838
Deferred income tax recovery	Note 7	(749)	(792)
Defined benefit pension plan expense	Note 19	18	20
Stock options expense	Note 18	250	255
Share-based compensation expense	Note 18	546	252
Gain on sale of assets		(93)	(26)
Gain on windup of subsidiary		-	(103)
Unrealized loss on risk management contracts	Note 12	290	-
Change in non-cash working capital	Note 13	(10,232)	(8,867)
Equity income from joint ventures	Note 11	(5,954)	(1,981)
Post-employment benefits paid		(584)	(198)
Interest expense		6,777	3,553
Interest paid		(6,622)	(3,422)
Net Cash From (Used In) Operating Activities		18,198	(3,461)
INVESTING ACTIVITIES			
Capital expenditures	Note 10	(17,982)	(16,416)
Change in non-cash working capital related to capital	Note 13	(1,130)	3,929
Distributions from investments in joint ventures	Note 11	5,443	492
Change in long-term assets		(62)	(82)
Proceeds from sale of assets		133	272
Net Cash Used In Investing Activities		(13,598)	(11,805)
FINANCING ACTIVITIES			
Change in debt	Note 14	7,283	11,717
Change in lease obligations		(1,071)	(1,328)
Proceeds from exercise of stock options		33	-
Loan commitment fee		(275)	(192)
Net Cash From Financing Activities		5,970	10,197
Effect of Foreign Exchange on Cash		968	(266)
Increase (Decrease) In Cash		11,538	(5,335)
Cash, beginning of year		1,773	7,108
CASH, END OF YEAR		$ 13,311	$ 1,773

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

NOTES CONTENTS

49
BUSINESS AND ENVIRONMENT

1. General Information	49
2. Basis of Preparation	49

51
RESULTS FOR THE YEAR

3. Net Income (Loss) per Share	51
4. Revenue	51
5. Interest and Financing Expense	52
6. Expenses by Nature	53
7. Income Taxes	53
8. Segmented Information	55

55
LONG-TERM ASSETS

9. Right-of-Use Assets	55
10. Property, Plant and Equipment	57
11. Investments in Joint Ventures	60

61
WORKING CAPITAL

12. Financial Instruments	61
13. Change in Non-Cash Working Capital	65

65
DEBT AND EQUITY

14. Debt	65
15. Lease Obligations	67
16. Capital Management	68
17. Share Capital	69

70
PERSONNEL

18. Share-Based Compensation Plans	70
19. Employee Future Benefits	74

76
OTHER NOTES

20. Commitments and Contingencies	76
21. Related Party Transactions	76

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2022 and December 31, 2021

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 (34.65 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, 2022, 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 20, 2023.

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

RESULTS FOR THE YEAR

3. Net Income (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.

	For the Year Ended	
	December 31 2022	December 31 2021
Net income (loss) ($Thousands)	**$ 4,288**	$ (20,990)
Weighted average outstanding shares	**39,622,805**	39,608,191
Incremental shares for diluted income (loss) calculation [(1)]	**467,647**	-
Weighted average outstanding shares for income (loss) per share - diluted	**40,090,452**	39,608,191
Income (loss) per share - basic	**$ 0.11**	$ (0.53)
Income (loss) per share - diluted	**$ 0.11**	$ (0.53)

[(1)] For the year ended December 31, 2021, 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:

	For the Year Ended	
$Thousands	**December 31 2022**	December 31 2021
Contract drilling services	**$ 110,436**	$ 59,082
Rig lease rental	**90,560**	51,006
Total revenue	**$ 200,996**	$ 110,088

Significant Customers

During 2022 one customer (2021 – one customer) 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. Interest and Financing Expense

The following table summarizes the components of interest and financing expense:

	For the Year Ended	
$Thousands	**December 31 2022**	December 31 2021
Interest expense	**$ 6,267**	$ 3,250
Interest expense, lease obligations	**118**	171
Interest expense, pension	**155**	132
Financing expense, risk management contracts	**237**	-
Total interest and financing expense	**$ 6,777**	$ 3,553

6. Expenses by Nature

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

	For the Year Ended	
$Thousands	December 31 2022	December 31 2021
Expenses		
Salaries, wages and benefits	$ 96,329	$ 57,202
Materials and supplies	26,113	16,294
Repairs and maintenance	32,949	19,674
External services and facilities	11,034	8,878
Total expenses	$ 166,425	$ 102,048
Allocated to:		
Operating and maintenance	$ 151,884	$ 89,835
Selling and administrative	14,541	12,213
Total expenses	$ 166,425	$ 102,048

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:

	For the Year Ended	
$Thousands	December 31 2022	December 31 2021
Current tax recovery	$ -	$ -
Deferred tax recovery	(749)	(792)
Total income tax recovery	$ (749)	$ (792)

The following table reconciles the income tax expense (recovery) using a weighted average Canadian federal and provincial rate of 23.57% (2021 – 24.48%) 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	For the Year Ended December 31 2022	For the Year Ended December 31 2021
Income (loss) before income taxes	$ 3,539	$ (21,782)
Expected income tax at the statutory rate	834	(5,328)
Add (deduct):		
Change in income tax rates	(8)	2,331
Permanent differences	102	44
Jurisdictional rate difference	(75)	361
Change in unrecognized deferred tax asset	(1,571)	2,001
Return to provision adjustment	(48)	(223)
Other	17	22
Total income tax recovery	$ (749)	$ (792)

The deferred tax balance consists of the following:

$Thousands	Property, Plant and Equipment	Defined Benefit Pension Plan Benefits	Non-Capital Losses	Other	Total
Balance as at December 31, 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
Charged (credited) to net income	**3,588**	**74**	**(4,093)**	**(318)**	**(749)**
Charged to OCI	**-**	**255**	**-**	**-**	**255**
Balance as at December 31, 2022	**$ 38,535**	**$ (1,009)**	**$ (27,384)**	**$ (9,498)**	**$ 644**

A net deferred tax asset has not been recognized for $76 million (2021 – $69 million). This amount is primarily related to non-capital losses carried forward.

Total gross tax losses available to the Company are $434,694,000 with $398,191,000 in the US and $36,503,000 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 presented in the following tables:

	For the Year Ended December 31, 2022			For the Year Ended December 31, 2021		
$Thousands	Canada	US	Total	Canada	US	Total
Revenue	$ 55,279	$ 145,717	$ 200,996	$ 28,290	$ 81,798	$ 110,088
Revenue less costs and expenses	$ (6,860)	$ 11,168	$ 4,308	$ (9,965)	$ (10,833)	$ (20,798)

	As at December 31, 2022			As at December 31, 2021		
$Thousands	Canada	US	Total	Canada	US	Total
Property, plant and equipment	$ 56,920	$ 143,630	$ 200,550	$ 60,496	$ 150,973	$ 211,469

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 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, 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
Additions	**-**	**-**	**245**	**304**	**549**
Amortization expense	**(448)**	**-**	**(394)**	**(21)**	**(863)**
Balance as at December 31, 2022	**$ 559**	**$ -**	**$ 673**	**$ 283**	**$ 1,515**

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

IAS 16, "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.

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 as at December 31, 2022. 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, 2022.

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.

Asset Impairment

The determination of indicators of asset impairment and impairment reversals involves the use of estimates and judgments including changes in the conditions of drilling rig assets, changes in forecasted activity or earnings and changes in interest rates or other market rates of return.

Asset 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

The depreciation methodologies for the Company's major PP&E classes are as follows:

Equipment Class	Depreciation Method	Depreciation Rates
Drilling rigs	Straight-line	10 to 20 years
Major inspection and overhaul expenditures	Straight-line	3 to 5 years
Drill pipe and other ancillary drilling equipment	Straight-line	2 to 8 years
Furniture, fixtures and equipment	Straight-line	10 years
Buildings	Straight-line	10 to 20 years

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

Property, Plant and Equipment Continuity

Cost $Thousands	Land and Buildings	Drilling Rigs	Other	Total
Balance as at December 31, 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
Additions	**-**	**17,921**	**61**	**17,982**
Disposals	**-**	**(179)**	**-**	**(179)**
Balance as at December 31, 2022	**$ 7,135**	**$ 590,350**	**$ 9,700**	**$ 607,185**

Accumulated Depreciation $Thousands	Land and Buildings	Drilling Rigs	Other	Total
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
Disposals	**-**	**(139)**	**-**	**(139)**
Depreciation expense	**247**	**27,982**	**632**	**28,861**
Balance as at December 31, 2022	**$ 2,655**	**$ 394,842**	**$ 9,138**	**$ 406,635**

Net Book Value $Thousands	Land and Buildings	Drilling Rigs	Other	Total
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
As at December 31, 2022	**$ 4,480**	**$ 195,508**	**$ 562**	**$ 200,550**

At December 31, 2022, the Company had $172,000 in PP&E that was not being depreciated, as these assets were under construction (December 31, 2021 – $2,039,000).

In addition to depreciation on its PP&E, the Company had amortization expense of $1,402,000 for the year ended December 31, 2022 (2021 - $1,445,000).

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. All joint ventures operate in Canada.

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 investments in joint ventures on the consolidated Statements of Financial Position, and revenues and expenses are recognized as equity income from joint ventures on the consolidated Statements of Net Income and Comprehensive Income.

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

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, 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
Net income for the year ended December 31, 2022	**5,954**
Distributions for the year ended December 31, 2022	**(5,443)**
Balance as at December 31, 2022	**$ 2,887**

Summarized Joint Venture Financial Information

The following 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.

	As at December 31, 2022			As at December 31, 2021		
$Thousands	AKITA %	JV Partner %	Total	AKITA %	JV Partner %	Total
Cash	$ 850	$ 210	$ 1,060	$ 685	$ 175	$ 860
Other current assets	4,148	1,067	5,215	3,857	790	4,647
Non-current assets	55	-	55	55	-	55
Total assets	5,053	1,277	6,330	4,597	965	5,562
Current liabilities	(2,166)	(588)	(2,754)	(2,221)	(513)	(2,734)
Net assets	$ 2,887	$ 689	$ 3,576	$ 2,376	$ 452	$ 2,828

	For the Year Ended December 31, 2022			For the Year Ended December 31, 2021		
$Thousands	AKITA %	JV Partner %	Total	AKITA %	JV Partner %	Total
Revenue	$ 25,958	$ 6,403	$ 32,361	$ 15,893	$ 3,433	$ 19,326
Operating and maintenance expenses	19,635	4,892	24,527	13,626	2,957	16,583
Selling and administrative expenses	369	87	456	286	60	346
Net income and comprehensive income	$ 5,954	$ 1,424	$ 7,378	$ 1,981	$ 416	$ 2,397

WORKING CAPITAL

12. Financial Instruments

IFRS 9, "Financial Instruments" - Accounting Policies

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

The Company recognizes cash received or paid via electronic transfer as at the bank settlement date.

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, 2022, 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, 2022, 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, 2022, 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, 2022, the Company's financial instruments in this category include its interest rate swap.

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	As at December 31 2022	As at December 31 2021
Within 30 days	$ 34,308	$ 22,195
31 to 60 days	12,196	3,747
61 to 90 days	732	852
Over 90 days	407	1,109
Estimated credit losses	(775)	(675)
Total accounts receivable	**$ 46,868**	$ 27,228

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, 2022, this risk was limited by a positive working capital balance of $31.1 million and $16.0 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	$ -	$ 93,514	$ 93,514
Bank credit facility - interest	7,111	5,750	12,861
Total	**$ 7,111**	**$ 99,264**	**$ 106,375**

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	$ 990	$ 655	$ 148	$ 1,793
Lease obligations - interest	85	53	16	154
Total	**$ 1,075**	**$ 708**	**$ 164**	**$ 1,947**

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. To mitigate this risk the company entered into an interest rate swap with its principal banker as the agent on the syndication along with two other Canadian banks. The term of the interest rate swap is June 15, 2022 to June 15, 2026 and the notional amount of the swap is $50,000,000. The fixed rate is 4.24% while the floating rate is indexed to CDOR. At period end the interest rate swap is valued at fair value with any unrealized gain (loss) recorded as other income (loss) on the consolidated statement of net income. At December 31, 2022, the Company recorded an unrealized loss of $290,000. The fair value measurement of the risk management contract has a fair value hierarchy of Level 3.

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	As at December 31 2022	As at December 31 2021
Trade payables	$ 12,238	$ 6,987
Statutory liabilities	1,264	503
Accrued expenses	15,636	12,916
Post-employment benefits	323	342
Total accounts payable and accrued liabilities	$ 29,461	$ 20,748

13. Change in Non-Cash Working Capital

	For The Year Ended	
$Thousands	December 31 2022	December 31 2021
Change in non-cash working capital:		
Accounts receivable	$ (19,640)	$ (12,113)
Prepaid expenses and other	(377)	612
Accounts payable and accrued liabilities	8,731	6,692
Deferred revenue	(76)	(129)
Change in non-cash working capital	$ (11,362)	$ (4,938)
Pertaining to:		
Operating activities	$ (10,232)	$ (8,867)
Investing activities	(1,130)	3,929
Change in non-cash working capital	$ (11,362)	$ (4,938)

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 along with three other Canadian banks. The operating loan facility totals $110,000,000. The Credit facility was extended by one year to September 2024 on July 15, 2022. 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 July 2023 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 EBITDA[1] Ratio: the Company shall ensure that the Funded Debt[1] to EBITDA[1] Ratio shall not be more than the following:

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

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

   (iii) 3.50:1.00 as at the Fiscal Quarter ending June 30, 2023; and

   (iv) 3.00:1.00 as at the Fiscal Quarter ending September 30, 2023 and beyond.

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

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

   For the fiscal quarter ended December 31, 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.

   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, 2022, the Company was in compliance with its covenants with a Funded Debt[1] to EBITDA[1] Ratio of 2.05:1.00, and an EBITDA[1] to Interest Expense[1] Ratio of 6.16:1.00.

   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, 2022, the Company's borrowing base totalled $148,375,000.

   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, 2022, the current portion of debt was nil (December 31, 2021 – $ 1,717,000). 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 $94,000,000 in total from this facility as at December 31, 2022 (December 31, 2021 - $86,700,000).

[1] Readers should be aware that EBITDA, Funded Debt, Interest Expense, Tangible Net Worth, 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.

Continuity of Debt

$Thousands	For The Year Ended December 31 2022		December 31 2021	
Balance as at December 31	$	86,156	$	74,303
Drawn on credit facility		10,000		16,590
Repayment of debt		(2,717)		(4,873)
Net deferred loan fees		75		136
Balance as at December 31	$	93,514	$	86,156

$Thousands	As at December 31 2022		As at December 31 2021	
Debt allocated to:				
Current portion	$	-	$	1,717
Long-term portion		93,514		84,439
Balance as at December 31	$	93,514	$	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.

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 7.99%.

Continuity of Lease Obligations

$Thousands	Land and Property	Rig Equipment	Office Equipment and Software	Vehicles	Total
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
Change in lease obligations	**(696)**	**-**	**(356)**	**(19)**	**(1,071)**
Lease additions	**-**	**-**	**245**	**304**	**549**
Balance as at December 31, 2022	**$ 790**	**$ -**	**$ 718**	**$ 285**	**$ 1,793**

$Thousands	Land and Property	Rig Equipment	Office Equipment and Software	Vehicles	Total
Current portion	**$ 679**	**$ -**	**$ 269**	**$ 42**	**$ 990**
Long-term portion	**111**	**-**	**449**	**243**	**803**
Balance as at December 31, 2022	**$ 790**	**$ -**	**$ 718**	**$ 285**	**$ 1,793**

Lease Expense

The Company recorded $118,000 in interest expense related to its lease obligations for the year ended December 31, 2022 (2021 - $171,000).

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 are:

Number of shares	Class A Non-Voting	Class B Common	Total
Shares outstanding at December 31, 2021	37,954,407	1,653,784	39,608,191
Stock options exercised	42,000	-	42,000
Shares outstanding at December 31, 2022	**37,996,407**	**1,653,784**	**39,650,191**

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 four share-based compensation plans. Stock options qualify as an equity-settled share-based compensation plan, the deferred share units ("DSUs") and share appreciation rights ("SARs") qualify as cash-settled share-based compensation plans and the performance share units ("PSUs") are cash-settled or equity-settled at the discretion of the Company. For all four of the share-based compensation plans, associated services received are measured at fair value and are calculated by multiplying the number of options, DSUs, SARs or PSUs expected to vest with the fair value of one option, DSU, SAR or PSU 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 2022**	December 31 2021
Reserved under the current stock option plan	**6,500,000**	3,100,000
Balance at beginning of year	**365,500**	855,500
Added to stock option plan [1]	**3,400,000**	-
Expired	**298,000**	-
Granted	**(430,000)**	(490,000)
Available for future issuance	**3,633,500**	365,500

[1] On May 10, 2022, the Company's stock option plan was replenished, and 3,400,000 shares were added to the shares reserved for future issuance under the current stock option plan.

The following table is a summary of the Company's stock options plan:

	2022		2021	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding at January 1	1,332,500	$ 2.14	842,500	$ 2.80
Granted	430,000	$ 1.69	490,000	$ 1.01
Exercised	(42,000)	$ 0.77	-	-
Expired	(298,000)	$ 4.12	-	-
Options outstanding at December 31	1,422,500	$ 1.63	1,332,500	$ 2.14
Options exercisable at December 31	652,000	$ 1.94	490,500	$ 2.79

The following table summarizes outstanding stock options at December 31:

		2022			2021		
Vesting Period (Years)	Exercise Price	Number Outstanding	Remaining Contractual Life (Years)	Number Exercisable	Number Outstanding	Remaining Contractual Life (Years)	Number Exercisable
5	$ 5.62	42,500	5.7	42,500	162,500	6.7	97,500
5	$ 3.93	197,500	6.2	158,000	327,500	7.2	81,000
5	$ 0.44	322,500	5.5	193,500	352,500	6.5	70,500
5	$ 1.01	430,000	6.3	172,000	490,000	7.3	98,980
5	$ 1.69	430,000	8.0	86,000			
Weighted Average Contractual Life			6.6			7.0	

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 in the following table:

	2022			2021		
	Number of Deferred Share Units		Fair Value ($000's)	Number of Deferred Share Units		Fair Value ($000's)
DSUs outstanding as at January 1	349,882	$	329	159,882	$	77
Granted	74,850		125	190,000		190
Redeemed	(166,206)		(309)	-		-
Change in fair value			302			62
DSUs outstanding as at December 31	258,526	$	447	349,882	$	329

	2022			2021		
Deferred share units allocated to:	Number of Deferred Share Units		Fair Value ($000's)	Number of Deferred Share Units		Fair Value ($000's)
Accounts payable and accrued liabilities	4,947	$	8	71,157	$	67
Non-current liabilities	253,579		439	278,725		262
DSUs outstanding as at December 31	258,526	$	447	349,882	$	329

Performance Share Units

The Company has granted PSUs to certain employees under its Performance Share Unit Plan. PSUs are time-vested whole-share units that entitle employees to receive, upon vesting, either one Class A Non-Voting share of AKITA or a cash payment equal to the value of one Class A Non-Voting share of AKITA. The number of PSUs eligible to vest is determined by a multiplier that ranges from zero percent to 100 percent and is based on the Company achieving key pre-determined performance measures. PSUs vest after three years.

Units issued under the Company's PSU 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 and that all performance measurements will be met.

A summary of the Company's PSU plan is presented in the following table:

	2022			2021		
	Performance Share Units (#)		Fair Value ($000's)	Performance Share Units (#)		Fair Value ($000's)
PSUs outstanding as at January 1	-	$	-	-	$	-
Granted	68,862		115	-		-
Change in fair value			4			-
PSUs outstanding as at December 31	68,862	$	119	-	$	-

The total long-term share-based compensation plan liability is $558,000 (December 31, 2021 - $262,000).

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. As at December 31, 2022, no SARs have been granted (December 31, 2021–$nil).

Share-Based Compensation Expense

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

Share-based compensation expense consists of the following:

	For the Year Ended	
$Thousands	**December 31 2022**	December 31 2021
Stock option expense	**$ 250**	$ 255
DSU expense	**427**	252
PSU expense	**119**	-
Total share-based compensation expense	**$ 677**	$ 507

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.

	2022	2021
Risk-free interest rate	**2.86%**	1.10%
Expected volatility	**92%**	79%
Dividends yield rate	**0.00%**	0.00%
Option life	**5.4 years**	5.4 years
Weighted average share price	**$ 1.69**	$ 1.01
Forfeiture rate	**0.00%**	0.00%
Fair value of options	**$ 1.25**	$ 0.66

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 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 11, 2023, and was utilized in measuring the December 31, 2022 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	2022	2021
Actuarial present value of defined benefit obligation as at January 1	$ 5,463	$ 5,800
Interest cost	155	132
Current service cost	18	20
Benefits paid	(275)	(198)
Unrealized actuarial gain	(1,082)	(291)
Actuarial present value of defined benefit obligation as at December 31	$ 4,279	$ 5,463

$Thousands	2022	2021
Pension liability allocated to:		
Accounts payable and accrued liabilities	$ 315	$ 275
Non-current liabilities	3,964	5,188
Pension liability outstanding as at December 31	$ 4,279	$ 5,463

Total post-employment benefits paid during the year totalled $584,000, consisting of $275,000 in defined benefit pension payments and $309,000 in DSU redemption.

Key Assumptions

	For the Year Ended	
	December 31 2022	December 31 2021
Discount rate at beginning of the year	2.9%	2.3%
Anticipated retirement age of plan members	n/a [1]	66 years

[1] all plan members are retired as at December 31, 2022.

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

	For the Year Ended	
$Thousands	December 31 2022	December 31 2021
Defined benefit pension plan		
Interest cost	$ 155	$ 132
Service cost	18	21
Expense for defined benefit pension plan	173	153
Expense for defined contribution pension plans	3,054	1,664
Total expense	$ 3,227	$ 1,817

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 certain retired employees that was recorded as $3,694,000 at December 31, 2022 (December 31, 2021 - $5,188,000). 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, 2022, a key assumption is the discount rate of 5.10% (2021 – 2.9%). From the perspective of a sensitivity analysis, a 1% decrease in the discount rate would result in a $448,000 increase in the defined benefit obligation while a 1% increase in the discount rate would result in a $381,000 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 $70,000. 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, 2022, 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 $350,000.

At December 31, 2022, the Company had capital expenditure commitments of $740,000 (2021 – $1,743,000).

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 as follows:

	For the Year Ended	
$Thousands	**December 31 2022**	December 31 2021
Revenue (computer services, rent)	**$ 87**	$ 89
Purchases:		
Sponsorship and advertising (Note 20)	**$ 175**	$ 175
Selling and administrative	**$ 81**	$ 72
Operating	**$ 744**	$ 534
Year-end accounts payable	**$ 74**	$ 47

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 as follows:

$Thousands	For the Year Ended December 31 2022	December 31 2021
Operating costs	$ 4,613	$ 2,880
Selling and administrative costs	$ 493	$ 350

$Thousands	As at December 31 2022	As at December 31 2021
Due to AKITA from joint venture partners	$ 1,801	$ 1,709
Due to AKITA from joint ventures	$ 858	$ 1,564

c) Key management compensation

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

$Thousands	For the Year Ended December 31 2022	December 31 2021
Salaries, director's fees and other short-term benefits	$ 1,906	$ 1,335
Post-employment benefits	$ 94	$ 72
Share-based payments	$ 690	$ 498
Long-service payable	$ 50	$ -

10 YEAR FINANCIAL REVIEW

$Thousands (except per share)	Annual Ranking		2022		2021		2020
Summary of Operations							
Revenue	1	$	200,996	$	110,088	$	119,664
Income (loss) before income taxes	4	$	3,539	$	(21,782)	$	(102,701)
Income taxes expense (recovery)	5	$	(749)	$	(792)	$	(9,427)
Net income (loss)	4	$	4,288	$	(20,990)	$	(93,274)
As a percentage of average shareholders' equity	3		3.1%		(16.0%)		(61.3%)
Earnings (loss) per Class A and Class B share (basic)	4	$	0.11	$	(0.53)	$	(2.03)
Funds flow from operations	4	$	34,813	$	7,454	$	10,322
As a percentage of average shareholders' equity	1		25.3%		5.7%		6.8%
Financial Position at Year End							
Working capital (deficiency)	3	$	31,121	$	6,496	$	8,683
Current ratio	5		2.02		1.27		1.56
Total assets	5	$	268,281	$	247,574	$	251,521
Shareholders' equity	9	$	137,851	$	131,485	$	152,266
per share	9	$	3.48	$	3.32	$	3.84
Other							
Capital expenditures (net)	4	$	17,982	$	16,416	$	7,593
Depreciation and amortization	4	$	30,263	$	28,838	$	32,681
Dividends paid	8	$	-	$	-	$	-
per share	8	$	-	$	-	$	-

2019	2018	2017	2016	2015	2014	2013
$ 175,890	$ 118,361	$ 71,198	$ 61,061	$ 112,488	$ 165,274	$ 168,111
$ (24,679)	$ (12,228)	$ (53,230)	$ 7,535	$ (44,544)	$ 28,121	$ 35,682
$ (4,804)	$ 3,651	$ (14,053)	$ 2,206	$ (10,579)	$ 7,042	$ 9,167
$ (19,875)	$ (15,939)	$ (39,177)	$ 5,329	$ (33,965)	$ 21,079	$ 26,515
(8.1%)	(5.9%)	(22.5%)	2.4%	(14.2%)	8.3%	11.3%
$ (0.50)	$ (0.65)	$ (2.18)	$ 0.30	$ (1.89)	$ 1.17	$ 1.48
$ 12,925	$ 14,306	$ 6,607	$ 34,500	$ 38,510	$ 56,195	$ 57,619
5.3%	5.3%	3.8%	15.7%	16.0%	22.2%	24.6%
$ 4,032	$ 11,166	$ 15,528	$ 34,907	$ 16,002	$ (5,028)	$ 40,645
1.14	1.31	2.02	4.49	2.45	0.90	2.93
$ 369,116	$ 403,641	$ 207,497	$ 257,907	$ 254,516	$ 340,926	$ 291,748
$ 245,134	$ 271,728	$ 174,455	$ 219,646	$ 220,200	$ 259,841	$ 245,288
$ 6.19	$ 6.86	$ 9.72	$ 12.24	$ 12.27	$ 14.48	$ 13.65
$ 15,238	$ 17,546	$ 20,348	$ 13,193	$ 17,960	$ 103,949	$ 35,113
$ 36,763	$ 26,614	$ 27,126	$ 23,959	$ 36,748	$ 30,200	$ 26,825
$ 10,101	$ 7,942	$ 6,100	$ 6,100	$ 6,101	$ 6,015	$ 5,567
$ 0.17	$ 0.34	$ 0.34	$ 0.34	$ 0.34	$ 0.34	$ 0.32

AKITA
520

CORPORATE INFORMATION

Directors

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Corporate Director
Calgary, Alberta

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

Harish K. Mohan
Corporate Director
Calgary, Alberta

Robert J. Peabody
Corporate Director
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

Colin A. Dease
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ATB Financial
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Counsel

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Registrar and Transfer Agent

Odyssey Trust Company
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1.888.290.1175

Share Symbol/TSX

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

Website

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