AKITA DRILLING LTD.

2023 ANNUAL REPORT

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 safety, equipment quality, drilling performance, employee and customer relations, and First Nations, Métis and Inuit partnerships. 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 35 drilling rigs in all depth ranges.

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 14, 2024 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.

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, customer exploration and development budgets and drilling programs, day rates, active rig count, supply issues and labour shortages), the demand for oil and natural gas, crude oil and natural gas prices, 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, the Company's capital program, advantages associated with the percentage of pad drilling rigs in the Company's Canadian fleet, and the expansion of the Company's presence in the Montney deep gas basin and its role in drilling potash and in achieving energy transition targets, and the upgrading of one of the Company's oil sands rigs for deep gas drilling.

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 world crude oil prices, North American natural gas prices and global liquified natural gas (LNG) demand;
- Fluctuations and uncertainty surrounding the future price of commodities;
- The impact of global supply chain disruptions;
- 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 impact of changes in demand for crude oil, natural gas or other liquid hydrocarbons on the demand and pricing for drilling services;
- The level of exploration and development activity carried on by AKITA's customers;
- 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;
- Energy transition targets and industry's ability to achieve them;
- The loss of one or more major customers;
- Changes to existing laws, regulations and government policies, 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;
- Access to capital markets including AKITA's ability to obtain additional debt or equity financing;

- 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;
- The impact of dilutive financings or other transactions;
- Fluctuations in foreign exchange, interest and tax rates;
- The adequacy of AKITA's insurance coverage or contractual indemnity rights to cover losses, and the applicability of anti-indemnification legislation;
- The Company's ability to attract, develop and maintain a skilled and safe workforce and maintain a cost structure that varies with activity levels;
- The availability of qualified management personnel;
- A general reduction in rates in the drilling industry caused by a capital overbuild.

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 2023 Annual Report for AKITA.

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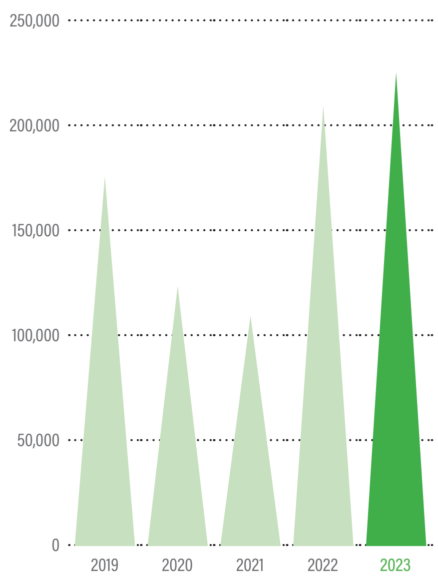
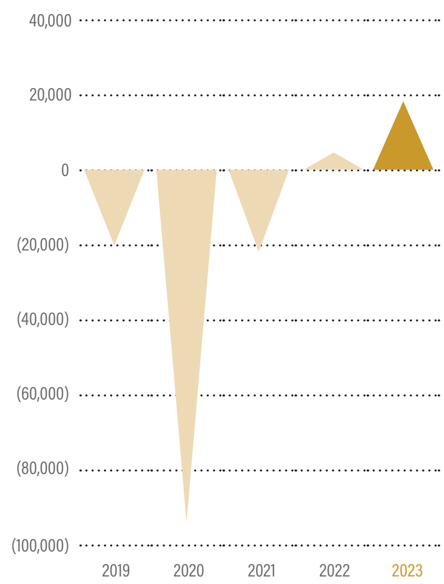
OPERATIONAL PERFORMANCE

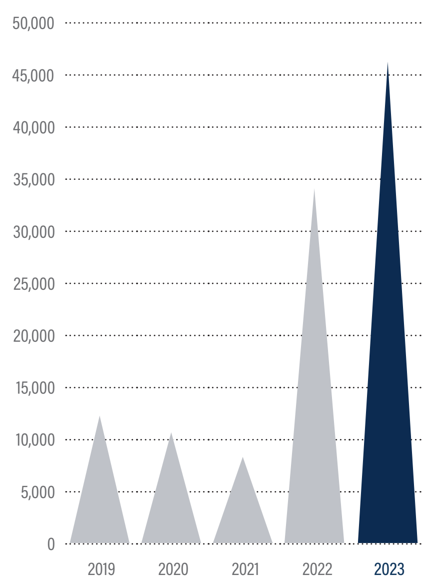
Revenue ($000's)



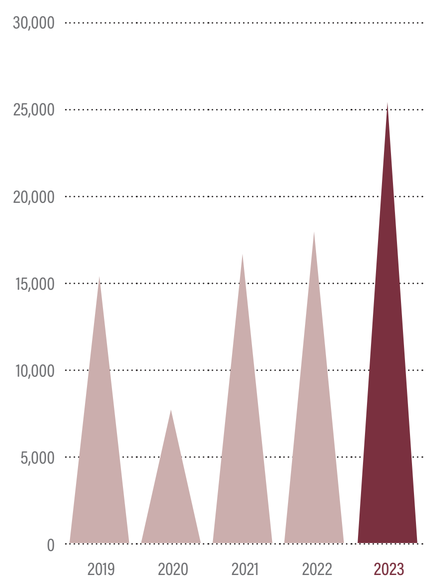
Net Earnings (Loss) ($000's)



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.

FOUNDATIONAL VALUES

RESPECT

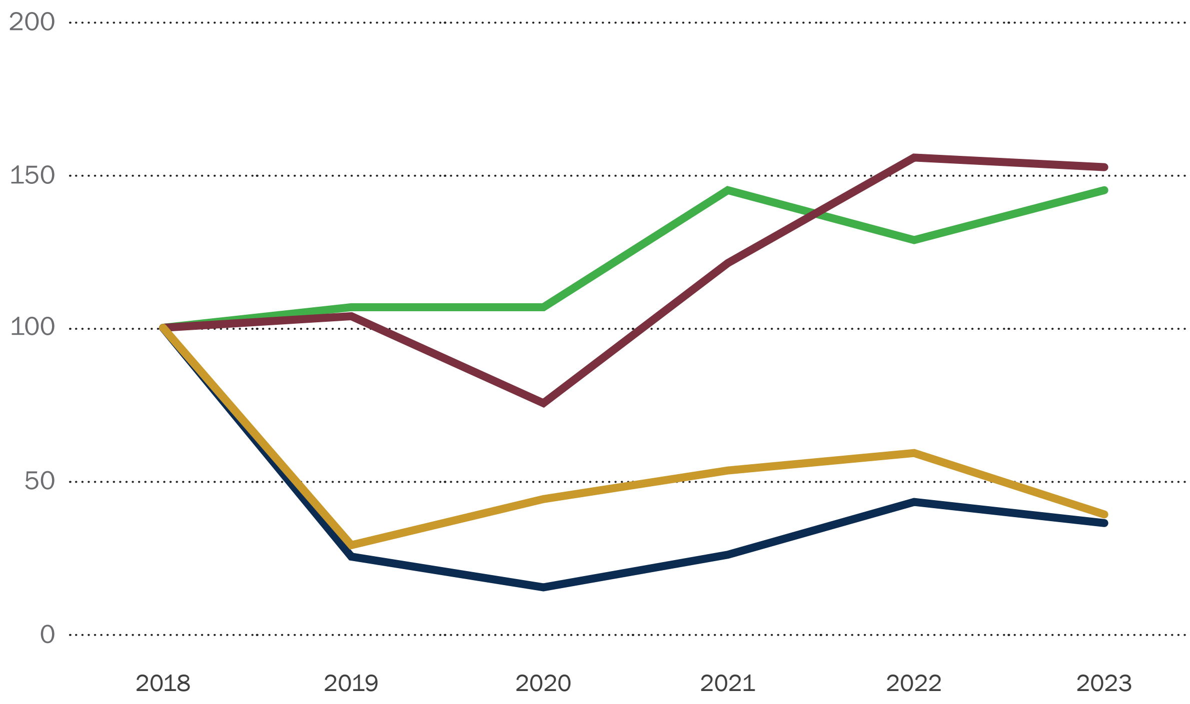
COMMITMENT

INTEGRITY

SHARE PERFORMANCE

The graph below compares the cumulative return over the last five years on the Class A Non-Voting shares and Class B Common shares of the Company from December 31, 2023 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, 2018	Dec 31, 2019	Dec 31, 2020	Dec 31, 2021	Dec 31, 2022	Dec 31, 2023
AKITA Class A Non-Voting Shares	100	31	13	25	45	36
AKITA Class B Common Shares	100	36	46	56	59	43
S&P/TSX Composite Index	100	119	122	148	135	146
TSX Equal Weight Oil & Gas	100	111	76	121	154	152

Share Performance

		2019	2020	2021	2022	2023
Weighted average number of Class A and Class B shares		39,609,191	30,608,191	39,608,191	39,622,805	**39,658,520**
Total number of Class A and Class B shares		39,608,191	39,608,191	39,608,191	39,650,191	**39,710,191**
Market prices for Class A Non-Voting shares	High	$ 4.42	$ 1.22	$ 1.54	$ 2.96	**$ 1.74**
	Low	$ 0.75	$ 0.25	$ 0.50	$ 0.89	**$ 1.08**
	Close	$ 1.19	$ 0.48	$ 0.94	$ 1.73	**$ 2.05**
Volume		8,875,748	21,339,080	7,239,647	20,529,992	**12,340,380**
Market prices for Class B Common shares	High	$ 4.48	$ 2.89	$ 3.00	$ 4.98	**$ 2.45**
	Low	$ 1.25	$ 0.67	$ 0.98	$ 1.50	**$ 1.35**
	Close	$ 1.57	$ 0.77	$ 2.46	$ 2.60	**$ 1.87**
Volume		53,746	45,986	14,172	19,530	**4,854**

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.

	2019	2020	2021	2022	2023
Dividends per share ($)	0.17	0.00	0.00	0.00	**0.00**

Linda
Southern-Heathcott

Colin
Dease

While 2023 marked the 30th year of AKITA operating as a public entity after being spun off from ATCO Enterprises Ltd. on January 1, 1993, AKITA can trace its roots back even further to 1964 when it formed part of Thomson Industries Ltd. AKITA has navigated through many changes in the industry over the last 60 years but one thing has held true at AKITA, it has always committed to live up to the core principles of its founder, Mr. R.D. Southern, in setting and maintaining high standards, striving for excellence and always conducting business with integrity.

We had a strong start to 2023 in our US division, with 14 rigs running steadily at materially higher day rates then we have seen in several years in the US. Strong US rates and utilization helped the Company generate significant earnings and free cash flow in the first half of the year. By the third quarter, however, the active rig count in the US began to steadily decline as natural gas prices significantly decreased and crude oil prices remained volatile. The active rig count dropped from 779 rigs at the start of 2023 to 622 rigs at the end of the year. This weakening in the US market caught up with the Company in the second half of the year, where AKITA's activity decreased to end the year with nine active rigs. The decrease in activity put pressure on day rates which also decreased over the second half of the year.

There are some signs that the second half of 2024 will improve in the US, especially in the Permian Basin where AKITA's rigs are located. The drilled but uncompleted well count ("DUCS") has steadily declined in the Permian over the last two years, falling from 1,486 DUCS at the end of 2021, to 982 at the end of 2022 and to 830 at the end of 2023. A decreasing DUC count may be a positive leading indicator for increased demand for drilling. The second positive in the Permian is the investment in takeaway capacity for natural gas out of the Permian to the gulf coast to feed the expanding demand of the LNG export terminals, including the Permian Highway Pipeline, the expansion of the Whistler Pipeline and the Matterhorn Express Pipeline, which will all help to export gas out of the Permian, thereby increasing potential drilling. Recent operator consolidation and the current pause on new LNG export facilities, however, are two factors potentailly weighing on the US market.

In Canada, the Company saw an 11% reduction in operating days in 2023, however, due to stronger day rates that increased over the course of the year, saw a 16% increase in operating margin. The Company is excited about optimism in the Canadian market stemming from the near completion of the TransMountain Expansion and the Coastal GasLink pipeline project.

The Canadian Association of Energy Contractors released its 2024 Drilling and Service Rig Forecast on November 24, 2023, estimating 6,229 wells to be drilled in 2024, up 481 from 2023, and drilling operating days to increase by 5,046 days in 2024 to 65,399. This should have a positive impact on AKITA's Canadian division and we are anticipating stronger results in 2024 in our Canadian operations.

LETTER TO THE SHAREOWNERS

AKITA had three primary focuses in 2023:

Safety - AKITA maintains a commitment to safety that permeates all levels of the organization. Our focus on safety in the year resulted in AKITA's total recordable incident rate ("TRIR") for 2023 decreasing 116% in Canada and 35% in the United States. A refresh of AKITA's safety program complete with new management and a back to basics approach to safety were the contributing factors for this improvement. We will continue to make safety our first priority at AKITA, working to continue to improve our results year over year.

Debt Repayment – our 2023 debt repayment target was $20,000,000 and we are very pleased to have exceeded this target by 20%, repaying $24,000,000 exceeded over the year and ending the year with a total debt balance of $70,000,000, 1.2 x debt to EBITDA at the end of 2023, compared to a total debt balance of $94,000,000 at the start of 2023.

Capital Replenishment – after several lean years at the Company, we reinvested in our fleet in 2023, building up critical spares, rebuilding engines and implemented a host of other initiatives that will improve operational performance, reduce downtime and reduce ongoing maintenance costs. In addition to this capital replenishment, we upgraded one of our Canadian oil sands configured rigs, making it well suited for oil sands as well as deep gas drilling. We see the Montney gas basin as a growth opportunity for the Company and we are excited about the possibility of duplicating the success we achieved on our first oil sands rig with additional upgrades.

We would like to express a special thanks to AKITA's employees for their adaptability, hard work and commitment to excellence. We wish to acknowledge the contribution of our directors, whose thoughtful counsel and guidance have helped to create and maintain a strong and successful Company, our First Nation, Métis and Inuvialuit partners, and the AKITA Shareowners for their continued support and confidence in the Company.

On behalf of the Board of Directors,

Linda Southern-Heathcott
Executive Chairman of the Board

Colin Dease
President and Chief Executive Officer

March 21, 2024

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, 2023, is dated March 21, 2024, 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, 2023. The MD&A should be read in conjunction with the audited annual consolidated financial statements and related notes for the year ended December 31, 2023, prepared in accordance with International Financial Reporting Standards ("IFRS Accounting Standards") as issued by the International Accounting Standards Board ("IASB").

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.sedarplus.ca). 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 35 drilling rigs. AKITA provides contract drilling services through two geographical segments: Canada and the United States ("US"). AKITA's US operating segment, which began as four rigs, expanded to 16 rigs through the acquisition of Xtreme Drilling Ltd. ("Xtreme") in 2018. At the time of the acquisition, Xtreme's fleet was widely dispersed, with rigs spread across eight different States and multiple basins. A post-acquisition focus was to consolidate the US fleet to improve operational efficiencies. In support of this objective, AKITA strategically exited operations in Wyoming, North Dakota, Oklahoma, Utah and Ohio. In 2023, AKITA completed its objective to consolidate its US division to the Permian, by closing its operational office in Evans, Colorado. AKITA's US marketed fleet is supported out of its operations base in Midland, Texas and is comprised of 13 high specification AC triple rigs and one high specification AC double rig, all serving the Permian Basin, which is the most active basin in the US and is currently supporting 50% of all US land drilling. While the US fleet primarily targets oil wells in the Permian, saltwater disposal wells are a secondary market that our fleet has proven to be well equipped for.

With a fleet of 20 rigs, AKITA's Canadian division operates in Alberta, British Columbia, Saskatchewan, and as market conditions dictate, 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 Inuvialuit 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 interests in six of AKITA's Canadian drilling rigs. AKITA's Canadian division primarily operates in the oil sands and heavy oil regions with a view to expanding its presence in the Montney deep gas basin. In addition, the Canadian division continues to play a central role in drilling potash and other energy transition targets, including carbon capture wells, hydrogen storage wells and geothermal wells.

In both Canada and the US, 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 custom operator requests. Fostered over three decades of operation, AKITA has established a leading safety culture and is committed to coaching and mentoring its crew personnel in both divisions to ensure they develop as future leaders and ambassadors for the Company. AKITA is extremely proud of the First Nation, Métis and Inuvialuit joint venture relationships it has forged in Canada, which help to ensure such communities benefit from resource development AKITA is involved in proximate to their traditional lands.

Financial Highlights

	For the three months ended December 31,				For the year ended December 31,			
$Thousands except per share amounts	2023	2022	Change	% Change	2023	2022	Change	% Change
Revenue	47,317	59,525	(12,208)	(21%)	225,479	200,996	24,483	12%
Operating and maintenance expenses	38,228	40,666	(2,438)	(6%)	167,029	151,884	15,145	10%
Operating margin	9,089	18,859	(9,770)	(52%)	58,450	49,112	9,338	19%
Margin %	19%	32%	(13%)	(41%)	26%	24%	2%	8%
Net cash from operating activities	17,523	8,035	9,488	118%	35,567	18,198	17,369	95%
Adjusted funds flow from operations [1]	7,177	16,144	(8,967)	(56%)	45,522	34,813	10,709	31%
Per share	0.18	0.41	(0.23)	(56%)	1.15	0.88	0.27	31%
Net income (loss)	(1,166)	8,813	(9,979)	(113%)	18,415	4,288	14,127	329%
Per share	(0.03)	0.22	(0.25)	(114%)	0.46	0.11	0.35	318%
Capital expenditures	12,822	4,917	7,905	161%	24,592	17,982	6,610	37%
Weighted average shares outstanding	39,684	39,650	34	0%	39,659	39,623	36	0%
Total assets					263,640	268,281	(4,641)	(2%)
Total debt					69,542	93,514	(23,972)	(26%)

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

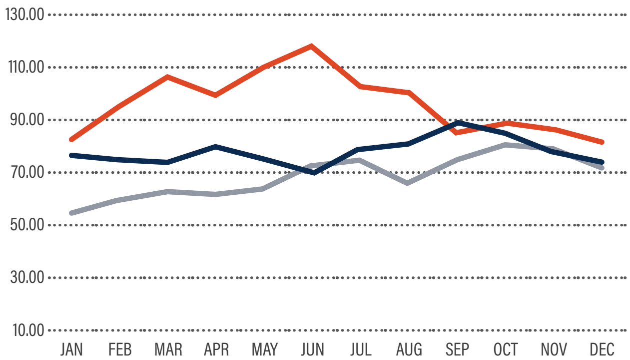
General Overview

AKITA ended the year with net earnings of $18,415,000 in 2023, compared to $4,288,000 in 2022, an increase of 329% year over year and a return to a positive retained earnings balance. Significantly improved earnings translated into a 31% increase in adjusted funds flow from operations, which increased to $45,522,000 for 2023, from $34,813,000 in 2022. Both net income and adjusted funds flow from operations were the highest achieved since 2014. Despite improved financial results, activity was down year over year with the Canadian division achieving 2,239 operating days in 2023, compared to 2,518 operating days in 2022 and the US division achieving 3,853 operating days in 2023, compared to 4,088 operating days in 2022. In the US, 2023 started at full capacity but began to decline over the second half of the year while Canada fell behind 2022 in the second quarter and remained behind for the balance of the year. Improved operating margins per day, driven by improved day rates, were the key driver in the Company's improved results between the two years. Operating margin per operating day increased 30% in Canada and 31% in the US. Capital spending for the year was 37% higher in 2023 than in 2022, and included the cost of upgrading one Canadian oil sands configured rig to position it for deep gas drilling. The Company's debt balance decreased by $23,972,000 in 2023, exceeding the Company's debt repayment target of $20,000,000 for 2023, and is now at $69,542,000 total debt

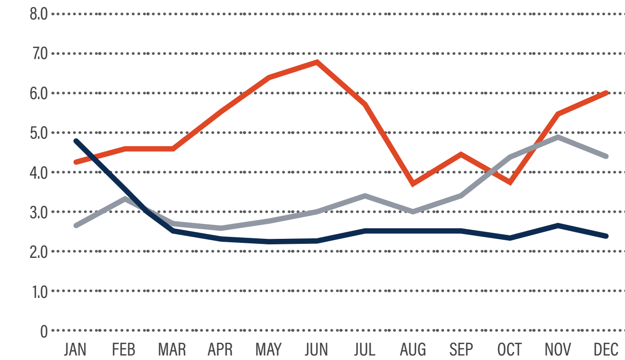
Industry Overview

2023
2022
2021

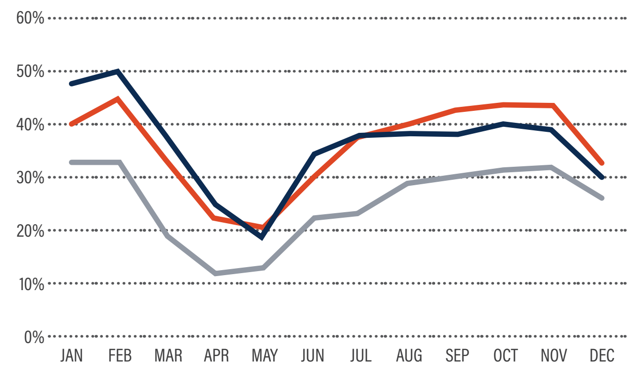
WTI Prices ($USD/bbl) (1)



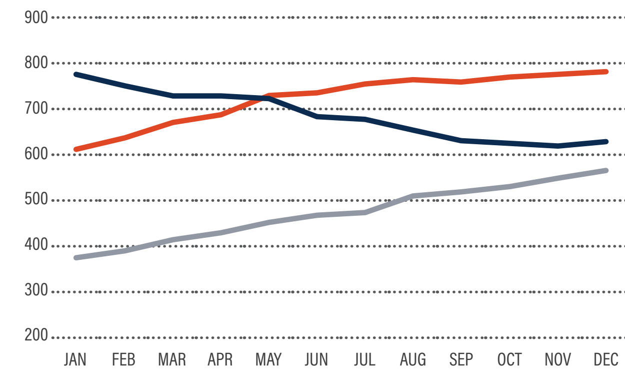
Alberta Natural Gas Price ($CAD/GJ) (2)



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 drilling activity is cyclical and is affected by numerous factors, most importantly world crude oil prices, North American natural gas prices and increasingly international LNG (liquified natural gas) pricing. West Texas Intermediate ("WTI") crude oil prices, which have seen significant volatility in 2023, reached a low of $70.25 USD in June and a high of $89.43 USD in September, ending the year at $71.90 USD. This volatility had an impact on the demand for drilling services especially in the US. Natural gas prices did not have as much volatility in 2023 compared to crude oil prices but did decline significantly throughout the year, falling from $4.90 at the start of the year to $2.30 at the end of the year, which also had a significant impact on the demand for drilling services in the US.

In the US, the total active rig count began to decline at the end of 2022, and this decline accelerated in April of 2023, dropping from 779 active rigs at the end of 2022, to 622 active rigs at the end of 2023. The decline in 157 active rigs in 2023 was spread equally between rigs drilling for oil and rigs drilling for gas and the roughly 80% of rigs drilling for oil and 20% of rigs drilling for gas. This ratio was maintained from the start of the year to the end of the year. In the Permian Basin, AKITA's US operating basin, the total decrease in the year was 44 active rigs, a 12% decrease, compared to a 20% decrease in the US active rig count as a whole. The number of available drilling rigs in the US market has put downward pressure on pricing for drilling rigs that may continue until the rig count begins to recover.

In Canada, the recovery in the industry that appeared to begin in 2021, failed to materialize in any significant manner. Both pricing and demand in the Canadian market, despite strong potential, remain challenged. Industry utilization, which started the year trending above 2022, ended the year slightly below 2022. Similar to the United States, operators began to pause drilling programs as crude oil and natural gas prices fell and activity levels have not yet fully recovered. The split between rigs drilling for oil and those drilling for gas has remained constant through the year at 62% drilling for oil and 37% drilling for gas in Canada.

Results by Segment

Canada

	For the three months ended December 31,				For the year ended December 31,			
$Thousands except per day amounts	2023	2022	Change	% Change	2023	2022	Change	% Change
Revenue Canada	11,768	14,686	(2,918)	(20%)	56,005	55,279	726	1%
Revenue from joint venture drilling rigs	7,672	6,546	1,126	17%	35,662	25,958	9,704	37%
Flow through charges [1]	(860)	(712)	(148)	(21%)	(5,986)	(3,800)	(2,186)	(58%)
Adjusted revenue Canada [1]	18,580	20,520	(1,940)	(9%)	85,681	77,437	8,244	11%
Operating and maintenance expenses Canada	8,935	10,806	(1,871)	(17%)	41,556	41,799	(243)	(1%)
Operating and maintenance expenses from joint venture drilling rigs	6,129	4,470	1,659	37%	27,144	19,635	7,509	38%
Flow through charges [1]	(860)	(712)	(148)	(21%)	(5,986)	(3,800)	(2,186)	(58%)
Adjusted operating and maintenance expenses Canada [1]	14,204	14,564	(360)	(2%)	62,714	57,634	5,080	9%
Adjusted operating margin [1]	4,376	5,956	(1,580)	(27%)	22,967	19,803	3,164	16%
Margin % [1]	24%	29%	(5%)	(17%)	27%	26%	1%	4%
Operating days	465	583	(118)	(20%)	2,239	2,518	(279)	(11%)
Adjusted revenue per operating day [1]	39,957	35,197	4,760	14%	38,268	30,753	7,515	24%
Adjusted operating and maintenance expenses per operating day [1]	30,546	24,981	5,565	22%	28,010	22,889	5,121	22%
Adjusted operating margin per operating day [1]	9,411	10,216	(805)	(8%)	10,258	7,864	2,394	30%
Utilization [1]	25%	32%	(7%)	(22%)	31%	34%	(3%)	(9%)
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 in 2023, with adjusted operating margin increasing 16% to $22,967,000 in the year from $19,803,000 in 2022. This increase was driven by improved day rates throughout the fleet which increased 24% in 2023 when compared to 2022. Improved day rates were offset somewhat by reduced activity in 2023 compared to 2022. Operating days fell by 11% in the year due to prolonged forest fires and conservation activities, which reduced second quarter activity and led to fewer operating days for AKITA's double rigs. During 2023, AKITA achieved 2,239 operating days in Canada, which corresponds to an annual utilization rate of 31%, compared to a 2023 industry average of 36% and a 2022 utilization rate for the Company of 34% (2,518 days).

Adjusted operating and maintenance expenses increased 9% to $62,714,000 in 2023 from $57,634,000 in 2022. The increase was not in-line with the 11% decrease in operating days but was reflective of increased per day costs. On a per day basis, adjusted operating and maintenance costs increased to $28,010 in 2023 from $22,889 in 2022. Higher labour costs, which make up 68% of the total operating and maintenance expense in 2023, were the main cause of the increase. Also contributing to higher operating and maintenance costs in 2023 were higher maintenance costs in the year overall due to startup costs on two rigs.

In the fourth quarter of 2023, the Company completed the upgrade of one of its oil sands designed rigs, making it competitive in both the oil sands as well as drilling for deep gas.

AKITA's Canadian segment provided drilling services to 15 different customers in 2023 (2022 - 27 different customers), including four customers that each provided more than 10% of AKITA's Canadian revenue for the year (2022 – five customers).

United States

	For the three months ended December 31,				For the year ended December 31,			
$Thousands except per day amounts	2023	2022	Change	% Change	2023	2022	Change	% Change
Revenue US	35,549	44,839	(9,290)	(21%)	169,474	145,717	23,757	16%
Flow through charges [1]	(4,183)	(5,383)	1,200	22%	(17,610)	(14,919)	(2,691)	(18%)
Adjusted revenue US [1]	31,366	39,456	(8,090)	(21%)	151,864	130,798	21,066	16%
Operating and maintenance expenses US	29,293	29,861	(568)	(2%)	125,473	110,086	15,387	14%
Flow through charges [1]	(4,183)	(5,383)	1,200	22%	(17,610)	(14,919)	(2,691)	(18%)
Adjusted operating and maintenance expenses US [1]	25,110	24,478	632	3%	107,863	95,167	12,696	13%
Adjusted operating margin US [1]	6,256	14,978	(8,722)	(58%)	44,001	35,631	8,370	23%
Margin % [1]	20%	38%	(18%)	(47%)	29%	27%	2%	7%
Operating days	812	1,046	(234)	(22%)	3,853	4,088	(235)	(6%)
Adjusted revenue per operating day [1]	38,628	37,721	907	2%	39,414	31,996	7,418	23%
Adjusted operating and maintenance expenses per operating day [1]	30,924	23,402	7,522	32%	27,995	23,280	4,715	20%
Adjusted operating margin per operating day [1]	7,704	14,319	(6,615)	(46%)	11,419	8,716	2,703	31%
Utilization [1]	59%	71%	(12%)	(17%)	70%	70%	0%	0%
Rig count	15	16	(1)	(6%)	15	16	(1)	(6%)

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

The Company's US division began the year operating at full utilization with all 14 marketed rigs active, until August when the declining rig count in the industry began to affect the Company, dropping AKITA's US rig count to 10 active rigs in September before hitting a low of eight active rigs in October, and ending the year with nine active rigs. Adjusted operating margin increased 23% to $44,001,000 in 2023, from $35,631,000 in 2022 despite a 6% decrease in year over year operating days. Higher revenue per operating day was the cause of the increased adjusted operating margin. Revenue per day increased 23% to $39,414 in 2023, from $31,996 in 2022, peaking at $40,499 in the second quarter of 2023 and ending the year at $38,628, 2% above the same period of 2022. Pressure on day rates as the active industry rig count fell was the cause of the decrease in rates. Revenue in the US accounted for 64% of the Company's total 2023 adjusted revenue, consistent with 63% in 2022. Adjusted operating margin in the US was 65% of the total for the Company in 2023, up from 64% in 2022.

Adjusted operating and maintenance costs increased to $107,863,000 in 2023 from $95,167,000 in 2022, due to higher per day costs, which increased to $27,995 in 2023 from $23,280 in 2022 and peaked in the fourth quarter of 2023 at $30,924. The cause of the increased adjusted operating and maintenance costs is an overall increase in all costs associated with operating a drilling rig. This includes the provision of more ancillary items, such as rental drill pipe at the Company's expense, as competition increased in response to the reduced active industry rig count. Adjusted operating and maintenance costs were positively impacted by the receipt of a $4.0 million Employee Retention Credit ("ERC") from the IRS (2020–$20 million). 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 year.

In the US, AKITA provided drilling services to 25 different customers in 2023 (2022 – 27 customers), including two customers that provided more than 10% of AKITA's US revenue for the year (2022 – two customers).

Seasonality

The Canadian drilling industry is seasonal with activity typically building in the fall as the ground freezes and peaking during the winter months. Northern transportation routes become available once areas with muskeg conditions freeze to allow the movement of drilling rigs and other heavy equipment. The peak Canadian drilling season ends with “spring break-up” at which time drilling operations are curtailed due to seasonal road bans (temporary prohibitions on road use) and restricted access to agricultural land as frozen ground thaws. The summer drilling season begins when road bans are lifted, typically later in June or early July. 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 seasonality can affect all rig classes, pad drilling rigs are generally less susceptible to seasonality than conventional drilling rigs since pad rigs can be situated on a pad just before the start of spring break up with the ability to drill several wells before a rig move on restricted roads would be necessary.

The Permian Basin, where AKITA primarily conducts its US drilling operations, is infrequently subject to weather constraints, but may experience operational restrictions for other reasons.

Depreciation and Amortization Expense

$Millions	2023	2022	Change	% Change
Depreciation and amortization expense	28.5	30.3	(1.8)	(6%)

The decrease in depreciation and amortization expense to $28,510,000 in 2023 from $30,263,000 in 2022 is due to a larger portion of the Company's assets being fully depreciated.

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 2023, drilling rig depreciation accounted for 98% of total depreciation expense, from 97% in 2022.

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	2023	2022	Change	% Change
Selling and administrative expenses	16.1	14.5	1.6	11%

Selling and administrative expenses increased to $16,120,000 in 2023 from $14,541,000 in 2022 due to higher accrued short term incentives and increased salaries across the Company.

Selling and administrative expenses stayed constant at 7% of revenue year over year. The single largest component of selling and administrative expenses is salaries and benefits which accounted for 33% of these expenses in 2023 (2022 – 42%).

Asset Impairment

The Company did not identify any changes in the indicators of asset impairment or any new indicators of asset impairment during 2023. 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, 2023.

Equity Income from Joint Ventures

Equity income from joint ventures is comprised of the following:

$Millions	2023	2022	Change	% Change
Proportionate share of revenue from joint ventures	35.7	26.0	9.7	37%
Proportionate share of operating & maintenance expenses from joint ventures	27.1	19.6	7.5	38%
Proportionate share of selling and administrative expenses from joint ventures	0.4	0.4	-	0%
Equity income from joint ventures	8.2	6.0	2.2	37%

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 (steam assisted gravity drainage) drilling which is the key market for the Company's joint venture rigs.

Other Income (Loss)

$Millions	2023	2022	Change	% Change
Interest income	0.3	-	0.3	n/a
Interest and financing expense	(6.5)	(6.8)	0.3	4%
Gain on sale of assets	2.2	0.1	2.1	2100%
Unrealized gain (loss) on risk management contracts	0.1	(0.3)	0.4	133%
Net other gains	0.4	0.2	0.2	100%
Total other loss	(3.5)	(6.8)	3.3	49%

The Company recorded interest and financing expense of $6,502,000 for 2023, down from $6,777,000 in 2022. This decrease is due to a lower average debt balance in 2023 of $80,500,000 compared to $94,759,000 in 2022. This decrease in average debt balances was offset by an increased interest rate which averaged 7.99% in 2023 up from 7.06% in 2022.

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 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, 2023 the Company recorded an unrealized gain of $95,000 compared to a loss of $290,000 in 2022.

During 2023, the Company realized a gain of $2,199,000 primarily on the sale of certain components, including the centre section of an idle rig in the US, as well as spare equipment in Canada (2022–$93,000). Net other gains in 2023 was primarily on the sale of fully depreciated assets, compared to foreign exchange gains in 2022.

Income Tax Recovery

$Millions, except income tax rate (%)	2023	2022	Change	% Change
Current tax expense	-	-	-	n/a
Deferred tax expense (recovery)	0.1	(0.7)	0.8	114%
Total income tax expense (recovery)	0.1	(0.7)	0.8	114%
Effective income tax rate	23.7%	23.5%		

AKITA had an income tax expense of $130,000 in 2023 compared to an income tax recovery of $749,000 in 2022. A net deferred tax asset has not been recognized for $67 million (2022 – $76 million). This amount is primarily related to non-capital losses carried forward.

Total gross tax losses available to the Company are $415,652,000 with $379,378,000 in the US and $36,274,000 in Canada. The first of these losses will begin to expire in 2031.

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

$Millions	2023	2022	Change	% Change
Net income	18.4	4.3	14.1	328%
Net cash from operating activities	35.6	18.2	17.4	96%
Adjusted funds flow from operations (1)	45.5	34.8	10.7	31%

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

During 2023, the Company recorded net income of $18,415,000 (net income of $0.46 per Class A Non-Voting and Class B Common share (basic and diluted)) compared to net earnings of $4,288,000 (net earnings of $0.11 per Class A Non-Voting and Class B Common share (basic and diluted)) in 2022. Higher day rates were the cause of the significant improvement in net income.

Net cash from operating activities increased to $35,567,000 in 2023, up from $18,198,000 in 2022. In the fourth quarter of 2023, AKITA's non-cash working capital balances reduced by $11.9 million as activity slowed. This reduction in working capital coupled with improved earnings in the year increased the net cash from operations in 2023 compared to 2022.

Adjusted funds flow from operations, which is not impacted by changes in non-cash working capital, increased in 2023 to $45,522,000 from $34,813,000 in 2022 due to higher net income and the factors discussed previously.

Summary of Quarterly Results

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

	Three Months Ended				
$Thousands, except per share (unaudited)	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Annual Totals
2023					
Revenue	**65,000**	**58,349**	**54,813**	**47,317**	**225,479**
Net income (loss)	**9,523**	**6,177**	**3,880**	**(1,165)**	**18,415**
Income (loss) per share (basic and diluted) ($)	**0.24**	**0.16**	**0.10**	**(0.04)**	**0.46**
Adjusted funds flow from operations [1]	**15,159**	**12,620**	**10,566**	**7,177**	**45,522**
Cash flow from operations	**(414)**	**16,150**	**2,308**	**17,523**	**35,567**
Capital expenditures	**2,504**	**4,700**	**4,566**	**12,822**	**24,592**
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) ($)	(0.07)	(0.11)	0.07	0.22	0.11
Adjusted funds flow from operations [1]	4,996	4,716	8,957	16,144	34,813
Cash flow from operations	247	6,189	3,727	8,035	18,198
Capital expenditures	6,412	3,633	3,020	4,917	17,982
2021					
Revenue	27,171	18,651	29,906	34,360	110,088
Net loss	(3,651)	(6,108)	(6,433)	(4,798)	(20,990)
Loss per share (basic and diluted) ($)	(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)
Capital expenditures	1,604	3,138	4,130	7,554	16,426

[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 until the third quarter of 2021, when the US and Canadian drilling markets began to recover after the pandemic and revenue began to increase;
- Increased activity in Canada in 2022 can be seen when comparing the second quarter of 2021 to recent quarters;
- 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 and the first quarter of 2023, comparing those quarters to any other;

- Revenue in the first quarter of 2022 was split relatively equally between Canada and the United States. The majority of revenue shifted back to the US in the fourth quarter of 2022;
- Decreased demand in the US market for drilling services significantly impacted the Company's results in the fourth quarter of 2023; 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	2023	2022	2021
Revenue	225,479	200,996	110,088
Net income (loss)	18,415	4,288	(20,990)
Income (loss) per share (basic and diluted)	0.46	0.11	(0.53)
Adjusted funds flow from operations [(1)]	45,522	34,813	7,454
Net cash from (used in) operating activities	35,567	18,198	(3,461)
Year-end working capital	27,130	31,121	6,502
Year-end shareholders' equity	155,962	137,851	131,485
Year-end total assets	263,640	268,281	247,574

[(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, 2023, AKITA had $27,130,000 in working capital (working capital ratio of 1.85:1) with $11,187,000 of cash, compared to a working capital of $31,121,000 (working capital ratio of 2.01:1) and $13,311,000 cash for the previous year. In 2023, AKITA generated $35,567,000 in cash from operating activities. Positive cash was also generated from joint venture distributions ($5,950,000) and from proceeds on sales of assets ($2,788,000). During the same period, cash was used for capital expenditures of $24,592,000 and debt repayment of $24,000,000. Accounts payable at year-end included $12,276,000 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 and three other Canadian banks. The operating loan facility totals $110,000,000. The Credit facility expires in September 2025. The interest rate on the Company's credit facility ranges from 175 to 300 basis points over prime interest rates depending on the Funded Debt[(1)] to EBITDA[(1)] Ratio. Security for this facility includes all present and after-acquired personal property and a first floating charge over all other present and after-acquired property including real property. The financial covenants are:

1. 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 3.00:1.00.

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

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

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

At December 31, 2023, the Company was in compliance with its covenants with a Funded Debt[(1)] to EBITDA[(1)] Ratio of 1.20:1.00, and an EBITDA[(1)] to Interest Expense[(1)] Ratio of 7.73:1.00.

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

(i) 75% of Eligible Accounts Receivable[(1)]; plus
(ii) 50% of net book value of all Eligible Rig Assets[(1)]; less
(iii) Priority Payables[(1)] of the Loan Parties.

At December 31, 2023, the Company's borrowing base totalled $94,088,000.

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, 2023, the current portion of debt was nil (December 31, 2022 – nil). The balance outstanding under the credit loan facility, net of unamortized loan fees, is classified as long-term debt as the credit agreement has no required repayment obligations prior to the end of the loan facility term. The Company borrowed $70,000,000 in total from this facility as at December 31, 2023 (December 31, 2022 - $94,000,000).

The Company's objectives when managing capital are:

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

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, repurchase shares, issue new shares, sell assets or take on long-term debt.

Property, Plant and Equipment

Capital expenditures totaled $24,592,000 in 2023 ($17,982,000 in 2022). Capital spending in 2023 was as follows: $13,360,000 (2022 - $10,322,000) for certifications and overhauls, $1,380,000 (2022 - $3,206,000) for drill pipe and drill collars, $8,910,000 (2022 - $4,393,000) for drilling rig equipment and upgrades, and $942,000 in other capital assets.

During 2023, the Company sold ancillary assets for $2,788,000 (2022 - $133,000) that resulted in a gain of $2,199,000 (2022 – gain of $93,000).

Future Outlook 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 in 2024 is somewhat opaque with both oil and natural gas prices being at relative lows compared to the last three years.

Activity levels in Canada for 2023 were largely in line with 2022 and on par with pre-pandemic activity levels in the first quarter of 2020. This trend in demand for drilling services is expected to continue into 2024, however, there is some optimism in the industry that 2024 may improve over 2023. The CAOEC released its 2024 *Drilling and Service Rig Forecast* on November 24, 2023, estimating 6,229 wells to be drilled in 2024, up 481 from 2023 and for drilling operating days to increase by 5,046 days in 2024 to 65,399. The Trans Mountain Pipe Line is expected to begin operation in mid-2024, which will increase the egress of Canadian crude oil and thereby demand in the industry. A further positive development in Canada is the anticipated completion of the LNG Canada's export facility in

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

2025, which in conjunction with the Coastal GasLink is expected to secure additional markets for Canadian natural gas and therefore improve demand for drilling services. In order to service this growing market in Canada, in 2023 the Company successfully upgraded one of its oil sands designed rigs to reposition it for deep gas drilling. The Company has additional oil sands designed rigs that can be upgraded for deep gas should market conditions warrant.

In the US, the active rig count ended 2023 at 622 rigs, down 20% from the 779 rigs at the start of 2023. Market sentiment suggests current activity levels are likely to persist through the first half of 2024. The current growth trend for large operators in the US is through mergers and acquisitions as opposed to drilling new wells, which is having a negative effect on the demand for drilling services in the near term. There are some signs that the second half of 2024 will improve, especially in the Permian Basin where AKITA's US rigs are located. The drilled but uncompleted well count ("DUCS") has steadily declined in the Permian over the last two years, falling from 1,486 DUCS at the end of 2021, to 982 at the end of 2022 and to 830 at the end of 2023. A decreasing DUC count may be a positive leading indicator for increased demand for drilling. The second positive in the Permian is the investment in takeaway capacity for natural gas out of the Permian to the gulf coast to feed the expanding demand of the LNG export terminals, the Permian Highway Pipeline, the expansion of the Whistler Pipeline and the Matterhorn Express Pipeline, which will all help get gas out of the Permian, thereby increasing potential drilling.

Although there is the potential for activity in 2024 to increase from the current levels in both Canada and the US, AKITA is taking a cautious approach to the year and continuing to focus on debt repayment. The intention is to reach a level of debt that is easily maintainable through the market cycles the industry is experiencing. The Company's capital plans for 2024 are in line with 2023, however, there is the potential for additional upgrade capital if the right opportunity warranted it.

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 2023 and 2022 were made in the normal course of business with regular payment terms and have been recorded at the paid amounts. In 2023, operating purchases totaled $981,000, and included sponsorship and advertising of $350,000, operational costs of $518,000 and other miscellaneous purchases of $113,000. At December 31, 2023, the outstanding commitment of the Company's multi-year sponsorship and advertising contract with Spruce Meadows was $350,000. Costs incurred related to this contract during 2023 were $350,000 (2022 - $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	2023	2022
Operating and maintenance expenses	**5,727**	4,613
Selling and administrative expenses	**581**	493
Year-end due to AKITA from joint venture partners	**2,248**	1,801
Year-end due to AKITA from joint ventures	**3,470**	858

Commitments and Contingencies

From time to time, the Company enters into drilling contracts with its customers that are for extended periods. At December 31, 2023, 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, 2023, the Company had capital expenditure commitments of $5,109,000 (2022 – $740,000).

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, 2022	37,996,407	144,940	1,653,784	1,366	39,650,191	146,306
Stock options exercised	60,000	42	-	-	60,000	42
December 31, 2023	**38,056,407**	**144,982**	**1,653,784**	**1,366**	**39,710,191**	**146,348**

At March 21, 2024, the Company had 38,080,407 Class A Non-Voting shares and 1,653,784 Class B Common shares outstanding. At that date, there were also 1,853,500 stock options outstanding, of which 947,000 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 $4,091,000 at December 31, 2023 (2022 - $3,964,000). 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 2023, a key assumption is the 4.6% discount rate at year end (2022 – 5.1%).

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.

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, location of the rig in relation to the drilling location, 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

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 can be costly.

Dependence on Major Customers

AKITA earned 34% of its total revenue in 2023 from two major customers. These were the only two customers who individually provided over 10% of the Company's revenue for the year. The loss of one or more major customers or a significant reduction in the business done with any customer without offsetting new revenue could have a material adverse effect on AKITA's business, results of operations and prospects.

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.

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.

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, 2025 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.

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, has stopped the construction of the Keystone pipeline and most recently has implemented a moratorium on new LNG terminal expansion.

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 such 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.

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.

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 possibility of future pandemics and their impact cannot be estimated at this time but could have a significant impact on the Company and demand for the drilling services.

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.

The Permian Basin, where AKITA primarily conducts its US drilling operations, is infrequently subject to weather constraints, but may experience operational restrictions for other reasons. These restrictions could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

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.

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. The recent 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, ongoing supply chain disruptions could 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.

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;*
- *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, 2023, 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 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, 2023.

As of December 31, 2023, 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, 2023.

There was no change in the Company's internal control over financial reporting that occurred during the period that began on October 1, 2023 and ended December 31, 2023 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, 2023.

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.

	For the three months ended		For the year ended	
$Thousands	**December 31, 2023**	December 31, 2022	**December 31, 2023**	December 31, 2022
Net cash from operating activities	**17,523**	8,035	35,567	18,198
Interest paid	**1,243**	2,142	6,292	6,622
Interest expense	**(1,294)**	(2,181)	(6,502)	(6,777)
Post-employment benefits paid	**79**	378	322	584
Equity income from joint ventures	**1,488**	2,001	8,184	5,954
Change in non-cash working capital	**(11,862)**	5,769	1,659	10,232
Adjusted funds flow from operations	**7,177**	16,144	45,522	34,813

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, customer exploration and development budgets and drilling programs, day rates, active rig count, supply issues and labour shortage), pipeline capacity in Canada, the demand for oil and natural gas, crude oil and natural gas prices, 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, the Company's capital program, advantages associated with the percentage of pad drilling rigs in the Company's Canadian fleet, and the expansion of the Company's presence in the Montney deep gas basin and its role in drilling potash and in achieving energy transition targets, and the upgrading of one of the Company’s oil sands rigs for deep gas drilling.

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 world crude oil prices, North American natural gas prices and global liquified natural gas (LNG) demand;
- Fluctuations and uncertainty surrounding the future price of commodities;
- The impact of global supply chain disruptions;
- 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 impact of changes in demand for crude oil, natural gas or other liquid hydrocarbons on the demand and pricing for drilling services;
- The level of exploration and development activity carried on by AKITA’s customers;
- 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;
- Energy transition targets and industry’s ability to achieve them;
- The loss of one or more major customers;
- Changes to existing laws, regulations and government policies, 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;
- Access to capital markets including AKITA’s ability to obtain additional debt or equity financing;
- 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;
- The impact of dilutive financings or other transactions;

- Fluctuations in foreign exchange, interest and tax rates;
- The adequacy of AKITA's insurance coverage or contractual indemnity rights to cover losses, and the applicability of anti-indemnification legislation;
- The Company's ability to attract, develop and maintain a skilled and safe workforce and maintain a cost structure that varies with activity levels;
- The availability of qualified management personnel;
- A general reduction in rates in the drilling industry caused by a capital overbuild

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 ("IASB") or the International Financial Reporting Interpretations Committee. One amendment became applicable for the current reporting period and the Company had to change its accounting policies as a result. The amendment below was applied and did not have a material impact on the consolidated financial statements:

- IAS 12, "Income Taxes", has been amended to recognize deferred tax on particular transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

The following amendments have not yet been early adopted and are not expected to have a material impact on the consolidated financial statements. They are effective for reporting periods beginning on or after January 1, 2024:

- IAS 1, "Presentation of Financial Statements", has been amended to clarify how to classify debt and other liabilities as either current or non-current.
- IAS 1, "Presentation of Financial Statements", has been amended to clarify how to determine that an entity has the right to defer settlement for a liability arising from a loan arrangement for at least twelve months after the reporting period.

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

Other Information

Additional information is provided by the Company in its Annual Information Form, Notice of Annual Meeting and Information Circular all dated March 21, 2024. Copies of these documents including additional copies of the Annual Report for the year ended December 31, 2023 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.sedarplus.ca.

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

Colin Dease President and Chief Executive Officer	Darcy Reynolds Vice President, Finance and Chief Financial Officer

March 21, 2024

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, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

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

- the consolidated statements of financial position as at December 31, 2023 and 2022;
- 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 flows for the years then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information 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
Suncor Energy Centre, 111 5th Avenue South West, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T.: +1 403 509 7500, F.: +1 403 781 1825, Fax to mail: ca_calgary_main_fax@pwc.com

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, 2023. 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, 2023, the total net book value of PP&E, which mainly consists of drilling rig assets, amounted to $197 million, of which $57 million and $140 million related to the Canadian and US Cash Generating Units (CGUs), respectively. At each reporting period, management considers both internal and external factors (indicators) when assessing whether there are indicators of impairment. When impairment indicators of PP&E exist, an impairment assessment is conducted at the level of the CGUs (a group of assets that generate independent cash inflows). An impairment loss is recognized when the carrying amount of a CGU exceeds its recoverable amount. Impairment losses recognized in prior periods are assessed at each reporting date by management for any indicators that the impairment losses may no longer exist or may have decreased. In the event that an impairment loss reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the carrying amount does not exceed the amount that would have been determined had no impairment loss been recognized on the asset in prior periods. As at December 31, 2023, management concluded that	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
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 considered this 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 express any form of assurance conclusion thereon.

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

If, based on the work we have performed, 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.

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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 Accounting Standards, 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.

pwc

- 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 21, 2024

Leading the Drilling Industry

ENVIRONMENTAL STEWARDSHIP

SAFETY

PERFORMANCE

FOUNDATIONAL VALUES

Consolidated Statements of Financial Position

$Thousands		December 31, 2023	December 31, 2022
ASSETS			
Current Assets			
Cash		$ 11,187	$ 13,311
Accounts receivable	Note 12	47,098	46,868
Prepaid expenses and other		812	1,599
		59,097	61,778
Non-current Assets			
Other long-term assets		1,420	1,551
Investments in joint ventures	Note 11	5,121	2,887
Right-of-use assets	Note 9	718	1,515
Property, plant and equipment	Note 10	197,284	200,550
TOTAL ASSETS		$ 263,640	$ 268,281
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	Note 12	$ 30,695	$ 29,461
Deferred revenue		627	206
Current portion of lease obligations	Note 15	645	990
		31,967	30,657
Non-current Liabilities			
Risk management contracts	Note 12	196	290
Deferred income taxes	Note 7	719	644
Share-based compensation plans	Note 18	935	558
Employee future benefits	Note 19	4,091	3,964
Lease obligations	Note 15	228	803
Long-term debt	Note 14	69,542	93,514
Total Liabilities		107,678	130,430
SHAREHOLDERS' EQUITY			
Class A and Class B shares	Note 17	146,348	146,306
Contributed surplus		6,064	5,693
Accumulated other comprehensive income		1,043	1,760
Retained earnings (deficit)		2,507	(15,908)
Total Equity		155,962	137,851
TOTAL LIABILITIES AND EQUITY		$ 263,640	$ 268,281

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, 2023	2022
REVENUE	Note 4	$ 225,479	$ 200,996
COSTS AND EXPENSES			
Operating and maintenance	Note 6	167,029	151,884
Depreciation and amortization	Note 10	28,510	30,263
Selling and administrative	Note 6	16,120	14,541
Total Costs and Expenses		211,659	196,688
Revenue Less Costs and Expenses		13,820	4,308
EQUITY INCOME FROM JOINT VENTURES	Note 11	8,184	5,954
OTHER INCOME (LOSS)			
Interest income		373	41
Interest and financing expense	Note 5	(6,502)	(6,777)
Unrealized gain (loss) on risk management contracts	Note 12	95	(290)
Gain on sale of assets		2,199	93
Net other gains		376	210
Total Other Loss		(3,459)	(6,723)
Income Before Income Taxes		18,545	3,539
Income tax expense (recovery)	Note 7	130	(749)
NET INCOME FOR THE PERIOD ATTRIBUTABLE TO SHAREHOLDERS		18,415	4,288
OTHER COMPREHENSIVE INCOME INCOME (LOSS)			
Items that will not subsequently be reclassified to profit or loss:			
Remeasurement of pension liability and deferred tax		(176)	827
Items that may subsequently be reclassified to profit or loss:			
Foreign currency translation adjustment		(541)	968
Total Other Comprehensive Income (Loss)		(717)	1,795
COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO SHAREHOLDERS		$ 17,698	$ 6,083
NET INCOME PER CLASS A AND CLASS B SHARE	Note 3		
Basic		$ 0.46	$ 0.11
Diluted		$ 0.46	$ 0.11

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, 2021	$ 144,898	$ 1,366	$ 146,264	$ 5,452	$ (35)	$ (20,196)	$ 131,485
Net loss 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
Net income for the year	-	-	-	-	-	18,415	18,415
Foreign currency translation adjustment	-	-	-	-	(541)	-	(541)
Remeasurement of pension liability	-	-	-	-	(176)	-	(176)
Stock options exercised	42	-	42	(16)	-	-	26
Stock options expense	-	-	-	387	-	-	387
BALANCE AT DECEMBER 31, 2023	$ 144,982	$ 1,366	$ 146,348	$ 6,064	$ 1,043	$ 2,507	$ 155,962

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

Consolidated Statements of Cash Flows

		For The Year Ended December 31,	
$Thousands		2023	2022
OPERATING ACTIVITIES			
Net income		18,415	$4,288
Non-cash items included in net income:			
Depreciation and amortization	Note 10	28,510	30,263
Deferred income tax recovery	Note 7	130	(749)
Defined benefit pension plan expense	Note 19	-	18
Stock options expense	Note 18	387	250
Share-based compensation expense	Note 18	377	546
Gain on sale of assets		(2,199)	(93)
Gain on termination of lease		(3)	-
Unrealized (gain) loss on risk management contracts	Note 12	(95)	290
Change in non-cash working capital	Note 13	(1,659)	(10,232)
Equity income from joint ventures	Note 11	(8,184)	(5,954)
Post-employment benefits paid		(322)	(584)
Interest expense		6,502	6,777
Interest paid		(6,292)	(6,622)
Net Cash From Operating Activities		35,567	18,198
INVESTING ACTIVITIES			
Capital expenditures	Note 10	(24,592)	(17,982)
Change in non-cash working capital related to capital	Note 13	3,872	(1,130)
Distributions from investments in joint ventures	Note 11	5,950	5,443
Change in long-term assets		(6)	(62)
Proceeds from sale of assets		2,788	133
Net Cash Used In Investing Activities		(11,988)	(13,598)
FINANCING ACTIVITIES			
Change in debt	Note 14	(24,000)	7,283
Change in lease obligations		(913)	(1,071)
Proceeds from exercise of stock options		26	33
Loan commitment fee		(275)	(275)
Net Cash From (Used In) Financing Activities		(25,162)	5,970
Effect of Foreign Exchange on Cash		(541)	968
Increase (Decrease) In Cash		(2,124)	11,538
Cash, beginning of year		13,311	1,773
CASH, END OF YEAR		$ 11,187	$ 13,311

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

NOTES CONTENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2023 and December 31, 2022

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 35 drilling rigs (33.65 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, 2023, have been prepared in accordance with International Financial Reporting Standards ("IFRS Accounting Standards") 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. Material accounting policy information is located throughout the consolidated financial statements along with the required disclosures.

These consolidated financial statements were approved by the Company's Board of Directors on March 21, 2024.

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 per Share

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

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

	For the Year Ended	
	December 31, 2023	December 31, 2023
Net income ($Thousands)	$ 18,415	$ 4,288
Weighted average outstanding shares	39,658,520	39,622,805
Incremental shares for diluted income calculation	447,710	467,647
Weighted average outstanding shares for income per share - diluted	40,106,230	40,090,452
Income per share - basic	$ 0.46	$ 0.11
Income per share - diluted	$ 0.46	$ 0.11

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:

$Thousands	For the Year Ended December 31, 2023	For the Year Ended December 31, 2022
Contract drilling services	$ 124,119	$ 110,436
Rig lease rental	101,360	90,560
Total revenue	**$ 225,479**	$ 200,996

Significant Customers

During 2023 two customers (2022 – 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:

$Thousands	For the Year Ended December 31, 2023	For the Year Ended December 31, 2022
Interest expense	$ 6,664	$ 6,267
Interest expense, lease obligations	58	118
Interest expense, pension	210	155
Financing expense, risk management contracts	(430)	237
Total interest and financing expense	**$ 6,502**	$ 6,777

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:

$Thousands	For the Year Ended December 31, 2023	For the Year Ended December 31, 2022
Expenses		
Salaries, wages and benefits	$ 102,370	$ 96,329
Materials and supplies	36,971	26,113
Repairs and maintenance	30,780	32,949
External services and facilities	13,028	11,034
Total expenses	**$ 183,149**	$ 166,425
Allocated to:		
Operating and maintenance	$ 167,029	$ 151,884
Selling and administrative	16,120	14,541
Total expenses	**$ 183,149**	$ 166,425

7. Income Taxes

Income taxes are comprised of current and deferred income taxes.

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

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

Income taxes are comprised of the following:

$Thousands	For the Year Ended December 31, 2023	For the Year Ended December 31, 2022
Current tax recovery	$ -	$ -
Deferred tax expense (recovery)	130	(749)
Total income tax expense (recovery)	**$ 130**	$ (749)

The following table reconciles the income tax expense (recovery) using a weighted average Canadian federal and provincial rate of 23.70% (2022– 23.57%) to the reported tax recovery. The rate increase 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, 2023	For the Year Ended December 31, 2022
Income before income taxes	$ 18,545	$ 3,539
Expected income tax at the statutory rate	4,396	834
Add (deduct):		
Change in income tax rates	1	(8)
Permanent differences	103	102
Jurisdictional rate difference	(216)	(75)
Change in unrecognized deferred tax asset	(4,060)	(1,571)
Return to provision adjustment	(25)	(48)
Other	(69)	17
Total income tax expense (recovery)	$ 130	$ (749)

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, 2021	$ 34,947	$ (1,338)	$ (23,291)	$ (9,180)	$ 1,138
Charged (credited) to net loss	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
Charged (credited) to net income	1,569	19	(972)	(486)	130
Charged to OCI	-	(55)	-	-	(55)
Balance as at December 31, 2023	$ 40,104	$ (1,045)	$ (28,356)	$ (9,984)	$ 719

A net deferred tax asset has not been recognized for $67 million (2022 – $76 million). This amount is primarily related to non-capital losses carried forward.

Total gross tax losses available to the Company are $415,652,000 with $379,378,000 in the US and $36,274,000 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, 2023			For the Year Ended December 31, 2022		
$Thousands	**Canada**	**US**	**Total**	Canada	US	Total
Revenue	**$ 56,005**	**$ 169,474**	**$ 225,479**	$ 55,279	$ 145,717	$ 200,996
Revenue less costs and expenses	**$ (6,554)**	**$ 20,374**	**$ 13,820**	$ (6,860)	$ 11,168	$ 4,308

	As at December 31, 2023			As at December 31, 2022		
$Thousands	**Canada**	**US**	**Total**	Canada	US	Total
Property, plant and equipment	**$ 57,284**	**$ 140,000**	**$ 197,284**	$ 56,920	$ 143,630	$ 200,550

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		Office Equipment and Software		Vehicles		Total
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
Additions		**-**		**388**		**-**		**388**
Disposals		**-**		**(78)**		**(304)**		**(382)**
Amortization expense		**(291)**		**(533)**		**21**		**(803)**
Balance as at December 31, 2023	**$**	**268**	**$**	**450**	**$**	-	**$**	**718**

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, 2023. 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, 2023.

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, 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
Additions	**-**	**24,109**	**483**	**24,592**
Disposals	**-**	**(20,376)**	**-**	**(20.376)**
Balance as at December 31, 2023	**$ 7,135**	**$ 594,083**	**$ 10,183**	**$ 611,401**

Accumulated Depreciation $Thousands	Land and Buildings	Drilling Rigs	Other	Total
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
Disposals	**-**	**(19,798)**	**-**	**(19,798)**
Depreciation expense	**195**	**26,648**	**437**	**27,280**
Balance as at December 31, 2023	**$ 2,850**	**$ 401,692**	**$ 9,575**	**$ 414,117**

Net Book Value $Thousands	Land and Buildings	Drilling Rigs	Other	Total
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
As at December 31, 2023	**$ 4,285**	**$192,391**	**$ 608**	**$ 197,284**

At December 31, 2023, the Company had $2,948,000 in PP&E that was not being depreciated, as these assets were under construction (December 31, 2022 – $172,000).

In addition to depreciation on its PP&E, the Company had amortization expense of $1,230,000 for the year ended December 31, 2023 (2022 - $1,402,000).

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, 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
Net income for the year ended December 31, 2023		**8,184**
Distributions for the year ended December 31, 2023		**(5,950)**
Balance as at December 31, 2023	**$**	**5,121**

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, 2023			As at December 31, 2022		
$Thousands	AKITA %	JV Partner %	Total	AKITA %	JV Partner %	Total
Cash	$ 3,775	$ 861	$ 4,636	$ 850	$ 210	$ 1,060
Other current assets	6,443	1,067	7,510	4,148	1,067	5,215
Non-current assets	55	-	55	55	-	55
Total assets	10,273	1,928	12,201	5,053	1,277	6,330
Current liabilities	(5,152)	(825)	(5,977)	(2,166)	(588)	(2,754)
Net assets	$ 5,121	$ 1,103	$ 6,224	$ 2,887	$ 689	$ 3,576

	For the Year Ended December 31, 2023			For the Year Ended December 31, 2022		
$Thousands	AKITA %	JV Partner %	Total	AKITA %	JV Partner %	Total
Revenue	$ 35,662	$ 7,611	$ 43,273	$ 25,958	$ 6,403	$ 32,361
Operating and maintenance expenses	27,144	5,637	32,781	19,635	4,892	24,527
Selling and administrative expenses	334	60	394	369	87	456
Net income and comprehensive income	$ 8,184	$ 1,914	$ 10,098	$ 5,954	$ 1,424	$ 7,378

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, 2023, 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, 2023, 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, 2023, 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, 2023, 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, 2023	As at December 31, 2022
Within 30 days	$ 27,465	$ 34,308
31 to 60 days	15,125	12,196
61 to 90 days	3,738	732
Over 90 days	1,420	407
Estimated credit losses	(650)	(775)
Total accounts receivable	**$ 47,098**	$ 46,868

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, 2023, this risk was limited by a positive working capital balance of $27.1 million and $40.0 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). On March 30, 2023, the Company elected to end its covenant relief period.

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	$ -	$ 69,542	$ 69,542
Bank credit facility - interest	4,957	3,407	8,364
Total	**$ 4,957**	**$ 72,949**	**$ 77,906**

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	$ 645,044	$ 228,298	$ -	$ 873,342
Lease obligations - interest	49,136	24,824	-	73,960
Total	**$ 694,180**	**$ 253,122**	$ -	**$ 947,302**

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 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 statement of net income. At December 31, 2023, the Company recorded an unrealized gain of $95,000. 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, 2023	As at December 31, 2022
Trade payables	$ 16,815	$ 12,238
Statutory liabilities	970	1,264
Accrued expenses	12,595	15,636
Post-employment benefits	315	323
Total accounts payable and accrued liabilities	$ 30,695	$ 29,461

13. Change in Non-Cash Working Capital

$Thousands	For The Year Ended December 31, 2023		December 31, 2022	
Change in non-cash working capital:				
Accounts receivable	$	(230)	$	(19,640)
Prepaid expenses and other		787		(377)
Accounts payable and accrued liabilities		1,235		8,731
Deferred revenue		421		(76)
Change in non-cash working capital	$	2,213	$	(11,362)
Pertaining to:				
Operating activities	$	(1,659)	$	(10,232)
Investing activities		3,872		(1,130)
Change in non-cash working capital	$	2,213	$	(11,362)

DEBT AND EQUITY

14. Debt

Operating Loan Facility

The Company has a syndicated credit agreement with the Company's principal banker as the agent on the syndication and three other Canadian banks in the syndication. The operating loan facility totals $110,000,000. The Credit facility expires in September 2025. The interest rate on the Company's credit facility ranges from 175 to 300 basis points over prime interest rates depending on the Funded Debt(1) to EBITDA(1) Ratio. Security for this facility includes all present and after-acquired personal property and a first floating charge over all other present and after-acquired property including real property. The financial covenants are:

1. 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 3.00:1.00.

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

2. The EBITDA(1) to Interest Expense(1) Ratio: the Company shall ensure that 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.

   At December 31, 2023, the Company was in compliance with its covenants with a Funded Debt(1) to EBITDA(1) Ratio of 1.20:1.00, and an EBITDA(1) to Interest Expense(1) Ratio of 7.73:1.00.

(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.

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

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

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

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

At December 31, 2023, the Company's borrowing base totalled $94,088,000.

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, 2023, the current portion of debt was nil (December 31, 2022 – nil). The balance outstanding under the credit loan facility, net of unamortized loan fees, is classified as long-term debt as the credit agreement has no required repayment obligations prior to the end of the loan facility term. The Company borrowed $70,000,000 in total from this facility as at December 31, 2023 (December 31, 2022 - $94,000,000).

Continuity of Debt

$Thousands	For The Year Ended December 31, 2023		December 31, 2022	
Balance as at December 31	$	93,514	$	86,156
Drawn on credit facility		-		10,000
Repayment of debt		(24,000)		(2,717)
Net deferred loan fees		28		75
Balance as at December 31	**$**	**69,542**	$	93,514

$Thousands	As at December 31, 2023		As at December 31, 2022	
Debt allocated to:				
Current portion	$	-	$	-
Long-term portion		69,542		93,514
Balance as at December 31	**$**	**69,542**	$	93,514

15. Lease Obligations

IFRS 16 "Leases" – Accounting Policies

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

[1] Readers should be aware that 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.

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 9.95%.

Continuity of Lease Obligations

$Thousands	Land and Property	Office Equipment and Software	Vehicles	Total
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
Change in lease obligations	**(491)**	**(451)**	**19**	**(923)**
Lease additions		**388**	**-**	**388**
Lease terminations	**-**	**(81)**	**(304)**	**(385)**
Balance as at December 31, 2023	**$ 299**	**$ 574**	**$ -**	**$ 873**

$Thousands	Land and Property	Office Equipment and Software	Vehicles	Total
Current portion	**$ 299**	**$ 346**	**$ -**	**$ 645**
Long-term portion	**-**	**228**	**-**	**228**
Balance as at December 31, 2023	**$ 299**	**$ 574**	**$ -**	**$ 873**

Lease Expense

The Company recorded $58,000 in interest expense related to its lease obligations for the year ended December 31, 2023 (2022 - $118,000).

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, 2022	37,996,407	1,653,784	39,650,191
Stock options exercised	60,000	-	60,000
Shares outstanding at December 31, 2023	**38,056,407**	**1,653,784**	**39,710,191**

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, 2023**	December 31, 2022
Reserved under the current stock option plan	**6,500,000**	6,500,000
Balance at beginning of year	**3,633,500**	365,500
Added to stock option plan [1]	**-**	3,400,000
Expired	**-**	298,000
Granted	**(515,000)**	(430,000)
Available for future issuance	**3,118,500**	3,633,500

[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:

	2023			2022		
	Number of Options		Weighted Average Exercise Price	Number of Options		Weighted Average Exercise Price
Options outstanding at January 1	1,422,500	$	1.63	1,332,500	$	2.14
Granted	515,000		1.36	430,000	$	1.69
Exercised	(60,000)		0.44	(42,000)	$	0.77
Expired	-		-	(298,000)	$	4.12
Options outstanding at December 31	1,877,500	$	1.59	1,422,500	$	1.63
Options exercisable at December 31	971,000	$	1.85	652,000	$	1.94

The following table summarizes the outstanding stock options at December 31:

			2023			2022		
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	4.7	42,500	42,500	5.7	42,500
5	$	3.93	197,500	5.2	197,500	197,500	6.2	158,000
5	$	0.44	262,500	4.5	198,000	322,500	5.5	193,500
5	$	1.01	430,000	5.3	258,000	430,000	6.3	172,000
5	$	1.69	430,000	7.0	172,000	430,000	8.0	86,000
5	$	1.36	515,000	8.0	103,000			
Weighted Average Contractual Life				6.3			6.6	

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:

	2023 Number of Deferred Share Units		2023 Fair Value ($000's)	2022 Number of Deferred Share Units		2022 Fair Value ($000's)
DSUs outstanding as at January 1	258,526	$	447	349,882	$	329
Granted	88,235		120	74,850		125
Redeemed	(4,946)		(7)	(166,206)		(309)
Change in fair value			(92)			302
DSUs outstanding as at December 31	341,815	$	468	258,526	$	447

Deferred share units allocated to:	2023 Number of Deferred Share Units		2023 Fair Value ($000's)	2022 Number of Deferred Share Units		2022 Fair Value ($000's)
Accounts payable and accrued liabilities	-	$	-	4,947	$	8
Non-current liabilities	341,815		468	253,579		439
DSUs outstanding as at December 31	341,815	$	468	258,526	$	447

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:

	2023 Number of Performance Share Units		2023 Fair Value ($000's)	2022 Number of Performance Share Units		2022 Fair Value ($000's)
PSUs outstanding as at January 1	68,862	$	119	-	$	-
Granted	272,059		370	68,862		115
Change in fair value			(22)			4
PSUs outstanding as at December 31	340,921	$	467	68,862	$	119

The total long-term share-based compensation plan liability is $935,000 (December 31, 2022 - $558,000).

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 the 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, 2023, no SARs have been granted (December 31, 2022 – 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	
$Thousands	**December 31, 2023**	December 31, 2022
Stock option expense	**$ 387**	$ 250
DSU expense	**29**	427
PSU expense	**348**	119
Total share-based compensation expense	**$ 764**	$ 796

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.

	2023	2022
Risk-free interest rate	**3.36%**	2.86%
Expected volatility	**91%**	92%
Dividends yield rate	**0.00%**	0.00%
Option life	**5.4 years**	5.4 years
Weighted average share price	**$ 1.36**	$ 1.69
Forfeiture rate	**0.00%**	0.00%
Fair value of options	**$ 1.00**	$ 1.25

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, 2024, and was utilized in measuring the December 31, 2023 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	2023	2022
Actuarial present value of defined benefit obligation as at January 1	$ 4,279	$ 5,463
Interest cost	210	155
Current service cost	-	18
Benefits paid	(315)	(275)
Unrealized actuarial (gain) loss	232	(1,082)
Actuarial present value of defined benefit obligation as at December 31	**$ 4,406**	$ 4,279

$Thousands	2023	2022
Pension liability allocated to:		
Accounts payable and accrued liabilities	$ 315	$ 315
Non-current liabilities	4,091	3,964
Pension liability outstanding as at December 31	**$ 4,406**	$ 4,279

Key Assumptions

	For the Year Ended	
	December 31, 2023	December 31, 2022
Discount rate at beginning of the year	**5.1%**	2.9%

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			
$Thousands		**December 31, 2023**		December 31, 2022
Defined benefit pension plan				
Interest cost	**$**	**210**	$	155
Service cost		**-**		18
Expense for defined benefit pension plan		**210**		173
Expense for defined contribution pension plans		**3,631**		3,054
Total expense	**$**	**3,841**	$	3,227

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 $4,091,000 at December 31, 2023 (December 31, 2022 - $3,964,000). 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, 2023, a key assumption is the discount rate of 4.6% (2022 – 5.1%). 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, 2023, 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, 2023, the Company had capital expenditure commitments of $5,109,000 (2022 – $740,000).

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, 2023	December 31, 2022
Revenue (computer services, rent)	$ 87	$ 87
Purchases:		
Sponsorship and advertising (Note 20)	$ 350	$ 175
Selling and administrative	$ 113	$ 81
Operating	$ 518	$ 744
Year-end accounts payable	$ 58	$ 74

b) Joint ventures and joint venture partners

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

	For the Year Ended	
$Thousands	December 31, 2023	December 31, 2022
Operating costs	$ 5,727	$ 4,613
Selling and administrative costs	$ 581	$ 493

$Thousands	As at December 31, 2023	As at December 31, 2022
Due to AKITA from joint venture partners	$ 2,248	$ 1,801
Due to AKITA from joint ventures	$ 3,470	$ 858

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:

	For the Year Ended	
$Thousands	**December 31, 2023**	December 31, 2022
Salaries, director's fees and other short-term benefits	**$ 1,415**	$ 1,906
Post-employment benefits	**$ 59**	$ 94
Share-based payments	**$ 840**	$ 690
Long-service payable	**$ -**	$ 50

22. New and Upcoming Accounting Standards

Certain new or amended standards or interpretations have been issued by the International Accounting Standards Board ("IASB") or the International Financial Reporting Interpretations Committee. One amendment became applicable for the current reporting period and the Company had to change its accounting policies as a result. The amendment below was applied and did not have a material impact on the consolidated financial statements:

- IAS 12, "Income Taxes", has been amended to recognize deferred tax on particular transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

The following amendments have not yet been early adopted and are not expected to have a material impact on the consolidated financial statements. They are effective for reporting periods beginning on or after January 1, 2024:

- IAS 1, "Presentation of Financial Statements", has been amended to clarify how to classify debt and other liabilities as either current or non-current.
- IAS 1, "Presentation of Financial Statements", has been amended to clarify how to determine that an entity has the right to defer settlement for a liability arising from a loan arrangement for at least twelve months after the reporting period.

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

10 YEAR FINANCIAL REVIEW

$Thousands (except per share)	Annual Ranking	2023	2022	2021
Summary of Operations				
Revenue	1	$ 225,479	$ 200,996	$ 110,088
Income (loss) before income taxes	2	$ 18,545	$ 3,539	$ (21,782)
Income taxes expense (recovery)	4	$ 130	$ (749)	$ (792)
Net income (loss)	2	$ 18,415	$ 4,288	$ (20,990)
As a percentage of average shareholders' equity	1	11.8%	3.1%	(16.0%)
Earnings (loss) per Class A and Class B share (basic)	2	$ 0.46	$ 0.11	$ (0.53)
Funds flow from operations	2	$ 45,522	$ 34,813	$ 7,454
As a percentage of average shareholders' equity	1	29.2%	25.3%	5.7%
Financial Position at Year End				
Working capital (deficiency)	3	$ 27,130	$ 31,121	$ 6,496
Current ratio	5	1.85	2.02	1.27
Total assets	5	$ 263,640	$ 268,281	$ 247,574
Shareholders' equity	7	$ 155,962	$ 137,851	$ 131,485
per share	7	$ 3.93	$ 3.48	$ 3.32
Other				
Capital expenditures (net)	2	$ 24,592	$ 17,982	$ 16,416
Depreciation and amortization	7	$ 28,510	$ 30,263	$ 28,838
Dividends paid	7	$ -	$ -	$ -
per share	7	$ -	$ -	$ -

2020	2019	2018	2017	2016	2015	2014
$ 119,664	$ 175,890	$ 118,361	$ 71,198	$ 61,061	$ 112,488	$ 165,274
$ (102,701)	$ (24,679)	$ (12,228)	$ (53,230)	$ 7,535	$ (44,544)	$ 28,121
$ (9,427)	$ (4,804)	$ 3,651	$ (14,053)	$ 2,206	$ (10,579)	$ 7,042
$ (93,274)	$ (19,875)	$ (15,939)	$ (39,177)	$ 5,329	$ (33,965)	$ 21,079
(61.3%)	(8.1%)	(5.9%)	(22.5%)	2.4%	(14.2%)	8.3%
$ (2.03)	$ (0.50)	$ (0.65)	$ (2.18)	$ 0.30	$ (1.89)	$ 1.17
$ 10,322	$ 12,925	$ 14,306	$ 6,607	$ 34,500	$ 38,510	$ 56,195
6.8%	5.3%	5.3%	3.8%	15.7%	16.0%	22.2%
$ 8,683	$ 4,032	$ 11,166	$ 15,528	$ 34,907	$ 16,002	$ (5,028)
1.56	1.14	1.31	2.02	4.49	2.45	0.90
$ 251,521	$ 369,116	$ 403,641	$ 207,497	$ 257,907	$ 254,516	$ 340,926
$ 152,266	$ 245,134	$ 271,728	$ 174,455	$ 219,646	$ 220,200	$ 259,841
$ 3.84	$ 6.19	$ 6.86	$ 9.72	$ 12.24	$ 12.27	$ 14.48
$ 7,593	$ 15,238	$ 17,546	$ 20,348	$ 13,193	$ 17,960	$ 103,949
$ 32,681	$ 36,763	$ 26,614	$ 27,126	$ 23,959	$ 36,748	$ 30,200
$ -	$ 10,101	$ 7,942	$ 6,100	$ 6,100	$ 6,101	$ 6,015
$ -	$ 0.17	$ 0.34	$ 0.34	$ 0.34	$ 0.34	$ 0.34


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CORPORATE INFORMATION

Directors

Loraine M. Charlton
Corporate Director
Calgary, Alberta

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

Harish K. Mohan
Corporate Director
Calgary, Alberta

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,
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

Colin A. Dease
President and Chief Executive Officer

Darcy Reynolds
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Auditors

PricewaterhouseCoopers LLP
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Registrar and Transfer Agent

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1.888.290.1175

Share Symbol/TSX

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

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