Management's Responsibility for Financial Reporting

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

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

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

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

"Signed"
Karl A. Ruud
President and Chief Executive Officer

"Signed"
Darcy Reynolds
Vice President, Finance and Chief Financial Officer

March 4, 2020

Independent auditor's report

To the Shareholders of AKITA Drilling Ltd.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of AKITA Drilling Ltd. and its subsidiaries (together, the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2019 and 2018;
- the consolidated statements of net loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Other information

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

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

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

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

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

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

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

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
March 4, 2020

Consolidated
Statements of Financial Position

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

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

Approved by the Board,

[Original signed by L.M. Charlton]
Director

[Original signed by D.R. Richardson]
Director

Consolidated
Statements of Net Loss and Comprehensive Loss

$ Thousands except per share amounts		Year Ended December 31 2019	2018
REVENUE	Note 4	$ 175,890	$ 118,361
COSTS AND EXPENSES			
Operating and maintenance	Note 5	121,588	86,575
Depreciation and amortization	Note 9	36,763	26,614
Right-of-use asset impairment loss	Note 8	276	-
Selling and administrative	Note 5	36,237	22,611
Total Costs and Expenses		194,864	135,800
Revenue Less Costs and Expenses		(18,974)	(17,439)
EQUITY INCOME FROM JOINT VENTURES	Note 10	1,129	6,168
OTHER INCOME (LOSS)			
Interest income		20	84
Interest expense		(6,771)	(2,121)
Gain (loss) on sale of assets		(476)	567
Net other gains		393	453
Total Other Loss		(6,834)	(1,017)
Loss Before Income Taxes		(24,679)	(12,288)
Income tax expense (recovery)	Note 6	(4,804)	3,651
NET LOSS FOR THE PERIOD ATTRIBUTABLE TO SHAREHOLDERS		(19,875)	(15,939)
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will not subsequently be reclassified to profit or loss			
Remeasurement of pension liability and other		(284)	364
Items that may be subsequently reclassified to profit or loss			
Foreign currency translation adjustment		(15)	217
Total Other Comprehensive Income (Loss)		(299)	581
COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO SHAREHOLDERS		$ (20,174)	$ (15,358)
NET LOSS PER CLASS A AND CLASS B SHARE	Note 3		
Basic		$ (0.50)	$ (0.65)
Diluted		$ (0.50)	$ (0.65)

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

Consolidated
Statements of Changes in Shareholders' Equity

$ Thousands	Class A Non-Voting Shares	Class B Common Shares	Total Class A and Class B Shares	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Equity
	Attributable to the Shareholders of the Company						
BALANCE AT DECEMBER 31, 2017	$ 22,505	$ 1,366	$ 23,871	$ 4,500	$ (495)	$ 146,579	$ 174,455
January 1, 2018 increase in estimated credit loss resulting from the implementation of IFRS 9	-	-	-	-	-	(179)	(179)
Net loss for the year	-	-	-	-	-	(15,939)	(15,939)
Foreign currency translation adjustment	-	-	-	-	217	-	217
Remeasurement of pension liability	-	-	-	-	364	-	364
Shares issued for acquisition	122,393	-	122,393	-	-	-	122,393
Stock options charged to expense	-	-	-	201	-	-	201
Dividends	-	-	-	-	-	(9,784)	(9,784)
BALANCE AT DECEMBER 31, 2018	$ 144,898	$ 1,366	$ 146,264	$ 4,701	$ 86	$ 120,677	$ 271,728
Net loss for the year	-	-	-	-	-	(19,875)	(19,875)
Foreign currency translation adjustment	-	-	-	-	(15)	-	(15)
Remeasurement of pension liability	-	-	-	-	(284)	-	(284)
Stock options charged to expense	-	-	-	314	-	-	314
Dividends	-	-	-	-	-	(6,734)	(6,734)
BALANCE AT DECEMBER 31, 2019	$ 144,898	$ 1,366	$ 146,264	$ 5,015	$ (213)	$ 94,068	$ 245,134

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

Consolidated
Statements of Cash Flows

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

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

BUSINESS AND ENVIRONMENT

1. General Information

AKITA Drilling Ltd. and its subsidiaries (the "Company" or "AKITA") provide contract drilling services, primarily to the oil and gas industry, in Canada and the United States ("US"). The Company owns and operates 40 drilling rigs (38.65) net of joint venture ownership).

The Company conducts certain rig operations via joint ventures with First Nations, Metis or Inuvialuit partners whereby rig assets are jointly owned. While joint venture interests are at least 50% owned by the Company, in each case the joint venture is governed on a joint basis.

The Company is a limited liability company incorporated and domiciled in Alberta, Canada. The address of its registered office is 1000, 333 - 7th Avenue SW, Calgary, Alberta. The Company is listed on the Toronto Stock Exchange. The Company is controlled by Sentgraf Enterprises Ltd. and its controlling share owner, the Southern family.

2. Basis of Preparation

The consolidated financial statements for the year ended December 31, 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements have been prepared under the historical cost convention, except as specifically noted within these notes.

These consolidated financial statements were approved by the Company's Audit Committee on behalf of the Board of Directors on March 4, 2020.

Consolidation

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

Functional and Presentation Currency

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

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

Foreign Currency Translation

(i) Transactions and balances

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

(ii) Group companies

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

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of net income and comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognized in other comprehensive income ("OCI").

Change in Accounting Policy

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

Estimates and Judgments

The preparation of these consolidated financial statements required management to make estimates and judgments. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances. Actual results could differ materially from these estimates. Estimates and judgments which are material to the consolidated financial statements are found in the following notes:

- Note 4 - Revenue
- Note 6 - Income Taxes

- Note 8 - Leases
- Note 9 - Property, Plant and Equipment
- Note 12 – Financial Instruments
- Note 19 – Employee Future Benefits
- Note 22 – Business Combination

RESULTS FOR THE YEAR

3. Net Loss per Share

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

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

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

(1) For the year ended December 31, 2019, and the year ended December 31, 2018, the outstanding shares that would have been issued under the Stock Option Plan were excluded in calculating the weighted average number of diluted shares as the Company incurred a net loss during the year and therefore the shares were considered anti-dilutive.

4. Revenue

IFRS 15 Revenue from Contracts with Customers – Accounting Policies

Revenue is recognized when the Company satisfies a performance obligation by transferring promised goods or services to a customer and the amount recorded is measured at the fair value of the consideration received. A typical contract with a customer includes performance obligations to provide drilling services and rig equipment, which are satisfied over time. Once determined, the transaction price will be allocated to each performance obligation based on stand-alone selling prices. Where stand-alone selling prices are not directly observable, the Company will make an estimate based on expected cost-plus margin.

Where possible, the Company will apply the practical expedient not to disclose the transaction price for unsatisfied performance if the performance obligation is part of a contract that has an original expected duration of one year or less. The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Consequently, the Company does not adjust any of the transaction prices for the time value of money.

The receipt of unearned contract revenue is recorded as deferred revenue until the contracted passage of time has occurred. Contract cancellation revenue is recognized when both parties to the contract have agreed upon an amount, collection is probable, and the Company does not have any further services to render in order to earn the estimated revenue.

Significant Estimates and Judgments – Relative Stand-Alone Selling Price

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

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

The majority of the Company's contracts contain both a lease and a service element. IFRS 15, "Revenue from Contracts with Customers" requires that contract revenue be presented separately from lease revenue. In this case, the transaction price will be allocated to each of the lease and service elements based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost-plus margin.

Significant Customers

During 2019, two customers (2018 – three customers) each provided more than 10% of the Company's revenue. While the loss of one or more of these customers may have a material adverse effect on the financial results of the Company, in management's assessment, the future viability of the Company is not dependent upon these major customers.

5. Expenses by Nature

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

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

6. Income Taxes

Income taxes are comprised of current and deferred income taxes.

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

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

Income taxes are comprised of the following:

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

The following table reconciles the income tax expense (recovery) using a weighted average Canadian federal and provincial rate of 26.63% (2018 - 27.00%) to the reported tax expense (recovery). The rate decrease is due to the reduction in the Alberta corporate tax rate. The reconciling items represent, aside from the impact of tax rate differentials and changes, non-taxable benefits or non-deductible expenses arising from permanent differences between the local tax base and the financial statements.

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

The deferred tax balance consists of the following:

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

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

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

Significant Estimates and Judgments - Deferred Income Taxes

The Company makes estimates and judgments relating to the measurement of deferred income taxes, including future tax rates, timing of reversals of temporary timing differences and the anticipated tax rules that will be in place when timing differences reverse.

7. Segmented Information

The Company has one operating segment, providing contract drilling services primarily to the oil and gas industry. From time to time, the Company is involved in other forms of drilling related to potash mining and the development of storage caverns. The Company determines its operating segments based on internal information, regularly reviewed by management, to allocate resources and assess performance.

During 2018, the Company commenced operations in the US. During the third quarter of 2018, the shareholders of Xtreme Drilling Corp. ("Xtreme") and AKITA approved an arrangement to combine their respective businesses. The business combination increased AKITA's US operations from four drilling rigs to 17 drilling rigs. Geographical information is provided below:

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

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

LONG TERM ASSETS

8. Leases

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

Practical Expedients Applied

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

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

- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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

Leasing Activities and Policies

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

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

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

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

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

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

ROU assets are measured at cost comprising of the following:

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

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

Adjustments Recognized on Adoption of IFRS 16, "Leases"

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

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

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

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

Reconciliation of Commitments to Lease Liability

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

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

Continuity of ROU Assets

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

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

Impairment of Property, Plant and Equipment

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

Lease Obligation

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

Significant Estimates and Judgments

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

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

9. Property, Plant and Equipment

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

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

Significant Estimates and Judgments – Useful Lives of Drilling Rigs

Depreciation is recognized on property, plant and equipment excluding land. Depreciation methods and rates have been selected so as to amortize the net cost of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period.

Effective January 1, 2019, the Company changed its method for depreciating buildings from declining balance to straight-line. Management believes that straight-line depreciation better reflects the future economic benefits related to these assets. The change in depreciation methodology was applied prospectively. The estimated effect of the change in depreciation method on the Company's financial statements for the year ended December 31, 2019 is not material.

Major renovations are depreciated over the remaining useful life of the related asset or to the date of the next major renovation, whichever is sooner.

A summary of depreciation methodologies for the Company's major property and equipment classes as at December 31, 2019 is as follows:

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

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

Property, Plant and Equipment Continuity

Cost $ Thousands	Land and Buildings	Drilling Rigs	Other	Total
Balance as at December 31, 2017	$ 4,302	$ 367,517	$ 8,097	$ 379,916
Additions	2,601	14,376	569	17,546
Xtreme additions	2,546	184,126	2,109	188,781
Disposals	-	(7,622)	(567)	(8,189)
Balance as at December 31, 2018	9,449	558,397	10,208	578,054
IFRS 16, "Leases" reclass to ROU assets	-	-	(546)	(546)
Additions	138	14,986	114	15,238
Disposals	(1,285)	(11,667)	(366)	(13,318)
Balance as at December 31, 2019	$ 8,302	$ 561,716	$ 9,410	$ 579,428

Accumulated Depreciation $ Thousands	Land and Buildings	Drilling Rigs	Other	Total
Balance as at December 31, 2017	$ 1,424	$ 200,573	$ 7,320	$ 209,317
Disposals	-	(7,555)	(560)	(8,115)
Depreciation expense	123	25,627	754	26,504
Balance as at December 31, 2018	1,547	218,645	7,514	227,706
IFRS 16, "Leases" reclass to ROU assets	-	-	(46)	(46)
Disposals	(118)	(10,607)	(295)	(11,020)
Depreciation expense	445	33,368	648	34,461
Balance as at December 31, 2019	$ 1,874	$ 241,406	$ 7,821	$ 251,101

Net Book Value $ Thousands	Land and Buildings	Drilling Rigs	Other	Total
As at December 31, 2017	$ 2,878	$ 166,944	$ 777	$ 170,599
As at December 31, 2018	$ 7,902	$ 339,752	$ 2,694	$ 350,348
As at December 31, 2019	$ 6,428	$ 320,310	$ 1,589	$ 328,327

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

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

Impairment of Property, Plant and Equipment

International Accounting Standard 36, “Impairment of Assets”, requires an entity to consider both internal and external factors when assessing whether there are indications of asset impairment at each reporting period. At December 31, 2019, there were no internal indicators of impairment, however there were external indicators of impairment. The uncertainty around oil prices impacts the earnings potential of the Company’s cash generating units (“CGUs”) and at December 31, 2019, the book value of the Company’s net assets was greater than its market capitalization; therefore, the Company tested its CGUs for impairment.

Upon completion of its asset impairment testing, the Company concluded that there was no asset impairment required at December 31, 2019 (2018 - nil). The Company also concluded that there were no reversals of previous asset impairments required at December 31, 2019.

The accuracy of asset impairment testing is affected by estimates and judgments in respect of the inputs and parameters that are used to determine recoverable amounts. In performing its asset impairment test at December 31, 2019, management determined recoverable amounts for its CGUs using a fair value less costs to dispose of each CGU. IFRS considers this approach to constitute a Level 3 hierarchy in its determination of value. External appraisals of the Company’s assets were completed in October of 2019 and relied upon for testing at December 31, 2019. As industry and asset conditions have not changed significantly since the time that the appraisals were completed, management feels the appraisals are still valid at year end.

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

10. Investments in Joint Ventures

The Company conducts certain rig operations via joint ventures with First Nations, Metis or Inuvialuit partners whereby rig assets are jointly owned. Currently, there are eight different First Nations, Metis or Inuvialuit groups with equity investments in six of AKITA's active rigs. These equity investments are facilitated through joint venture agreements. Each joint venture operates the rig with the joint venture partners owning a share of each rig directly. The equity ownership for each First Nations, Metis or Inuvialuit partner varies between rigs and groups and ranges from 5% to 50% per group per rig. While joint venture interests are at least 50% owned by the Company, in each case the joint venture is governed on a joint basis. The accounting policies of the joint ventures are consistent with the policies described herein.

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

The following table lists the Company's active joint ventures. All joint ventures operate in Canada.

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

Continuity of Investments in Joint Ventures

$Thousands	Investments in Joint Ventures
Balance as at December 31, 2017	$ 4,096
Net income for the year ended December 31, 2018	6,168
Distributions for the year ended December 31, 2018	(5,808)
Balance as at December 31, 2018	4,456
Net income for the year ended December 31, 2019	1,129
Distributions for the year ended December 31, 2019	(3,937)
Balance as at December 31, 2019	$ 1,648

Summarized Joint Venture Financial Information

This summarized financial information is a reconciliation of the Company's investments in joint ventures to the aggregate of the amounts included in the IFRS financial statements of the joint ventures which include both the Company's and joint venture partners' interests.

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

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

11. Restricted Cash

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

WORKING CAPITAL

12. Financial Instruments

IFRS 9, "Financial Instruments" – Accounting policies

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

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

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

Classification and measurement

(i) Financial assets at amortized cost:

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains (losses), together with foreign exchange gains and losses. As at December 31, 2019, the Company's financial assets in this category include cash and accounts receivable.

(ii) Financial liabilities at amortized cost:

Financial liabilities that are measured at amortized cost are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables and accrued liabilities to fair value. Subsequently, financial liabilities are measured at amortized cost using the effective interest method. As at December 31, 2019, the Company's financial liabilities in this category include accounts payable and accrued liabilities and its operating loan facility.

(iii) Fair value through other comprehensive income ("FVOCI"):

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through Other Comprehensive Income ("OCI"), except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains (losses) and impairment expenses are presented as a separate line item on the statement of profit or loss. As at December 31, 2019, the Company held no financial instruments in this category.

(iv) Fair value through profit or loss ("FVPL"):

Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within other gains (losses) in the period in which it arises.

Financial assets at FVPL are financial assets held for trading. Derivatives are also categorized as held for trading and measured at FVPL unless they are designated as hedges. As at December 31, 2019, the Company held no financial instruments in this category.

Impairment of financial assets

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

Financial Instrument Risk Exposure and Management

The Company is exposed to the following risks associated with its financial instruments:

Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises primarily from the Company's trade and other receivables. The credit risk is managed via the Company's credit-granting procedures which include an evaluation of the customer's financial condition and payment history. In certain circumstances the Company may require customers to make advance payment prior to the provision of services, issue a letter of credit or take other measures to reduce credit risk.

For trade receivables, the Company applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit-risk characteristics and analyzed. Accounts receivable are written-off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Company and a failure to make contractual payments for a period of greater than 180 days past due.

The terms of the Company's contracts generally require payment within 30 days. The Company continuously monitors the recoverability of its accounts receivable balances and subject to agreed payment terms, generally considers the balance to be overdue when it ages over 90 days. In management's judgment there is no significant credit risk exposure in the balances outstanding at:

$Thousands	December 31, 2019	December 31, 2018
Within 30 days	$ 23,566	$ 30,793
31 to 60 days	6,868	9,920
61 to 90 days	1,989	673
Over 90 days	285	1,615
Estimated credit loss	(600)	(268)
Total accounts receivable	$ 32,108	$ 42,733

Significant Estimates and Judgments - Estimated Credit Losses

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company mitigates liquidity risk through management of its working capital balance, monitoring actual and forecasted cash flows and using its operating loan facility when necessary. At December 31, 2019, this risk was limited positive cash flows from operations and by a banking facility sufficient to meet all current liabilities.

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

$Thousands	Less than 1 Year	1-4 Years	Total
US debt - principal	$ 2,945	$ 3,539	$ 6,484
Bank credit facility - principal	6,377	71,158	77,535
	9,322	74,697	84,019
US debt - interest	527	165	692
Bank credit facility - interest	4,096	8,500	12,596
Total	**$ 13,945**	**$ 83,362**	**$ 97,307**

Foreign currency exchange - transaction risk

Foreign currency exchange transaction risk is the risk that future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The Company's geographical divisional operations are primarily denominated in their local currency with limited exposure to foreign currency exchange transaction risk through capital expenditures or financial instruments. From time to time the company may enter into forward currency contracts to manage this risk.

Foreign currency exchange - translation risk

The Company is exposed to foreign currency exchange translation risk as revenues, expenses and working capital from its US operations are denominated in USD. In addition, the Company's foreign subsidiaries are subject to unrealized foreign currency exchange translation gains or losses on consolidation.

Interest rate risk

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

Commodity risk

The Company is exposed to the effects of fluctuating crude oil and natural gas prices through the resultant changes in the exploration and development budgets of its customers.

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities are comprised of the following:

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

13. Change in Non-Cash Working Capital

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

DEBT AND EQUITY

14. Debt

USD Debt

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

Operating Loan Facility

The Company has a syndicated credit agreement with the Company's principal banker as the agent on the syndication and three other national banks in the syndication. The operating loan facility totals $125,000,000 with the term ending in 2023. The interest rate ranges from 50 to 200 basis points over prime interest rates depending on the Funded Debt[(1)] to EBITDA[(1)] ratio. Security for this facility includes all present and after-acquired personal property and a first floating charge over all other present and after-acquired property including real property. The financial covenants are:

1) Funded Debt[(1)] to EBITDA[(1)] Ratio: the Company shall ensure that:
    - (i) for the Fiscal Quarters ending December 31, 2019 and March 31, 2020, the Funded Debt[(1)] to EBITDA[(1)] Ratio shall not be more than 4.00:1.00;
    - (ii) for the Fiscal Quarters ending June 30, 2020 and September 30, 2020, the Funded Debt[(1)] to EBITDA[(1)] Ratio shall not be more than 3.50:1.00;
    - (iii) for the Fiscal Quarter ending December 31, 2020 and each Fiscal Quarter ending thereafter, the Funded Debt[(1)] to EBITDA[(1)] Ratio shall not be more than 3.00:1.00.

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

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

The facility also includes a borrowing base calculation which is the sum of:
- (i) 75% of Eligible Accounts Receivable[(1)]; plus
- (ii) 40% of the net book value of all Eligible Fixed Assets[(1)]; less
- (iii) Priority Payables[(1)] of the Loan Parties.

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

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

Continuity of Debt

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

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

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

15. Capital Management

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

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

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

16. Dividends per Share

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the Company's Board of Directors approves the dividends. The following table provides a history of dividends over the past two years:

Declaration Date	Payment Date	Per Share	Total $Thousands
March, 2018	April, 2018	$ 0.085	$ 1,525
May, 2018	July, 2018	$ 0.085	$ 1,525
August, 2018	October, 2018	$ 0.085	$ 3,367
November, 2018	January, 2019	$ 0.085	$ 3,367
March, 2019	April, 2019	$ 0.085	$ 3,367
May, 2019	**July, 2019**	$ 0.085	$ 3,367

17. Share Capital

Authorized:

- An unlimited number of Series Preferred shares, issuable in series, designated as First Preferred shares, no par value
- An unlimited number of Series Preferred shares, issuable in series, designated as Second Preferred shares, no par value
- An unlimited number of Class A Non-Voting shares, no par value
- An unlimited number of Class B Common shares, no par value

Issued:

- All issued shares are fully paid

The shares outstanding at December 31, 2019 and December 31, 2018 are:

(Number of Shares)	Class A Non-Voting	Class B Common	Total
Shares outstanding	37,954,407	1,653,784	39,608,191

Each Class B Common share may be converted into one Class A Non-Voting share at the shareholder's option.

In the event that an offer to purchase Class B Common shares is made to all or substantially all shareholders of Class B Common shares while at the same time an offer to purchase Class A Non-Voting shares on the same terms and conditions is not made to the shareholders of Class A Non-Voting shares, and shareholders of more than 50% of the Class B Common shares do not reject the offer in accordance with the terms of AKITA's articles of incorporation, then the shareholders of Class A Non-Voting shares will be entitled to exchange each Class A Non-Voting share for one Class B Common share for the purpose of depositing the resulting Class B Common share pursuant to the terms of the takeover bid. The two classes of shares rank equally in all other respects.

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

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

PERSONNEL

18. Share-Based Compensation Plans

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

Stock Options

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

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

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

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

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

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

The following table summarizes outstanding stock options at December 31:

		2019			2018		
Vesting Period (Years)	Exercise Price	Number Outstanding	Remaining Contractual Life (Years)	Number Exercisable	Number Outstanding	Remaining Contractual Life (Years)	Number Exercisable
5	$ 9.87	130,000	0.2	130,000	130,000	1.2	130,000
5	$ 10.32	76,000	1.2	76,000	76,000	2.2	76,000
5	$ 10.86	82,500	2.2	82,500	82,500	3.2	82,500
5	$ 13.81	87,500	3.7	87,500	87,500	4.7	87,500
5	$ 16.02	115,000	4.7	115,000	115,000	5.7	115,000
5	$ 10.28	90,000	5.3	90,000	90,000	6.2	72,000
5	$ 7.13	197,500	6.3	158,000	197,500	7.3	118,000
5	$ 8.26	97,500	7.3	58,500	97,500	8.3	39,000
5	$ 5.62	177,500	8.7	71,000	177,500	9.7	33,500
5	$ 3.93	352,500	9.2	45,500			
Weighted Average Contractual Life			6.0			5.9	

Deferred Share Units

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

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

A summary of the Company's deferred share unit plan is presented below:

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

Share Appreciation Rights

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

Share-based Compensation Expense

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

Share based compensation expense consists of the following:

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

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

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

19. Employee Future Benefits

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

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

The Company has also established an unregistered defined benefit pension plan for certain current and retired employees. The defined benefit pension plan, which provides for pensions based upon the age of the retiree at the date of retirement, is non-contributory and unfunded. The Company obtains an actuarial valuation from an independent actuary subsequent to each year-end or if circumstances change. The most recent evaluation was dated January 10, 2020, and was utilized in measuring the December 31, 2019 balances.

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

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

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

Key Assumptions

	Year Ended	
	December 31, 2019	December 31, 2018
Discount rate at beginning of the year	3.6%	3.3%
Anticipated retirement age of plan members	63 to 67 years	61 to 65 years

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

	Year Ended	
$ Thousands	December 31, 2019	December 31, 2018
Defined benefit pension plan		
Interest cost	$ 173	$ 171
Service cost	37	298
Expense for defined benefit pension plan	210	469
Expense for defined contribution pension plans	3,156	2,477
Total pension expense	$ 3,366	$ 2,946

Significant Estimates and Judgments - Defined Benefit Pension Liability

Significant estimates used in the preparation of AKITA's financial statements relate to the measurement of the non-current defined benefit pension liability for selected current and retired employees that was recorded as $5,208,000 at December 31, 2019 (December 31, 2018 - $4,712,000). AKITA utilizes the services of a third party to assist in the actuarial estimate of the Company's defined benefit pension expense and liability. At December 31, 2019, a key assumption is the discount rate of 3.0% (2018 - 3.6%). From the perspective of a sensitivity analysis, a 1% decrease in the discount rate would result in a $717,000 increase in the defined benefit obligation while a 1% increase in the discount rate would result in a 594,000 decrease in the defined benefit obligation. Additionally, if members' lives should be one year longer than actuarial expectations, the defined benefit obligation would increase by $105,000. Except for the impact on the discount rate used in the pension assumptions, recent changes in the global economy and related markets have not otherwise affected the measurement of the Company's defined benefit pension liability.

OTHER NOTES

20. Commitments and Contingencies

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

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

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

21. Related Party Transactions

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

a) ATCO Group and Spruce Meadows

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

	Year Ended	
$ Thousands	December 31, 2019	December 31, 2018
Revenue (computer services, rent)	$ 84	$ 84
Expenses		
Sponsorship and advertising (Note 20 - Commitments and Contigencies)	$ 365	$ 353
Selling and administrative	$ 53	$ 57
Wellsite trailer rentals	$ 458	$ -

b) Joint ventures and joint venture partners

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

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

c) **Legal fees**

The Company incurred legal fees of $134,000 (2018 - $368,000) during the year for services related to various legal matters with a law firm of which a director of the Company was a partner at December 31, 2019. At December 31, 2019, $21,000 (December 31, 2018 - $5,000) of this amount was included in accounts payable.

d) **Key management compensation**

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

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

22. Business Combination

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

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

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

The total fair market value of each of the Company's CGUs was between 9% and 14% of its book value and therefore management concluded that the net book value of each CGU was consistent with the fair value and allowed for variations in the fair value approximations of $15 to $20 million per CGU.

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

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

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

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

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

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

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

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