AKITA Drilling Ltd.
Consolidated Financial Statements
December 31, 2021 and 2020

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

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

March 10, 2022

Independent auditor's report

To the Shareholders of AKITA Drilling Ltd.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of AKITA Drilling Ltd. and its subsidiaries (together, the Company) as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

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

- the consolidated statements of financial position as at December 31, 2021 and 2020;
- the consolidated statements of net loss and other comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated cash flow statements for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

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

Key audit matters

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

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

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

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

Other information

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

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

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

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

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

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

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

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

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

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
March 10, 2022

Consolidated Statements of Financial Position

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

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

Approved by the Board,

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

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

Consolidated
Statements of Changes in Shareholders' Equity

	Attributable to the Shareholders of the Company						
$ Thousands	Class A Non-Voting Shares	Class B Common Shares	Total Class A and Class B Shares	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total Equity
BALANCE AT DECEMBER 31, 2019	$ 144,898	$ 1,366	$ 146,264	$ 5,015	$ (213)	$ 94,068	$ 245,134
Net loss for the year	-	-	-	-	-	(93,274)	(93,274)
Foreign currency translation adjustment	-	-	-	-	538	-	538
Remeasurement of pension liability	-	-	-	-	(314)	-	(314)
Stock options expense	-	-	-	182	-	-	182
BALANCE AT DECEMBER 31, 2020	$ 144,898	$ 1,366	$ 146,264	$ 5,197	$ 11	$ 794	$ 152,266
Net loss for the year	-	-	-	-	-	(20,990)	(20,990)
Foreign currency translation adjustment	-	-	-	-	(266)	-	(266)
Remeasurement of pension liability	-	-	-	-	220	-	220
Stock options expense	-	-	-	255	-	-	255
BALANCE AT DECEMBER 31, 2021	$ 144,898	$ 1,366	$ 146,264	$ 5,452	$ (35)	$ (20,196)	$ 131,485

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

Consolidated
Statements of Cash Flows

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

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

BUSINESS AND ENVIRONMENT

1. General Information

AKITA Drilling Ltd. and its subsidiaries (the "Company" or "AKITA") provide contract drilling services, primarily to the oil and gas industry, in Canada and the United States ("US"). The Company owns and operates 36 drilling rigs (35.65 net of joint venture ownership).

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

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

2. Basis of Preparation

The consolidated financial statements for the year ended December 31, 2021, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements have been prepared under the historical cost convention, except as specifically stated within these notes.

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

Consolidation

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

Functional and Presentation Currency

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

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

Foreign Currency Translation

(i) Transactions and balances

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

(ii) Group companies

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

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

Estimates and Judgments

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

- Note 4 - Revenue
- Note 7 - Income Taxes
- Note 9 – Right-of-Use Assets
- Note 10 - Property, Plant and Equipment
- Note 12 – Financial Instruments
- Note 19 – Employee Future Benefits

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

RESULTS FOR THE YEAR

3. Net Loss per Share

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

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

	Year Ended	
	December 31 2021	December 31 2020
Net loss ($Thousands)	$ (20,990)	$ (93,274)
Weighted average outstanding shares	39,608,191	39,608,191
Incremental shares for diluted loss calculation [(1)]	-	-
Weighted average outstanding shares for loss per share - diluted	39,608,191	39,608,191
Loss per share - basic	$ (0.53)	$ (2.35)
Loss per share - diluted	$ (0.53)	$ (2.35)

(1) For the year ended December 31, 2021 and the year ended December 31, 2020, the outstanding shares that would have been issued under the Stock Option Plan were excluded in calculating the weighted average number of diluted shares as the Company incurred a net loss during the year and therefore the shares were considered anti-dilutive.

4. Revenue

IFRS 15, "Revenue from Contracts with Customers" – Accounting Policies

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

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

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

Significant Estimates and Judgments – Relative Stand-Alone Selling Price

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

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

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

Significant Customers

During 2021 one customer (2020 – two customers) provided more than 10% of the Company's revenue. While the loss of one or more of these customers may have a material adverse effect on the financial results of the Company, in management's assessment, the future viability of the Company is not dependent upon these major customers.

5. Government Subsidies

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

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

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

6. Expenses by Nature

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

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

7. Income Taxes

Income taxes are comprised of current and deferred income taxes.

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

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

Income taxes are comprised of the following:

$ Thousands	Year Ended December 31 2021	December 31 2020
Current tax recovery	$ -	$ (116)
Deferred tax recovery	(792)	(9,311)
Total income tax recovery	$ (792)	$ (9,427)

The following table reconciles the income tax expense (recovery) using a weighted average Canadian federal and provincial rate of 24.48% (2020 – 25.17%) to the reported tax recovery. The rate decrease is due to changes in the jurisdictions the Company operates in. The reconciling items represent, aside from the impact of tax rate differentials and changes, non-taxable benefits or non-deductible expenses arising from permanent differences between the local tax base and the financial statements.

$ Thousands	Year Ended December 31 2021	December 31 2020
Loss before income taxes	$ (21,782)	$ (102,701)
Expected income tax at the statutory rate	(5,328)	(25,853)
Add (deduct):		
Change in income tax rates	2,331	36
Permanent differences	44	47
Jurisdictional rate difference	361	1,193
Change in unrecognized deferred tax asset	2,001	15,248
Return to provision adjustment	(223)	(40)
Other	22	(58)
Total income tax recovery	$ (792)	$ (9,427)

The deferred tax balance consists of the following:

$ Thousands	Property, plant and equipment	Defined benefit pension plan benefits	Non-capital losses	Other	Total
Balance as at December 31, 2019	$ 41,857	$ (1,286)	$ (23,518)	$ (5,781)	$ 11,272
Charged (credited) to net loss	(8,177)	(37)	2,971	(4,068)	(9,311)
Credited to OCI	-	(102)	-	-	(102)
Balance as at December 31, 2020	33,680	(1,425)	(20,547)	(9,849)	1,859
Charged (credited) to net loss	1,267	16	(2,744)	669	(792)
Credited to OCI	-	71	-	-	71
Balance as at December 31, 2021	$ 34,947	$ (1,338)	$ (23,291)	$ (9,180)	$ 1,138

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

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

Significant Estimates and Judgments - Deferred Income Taxes

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

8. Segmented Information

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

Geographical information is provided below:

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

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

LONG TERM ASSETS

9. Right-of-Use Assets

IFRS 16 “Leases” – Accounting Policies

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

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

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

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

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

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

Continuity of ROU Assets

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

Significant Estimates and Judgments

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

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

10. Property, Plant and Equipment

Accounting Policies

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

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

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

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

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

Significant Estimates and Judgments

Useful Lives of Drilling Rigs

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

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

Future Cash Flows

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

Depreciation Methods

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

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

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

Impairment of Assets

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

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

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

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

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

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

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

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

Property, Plant and Equipment Continuity

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

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

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

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

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

11. Investments in Joint Ventures

The Company conducts certain rig operations via joint ventures with First Nations, Métis or Inuit partners whereby rig assets are jointly owned. Currently, there are eight different First Nations, Métis or Inuit groups with equity investments in six of AKITA's drilling rigs. These equity investments are facilitated through joint venture agreements. Each joint venture operates the drilling rig with the joint venture partners' owning a share of each drilling rig directly. The equity ownership of the drilling rigs for each First Nations, Métis or Inuit partner varies between rigs and groups and ranges from 5% to 50% per group per rig.

While joint venture interests are at least 50% owned by the Company, in each case the joint venture is governed on a joint basis. The accounting policies of the joint ventures are consistent with the policies described herein.

The Company has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method of accounting whereby the Company's share of individual assets and liabilities are recognized as an investment in the joint venture account on the consolidated Statements of Financial Position, and revenues and expenses are recognized as equity income from investments in joint ventures on the consolidated Statements of Net Income and Comprehensive Income.

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

Active joint ventures	AKITA ownership interest
Akita Wood Buffalo Joint Venture 25	85%
Akita Wood Buffalo Joint Venture 26	85%
Akita Wood Buffalo Joint Venture 27	85%
Akita Wood Buffalo Joint Venture 28	70%
Akita Mistiyapew Aski Joint Venture 56	90%
Akita Equtak Joint Venture 61	50%

Continuity of Investments in Joint Ventures

$Thousands		Investments in joint ventures
Balance as at December 31, 2019	$	1,648
Net income for the year ended December 31, 2020		650
Distributions for the year ended December 31, 2020		(1,411)
Balance as at December 31, 2020		887
Net income for the year ended December 31, 2021		**1,981**
Distributions for the year ended December 31, 2021		**(492)**
Balance as at December 31, 2021	**$**	**2,376**

Summarized Joint Venture Financial Information

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

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

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

WORKING CAPITAL

12. Financial Instruments

Accounting policies

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

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

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

Classification and measurement

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

(i) Financial assets at amortized cost:

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains or losses, together with foreign exchange gains and losses. As at December 31, 2021, the Company's financial assets in this category include cash and accounts receivable.

(ii) Financial liabilities at amortized cost:

Financial liabilities that are measured at amortized cost are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables and accrued liabilities to fair value. Subsequently, financial liabilities are measured at amortized cost using the effective interest rate method. As at December 31, 2021, the Company's financial liabilities in this category include accounts payable and accrued liabilities and its operating loan facility.

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

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains or losses and impairment expenses are presented as a separate line item on the statement of profit or loss. As at December 31, 2021, the Company held no financial instruments in this category.

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

Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within other gains or losses in the period in which it arises. Financial assets at FVPL are financial assets held for trading. Derivatives are also categorized as held for trading and measured at FVPL unless they are designated as hedges. As at December 31, 2021, the Company held no financial instruments in this category.

Impairment of financial assets

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

Financial Instrument Risk Exposure and Management

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

Credit risk

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

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

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

$Thousands	December 31 2021	December 31 2020
Within 30 days	$ 22,195	$ 11,934
31 to 60 days	3,747	2,078
61 to 90 days	852	-
Over 90 days	1,109	1,791
Estimated credit loss	(675)	(675)
Total accounts receivable	$ 27,228	$ 15,128

Significant Estimates and Judgments – Estimated Credit Losses

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company mitigates liquidity risk through management of its working capital balance, monitoring actual and forecasted cash flows and using its operating loan facility when necessary. At December 31, 2021, this risk was limited by $7.4 million in a positive working capital balance and $25.0 million available in the Company's undrawn banking facility.

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

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

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

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

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

Foreign currency exchange - transaction risk

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

Foreign currency exchange - translation risk

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

Interest rate risk

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

Commodity risk

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

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities are comprised of the following:

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

13. Change in Non-Cash Working Capital

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

DEBT AND EQUITY

14. Debt

Operating Loan Facility

The Company has a syndicated credit agreement with the Company's principal banker as the agent on the syndication and three other Canadian banks in the syndication. The operating loan facility totals $110,000,000 with the term ending in 2023. The credit agreement was amended on July 17, 2020, to include a covenant relief period that extended to June 30, 2021. The facility has been further amended to add additional quarters of covenant relief, to June 30, 2023. The interest rate during the covenant relief period ranges from 225 to 350 basis points over prime interest rates depending on the Funded Debt(1) to Tangible Net Worth(1) Ratio until September 2022 at which time it reverts to a Funded Debt(1) to EBITDA(1) Ratio. Security for this facility includes all present and after-acquired personal property and a first floating charge over all other present and after-acquired property including real property. The financial covenants are:

1. The Funded Debt(1) to Tangible Net Worth(1) Ratio: the Company shall ensure that for the fiscal quarters ended December 31, 2021 to June 30, 2022, the Funded Debt(1) to Tangible Net Worth(1) Ratio shall not be more than 0.75:1.00. For the fiscal quarters ended September 30, 2022 and beyond, the Funded Debt(1) to Tangible Net Worth(1) reverts back to a Funded Debt(1) to EBITDA(1) Ratio at the following levels:
   - (i) 5.00:1.00 as at the Fiscal Quarter ending September 30, 2022;
   - (ii) 4.50:1.00 as at the Fiscal Quarter ending December 31, 2022;
   - (iii) 4.00:1.00 as at the Fiscal Quarter ending March 31, 2023; and
   - (iv) 3.50:1.00 as at the Fiscal Quarter ending June 30, 2023.

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

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

   (i) For the fiscal quarter ended December 31, 2021, the EBITDA[(1)] to Interest Expense[(1)] Ratio shall not be less than 2.00:1.00;
   (ii) For the fiscal quarter ended March 31, 2022, the EBITDA[(1)] to Interest Expense[(1)] Ratio shall not be less than 2.50:1.00;
   (iii) For the fiscal quarter ended June 30, 2022, the EBITDA[(1)] to Interest Expense[(1)] Ratio shall not be less than 2.75:1.00; and
   (iv) For the fiscal quarter ended September 30, 2022 and beyond, the EBITDA[(1)] to Interest Expense[(1)] Ratio shall not be less than 3.00:1.00.

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

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

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

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

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

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

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

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

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

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(1) Readers should be aware that EBITDA, Funded Debt, Interest Expense, Tangible Net Worth, Eligible Accounts Receivable, Priority Payables and Eligible Rig Assets have specifically set out definitions in the loan facility agreement and are not necessarily defined by or consistent with either GAAP or determinations by other users for other purposes.

Continuity of Debt

$Thousands		Debt
Balance as at December 31, 2020	$	74,303
Drawn on credit facility		16,590
Repayment of debt		(4,873)
Net deferred loan fees		136
Balance as at December 31, 2021	**$**	**86,156**

Current portion	$	1,717
Long-term portion		84,439
Balance as at December 31, 2021	**$**	**86,156**

15. Lease Obligations

IFRS 16 "Leases" – Accounting Policies

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

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

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

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

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. The discount rates range from 5.01% to 6.06%.

Lease Obligations

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

Continuity of Lease Obligations

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

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

16. Capital Management

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

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

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

17. Share Capital

Authorized:

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

Issued:

- All issued shares are fully paid

The shares outstanding at December 31, 2021 and December 31, 2020 are:

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

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

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

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

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

The Class A Non-Voting shares and Class B Common shares rank equally in all other respects.

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

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

PERSONNEL

18. Share-Based Compensation Plans

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

Stock Options

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

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

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

Number of options	December 31 2021	December 31 2020
Reserved under the current stock option plan	3,100,000	3,100,000
Balance at beginning of year	855,500	292,000
Expired	-	172,500
Cancelled	-	746,000
Granted	(490,000)	(355,000)
Available for future issuance	365,500	855,500

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

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

The following table summarizes outstanding stock options at December 31:

		2021			2020		
Vesting period (years)	Exercise price	Number outstanding	Remaining contractual life (years)	Number exercisable	Number outstanding	Remaining contractual life (years)	Number exercisable
5	$ 5.62	162,500	6.7	97,500	162,500	7.7	97,500
5	$ 3.93	327,500	7.2	81,000	327,500	8.2	81,000
5	$ 0.44	352,500	6.5	70,500	352,500	7.5	70,500
5	$ 1.01	490,000	7.3	98,980			
Weighted average contractual life			7.0			7.8	

Deferred Share Units

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

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

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

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

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

Share Appreciation Rights

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

Share-based Compensation Expense

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

Share-based compensation expense (recovery) consists of the following:

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

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

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

19. Employee Future Benefits

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

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

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

The Company has established an unregistered defined benefit pension plan for certain current and retired employees. The defined benefit pension plan, which provides for pensions based upon the age of the retiree at the date of retirement, is non-contributory and unfunded. The Company obtains an actuarial valuation from an independent actuary subsequent to each year-end or if circumstances change. The most recent evaluation was dated January 12, 2022, and was utilized in measuring the December 31, 2021 balances.

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

Continuity of Defined Benefit Pension Liability

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

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

Key Assumptions

	Year Ended	
	December 31 2021	December 31 2020
Discount rate at beginning of the year	2.3%	3.0%
Anticipated retirement age of plan members	66 years	65 to 67 years

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

$ Thousands	Year Ended December 31 2021		December 31 2020	
Defined benefit pension plan				
Interest cost	$	132	$	158
Service cost		21		19
Expense for defined benefit pension plan		153		177
Expense for defined contribution pension plans		1,664		1,893
Total expense	$	1,817	$	2,070

Significant Estimates and Judgments - Defined Benefit Pension Liability

Significant estimates used in the preparation of AKITA's financial statements relate to the measurement of the non-current defined benefit pension liability for selected current and retired employees that was recorded as $5,188,000 at December 31, 2021 (December 31, 2020 - $5,710,000). AKITA utilizes the services of a third party to assist in the actuarial estimate of the Company's defined benefit pension expense and liability. At December 31, 2021, a key assumption is the discount rate of 2.9% (2020 - 2.3%). From the perspective of a sensitivity analysis, a 1% decrease in the discount rate would result in a $701,000 increase in the defined benefit obligation while a 1% increase in the discount rate would result in a $581,000 decrease in the defined benefit obligation. Additionally, if members' lives should be one year longer than actuarial expectations, the defined benefit obligation would increase by $109,000. Except for the impact on the discount rate used in the pension assumptions, recent changes in the global economy and related markets have not otherwise affected the measurement of the Company's defined benefit pension liability.

OTHER NOTES

20. Commitments and Contingencies

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

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

At December 31, 2021, the Company had capital expenditure commitments of $1,743,000 (2020 - $422,000).

21. Related Party Transactions

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

a) ATCO Group and Spruce Meadows

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

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

b) Joint ventures and joint venture partners

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

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

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

c) Key management compensation

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

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