



AKITA announces second quarter results and repayment of \$17 million of debt in the quarter

CALGARY, AB, July 30, 2024 /CNW/ - **AKITA Drilling Ltd.** (TSX: AKT.A)

AKITA Drilling Ltd. ("AKITA" or the "Company") announces results for the six months ended June 30, 2024.

During the second quarter of 2024, the Company repaid \$17,000,000 in debt, decreasing its outstanding debt balance from \$70,000,000 to \$53,000,000 and bringing the total debt reduction in the past six quarters to \$41,000,000. The Company's net income decreased to a loss of \$478,000 in the second quarter of 2024 from earnings of \$6,177,000 during the same period of 2023. The slowed demand for drilling services in the US was the key driver of lower results for the Company in the second quarter of 2024. Additionally, the Company received \$2,000,000 in Employee Retention Credits from the IRS in the second quarter of 2023, which did not reoccur in 2024. The slowdown in the US was partially offset by an increase in the adjusted operating margin from Canada, which increased by 19% in the second quarter of 2024 when compared to the second quarter of 2023.

Net cash from operations decreased to \$10,913,000 for the three months ended June 30, 2024, compared to \$16,150,000 in the same period of 2023, due to lower results in the quarter, partially offset by a larger release of working capital in the second quarter of 2024 compared to the same period of 2023. In Canada, the Company operated 9 rigs in the second quarter of 2024 (Q2 2023 – 9 rigs) and 8 rigs in the US (Q2 2023 – 14 rigs). The Company spent \$7,126,000 on routine capital items in the second quarter of 2024, up from \$4,700,000 over the same period in 2023.

Colin Dease, AKITA's Chief Executive Officer stated: "with \$17 million of debt repaid in the quarter and activity looking to improve on both sides of the border, we are anticipating a strong second half of 2024."

CONSOLIDATED FINANCIAL HIGHLIGHTS

\$Thousands except per share amounts	For the three months ended June 30,				For the six months ended June 30,			
	2024	2023	Change	% Change	2024	2023	Change	% Change
Revenue	38,336	58,349	(20,013)	(34 %)	84,641	123,349	(38,708)	(31 %)
Operating and maintenance expenses	29,806	41,988	(12,182)	(29 %)	63,317	87,414	(24,097)	(28 %)
Operating margin	8,530	16,361	(7,831)	(48 %)	21,324	35,935	(14,611)	(41 %)
Margin %	22 %	28 %	(6 %)	(21 %)	25 %	29 %	(4 %)	(14 %)
Net cash from operating activities	10,913	16,150	(5,237)	(32 %)	17,861	15,736	2,125	14 %
Adjusted funds flow from operations ⁽¹⁾	6,387	12,620	(6,233)	(49 %)	17,647	27,779	(10,132)	(36 %)
Per share	0.16	0.32	(0.16)	(50 %)	0.44	0.70	(0.26)	(37 %)
Net income (loss)	(478)	6,177	(6,655)	(108 %)	2,149	15,699	(13,550)	(86 %)
Per share	(0.01)	0.16	(0.17)	(106 %)	0.05	0.40	(0.35)	(88 %)
Capital expenditures	7,126	4,700	2,426	52 %	11,061	7,204	3,857	54 %
Weighted average shares outstanding	39,734	39,650	84	0 %	39,725	39,650	75	0 %

Total assets	242,353	266,330	(23,977)	(9 %)	242,353	266,330	(23,977)	(9 %)
Total debt	52,404	79,670	(27,266)	(34 %)	52,404	79,670	(27,266)	(34 %)

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

Canadian Drilling Division

\$Thousands except per day amounts	For the three months ended June 30,				For the six months ended June 30,			
	2024	2023	Change	% Change	2024	2023	Change	% Change
Revenue Canada	9,820	9,706	114	1 %	25,369	29,133	(3,764)	(13 %)
Revenue from joint venture drilling rigs	9,631	9,161	470	5 %	22,148	16,943	5,205	31 %
Flow through charges ⁽¹⁾	(1,055)	(1,180)	125	11 %	(1,684)	(2,009)	325	16 %
Adjusted revenue Canada⁽¹⁾	18,396	17,687	709	4 %	45,833	44,067	1,766	4 %
Operating and maintenance expenses Canada	8,166	8,323	(157)	(2 %)	18,479	22,395	(3,916)	(17 %)
Operating and maintenance expenses from joint venture drilling rigs	6,907	6,880	27	0 %	15,261	12,374	2,887	23 %
Flow through charges ⁽¹⁾	(1,055)	(1,180)	125	11 %	(1,684)	(2,009)	325	16 %
Adjusted operating and maintenance expenses Canada⁽¹⁾	14,018	14,023	(5)	(0 %)	32,056	32,760	(704)	(2 %)
Adjusted operating margin Canada⁽¹⁾	4,378	3,664	714	19 %	13,777	11,307	2,470	22 %
Margin % ⁽¹⁾	24 %	21 %	3 %	14 %	30 %	26 %	4 %	15 %
Operating days	473	471	2	0 %	1,122	1,191	(69)	(6 %)
Adjusted revenue per operating day ⁽¹⁾	38,892	37,552	1,340	4 %	40,849	37,000	3,849	10 %
Adjusted operating and maintenance expenses per operating day ⁽¹⁾	29,636	29,773	(137)	(0 %)	28,570	27,506	1,064	4 %
Adjusted operating margin per operating day ⁽¹⁾	9,256	7,779	1,477	19 %	12,279	9,494	2,785	29 %
Utilization ⁽¹⁾	31 %	26 %	5 %	19 %	36 %	33 %	3 %	9 %
Rig count	17	20	(3)	(15 %)	17	20	(3)	(15 %)

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

During the second quarter of 2024, AKITA's adjusted operating margin improved to \$4,378,000 compared to \$3,664,000 in the same quarter of 2023. This increase was driven by higher average day rates in the quarter with higher margin rigs achieving more operating days as well as higher day rates across the fleet. AKITA's utilization over the second quarter of 2024 was 31% comparable to the industry average over the same period.

Adjusted revenue in Canada increased to \$18,396,000 in the second quarter of 2024 from \$17,687,000 in the second quarter of 2023 despite comparable number of operating days between the two quarters. Revenue per day increased to \$38,892 in the second quarter of 2024 from \$37,552 in the same period of 2023. Improved day rates are the key driver of the increased revenue.

Higher revenue in the quarter was not offset by higher adjusted operating and maintenance expenses which remained relatively flat quarter over quarter with \$14,018,000 in the second quarter of 2024 compared to \$14,023,000 in the second quarter of 2023. Increased revenue and flat costs resulted in a 19% increase in the Canadian divisions adjusted operating margin.

United States Drilling Division

\$Thousands except per day amounts	For the three months ended June 30,				For the six months ended June 30,			
	2024	2023	Change	% Change	2024	2023	Change	% Change
Revenue US	28,516	48,643	(20,127)	(41 %)	59,272	94,216	(34,944)	(37 %)
Flow through charges ⁽¹⁾	(3,583)	(4,499)	916	20 %	(7,342)	(9,073)	1,731	19 %
Adjusted revenue US⁽¹⁾	24,933	44,144	(19,211)	(44 %)	51,930	85,143	(33,213)	(39 %)
Operating and maintenance expenses US	21,640	33,664	(12,024)	(36 %)	44,837	65,019	(20,182)	(31 %)

Flow through charges ⁽¹⁾	(3,583)	(4,499)	916	20 %	(7,342)	(9,073)	1,731	19 %
Adjusted operating and maintenance expenses US⁽¹⁾	18,057	29,165	(11,108)	(38 %)	37,495	55,946	(18,451)	(33 %)
Adjusted operating margin US⁽¹⁾	6,876	14,979	(8,103)	(54 %)	14,435	29,197	(14,762)	(51 %)
Margin % ⁽¹⁾	28 %	34 %	(6 %)	(18 %)	28 %	34 %	(6 %)	(18 %)
Operating days	623	1,090	(467)	(43 %)	1,342	2,133	(791)	(37 %)
Adjusted revenue per operating day ⁽¹⁾	40,021	40,499	(478)	(1 %)	38,696	39,917	(1,221)	(3 %)
Adjusted operating and maintenance expenses per operating day ⁽¹⁾	28,984	26,757	2,227	8 %	27,940	26,229	1,711	7 %
Adjusted operating margin per operating day ⁽¹⁾	11,037	13,742	(2,705)	(20 %)	10,756	13,688	(2,932)	(21 %)
Utilization ⁽¹⁾	46 %	80 %	(34 %)	(43 %)	49 %	79 %	(30 %)	(38 %)
Rig count	15	15	-	0 %	15	15	-	0 %

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

The decrease in the active rig count in the US continued to impact the Company in the second quarter of 2024. Activity decreased to 623 operating days in the second quarter of 2024, from 1,090 operating days in the second quarter of 2023. This decrease in activity also impacted the Company's day rates as the pricing pressure affecting the industry also affected AKITA.

Adjusted operating margin decreased to \$6,876,000 in the second quarter of 2024 from \$14,979,000 in the same period of 2023. The primary cause of this decrease was the reduction in activity between the two quarters, with AKITA's active rig count falling to an average of 8 rigs in the second quarter of 2024 from 14 rigs in the second quarter of 2023. The Company's 43% decrease in active rigs between the second quarter of 2023 and the second quarter of 2024 was more pronounced than the 27% decrease in the industry average rig count for the same period, however the industry rig count began to decline starting in the first quarter of 2023, while AKITA did not begin to see a decline until the third quarter of 2023. Also contributing to the decrease in adjusted operating margin was an increase in adjusted operating and maintenance expenses per operating day, which increased 8%, as well as a 1% decrease in adjusted revenue per operating day.

Adjusted operating expense per operating day increased to \$28,948 per day in the second quarter of 2024 from \$26,757 in the second quarter of 2023. In the second quarter of 2023 the Company received \$2,000,000 in Employee Retention Credits ("ERC") from the IRS, which reduced operating and maintenance costs. Adjusting for the ERC payment, operating costs per operating day only increased 1% quarter over quarter despite increasing costs throughout the industry.

FURTHER INFORMATION

This news release shall be used as preparation for reading the full disclosure documents. AKITA's unaudited interim condensed consolidated financial statements and management's discussion and analysis for the quarter ended June 30 2024 will be available on the AKITA website (www.akita-drilling.com) or via SEDAR+ (sedarplus.ca) or can be requested in print from the Company.

Non-GAAP and Supplementary Financial Measures

Non-GAAP Financial Measures

Adjusted Revenue and Adjusted Operating and Maintenance Expenses

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

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

Adjusted Funds Flow from Operations

Adjusted funds flow from operations is not a recognized GAAP measure under IFRS and readers should note that AKITA's method of determining adjusted funds flow from operations may differ from methods used by other companies, and includes cash flow from operating activities before working capital changes, equity income from joint ventures, and income tax amounts paid or recovered during the period. Nonetheless, management and certain investors may find adjusted funds flow from operations to be a useful measurement to evaluate the Company's operating results at year-end and within each year, since the seasonal nature of the business affects the comparability of non-cash working capital changes both between and within periods.

\$Thousands	For the three months ended June 30,		For the six months ended June 30,	
	2024	2023	2024	2023
Net cash from operating activities	10,913	16,150	17,861	15,736
Interest paid	1,175	1,531	2,385	3,709
Interest expense	(1,224)	(1,584)	(2,483)	(3,815)
Post-employment benefits paid	79	79	158	165
Equity income from joint ventures	2,632	2,150	6,675	4,334
Change in non-cash working capital	(7,188)	(5,706)	(6,949)	7,650
Adjusted funds flow from operations	6,387	12,620	17,647	27,779

Non-GAAP Ratios

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

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

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

FORWARD-LOOKING INFORMATION:

Certain statements contained in this news release may constitute forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as "anticipate", "plan", "estimate", "expect", "may", "will", "intend", "should", and similar expressions. In particular, forward-looking information in this news release includes, but is not limited to, references to the outlook for the drilling industry (including activity levels and day rates), the Company's relationships and customers and vendors, advantages associated with the percentage of pad drilling rigs in the Company's Canadian drilling fleet, the renewal of drilling contracts, and debt repayment.

Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information.

Although the Company believes that the expectations reflected in the forward-looking information are reasonable based on the information available on the date such statements are made and processes used to prepare the information, such statements are not guarantees of future performance and no assurance can be given that these expectations will prove to be correct. By their nature, these forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, and therefore carry the risk that the predictions and other forward-looking statements will not be realized. Readers of this news release are cautioned not to place undue reliance on these statements as a number of important factors could cause actual future results to differ materially from the plans, objectives, estimates and intentions expressed in such forward-looking statements.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of, among other things, prevailing economic conditions; the level of exploration and development activity carried on by AKITA's customers, world crude oil prices and North American natural gas prices; global liquefied natural gas (LNG) demand, weather, access to capital markets; and government policies. We caution that the foregoing list of factors is not exhaustive and that while relying on forward-looking statements to make decisions with respect to AKITA, investors and others should carefully consider the foregoing factors, as well as other uncertainties and events, prior to making a decision to invest in AKITA. Except where required by law, the Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by it or on its behalf

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