Management's Discussion and Analysis

Management's discussion and analysis ("MD&A") for AKITA Drilling Ltd. and its subsidiaries (collectively referred to as "AKITA" or the "Company") should be read in conjunction with the unaudited interim condensed consolidated financial statements ("interim financial statements") for the nine months ended September 30, 2023 and the audited consolidated financial statements and MD&A for the year ended December 31, 2022.

References made to 2022 in this MD&A relate to the period from January 1 to September 30, unless otherwise stated. The information in this MD&A was approved by AKITA's Audit Committee on behalf of its Board of Directors on October 30, 2023, and incorporates all relevant considerations to that date.

Management has prepared this MD&A as well as the accompanying interim financial statements and notes thereof. All financial information is presented in Canadian Dollars ("CAD").

Introduction

AKITA is a premier Canadian oil and gas drilling contractor with a fleet of 35 drilling rigs. AKITA provides contract drilling services through two geographical segments: Canada and the United States ("US"). With a fleet of 20 rigs, AKITA's Canadian division operates in Alberta, British Columbia, Saskatchewan, and from time to time, in the Yukon and the Northwest Territories. The Canadian division operates both wholly-owned rigs and rigs that are partially owned by AKITA and First Nations, Metis or Inuit joint venture partners including Akita Mistiyapew Aski Drilling Ltd., a joint venture between AKITA and Saulteau First Nations, Akita Equtak Drilling Ltd., a joint venture between AKITA and the Inuvialuit Development Corporation, and Akita Wood Buffalo Drilling Ltd., a joint venture between AKITA and Chipewyan Prairie First Nation, Fort McMurray 468 First Nation, Fort McKay Metis Nation, Fort Chipewyan Metis Local 125, and Conklin Metis Local 193. Each joint venture has defined geographical boundaries and an equity interest in select AKITA rigs. Together AKITA's First Nation, Metis and Inuit joint venture partners hold equity interests in six of AKITA's Canadian drilling rigs. AKITA's US division conducts operations with a fleet of 15 rigs, currently operating in Texas and New Mexico in the Permian Basin.

With a focus on the efficient provision of drilling services, rigorous crew training, rig maintenance, safety processes and its First Nation, Metis and Inuvialuit joint venture relationships, AKITA strives to ensure it is well positioned to meet the demanding requirements of global operators while remaining flexible enough to tailor its services to custom operator requests. In 2023, AKITA closed its operational office in Evans, Colorado and consolidated its US division operations to the Permian Basin. AKITA's Canadian division primarily operates in the oil sands and heavy oil regions with a view to expanding its presence in the Montney deep gas basin while continuing to play a central role in drilling potash and in achieving energy transition targets, including carbon capture wells, hydrogen storage wells and geothermal wells.

Financial Highlights

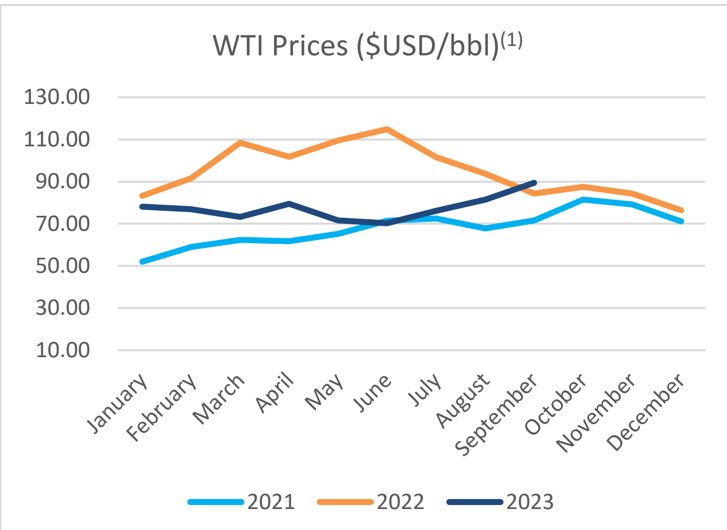
($Thousands except per share amounts)	For the three months ended September 30,				For the nine months ended September 30,			
	2023	2022	Change	% Change	2023	2022	Change	% Change
Revenue	54,813	53,526	1,287	2%	178,162	141,471	36,691	26%
Operating and maintenance expenses	41,387	40,755	632	2%	128,801	111,218	17,583	16%
Operating margin	13,426	12,771	655	5%	49,361	30,253	19,108	63%
Margin %	24%	24%	0%	0%	28%	21%	7%	33%
Net cash from operating activities	2,308	3,727	(1,419)	(38%)	18,044	10,163	7,881	78%
Adjusted funds flow from operations(1)	10,566	8,957	1,609	18%	38,346	18,669	19,677	105%
Per share	0.27	0.23	0.04	17%	0.97	0.47	0.50	106%
Net income (loss)	3,880	2,660	1,220	46%	19,580	(4,525)	24,105	533%
Per share	0.10	0.07	0.03	43%	0.49	(0.11)	0.60	545%
Capital expenditures	4,566	3,020	1,546	51%	11,770	13,065	(1,295)	(10%)
Weighted average shares outstanding	39,650	39,624	26	0%	39,650	39,614	36	0%
Total assets	267,061	262,576	4,485	2%	267,061	262,576	4,485	2%
Total debt	79,223	94,436	(15,213)	(16%)	79,223	94,436	(15,213)	(16%)

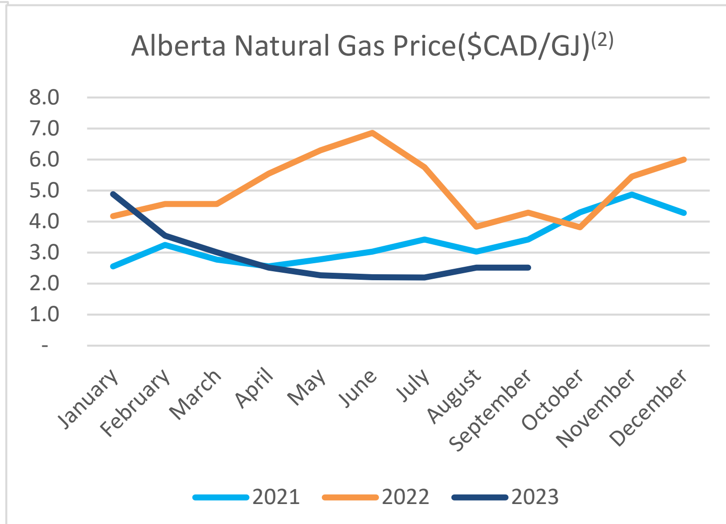
(1) See "Non-GAAP and Supplementary Financial Measures" near the end of this MD&A for further detail.

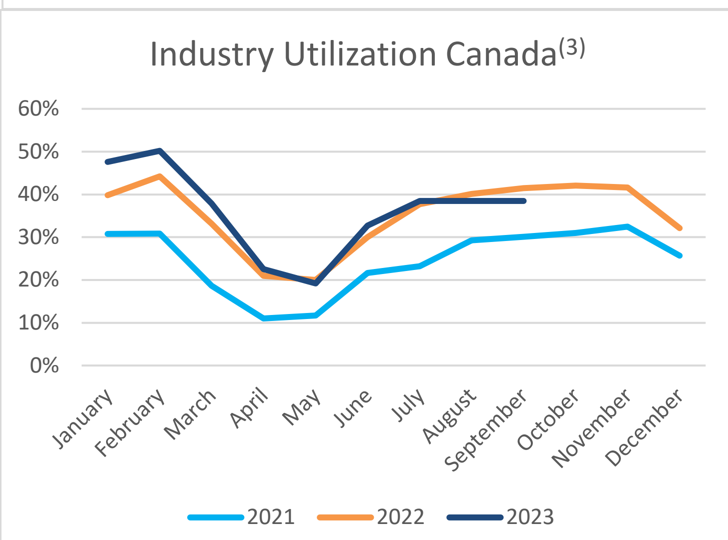
General Overview

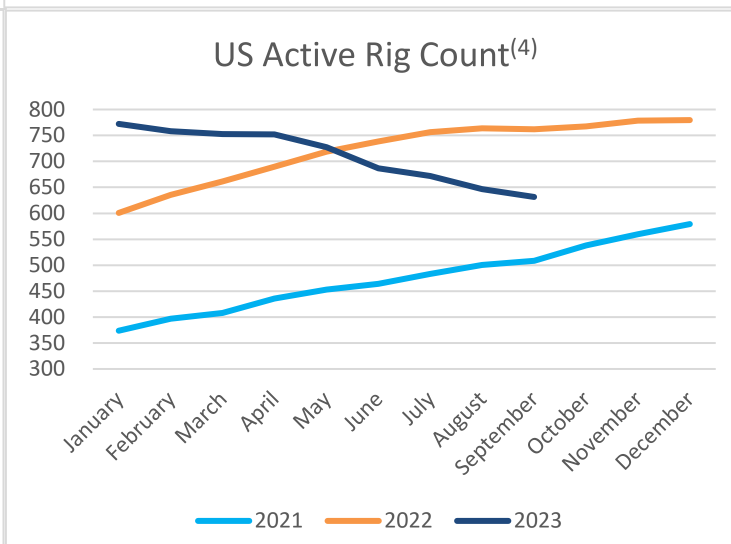
The Company's net income improved to $3,880,000 in the third quarter of 2023 from $2,660,000 in the same period of 2022. The third quarter of 2023 is the fifth consecutive quarter of positive earnings for the Company, marks the return of positive retained earnings for the Company, which is now at $3,672,000, and brings the company out of the deficit position it has been in since the first quarter of 2021. Despite stronger results in the quarter, activity decreased to 1,491 operating days (583 days in Canada and 908 days in the US) in the third quarter of 2023 from 1,676 operating days (644 days in Canada and 1,032 days in the US) in the same period of 2022. This decrease in activity quarter over quarter was offset by the higher day rates that produced strong results in the first half of the year. Adjusted funds flow from operations increased to $10,566,000 in the third quarter of 2023, from $8,957,000 in the third quarter of 2022, and was also driven by improved rates. Net cash from operations decreased to $2,308,000 for the three months ended September 30, 2023, compared to $3,727,000 in the same period of 2022, as the Company's change in non-cash working capital was negative $5,872,000 compared to negative $3,448,000 in the same period of 2022. Total debt decreased to $79,223,000 at the end of the third quarter of 2023 from $94,436,000 of debt at the same time in 2022.

Industry Overview









(1) Source: U.S. Energy Information Administration
(2) Source: Natural Gas Exchange
(3) Source: Canadian Association Of Energy Contractors ("CAOEC")
(4) Source: Baker Hughes North American Rotary Rig Count

Oil and gas drilling activity is cyclical and is affected by numerous factors, most importantly world crude oil prices, North American natural gas prices and international LNG (liquified natural gas) pricing. Crude oil prices, which have seen significant volatility in 2023, have improved substantially since June of this year, increasing from $70.25 in June to $89.43 at the end of September. Typically, such an increase will translate into increased activity for drilling contractors. Natural gas prices did not follow the same trend as crude oil, however, and natural gas prices continue to lag behind 2021 and 2022 pricing levels.

In the US, the active rig count began to decline at the end of 2022 and this decline accelerated in April of 2023. The rig count has continued to weaken since then, dropping from 779 active rigs at the end of 2022, to 623 active rigs at the end of September 2023. This decline has continued despite strengthening crude oil prices and is partially attributable to the continued weak market for natural gas. This in turn impacted drilling, along with certain operators pausing their drilling programs when crude prices were dropping which have not restarted. The number of available drilling rigs in the US market has put pressure on pricing for drilling rigs that may continue to deteriorate until the rig count begins to recover.

In Canada, the recovery in the industry that appeared to begin in 2021, has failed to materialize in any significant manner. Both pricing and demand in the Canadian market, despite strong potential, remain challenged. Industry utilization, which started the year trending above 2022, is now slightly lower than 2022. Similar to the United States, operators began to pause drilling programs as crude and natural gas prices fell and activity levels have not yet fully recovered.

Results by Geographic Segment

Canada

$Thousands except per day amounts	For the three months ended September 30, 2023	2022	Change	% Change	For the nine months ended September 30, 2023	2022	Change	% Change
Revenue Canada	15,104	12,988	2,116	16%	44,237	40,593	3,644	9%
Revenue from joint venture drilling rigs	11,099	8,458	2,641	31%	27,990	19,412	8,578	44%
Flow through charges[1]	(3,117)	(1,447)	(1,670)	(115%)	(5,126)	(3,088)	(2,038)	(66%)
Adjusted revenue Canada[1]	23,086	19,999	3,087	15%	67,101	56,917	10,184	18%
Operating and maintenance expenses Canada	10,226	10,064	162	2%	32,621	30,993	1,628	5%
Operating and maintenance expenses from joint venture drilling rigs	8,641	6,647	1,994	30%	21,015	15,165	5,850	39%
Flow through charges[1]	(3,117)	(1,447)	(1,670)	(115%)	(5,126)	(3,088)	(2,038)	(66%)
Adjusted operating and maintenance expenses Canada[1]	15,750	15,264	486	3%	48,510	43,070	5,440	13%
Adjusted operating margin Canada[1]	7,336	4,735	2,601	55%	18,591	13,847	4,744	34%
Margin %[1]	32%	24%	8%	33%	28%	24%	4%	17%
Operating days	583	644	(61)	(9%)	1,774	1,935	(161)	(8%)
Adjusted revenue per operating day[1]	39,599	31,054	8,545	28%	37,825	29,414	8,411	29%
Adjusted operating and maintenance expenses per operating day[1]	27,015	23,702	3,313	14%	27,345	22,258	5,087	23%
Adjusted operating margin per operating day[1]	12,584	7,352	5,232	71%	10,480	7,156	3,324	46%
Utilization[1]	32%	35%	(3%)	(9%)	32%	35%	(3%)	(9%)
Rig count	20	20	-	0%	20	20	-	0%

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

Third Quarter

During the third quarter of 2023, AKITA achieved 583 operating days in Canada, which corresponds to a utilization rate of 32%, compared to 35% (644 days) in the third quarter of 2022 and compared to an industry average of 38% in the third quarter of 2023. The decrease in activity for AKITA was a result of a lull in the demand for the Company's oil sands rigs, as programs ended during the quarter and the effect of one of the Company's customers being acquired. This decrease in activity for the Company was mitigated by increased day rates which resulted in the adjusted operating margin in Canada increasing to $7,336,000 in the third quarter of 2023, from $4,735,000 in the same period of 2022.

Adjusted revenue per operating day was the key driver for improved results in Canada in the quarter, increasing by 28% to $39,599 in the third quarter of 2023 from $31,054 during the same period in 2022. Corresponding to this increase in revenue per day is a 14% increase in adjusted operating and maintenance expenses per day between the third quarter of 2022 and 2023. Together, these two factors resulted in a 71% increase in adjusted operating margin per operating day, increasing to $12,584 per day in the third quarter of 2023, up from $7,352 in the same period of 2022.

Included in the Canadian operating results is AKITA's share of revenue and costs from its joint venture drilling rigs, as AKITA provides the same drilling services through its joint venture drilling rigs as it does with its wholly-owned drilling rigs.

Year-to-Date

During the first nine months of 2023, adjusted revenue in Canada increased to $67,101,000 from $56,917,000 over the first nine months of 2022, an 18% increase tied to higher day rates that improved in the second half of 2022. There was a corresponding increase in adjusted operating and maintenance expenses which were up 13% in the first nine months of 2023 compared to the same period in 2022. The improved results in the first nine months of 2023 when compared with the same period of 2022 were driven by increased day rates as activity fell between the two periods, primarily in the second and third quarters.

United States

$Thousands except per day amounts	For the three months ended September 30, 2023	2022	Change	% Change	For the nine months ended September 30, 2023	2022	Change	% Change
Revenue US	39,709	40,537	(828)	(2%)	133,925	100,878	33,047	33%
Flow through charges[1]	(4,355)	(4,215)	(140)	(3%)	(13,427)	(9,536)	(3,891)	(41%)
Adjusted revenue US[1]	35,354	36,322	(968)	(3%)	120,498	91,342	29,156	32%
Operating and maintenance expenses US	31,161	30,691	470	2%	96,180	80,225	15,955	20%
Flow through charges[1]	(4,355)	(4,215)	(140)	(3%)	(13,427)	(9,536)	(3,891)	(41%)
Adjusted operating and maintenance expenses US[1]	26,806	26,476	330	1%	82,753	70,689	12,064	17%
Adjusted operating margin US[1]	8,548	9,846	(1,298)	(13%)	37,745	20,653	17,092	83%
Margin %[1]	24%	27%	(3%)	(11%)	31%	23%	8%	35%
Operating days	908	1,032	(124)	(12%)	3,041	3,042	(1)	(0%)
Adjusted revenue per operating day[1]	38,936	35,196	3,740	11%	39,624	30,027	9,597	32%
Adjusted operating and maintenance expenses per operating day[1]	29,522	25,655	3,867	15%	27,212	23,238	3,974	17%
Adjusted operating margin per operating day[1]	9,414	9,541	(127)	(1%)	12,412	6,789	5,623	83%
Utilization[1]	66%	70%	(4%)	(6%)	74%	70%	4%	6%
Rig count	15	16	(1)	(6%)	15	16	(1)	(6%)

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

Third Quarter

Results in the Company’s US operating segment declined in the third quarter of 2023 when compared to the same period of 2022. Activity decreased 12% in the third quarter of 2023 to 908 operating days compared to 1,032 in the third quarter of 2022. This reduction in activity for the Company, combined with a slight reduction in adjusted operating margin per day of $127, resulted in a decrease in the adjusted operating margin in the US to $8,548,000 in the third quarter of 2023, down from $9,846,000 in the third quarter of 2022. Although this decrease does not appear significant when comparing the third quarter of 2023 to the third quarter of 2022, the decrease is more significant when comparing the third quarter of 2023 to the second quarter of 2023. In the second quarter of 2023, the Company’s adjusted operating margin per operating day was $13,742, a 31% decrease between quarters, which was a result of adjusted revenue per operating day decreasing 4% as some higher margin contracts ended in the quarter and adjusted operating and maintenance expenses per day increasing 3% between the two quarters due to increased maintenance costs. At the end of the third quarter, AKITA’s US division was operating eight rigs, down from 14 at the start of the quarter.

Year-to-Date

During the first nine months of 2023, adjusted operating margin increased to $37,745,000 from $20,653,000 in the same period in 2022. Higher day rates contributed the most to the higher adjusted operating margin as operating days stayed the same. Adjusted margin per operating day increased 83% in the first nine months of 2023, compared to the first nine months of 2022. Day rate increases drove the higher adjusted margin per operating day as there was not a correspondingly significant increase in adjusted operating maintenance costs.

During the first quarter of 2023, the Company disposed of certain components, including the centre section of one of its idle US rigs, decreasing the Company's total US rig count to 15 rigs.

Future Outlook and Strategy

The drilling industry is cyclical and certain key factors that impact AKITA's results are beyond management's control. Like other drilling contractors, AKITA is exposed to the effects of fluctuating oil and gas prices and changes in the exploration and development budgets of its customers. The outlook for the drilling industry has improved significantly over the past year but is now facing a degree of headwind in both Canada and the US with declining natural gas prices and volatile oil prices.

Activity levels in Canada in the first nine months of 2023 were in line with 2022 and on par with pre-pandemic activity levels in the first quarter of 2020. This trend in demand for drilling services is expected to continue for the balance of 2023 with some optimism in the industry that it will improve in the first quarter of 2024. There are two significant projects underway in Canada that will have a substantial impact on the industry. The first is the completion of the Trans Mountain Pipe Line, expected to begin operation in early 2024, which will increase the egress of Canadian crude oil and thereby demand in the industry. The second is the completion of the LNG Canada's LNG facility in 2025, which in conjunction with the Coastal GasLink is expected to secure additional markets for Canadian natural gas and therefore improve demand for drilling services. In order to service this growing market in Canada, the Company is currently upgrading one of its oil sands designed rigs to also be competitive in drilling for deep gas. It is anticipated that this upgrade will be completed in the fourth quarter of 2023.

In the US, the active rig count is now close at 620 rigs, down from 780 rigs at the start of the year. Market sentiment suggests current activity levels are at or near the bottom of the cycle and the active rig count should begin to improve as we move through the fourth quarter of 2023. AKITA anticipates ending the fourth quarter in a stronger position than it started from an active rig perspective and expects this strengthening to continue into 2024.

The Company's focus in 2023 has been on debt repayment, and we are targeting $20 million in debt repayment by the end of the year.

Depreciation and Amortization Expense

	For the three months ended September 30,				For the nine months ended September 30,			
$Millions	2023	2022	Change	% Change	2023	2022	Change	% Change
Depreciation and amortization expense	7.0	7.6	(0.6)	(8%)	21.0	23.0	(2.0)	(9%)

Depreciation and amortization expense decreased to $7,020,000 during the third quarter of 2023 from $7,564,000 during the corresponding period in 2022, due to assets being fully amortized in the year.

AKITA depreciates its drilling rig assets on a straight-line basis where the estimated useful lives and residual values of various rig components have been chosen to match the expected life of that component. In the first nine months of 2023, drilling rig depreciation accounted for 98% of total depreciation expense, unchanged from 97% in the first nine months of 2022.

While AKITA conducts some of its drilling operations via joint ventures, the drilling rigs used to conduct those activities are owned jointly by AKITA and its joint venture partners, and not by the joint ventures themselves. As the joint ventures do not hold any property, plant, or equipment assets directly, the Company's depreciation expense includes depreciation of assets involved in both wholly-owned and joint venture activities.

Selling and Administrative Expenses

	For the three months ended September 30,				For the nine months ended September 30,			
$Millions	2023	2022	Change	% Change	2023	2022	Change	% Change
Selling and administrative expenses	4.1	3.3	0.8	24%	13.2	11.3	1.9	17%

Selling and administrative expenses increased to $13,207,000 in the first nine months of 2023 (7% of revenue) from $11,293,000 (8% of revenue) in the first nine months of 2022. The increase is attributable to general increases throughout all expenses including salaries and services. Salaries and benefits accounted for 41% of selling and administrative expenses for the first nine months of 2022 and 2023.

Asset Impairment Loss

The Company did not identify any changes in the indicators of asset impairment or any new indicators of asset impairment during the first nine months of 2023. Therefore, no further assessment on asset impairment was performed as there have been no changes in circumstances that indicate that the carrying amount of PP&E does not exceed its recoverable amount as at September 30, 2023.

Equity Income from Joint Ventures

	For the three months ended September 30,				For the nine months ended September 30,			
$Millions	2023	2022	Change	% Change	2023	2022	Change	% Change
Proportionate share of revenue from joint ventures	11.1	8.4	2.7	32%	28.0	19.4	8.6	44%
Proportionate share of operating & maintenance expenses from joint ventures	8.6	6.6	2.0	30%	21.0	15.1	5.9	39%
Proportionate share of selling and administrative expenses from joint ventures	0.1	0.1	-	0%	0.3	0.3	-	0%
Equity income from joint ventures	2.4	1.7	0.7	41%	6.7	4.0	2.7	68%

The Company provides the same drilling services and utilizes the same management and financial and reporting controls for its joint venture activities as are in place for its wholly-owned operations. The increase in equity income for the Company's proportionate share of joint ventures is related to the increased activity for the Company's joint venture rigs in the first nine months of 2023 compared to the same period in 2022, as well as improved day rates between the two periods.

Other Income (Loss)

$Millions	For the three months ended September 30, 2023	2022	Change	% Change	For the nine months ended September 30, 2023	2022	Change	% Change
Interest income	-	-	-	0%	0.2	-	0.2	n/a
Interest and financing expense	(1.3)	(2.0)	0.7	35%	(5.2)	(4.5)	(0.7)	(16%)
Unrealized gain (loss) on risk management contracts	1.0	0.8	0.2	25%	0.9	(0.8)	1.7	213%
Gain on sale of assets	0.3	-	0.3	0%	2.0	0.1	1.9	1900%
Net other gains	-	0.1	(0.1)	100%	0.3	0.1	0.2	200%
Total other loss	0.0	(1.1)	1.1	102%	(1.8)	(5.1)	3.3	65%

In the first nine months of 2023, the Company recorded interest and financing expense of $5,208,000, up from $4,596,000 in the same period of 2022. This increase is due to higher interest rates in the first nine months of 2023, which have increased to an average of 8.01% in the first nine months of 2023 compared to 6.51% over the same period of 2022. The impact of higher interest rates was offset by lower debt balances which have decreased from $94,000,000 at the beginning of 2023 to 79,776,000 at the end of the third quarter of 2023.

The Company is exposed to changes in interest rates on borrowings under its operating loan facility, which is subject to floating interest rates. To mitigate this risk the Company entered into an interest rate swap with its principal banker in June of 2022. The term of the interest rate swap is June 15, 2022 to June 15, 2026 and the notional amount of the swap is $50,000,000. The fixed rate is 4.24% while the floating rate is indexed to the Canadian Dollar Offered Rate ("CDOR"). At period end the interest rate swap is valued at fair value with any unrealized gain (loss) recorded as other income (loss) on the consolidated income statement. For the nine months ended September 30, 2023 the Company recorded an unrealized gain of $934,000 compared to a loss of $779,000 in 2022.

During the first nine months of 2023, the Company sold certain components, including the centre section of an idle rig in the US and spare parts in Canada, for proceeds of $2,541,000 (2022 - $133,000) and a gain on disposal of $1,972,000 (2022 – $93,000).

During the first nine months of 2023, the Company realized a gain of $254,000 on the sale of fully depreciated assets (2022 – $135,000).

Income Tax Expense (Recovery)

$Millions	For the three months ended September 30, 2023	2022	Change	% Change	For the nine months ended September 30, 2023	2022	Change	% Change
Current tax expense (recovery)	-	-	-	n/a	-	-	-	n/a
Deferred tax expense (recovery)	0.8	(0.2)	1.0	500%	0.3	(0.7)	1.0	143%
Total income tax expense (recovery)	0.8	(0.2)	1.0	500%	0.3	(0.7)	1.0	143%

The Company recorded a deferred tax expense of $296,000 in the first nine months of 2023, compared to a deferred tax recovery of $666,000 in the corresponding period in 2022. The increase in the deferred tax expense relates to the utilization of non-capital losses in Canada to offset taxable income. The Company's effective tax rate for the nine months ended September 30, 2023, was 23.5% compared to 23.4% for the same period in 2022.

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

$Millions	For the three months ended September 30, 2023	2022	Change	% Change	For the nine months ended September 30, 2023	2022	Change	% Change
Net income (loss)	3.9	2.7	1.2	44%	19.6	(4.5)	24.1	536%
Net cash from (used in) operating activities	2.3	3.7	(1.4)	38%	18.0	10.2	7.8	76%
Adjusted funds flow from operations(1)	10.6	9.0	1.6	18%	38.3	18.7	19.6	105%

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

The Company recorded net income of 3,880,000 ($0.10 per Class A Non-Voting and Class B Common share, basic and diluted) for the third quarter of 2023, compared to net income of $2,660,000 ($0.07 per Class A Non-Voting and Class B Common share, basic and diluted) in the third quarter of 2022. This marks the fifth consecutive quarter of positive earnings for the Company. Adjusted funds flow from operations increased to $10,566,000 in the third quarter of 2023, from $8,957,000 during the corresponding quarter in 2022. Increased day rates were the key drivers of the improvements in the quarter.

The Company recorded net income of $19,580,000 ($0.49 per Class A Non-Voting and Class B Common share, basic and diluted) for the first nine months of 2023 compared to a net loss of $4,525,000 ($0.11 per Class A Non-Voting and Class B Common share, basic and diluted) in the corresponding period of 2022. Adjusted funds flow from operations increased to $38,346,000 during the first nine months of 2023 from $18,669,000 in the corresponding period in 2022 as a result of higher average per day revenue.

Summary of Quarterly Results

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

$Thousands, except per share (Unaudited)	Three Months Ended Mar. 31	Jun. 30	Sep. 30	Dec. 31
2023				
Revenue	65,000	58,349	54,813	
Net income	9,523	6,177	3,880	
Income per share (basic) ($)	0.24	0.16	0.10	
Adjusted funds flow from operations(1)	15,159	12,620	10,566	
Cash flow from (used in) operations	(414)	16,150	2,308	
Capital expenditures	2,504	4,700	4,566	
2022				
Revenue	44,986	42,960	53,526	59,524
Net income (loss)	(2,933)	(4,252)	2,660	8,813
Income (loss) per share (basic) ($)	(0.07)	(0.11)	0.07	0.22
Adjusted funds flow from operations(1)	4,996	4,715	8,957	16,144
Cash flow from operations	247	6,189	3,727	8,035
Capital expenditures	6,412	3,633	3,020	4,917
2021				
Revenue	27,171	18,651	29,906	34,360
Net loss	(3,651)	(6,108)	(6,433)	(4,798)
Loss per share (basic) ($)	(0.09)	(0.15)	(0.16)	(0.13)
Adjusted funds flow from operations(1)	3,719	1,056	252	2,427
Cash flow from (used in) operations	(5,692)	10,118	(1,560)	(6,327)
Capital expenditures	1,604	3,138	4,130	7,554

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

Key trends over the past eleven quarters, after giving consideration to the seasonal nature of AKITA’s operations, are as follows:

- The impact of COVID-19 on demand can be seen until the third quarter of 2021, when the US and Canadian drilling markets began to recover;
- The impact of increased activity in Canada in 2022 can be seen when comparing the second quarter of 2021 to recent quarters;
- The impact of the significant improvement in the profitability of the US operating segment can be seen in the third and fourth quarters of 2022, comparing those quarters to any other;
- Revenue in the first quarter of 2022 was split relatively equally between Canada and the United States. The majority of revenue shifted back to the US in the fourth quarter of 2022; and
- The seasonal nature of the Canadian operations can been seen in the cash from operations balances peaking in the second quarter of each year.

Liquidity and Capital Resources

Cash used for capital expenditures totalled $11,770,000 in the first nine months of 2023 compared to $13,065,000 in the same period of 2022. Year-to-date capital spending related to routine capital items, primarily level four inspections and drill pipe, as did the prior year's capital spending.

At September 30, 2023, AKITA's Statements of Financial Position included working capital (current assets minus current liabilities) of $38,274,000 compared to $19,543,000 at September 30, 2022, and $31,121,000 at December 31, 2022. Readers should be aware of the seasonal nature of AKITA's Canadian operations and its effect on non-cash working capital balances. Typically, non-cash working capital balances reach annual maximum levels at the end of the first quarter or during the second quarter as a result of spring break-up in Canada. The Company's working capital increased from December 31, 2022 to September 30, 2023 due primarily to increases in the Company's Canadian and US divisions accounts receivable balances which remain high at the end of the third quarter of 2023. The Company had non-cash working capital of $29,374,000 at September 30, 2023, compared to non-cash working capital of $13,392,000 at September 30, 2022 and $17,810,000 at December 31, 2022. The impact of lower activity seen in the latter half of the third quarter of 2023 has not impacted the Company's accounts receivable balances yet.

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

1. The Funded Debt(1) to EBITDA(1) Ratio: the Company shall ensure that the Funded Debt(1) to EBITDA(1) Ratio shall not be more than 3.00:1.00.
   The Funded Debt(1) to EBITDA(1) Ratio shall be calculated quarterly on the last day of each Fiscal Quarter on a rolling four quarter basis;

2. The EBITDA(1) to Interest Expense(1) Ratio: the Company shall ensure that the EBITDA(1) to Interest Expense(1) Ratio shall not be less than 3.00:1.00.
   The EBITDA(1) to Interest Expense(1) Ratio shall be calculated quarterly on the last day of each Fiscal Quarter on a rolling four quarter basis.

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

At September 30, 2023, the Company was in compliance with its covenants with a Funded Debt[1] to EBITDA[1] Ratio of 1.15:1.00, an EBITDA[1] to Interest Expense[1] Ratio of 8.45:1.00.

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

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

At September 30, 2023, the Company's borrowing base totalled $91,640,000.

The credit facility includes a $10,000,000 operating line of credit that is classified as current, given that the Company expects to settle the balance within a normal operating cycle. The maturity date aligns with the total credit facility. At September 30, 2023, the current portion of debt was $4,776,000 (December 31, 2022 – nil).

The balance outstanding under the credit loan facility, net of unamortized loan fees, is classified as long-term debt as the credit agreement has no required repayment obligations prior to the end of the loan facility term. The Company borrowed $75,000,000 from this facility as at September 30, 2023 (December 31, 2022 - $94,000,000).

The Company's objectives when managing capital are:

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

The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets. Given the current state of the drilling industry and the energy industry as a whole, the Company's liquidity is paramount. If future results do not meet the Company's expectations there is a risk that the Company could be offside with the financial covenants in its banking facility and lose the ability to draw on the facility to meet its financial obligations or be required to repay the amounts outstanding on the facility. This could also be the case if demand for drilling significantly decreases and the Company's customers make cuts to their capital budgets.

Seasonality

The Canadian drilling industry is seasonal with activity typically building in the fall as the ground freezes and peaking during the winter months. Northern transportation routes become available once areas with muskeg conditions freeze to allow the movement of drilling rigs and other heavy equipment. The peak

Canadian drilling season ends with "spring break-up" at which time drilling operations are curtailed due to seasonal road bans (temporary prohibitions on road use) and restricted access to agricultural land as frozen ground thaws. The summer drilling season begins when road bans are lifted. Some areas are subject to environmental orders for specific well leases which can prevent drilling activity during certain periods when authorities prioritize wildlife or habitat protections. Such restrictions may affect activity levels and operating results.

Areas in the US where AKITA conducts drilling operations are infrequently subject to weather constraints, but may experience operational restrictions for other reasons.

While seasonality can affect all rig classes, pad drilling rigs are generally less susceptible to seasonality than conventional drilling rigs.

Significant Accounting Estimates and Judgments

The preparation of the accompanying interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as at the date of the financial statements, as well as the reported amounts for revenue and expenses during the period. Estimates and judgments are continually evaluated and are based upon historical experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances. Actual outcomes could differ materially from these estimates.

Impairment of Assets

At each reporting date, the Company assesses whether there are indicators of asset impairment. If such indicators exist, the Company performs an asset impairment test and, if required, the Company recognizes an asset impairment loss, calculated as the lesser of the difference between the amortized cost of the asset and the present value of the estimated future cash flows or the recoverable amount. The carrying amount of the asset is reduced by the asset impairment loss. Please refer to the “Asset Impairment Loss” section for further information.

AKITA’s asset impairment estimates do not have any effect on the changes to the financial condition for the Company, as any asset write-down is a non-cash item. However, total assets and results of operations, including net income, could be overstated as a result of projections of discounted future cash flows that are too high.

Useful Lives of Drilling Rigs

Management makes significant estimates related to the useful lives of drilling rigs. Depreciation methods and rates have been selected so as to amortize the net cost of each asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period.

Defined Benefit Pension Liability

A significant estimate used in the preparation of AKITA's interim financial statements relates to the measurement of the non-current defined benefit pension liability for selected employees and retired employees that was recorded as $3,886,000 at September 30, 2023 (September 30, 2022 - $5,072,000). AKITA utilizes the services of a third party to assist in the actuarial estimate of the Company's pension expense and liability. For 2023, a key assumption is the 5.1% discount rate (2022 – 2.9%).

Deferred Income Taxes

The Company makes assumptions related to the measurement of deferred income taxes, including future tax rates, timing of reversals of timing differences and the anticipated tax rules that will be in place when timing differences reverse. Consequently, total liabilities of the Company, as well as results of operations including net income, could be either understated or overstated.

Class A Non-Voting and Class B Common Shares

Authorized

An unlimited number of Class A Non-Voting shares
An unlimited number of Class B Common shares

Issued	Class A Non-Voting			Class B Common			Total	
$Thousands, except share amounts	Number of shares		Consideration	Number of shares		Consideration	Number of shares	Consideration
December 31, 2022	37,996,407	$	144,940	1,653,784	$	1,366	39,650,191	$ 146,306
Stock options exercised in the first nine months of 2023	-		-	-		-	-	-
September 30, 2023	**37,996,407**		**144,940**	**1,653,784**	**$**	**1,366**	**39,650,191**	**$ 146,306**

At October 30, 2023, the Company had 37,996,407 Class A Non-Voting shares and 1,653,784 Class B Common shares outstanding. At that date, there were also 1,422,500 stock options outstanding, of which 842,000 were exercisable.

Non-GAAP and Supplementary Financial Measures

Non-GAAP Financial Measures

Adjusted Revenue and Adjusted Operating and Maintenance Expenses in Canada

Adjusted revenue and adjusted 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 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 adjusted revenue per day and adjusted operating and maintenance expenses per day. The flow through charges do not have any impact on the Company's net earnings as the amounts offset each other.

Adjusted Revenue and Adjusted Operating and Maintenance Expenses in the United States

Excluded from adjusted revenue and adjusted operating and maintenance expenses in AKITA's 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 adjusted revenue per day and adjusted operating and maintenance expenses per day. The flow through charges do not have any impact on the Company's net earnings as the amounts offset each other.

Adjusted Funds Flow from Operations

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

$Thousands	For the three months ended September 30,		For the nine months ended September 30,	
	2023	2022	2023	2022
Net cash from operating activities	2,308	3,727	18,044	10,163
Interest paid	1,340	2,044	5,049	4,480
Interest expense	(1,393)	(2,019)	(5,208)	(4,596)
Post-employment benefits paid	78	70	243	206
Equity income from joint ventures	2,361	1,687	6,696	3,953
Change in non-cash working capital	5,872	3,448	13,522	4,463
Adjusted funds flow from operations	10,566	8,957	38,346	18,669

Terms Defined in the Company's Credit Facility

The following terms are defined in the Company's credit facility agreement and are used in the calculation of the Company's financial covenants:

"EBITDA" means, for any fiscal period, the Net Income of the Canadian Borrower on a consolidated basis in accordance with GAAP but without duplication, plus (in each case, for the Canadian Borrower on a consolidated basis but without duplication):

a) all amounts deducted in the calculation of Net Income in respect of Interest Expense;
b) all amounts deducted in the calculation of Net Income in respect of the provision for income taxes (in accordance with Generally Accepted Accounting Principles);
c) all amounts deducted in the calculation of Net Income in respect of non-cash items including, without limitation, depletion, accretion (to the extent not included in clause (a) above), depreciation, amortization and future income tax liabilities;
d) all amounts deducted in the calculation of Net Income in respect of equity loss, minority interests, extraordinary losses, non-recurring losses (including losses on the sale of property, plant and equipment) and any non-cash impairment charges and any other non-cash charges;
e) all cash distributions received in such period from persons which are not Guarantors;
f) all amounts deducted in the calculation of Net Income in respect of discretionary management bonuses, fees and other compensation declared and payable to the directors or shareholders of the Canadian Borrower on commercially reasonable terms. For the avoidance of doubt, bonuses, fees or other compensation that the Canadian Borrower, on a consolidated basis, is contractually required to pay may not be added back;
g) all amounts deducted in the calculation of Net Income in respect of share based compensation;
h) unrealized foreign exchange losses incurred in the ordinary course of business;

"Funded Debt" means, as of any date of determination, with respect to the Canadian Borrower on a consolidated basis, all Indebtedness, but excluding obligations owing between any Loan Parties and less all cash and Cash Equivalents denominated in Canadian Dollars and U.S. Dollars held by the Loan Parties up to a maximum of $10,000,000 and which are: (i) in accounts with the Agent which are subject to Perfected Security Interests and rights of set-off in favour of the Agent; or (ii) in accounts with a financial institution acceptable to the Agent (acting reasonably) which are subject to Perfected Security Interests and a blocked account control agreement in favour of and satisfactory to the Agent.

"Interest Expense" means for any fiscal period, in respect of the Canadian Borrower on a consolidated basis as determined in accordance with GAAP, the aggregate cost of credit outstanding during that period including, without limitation, interest charges (including for postponed Indebtedness), capitalized interest, the interest component of Financial Leases, fees payable in respect of letters of credit and letters of guarantee, discounts incurred and fees payable in respect of bankers' acceptance advances.

"Eligible Accounts Receivable" means at any time, any Account Receivable of the Loan Parties (net of any credit balance, returns, trade discounts, or unbilled amounts or retention) that meets and at all times continues to meet all of the standards of eligibility (and the Canadian Borrower by including such account in any computation of the Borrowing Base shall be deemed to represent and warrant to the Agent and the Lenders that to the knowledge of the Canadian Borrower all of the following statements are accurate and complete with respect to such account):

a) it is a valid and legally enforceable obligation of the applicable Account Debtor;
b) such account is genuine as appearing on its face or as represented in the books and records of the Canadian Borrower on a consolidated basis;
c) such account is free from valid claims regarding rescission, cancellation or avoidance, whether by operation of Applicable Law or otherwise, and except to the extent of any reduction made pursuant to paragraph (e) of this definition is net of all then applicable holdbacks and prepayment credits;
d) such account does not relate to services not as of yet completed;
e) without limiting the generality of paragraph (c) of this definition, is not subject to any offset, counterclaim or other defence on the part of the Account Debtor or any claim by the Account Debtor that denies liability in whole or in part; and, if the Account Debtor denies liability only in part, the undisputed portion of the Account Receivable shall be allowed so long as the Account Debtor has agreed that it will pay such portion not in dispute in accordance with its terms;
f) such Account Receivable is not outstanding more than 90 days after billing date, provided that the under 90 day portion may be included; (i) where the over 90 day portion is less than 10% of all Accounts Receivable of such Account Debtor and its Related Parties; (ii) the Agent and the Lenders have nevertheless designated the Account Receivable as good; or (iii) where the Account Debtor has long term debt obligations rated no worse than BBB by S&P or DBRS Limited;

g) it is owed by an Account Debtor whose principal place of business is located in Canada or the United States, unless otherwise supported by a letter of credit acceptable to the Agent, in its discretion;
h) it is denominated in either Canadian Dollars or United States Dollars;
i) it is subject to a Perfected Security Interest in favour of the Agent;
j) such account is, and at all times will be, free and clear of all Security Interests other than Priority Payables (to the extent deducted in calculating the Borrowing Base) and any Permitted Encumbrances;
k) such account is not in respect of a builders lien or similar holdbacks;
l) the Account Receivable does not arise from a sale or lease to or rendering of services to a Related Party of any Loan Party, or, in each case, to their respective Affiliates;

Any Eligible Accounts Receivable which are at any time Eligible Accounts Receivable but which subsequently fail to meet any of the foregoing requirements shall immediately cease to be an Account Receivable.

"Tangible Net Worth" means, as of any date of determination, with respect to the Canadian Borrower on a consolidated basis, the sum of Shareholders' Equity and Subordinated Debt, less:

a) any amount that would be included on the consolidated balance sheet of the Canadian Borrower prepared in accordance with GAAP as an investment in or as amounts owed by any Related Party which does not constitute Subordinated Debt; and
b) any amount included in the assets column on the consolidated balance sheet of the Canadian Borrower in respect of Intangibles.

Non-GAAP Ratios

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

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

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

Supplementary Financial Measures

A supplementary financial measure:

a) is, or is intended to be, disclosed on a periodic basis to depict the historical or expected future financial performance, financial position or cash flow of the Company;
b) is not presented in the financial statements of the Company;
c) is not a non-GAAP financial measure; and
d) is not a non-GAAP ratio.

Supplementary financial measures presented and discussed in this MD&A are as follows:

- **"Operating Margin %"** – represents operating margin as a percentage of revenue.
- **"Adjusted Operating Margin %"** – represents adjusted operating margin as a percentage of adjusted revenue.
- **"Utilization"** – represents the operating days achieved divided by the maximum operating days based on the number of days in the year and the rigs available.

Forward-Looking Statements

From time to time AKITA makes forward-looking statements. These statements include but are not limited to comments with respect to AKITA's objectives and strategies, financial condition, results of operations, the outlook for industry and risk management discussions. In particular, forward-looking information in this MD&A includes, but is not limited to, references to the outlook for the North American economy and the drilling industry (including the demand for drilling services, customer exploration and development budgets and drilling programs,, day rates, active rig count, supply issues and labour shortages), the demand for oil and natural gas, crude oil and natural gas prices, future investment, the Company's SAGD drilling activity, the Company's existing credit facility, the Company's operating performance and cash flows, future investment, debt repayment, tax rates, the Company's capital program, advantages associated with the percentage of pad drilling rigs in the Company's Canadian fleet, and the expansion of the Company's presence in the Montney deep gas basin and its role in drilling potash and in achieving energy transition targets, and the upgrading of one of the Company's oil sands rigs for deep gas drilling.

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

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of, among other things:

- Prevailing economic conditions including world crude oil prices, North American natural gas prices and global liquified natural gas (LNG) demand;
- Fluctuations and uncertainty surrounding the future price of commodities;
- The impact of global supply chain disruptions;
- The impact of the level of industry activity for Canadian and US crude oil and natural gas exploration and development on the demand, pricing and terms for contract drilling services;
- The impact of changes in demand for crude oil, natural gas or other liquid hydrocarbons on the demand and pricing for drilling services;
- The level of exploration and development activity carried on by AKITA's customers;
- Increased competition, including as a result of the movement of drilling rigs among regions or reduced levels of activity in the oil and gas industry;
- Energy transition targets and industry's ability to achieve them;
- The loss of one or more major customers;
- Changes to existing laws, regulations and government policies, and the introduction of new laws and regulations, including those governing the management, transportation and disposal of hazardous substances and other waste materials and otherwise relating to the protection of the environment;
- The impact of climate change activism;
- Access to capital markets including AKITA's ability to obtain additional debt or equity financing;
- Variations in interest rates and principal repayments under the terms of the Company's credit facility;
- The Company's ability to make scheduled payments of principal and interest on, or to refinance, its indebtedness;
- The sufficiency of AKITA's assets to repay indebtedness under its credit facility in the event repayment were to be accelerated following an event of default;
- The impact of dilutive financings or other transactions;
- Fluctuations in foreign exchange, interest and tax rates;
- The adequacy of AKITA's insurance coverage or contractual indemnity rights to cover losses, and the applicability of anti-indemnification legislation;

- The Company's ability to attract, develop and maintain a skilled and safe workforce and maintain a cost structure that varies with activity levels;
- The availability of qualified management personnel;
- A general reduction in rates in the drilling industry caused by a capital overbuild.

We caution that the foregoing list of factors is not exhaustive and that while relying on forward-looking statements to make decisions with respect to AKITA, investors and others should carefully consider the foregoing factors, as well as other uncertainties and events, prior to making a decision to invest in AKITA. Except where required by law, the Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by it or on its behalf.

Management's Responsibility for Financial Information

As at September 30, 2023, management evaluated, under the supervision of and the participation of the Chief Executive Officer (the "CEO") and the Vice President, Finance and Chief Financial Officer (the "CFO"), the effectiveness of the Company's disclosure controls and procedures ("DC&P") as defined under National Instrument 52-109. Based on that evaluation, the CEO and CFO concluded that the Company's DC&P was effective as at September 30, 2023.

No changes were made to the Company's internal control over financial reporting ("ICFR") during the quarter ended September 30, 2023, that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

As in prior quarters, AKITA's Audit Committee reviewed this document, including the attached interim financial statements.