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 three months ended March 31, 2024, and the audited consolidated financial statements and MD&A for the year ended December 31, 2023.

References made to 2023 in this MD&A relate to the period from January 1 to March 31, unless otherwise stated. The information in this MD&A was approved on May 3, 2024 by AKITA's Audit Committee on behalf of the Board of Directors, 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 32 drilling rigs. AKITA provides contract drilling services through two geographical segments: Canada and the United States ("US"). AKITA's US fleet is supported out of its operations base in Midland, Texas and is comprised of 13 high specification AC triple rigs, one high specification AC double rig and one DC triple rig, all serving the Permian Basin, which is the most active basin in the US and is currently supporting 50% of all US land drilling. While the US fleet primarily targets oil wells in the Permian, saltwater disposal wells are a secondary market that our fleet has proven to be well equipped for.

With a fleet of 17 rigs, AKITA's Canadian division operates in Alberta, British Columbia, Saskatchewan, and as market conditions dictate, the Yukon and the Northwest Territories. The Canadian division operates both wholly-owned rigs and rigs that are partially owned by AKITA and First Nations, Métis or Inuvialuit joint venture partners including Akita Mistiyapew Aski Drilling Ltd., a joint venture between AKITA and Saulteau First Nations, Akita Equtak Drilling Ltd., a joint venture between AKITA and the Inuvialuit Development Corporation, and Akita Wood Buffalo Drilling Ltd., a joint venture between AKITA and Chipewyan Prairie First Nation, Fort McMurray 468 First Nation, Fort McKay Métis Nation, Fort Chipewyan Métis Local 125, and Conklin Métis Local 193. Each joint venture has defined geographical boundaries and an equity interest in select AKITA rigs. Together AKITA's First Nation, Métis and Inuvialuit joint venture partners hold equity interests in six of AKITA's Canadian drilling rigs. AKITA's Canadian division primarily operates in the oil sands, heavy oil regions and in the Montney deep gas basin. In addition, the Canadian division plays a central role in drilling potash and other energy transition targets, including carbon capture wells, hydrogen storage wells and geothermal wells.

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

Financial Highlights

	For the Three Months Ended March 31,			
($ thousands except per share amounts)	2024	2023	Change	% Change
Revenue	46,304	65,000	(18,696)	(29%)
Operating and maintenance expenses	33,511	45,426	(11,915)	(26%)
Operating margin	12,793	19,574	(6,781)	(35%)
Margin %	28%	30%	(2%)	(7%)
Net cash from (used in) operating activities	6,948	(414)	7,362	1778%
Adjusted funds flow from operations[1]	11,260	15,159	(3,899)	(26%)
Per share	0.28	0.38	(0.10)	(26%)
Net income (loss)	2,627	9,523	(6,896)	(72%)
Per share	0.07	0.24	(0.17)	(71%)
Capital expenditures	3,935	2,504	1,431	57%
Weighted average shares outstanding	39,716	39,650	66	0%
Total assets	258,204	270,169	(11,965)	(4%)
Total debt	69,610	91,212	(21,602)	(24%)

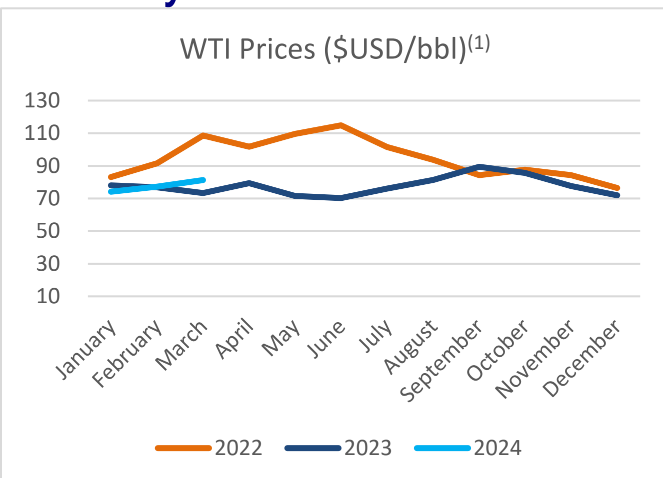
[1] See "Non-GAAP and Supplementary Financial Measures" near the end of this MD&A for further detail.

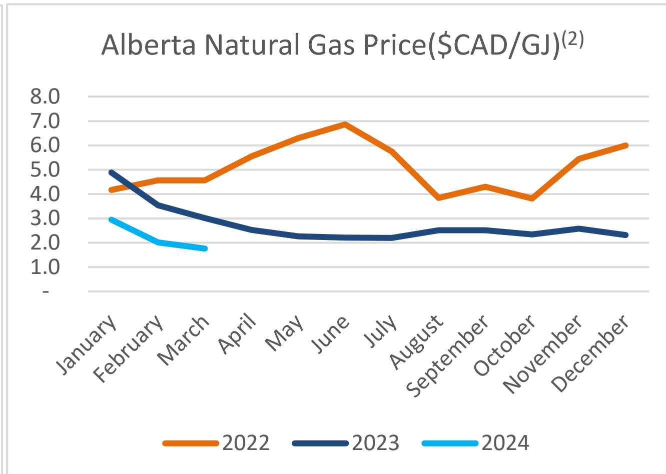
General Overview

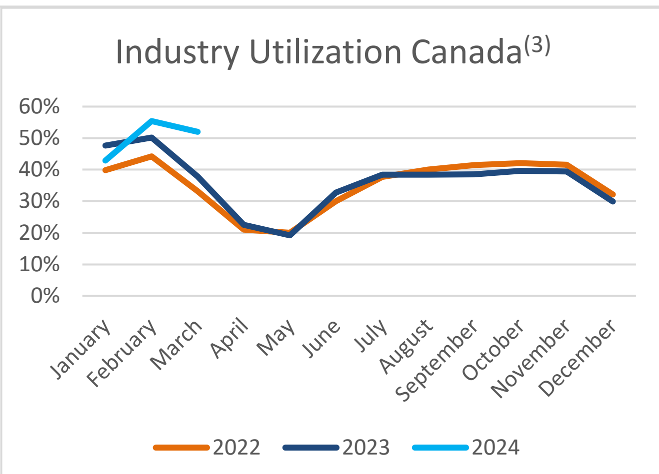
The Company's net income decreased to $2,627,000 in the first quarter of 2024 from $9,523,000 in the first quarter of 2023. This decrease was due primarily to both activity and day rates decreasing in the US, which resulted in a 47% decrease in adjusted operating margin in the US. This decrease was partially offset by an increase in the adjusted operating margin in Canada, which increased by 23%. Net cash from operations increased to $6,948,000 for the three months ended March 31, 2024, compared to a loss of

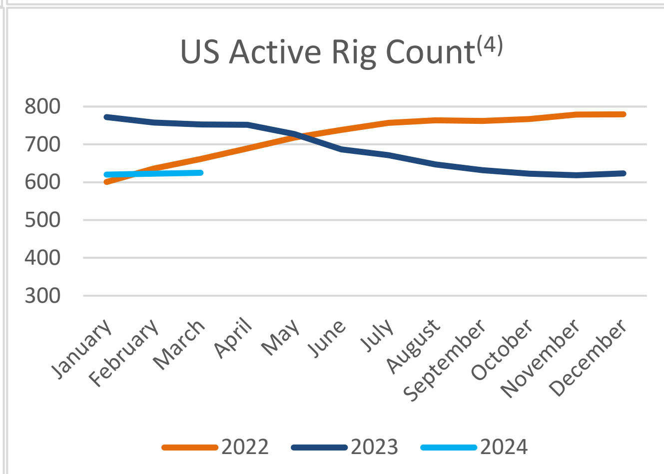
$414,000 in the same period of 2023, due to working capital remaining relatively flat since December 31, 2023, compared to a significant increase during the same period in the prior year. Funds flow from operations, which is not affected by changes in non-cash working capital, decreased by 26% due to the weaker results in the US. Capital expenditures increased to $3,935,000 in the first quarter of 2024, up from $2,504,000 in the first quarter of 2023. In both quarters capital expenditures related to routine items. Debt decreased to $69,610,000 at the end of the first quarter of 2024 from $91,212,000 at March 31, 2023.

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 increasingly international LNG (liquified natural gas) pricing. West Texas Intermediate (“WTI”) crude oil prices have increased in the first quarter of 2024, which should be a positive sign for the drilling industry. Natural gas prices have been moving in the opposite direction to crude prices however, and have steadily declined through the quarter.

In the US, despite increasing WTI prices, the total active rig count has remained flat in the first quarter of 2024 after declining by157 rigs in 2023. Continued low North American natural gas prices and high natural gas storage levels, which are 36% above the five year average[1], are holding the active rig count at the current levels. Also contributing to the low active rig count in the US is the current pace of mergers and acquisitions in large US oil and gas companies that are growing through consolidation as opposed to growth through increased drilling activity. The excess idle drilling rigs in the industry are having a negative effect on day rates which have been under pressure since the rig count began falling in 2023.

In Canada, industry utilization which started the year below 2023, began to outpace the last two years in February and continued into March. With the Trans Mountain Pipeline scheduled to begin operation this year, increasing the egress of Canadian crude oil and the anticipated completion of LNG Canada's export facility in 2025, in conjunction with the Coastal GasLink completion, demand for drilling services in both oil and natural gas has strengthened in Canada.

Results by Geographic Segment

Canada

	For the Three Months Ended March 31,			
$Thousands except per day amounts	2024	2023	Change	% Change
Revenue Canada	15,549	19,427	(3,878)	(20%)
Revenue from joint venture drilling rigs	12,517	7,782	4,735	61%
Flow through charges[(1)]	(629)	(829)	200	24%
Adjusted revenue Canada[(1)]	27,437	26,380	1,057	4%
Operating and maintenance expenses Canada	10,313	14,072	(3,759)	(27%)
Operating and maintenance expenses from joint venture drilling rigs	8,354	5,494	2,860	52%
Flow through charges[(1)]	(629)	(829)	200	24%
Adjusted operating and maintenance expenses Canada[(1)]	18,038	18,737	(699)	(4%)
Adjusted operating margin Canada[(1)]	9,399	7,643	1,756	23%
Margin %[(1)]	34%	29%	5%	17%
Operating days	649	720	(71)	(10%)
Adjusted revenue per operating day[(1)]	42,276	36,639	5,637	15%
Adjusted operating and maintenance per operating day[(1)]	27,794	26,024	1,770	7%
Adjusted operating margin per operating day[(1)]	14,482	10,615	3,867	36%
Utilization[(1)]	42%	40%	2%	5%
Rig count	17	20	(3)	(15%)

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

The Company's Canadian division produced stronger results quarter over quarter, despite reduced activity. AKITA achieved 649 (2023 - 720) operating days in the first quarter of 2024, which corresponds to a utilization rate of 42% (2023 - 40%) compared to an industry utilization of 50% (2023 - 45%).

[1] Source U.S. Energy Information Administration

Adjusted revenue in Canada increased to $27,437,000 in the first quarter of 2024 from $26,380,000 in the first quarter of 2023. This increase in adjusted revenue was the result of increased day rates as well as contract cancellation revenue of $1,500,000 received in the quarter. Adjusting for the contract cancellation revenue, adjusted revenue per day increased to $39,965 per operating day ($42,276 including the contract cancellation revenue) in the first quarter of 2024 from $36,639 in the same period of 2023. Modest day rate increases were secured throughout the second half of 2023 which had a significant impact on overall profitability in Canada.

Adjusted operating and maintenance expenses decreased 4% to $18,038,000 in the first quarter of 2024 from $18,737,000 in the same period of 2023 due to fewer operating days. Adjusted operating and maintenance expense per day increased 7% quarter over quarter.

The Company's rig count in Canada decreased to 17 rigs during the first quarter of 2024 as the Company delisted three rigs that would require significant capital to bring the rigs up to current market standards.

United States

	For the Three Months Ended March 31,			
$ Thousands except per day amounts (CAD)	2024	2023	Change	% Change
Revenue US	30,755	45,573	(14,818)	(33%)
Flow through charges[1]	(3,759)	(4,573)	814	18%
Adjusted revenue US[1]	26,996	41,000	(14,004)	(34%)
Operating and maintenance expenses US	23,197	31,355	(8,158)	(26%)
Flow through charges[1]	(3,759)	(4,573)	814	18%
Adjusted operating and maintenance expenses US[1]	19,438	26,782	(7,344)	(27%)
Adjusted operating margin US[1]	7,558	14,218	(6,660)	(47%)
Margin %[1]	28%	35%	(7%)	(20%)
Operating days	719	1,044	(325)	(31%)
Adjusted revenue per operating day[1]	37,547	39,272	(1,725)	(4%)
Adjusted operating and maintenance per operating day[1]	27,035	25,653	1,382	5%
Adjusted operating margin per operating day[1]	10,512	13,619	(3,107)	(23%)
Utilization[1]	53%	77%	(25%)	(32%)
Rig count	15	15	-	0%

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

The decrease in the active rig count in the US had a significant impact on the Company in the first quarter of 2024. Activity decreased to 719 operating days in the first quarter of 2024, from 1,044 in the first 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 $7,558,000 in the first quarter of 2024 from $14,218,000 in the same period of last year. 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 10 rigs in the first quarter of 2024 from 14 rigs in the first quarter of 2023. This was in line with the active rig count in the industry which fell to an average of 623 active rigs in the first quarter of 2024, from 761 in the first quarter of the prior year. Also contributing to the decrease in adjusted operating margin was a decrease in day rates with adjusted revenue per operating day falling 4% to $37,547 in the first quarter of 2024, from $39,272 in the first quarter of 2023. The reduction in revenue per day is attributable to a general reduction in rates across the Company's fleet of rigs as well as one of the Company's highest specification rigs being idle in the quarter.

Adjusted operating expense per operating day increased to $27,035 per day in the first quarter of 2024 from $25,653 in the first quarter of 2023. In the first 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 decreased $534 per day, reflective of AKITA's focus on cost reductions.

There was no change to the Company's US rig count, which stayed constant at 15 rigs.

Seasonality

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

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

Depreciation and Amortization Expense

$Millions

For the three months ended March 31,	2024	2023	Change	% Change
Depreciation and amortization expense	7.9	7.1	0.8	11%

Depreciation and amortization expense increased to $7,874,000 during the first quarter of 2024 from $7,062,000 during the corresponding period in 2023, due to higher capital investment in the second half of 2023.

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 quarter of 2024, drilling rig depreciation accounted for 98% of total depreciation expense (Q1 2023 - 98%).

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

$Millions

For the three months ended March 31,	2024	2023	Change	% Change
Selling and administrative expenses	4.6	4.7	(0.1)	(2%)

Selling and administrative expenses decreased to $4,616,000 in the first quarter of 2024 (10% of revenue) from $4,670,000 (7% of revenue) in the first quarter of 2023. The fixed nature of the Company's G&A is reflected in the increase in G&A as a percentage of revenue as revenue decreased between the first quarter of 2024 and the first quarter of 2023 while the overall total of G&A costs remained flat.

Salaries and benefits accounted for 42% of the total selling and administrative expenses during the first quarter of 2024 as well as the first quarter of 2023.

Asset Impairment

$Millions

For the three months ended March 31,	2024	2023	Change	% Change
Asset impairment loss	-	-	-	0%

The Company did not identify any changes in the indicators of asset impairment or any new indicators of asset impairment during the first quarter of 2024. 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 March 31, 2024.

Equity Income from Joint Ventures

$Millions

For the three months ended March 31,	2024	2023	Change	% Change
Proportionate share of revenue from joint ventures	12.5	7.8	4.7	60%
Proportionate share of operating & maintenance expenses from joint ventures	8.4	5.5	2.9	53%
Proportionate share of selling and administrative expenses from joint ventures	0.1	0.1	-	0%
Equity income from joint ventures	4.0	2.2	1.8	82%

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 quarter of 2024 compared to the first quarter of 2023, as well as improved day rates between the two periods.

Other Income (Loss)

$Millions

For the three months ended March 31,	2024	2023	Change	% Change
Interest income	0.1	0.0	0.10	n/a
Interest expense	(1.2)	(2.2)	1.0	45%
Unrealized gain (loss) on risk management contracts	0.3	(0.2)	0.5	250%
Gain on sale of assets	0.0	1.6	(1.6)	(100%)
Net other gains	0.0	0.2	(0.2)	(100%)
Total other loss	(0.8)	(0.6)	(0.2)	(33%)

Total other income (loss) is the aggregate of interest income, interest expense, unrealized gain (loss) on risk management contracts, gain (loss) on sale of assets, and net other gains (losses).

In the first quarter of 2024, the Company recorded interest expense of $1,259,000, down from $2,231,000 in the same period of 2023 due to lower debt levels in 2024 at $70,000,000 compared to $91,620,000 in the first quarter of 2023. Also contributing to the lower interest expense is a reduction in the average interest rate of 7.64% in the first quarter of 2024 compared to 9.75% in the same period 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 as the agent on the syndication along with two other Canadian banks 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 three months ended March 31, 2024, the Company recorded an unrealized gain of $285,000 (2023 - loss of $211,000).

During the first quarter of 2024, the Company sold spare equipment for a gain of $37,000 and proceeds of $37,000. During the same period of 2023, the Company sold certain components, including the centre section of an idle rig in the US, for proceeds of $2,027,000 and a gain on disposal of $1,550,000.

Income Tax Expense (Recovery)

$Millions, except income tax rate (%)

For the three months ended March 31,	2024	2023	Change	% Change
Current tax expense	0.0	0.0	0.0	0%
Deferred tax expense (recovery)	0.9	(0.1)	1.0	1000%
Total income tax expense (recovery)	0.9	(0.1)	1.0	1000%
Effective income tax rate	23.7%	23.4%		

The Company recorded a deferred tax expense of $872,000 in the first quarter of 2024, compared to a deferred tax recovery of $82,000 in the corresponding period in 2023. As the Company's taxable income in Canada increases, it utilizes its future tax losses, thereby generating a deferred tax expense. The Company's effective tax rate changed slightly quarter over quarter due to a shift in the revenue between provinces. Refer to the Company's 2023 Annual Report for additional tax disclosures. The Company currently has significant tax losses available in both Canada and the United States.

Net Income, Net Cash and Adjusted Funds Flow

$Millions

For the three months ended March 31,	2024	2023	Change	% Change
Net income	2.6	9.5	(6.9)	(73%)
Net cash from (used in) operating activities	6.9	(0.4)	7.3	1825%
Adjusted funds flow from operations[1]	11.2	15.0	(3.8)	(25%)

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

The Company had net income of $2,627,000 ($0.07 earnings per share, basic and diluted) for the first quarter of 2024, compared to net earnings of $9,523,000 ($0.24 earnings per share, basic and diluted) in the first quarter of 2023. Adjusted funds flow from operations decreased to $11,260,000 in the first quarter of 2024, from $15,159,000 during the corresponding quarter in 2023. The decrease in the Company's net income and adjusted funds flow from operations is primarily due to decreased activity in the Company's US operating segment. Also impacting both net income and funds flow from operations is the $1,550,000 gain on sale of assets in 2023, compared to $37,000 in 2024. Impacting net income in 2024 was the deferred tax expense of $872,000 in the first quarter of 2024, compared to a recovery of $82,000 in 2023. As this is a non-cash amount it did not impact funds flow from operations. Net cash from operations increased to $6,948,000 in the first quarter of 2024 from a loss of $414,000 in the first quarter of 2023. The change in net cash from operating activities was a smaller draw on non-cash working capital in the first quarter of 2024 of $239,000 compared to $13,356,000 in the same period of 2023.

Summary of Quarterly Results

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

$Thousands, except per share (Unaudited)	Three Months Ended Mar. 31	Jun. 30	Sep. 30	Dec. 31
2024				
Revenue	**46,304**			
Net income	**2,627**			
Income per share (basic and diluted) ($)	**0.07**			
Adjusted funds flow from operations[1]	**11,260**			
Cash flow from operations	**6,948**			
Capital expenditures	**3,935**			
2023				
Revenue	65,000	58,349	54,813	47,317
Net income (loss)	9,523	6,177	3,880	(1,165)
Income (loss) per share (basic and diluted) ($)	0.24	0.16	0.10	(0.04)
Adjusted funds flow from operations[1]	15,159	12,620	10,566	7,177
Cash flow from (used in) operations	(414)	16,150	2,308	17,523
Capital expenditures	2,504	4,700	4,566	12,822
2022				
Revenue	44,986	42,960	53,526	59,524
Net income (loss)	(2,933)	(4,252)	2,660	8,813
Income (loss) per share (basic and diluted) ($)	(0.07)	(0.11)	0.07	0.22
Adjusted funds flow from operations[1]	4,996	4,716	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

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

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

- The impact of the significant improvement in the profitability of the US operating segment can be seen in the third and fourth quarters of 2022 and the first quarter of 2023, comparing those quarters to any other;
- Revenue in the first quarter of 2022 was split relatively equally between Canada and the United States. The majority of revenue shifted back to the US in the fourth quarter of 2022 and returned to an even split in the first quarter of 2024;
- Decreased demand in the US market for drilling services significantly impacted the Company's results in the fourth quarter of 2023 and first quarter of 2024; and
- The seasonal nature of the Canadian operations can be 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 $3,935,000 in the first quarter of 2024 (Q1 2023 - $2,504,000). Year-to-date capital spending in the first quarter of 2024 related to routine capital items, similar to the same period of 2023.

At March 31, 2024, AKITA's Statements of Financial Position included working capital (current assets minus current liabilities) of $33,021,000, compared to working capital of $27,130,000 at December 31, 2023. The seasonal nature of AKITA's Canadian business typically results in higher non-cash working capital balances at the end of the first quarter than at year-end due to the first quarter high seasonal activity levels in Canada. Working capital at March 31, 2024 increased compared to December 31, 2023, due to higher prepaid expense balances at March 31, 2024 as well as higher cash balances. The reduction in accounts payable balances was offset by a decrease in accounts receivable due to lower US activity.

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

1. The Funded Debt(1) to EBITDA(1) Ratio: the Company shall ensure that the Funded Debt(1) to EBITDA(1) Ratio shall not be more than 3.00:1.00.

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

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

At March 31, 2024, the Company was in compliance with its covenants with a Funded Debt[1] to EBITDA[1] Ratio of 1.34:1.00, and an EBITDA[1] to Interest Expense[1] Ratio of 8.17:1.00.

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

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

At March 31, 2024, the Company's borrowing base totalled $83,781,000.

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 March 31, 2024, the current portion of debt was nil (March 31, 2023 – $1,620,000).

The balance outstanding under the credit loan facility, net of unamortized loan fees, is classified as long-term debt as the credit agreement has no required repayment obligations prior to the end of the loan facility term. The Company borrowed $70,000,000 in total from this facility as at March 31, 2024 (March 31, 2023 - $90,000,000).

The Company's objectives when managing capital are:

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

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

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

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 for the last three quarters of 2024 is somewhat opaque with natural gas prices at relative lows compared to the last three years and oil prices, despite strengthening, still being volatile.

The outlook for AKITA in Canada for the balance of the year is positive with demand improving in oil sands drilling as well as deep natural gas drilling, two markets the Company is focused on. This should translate into a strong second half of the year in Canada. Capital spending is expected to be in line with the prior year and includes maintenance capital with the potential for a second oil sands rig upgraded for deep gas drilling, similar to the upgrade completed in the fourth quarter of 2023.

In the US, the balance of the year remains difficult to foresee. There is continued investment in Permian natural gas takeaway capacity which should increase future drilling as should the continued decline in drilled but uncompleted wells. Prevailing sentiment in the industry is that the second half of the year will see improved activity levels.

The Company's focus in 2024 remains on repaying debt and it is targeting debt repayment between $15 and $20 million, depending on activity levels.

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 impairment loss. Please refer to "Asset Impairment" for further information.

AKITA's asset impairment estimates do not have any effect on the changes to 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 employee future benefits which consists of the non-current defined benefit pension liability for certain retired employees that was recorded as $4,061,000 at March 31, 2024 (March 31, 2023 - $3,938,000). AKITA utilizes the services of a third party to assist in the actuarial estimate of the Company's pension expense and liability. For 2024, a key assumption is the 4.6% discount rate (2023 – 5.1%).

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, 2023	38,056,407	144,982	1,653,784	1,366	39,710,191	146,348
Shares issued in Q1 2024	24,000	17	-	-	24,000	17
March 31, 2024	**38,080,407**	**144,999**	**1,653,784**	**1,366**	**39,734,191**	**146,365**

At May 3, 2024, the Company had 38,080,407 Class A Non-Voting shares and 1,653,784 Class B Common shares outstanding. At that date, there were also 1,853,500 stock options outstanding, of which 1,058,000 were exercisable.

Non-GAAP and Supplementary Financial Measures

Non-GAAP Financial Measures

Adjusted Revenue and Adjusted Operating and Maintenance Expenses

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

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

Adjusted Funds Flow from Operations

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

$Thousands

For the three months ended March 31,	2024	2023
Net cash from (used in) operating activities	6,948	(414)
Interest paid	1,210	2,178
Interest expense	(1,259)	(2,231)
Post-employment benefits paid	79	86
Equity income from joint ventures	4,043	2,184
Change in non-cash working capital	239	13,356
Adjusted funds flow from operations	11,260	15,159

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.

Non-GAAP Ratios

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

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

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

Supplementary Financial Measures

A supplementary financial measure:

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

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

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

Forward-Looking Statements

From time to time AKITA makes forward-looking statements. These statements include but are not limited to comments with respect to AKITA's objectives and strategies, financial condition, results of operations, the outlook for industry and risk management discussions. In particular, forward-looking information in this MD&A includes, but is not limited to, references to the outlook for the North American economy and the drilling industry (including the demand for drilling services, day rates, supply issues and labour shortages), oil and natural gas prices, the demand for oil, future investment, Permian Basin natural gas takeaway capacity, the Company's oil sands and natural gas drilling activity, the Company's existing credit facility, the Company's operating performance and cash flows, future investment, debt repayment, tax rates, and the Company's capital program.

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;
- 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 March 31, 2024, management evaluated, under the supervision of and the participation of the President and 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 March 31, 2024.

No changes were made to the Company's internal control over financial reporting ("ICFR") during the quarter ended March 31, 2024, 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.