AKITA DRILLING

Q2

2020 Q2 REPORT

MANAGEMENT'S DISCUSSION & 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 six months ended June 30, 2020, and the audited consolidated financial statements and MD&A for the year ended December 31, 2019.

References made to 2019 in this MD&A relate to the period from January 1 to June 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 July 30, 2020, 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 oil and gas drilling contractor with a fleet of 40 drilling rigs. AKITA provides drilling services through two geographical segments: Canada and the United States ("US"). With a fleet of 22 drilling 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, Métis or Inuit through joint venture agreements including: Akita Mistiyapew Aski Drilling Ltd., Akita Equtak Drilling Ltd., and Akita Wood Buffalo Drilling Ltd., each of which has defined geographical boundaries. With a fleet of 18 drilling rigs, AKITA's US division conducts operations in Colorado, Wyoming, Texas, New Mexico, and Oklahoma.

With a focus on the efficient provision of drilling services, rigorous crew training, rig maintenance and safety processes and adherence to a leading quality assurance-quality control program, AKITA strives to ensure it is well positioned to meet the most demanding requirements of global operators who offer long-lasting resource-based drilling programs. The Company has utilized this strategy to enhance its development of pad drilling rigs designed for both heavy oil and unconventional natural gas formations.

Financial Highlights

	For the three months ended June 30				For the six months ended June 30			
($Thousands except per share amounts)	2020	2019	Change	% Change	2020	2019	Change	% Change
Revenue	26,359	39,119	(12,760)	(33%)	79,931	91,461	(11,530)	(13%)
Operating and maintenance expenses	20,874	32,004	(11,130)	(35%)	62,066	68,871	(6,805)	(10%)
Operating income	5,485	7,115	(1,630)	(23%)	17,865	22,590	(4,725)	(21%)
Margin %	21%	18%	3%	17%	22%	25%	(3%)	(12%)
Adjusted EBITDA [1]	2,985	3,179	(194)	(6%)	14,622	12,301	2,321	19%
Per share	0.08	0.08	-	0%	0.37	0.31	0.06	19%
Adjusted funds flow from operations [1]	2,099	1,516	583	38%	12,253	9,300	2,953	32%
Per share	0.05	0.04	0.01	25%	0.31	0.23	0.08	35%
Net loss	(5,221)	(5,067)	(154)	(3%)	(57,478)	(6,536)	(50,942)	(779%)
Per share	(0.13)	(0.13)	-	0%	(1.45)	(0.17)	(1.28)	(753%)
Capital expenditures	1,612	6,759	(5,147)	(76%)	5,139	7,782	(2,643)	(34%)
Dividend declared	-	3,367	(3,367)	(100%)	-	6,734	(6,734)	(100%)
Weighted average shares outstanding	39,608	39,608	-	0%	39,608	39,608	-	0%
Total assets	292,819	391,162	(98,343)	(25%)	292,819	391,162	(98,343)	(25%)
Total debt	79,650	84,271	(4,621)	(5%)	79,650	84,271	(4,621)	(5%)

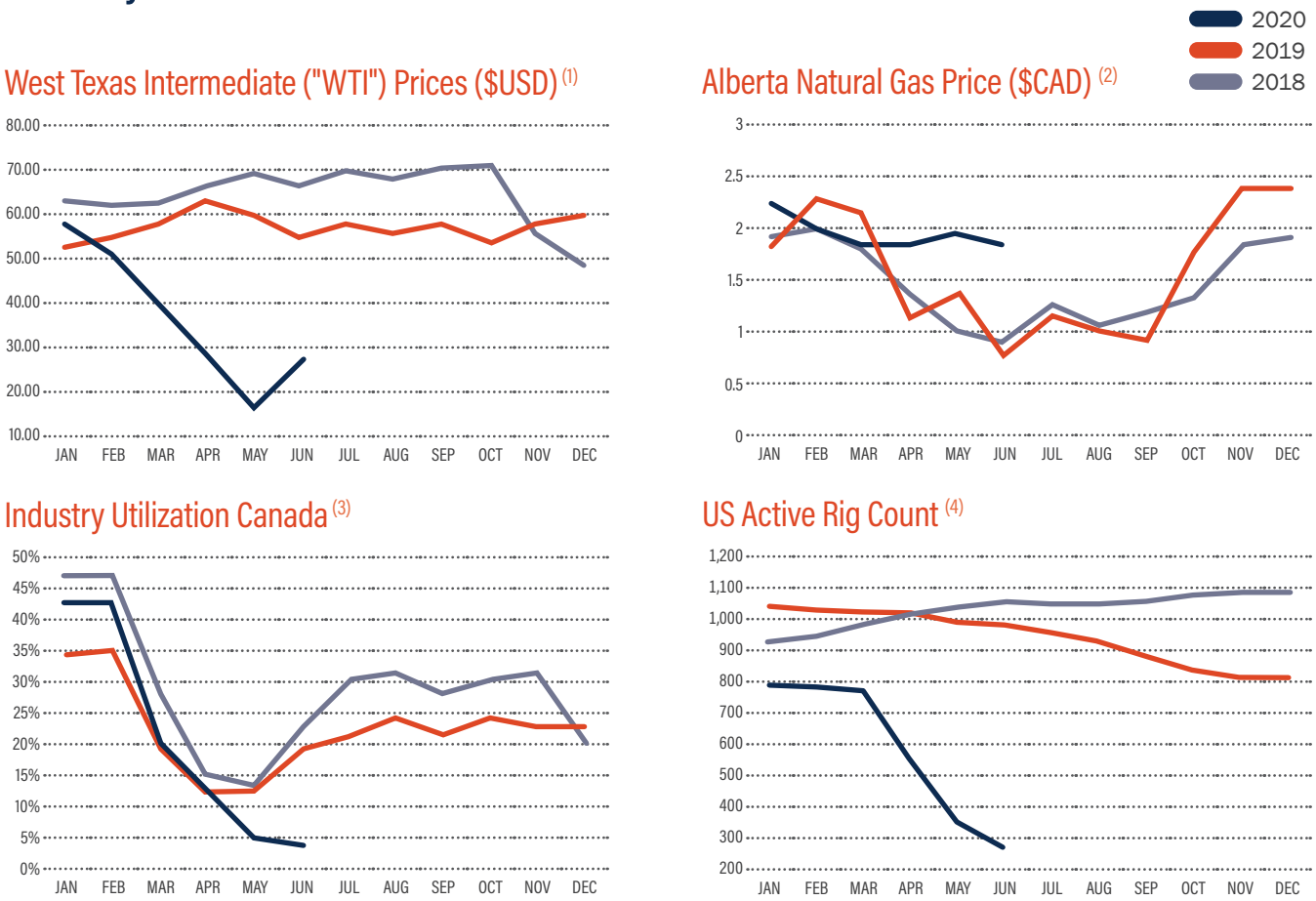
[1] See "Basis of Analysis in this MD&A and Non-GAAP Items".

Operational Highlights

	For the three months ended June 30				For the six months ended June 30			
	2020	2019	Change	% Change	2020	2019	Change	% Change
Operating days								
Canada	99	274	(175)	(64%)	712	878	(166)	(19%)
United States	544	1,008	(464)	(46%)	1,652	2,148	(496)	(23%)
Revenue per operating day [1]								
Canada [2]	50,505	31,518	18,987	60%	33,239	31,141	2,098	7%
United States	39,342	31,874	7,468	23%	37,097	31,019	6,078	20%
Operating and maintenance per operating day [1]								
Canada [2]	41,061	21,515	19,546	91%	25,538	21,268	4,270	20%
United States	31,031	22,743	8,288	36%	29,007	20,557	8,450	41%
Utilization								
Canada	5%	13%	(8%)	(62%)	17%	21%	(4%)	(19%)
United States	33%	65%	(32%)	(49%)	51%	70%	(19%)	(27%)

[1] See "Basis of Analysis in this MD&A and Non-GAAP Items".
[2] Includes AKITA's share of Joint Venture revenue and expenses. See "Basis of Analysis in this MD&A and Non-GAAP" items.

Industry Overview



1) Source: U.S. Energy Information Administration
2) Source: Natural Gas Exchange
3) Source: Canadian Association of Oilwell Drilling Contractors (CAODC)
4) Source: Baker Hughes North American Rotary Rig Count

Oil and gas contract drilling activity is cyclical and is affected by numerous factors, most importantly world crude oil prices and North American natural gas prices. In March 2020, the World Health Organization declared a global pandemic related to COVID-19. To date, the COVID-19 related economic slowdown has resulted in significant declines and volatility in the stock markets, as well as steep reductions in both global oil demand and prices. Additionally, an increase in the global oil supply, brought about by the Saudi Arabia and Russia oil price war, placed further negative pressure on oil prices which reached cycle lows in April of 2020. There is significant ongoing uncertainty surrounding the future impact of COVID-19 on both demand and prices for the Company's drilling services.

In Canada, industry utilization was higher at the beginning of the first quarter of 2020 than at the same point in the prior year, but declined rapidly in March as the above mentioned factors reduced demand for drilling services. By the end of March 2020, the Company had four active rigs, before dropping further to just one active rig through most of the second quarter of 2020. The total active rig count in Canada dropped 41% from 41 rigs at the end of March 2020 to just 21 active rigs at the end of June 2020, out of 512 total rigs in the Western Canadian fleet.

In the US, industry activity in the second quarter of 2020 was significantly lower than the prior year, as activity declined steadily throughout the latter part of 2019, due to the volatility in oil and gas prices and the pressure on operators to operate within free cash flow. These pressures were exacerbated in late Q1 2020 by the effects of the Saudi Arabia and Russia oil price war and the effects

of the COVID-19 global pandemic. Several rigs operating in the first quarter shut down drilling operations as prices dropped further, leaving six active rigs at the end of June 2020, down from 11 active rigs at the end of March 2020. The total active rig count in the US has dropped 65% from 790 rigs at the start of the year to 274 rigs at the end of June 2020.

General Overview

Results for the second quarter of 2020, when compared to the second quarter of 2019, were very similar from a net loss and funds flow from operations perspective, which were $5,221,000 and $2,099,000 respectively, compared to $5,067,000 and $1,516,000 in the second quarter of 2019. The impact of low oil prices and low demand for oil and gas is evident when examining the Company's activity. In Canada, operating days fell by 64% to 99 operating days in the second quarter of 2020 from 274 operating days in the same period of 2019. In the US, activity fell 46% to 544 operating days in the second quarter of 2020 from 1,008 operating days in the second quarter of 2019. With both activity and oil prices declining significantly in the first quarter of 2020, the Company underwent a significant cost cutting initiative, reducing costs in all areas of the Company. The impact of these cost reductions can be seen in the second quarter of 2020, compared to the same period of 2019.

Results by Geographic Segment

Canada

	For the three months ended June 30				For the six months ended June 30			
($Thousands except per day amounts)	2020	2019	Change	% Change	2020	2019	Change	% Change
Revenue [1]	5,000	8,636	(3,636)	(42%)	23,666	27,342	(3,676)	(13%)
Operating and maintenance expenses [1]	4,065	5,895	(1,830)	(31%)	18,183	18,673	(490)	(3%)
Operating income	935	2,741	(1,806)	(66%)	5,483	8,669	(3,186)	(37%)
Margin %	19%	32%	(13%)	(41%)	23%	32%	(9%)	(28%)
Operating days	99	274	(175)	(64%)	712	878	(166)	(19%)
Revenue per operating day [1] [2]	50,505	31,518	18,987	60%	33,239	31,141	2,098	7%
Operating and maintenance expenses per operating day [1] [2]	41,061	21,515	19,546	91%	25,538	21,268	4,270	20%
Operating income per operating day	9,444	10,003	(559)	(6%)	7,701	9,873	(2,172)	(22%)
Utilization	5%	13%	(8%)	(62%)	17%	21%	(4%)	(19%)
Rig count	22	23	(1)	(4%)	22	23	(1)	(4%)

[1] Includes AKITA's share of Joint Venture revenue and expenses. See "Basis of Analysis in this MD&A and Non-GAAP Items".
[2] See "Basis of Analysis in this MD&A and Non-GAPP Items".

Second Quarter

Utilization rates are a key statistic for the drilling industry since they directly affect revenue and influence pricing. During the second quarter of 2020, AKITA achieved 99 operating days in Canada, which corresponds to a utilization rate of 5%, compared to 13% (274 days) in the second quarter of 2019, with an industry average of 4% in the second quarter of 2020 compared to 18% over the same period in 2019.

Activity in Canada, for AKITA and the industry, decreased in 2020 from 2019 as the oil demand impact of COVID-19 worsened in the quarter, and the volatility of oil prices further impacted the uncertainty over the future of the Canadian market.

Canadian revenue of $5,000,000 in the second quarter of 2020 was 42% lower than in the second quarter of 2019 ($8,636,000), due to decreased activity in 2020. Operating income per operating day decreased to $9,444 in the second quarter of 2020 from $10,003 in the same period of 2019, due to pricing pressure caused by a lack of demand. 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.

The Company's drilling rig count in Canada decreased to 22 drilling rigs between the second quarter of 2019 and the same period in 2020 as one drilling rig was moved to the US in January of 2020.

Year-to-Date

During the first six months of 2020, revenue decreased to $23,666,000 from $27,342,000 during the first six months of 2019 as a result of a 19% reduction in operating days. Operating and maintenance costs, including AKITA's share of costs from its joint venture drilling rigs, are usually tied to activity levels and decreased to $18,183,000 in the first half of 2020 from $18,673,000 in the first half of 2019. On a per day basis, costs increased by 20% in the first half of 2020 compared to the first half of 2019. This cost increase related to flow through costs that are refunded by the operator. There was not a corresponding increase in revenue per day due to pricing pressure from operators to reduce day rates year-over-year.

United States

	For the three months ended June 30				For the six months ended June 30			
$Thousands (CAD) except per day amounts	2020	2019	Change	% Change	2020	2019	Change	% Change
Revenue	21,402	32,129	(10,727)	(33%)	61,285	66,629	(5,344)	(8%)
Operating and maintenance expenses	16,881	22,925	(6,044)	(26%)	47,919	44,157	3,762	9%
Operating income	4,521	9,204	(4,683)	(51%)	13,366	22,472	(9,106)	(41%)
Margin %	21%	29%	(8%)	(28%)	22%	34%	(12%)	(35%)
Operating days	544	1,008	(464)	(46%)	1,652	2,148	(496)	(23%)
Revenue per operating day [1]	39,342	31,874	7,468	23%	37,097	31,019	6,078	20%
Operating and maintenance expenses per operating day [1]	31,031	22,743	8,288	36%	29,007	20,557	8,450	41%
Operating income per operating day	8,311	9,131	(820)	(9%)	8,090	10,462	(2,372)	(23%)
Utilization	33%	65%	(32%)	(49%)	51%	70%	(19%)	(27%)
Rig count	18	17	1	6%	18	17	1	6%

[1] See "Basis of Analysis in this MD&A and Non-GAAP Items".

Second Quarter

Activity levels in the US were impacted by the collapse in oil prices as drilling rigs began to shut down near the end of the first quarter and continued to slow down through the second quarter of 2020.

Revenue in the US was $21,402,000 for the second quarter of 2020, down from $32,129,000 in the same period in 2019. This drop in revenue is attributable to the decrease in operating days, which fell 46% to 544 operating days in the second quarter of 2020 from 1,008 operating days over the same period in 2019. The impact of COVID-19 on demand for oil and gas and the price of WTI were the dominant factors contributing to the decrease in activity. Revenue in the US accounted for 81% (2019 – 78%) of the Company's total second quarter revenue in 2020.

Operating income per operating day fell to $8,311 in the second quarter of 2020 from $9,131 in the same period of 2019 due to pricing pressure from operators as demand began to fall.

Year-to-Date

During the first six months of 2020, operating income decreased to $13,366,000 from $22,472,000 in the same period in 2019. Higher operating and maintenance costs in the first quarter of 2020, relating to rig start-up costs and move costs, combined with lower activity in the second quarter of 2020 are the primary factors contributing to the decrease in operating income.

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.

While activity in the northern part of the US is subject to a degree of seasonality, it is less affected by spring break-up than are AKITA's operations in northern Canada. Other areas in the US where AKITA conducts drilling operations are infrequently subject to weather constraints, especially in the southern states, 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.

Depreciation and Amortization Expense

	For the three months ended June 30				For the six months ended June 30			
$Millions	**2020**	2019	Change	% Change	**2020**	2019	Change	% Change
Depreciation and amortization expense	**7.8**	9.1	(1.3)	(14%)	**17.6**	18.1	(0.5)	(3%)

Depreciation and amortization expense decreased to $7,804,000 during the second quarter of 2020 from $9,105,000 during the corresponding period in 2019, due to the impact of the $60,000,000 asset impairment loss the Company recorded in the first quarter of 2020.

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 half of 2020, drilling rig depreciation accounted for 97% of total depreciation expense, compared to 91% in the first half of 2019.

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 June 30				For the six months ended June 30			
$Millions	2020	2019	Change	% Change	2020	2019	Change	% Change
Selling and administrative expenses	2.1	4.3	(2.2)	(51%)	4.0	10.5	(6.5)	(62%)

Selling and administrative expenses decreased to $3,965,000 in the first half of 2020 (5% of revenue) from $10,501,000 (15% of revenue) in the first half of 2019, due to cost cutting measures implemented by the Company in light of the current low demand for drilling services, as well as the reversal of previously accrued amounts and the receipt of COVID-19 related government grants. Salaries and benefits accounted for 79% of these expenses (2019 - 41%).

Asset Impairment Loss

	For the three months ended June 30				For the six months ended June 30			
$Millions	2020	2019	Change	% Change	2020	2019	Change	% Change
Asset impairment loss	-	-	-	n/a	60.0	-	60.0	n/a

At June 30, 2020, the Company determined that no new indicators of asset impairment were present and the facts and assumptions used in the asset impairment calculations at March 31, 2020, remained consistent and therefore no additional asset impairment testing was done at June 30, 2020.

International Accounting Standard 36, "Impairment of Assets", requires an entity to consider both internal and external factors when assessing whether there are indications of asset impairment at each reporting period. At March 31, 2020, the Company determined that the uncertainty and volatility of oil prices, which impact the future earnings potential of the Company's Cash Generating Units ("CGU") and that the Company's book value of its net assets exceeded its market capitalization were external indicators of asset impairment and therefore, the Company tested its CGUs for asset impairment.

The asset impairment tests indicated that the Company's CGU's carrying amounts exceeded their recoverable amounts resulting in asset impairment losses of $60,000,000. The Company's Canadian CGU and the US CGU each recorded an asset impairment of $30,000,000.

As at March 31, 2020, the recoverable amounts of these CGUs were determined using the value-in-use basis. Value-in-use was calculated using the discounted cash flows for each CGU using the Company's 2020 forecast as well as internal projections as the bases for the calculation of discounted cash flows.

The assumptions used in the value-in-use impairment tests were based on the Company's Board of Directors approved 2020 forecast, which assumes activity levels and oil prices will remain low for 2020 and begin a slow recovery in 2021. The Company applied an average growth rate ranging from 5% to 15% over a 10 year period, depending on the CGU being analyzed. In forecasting its projected cash flows, the Company assumed that current market conditions will persist for 2020 with low day rates and activity and show marginal activity improvements in 2021 with improvements in both revenue per operating day and operating activity into the future. The Company assumed a pre-tax discount rate of 14.5% to calculate the present value of projected cash flows. Determination of the discount rate included analysis of the cost of debt and equity for the Company and the North American drilling industry, incorporating a risk premium based on current market conditions. This valuation has a fair value hierarchy of Level 3.

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

- Reduced and increased future revenue assumptions by 5% resulting in increases to the Company's CGUs from $16 million to $29 million per CGU and reductions ranging from $16 million to $40 million per CGU ; and
- Increased and reduced the Company's pre-tax discount rate by 1% resulting in reductions between $4 million and $12 million per CGU and increases from $4 million to $13 million per CGU.

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

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

Equity Income (Loss) from Joint Ventures

	For the three months ended June 30				For the six months ended June 30			
$Millions	**2020**	2019	Change	% Change	**2020**	2019	Change	% Change
Proportionate share of revenue from joint ventures	**-**	1.6	(1.6)	(100%)	**5.0**	2.5	2.5	100%
Proportionate share of operating & maintenance expenses from joint ventures	**0.1**	1.2	(1.1)	(92%)	**4.0**	1.8	2.2	122%
Proportionate share of selling and administrative expenses from joint ventures	**-**	-	-	n/a	**0.1**	0.1	-	0%
Equity income (loss) from joint ventures	**(0.1)**	0.4	(0.5)	(125%)	**0.9**	0.6	0.3	50%

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 Company's joint ventures were more active in the first quarter of 2020 than the first quarter of 2019, but this increased activity did not continue into the second quarter of 2020.

Other Income (Loss)

	For the three months ended June 30				For the six months ended June 30			
$Millions	**2020**	2019	Change	% Change	**2020**	2019	Change	% Change
Interest income	**-**	-	-	n/a	**-**	-	-	n/a
Interest expense	**(1.1)**	(1.6)	0.5	31%	**(2.5)**	(3.6)	1.1	31%
Gain (loss) on sale of assets	**(0.2)**	0.1	(0.3)	(300%)	**(0.2)**	(0.3)	0.1	33%
Net other losses	**(0.1)**	(0.1)	-	0%	**-**	(0.1)	0.1	100%
Total other loss	**(1.4)**	(1.6)	0.2	13%	**(2.7)**	(4.0)	1.3	33%

In the first six months of 2020, the Company recorded interest expense of $2,504,000, down from $3,552,000 in the same period of 2019. This decrease is due to repaying a portion of the high-interest debt assumed upon the acquisition of Xtreme Drilling Corp. ("Xtreme") in 2018 as well as lower average interest rates on the Company's credit facility. Interest expense in the first half of 2020 also includes $111,000 (2019 - $93,000) related to International Financial Reporting Standards ("IFRS") 16, "Leases".

During the first half of 2019, the Company incurred a loss on sale of assets in the amount of $161,000 related to selling certain non-core assets in the US (2019 - $303,000). Total proceeds from the sale of assets were $1,159,000 (2019 - $769,000).

Income Tax Expense (Recovery)

	For the three months ended June 30				For the six months ended June 30			
$Millions	**2020**	2019	Change	% Change	**2020**	2019	Change	% Change
Current tax expense (recovery)	**-**	-	-	n/a	**-**	-	-	n/a
Deferred tax recovery	**(0.7)**	(2.4)	1.7	71%	**(8.0)**	(2.8)	(5.2)	(186%)
Total income tax recovery	**(0.7)**	(2.4)	1.7	71%	**(8.0)**	(2.8)	(5.2)	(186%)

The Company recorded a deferred tax recovery of $8,017,000 in the first six months of 2020, compared to a deferred tax recovery of $2,822,000 in the corresponding period in 2019. The increase in the deferred tax recovery relates to the asset impairment loss of $60,000,000 that was recorded in the first quarter of 2020. The Company's effective tax rate for the six months ended June 30, 2020, was 25.7% compared to 26.6% for the same period in 2019.

Net Loss, Net Cash and Adjusted Funds Flow

	For the three months ended June 30				For the six months ended June 30			
$Millions	**2020**	2019	Change	% Change	**2020**	2019	Change	% Change
Net loss	**(5.2)**	(5.1)	(0.1)	(2%)	**(57.5)**	(6.5)	(51.0)	(785%)
Net cash from operating activities	**13.6**	24.9	(11.3)	(45%)	**18.2**	20.6	(2.4)	(12%)
Adjusted funds flow from operations [1]	**2.1**	1.5	0.6	40%	**12.2**	9.3	2.9	31%

[1] See "Basis of Analysis in this MD&A and Non-GAAP Items".

The Company incurred a net loss of $5,221,000 ($0.13 per Class A Non-Voting and Class B Common share, basic and diluted) for the second quarter of 2020, compared to a net loss of $5,067,000 ($0.13 per Class A Non-Voting and Class B Common share, basic and diluted) in the second quarter of 2019. Adjusted funds flow from operations[1] increased to $2,099,000 in the second quarter of 2020, from $1,516,000 during the corresponding quarter in 2019. The increase in net loss is due to a larger deferred tax recovery in 2019 of $2,415,000 compared to a deferred tax recovery of $704,000 in the second quarter of 2020. Adjusted funds flow from operations[1] increased quarter–over-quarter, due to lower costs in the second quarter of 2020 compared to the second quarter of 2019.

The Company incurred a net loss of $57,478,000 ($1.45 per Class A Non-Voting and Class B Common share, basic and diluted), for the first six months of 2020 compared to a net loss of $6,536,000 ($0.17 per Class A Non-Voting and Class B Common share, basic and diluted) in the corresponding period of 2019. The Company recorded an asset impairment loss of $60,000,000 in the first quarter of 2020 (2019 – $nil) which resulted in the increased loss in the first half of 2020 over the corresponding period in 2019. Adjusted funds

flow from operations[1] increased to $12,253,000 during the first six months of 2020 from $9,300,000 in the corresponding period in 2019. The increase is primarily related to the Company's cost cutting initiatives as discussed above.

Summary of Quarterly Results

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

	Three Months Ended			
$Thousands, except per share (Unaudited)	Mar. 31	Jun. 30	Sep. 30	Dec. 31
2020				
Revenue	**53,572**	**26,359**		
Net loss	**(52,257)**	**(5,221)**		
Loss per share (basic and diluted) ($)	**(1.32)**	**(0.13)**		
Adjusted funds flow from operations[1]	**10,154**	**2,099**		
Cash flow from operations	**4,583**	**13,621**		
2019				
Revenue	52,342	39,119	42,610	41,819
Net loss	(1,470)	(5,067)	(5,397)	(7,941)
Loss per share (basic and diluted) ($)	(0.04)	(0.13)	(0.14)	(0.19)
Adjusted funds flow from operations[1]	7,785	1,516	3,076	462
Cash flow from (used in) operations	(4,287)	24,903	(735)	1,677
2018				
Revenue	27,089	17,293	22,465	51,514
Net loss	(1,912)	(2,959)	(5,459)	(5,609)
Loss per share (basic and diluted) ($)	(0.11)	(0.16)	(0.24)	(0.14)
Adjusted funds flow from (used in) operations[1]	4,519	1,638	(637)	8,615
Cash flow from (used in) operations	2,819	9,860	(7,428)	(13,745)

[1] See "Basis of Analysis in this MD&A and Non-GAAP Items".

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

- Activity levels, which directly impact revenue and net income, decreased in 2019 compared to 2018, and further decreased in 2020, negatively impacted the Company's financial results;
- The impact on revenue of the Company's acquisition of Xtreme at the end of the third quarter of 2018 is reflected in the fourth quarter of 2018 and all subsequent quarters; and
- Day rates in Canada and the US continue to be below full cycle returns, resulting in lower than anticipated adjusted funds flow from operations[1] and net earnings for the Company.

Liquidity and Capital Resources

Cash used for capital expenditures totalled $5,139,000 in the first six months of 2020 compared to $7,782,000 in the same period of 2019. Year-to-date capital spending relates to routine capital items such as 1000 day certifications and drill pipe, as did the prior year's capital spending.

At June 30, 2020, AKITA's Statements of Financial Position included working capital (current assets minus current liabilities) of $14,382,000 compared to $13,466,000 at June 30, 2019, and $4,155,000 at December 31, 2019. 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. The Company had non-cash working capital of $4,316,000 at June 30, 2020, compared to non-cash working capital of $4,155,000 at December 31, 2019. Working capital at June 30, 2020, increased compared to June 30, 2019, due to no dividends paid in 2020 to date.

The Company has a syndicated credit agreement with the Company's principal banker as the agent on the syndication and three other Canadian banks in the syndication. The operating loan facility totals $110,000,000 with the term ending in 2023. The credit agreement was amended on July 17, 2020, to include a covenant relief period that will extend to June 30, 2021 (the "Covenant Relief Period"). The interest rate during the covenant relief period ranges from 225 to 350 basis points over prime interest rates depending on the Funded Debt[(1)] to Tangible Net Worth[(1)] Ratio. Security for this facility includes all present and after-acquired personal property and a first floating charge over all other present and after-acquired property including real property. The financial covenants are:

1. The Funded Debt[(1)] to Tangible Net Worth[(1)] Ratio: the Company shall ensure that:
   i. For the fiscal quarter ended June 30, 2020, Funded Debt[(1)] to Tangible Net Worth[(1)] Ratio shall not be more than 0.50:1.00; and
   ii. For the fiscal quarters ended September 30, 2020 to June 30, 2021, the Funded Debt[(1)] to Tangible Net Worth[(1)] Ratio shall not be more than 0.75:1.00.

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

2. EBITDA[(1)] to Interest Expense[(1)] Ratio: the Company shall ensure that:
   i. For the fiscal quarter ended June 30, 2020, EBITDA[(1)] to Interest Expense[(1)] Ratio shall not be less than 3.00:1.00;
   ii. For the fiscal quarter ended September 30, 2020, EBITDA[(1)] to Interest Expense[(1)] Ratio shall not be less than 2.00:1.00;
   iii. For the fiscal quarter ended December 31, 2020, EBITDA[(1)] to Interest Expense[(1)] Ratio shall not be less than 1.25:1.00; and
   iv. For the fiscal quarters ended March 31, 2021 and June 30, 2021, the EBITDA[(1)] to Interest Expense[(1)] Ratio is waived.

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

3. A minimum trailing twelve month EBITDA[(1)] test will be required quarterly during the Covenant Relief Period, with EBITDA[(1)] varying each period in line with agreed upon forecasts.

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

i. Funded Debt[1] to EBITDA[1] Ratio of not more than 3.00:1.00

ii. EBITDA[1] to Interest Expense[1] Ratio of not less than 3.00:1.00

At June 30, 2020, the Company was in compliance with its covenants with a Funded Debt[1] to Tangible Net Worth[1] Ratio of 0.37:1.00, an EBITDA[1] to Interest Expense[1] Ratio of 4.28:1.00 and a trailing twelve month EBITDA[1] in excess of the $19,296,000 minimum threshold.

The facility also includes a borrowing base calculation as follows:

The sum of:

i. 75% of Eligible Accounts Receivable[1]; plus

ii. 50% of the orderly liquidated value of all Eligible Rig Assets[1]; less

iii. Priority Payables[1] of the Loan Parties.

At June 30, 2020, the Company's borrowing base totalled $113,673,000.

The operating loan facility has been classified as long-term debt as the credit agreement has no required repayment obligations prior to the end of the loan facility term. At June 30, 2020, the Company had $74,304,000 outstanding on its operating loan facility (2019 – $72,839,000).

In addition to its operating loan facility, the Company has $5,346,000 in debt outstanding at June 30, 2020 (June 30, 2019 - $12,239,000).

At June 30, 2020, the Company's average interest rate on the Company's operating loan facility was 3.64% for the second quarter of 2020 and 4.84% for the six months ended June 30, 2020.

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 indusry 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 contained within its banking facility and lose the ability to draw on the facility to meet its financial obligations or have to repay the amounts outstanding on the facility. This could also be the case if oil prices continue at current levels and the Company's customers make further cuts to their capital budgets.

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

Future Outlook and Strategy

The drilling industry is cyclical and certain key factors that have an impact on 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 COVID-19 pandemic and the Saudi Arabia/Russian price war on global oil demand has had a tremendous impact on North American oil storage capacity and a devastating impact on oil prices. With storage levels reaching maximums at a time when much of the world's economy is paused to mitigate the spread of COVID-19, the Company does not anticipate a near-term recovery of demand for drilling services. Despite oil prices recovering from the lows seen in April of this year, demand for drilling services has not improved, active rig counts continue to drop in the US, and Canadian activity remains low. This lack of demand is expected to continue through 2020 and well into 2021. The Company's focus, in both Canada and the US, will be on keeping costs low and maintaining capital expenditure restraint.

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 $5,251,000 at June 30, 2020 (June 30, 2019 - $4,772,000). AKITA utilizes the services of a third party to assist in the actuarial estimate of the Company's pension expense and liability. For 2020, a key assumption is the 3.0% discount rate (2019 – 3.6%).

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, 2019	37,954,407	$144,898	1,653,784	$1,366	39,608,191	$146,264
Shares issued in the first half of 2020	-	-	-	-	-	-
June 30, 2020	**37,954,407**	**$144,898**	**1,653,784**	**$1,366**	**39,608,191**	**$146,264**

At July 30, 2020, the Company had 37,954,407 Class A Non-Voting shares and 1,653,784 Class B Common shares outstanding. At that date, there were also 885,000 stock options outstanding, of which 233,000 were exercisable.

Basis of Analysis in this MD&A and Non-GAAP Items

Revenue and Operating and Maintenance Expenses in Canada

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.

	For the three months ended June 30		For the six months ended June 30	
$Thousands	**2020**	2019	**2020**	2019
Revenue from wholly-owned drilling rigs in Canada	**4,957**	6,990	**18,646**	24,832
Revenue from joint venture drilling rigs	**43**	1,646	**5,020**	2,510
Revenue in Canada	**5,000**	8,636	**23,666**	27,342
Operating and maintenance expenses from wholly-owned drilling rigs in Canada	**3,992**	4,704	**14,146**	16,837
Operating and maintenance expenses from joint venture drilling rigs	**73**	1,191	**4,037**	1,836
Operating and maintenance expenses in Canada	**4,065**	5,895	**18,183**	18,673

Per Operating Day

AKITA's revenue per operating day and AKITA's operating and maintenance expenses per operating day are not recognized GAAP measures under IFRS. Nonetheless, management and certain investors may find "per operating day" measures for AKITA's revenue indicative of pricing strength while AKITA's operating and maintenance expenses per operating day helpful to assess the effectiveness of the Company's cost control and to provide a proxy for specific inflation rates incurred by the Company. Readers should be cautioned that in addition to the foregoing, other factors, including the mix of drilling rigs that are utilized, can also influence these results.

Adjusted EBITDA

Adjusted earnings before interest, tax, depreciation and amortization ("EBITDA") is not a recognized GAAP measure under IFRS and readers of this MD&A should note that adjusted EBITDA calculations may differ between AKITA and other companies. Adjusted EBITDA is used by management and investors to analyze the Company's profitability based on the Company's principal business activities prior to how these activities are financed, how assets are depreciated and amortized and how the results are taxed in various jurisdictions. AKITA calculates adjusted EBITDA as follows:

	For the three months ended June 30		For the six months ended June 30	
$Thousands	**2020**	2019	**2020**	2019
Net loss	**(5,221)**	(5,067)	**(57,487)**	(6,536)
Interest expense	**1,106**	1,556	**2,504**	3,552
Income tax recovery	**(704)**	(2,415)	**(8,017)**	(2,822)
Depreciation and amortization expense	**7,804**	9,105	**17,622**	18,107
Asset impairment loss	**-**	-	**60,000**	-
Adjusted EBITDA	**2,985**	3,179	**14,622**	12,301

Adjusted Funds Flow from Operations

Adjusted funds flow from operations is not a recognized GAAP measure under IFRS and users of these financial statements 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. 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.

	For the three months ended June 30		For the six months ended June 30	
$Thousands	**2020**	2019	**2020**	2019
Net cash from operating activities	**13,621**	24,903	**18,204**	20,615
Income tax (recoverable) payable	**(7)**	(12)	**8**	(23)
Interest paid	**1,018**	1,471	**2,315**	3,372
Interest expense	**(1,106)**	(1,556)	**(2,504)**	(3,552)
Post-employment benefits paid	**22**	22	**45**	45
Equity income (loss) from joint ventures	**(45)**	425	**891**	644
Change in non-cash working capital	**(11,404)**	(23,737)	**(6,706)**	(11,801)
Adjusted funds flow from operations	**2,099**	1,516	**12,253**	9,300

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.

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.

Forward-looking statements may be influenced by factors such as prevailing economic conditions (including as may be affected by the COVID-19 pandemic); the level of exploration and development activity carried on by AKITA's customers; world crude oil prices and North American natural gas prices; global liquified natural gas (LNG) demand; weather; access to capital markets; and government policies. We caution that the foregoing list of factors is not exhaustive and that while relying on forward-looking statements to make decisions with respect to AKITA, investors and others should carefully consider the foregoing factors, as well as other uncertainties and events, prior to making a decision to invest in AKITA. Except where required by law, the Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by it or on its behalf.

Management's Responsibility for Financial Information

As at June 30, 2020, 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 June 30, 2020.

No changes were made to the Company's internal control over financial reporting ("ICFR") during the quarter ended June 30, 2020, 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.

Interim Statements of Financial Position

Unaudited $Thousands		June 30, 2020	December 31, 2019
ASSETS			
Current Assets			
Cash		$ 10,066	$ -
Accounts receivable	Note 10	17,331	32,108
Income taxes recoverable		167	159
Prepaid expenses and other		3,393	1,964
		30,957	34,231
Non-current Assets			
Other long-term assets		1,866	1,959
Investments in joint ventures	Note 9	1,944	1,648
Right-of-use assets	Note 7	2,750	2,951
Property, plant and equipment	Note 8	255,302	328,327
TOTAL ASSETS		$ 292,819	$ 369,116
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities		$ 11,837	$ 18,942
Deferred revenue		417	461
Current portion of lease obligations	Note 7	1,044	1,351
Current portion of long-term debt	Note 12	3,277	9,322
		16,575	30,076
Non-current Liabilities			
Deferred income taxes		3,255	11,272
Deferred share units	Note 14	77	222
Pension liability		5,251	5,208
Lease obligations	Note 7	2,526	2,507
Long-term debt	Note 12	76,373	74,697
Total Liabilities		104,057	123,982
SHAREHOLDERS' EQUITY			
Class A and Class B shares	Note 13	146,264	146,264
Contributed surplus		5,116	5,015
Accumulated other comprehensive income (loss)		792	(213)
Retained earnings		36,590	94,068
Total Equity		188,762	245,134
TOTAL LIABILITIES AND EQUITY		$ 292,819	$ 369,116

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

Interim Statements of Net Loss & Comprehensive Loss

Unaudited $Thousands, except per share amounts		For the three months ended June 30, 2020	For the three months ended June 30, 2019	For the six months ended June 30, 2020	For the six months ended June 30, 2019
REVENUE	Note 4	$ 26,359	$ 39,119	$ 79,931	$ 91,461
COSTS AND EXPENSES					
Operating and maintenance		20,874	32,004	62,066	68,871
Depreciation and amortization	Note 8	7,804	9,105	17,622	18,107
Asset impairment loss	Note 8	-	-	60,000	-
Selling and administrative	Note 5	2,141	4,334	3,965	10,501
Total Costs and Expenses		30,819	45,443	143,653	97,479
Revenue Less Costs and Expenses		(4,460)	(6,324)	(63,722)	(6,018)
EQUITY INCOME (LOSS) FROM JOINT VENTURES	Note 9	(45)	425	891	644
OTHER INCOME (LOSS)					
Interest income		5	8	17	11
Interest expense		(1,106)	(1,556)	(2,504)	(3,552)
Gain (loss) on sale of assets		(161)	62	(161)	(303)
Net other losses		(158)	(97)	(16)	(140)
Total Other Loss		(1,420)	(1,583)	(2,664)	(3,984)
Loss Before Income Taxes		(5,925)	(7,482)	(65,495)	(9,358)
Income tax recovery		(704)	(2,415)	(8,017)	(2,822)
NET LOSS FOR THE PERIOD ATTRIBUTABLE TO SHAREHOLDERS		(5,221)	(5,067)	(57,478)	(6,536)
OTHER COMPREHENSIVE INCOME (LOSS) Items that may be subsequently reclassified to profit or loss					
Foreign currency translation adjustment		(191)	462	1,005	(193)
COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO SHAREHOLDERS		$ (5,412)	$ (4,605)	$ (56,473)	$ (6,729)
NET LOSS PER CLASS A AND CLASS B SHARE	Note 3				
Basic		$ (0.13)	$ (0.13)	$ (1.45)	$ (0.17)
Diluted		$ (0.13)	$ (0.13)	$ (1.45)	$ (0.17)

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

Interim Statements of Changes in Shareholders' Equity

Unaudited $Thousands	Attributable to the Shareholders of the Company						
	Class A Non-Voting Shares	**Class B Common Shares**	**Total Class A and Class B Shares**	**Contributed Surplus**	**Accumulated Other Comprehensive Income (Loss)**	**Retained Earnings**	**Total Equity**
BALANCE AT DECEMBER 31, 2018	$ 144,898	$ 1,366	$ 146,264	$ 4,701	$ 86	$ 120,677	$ 271,728
Net loss for the period	-	-	-	-	-	(6,536)	(6,536)
Foreign currency translation adjustment	-	-	-	-	(193)	-	(193)
Stock options charged to expense	-	-	-	195	-	-	195
Dividends	-	-	-	-	-	(6,734)	(6,734)
BALANCE AT JUNE 30, 2019	$ 144,898	$ 1,366	$ 146,264	$ 4,896	$ (107)	$ 107,407	$ 258,460
Net loss for the period	-	-	-	-	-	(13,339)	(13,339)
Remeasurement of pension liabiity	-	-	-	-	178	-	178
Foreign currency translation adjustment	-	-	-	-	(284)	-	(284)
Stock options charged to expense	-	-	-	119	-	-	119
BALANCE AT DECEMBER 31, 2019	$ 144,898	$ 1,366	$ 146,264	$ 5,015	$ (213)	$ 94,068	$ 245,134
Net loss for the period	-	-	-	-	-	(57,478)	(57,478)
Foreign currency translation adjustment	-	-	-	-	1,005	-	1,005
Stock options charged to expense	-	-	-	101	-	-	101
BALANCE AT JUNE 30, 2020	$ 144,898	$ 1,366	$ 146,264	$ 5,116	$ 792	$ 36,590	$ 188,762

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

Interim Statements of Cash Flows

Unaudited $Thousands		For the three months ended June 30, 2020	For the three months ended June 30, 2019	For the six months ended June 30, 2020	For the six months ended June 30, 2019
OPERATING ACTIVITIES					
Net loss		$ (5,221)	$ (5,067)	$ (57,478)	$ (6,536)
Non-cash items included in net loss:					
Depreciation and amortization	Note 8	7,804	9,105	17,622	18,107
Asset impairment loss	Note 8	-	-	60,000	-
Deferred income tax recovery		(704)	(2,415)	(8,017)	(2,822)
Defined benefit pension plan expense		3	9	9	19
Stock options and deferred share units (recovery) expense	Note 14	56	(53)	(44)	230
(Gain) loss on sales of assets		161	(62)	161	303
Change in non-cash working capital	Note 11	11,404	23,737	6,706	11,801
Equity (income) loss from joint ventures	Note 9	45	(425)	(891)	(644)
Post-employment benefits		(22)	(23)	(45)	(46)
Interest expense		1,106	1,556	2,504	3,552
Interest paid		(1,018)	(1,471)	(2,315)	(3,372)
Income taxes recoverable (payable)		7	12	(8)	23
Net Cash From Operating Activities		13,621	24,903	18,204	20,615
INVESTING ACTIVITIES					
Capital expenditures	Note 8	(1,612)	(6,759)	(5,139)	(7,782)
Change in non-cash working capital related to capital	Note 11	(742)	937	(621)	(939)
Net distributions from investments in joint ventures	Note 9	595	-	595	2,988
Change in restricted cash		-	-	-	756
Proceeds from sale of assets		1,159	90	1,159	769
Net Cash Used In Investing Activities		(600)	(5,732)	(4,006)	(4,208)
FINANCING ACTIVITIES					
Change in debt	Note 12	(7,075)	(6,290)	(4,552)	1,358
Dividends paid		-	(3,367)	-	(6,734)
Change in lease obligations		(291)	(515)	(585)	(909)
Net Cash Used In Financing Activities		(7,366)	(10,172)	(5,137)	(6,285)
Effect of Foreign Exchange on Cash		(191)	462	1,005	(193)
Increase In Cash		5,464	9,461	10,066	9,929
Cash, beginning of period		4,602	1,971	-	1,503
CASH, END OF PERIOD		$ 10,066	$ 11,432	$ 10,066	$ 11,432

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

NOTES CONTENTS

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the six months ended June 30, 2020 and June 30, 2019 (unaudited)

BUSINESS AND ENVIRONMENT

1. General Information

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

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

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

2. Basis of Preparation

The unaudited interim condensed consolidated financial statements ("interim financial statements") for the six months ended June 30, 2020, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as applicable to interim financial reports including International Accounting Standard ("IAS") 34, "Interim Financial Reporting", and should be read in conjunction with the audited annual consolidated financial statements, including the notes thereof for the year ended December 31, 2019, which have been prepared in accordance with IFRS.

The accounting policies applied in these interim financial statements are the same as those applied in the Company's 2019 Annual Report with the exception of Government Subsidies as disclosed in Note 5.

These interim financial statements were approved by the Company's Audit Committee on behalf of the Board of Directors on July 30, 2020.

Consolidation

The interim financial statements of the Company consolidate the accounts of AKITA and its subsidiaries which are entities over which the Company has control. Control exists when the Company has the power, directly or indirectly, to direct the relevant activities of an

entity so as to obtain benefit from its activities. Subsidiaries are fully consolidated from the date on which control is transferred to the Company and are deconsolidated from the date that control ceases. Inter-company transactions, balances and unrealized gains and losses from inter-company transactions are eliminated on consolidation.

Functional and Presentation Currency

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

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

Foreign Currency Translation

(i) Transactions and balances

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

(ii) Group companies

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

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

Estimates and Judgments

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

- Note 4 - Revenue
- Note 7 - Leases
- Note 8 - Property, Plant and Equipment
- Note 10 – Financial Instruments

In March 2020, the World Health Organization declared a global pandemic related to COVID-19. To date, the COVID-19 related economic slowdown has resulted in significant declines and volatility in the stock markets, as well as steep reductions in both global oil demand and prices. Additionally, an increase in the global oil supply has placed further negative pressure on oil prices. There is significant ongoing uncertainty surrounding the future impact of COVID-19 on demand and prices for the Company’s drilling services.

The economic conditions resulting from COVID-19 and the decline in global oil supply have affected the Company's financial results for the six months ended June 30, 2020. The Company recorded an asset impairment loss of $60,000,000 in the first quarter of 2020 (Note 8) and increased its expected credit loss (Note 10).

In the current environment, assumptions about future commodity prices, exchange rates, interest rates and customer credit performance are subject to greater variability than normal, which could in future significantly affect the valuation of the Company's assets.

RESULTS FOR THE QUARTER

3. Net Loss per Share

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	**2020**	2019
Net loss ($Thousands)	**$ (5,221)**	$ (5,067)	**$ (57,478)**	$ (6,536)
Weighted average outstanding shares	**39,608,191**	39,608,191	**39,608,191**	39,608,191
Incremental shares for diluted loss per share calculation [1]	**—**	—	**—**	—
Weighted average outstanding shares for loss per share calculation - diluted	**39,608,191**	39,608,191	**39,608,191**	39,608,191
Loss per share - basic	**$ (0.13)**	$ (0.13)	**$ (1.45)**	$ (0.17)
Loss per share - diluted	**$ (0.13)**	$ (0.13)	**$ (1.45)**	$ (0.17)

[1] For the second quarter of 2020 and 2019 as well as the six months ended June 30, 2020 and 2019, the outstanding shares that would have been issued under the Stock Option Plan were excluded in calculating the weighted average number of diluted shares outstanding as the Company incurred a net loss during the periods and therefore the shares were considered anti-dilutive.

4. Revenue

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

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

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

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

Significant Estimates and Judgments – Relative Stand-Alone Selling Price

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

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

	For the three months ended June 30,		For the six months ended June 30,	
$Thousands	2020	2019	2020	2019
Contract drilling services	$ 15,279	$ 20,567	$ 40,963	$ 41,355
Rig lease revenue	11,080	18,552	38,968	50,106
Total revenue	$ 26,359	$ 39,119	$ 79,931	$ 91,461

5. Government Subsidies

During the six month period ended June 30, 2020, the Company adopted the following accounting policy as a result of qualifying for the Canada Emergency Wage Subsidy (CEWS) program as enacted on April 11, 2020, by the federal government of Canada. The program is in effect from March 15, 2020, to December 2020, and provides a 75 percent wage subsidy, to a maximum of $847 per employee per week.

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

For the six month period ended June 30, 2020, the Company recorded $237,000 from the CEWS program.

6. Segmented Information

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

Geographical information is provided below:

	For the three months ended June 30, 2020			For the three months ended June 30, 2019		
$Thousands	Canada	US	Total	Canada	US	Total
Revenue	$ 4,957	$ 21,402	$ 26,359	$ 6,990	$ 32,129	$ 39,119
Revenue less costs and expenses	$ (2,860)	$ (1,600)	$ (4,460)	$ (4,791)	$ (1,533)	$ (6,324)

	For the six months ended June 30, 2020			For the six months ended June 30, 2019		
$Thousands	Canada	US	Total	Canada	US	Total
Revenue	$ 18,646	$ 61,285	$ 79,931	$ 24,832	$ 66,629	$ 91,461
Revenue less costs and expenses	$ (35,052)	$ (28,670)	$ (63,722)	$ (7,044)	$ 1,026	$ (6,018)

	June 30, 2020			June 30, 2019		
$Thousands	Canada	US	Total	Canada	US	Total
Property, plant and equipment	$ 57,609	$ 197,693	$ 255,302	$ 110,106	$ 229,395	$ 339,501

LONG-TERM ASSETS

7. Leases

Leasing Activities and Policies

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

Assets and liabilities arising from a lease are initially measured on a present value basis.

Lease liabilities include the net present value of the following lease payments:

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

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

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

The Right of Use ("ROU") assets are measured at cost comprising of the following:

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

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

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

Continuity of ROU Assets

$Thousands	Land and property	Rig equipment	Office equipment and software	Vehicles	Total
Balance as at December 31, 2018	$ -	$ -	$ -	$ -	$ -
January 1, 2019 additions	1,786	934	833	362	3,915
Additions	789	-	-	-	789
Amortization expense	(471)	(187)	(137)	(90)	(885)
Balance as at June 30, 2019	2,104	747	696	272	3,819
Additions	992	-	40	-	1,032
ROU asset writedown and impairment loss	(859)	-	-	-	(859)
Amortization expense	(494)	(261)	(188)	(98)	(1,041)
Balance as at December 31, 2019	1,743	486	548	174	2,951
Additions	**187**	**-**	**204**	**-**	**391**
Amortization expense	**(240)**	**(108)**	**(157)**	**(87)**	**(592)**
Balance as at June 30, 2020	**$ 1,690**	**$ 378**	**$ 595**	**$ 87**	**$ 2,750**

Lease Obligations

The Company recorded $111,000 in interest expense related to its lease obligations for the six month period ended June 30, 2020 (Q2 2019 – $93,000).

Critical Estimates and Judgments

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

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

8. Property, Plant and Equipment

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

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

Significant Estimates and Judgments

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

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

A summary of depreciation methodologies for the Company's major property, plant and equipment classes as at June 30, 2020 is as follows:

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

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

Impairment of Assets

IAS 36, "Impairment of Assets", requires an entity to consider both internal and external factors when assessing whether there are indications of asset impairment at each reporting period.

At June 30, 2020, the Company determined that no new indicators of asset impairment were present and the facts and assumptions used in the asset impairment calculations at March 31, 2020, remained consistent and therefore no asset impairment indicators were identified at June 30, 2020.

At March 31, 2020, the Company determined that the uncertainty and volatility of oil prices, which impacts the future earnings potential of the Company's Cash Generating Units ("CGU"), and that the Company's book value of its net assets exceeded its market capitalization were external indicators of impairment and therefore, the Company tested its CGUs for asset impairment.

The asset impairment tests indicated that the Company's CGU's carrying amounts exceeded their recoverable amounts resulting in asset impairment losses of $60,000,000. The Company's Canadian CGU and the US CGU each recorded an asset impairment of $30,000,000 as at March 31, 2020.

As at March 31, 2020, the recoverable amounts of these CGUs were determined using the value-in-use basis. Value-in-use was calculated using the discounted cash flows for each CGU using the Company's 2020 forecast as well as internal projections as the bases for the calculation of discounted cash flows.

The assumptions used in the value-in-use impairment tests were based on the Company's Board of Directors approved 2020 forecast which assumes activity levels and oil prices will remain low for 2020 and begin a slow recovery in 2021. The Company applied an average growth rate ranging from 5% to 15% over a 10 year period depending on the CGU being analyzed. In forecasting its projected cash flows the Company assumed that current market conditions will persist for 2020 with low day rates and activity and show marginal activity improvements in 2021 and improvements in both revenue per operating day and operating activity into the future. The Company assumed a pre-tax discount rate of 14.5% to calculate the present value of projected cash flows. Determination of the discount rate included analysis of the cost of debt and equity for the Company and the North American drilling industry incorporating a risk premium based on current market conditions. This valuation has a fair value hierarchy of Level 3.

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

- Reduced and increased future revenue assumptions by 5% resulting in increases to the Company's CGUs from $16 million to $29 million per CGU and reductions ranging from $16 million to $40 million per CGU; and

- Increased and reduced the Company's pre-tax discount rate by 1% resulting in reductions between $4 million and $12 million per CGU and increases from $4 million to $13 million per CGU.

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

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

Continuity of Property, Plant and Equipment

Cost $Thousands	Land and buildings	Drilling rigs	Other	Total
Balance as at December 31, 2018	$ 9,449	$ 558,397	$ 10,208	$ 578,054
IFRS 16, "Leases" reclass to ROU assets	-	-	(546)	(546)
Additions	-	7,590	192	7,782
Disposals	(997)	(2,171)	(241)	(3,409)
Balance as at June 30, 2019	8,452	563,816	9,613	581,881
Additions	138	7,396	(78)	7,456
Disposals	(288)	(9,496)	(125)	(9,909)
Balance as at December 31, 2019	8,302	561,716	9,410	579,428
Additions	**-**	**4,857**	**282**	**5,139**
Disposals	**(1,261)**	**(978)**	**(256)**	**(2,495)**
Asset impairment loss	**-**	**(71,180)**	**-**	**(71,180)**
Balance as at June 30, 2020	**$ 7,041**	**$ 494,415**	**$ 9,436**	**$ 510,892**

Accumulated depreciation $Thousands	Land and buildings	Drilling rigs	Other	Total
Balance as at December 31, 2018	$ 1,547	$ 218,645	$ 7,514	$ 227,706
IFRS 16, "Leases" reclass to ROU assets	-	-	(46)	(46)
Disposals	-	(2,130)	(206)	(2,336)
Depreciation expense	229	16,500	327	17,056
Balance as at June 30, 2019	1,776	233,015	7,589	242,380
Disposals	(118)	(8,477)	(89)	(8,684)
Depreciation expense	216	16,868	321	17,405
Balance as at December 31, 2019	1,874	241,406	7,821	251,101
Disposals	**(72)**	**(978)**	**(125)**	**(1,175)**
Depreciation expense	**168**	**16,360**	**316**	**16,844**
Asset impairment loss	**-**	**(11,180)**	**-**	**(11,180)**
Balance as at June 30, 2020	**$ 1,970**	**$ 245,608**	**$ 8,012**	**$ 255,590**

Net book value $Thousands	Land and buildings	Drilling rigs	Other	Total
As at December 31, 2018	$ 7,902	$ 339,752	$ 2,694	$ 350,348
As at June 30, 2019	$ 6,676	$ 330,801	$ 2,024	$ 339,501
As at December 31, 2019	$ 6,428	$ 320,310	$ 1,589	$ 328,327
As at June 30, 2020	**$ 5,071**	**$ 248,807**	**$ 1,424**	**$ 255,302**

The Company had $2,518,000 in Property, Plant and Equipment that was not being depreciated as these assets were under construction as at June 30, 2020 (December 31, 2019 – $74,000).

In addition to depreciation on its Property, Plant and Equipment, the Company had amortization expense of $778,000 for the six month period ended June 30, 2020 (June 30, 2019 - $1,051,000).

9. Investments in Joint Ventures

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

While joint venture interests are at least 50% owned by the Company, in each case the joint venture is governed on a joint basis. The Company accounts for the joint venture interests using the equity method of consolidation.

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

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

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

Continuity of Investments in Joint Ventures

$Thousands	Investments in joint ventures
Balance as at December 31, 2018	$ 4,456
Net income for the six month period ended June 30, 2019	644
Distributions for the six month period ended June 30, 2019	(2,988)
Balance as at June 30, 2019	2,112
Net income for the six month period ended December 31, 2019	485
Distributions for the six month period ended December 31, 2019	(949)
Balance as at December 31, 2019	1,648
Net income for the six month period ended June 30, 2020	**891**
Distributions for the six month period ended June 30, 2020	**(595)**
Balance as at June 30, 2020	**$ 1,944**

Summarized Joint Venture Financial Information

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

	June 30, 2020			June 30, 2019		
$Thousands	AKITA %	JV Partner %	Total	AKITA %	JV Partner %	Total
Cash	$ 1,049	$ 196	$ 1,245	$ 974	$ 348	$ 1,322
Other current assets	938	164	1,102	1,917	341	2,258
Non-current assets	55	-	55	55	-	55
Total assets	2,042	360	2,402	2,946	689	3,635
Current liabilities	(98)	(42)	(140)	(834)	(170)	(1,004)
Net assets	$ 1,944	$ 318	$ 2,262	$ 2,112	$ 519	$ 2,631

	For the six months ended June 30, 2020			For the six months ended June 30, 2019		
$Thousands	AKITA %	JV Partner %	Total	AKITA %	JV Partner %	Total
Revenue	$ 5,020	$ 761	$ 5,781	$ 2,510	$ 654	$ 3,164
Net income and comprehensive income	$ 891	$ 131	$ 1,022	$ 644	$ 164	$ 808

Related Party Transactions

The Company is related to its joint ventures. The accompanying table summarizes the joint ventures' transactions and period balances with AKITA. All related party transactions were made in the normal course of business with regular payment terms and have been recorded at the amounts agreed upon with the related parties.

$Thousands	For the three months ended		For the six months ended	
	June 30, 2020	June 30, 2019	**June 30, 2020**	June 30, 2019
Operating costs	**$ -**	$ 155	**$ 830**	$ 303
Selling and administrative costs	**$ -**	$ 40	**$ 113**	$ 55
Period end due to AKITA from joint venture partners	**$ 977**	$ 1,120	**$ 977**	$ 1,120
Period end due to AKITA from joint ventures	**$ 81**	$ 527	**$ 81**	$ 527

WORKING CAPITAL

10. Financial Instruments

IFRS 9, "Financial Instruments" – Accounting Policies

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

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

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

Classification and measurement

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

(i) Financial assets at amortized cost:

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains (losses), together with foreign exchange gains and losses. As at June 30, 2020, the Company's financial assets in this category include cash and accounts receivable.

(ii) Financial liabilities at amortized cost:

Financial liabilities that are measured at amortized cost are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables and accrued liabilities to fair value. Subsequently, financial liabilities are measured at amortized cost using the effective interest rate method. As at June 30, 2020, the Company's financial liabilities in this category include accounts payable and accrued liabilities and its operating loan facility.

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

Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains (losses) and impairment expenses are presented as a separate line item on the statement of profit or loss. As at June 30, 2020, the Company held no financial instruments in this category.

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

Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within other gains (losses) in the period in which it arises. Financial assets at FVPL are financial assets held for trading. Derivatives are also categorized as held for trading and measured at FVPL unless they are designated as hedges. As at June 30, 2020, the Company held no financial instruments in this category.

Impairment of financial assets

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

Financial Instrument Risk Exposure and Management

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

Credit risk

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

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

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

$Thousands	June 30, 2020	December 31, 2019
Within 30 days	$ 11,404	$ 23,566
31 to 60 days	4,753	6,868
61 to 90 days	69	1,989
Over 90 days	1,780	285
Estimated credit losses	(675)	(600)
Total accounts receivable	**$ 17,331**	$ 32,108

Significant Estimates and Judgments – Estimated Credit Losses

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company mitigates liquidity risk through management of its working capital balance, monitoring actual and forecasted cash flows and using its operating loan facility when necessary. At June 30, 2020, this risk was limited by positive cash flows from operations, $14.3 million in positive working capital balance and $36 million available in the Company's undrawn banking facility.

If future results do not meet the Company's expectations, there is a risk that the Company could be offside with its financial covenants in its banking facility and lose the ability to draw on the facility to meet its financial obligations or have to repay the amounts outstanding on the facility. The Company maintains a positive working relationship with the banks in its syndicated facility and on July 17, 2020, entered into an amending agreement with its lenders in the syndicate to provide a five quarter covenant relief period (Note 12).

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

$Thousands	Less than 1 year	1-4 years	Total
US debt - principal	$ 3,277	$ 2,069	$ 5,346
Bank credit facility - principal	-	74,304	74,304
	3,277	76,373	79,650
US debt - interest	337	14	351
Bank credit facility - interest	4,437	15,025	19,462
Total	**$ 8,051**	**$ 91,412**	**$ 99,463**

Foreign currency exchange - transaction risk

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

Foreign currency exchange - translation risk

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

Interest rate risk

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

Commodity risk

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

11. Change in Non-Cash Working Capital

	For the three months ended		For the six months ended	
$Thousands	**June 30, 2020**	June 30, 2019	**June 30, 2020**	June 30, 2019
Change in non-cash working capital:				
Accounts receivable	**$ 21,549**	$ 22,425	**$ 14,777**	$ 11,946
Inventory	**-**	124	**-**	394
Prepaid expenses and other	**892**	2,144	**(1,429)**	(101)
Accounts payable and accrued liabilities	**(11,756)**	(1,021)	**(7,219)**	(2,279)
Deferred revenue	**(23)**	1,002	**(44)**	902
Total change in non-cash working capital	**$ 10,662**	$ 24,674	**$ 6,085**	$ 10,862
Pertaining to:				
Operating activities	**$ 11,404**	$ 23,737	**$ 6,706**	$ 11,801
Investing activities	**(742)**	937	**(621)**	(939)
Total change in non-cash working capital	**$ 10,662**	$ 24,674	**$ 6,085**	$ 10,862

DEBT AND EQUITY

12. Debt

USD Debt

The Company has long-term debt of $5,346,000 ($3,963,000 USD). The loan is payable in monthly installments of $228,000 USD over 13 months, with a balloon payment due at the end of the term. The borrowing has an implied interest rate of approximately 12.9 percent. The effective annual rate agreement is approximately 11.7 percent. There are no debt covenants related to this debt agreement.

Operating Loan Facility

The Company has a syndicated credit agreement with the Company's principal banker as the agent on the syndication and three other Canadian banks in the syndication. The operating loan facility totals $110,000,000 with the term ending in 2023. The credit agreement was amended on July 17, 2020 to include a covenant relief period that will extend to June 30, 2021 (the "Covenant Relief Period"). The interest rate during the covenant relief period ranges from 225 to 350 basis points over prime interest rates depending on the Funded Debt[(1)] to Tangible Net Worth[(1)] Ratio. Security for this facility includes all present and after-acquired personal property and a first floating charge over all other present and after-acquired property including real property. The financial covenants are:

1. The Funded Debt[(1)] to Tangible Net Worth[(1)] Ratio: the Company shall ensure that:

   (i) For the fiscal quarter ended June 30, 2020, Funded Debt[(1)] to Tangible Net Worth[(1)] Ratio shall not be more than 0.50:1.00; and

   (ii) For the fiscal quarters ended September 30, 2020 to June 30, 2021, the Funded Debt[(1)] to Tangible Net Worth[(1)] Ratio shall not be more than 0.75:1.00.

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

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

   (i) For the fiscal quarter ended June 30, 2020, EBITA[(1)] to Interest Expense[(1)] Ratio shall not be less than 3.00:1.00;

   (ii) For the fiscal quarter ended September 30, 2020, EBITDA[(1)] to Interest Expense[(1)] Ratio shall not be less than 2.00:1.00;

   (iii) For the fiscal quarter ended December 31, 2020, EBITDA[(1)] to Interest Expense[(1)] Ratio shall not be less than 1.25:1.00; and

   (iv) For the fiscal quarters ended March 31, 2021 and June 30, 2021, the EBITDA[(1)] to Interest Expense[(1)] Ratio is waived.

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

3. A minimum trailing twelve month EBITDA[(1)] test will be required quarterly during the Covenant Relief Period, with EBITDA[(1)] varying each period in line with agreed upon forecasts.

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

(i) Funded Debt[(1)] to EBITDA[(1)] Ratio of not more than 3.00:1.00; and

(ii) EBITDA[(1)] to Interest Expense[(1)] Ratio of not less than 3.00:1.00

At June 30, 2020, the Company was in compliance with its covenants with a Funded Debt[(1)] to Tangible Net Worth[(1)] Ratio of 0.37:1.00, an EBITDA[(1)] to Interest Expense[(1)] Ratio of 4.28:1.00 and a trailing twelve month EBITDA[(1)] in excess of the $19,296,000 minimum threshold.

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

(i) 75% of Eligible Accounts Receivable[(1)]; plus

(ii) 50% of the orderly liquidation value of all Eligible Rig Assets[(1)]; less

(iii) Priority Payables[(1)] of the Loan Parties.

At June 30, 2020, the Company's borrowing base totalled $113,673,000.

The Company borrowed $74,304,000 from this facility as at June 30, 2020 (December 31, 2019 - $77,535,000).

Continuity of Debt

$Thousands		Debt
Balance at December 31, 2019	$	84,019
Drawn on credit facility		9,000
Repayment of debt		(13,552)
Unamortized deferred loan fees		183
Balance as at June 30, 2020	$	79,650

Current portion	$	3,277
Long-term portion		76,373
Balance as at June 30, 2020	$	79,650

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

13. Share Capital

Authorized:

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

Issued:

- All issued shares are fully paid

The shares outstanding at June 30, 2020 and December 31, 2019 are:

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

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

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

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

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

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

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

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

PERSONNEL

14. Share-Based Compensation Plans

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

Stock Options

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

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

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

(Number of options)	June 30, 2020	June 30, 2019	December 31, 2019
Reserved under the current stock option plan	3,100,000	3,100,000	3,100,000
Available for issuance at beginning of the period	292,000	644,500	644,500
Expired	130,000	-	-
Cancelled	746,000	-	-
Granted	(355,000)	(352,500)	(352,500)
Available for future issuance	813,000	292,000	292,000

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

	2020			2019		
	Number of options		Weighted average exercise price	Number of options		Weighted average exercise price
Options outstanding at January 1	1,406,000	$	8.20	1,053,500	$	9.63
Granted	355,000	$	0.44	352,500	$	3.93
Cancelled	(746,000)	$	10.55	-	$	-
Expired	(130,000)	$	9.87	-	$	-
Options outstanding at June 30	885,000	$	2.87	1,406,000	$	8.20
Granted				-	$	-
Options outstanding at December 31		$		1,406,000	$	8.20
Options exercisable at June 30	233,000	$	3.38	878,500	$	10.16
Options exercisable at December 31				914,000	$	9.99

The following table summarizes outstanding stock options at June 30:

		2020			2019		
Vesting period (years)	Exercise price	Number outstanding	Remaining contractual life (years)	Number exercisable	Number outstanding	Remaining contractual life (years)	Number exercisable
5	$ 9.87				130,000	0.8	130,000
5	$ 10.32				76,000	1.7	76,000
5	$ 10.86				82,500	2.7	82,500
5	$ 13.81				87,500	4.1	87,500
5	$ 16.02				115,000	5.1	115,000
5	$ 10.28				90,000	5.8	90,000
5	$ 7.13				197,500	6.8	158,000
5	$ 8.26				97,500	7.8	58,500
5	$ 5.62	177,500	8.2	71,000	177,500	9.2	35,500
5	$ 3.93	352,500	8.7	91,000	352,500	9.7	45,500
5	$ 0.44	355,000	10.0	71,000			
Weighted average contractual life			9.1			6.5	

Deferred Share Units

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

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

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

	2020		2019	
	DSUs (#)	Fair value ($000's)	DSUs (#)	Fair value ($000's)
DSUs outstanding at January 1	187,011	$222	102,370	$417
Granted	-	-	71,711	273
Issued in lieu of dividends	-	-	6,828	23
Change in fair value	-	(145)		(261)
DSUs outstanding at June 30	187,011	$77	180,909	$452
Granted			-	-
Issued in lieu of dividends			6,102	16
Change in fair value				(246)
DSUs outstanding at December 31			187,011	$222

Share-Based Compensation Expense

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

$Thousands	For the three months ended		For the six months ended	
	June 30, 2020	June 30, 2019	**June 30, 2020**	June 30, 2019
Stock option expense	**$62**	$68	**$101**	$195
DSU expense (recovery)	**(6)**	(121)	**(145)**	35
Total share-based compensation expense (recovery)	**$56**	$(53)	**$(44)**	$230

Compensation expense for stock options has been determined using the Binomial Model based on the following assumptions:

	2020	2019
Risk-free interest rate	**0.7%**	1.7%
Expected volatility	**72.0%**	35.0%
Dividends yield rate	**0.0%**	6.5%
Contractual life of options	**5.4 years**	5.4 years
Weighted average fair value	**$ 0.44**	$ 3.93
Fair value of options	**$ 0.27**	$ 0.96

OTHER NOTES

15. Commitments and Contingencies

From time to time, the Company enters into drilling contracts with its customers that are for extended periods. At June 30, 2020, the Company had five drilling rigs with multi-year contracts. Of these contracts, one is due to expire in 2020 and four in 2021.

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

At June 30, 2020, the Company had capital expenditure commitments of $867,000 (June 30, 2019 - $3,040,000 and December 31, 2019 – $1,406,000).

16. Prior Period Reclassification

Certain amounts in the prior period financial statements have been reclassified to conform to the presentation of the current period financial statements. These reclassifications had no effect on the previously reported net loss.

CORPORATE INFORMATION

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Karl A. Ruud
President and Chief Executive Officer,
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Nancy C. Southern
Chairman, President and
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and CU Inc.
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Linda A. Southern-Heathcott
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President,
Team Spruce Meadows Inc.,
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AKITA Drilling Ltd.
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Henry G. Wilmot
Corporate Director
Calgary, Alberta

Charles W. Wilson
Corporate Director
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Officers

Raymond T. Coleman
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Colin A. Dease
Vice President, Canadian Operations
Corporate Secretary and Legal Counsel

Craig W. Kushner
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Auditors

PricewaterhouseCoopers LLP
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Registrar and Transfer Agent

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Share Symbol/TSX

Class A Non-Voting (AKT.A)

Class B Common (AKT.B)

Website

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