

also authorize the recovery of natural resource damages by the governmental authorities, injunctive relief and the imposition of stop, control, remediation and abandonment orders. The costs arising from compliance with such laws, regulations and guidelines may be material to AKITA. The trend in environmental regulation has been to impose more restrictions and limitations on activities that may impact the environment, including the generation and disposal of wastes and the use and handling of chemical substances. These restrictions and limitations have increased operating costs for both AKITA and AKITA's customers. Any regulatory changes that impose additional environmental restrictions or requirements on AKITA or AKITA's customers could adversely affect AKITA through increased operating costs or decreased demand for AKITA's services, or both.

Certain general oilfield related activities have been controversial. In recent years, development of oil sands, the use of hydraulic fracturing on sedimentary rock formations and transportation of crude oil and natural gas each encountered opposition. Ongoing delays or cancellation of these types of activities would potentially reduce demand for AKITA's services.

While AKITA maintains liability insurance, including insurance for environmental claims, there can be no assurance that insurance will continue to be available to AKITA on commercially reasonable terms, that the possible types of liabilities that may be incurred by AKITA will be covered by AKITA's insurance, or that the dollar amount of such liabilities will not exceed AKITA's policy limits. Even a partially uninsured claim, if successful and of sufficient magnitude, could have a material adverse effect on AKITA's business, results of operations and prospects.

AKITA manages its risks by:

- maintaining a conservative balance sheet that includes a low cost structure for the Company including limited use of financial leverage;
- having the risk management committee deliberate periodically to assess, evaluate and develop a plan to deal with the risk conditions for the Company;
- developing an annual strategic business plan and budget to help determine the levels of capital and operating expenditures;
- emphasizing the continuous development of long-term relationships with a core base of customers who maintain ongoing drilling programs during all phases of the economic cycle;
- obtaining multi-year rig contracts whenever possible, but especially when tailoring rig construction or reconfiguration to customer demand;
- maintaining an efficient fleet of rigs through a rigorous ongoing maintenance program;
- constantly upgrading its rig fleet;
- employing well trained, experienced and responsible employees;
- ensuring that all employees comply with clearly defined safety standards;
- improving the skills of its employees through training programs;
- maintaining effective systems of internal control to safeguard assets and ensure timely and accurate reporting of financial results;
- maintaining comprehensive insurance policies with respect to its operations;
- reducing environmental risk through the implementation of industry-leading standards, policies and procedures; and
- developing and maintaining a succession plan to provide for a smooth transition in the event of key personnel turnover.

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.