**GEODRILL LIMITED**
**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**FOR THE YEAR ENDED DECEMBER 31, 2012**

Management's discussion and analysis ("MD&A") is a review of the operations, the liquidity and the results of operations and capital resources of Geodrill Limited ("Geodrill", the "Company" or the "Group"). The consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS"). This discussion contains forward-looking information. Please see "Forward-Looking Information" for a discussion of the risks, uncertainties and assumptions relating to this MD&A.

This MD&A should be read in conjunction with the comparative audited consolidated financial statements for the year ended December 31, 2012 and the notes thereto.

This MD&A is dated March 4, 2013. Disclosure contained in this document is current to that date unless otherwise stated.

Additional information relating to Geodrill, including the Company's Annual Information Form, can be found on SEDAR at www.sedar.com.

All references to "US$" are to United States dollars and all references to "CDN$" are to Canadian dollars.

## FORWARD-LOOKING INFORMATION

This MD&A contains "forward-looking information" which may include, but is not limited to, statements with respect to the future financial or operating performance of the Company, its subsidiaries, future growth, results of operations, capital needs, performance, business prospects and opportunities. Often, but not always, forward-looking information can be identified by the use of words such as "plans", "expects", "is expected ", "budget", "scheduled ", "estimates", "forecasts", "intends", "anticipates" or "believes" or variations (including negative variations) of such words or by the use of words or phrases that state that certain actions, events or results "may", "could ", "would ", "might" or "will " be taken, occur or be achieved.

Forward-looking information is based on certain assumptions and analyses made by the Company in light of its experience and perception of historical trends, current conditions and expected future developments and other factors it believes are appropriate. Forward-looking information involves known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company and/or its subsidiaries to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information contained in this MD&A. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in such forward-looking information, there may be other factors that may cause actions, events or results to differ from those anticipated, estimated or intended. Should one or more of these risks or uncertainties materialize or should assumptions underlying such forward-looking information prove incorrect, actual results, performance or achievements may vary materially from those expressed or implied by the forward-looking information contained in this MD&A.

Forward-looking information contained herein is made as of the date of this MD&A and the Company disclaims any obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise, except as required by law. There can be no assurance

that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information.

**Corporate Overview**

Geodrill operates a fleet of multipurpose, core and air-core drill rigs. The multipurpose rigs can perform both reverse circulation (“RC”) and diamond core (“Core”) drilling and can switch from one to the other with little effort or downtime. Multipurpose rigs provide clients with the efficiency and high productivity of RC drilling and the depth and accuracy of Core drilling without the need to have two different drill rigs on site.

The Company’s rigs and support equipment also incorporate a fleet of boosters and auxiliary compressors, which enable Geodrill to achieve high-quality sampling and operations to greater depths.

The state-of-the-art workshop and supply base at Anwiankwanta, near Kumasi, Ghana, provides a centralized location for repair and storage of equipment and supplies, which in turn minimizes trucking, shipping and supply costs and allows the rigs to be mobilized to drill sites with minimal delay.

An experienced management and workforce, a modern fleet of drill rigs and a state-of-the-art workshop and supply base have contributed to Geodrill’s reputation as a results-oriented drilling company that strives to achieve greater drilling depths and provide better quality samples than its competitors in the shortest possible time, safely and in a cost-effective and environmentally conscious manner.

**Business Strategy**

The Company competes with other drilling companies on the basis of price, accuracy, reliability and experience in the marketplace. The Company’s competitors in West Africa consist of both large public companies as well as small local operators.

Management believes that the Company has a number of attributes that result in competitive advantages in West Africa, including:

- **Business Development**: The Company continually improves its operation including the following recent and ongoing developments:
  - Increase in the number of drill rigs from 26 at the end of 2011 to 37 at the end of 2012;
  - Increase in our geographic footprint in West Africa, as the Company has maintained its strong presence in both Ghana and Burkina Faso and has entered Niger, re-entered Cote d’Ivoire, and will operate in Guinea in early 2013;
  - Expansion of drilling for other minerals, as the Company has successfully obtained new clients and contracts to drill for iron ore, uranium and manganese;
  - Securing of a US$10 million Term Facility in 2012 to assist the Company with managing our working capital and the financing of our capital expenditures;
  - Finalization of a financing arrangement in 2012 with a supplier relating to the financing of six drill rigs on standard commercial terms for the industry; and
  - Repayment of the £2 million Silverwood Ventures Limited loan in 2012.

- **A Young and Modern Fleet of Drill Rigs and a World Class Workshop:** The Company has accumulated modern state-of-the-art drilling rigs, and established a centrally located world class workshop to promote client satisfaction through reliable operational performance. In addition, within the workshop is a manufacturing facility with the capacity to produce ancillary equipment such as RC drill pipe and RC wire-line drill subs in-house reducing downtime and reliance on suppliers for these items.

- **Strong commitment to Research & Development and advanced drilling technologies.**

- **Establishing, building and maintaining long-standing relationships with vendors and customers:** The Company has strong client relationships. Typically a longer term client relationship of the Company originally commenced as a short term drill contract won under competitive bidding processes, which has been continually renewed as the respective drilling program of the client has progressed through various phases.

- **Local Knowledge**: The Company's West African market knowledge, expertise and experience have enabled Geodrill to further develop the local networks required to support its operations.

- **Presence in West Africa:** The Company is able to mobilize drill rigs and associated ancillary equipment within a few days of a request by a client. The well-resourced, centrally located workshop further reduces downtime, as the Company can fairly quickly reach most of its current customer sites. The Company has been and continues to expand its geographic footprint in West Africa, including entering into Niger in 2012, the re-entry into Cote d'Ivoire in 2012 and plans to enter Guinea in 2013.

- **An Active and Experienced Management:** Geodrill is led by Dave Harper, President and Chief Executive Officer, Terry Burling, Chief Operating Officer and Greg Borsk, Chief Financial Officer. This group is also supported by: Roy Sinke, General Manager, Alan McConnon, Country Manager Ghana, Stephen Rodrigue, Country Manager Burkina Faso and Don Seguin, Training and Operations Manager.

- **A Skilled and Dedicated Workforce:** A favorable compensation and benefits package, coupled with the Company's track record of quality hiring and commitment to frequent, relevant continuous training programs for both permanent and contract employees, has reduced unplanned workforce turnover even during robust mining cycles. This has also increased efficiency and productivity, ensuring the availability and continuity of a skilled labor force.

- **Maintaining a high level of safety standards to protect its people and the environment.**

- **Commitment to Excellence:** Geodrill is committed to being a company of the highest standard in every aspect of its business operations. This is the framework used by the Company to guide its personnel towards the Company's goals and to be the customer-preferred partner in providing world class drilling services in West Africa.

**Market Participants and Geodrill's Client Base**

The majority of the Company's current revenues are derived from ongoing, continuous work programs with existing repeat-business clients. These clients have been renewed from initial three to twelve month contracts, into long-standing loyal customers.

West Africa has become the scene of intense competition amongst international mining companies as the price of minerals has risen following the 2009 global financial crisis. At the center of this development is the recognition that West Africa hosts some of the largest remaining undeveloped mineral deposits in the world, containing gold, iron ore and bauxite. The drilling services provided by Geodrill can be applied to both precious and base metals.

The Company's client base is predominately in Ghana and Burkina Faso. For 2012, Ghana accounted for 45% and Burkina Faso, Niger and Cote d'Ivoire collectively accounted for 55% of the Company's revenue compared to 56% for Ghana and 44% for Burkina Faso in 2011.

Management's plans include taking advantage of opportunities in other minerals, including iron ore, manganese and uranium which may not follow the same economic cycles as precious metals. In addition, the proximity of Ghana to countries such as Niger, Cote d'Ivoire, Mauritania, Guinea, Liberia, Sierra Leone, the Democratic Republic of the Congo, Nigeria, Cameroon and Togo positions the Company favorably in its ability to service these markets as well, if it so chooses. The Company's drilling focus is still predominately for gold and is still predominately in Ghana and Burkina Faso. The Company has recently successfully diversified into drilling for other minerals and has increased its footprint in West Africa as follows:

- In the 2nd quarter of 2012, the Company completed an iron ore project in Ghana for a new client.
- In the 4th quarter of 2012, the Company started an iron ore project in Cote d'Ivoire for a new client. The Company believes that the current political and economic climate in Cote d'Ivoire is appropriate for the Company to operate in Cote d'Ivoire.
- In the 4th quarter of 2012, the Company started a uranium project in Niger for a new client.
- In the 4th quarter of 2012, the Company started a manganese project in Burkina Faso for a new client.
- In the 4th quarter of 2012, the Company signed an agreement with a new client for a gold project in Guinea.

The signing of a drilling contract and the actual commencement of drilling do not always happen simultaneously, and in numerous situations there may be a two to three month interval between the signing of an agreement and the commencement of drilling. In addition, given the short-term nature of drilling contracts, there can be no assurance that any contract that the Company currently services will be extended or renewed on terms favorable to the Company. In the event that any of its current contracts are not extended, or renewed on favorable terms this could have a significant impact on the Company's operations.

There are four customers who individually contributed 10% or more to the Company's revenue for 2012. One customer contributed 28%, one customer contributed 16%, one customer contributed 13%, and one customer contributed 11% to Geodrill's revenue for 2012.

**OUSTANDING SECURITIES AS OF MARCH 4, 2013**

The Company is authorized to issue an unlimited number of Ordinary Shares. As of March 4, 2013 the Company has the following securities outstanding:

| | |
|---|---|
| Number of Ordinary Shares | 42,512,000 |
| Number of Options | 2,610,000 |
| Fully Diluted | 45,122,000 |

1. From January 1, 2012 to March 4, 2013, 450,000 options were issued
2. From January 1, 2012 to March 4, 2013, 414,000 options were forfeited
3. From January 1, 2012 to March 4, 2013, 36,000 options were exercised.

## OVERALL PERFORMANCE

### Revenue Per Country

| LOCATION | Fiscal 2012 US$ 000's | % | Fiscal 2011 US$ 000's | % | Fiscal 2010 US$ 000's | % |
|---|---|---|---|---|---|---|
| Ghana | 29,652 | 45% | 39,515 | 56% | 27,753 | 62% |
| Burkina Faso and other [(1)] | 35,934 | 55% | 30,633 | 44% | 17,310 | 38% |
| | 65,586 | 100% | 70,148 | 100% | 45,063 | 100% |

[(1)]Included in Burkina Faso and other is Niger and Cote d 'Ivoire.

### Meters Drilled Per Country

| LOCATION | Fiscal 2012 | % | Fiscal 2011 | % | Fiscal 2010 | % |
|---|---|---|---|---|---|---|
| Ghana | 260,184 | 32% | 467,145 | 51% | 276,487 | 57% |
| Burkina Faso and other [(1)] | 559,302 | 68% | 455,326 | 49% | 204,778 | 43% |
| | 819,486 | 100% | 922,471 | 100% | 481,265 | 100% |

[(1)] Included in Burkina Faso and other is Niger and Cote d 'Ivoire.

The number of drill rigs increased to 37 in 2012. At December 31, 2012 the Company had 33 drill rigs available for operation and four rigs in the workshop. There are an additional two rigs under construction as at December 31, 2012.

The Company generated revenue of US$65.59M in 2012, a decrease of 7% when compared to US$70.15M in 2011. The Company was affected by the industry wide slowdown in drilling activities in 2012. In general, there continues to be pressure on early stage exploration companies as financing from the capital markets continues to be challenging and there is also pressure on producing companies as they continue to need to manage their exploration costs in light of increasing costs on the production side of their business. Specifically in 2012, the Company's revenue decreased as certain customers' jobs

came to an end and certain continuing customers significantly reduced the number of drill rigs operating on their sites. The continuing customers have still elected to continue drilling, but with many fewer rigs. Due to the holiday season (Christmas and New Year's) certain clients took the opportunity to shut down exploration activity earlier in December than in previous years and certain customers have also delayed the resumption of drilling activities longer into the 1st quarter of 2013, versus the past resumptions of drilling activities in the first couple of weeks of January. Meters drilled for 2012 totaled 819,486 which is a decrease of 11% when compared to 922,471 meters drilled for of 2011. The Company remains hopeful that demand for its services will improve as the economic environment begins to stabilize. The 4th quarter of 2012 showed a noticeable improvement over the 3rd quarter of 2012.

The Company has had a slower start to the 1st quarter of 2013 due to the delay in the resumption of drilling after the holiday season and anticipates that the 1st quarter of 2013 will continue to be impacted by the economic slowdown, however, it is optimistic that subsequent quarters will improve.

The gross profit for 2012 was US$25.85M, being 39% of revenue compared to gross profit of US$38.06M, being 54% of revenue in 2011. The gross profit decrease reflects the decrease in revenue and increase in cost of sales of US$7.64M.

EBITDA (as defined herein) in 2012 was US$13.55M, being 21% of revenue compared to US$24.73M, being 35% of revenue in 2011. The EBITDA decreased by US$11.18M in 2012 compared to 2011. See "Supplementary Disclosure – Non-IFRS Measures" on page 19.

The EBIT (as defined herein) in 2012 was US$5.57M, being 8% of revenue compared to US$18.09M, being 26% of revenue, in 2011. The EBIT decreased by US$12.52M in 2012 compared to 2011. See "Supplementary Disclosure - Non - IFRS Measures" on page 19.

The net earnings for 2012 were US$3.21M or US$0.08 per Ordinary Share (US$0.08 per Ordinary Share fully diluted), compared to net earnings of US$12.41M for 2011 or US$0.29 per Ordinary Share (US$0.28 per Ordinary Share fully diluted).

## SELECTED FINANCIAL INFORMATION - FISCAL YEAR

| | Fiscal Year Ended | | | % Change | |
|---|---|---|---|---|---|
| **(in US$ 000's)** | **2012** | **2011** | **2010** | **2012 vs 2011** | **2011 vs 2010** |
| **Revenue** | **65,586** | **70,149** | **45,063** | **-7%** | **56%** |
| **Cost of Sales** | **39,734** | **32,093** | **22,669** | **24%** | **42%** |
| *Cost of Sales (%)* | 61% | 46% | 50% | | |
| **Gross Profit** | **25,852** | **38,056** | **22,394** | **-32%** | **70%** |
| *Gross Profit Margin (%)* | 39% | 54% | 50% | | |
| **Selling, General and Administrative Expenses** | **19,806** | **19,537** | **12,166** | **1%** | **61%** |
| *Selling, General and Administrative Expenses (%)* | 30% | 28% | 27% | | |
| **Foreign Exchange Loss** | **483** | **451** | **13** | | |
| *Foreign Exchange Loss (%)* | 1% | 1% | 0% | | |
| **Profit from Operating Activities** | **5,563** | **18,068** | **10,113** | **-69%** | **79%** |
| *Profit from Operating Activities (%)* | 8% | 26% | 22% | | |
| **Finance Income** | **9** | **24** | **52** | | |
| *Finance Income (%)* | 0% | 0% | 0% | | |
| **EBIT*** | **5,572** | **18,092** | **10,165** | **-69%** | **78%** |
| *EBIT (%)* | 8% | 26% | 23% | | |
| **Finance Cost** | **898** | **142** | **2,331** | | |
| *Finance Cost (%)* | 1% | 0% | 5% | | |
| **Profit Before Taxation** | **4,674** | **17,950** | **7,830** | **-74%** | **129%** |
| *Profit Before Taxation (%)* | 7% | 26% | 17% | | |
| **Income Tax Expense** | **1,468** | **5,537** | **2,748** | **-73%** | **101%** |
| *Income Tax Expense (%)* | 2% | 8% | 6% | | |
| **Net Earnings** | **3,206** | **12,413** | **5,082** | **-74%** | **144%** |
| *Net Earnings (%)* | 5% | 18% | 11% | | |
| **EBITDA **** | **13,549** | **24,728** | **14,173** | **-45%** | **74%** |
| *EBITDA (%)* | 21% | 35% | 31% | | |
| **Meters Drilled** | **819,486** | **922,471** | **481,265** | **-11%** | **92%** |
| **Earnings Per Share** | | | | | |
| **Basic** | **0.08** | **0.29** | **0.17** | **-72%** | **71%** |
| **Diluted** | **0.08** | **0.28** | **0.16** | **-71%** | **75%** |
| **Total Assets** | **88,021** | **73,775** | **54,804** | **19%** | **35%** |
| **Total Long - Term Liabilities** | **8,767** | **5,347** | **3,040** | **64%** | **76%** |
| **Cash Dividend Declared** | **NIL** | **NIL** | **NIL** | | |

*EBIT = Earnings before interest and taxes

**EBITDA = Earning before interest, tax, depreciation and amortization

See "Supplementary Disclosure - Non-IFRS Measures" on page 19

## RESULTS OF OPERATIONS

### FISCAL 2012 COMPARED TO FISCAL 2011

### Revenue

The Company recorded revenue of US$65.59M for 2012, as compared to US$70.15M in 2011, representing a decrease of 7%. The decrease in revenue is primarily attributable to the number of meters drilled decreasing from 922,471 meters in 2011 to 819,486 in 2012. The percentage of meters drilled for 2012 remained relatively consistent at 42% RC, 16% Core and 42% air core as compared to 39% RC, 19% Core and 42% air core for 2011. In 2012, the Company's revenue decreased as certain customers' jobs came to an end and certain continuing customers have significantly reduced the number of drill rigs operating on their sites. The revenue decrease occurred in the second half of the year, in both the 3$^{rd}$ quarter and 4$^{th}$ quarter of 2012 as opposed to the 1$^{st}$ quarter and 2$^{nd}$ quarter of 2012, which actually both increased over the comparable 1$^{st}$ and 2$^{nd}$ quarters in 2011. The decrease in revenue in the 2$^{nd}$ half of 2012 was part of an industry wide slowdown as many of Geodrill's competitors have also experienced decreasing revenue during this period.

### Cost of Sales and Gross Profit

The gross profit for 2012 was US$25.85M, as compared to a gross profit of US$38.06M for 2011, being a decrease of US$12.21M or 32%. The gross profit percentage for 2012 was 39% compared to 54% for 2011. The decrease in the gross profit reflects the decrease in revenue and the increase in cost of sales.

The increase in cost of sales for 2012 as compared to 2011 of $7.64M for certain major cost of sales categories includes the following:

- Drill rig expenses increased by approximately US$2.19M since the Company's drill rig fleet increased from 26 at the end of 2011 to 37 at the end of 2012. The Company requisitions inventory to new rigs that are scheduled to be deployed for drilling a client sites.

- Repairs and maintenance increased by US$0.72M. The increase is consistent with the increase in the Company's fleet of drill rigs, auxiliary compressors, trucks and other support vehicles.

- Salaries expense increased by US$0.78M due to the change in the composition of the workforce and increases in salaries. In the first half of the year, to support the growth that the Company was experiencing, additional personnel were hired whereas in the second half of the year numerous employees that were more directly related to the drilling activities were reduced in relation to the slowdown experienced in the second half of the year. In the 1$^{st}$ quarter of 2012, salaries were increased by 10% for local workers and by 20-25% for expatriate personnel.

- Depreciation expense increased by US$1.28M due to higher depreciation costs associated with the number of additional drill rigs and related equipment deployed.

- In 2011 the dissolution of the Cote d'Ivoire operation, triggered the positive resolution of VAT and salary tax obligations in Cote d'Ivoire previously expensed in 2010. The net effect of this resolution was reflected in 2011 as a decrease in cost of sales of US$2.05M.

**Selling, General and Administrative ("SG&A") Expenses**

SG&A expenses were US$19.81M for 2012, compared to US$19.54M for 2011. The total SG&A expensed for 2012 as compared to 2011 has remained relatively consistent. Share based payment expense decreased in 2012 compared to 2011 by US$0.48M associated with issuing options, whereas the Group recorded a provision for doubtful accounts in 2012 which had the impact of increasing SG&A by approximately US$0.31M.

**Foreign Exchange Loss**

The Company realized a foreign exchange loss in 2012 of US$0.48M compared to a foreign exchange loss of US$0.45M in 2011. The exchange loss is the result of fluctuations in the US Dollar against the Australian Dollar, the British Pound, the Euro, the Canadian Dollar, the Ghana Cedi and the Central African Franc.

**Results from Operating Activities**

Results from operating activities (after cost of sales, SG&A expenses and foreign exchange loss) for 2012 was a profit of US$5.56M, being 8% of revenue, as compared to a profit of US$18.07M in 2011, being 26% of revenue.

**EBITDA Margin (see "Supplementary Disclosure – Non-IFRS Measures" on page 19)**

EBITDA margin for 2012 was 21% compared to 35% for 2011. See "Supplementary Disclosure - Non - IFRS Measures" on page 19.

**EBIT Margin (see "Supplementary Disclosure – Non-IFRS Measures" on page 19)**

EBIT margin for 2012 was 8% compared to 26% for 2011. See Supplementary Disclosure - "Non-IFRS Measures" on page 19.

**Depreciation and Amortization**

Depreciation and amortization of property, plant and equipment was US$7.98M (US$6.58M in cost of sales and US$1.4M in SG&A) for 2012 compared to US$6.64M (US$5.31M in cost of sales and US$1.33M in SG&A) for 2011.

**Income Tax Expense**

Income tax expense was US$1.47M for 2012 compared to an income tax expense of US$5.54M for 2011. The income tax expense of US$1.47M is comprised of withholding taxes of US$3.89M offset by a deferred tax recovery of US$2.42M. The Company's corporate tax rate in Ghana is 25%. In addition to corporate tax in Ghana, the Company pays withholding tax on revenues in other countries in which it operates.

**Net Earnings**

Net earnings were US$3.21M, being 5% of revenue for 2012, or US$0.08 per Ordinary Share (US$0.08 per Ordinary Share fully diluted), compared to US$12.41M, being 18% of revenue, for 2011, or US$0.29 per Ordinary Share (US$0.28 per Ordinary Share fully diluted).

**FISCAL 2011 COMPARED TO FISCAL 2010**

**Revenue**

Revenue for 2011 was US$70.15M, as compared to US$45.06M for 2010, being an increase in revenue of 56%. The increase in revenue was attributable to new drilling contracts, the deployment of new drill rigs resulting in increased meters drilled in 2011, and increases in prices. The Company increased the number of drill rigs in operation from 18 in 2010 to 26 in 2011 resulting in meters drilled for 2011 increasing to 922,471 from to 481,265 in 2010.

**Cost of Sales and Gross Profit**

Gross profit for 2011 was US$38.06M, as compared to US$22.39M for 2010 being an increase of 70%. The gross profit percentage for 2011 was 54% compared to 50% for 2010. The increase in the gross profit percentage for 2011 compared to 2010 was primarily due to an increase in the drill rig fleet in operation, meters drilled and operational efficiency and increase in prices. In addition, the dissolution of the Cote d'Ivoire operation, which triggered the positive resolution of VAT and salary tax obligations, had positively impacted gross profit in 2011. The net effect of this positive resolution was a decrease in the cost of sales in the 2011 consolidated financial statements of US$2.05M.

**Selling, General and Administrative Expenses**

SG&A expenses were US$19.54M for 2011, compared to US$12.17M for 2010. SG&A expenses increased due to inflation and additional costs of hiring, training and mobilization of management and support staff necessary to accommodate the growth in revenue in 2011.

**Net Earnings**

Net earnings were US$12.41M, being 18% of revenue, for 2011, or US$0.29 per share (US$0.28 per share diluted), compared to US$5.08M, being 11% of revenue, for 2010, or US$0.17 per share (US$0.16 per share diluted). Note that in order to compare meaningfully the results from each period, the earnings per share calculations for 2010 were adjusted retrospectively to account for the share split that occurred late in 2010.

## SELECTED FINANCIAL INFORMATION - FOURTH QUARTERS

| | Fourth Quarter Ended | | % Change |
|---|---|---|---|
| **(in US$ 000's)** | **2012** | **2011** | **2012 vs 2011** |
| **Revenue** | **12,921** | **20,863** | **(38%)** |
| **Cost of Sales** | **7,113** | **10,120** | **(30%)** |
| *Cost of Sales (%)* | 55% | 49% | |
| **Gross Profit** | **5,808** | **10,743** | **(46%)** |
| *Gross Profit Margin (%)* | 45% | 51% | |
| **Selling, General and Administrative Expenses** | **4,939** | **5,039** | **(2%)** |
| *Selling, General and Administrative Expenses (%)* | 38% | 24% | |
| **Foreign Exchange Loss (Gain)** | **8** | **(63)** | |
| *Foreign Exchange Loss (Gain) (%)* | 0% | 0% | |
| **Profit from Operating Activities** | **861** | **5,767** | **(85%)** |
| *Profit from Operating Activities (%)* | 7% | 28% | |
| **Finance Income** | **3** | **8** | **(63%)** |
| *Finance Income (%)* | 0% | 0% | |
| **EBIT*** | **864** | **5,775** | **(85%)** |
| *EBIT (%)* | 7% | 28% | |
| **Finance Cost** | **400** | **88** | **355%** |
| *Finance Cost (%)* | 3% | 0% | |
| **Profit Before Taxation** | **464** | **5,687** | **(92%)** |
| *Profit Before Taxation (%)* | 4% | 27% | |
| **Income Tax (Recovery) Expense** | **(524)** | **4,466** | **(112%)** |
| *Income Tax (Recovery) Expense (%)* | (4%) | 21% | |
| **Net Earnings** | **988** | **1,221** | **(19%)** |
| *Net Earnings (%)* | 8% | 6% | |
| **EBITDA **** | **3,275** | **7,927** | **(59%)** |
| *EBITDA (%)* | 25% | 38% | |
| **Meters Drilled** | **129,487** | **255,679** | **(49%)** |
| **Earnings Per Share** | | | |
| **Basic** | **0.02** | **0.03** | **(33%)** |
| **Diluted** | **0.02** | **0.03** | **(33%)** |
| **Total Assets** | **88,021** | **73,775** | **19%** |
| **Total Long - Term Liabilities** | **8,767** | **5,347** | **64%** |
| **Cash Dividend Declared** | **NIL** | **NIL** | |

*EBIT = Earnings before interest and taxes

**EBITDA = Earning before interest, tax, depreciation and amortization

See "Supplementary Disclosure - Non-IFRS Measures" on page 19

## FOURTH QUARTER OF FISCAL 2012 COMPARED TO FOURTH QUARTER OF FISCAL 2011

### Revenue

The Company recorded revenue of US$12.92M for the 4th quarter of 2012, as compared to US$20.86M for the 4th quarter of 2011, representing a decrease of 38%. The decrease in meters drilled from 255,679 in the 4th quarter of 2011 meters to 129,487 meters in the 4th quarter of 2012 accounts for the revenue decrease.

### Cost of Sales and Gross Profit

Gross profit for the 4th quarter of 2012 was US$5.81M, compared to US$10.74M for the 4th quarter of 2011, being a decrease of 46%. The gross profit percentage for the 4th quarter of 2012 was 45% compared to 51% for the 4th quarter of 2011.

The decrease in cost of sales of US$3.01M for the 4th quarter of 2012 as compared to the 4th quarter of 2011 included the following:

- Drill rig expenses decreased by approximately US$2.23M (primarily in conjunction with less drilling activity of US$1.73M throughout the quarter compared to the 4th quarter of 2011 and due to an adjustment of US$0.50M relating to capitalization of certain drill rig components that had been previously expensed earlier in the year).

- Cost of sales for repairs and maintenance was also positively impacted in the 4th quarter by approximately US$0.60M relating to the capitalization of certain drill rig components that had previously been expensed in repairs and maintenance.

- Fuel expenses decreased by US$1.07M (US$0.39M due to the reduced drilling activities and an additional US$0.68M of fuel expense was recorded in Q4 for 2011 to adjust for the previous practice of netting certain fuel against gross revenue).

### Selling, General and Administrative (“SG&A”) Expenses

SG&A expenses were US$4.94M for the 4th quarter of 2012, compared to US$5.04M for the 4th quarter of 2011. SG&A expenses have increased due to the provision of doubtful accounts of US$0.31M offset by lower share based payment expenses associated with issuing options and lower accruals for training and seminars.

### Foreign Exchange Loss

The Company realized a foreign exchange loss for the 4th quarter of 2012 of US$8,000 compared to a foreign exchange gain of US$63,000 for the 4th quarter of 2011. The exchange loss is the result of fluctuations in the US Dollar against the Australian Dollar, the British Pound, the Euro, the Canadian Dollar, the Ghana Cedi and the Central African Franc.

**Results from Operating Activities**

Results from operating activities (after cost of sales, SG&A expenses and foreign exchange loss (gain)) for the 4th quarter of 2012 were US$0.86M, being 7% of revenue, as compared to the 4th quarter of 2011 of US$5.77M, being 28% of revenue.

**EBITDA Margin (See "Supplementary Disclosure – Non-IFRS Measures" on page 19)**

EBITDA margin for the 4th quarter of 2012 was 25% compared to 38% for the 4th quarter of 2011.

A component of the EBITDA margin reflect the following adjustments;

- An adjustment to cost of sales of US$0.50M relating to capitalization of certain drill rig components that had been previously expensed early in the year.

- An adjustment to cost of sales of US$0.60M relating to the capitalization of certain drill rig components that had previously been expensed in repairs and maintenance.

Without these adjustments, EBITDA margin would have been 17% for the 4th quarter of 2012 compared to the 38% of the 4th quarter of 2011.

See "Supplementary Disclosure - Non - IFRS Measures" on page 19**.**

**EBIT Margin (See "Supplementary Information – Non-IFRS Measures" on page 19)**

EBIT margin for the 4th quarter of 2012 was 7% compared to 28% for 4th quarter of 2011. See "Supplementary Disclosure - Non - IFRS Measures" on page 19**.**

**Depreciation and Amortization**

Depreciation and amortization of property, plant and equipment was US$2.41M (US$1.98M in cost of sales and US$0.43M in SG&A) for the 4th quarter of 2012 compared to US$2.15M (US$1.77M in cost of sales and US$0.38M in SG&A) for the 4th quarter of 2011. The increase in depreciation is primarily due to additional property, plant and equipment purchases during 2012.

**Income Tax (Recovery) Expense**

Income tax recovery was US$0.52M for the 4th quarter of 2012 compared to an expense of US$4.47M for the 4th quarter of 2011. For the 4th quarter of 2012, the income tax recovery of US$0.52M is comprised of the withholding taxes of US$0.91M and a deferred tax recovery of US$1.43M.

**Net Earnings**

Net earnings were US$0.99M, being 8% of revenue, for the 4th quarter of 2012, or US$0.02 per Ordinary Share (US$0.02 per Ordinary Share fully diluted), compared to US$1.22M, being 6% of revenue, for the 4th quarter of 2011 or US$0.03 per Ordinary Share (US$0.03 per Ordinary Share fully diluted).

## SUMMARY OF QUARTERLY RESULTS

| (in US$ 000's) | 2012 | | | | 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| | Dec 31 | Sep 30 | Jun 30 | Mar 31 | Dec 31 | Sep 30 | Jun 30 | Mar 31 |
| Revenue | 12,921 | 10,146 | 20,860 | 21,659 | 20,863 | 20,253 | 16,556 | 12,476 |
| *Revenue Increase (Decrease) %* | *27%* | *(51%)* | *(4%)* | *4%* | *3%* | *22%* | *33%* | *8%* |
| Gross Profit | 5,808 | (990) | 9,512 | 11,523 | 10,743 | 9,737 | 8,738 | 8,838 |
| *Gross Margin (%)* | *45%* | *(10%)* | *46%* | *53%* | *51%* | *48%* | *53%* | *71%* |
| Net Earnings (loss) | 988 | (4,994) | 2,781 | 4,429 | 1,221 | 3,088 | 3,238 | 4,866 |
| Per Share - Basic | 0.02 | (0.12) | 0.07 | 0.10 | 0.03 | 0.07 | 0.08 | 0.11 |
| Per Share - Diluted | 0.02 | (0.12) | 0.06 | 0.10 | 0.03 | 0.07 | 0.07 | 0.11 |

The Company's revenue increased by US$2.78M in the 4th quarter of 2012 compared to the 3rd quarter of 2012. However, on a quarter to quarter basis, the Company's revenue decreased by US$7.94M compared to the 4th quarter of 2011. The Company continues to believe that there is an industry wide slowdown in drilling activities as there is pressure on early stage exploration companies as financing from the capital markets becomes more challenging and there is also pressure on producing companies as they continue to need to manage their exploration costs in light of increasing costs on the production side of their business. The Company had certain customers reduce the number of drill rigs operating at their sites and have parked certain rigs. The Company believes that the slowdown in drilling activity will continue into 2013 and as such the Company continues to actively bid on new jobs and has taken immediate steps to control costs, monitor its workforce and is reviewing certain capital expenditures planned for 2013.

The Company's operations have tended to exhibit a seasonal pattern whereby the second quarter (April to June) is typically strongest, but sometimes this includes the Easter shutdown of exploration activities affecting some of the rigs for up to one week over the Easter holiday. The fourth quarter is normally the Company's weakest quarter, due to the shutdown of exploration activities, often for extended periods over the holiday season (Christmas and New Year's for up to two weeks over the period). Revenue patterns can also be impacted by the number of new rigs and the timing of their deployment during a year. The wet season occurs (in some geographical areas where the Company operates, particularly in Burkina Faso) normally in the third quarter, but in the recent years the global weather pattern has become somewhat erratic. In the 3rd quarter of 2012, the wet season affected the Company's drilling operations and revenue. No air core meters were drilled due to the prolonged wet season; however, the Company took advantage of the wet season in the 3rd quarter of 2012 by undertaking maintenance and rebuild programs for drill rigs and equipment.

### Effect of Exchange Rate Movements

The Company's receipts and disbursements are denominated in US Dollars and local currencies. The Company's main exposure to exchange rate fluctuations arises from certain capital costs, wage costs purchases denominated in other currencies and borrowings denominated in other currencies.

The Company's revenue is invoiced in US Dollars. The Company's main purchases are in US Dollars and Australian Dollars, with less than 20% of the purchases in other major (mainly Euros) and local currencies. Other local expenses include purchases and wages which are paid in the local currency. During 2012, the Company incurred a foreign exchange loss of US$0.48M (2011: US$0.45M) predominately as a result of fluctuations in the US Dollar against the Australian Dollar and the British Pound and local currencies.

**SELECTED INFORMATION FROM CONSOLIDATED STATEMENT OF CASH FLOWS**

| | Fiscal Year Ended | | | Fourth Quarter Ended | | |
|---|---|---|---|---|---|---|
| (in US$ 000's) | 2012 | 2011 | % Change | 2012 | 2011 | % Change |
| Net Cash from (used in) operating activities | 16,478 | 7,924 | 108% | 1,901 | 6,482 | (71%) |
| Net Cash used in investing activities | (22,814) | (12,943) | 76% | (4,887) | (3,895) | 25% |
| Net Cash from (used in) financing activities | 5,637 | 2,949 | 91% | (1,140) | (34) | 3253% |
| Effect of movement in exchange rates on cash and cash equivalents | 96 | 52 | - | (7) | 52 | - |
| **Net increase (decrease) in cash and cash equivalents** | (603) | (2,018) | (70%) | (4,132) | 2,605 | (259%) |

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity

As at December 31, 2012 the Company had cash and cash equivalents equal to US$7.56M. In response to the need to finance general corporate expenditures including working capital needs and capital expenditures the Company entered into a US$10 million Term Loan during 2012. The Company subsequently repaid the £2M Silverwood Ventures Limited loan during 2012. As at December 31, 2012 the Company had net debt of US$4.67M compared to net cash of US$5.07M as December 31, 2011. The change from a net cash position to a net debt position largely related to the funding of the purchases of property plant and equipment in 2012. Since the Company is in a net debt position, the Company continues to monitor its cash and cash equivalents and its capital spending in response to the industry wide slowdown in drilling activities and in conjunction with the debt that needs to be repaid.

## FOURTH QUARTER ENDED DECEMBER 31, 2012

### Operating Activities

In the 4th quarter of 2012, the Company generated cash from operating activities of US$1.9M, as compared to generating operating cash of US$6.5M in the 4th quarter of 2011. The Company realized a profit before taxation of US$0.46M for the 4th quarter of 2012 but the impact of changes in non-cash items and changes in working capital resulted in an operating cash flow of US$1.9M.

### Investing Activities

In the 4th quarter of 2012, the Company's investment in property, plant and equipment was US$2.76M compared to US$3.90M in the 4th quarter of 2011. Plant and equipment expenditures in the 4th quarter of 2012 mainly included the costs of additional drill rigs and related equipment.

### Financing Activities

During the 4th quarter of 2012, the Company used cash of US$1.14M relating to the quarterly payment on the term loan.

**FISCAL 2012**

**Operating Activities**

In 2012 the Company generated a positive cash flow of US$16.48M as compared to US$7.92M in 2011. In 2012, the cash generated was due to the profit before taxation of US$4.67M plus the impact of changes in non-cash items and changes in working capital items totaling US$11.81M.

**Investing Activities**

In 2012, the Company's investment in property, plant and equipment was US$20.69M compared to US$12.94M in 2011. Plant and equipment purchases in 2012 mainly included the cost of additional drill rigs and related equipment.

**Financing Activities**

During 2012 the Company received a net cash inflow of US$5.64M from the initial proceeds from the Zenith Term Loan of US$9.98M, the exercise of employee stock options of US$0.07M, less the repayment of the Silverwood Ventures Loan of US$3.27M, and the quarterly repayment of the Zenith Term Loan of US$1.14M compared to a net cash inflow of US$2.95M for 2011 that related to the net proceeds received from the Silverwood Ventures Loan of US$3.09M offset by expenses of the initial public offering of US$0.14M.

## Contractual Obligations

| Contractual Obligations in US$ | Payments Due by | | | | |
|---|---|---|---|---|---|
| | Total | 2013 | 2014 | 2015 | After 5 years |
| | | | | | |
| Operating Leases [1] | 550,000 | 200,000 | 200,000 | 150,000 | N/A |
| Purchase Obligations [2] | 3,200,000 | 3,200,000 | N/A | N/A | N/A |
| Loans [3] | 13,433,500 | 7,283,400 | 5,776,400 | 373,700 | N/A |
| **Total Contractual Obligations** | 17,183,500 | 10,683,400 | 5,976,400 | 523,700 | N/A |

Notes:

(1) The operating leases relate to the lease payments for the two real estate properties, as fully disclosed under "Transactions with Related Parties". The annual rent payable shall be reviewed on an upward only basis every two years depending on the average price of two firms of real estate valuators/surveyors or real estate agents. The amount for 2015 represents nine months only as the initial lease term expires on September 30, 2015.

(2) The purchase obligations refer to the purchase of additional drill rigs.

(3) Loans refer to the Zenith Term Loan and the Sandvik Equipment Loans, including the related interest.

Contractual obligations will be funded in the short-term by cash and cash equivalents as at December 31, 2012 of US$7.56M and cash flow generated from operations.

**OUTLOOK**

The Company continues to believe that there is an industry wide slowdown in drilling activities as there is pressure on early stage exploration companies as financing from the capital markets becomes more

challenging and there is also pressure on producing companies as they continue to need to manage their exploration costs in light of increasing costs on the production side of their business. The Company had certain customers reduce the number of drill rigs operating at their sites and have parked certain rigs. The Company believes that the slowdown in drilling activity will continue into 2013 and, as such, the Company continues to actively bid on new jobs and has taken immediate steps to reduce costs, reduce its contract workforce and is reviewing certain capital expenditures throughout the remainder of the year.

As at December 31, 2012 the Company had 33 drill rigs that were available for operation, four drill rigs in the workshop and two drill rigs were on order and with the supplier under manufacturing.

The Company's drill rig fleet available for operation or planned to be available for operation is noted below:

| Make - Model | Type | Available for Operation as at Mar 31, 2012 No. of Rigs | | Available for Operation as at Jun 30, 2012 No. of Rigs | | Available for Operation as at Sep 30, 2012 No. of Rigs | | Available for Operation as at Dec 31, 2012 No. of Rigs | | Planned to be available for operation by Dec 31, 2013 No. of Rigs | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| UDR - 650 | Multi-Purpose | 2 | 1x2003<br>1x1993 | | | | | | | | |
| UDR - KL900 | Multi-Purpose | 4 | 1x2007<br>1x2003<br>1x1999<br>1x1998 | (3) | 1x2003<br>1x1999<br>1x1998 | 1 | 1x1998 | | | 3 | 1 x 1999<br>1 x 2003<br>1 x 2007 |
| Sandvik - DE820 | Multi-Purpose | 4 | 1x2010<br>3x2008 | | | | | | | | |
| Sandvik - DE810 | Multi-Purpose | | | 2 | 2x2012 | 2 | 2x2012 | 2 | 2x2012 | | |
| EDM - 2000 | Multi-Purpose | 2 | 2x2011 | | | | | | | | |
| Austex - X900 | Multi-Purpose | 4 | 3x2011<br>1x 2012 | | | 1 | 1x2012 | | | 2 | 2x2013 |
| Sandvik - DE710 | Core | 8 | 2x2011<br>5x2010<br>1x2009 | | | | | | | | |
| Austex - X300 | Aircore | 4 | 1x2011<br>2x2010<br>1x2010 | 1 | 1x2012 | | | (1) | 1x2011 | 1 | 1x2011 |
| **Total Drill Rigs** | | **28** | | **0** | | **4** | | **1** | | **6** | |
| **Cumulative** | | **28** | | **28** | | **32** | | **33** | | **39** | |

| | As at Mar 31, 2012 | | As at Jun 30, 2012 | | As at Sep 30, 2012 | | As at Dec 31, 2012 | |
|---|---|---|---|---|---|---|---|---|
| | No. of Rigs | Type | No. of Rigs | Type | No. of Rigs | Type | No. of Rigs | Type |
| Available for operation | 16<br>8<br>4 | Multi-Purpose<br>Core Only<br>Air core | 15<br>8<br>5 | Multi-Purpose<br>Core Only<br>Air core | 19<br>8<br>5 | Multi-Purpose<br>Core Only<br>Air core | 21<br>8<br>4 | Multi-Purpose<br>Core Only<br>Air core |
| **TOTAL AVAILABLE FOR OPERATION** | 28 | | 28 | | 32 | | 33 | |
| In transit | 5 | Multi-Purpose | 2 | Multi-Purpose | | | | |
| **Total in Transit** | 5 | | 2 | | | | | |
| In W/Shop | 2<br>1 | Multi-Purpose<br>Air core | 7 | Multi-Purpose | 5 | Multi-Purpose | 3<br>1 | Multi-Purpose<br>Air core |
| **Total in W/Shop** | 3 | | 7 | | 5 | | 4 | |
| Under Manufacturing | 3 | Multi-Purpose | 2 | Multi-Purpose | 2 | Multi-Purpose | 2 | Multi-Purpose |
| **Total Under Manufacturing** | 3 | | 2 | | 2 | | 2 | |
| **TOTAL DRILL RIGS** | 39 | | 39 | | 39 | | 39 | |

| **Split** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Multi-Purpose | 26 | | 26 | | 26 | | 26 | |
| Core Only | 8 | | 8 | | 8 | | 8 | |
| Air Core | 5 | | 5 | | 5 | | 5 | |
| TOTAL | 39 | | 39 | | 39 | | 39 | |

**SUPPLEMENTARY DISCLOSURE - NON-IFRS MEASURES**

EBIT is defined as Earnings before Interest and Taxes and EBITDA is defined as Earnings before Interest, Taxes, Depreciation, and Amortization. The definitions are used in this MD&A as measures of financial performance. The Company believes EBIT and EBITDA are useful to investors because they are frequently used by securities analysts, investors and other interested parties to evaluate companies in the same industry. However, EBIT and EBITDA are not measures recognized by IFRS and do not have standardized meanings prescribed by IFRS. EBIT and EBITDA should not be viewed in isolation and do not purport to be alternatives to net income or gross profit as indicators of operating performance or cash flows from operating activities as a measure of liquidity. EBIT and EBITDA do not have standardized meanings prescribed by IFRS and therefore they may not be comparable to similarly titled measures presented by other publicly traded companies. Also, EBIT and EBITDA should not be construed as alternatives to other financial measures determined in accordance with IFRS.

Additionally, EBIT and EBITDA are not intended to be measures of free cash flow for management's discretionary use, as they do not consider certain cash requirements such as capital expenditures, contractual commitments, interest payments, tax payments and debt service requirements.

The following table is a reconciliation of Geodrill's results from operations to EBIT and EBITDA

| | Fiscal | | Fourth Quarter Ended | |
|---|---|---|---|---|
| **(US$ thousands)** | **2012** | **2011** | **Dec 31, 2012** | **Dec 31, 2011** |
| Profit from Operating Activities | 5,563 | 18,068 | 862 | 5,767 |
| Add: Finance Income | 9 | 24 | 3 | 8 |
| **Earnings Before Interest and Taxes (EBIT)** | **5,572** | **18,092** | **865** | **5,775** |
| Add: Depreciation and Amortization | 7,977 | 6,636 | 2,410 | 2,152 |
| **Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA)** | **13,549** | **24,728** | **3,275** | **7,927** |

In 2011, the foreign exchange loss was included in the EBITDA calculation. In 2011 the EBITDA was previously disclosed as US$25.18M for 2011 and US$7.86M for the three months ended December 31, 2011.

## DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer (the "CEO") and the Chief Financial Officer (the "CFO") of the Company are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") for the Company as defined under Multilateral Instrument 52-109 issued by the Canadian Securities Administrators. The CEO and the CFO have designed such DC&P, or caused them to be designed under their supervision, to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by an issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company's management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure.

As at December 31, 2012, the CEO and CFO evaluated the design and operation of the Company's DC&P. Based on that evaluation, the CEO and CFO concluded that the Company's DC&P were effective as at December 31, 2012.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of its consolidated financial statements in accordance with IFRS.

There were no changes in the Company's internal control over financial reporting during the year beginning on January 1, 2012 and ended on December 31, 2012, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## RISK FACTORS

The following discussion outlines certain relevant risk factors according to the Company's business and industry within which it operates. These risks are not the only risks facing the Company. Additional risks and uncertainties presently not known to the Company, or that the Company currently deems immaterial, may also impair the operations and could potentially affect the Company.

### Risks Related to the Business and the Industry

#### Increased debt level

In response to the need to finance general corporate expenditures including working capital needs and capital expenditures, the Company increased its debt level this year. Historically, the Company has reinvested cash generated from operations into property, plant and equipment. With the increased level of debt and the required payments, the Company will need to monitor its cash on hand, and its investing activities in response to the level of debt and scheduled repayments. The debt requires quarterly repayments of approximately of US$1.82M.

#### Dependence on customers with capital raising challenges

From time to time, the Company may be dependent on customers for a significant portion of revenue and net income who, due to their relative size, could be challenged to attract funding to achieve their business plans. Should a number of our customers face serious capital raising constraints, there can be no guarantee that the Company will be able to secure sufficient replacement customers, potentially leading to future reduced revenue and income levels. Consequently, the Company continues to work to expand its client base to mitigate its exposure to customers with capital raising challenges.

#### Competition

The Company faces considerable competition from several large drilling services companies and a number of smaller regional competitors. Some of the Company's competitors have been in the drilling services industry for a longer period of time and have substantially greater financial and other resources than the Company. This may mean that they are perceived as being able to offer a greater range of services at more competitive prices than the Company. In addition, new and current competitors willing to provide services at a lower cost will likely continue to occur as demand for drilling services in the West African mining market tightens. Increased competition in the drilling services market may adversely affect the Company's current market share, profitability and growth opportunities. Any erosion of the Company's competitive position could have a material adverse effect on the Company's business, results of operations, financial condition and growth prospects.

A significant portion of the drilling services business is a result of being awarded contracts through a competitive tender process. It is possible that the Company may lose potential new contracts to competitors if it is unable to demonstrate reliable performance, technical competence and competitive pricing as part of the tender process or if mining companies elect not to undertake a competitive tender process, or does not continue to provide a premium service as compared to other competitors, to its existing client base which would cause it to lose its reputation in the market place.

**Cyclical Downturns**

The Company's business is highly dependent upon the levels of mineral exploration, development and production activity by mining companies in West Africa. A reduction in exploration, development and production activities will cause a decline in the demand for drill rigs and drilling services, which could have a material adverse effect on the Company's business, financial position, resulting operations and prospects.

The operations and financial results of Geodrill may be materially adversely affected by declines in the price of gold and other commodities. The prices of gold and other commodities fluctuate widely and are affected by numerous factors beyond Geodrill's control, such as the sale or purchase of metals by various central banks and financial institutions, interest rates, exchange rates, inflation or deflation, fluctuations in the value of the United States dollar and foreign currencies, global and regional supply and demand and the political and economic conditions of major metals-producing countries throughout the world. The price of gold and other commodities has fluctuated widely in the past, and future serious price declines could cause continued exploration, development of and commercial production by Geodrill's clients to be impracticable. In such event, the operational and financial results from drilling operations would suffer.

Industry experience indicates that prevailing and projected prices of commodities are major influences on the Company's clients' activity levels and planned expenditures. Gold prices are currently at levels well above historical averages. Strong commodities market conditions have led to an increased supply of drill rigs to the market. In the event of a sustained decrease in demand, the market may be oversupplied with drill rigs, which may result in downward pressure on drilling service providers' margins and drilling operations. In addition, historically when commodity prices fall below certain levels, it is not uncommon for mining and exploration expenditures to decline in the following 12 month period. There is a risk that a significant, sustained fall in commodity prices could substantially reduce future mining expenditures, particularly in relation to exploration and production, leading to a decline in demand for the drilling services offered by the Company which may have a material adverse effect and impact on the Company's business, financial position, results of operations and prospects.

**Revenues and EBITDA**

The Company does not provide financial guidance.  The Company has generated positive EBITDA in the past, however, in 2012 the EBITDA decreased compared to 2011.  There can be no assurance that the Company will generate positive EBITDA in the future.

**Global Financial Condition**

Global financial conditions have been subject to increased volatility in recent years and numerous financial institutions have either gone into bankruptcy or have received capital bail-outs or other relief from governmental authorities. These factors may impact the ability of the Company and its clients to obtain equity or debt financing in the future on terms that are favorable. Worldwide economic conditions, in particular, economic conditions of countries such as the United States and China, influence the activity in the mining industry which in turn has an effect on the demand for the drilling services provided by Geodrill. Although there have been numerous indications of economic recovery in recent years, if increased levels of volatility and market turmoil continue, the Company's results of operations could be adversely impacted and the trading price of the Ordinary Shares could be adversely affected.

**Foreign Currency Exposure**

The Company receives the majority of its revenues in U.S. dollars. However, a significant part of the Company's foreign exchange exposure is in Australian dollars. As a result, the Company is exposed to currency fluctuations and exchange rate risks. Currency fluctuations and exchange rate risks between the value of the U.S. dollar and the value of the Australian dollar may increase the cost of the Company's operations and could adversely affect financial results.

**Dependence on Certain Key Personnel**

The success of the Company was and is currently largely dependent on the performance of management and, in particular, Dave Harper, Terry Burling and Greg Borsk. The group is also supported by; Roy Sinke, General Manager, Alan McConnon, Country Manager Ghana, Stephan Rodrigue, Country Manager Burkina Faso and Don Seguin, Training and Operations Manager, to manage its immediate operations as well as the obligations of running a public company. The loss of the services of these persons would likely have a materially adverse effect on the Company's business and prospects. Additionally, there is no assurance that the Company can maintain the services of its management or its key drillers required to operate the business. The Company does not maintain key person insurance on the lives of any of its key personnel.

**Sensitivity to General Economic Conditions**

The operating and financial performance of the Company is influenced by a variety of international and country-specific general economic and business conditions (including inflation, interest rates and exchange rates), access to debt and capital markets, as well as monetary and regulatory policies. A deterioration in domestic or international general economic conditions, including an increase in interest rates or a decrease in consumer and business demand, could have a material adverse effect on the financial performance, financial position and condition, cash flows, distributions, share price and growth prospects of the Company.

**Political Instability**

The Company's drilling activities are in West Africa, currently in Ghana, Burkina Faso, Niger, Cote d'Ivoire and Guinea. Conducting business in West Africa presents political and economic risks including, but not limited to, terrorism, hostage taking, military repression, expropriation, extreme fluctuations in currency exchange rates, high rates of inflation and labor unrest. Changes in mining or investment policies or shifts in political attitudes may also adversely affect the Company's business. Business may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production and exploration activities, currency remittance, income taxes, environmental legislation, land use, land claims of local people, water use and safety. The effect of these factors cannot be accurately predicted, however, the Company keeps abreast of all political issues and is prepared to act accordingly.

**Specialized Skills and Cost of Labor Increases**

The Company may not be able to recruit or retain drillers and other key personnel who meet the Company's high standards. A failure by the Company to retain qualified drillers or attract and train new qualified drillers could have a material adverse effect on the Company's financial performance, financial condition, cash flows and growth prospects.

**Increased Cost of Sourcing Consumables and Drilling Equipment**

When bidding on a drilling contract, the cost of consumables (including fuel) is a key consideration in deciding upon the pricing of a contract. A material increase in the cost of consumables (including fuel) could result in materially higher costs and could materially reduce the Company's financial performance, financial condition, cash flows and growth prospects. Although the Company mitigates the risk of sourcing and pricing of consumables by keeping an inventory and having the capacity to fabricate certain consumable equipment, such as RC drill pipe and RC wire-line drill subs, there remains a risk that the pricing and availability of certain other consumables such as fuel could have a material negative effect on the Company's operations. Additionally, the delay or inability of suppliers to supply key manufacturing inputs, such as steel and other raw materials, may delay manufacturing certain consumables such as RC drill pipe and RC wire-line drill subs, that may have an adverse effect on the operations and the financial position of the Company's business.

**Inability to Sustain and Manage growth**

The Company's revenue decreased in 2012 compared to 2011. The Company's ability to maintain or sustain its revenue and historical growth will depend on a number of factors, many of which are beyond the Company's control, including, but not limited to, commodity prices, the ability of mining companies to raise financing and the global demand for materials. In addition, the Company is subject to a variety of business risks generally associated with growing companies. The Company is not currently contemplating adding a significant number of rigs but will continue to explore geographic expansion. Expanding into other West Africa jurisdictions could place significant strain on the Company's management personnel and the Company may need to recruit additional personnel to service these jurisdictions.

There can be no assurance that the Company will be able to sustain or accelerate its growth or that such growth, if achieved, will result in profitable operations, that it will be able to attract and retain sufficient management personnel necessary. The failure to accomplish any of the foregoing could have a material adverse effect on the Company's financial performance, financial condition, cash flows and growth prospects. Further, as the Company increases its geographical footprint, it may need to expand its operations base or establish a new operations base in order to continue to maintain its fleet of drill rigs. There is no assurance that the Company will be able to secure additional real estate leases at all or on commercial terms acceptable to the Company.

**Client Contracts**

The Company's drilling client contracts are typically for a term of three months to one year and can be cancelled by the client on short or no notice in certain circumstances with limited or no amounts payable to the Company. The short duration of contract periods, typical for the drilling industry does not provide any certainty of long term cash flows. There is a risk that existing contracts may not be renewed or replaced and that the drill rigs may not be able to be placed with alternative clients. The failure to renew or replace some or all of these existing contracts and cancellation of existing contracts could have a material adverse effect on the Company's financial performance, financial condition, cash flows and growth prospects.

**International Expansion and Instability**

Expansion internationally entails additional political and economic risk. Some of the countries and areas targeted by the Company for expansion are undergoing industrialization and urbanization and do not have the economic, political or social stability that many developed nations now possess. Other

countries have experienced political or economic instability in the past and may be subject to risks beyond the Company's control, such as war or civil disturbances, political, social and economic instability, corruption, nationalization, terrorism, expropriation without fair compensation or cancellation of contract rights, significant changes in government policies, breakdown of the rule of law and regulations and new tariffs, taxes and other barriers, changes in mining or investment policies or shifts in political attitude that may adversely affect the business. There has been an emergence of a trend by some governments to increase their participation, through increased taxation, expropriation, or otherwise. This could negatively impact the level of foreign investment in mining and exploration activities and thus driling demand in these regions. Such events could result in reductions in revenue and transition costs as equipment is shifted to other locations.

**Operational Risks and Liability**

Risks associated with drilling include, in the case of employees, personal injury and loss of life and, in the case of the Company, damage and destruction to property, equipment, release of hazardous substances to the environment, including potential environmental liabilities associated with the Company's fuel storage activities, and interruption or suspension of drill site operation due to unsafe drill operations. The occurrence of any of these events may have an adverse effect on the Company, including financial loss, key personnel loss, legal proceedings and damage to the Company's reputation.

In addition, poor or failed internal processes, people or systems, along with external events could negatively impact the Company's operational and financial performance. The risk of this loss, known as operational risk, is present in all aspects of the business of the Company, including, but not limited to, business disruptions, drill rig failures, theft and fraud, damage to assets, employee safety, regulatory compliance issues and business integration issues.

Advances in exploration, development and production technology which could reduce the demand for drilling services may have an adverse impact on the financial performance of the Company.

**Business Interruptions**

Business interruptions may result from a variety of factors, including regulatory intervention, delays in necessary approvals and permits, health and safety issues or supply bottlenecks and seasonal or extraordinary weather conditions. In addition, the Company operates in geographic locations which are prone to political risks and natural or other disasters. Further, logistical risks such as road conditions, ground conditions and political interference may affect the Company' ability to quickly mobilize or demobilize its drill rigs. The occurrence of business interruptions or conditions could have a material adverse effect on the Company's financial performance, financial condition, cash flows and growth prospects.

**Risk to the Company's Reputation**

Risks to the reputation of the Company, including any negative publicity, whether true or not, could cause a decline in the Company's customer base and have a material adverse impact on the Company's financial performance, financial condition, cash flows and growth prospects. All risks have an impact on reputation and, as such, reputational risk cannot be managed in isolation from other types of risk. Every employee and representative of the Company is charged with upholding its strong reputation by complying with all applicable policies, legislation and regulations as well as creating positive experiences with the Company's customers, stakeholders and the public.

**Environment, Labor and Health and Safety Requirements and Related Considerations**

The drilling services industry is regulated by environmental and health and safety regulations. To the extent that the Company fails to comply with laws and regulations, it could lose client contracts and be subject to suspension of operations or other penalties. In addition, accidents at the sites at which the Company operates could adversely affect the Company's ability to retain client contracts and win new business.

The Company is subject to the labor laws and regulations of the various countries in which it operates. Although none of Geodrill's employees are currently unionized, there is the potential that some or all of its employees may become unionized in the future. There can be no assurance that the Company will not experience labor problems in the future, such as prolonged work stoppages due to labor strikes, which may have an adverse effect on its results of operations and financial conditions.

Clients are required to hold certain permits and approvals in order for the Company to conduct operations. Clients are generally responsible for obtaining the environmental permits necessary for drilling. There is no assurance that clients will be able to renew or obtain the permits or approvals which are required for the drilling services the Company provides to them, in the time frame anticipated or at all. Any failure to renew, maintain or obtain the required permits or approvals may result in interruption or delay to operations and may have an adverse impact on the Company's business, financial position, results of operations and prospects. In addition, clients rely on concessions, licenses and permits to conduct their activities. Any modification or revocation of these concessions, licenses or permits could result in a decrease in demand for the services of the Company or in contracts with clients being terminated.

**Insurance Limits**

The Company maintains, to a limited extent, fixed property, motor and general liability insurance. The Company does not insure all of its drill rigs nor its goods in transit, as management has determined that paying the insurance premiums are not economically feasible at this time. Regarding the insurance that the Company does have, there can be no assurance that such insurance will continue to be offered on an economically feasible basis, that all events that could give rise to a loss or liability are insurable or that the amounts of insurance will at all times be sufficient to cover each and every loss or claim that may occur involving the assets or operations of the Company. The Company does not carry business interruption insurance or key man insurance and, as such, any such interruption or loss would have an adverse effect on the financial position of the Company. To the extent that Geodrill incurs losses not covered by its insurance policies, the funds available for sustaining and growing operations will be reduced.

**Uncertain Legal and Regulatory Frameworks**

The Company's business and operations are potentially subject to the uncertain legal and regulatory frameworks in the countries in which it operates. Laws, regulations and local rules governing business entities in these countries may change and are often subject to a number of possibly conflicting interpretations, both by business entities, government departments and the courts. Laws and regulations may be promulgated and overseen by different government entities or departments, which may be national, regional or municipal and these entities may differ in their interpretation and enforcement of the laws and regulations. The business, financial condition, profitability and results of operations of the Company could potentially be adversely affected by changes in and uncertainty surrounding governmental policies, in particular with respect to business laws and regulations, licenses and permits, taxation, exchange control regulations, labor laws and expropriation.

Given the uncertain legal and regulatory framework in some of the West African countries in which the Company operates or may operate in the future, there is a risk that the necessary licenses, permits, certificates, consents and authorizations to implement or conduct operations may not be obtained by either the client or the Company under conditions or within time frames that make such operations viable and that changes to applicable laws, regulations or the governing authorities may result in additional material expenditure or time delays.

**Tax Risk**

The Company has organized its group structure and its operations in part based on certain assumptions about various tax (laws including, among others, income tax and withholding tax), foreign currency and capital repatriation laws and other relevant laws of a variety of jurisdictions. While the Company believes that such assumptions are correct, there can be no assurance that foreign taxing or other authorities will reach the same conclusion. If such assumptions are incorrect, or if such jurisdictions were to change or modify such laws or the current interpretation thereof, the Company may suffer adverse tax and financial consequences. Geodrill is an Isle of Man company with drilling activities currently in Ghana, Burkina Faso, Niger, Cote d'Ivoire and Guinea. Geodrill has subsidiaries incorporated in the British Virgin Islands. There is a risk in which the countries where Geodrill operates may change their current tax regime with little or no prior notice or that the tax authorities in these jurisdictions may attempt to claim tax on the global revenues of the Company. A change to the tax regimes in these countries or an unfavorable interpretation of the current tax legislation could have a material adverse effect on the profitability of the Company.

**Credit Risk**

The Company provides credit to its clients in the normal course of its operations the Company has provided an allowance for doubtful accounts of US$0.60M as at December 31, 2012. As at December 31, 2012, 12% of the trade accounts receivable are aged between 91-180 days.

One major client represents 15% of the trade accounts receivable as at December 31, 2012. Two other major clients each represent 14%, and one other client represents 11%. The remaining clients represented less than 10% each. Credit risk also arises from cash and cash equivalents with banks. This risk is limited, as it is spread over various countries and banking institutions.

**Geographic Expansion**

Expansion into new West African jurisdictions also brings additional geographic and currency risk. There is a risk that the operations, assets, employees or repatriation of revenues could be impaired by factors specific to the regions into which Geodrill may choose to expand.

**Supply of Consumables**

The Company's operations could place pressure on the ability of its vendors to manufacture and deliver to the Company new drills and consumables. Any negative impact on the ability of the vendors to deliver their products may constrain the Company's ability to increase its capacity and increase or maintain revenue and profitability.

**Risks due to Foreign Incorporation**

The Company is incorporated under and governed by the laws of the Isle of Man and consequently shareholders may not have the same rights and protections as they would have under provincial or

federal corporate law in Canada. There can be no assurance that shareholder rights and remedies available under the corporate law of the Isle of Man will be enforceable in Canada through Canadian courts or that any orders of the courts of the Isle of Man made under such corporate law will be enforceable in Canada.

**Equity Market Risks**

There is a risk associated with any investment in the Ordinary Shares. The market price of securities such as the Ordinary Shares of the Company are affected by numerous factors including, but not limited to, general market conditions, actual or anticipated fluctuations in the Company's results of operations, changes in estimates of future results of operations by the Company or securities analysts, risks identified in this section and other factors. In addition, the financial markets have experienced significant price and volume fluctuations that have sometimes been unrelated to the operating performance of the issuers or the industries in which they operate.

**The Influence of Existing Shareholders and Future Sales by The Harper Family Settlement and Dave Harper**

The Harper Family Settlement and Dave Harper holds or controls, directly or indirectly, 17,623,500 Ordinary Shares representing approximately 41.5% of the Company's issued Ordinary Shares. As a result, The Harper Family Settlement and Dave Harper have the ability to influence the Company's strategic direction and policies, including any sale of all or substantially all of its assets, the election and composition of the Board of Directors, the amendment of the Company's Memorandum and Articles of Association and the declaration of dividends. The foregoing ability to influence the control and direction of the Company could adversely affect investors' perception of the Company's corporate governance and reduce its attractiveness as a target for potential take-over bids and business combinations, and correspondingly affect its share price.

Sales of a large number of Ordinary Shares by The Harper Family Settlement or Dave Harper in the public markets, or the potential for such sales, could decrease the trading price of the Ordinary Shares and could impair Geodrill's ability to raise capital through future sales of Ordinary Shares.

**Dilution**

The Company may raise additional funds in the future by issuing equity securities. Holders of Ordinary Shares will have no pre-emptive rights in connection with such further issues. Additional Ordinary Shares may be issued by the Company in connection with the exercise of options. Such additional equity issuances could, depending on the price at which such securities are issued, substantially dilute the interests of the holders of Ordinary Shares.

**Lack of Dividend Payments**

Geodrill does not pay dividends other than a real estate dividend in 2010, issued in connection with the IPO reorganization of the Company, no dividends on the Ordinary Shares have been paid to date. Geodrill anticipates that for the foreseeable future it will retain future earnings and other cash resources for the operation and development of its business. Payment of any future dividends will be at the discretion of the Board of Directors after taking into account many factors, including Geodrill's earnings, operating results, financial condition, current and anticipated cash needs and restrictions in financing agreements.

## FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair values of financial assets and liabilities together with the carrying amounts shown in the statement of financial position are as follows:

| | Loans and Receivables | Other Financial Liabilities | Carrying Amount | Total Fair Value |
|---|---|---|---|---|
| | US$ | US$ | US$ | US$ |
| **December 31, 2012** | | | | |
| **Financial assets** | | | | |
| Trade and other receivables | 8,386,243 | - | 8,386,243 | 8,386,243 |
| Cash and cash equivalents | 7,562,174 | - | 7,562,174 | 7,562,174 |
| | 15,948,417 | - | 15,948,417 | 15,948,417 |
| **Financial liabilities** | | | | |
| Trade and other payables | - | 9,503,097 | 9,503,097 | 9,503,097 |
| Related party payables | - | 923,025 | 923,025 | 923,025 |
| Loans payable | - | 12,228,824 | 12,228,824 | 12,228,824 |
| | - | 22,654,946 | 22,654,946 | 22,654,946 |
| **December 31, 2011** | | | | |
| **Financial assets** | | | | |
| Trade and other receivables | 8,213,010 | - | 8,213,010 | 8,213,010 |
| Cash and cash equivalents | 8,165,394 | - | 8,165,394 | 8,165,394 |
| | 16,378,404 | - | 16,378,404 | 16,378,404 |
| **Financial liabilities** | | | | |
| Trade and other payables | - | 6,187,072 | 6,187,072 | 6,187,072 |
| Related party payables | - | 923,025 | 923,025 | 923,025 |
| Loan payable | - | 3,091,142 | 3,091,142 | 3,091,142 |
| | - | 10,201,239 | 10,201,239 | 10,201,239 |

| Related party | Relationship | Country of Incorporation | Ownership Interest | |
|---|---|---|---|---|
| | | | 2012 | 2011 |
| Geodrill Ghana Limited | Subsidiary | Ghana | 100% | 100% |
| DSI Services Limited | Subsidiary | British Virgin Islands | 100% | 100% |
| Geotool Limited | Subsidiary | British Virgin Islands | 100% | 100% |
| Geo-Forage BF SARL | Subsidiary | Burkina Faso | 100% | 100% |
| Geo-Forage Cote d'Ivoire SARL | Subsidiary | Cote d'Ivoire | 100% | 100% |
| Transtraders Limited | Related party | Isle of Man | - | - |
| Bluecroft Limited | Significant shareholder | Isle of Man | - | - |
| Redcroft Limited | Significant shareholder | Isle of Man | - | - |
| Harper Family Settlement | Significant indirect shareholder | Isle of Man | - | - |

## TRANSACTIONS WITH RELATED PARTIES

### (i) Transactions with related parties

Transactions with companies within the Group have been eliminated on consolidation

Transtraders Limited ("TTL") is a company which is owned by Redcroft Limited and Bluecroft Limited who also, collectively, through the Harper Family Settlement own 41.2% (December 31, 2011: 41.2%) of the issued share capital of Geodrill Limited.

Geodrill Ghana Limited entered into an agreement with the Harper Family Settlement to lease the Anwiankwanta property for US$112,000 per annum and the Accra property for US$48,000 per annum. The material terms of the lease agreement include: (i) the annual rent payable shall be reviewed on an upward only basis every two years based on the average price of two firms of real estate valuators/surveyors or real estate agents; (ii) at the end of the original five year lease term, Geodrill Ghana Limited shall have the option to renew the lease for an additional five year term with similar rent and conditions; and (iii) either party may terminate the lease agreement provided they give the other party 12 months' notice.

On October 1, 2012 in conjunction with the rent review, Geodrill Ghana Limited agreed to lease the Anwiankwanta property for US$140,000 per annum and the Accra property for US$60,000 per annum for a period of two years effective October 1, 2012.

Future operating lease commitments related to the properties are:

| | 2012<br>US$ | 2011<br>US$ |
|---|---|---|
| Payable within one year | 200,000 | 160,000 |
| Payable between 1 and 5 years | 350,000 | 480,000 |
| Total | 550,000 | 640,000 |

During the year ended December 31, 2012 lease payments amounted to US$170,000 (2011: US$160,000).

### (ii) Key management personnel and directors' transactions

The Group's key management personnel, and persons connected with them, are also considered to be related parties for disclosure purposes. The definition of key management includes the close members of the family of key personnel and any entity over which key management exercises control. The key management personnel have been identified as directors of the Group and other management staff. Close members of family are those family members who may be expected to influence, or be influenced by that individual in their dealings with Geodrill Limited.

The Group paid management fees to Kingston Management (Isle of Man) Ltd. which is also the licensed and regulated fiduciary service provider of the Harper Family Settlement. Throughout 2012, two of the directors of Kingston Management (Isle of Man) Ltd. were also directors of Geodrill. Management fees paid during the year amounted to US$68,784 (2011: US$178,548). One of the directors of Geodrill resigned from Kingston Management (Isle of Man) Ltd on January 31, 2013 and the other director resigned on February 28, 2013.

Geodrill, on behalf of Geotool Limited, paid management fees to City Trust Limited. One of the directors of City Trust Limited was also a director of Geodrill up to December 21, 2012, when that director resigned from City Trust Limited. Management fees paid during the year amounted to US$7,746 (2011: US$5,165).

The Group paid consulting fees to MS Risk Limited. One of the directors of MS Risk Limited is also a director of Geodrill Limited. Consulting fees paid during the year amounted to US$58,616, (2011: US$ 55,695).

Key management personnel compensation and directors fees for the year comprised:

| | **2012 US$** | **2011 US$** |
|---|---|---|
| Short-term employee benefits | 1,720,243 | 2,157,445 |
| Share-based payment arrangements | 1,076,833 | 1,554,387 |
| Total | 2,797,076 | 3,711,832 |

### (iii) Related party balances

The aggregate value of related party transactions and outstanding balances at each year end were as follows:

Balances outstanding as at December 31,

| | **Type** | **2012 US$** | **2011 US$** |
|---|---|---|---|
| **Transtraders Limited:** | | | |
| Payable | Line of credit | (923,025) | (923,025) |
| Total | | (923,025) | (923,025) |

The related party payable to Transtraders Limited is unsecured and is interest free.

## SIGNIFICANT ACCOUNTING POLICIES

### a. Approval of the consolidated financial statements

The consolidated financial statements were approved by the board of directors and authorized for issue on March 1, 2013.

### b. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

### c. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except where stated otherwise.

### d. Foreign currency translation

The consolidated financial statements are presented in United States Dollars (US$) which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are recorded using that functional currency.

Transactions in foreign currencies are initially recorded by the Group entities at the currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange in effect at the reporting date, with the movement recorded in comprehensive income.

### e. Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on amounts recognized in the consolidated financial statements are described in notes 2.g, 2.i, 2.j, 2.l, and 4.

**f. Basis of consolidation**

(i) Subsidiaries

Subsidiaries are entities controlled by the company. Control exists when the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Consistent accounting policies and the same reporting period are used for all Group entities.

(ii) Special purpose entities

A special purpose entity ("SPE") is consolidated if, based on evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE.

(ii) Transactions eliminated on consolidation

Intra-Group balances, unrealized gains and losses, transactions and dividends are eliminated in preparing the consolidated financial statements.

**g. Financial instruments**

(i) Recognition

Financial assets and financial liabilities are recognized when a Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL"), 'held-to-maturity' investments, 'available-for-sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Subsequent to initial recognition, the treatment of financial assets depends on their classification. Those recognized as FVTPL are carried in the consolidated statement of financial position at fair value with changes in fair value recognized in comprehensive income. AFS financial assets are recognized in the consolidated statement of financial position at fair value with unrealized gains and losses recognized as other comprehensive income until the investment is derecognized or impaired, at which time gains and losses are recognized in, or reclassified to, comprehensive income. Loans and receivables and held-to-maturity investments are measured at amortized cost using the effective interest rate method, less impairment.

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Subsequent to initial recognition, the treatment of financial liabilities depends on their classification. Those recognized as FVTPL are carried in the consolidated statement of financial position at fair value with changes in fair value recognized in comprehensive income. Other financial liabilities are measured at amortized cost using the effective interest rate method.

(ii) Derecognition

Financial assets are derecognized when the contractual rights to the cash flows from the asset expire, or the Group transfers the rights to receive the contractual cash flows or the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Financial liabilities are derecognized when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

(iii) Classification

The Group applies a hierarchy to measure financial instruments carried at fair value. Levels 1 to 3 are defined based on the degree to which fair value inputs are observable and have a significant effect on the recorded fair value, as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Valuation techniques using significant observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices), or valuations that are based on quoted prices for similar instruments; and Level 3: Valuation techniques using significant inputs that are not based on observable market data (unobservable inputs).The fair values of financial instruments are determined using market prices for quoted instruments and widely accepted valuation techniques for other instruments. Valuation techniques include discounted cash flows, standard valuation models based on market parameters, dealer quotes for similar instruments and expert valuations.

When fair values of unquoted instruments cannot be measured with sufficient reliability, such instruments are carried at cost less impairments, if applicable.

Further information relating to the fair values of financial instruments is provided in notes 4 and 18.

(iv) Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(v) Offsetting

Financial assets and liabilities are set off and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses on financial instruments are presented on a net basis when permitted by accounting standards.

(vi) Share capital

Proceeds from the issue of ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

(vii) Compound financial instruments

From time to time the Group may issue compound financial instruments such as convertible notes that can be converted to share capital at the option of the holder, when the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity component in the proportion of their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Interest, and gains and losses related to the financial liability, are recognized in profit or loss. On conversion, the financial liability is reclassified to equity; no gain or loss is recognized on conversion.

(viii) Trade receivables

Trade receivables are initially stated at their fair value. The carrying amounts for accounts receivable are net of allowances for doubtful accounts. The Group evaluates the recoverability of Trade receivables on the specific risks associated with the customer and other relevant information. Individual trade receivables are only written off when management deems them not collectible.

**h. Leases**

(i) Classification

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. Assets held under finance leases are stated as assets of the Group at the lower of their fair value and the present value of the minimum lease

payments at inception of the lease, less accumulated depreciation and impairment losses. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Finance costs are charged to comprehensive income over the term of the relevant lease so as to produce a constant periodic interest charge on the remaining balance of the obligations for each accounting period.

Leases where significant portions of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

(ii) Lease payments

Payments made under operating leases are charged to comprehensive income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place. Minimum lease payments made under finance leases are apportioned between finance expense and a reduction of the outstanding lease liability.

**i. Property, plant and equipment**

(i) Recognition and measurement

Items of property, plant and equipment are measured at acquisition or construction cost, less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy.

The cost of self-constructed assets includes the cost of materials and direct labor, and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day maintenance, repair and servicing expenditures incurred on property, plant and equipment are recognized in comprehensive income, as incurred.

(iii) Depreciation

Depreciation is recognized in comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Assets leased under a finance lease are depreciated over their useful lives. Capital work in progress is not depreciated.

The estimated useful lives of major classes of depreciable property, plant and equipment are:

| | |
|---|---|
| Motor vehicles | 3 years |
| Plant and equipment | 5 years |
| Leasehold improvements | over the term of the lease |
| Drill rig and components | 5-10 years |

Depreciation methods, useful lives and residual values of property plant and equipment are reassessed at each reporting date. The actual lives of these assets and residual values can vary depending on a variety of factors, including technological innovation and maintenance programs. Changes in estimates can result in significant variations in the carrying value and amounts charged, on account of depreciation, to comprehensive income in specific periods.

The following changes were adopted effective July 1, 2011 on a prospective basis:

a. The estimated useful lives of motor vehicles were changed from 5 years to 3 years.

b. The drill rig components were separately classified and depreciated over 5 years. These components had previously been depreciated, together with the drill rigs, over 10 years.

c. Residual values of the drill rigs are estimated to be 25% of the costs, after deducting the drill rig components.

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds from disposal with the carrying amounts of property, plant and equipment, and are recognized in comprehensive income.

(iv) Impairment

The Group's property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the respective asset's or cash-generating unit's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amounts. A cash-generating unit is the smallest identifiable asset group that generates cash inflows that are largely independent from other assets and groups.

The recoverable amount of the asset or cash-generating unit is based on the higher of a value-in-use calculation or fair value less costs to sell. The value-in-use calculation requires an estimation of the future cash flows expected to arise from the asset or cash-generating unit and a pre-tax discount rate in order to calculate the present value. Fair values less costs to sell are based on recent market transactions where available, and where not available, appropriate

valuation models are used. An impairment loss is recognized immediately in comprehensive income

At the end of each reporting period, the Group assesses whether there is any indication that an impairment loss recognized in prior periods for an asset or cash-generating unit may no longer exist or may have decreased. If any such indication exists, the Group estimates the recoverable amount of the asset or cash-generating unit. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized immediately in comprehensive income.

**j. Inventories**

Inventories are measured at the lower of cost and net realizable value. The cost of spare parts is based on the first-in first-out principle and includes expenditures incurred in acquiring/building the inventories and bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less estimated selling expenses.

Inventory is assessed on a per unit basis to determine whether indicators exist which would lead to a downward revision in the net realizable value of inventory. This assessment is performed at each reporting date.

**k. Employee benefits**

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions to a separate entity and will have no legal or constructive obligation to pay future amounts. Obligations for contributions to defined contribution schemes are recognized as an expense in comprehensive income in the periods during which services are rendered by employees.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee, and the obligation can be estimated reliably.

(iii) Share-based payment transactions

The grant-date fair value of equity-settled share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in share based payments reserve, over the period that the employees unconditionally become entitled to the awards. Estimations are made at the end of each reporting period of the number of instruments which will eventually vest. The impact of any revision is recognized in comprehensive income such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payment reserve.

## l. Income tax

Income tax expense comprises current and deferred tax expenses.

Current tax and deferred tax are recognized in comprehensive income except to the extent that they relate to items recognized directly in other comprehensive income or equity.

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the consolidated statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

## m. Dividends

Dividends payable/receivable are recognized in the period in which the dividend is appropriately authorized.

## n. Revenue – drilling revenue

Revenue from the provision of services in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of discounts and value added taxes. Drilling revenue is recognized as revenue when the outcome of the drilling can be estimated reliably to the actual chargeable meters drilled.

The outcome can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the drilling service rendered will flow to the Group;
- the work performed of the drilling service at the end of the reporting period can be measured reliably; and
- the costs incurred for and to complete the drilling can be measured reliably.

## o. Finance income

Finance income comprises interest income on funds invested or held in bank accounts. Interest income is recognized in comprehensive income using the effective interest method.

**p. Finance costs**

Finance costs comprise interest expense on borrowings, including all financing arrangements.

**q. Post balance sheet events**

Events subsequent to the balance sheet date are reflected in the financial statements only to the extent that they relate to the period under consideration and the effect is material.

**r. Earnings per share**

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted earnings per share is determined by adjusting the weighted average number of ordinary shares outstanding for the effects of all dilutive potential shares, which currently comprise share options granted to employees and directors.

**APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS**

**New and revised IFRSs issued but not yet effective**

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

| Standard / Interpretation | | Effective Date |
|---|---|---|
| IFRS 9 | Financial Instruments | Annual periods beginning on or after January 1, 2015 |
| IFRS 10 | Consolidated Financial Statements | Annual periods beginning on or after January 1, 2013 (early adoption permitted) |
| IFRS 11 | Joint Arrangements | Annual periods beginning on or after January 1, 2013 (early adoption permitted) |
| IFRS 12 | Disclosure of Interests in Other Entities | Annual periods beginning on or after January 1, 2013 (early adoption permitted) |
| IFRS 13 | Fair Value Measurement | Annual periods beginning on or after January 1, 2013 (early adoption permitted) |
| Amendments to IAS 1 | Presentation of items of other comprehensive income | Annual periods beginning on or after July 1, 2012 |
| IAS 19 (as revised in 2011) | Employee Benefits | Annual periods beginning on or after January 1, 2013 |
| IAS 27 (as revised in 2011) | Separate Financial Statements | Annual periods beginning on or after January 1, 2013 (early adoption permitted) |
| IAS 28 (as revised in 2011) | Investment in associates and joint ventures | Annual periods beginning on or after January 1, 2013 (early adoption permitted) |
| Amendment to IAS 32 | Offsetting financial assets and financial liabilities | Annual periods beginning on or after January 1, 2014 (early adoption permitted) |
| Amendment to IFRS 7 | Disclosure-offsetting financial assets and financial liabilities | Annual periods beginning on or after January 1, 2013 |
| Amendment to IFRS 9 and 7 | Mandatory effective date and transition disclosures | Effective date for IFRS 9 deferred to January 1, 2015 |

IFRS 9:

This new standard replaces the requirements in IAS 39, *Financial Instruments: Recognition and Measurement* for classifying and measuring of financial assets and liabilities.

At their meeting on December 13-15, 2011, the IASB approved the deferral by two years of the effective date of IFRS 9, *Financial Instruments,* from January 1, 2013 to January 1, 2015. Early adoption continues to be permitted.

The amendments approved in December 2011 also provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9. This relief was originally only available to companies that chose to apply IFRS 9 prior to 2012. Instead, additional transition disclosures will be required to help investors understand the effect that the initial application of IFRS 9 has on the classification and measurement of financial instruments.

The impact on the financial statements for the Group, if any, has not yet been estimated.

IFRS 10:

IFRS 10 replaces the consolidation requirements in IAS 27, *Consolidated and Separate Financial Statements,* and SIC-12 *Consolidation - Special Purpose Entities.* It is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted, provided IFRS 11, IFRS 12 and the related amendments to IAS 27 and 28 are adopted at the same time.

IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

The impact on the financial statements for the Group, if any, has not yet been estimated.

IFRS 11:

IFRS 11 supersedes IAS 31, *Interests in Joint Ventures,* and SIC-13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturer.* It is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted, provided IFRS 10, IFRS 12 and the amendments to IAS 27 and 28 are adopted at the same time.

IFRS 11 improves on IAS 31 by requiring a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations arising from the arrangement. The standard also addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities, namely the equity method.

The impact on the financial statements for the Group, if any, has not yet been estimated.

IFRS 12:

IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities.

IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted, provided IFRS 10, IFRS 11 and the related amendments to IAS 27 and 28 are adopted at the same time.

The impact on the financial statements for the Group, if any, has not yet been estimated.

IFRS 13:

IFRS 13 is a new standard that defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions).

This project was carried out jointly with the FASB. As a result of concurrent changes approved by the FASB to Topic 820, US GAAP nearly identical definition and meaning of fair value and the same disclosure requirements about fair value measurements.

The impact on the financial statements for the Group, if any, has not yet been estimated.

Amendments to IAS 1:

On June 16, 2011, the IASB issued amendments to IAS 1, *Presentation of Financial Statements*, which require entities preparing financial statements in accordance with IFRSs to group together items within OCI that may be reclassified to the profit or loss section of the income statement and to separately group together items that will not be reclassified to the profit or loss section of the income statement.

The amendments also reaffirm existing requirements that profit or loss and other comprehensive income "OCI" should be presented as either a single statement or two consecutive statements.

The amendments are effective for financial years commencing on or after July 1, 2012. Earlier application is permitted.

The impact on the financial statements for the Group, if any, has not yet been estimated.

IAS 19 (Post-employment benefits):

On June 16, 2011 the IASB issued amendments to IAS 19, *Employee Benefit,* in order to improve the accounting for pensions and other post-employment benefits.

The amendments make important improvements by:

- eliminating the option to defer the recognition of gains and losses, known as the 'corridor method' or the "deferral and amortization approach";

- streamlining the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring re-measurements to be presented in OCI, thereby separating those changes from changes that many perceive to be the result of an entity's day-to-day operations;

- enhancing the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

The amendments are effective for financial years beginning on or after January 1, 2013. Earlier application is permitted.

The impact on the financial statements for the Group, if any, has not yet been estimated.

IAS 27 (as revised in 2011):

IAS 27 was re-issued by the IASB on May 13, 2011 in order to conform to changes as a result of the issuance of IFRS 10, IFRS 11, and IFRS 12. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements, as the consolidation guidance will now be included in IFRS 10.

The impact on the financial statements for the Group, if any, has not yet been estimated.

IAS 28 (as revised in 2011):

IAS 28 was re-issued by the IASB on May 13, 2011 in order to conform to changes as a result of the issuance of IFRS 10, IFRS 11, and IFRS 12. IAS 28 continues to prescribe the accounting for investments in associates, but is now the only source of guidance describing the application of the equity method. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee.

The impact on the financial statements for the Group, if any, has not yet been estimated.

Amendment to IAS 32:

The amendment to IAS 32 pertains to the situations where offsetting of financial assets and liabilities is appropriate and specifically clarifies:

- the meaning of currently has a legally enforceable right of set-off; and
- that some gross settlement systems may be considered equivalent to net settlement.

The impact on the financial statements for the Group, if any, has not yet been estimated.

Amendment to IFRS 7:

At its meeting on December 13-15, 2011, the IASB approved amendments to IFRS 7, *Financial Instruments*: Disclosures, with respect to offsetting financial assets and financial liabilities. The common disclosure requirements issued by the IASB and the FASB in December 2011 are intended to help investors and other users to better assess the effect or potential effect of offsetting arrangements on a company's financial position. Companies and other entities are required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The required disclosures should be provided retrospectively.

As part of this project the IASB also clarified aspects of IAS 32, *Financial Instruments*: Presentation. The amendments to IAS 32 address inconsistencies in current practice when applying the requirements. The amendments are effective for annual periods beginning on or after January 1, 2014 and are required to be applied retrospectively.

The impact on the financial statements for the Group, if any, has not yet been estimated.

**CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Significant areas requiring the use of management estimates relate to property, plant and equipment and inventory valuation, determination of income and deferred taxes, and amounts recorded as accrued liabilities.

Management reviews property, plant and equipment at each reporting date to determine whether there is any indication of impairment. If such an indication exists, then the respective assets or cash-generating units recoverable amount is estimated.

Management reviews inventories at each reporting period to determine whether indicators exist which would lead to a downward revision in the net realizable value of the inventory. Management's estimate of net realizable value of such inventories is based primarily on sales price and current market conditions.

Tax interpretations, regulations and legislations in the various countries in which the Group operates are subject to change and management uncertainty. Current income tax expense is based on tax currently payable or current withholding tax rates in countries in which the group operates. In addition, deferred income tax liabilities are assed by management at the end of reporting period and are measured at the tax rates that are expected to be applied to the temporary differences when they reverse.

The amount recognized as provisions and accrued liabilities is the best estimate of the consideration required to settle the related liability, including any related interest charges, taking into account the risks and uncertainties surrounding the obligation. The Group assesses it liabilities at each reporting period, based upon the best information available, relevant to tax laws and other appropriate requirements.

## Additional Information

Additional information relating to Geodrill, including the Company's Annual Information Form can be found on SEDAR at www.sedar.com.