



**HIGH PERFORMANCE
HIGH VALUE DRILLER**

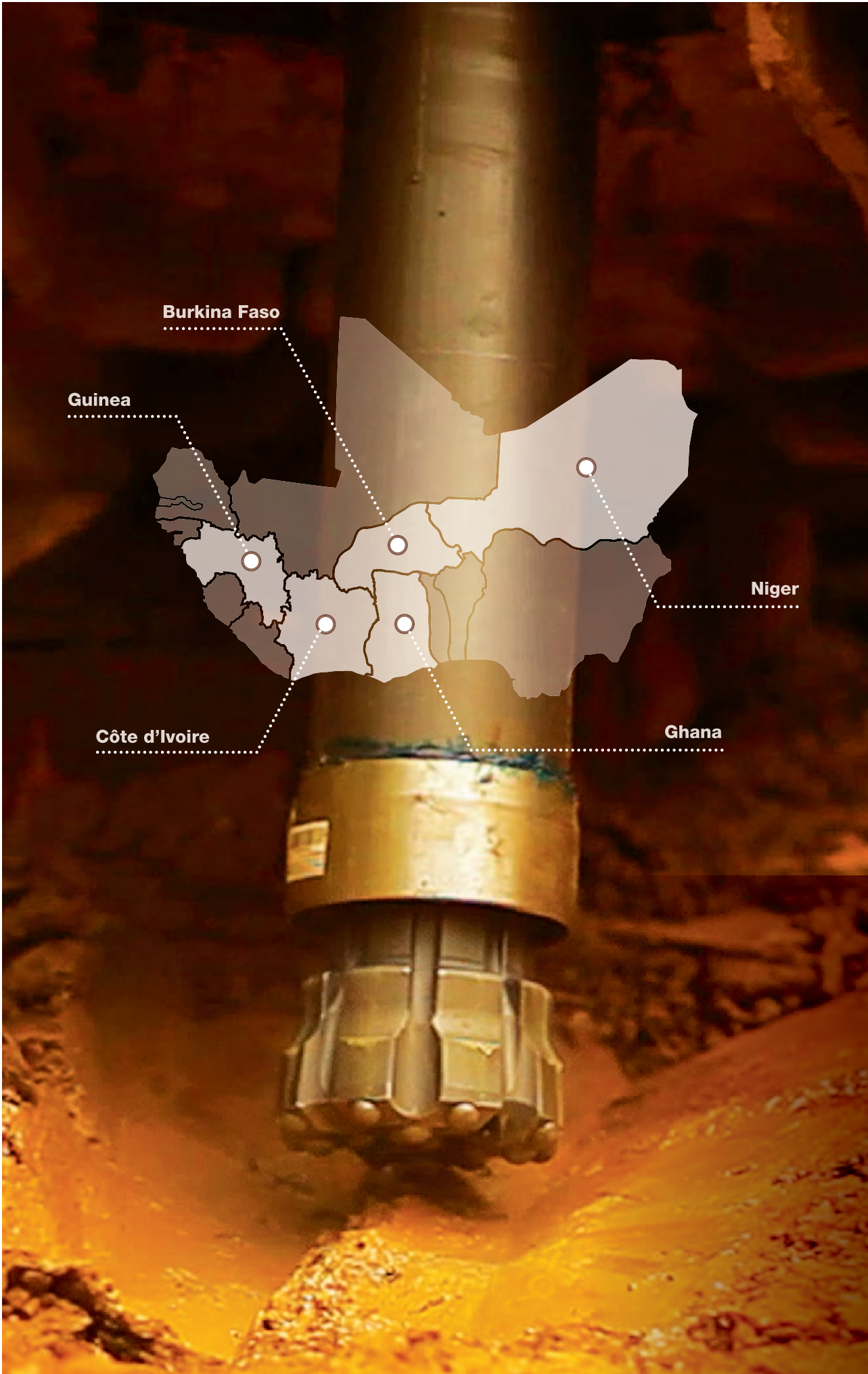
Burkina Faso

Guinea

Niger

Côte d'Ivoire

Ghana





We formed Geodrill to take the leading position in the vast commercial opportunity of West African drilling services.

Our competitive strengths are founded on our management team with its unrivalled expertise, depth of strategic relationships and experience in the field. This combination has earned Geodrill an enviable reputation for delivering results and value to exploration and mining companies across the whole range from junior and intermediate to the majors, making us the preferred drilling partner for these companies, large and small, active across the entire region.

Our mission is to expand our presence in West Africa, growing on the strengths of our quality, innovation and delivered value.



WE



HAVE

- Created a high-performance results-oriented culture
- Expanded our geographic footprint in West Africa
- Expanded our commodities mix to include iron ore, manganese and uranium
- Built a modern fleet of drill rigs and a world-class support facility
- Developed satellite facilities at strategic locations to support expanding client/country base
- Maintained strong long-term customer relationships





WILL

- Strengthen the economic yield of our assets, especially through rig utilization, for enhanced financial performance from operations
- Promote organic growth through reputation management and relationship building
- Expand our market presence in West Africa through our first response readiness and seize new opportunities
- Continue to assemble a superior fleet of high-performance rigs



LETTER TO SHAREHOLDERS

In our world, volatility is opportunity. We deal in fast-changing markets, volatile governments and constant innovation in our technology. West Africa is changing, challenging and abundant in extraordinary commercial opportunity. To succeed you need skill, solid resources and equipment, but above all you have to lead with a strong strategy for simultaneously capturing business opportunity while mitigating risk.

We saw volatility in the drilling industry in 2012. The operating environment shifted decisively from overheated to uncertain in the second half of the year. During the third quarter, a rapid decline in client demand for rigs confronted our industry with a real financial challenge. Geodrill made a quick strategic adaptation to these new market factors.

First, we reduced risk by cutting back staffing levels and winding back our rig fleet growth plans.

Second, we engineered increased efficiency in our rig operations. Improved utilization rates in the fourth quarter meant that our rig fleet became a more effective financial engine for our operations. In a period of market contraction, produce more with less.

Third, that efficiency coupled with the expertise and practical knowledge has secured our reputation as the preferred choice to deliver results. It earned us a number of contract extensions and new business in an economically adverse environment.

Our reputation is a valuable marketing asset. We will lever up its value in the coming months to develop new business through active reputation management and relationship building.

Our rapid response capabilities, backed up with a reputation of success, give us powerful credibility to win contracts through West Africa.

In short, we have consolidated a leadership strategy that contains risk in a volatile environment while equipping us to respond faster and more effectively to opportunities in a wider scope of work and a wider area of West Africa. It has never looked better for Geodrill.

As the founder of Geodrill, I can state that these new developments confirm our fundamental belief that times will change but values endure. During 2012 we retained our focus on growing our business in West Africa. We increased our growing fleet of high performance modern rigs, expanded our geographic footprint and diversified our commodity mix.

In the first half of 2012, we continued an organic growth strategy that increased our drilling rig fleet by 32% over the 2011 rig count to 37 rigs at the end of the year. Today we operate in five countries, maintaining our strong presence in both Ghana and Burkina Faso, re-entering Côte d'Ivoire, entering Niger and now starting operations in Guinea.

This is a time of transition. We face a more traditional operating environment, after years of record activity, but Geodrill has always been a company that created its own opportunities.

And we are doing that now with a new strategic consolidation for leadership in this changing business environment. Volatility is the norm in this industry, but with our experience and discipline we are creating extraordinary value, just as we have done in the past.

On behalf of the management team, I would like to thank our Board of Directors for their continuing counsel and guidance, our workforce for its dedication and commitment to value, and our shareholders for their continued support. I look forward to keeping you informed of our progress throughout 2013.

Sincerely,



Dave Harper

President and Chief Executive Officer

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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.

Corporate Overview (continued)

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 Côte-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 Côte 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-month 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 Côte 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, Côte 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 Côte d'Ivoire for a new client. The Company believes that the current political and economic climate in Côte d'Ivoire is appropriate for the Company to operate in Côte 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-month 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.

OUTSTANDING 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	<u>2,610,000</u>
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%
	<u>65,586</u>	<u>100%</u>	<u>70,148</u>	<u>100%</u>	<u>45,063</u>	<u>100%</u>

(1) Included in Burkina Faso and other is Niger and Côte 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%
	<u>819,486</u>	<u>100%</u>	<u>922,471</u>	<u>100%</u>	<u>481,265</u>	<u>100%</u>

(1) Included in Burkina Faso and other is Niger and Côte 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 22.

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 22.

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

(in US\$ 000's)	Fiscal Year Ended			% Change	
	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%
<i>Cost of Sales (%)</i>	61%	46%	50%		
Gross Profit	25,852	38,056	22,394	-32%	70%
<i>Gross Profit Margin (%)</i>	39%	54%	50%		
Selling, General and Administrative Expenses	19,806	19,537	12,166	1%	61%
<i>Selling, General and Administrative Expenses (%)</i>	30%	28%	27%		
Foreign Exchange Loss	483	451	13		
<i>Foreign Exchange Loss (%)</i>	1%	1%	0%		
Profit from Operating Activities	5,563	18,068	10,113	-69%	79%
<i>Profit from Operating Activities (%)</i>	8%	26%	22%		
Finance Income	9	24	52		
<i>Finance Income (%)</i>	0%	0%	0%		
EBIT*	5,572	18,092	10,165	-69%	78%
<i>EBIT (%)</i>	8%	26%	23%		
Finance Cost	898	142	2,331		
<i>Finance Cost (%)</i>	1%	0%	5%		
Profit Before Taxation	4,674	17,950	7,830	-74%	129%
<i>Profit Before Taxation (%)</i>	7%	26%	17%		
Income Tax Expense	1,468	5,537	2,748	-73%	101%
<i>Income Tax Expense (%)</i>	2%	8%	6%		
Net Earnings	3,206	12,413	5,082	-74%	144%
<i>Net Earnings (%)</i>	5%	18%	11%		
EBITDA**	13,549	24,728	14,173	-45%	74%
<i>EBITDA (%)</i>	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 = Earnings before interest, tax, depreciation and amortization

See “Supplementary Disclosure - Non-IFRS Measures” on page 22

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 3rd quarter and 4th quarter of 2012 as opposed to the 1st quarter and 2nd quarter of 2012, which actually both increased over the comparable 1st and 2nd quarters in 2011. The decrease in revenue in the 2nd 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 at 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 1st 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 Côte d'Ivoire operation, triggered the positive resolution of VAT and salary tax obligations in Côte 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 22)

EBITDA margin for 2012 was 21% compared to 35% for 2011. See “Supplementary Disclosure – Non – IFRS Measures” on page 22.

EBIT Margin (see “Supplementary Disclosure – Non-IFRS Measures” on page 22)

EBIT margin for 2012 was 8% compared to 26% for 2011. See Supplementary Disclosure – “Non-IFRS Measures” on page 22.

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 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 Côte 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

(in US\$ 000's)	Fourth Quarter Ended		% Change
	2012	2011	2012 vs. 2011
Revenue	12,921	20,863	(38%)
Cost of Sales	7,113	10,120	(30%)
<i>Cost of Sales (%)</i>	55%	49%	
Gross Profit	5,808	10,743	(46%)
<i>Gross Profit Margin (%)</i>	45%	51%	
Selling, General and Administrative Expenses	4,939	5,039	(2%)
<i>Selling, General and Administrative Expenses (%)</i>	38%	24%	
Foreign Exchange Loss (Gain)	8	(63)	
<i>Foreign Exchange Loss (Gain) (%)</i>	0%	0%	
Profit from Operating Activities	861	5,767	(85%)
<i>Profit from Operating Activities (%)</i>	7%	28%	
Finance Income	3	8	(63%)
<i>Finance Income (%)</i>	0%	0%	
EBIT*	864	5,775	(85%)
<i>EBIT (%)</i>	7%	28%	
Finance Cost	400	88	355%
<i>Finance Cost (%)</i>	3%	0%	
Profit Before Taxation	464	5,687	(92%)
<i>Profit Before Taxation (%)</i>	4%	27%	
Income Tax (Recovery) Expense	(524)	4,466	(112%)
<i>Income Tax (Recovery) Expense (%)</i>	(4%)	21%	
Net Earnings	988	1,221	(19%)
<i>Net Earnings (%)</i>	8%	6%	
EBITDA**	3,275	7,927	(59%)
<i>EBITDA (%)</i>	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 = Earnings before interest, tax, depreciation and amortization

See "Supplementary Disclosure - Non-IFRS Measures" on page 22

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 22)

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 22.

EBIT Margin (See “Supplementary Information – Non-IFRS Measures” on page 22)

EBIT margin for the 4th quarter of 2012 was 7% compared to 28% the 4th quarter of 2011. See “Supplementary Disclosure – Non-IFRS Measures” on page 22.

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.

FOURTH QUARTER OF FISCAL 2012 COMPARED TO FOURTH QUARTER OF FISCAL 2011 (continued)

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
<i>Revenue Increase (Decrease) %</i>	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
<i>Gross Margin (%)</i>	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

(in US\$ 000's)	Fiscal Year Ended			Fourth Quarter Ended		
	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)	3,253%
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 at 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.

FISCAL 2012 (continued)

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 valuers/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 1x1993								
UDR-KL900	Multi-Purpose	4	1x2007 1x2003 1x1999 1x1998	(3)	1x2003 1x1999 1x1998	1	1x1998			3	1 x 1999 1 x 2003 1 x 2007
Sandvik-DE820	Multi-Purpose	4	1x2010 3x2008								
Sandvik-DE810	Multi-Purpose			2	2x2012	2	2x2012	2	2x2012		
EDM-2000	Multi-Purpose	2	2x2011								
Austex-X900	Multi-Purpose	4	3x2011 1x2012			1	1x2012			2	2x2013
Sandvik-DE710	Core	8	2x2011 5x2010 1x2009								
Austex-X300	Air core	4	1x2011 2x2010 1x2010	1	1x2012			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	Multi-Purpose	15	Multi-Purpose	19	Multi-Purpose	21	Multi-Purpose
	8	Core Only	8	Core Only	8	Core Only	8	Core Only
	4	Air core	5	Air core	5	Air core	4	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	Multi-Purpose		Multi-Purpose			3	Multi-Purpose
	1	Air core	7	Multi-Purpose	5	Multi-Purpose	1	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	

OUTLOOK (continued)

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

(US\$ thousands)	<u>Fiscal</u>		<u>Fourth Quarter Ended</u>	
	<u>2012</u>	<u>2011</u>	<u>Dec 31, 2012</u>	<u>Dec 31, 2011</u>
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.

RISK FACTORS (continued)

Cyclical Downturns (continued)

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, Côte 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.

RISK FACTORS (continued)

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 drilling 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's 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, Côte 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.

RISK FACTORS (continued)

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 US\$	Other Financial Liabilities US\$	Carrying Amount US\$	Total Fair Value 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
	<u>15,948,417</u>	<u>–</u>	<u>15,948,417</u>	<u>15,948,417</u>
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
	<u>–</u>	<u>22,654,946</u>	<u>22,654,946</u>	<u>22,654,946</u>
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
	<u>16,378,404</u>	<u>–</u>	<u>16,378,404</u>	<u>16,378,404</u>
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
	<u>–</u>	<u>10,201,239</u>	<u>10,201,239</u>	<u>10,201,239</u>

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 Côte d'Ivoire SARL	Subsidiary	Côte 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 valuers/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 US\$	2011 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.

SIGNIFICANT ACCOUNTING POLICIES (continued)

e. Use of estimates and judgments (continued)

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.

SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 as 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:

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

SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

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 assessed 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 its 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.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Geodrill Limited

We have audited the accompanying consolidated financial statements of Geodrill Limited, which comprise the consolidated statements of financial position as at December 31, 2012 and December 31, 2011, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

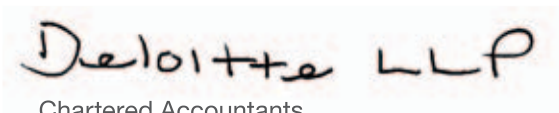
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Geodrill Limited as at December 31, 2012 and December 31, 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Chartered Accountants
Licensed Public Accountants

March 1, 2013
Toronto, Canada

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<i>Note</i>	December 31, 2012 US\$	December 31, 2011 US\$
Assets			
Non-current assets			
Property, plant and equipment	10	54,067,732	35,897,061
Total non-current assets		54,067,732	35,897,061
Current assets			
Inventories	11	16,545,041	13,619,992
Prepayments	12	927,721	7,347,247
Tax assets	9(vi)	532,198	532,198
Trade and other receivables	13	8,386,243	8,213,010
Cash and cash equivalents	14	7,562,174	8,165,394
Total current assets		33,953,377	37,877,841
Total assets		88,021,109	73,774,902
Equity and liabilities			
Equity			
Share capital	23(i)	21,150,866	21,043,041
Share-based payment reserve	23(ii)	3,085,787	2,045,377
Retained earnings	23(iii)	35,937,836	32,732,476
Total equity		60,174,489	55,820,894
Liabilities			
Non-current liabilities			
Deferred tax liabilities	9(iv)	2,928,558	5,347,079
Loans payable	15	5,838,094	-
Total non-current liabilities		8,766,652	5,347,079
Current liabilities			
Trade and other payables	16	11,164,278	8,375,467
Loans payable	15	6,390,730	3,091,142
Taxes payable	9(ii)	601,935	217,295
Related party payables	20(iii)	923,025	923,025
Total current liabilities		19,079,968	12,606,929
Total liabilities		27,846,620	17,954,008
Total equity and liabilities		88,021,109	73,774,902



John Bingham



Ron Sellwood

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<i>Note</i>	December 31, 2012 US\$	December 31, 2011 US\$
Revenue	6	65,586,459	70,148,809
Cost of sales		(39,734,342)	(32,092,826)
Gross profit		25,852,117	38,055,983
Selling, general and administrative expenses		(19,806,101)	(19,537,332)
Foreign exchange loss	8	(482,902)	(451,301)
Results from operating activities		5,563,114	18,067,350
Finance income	8	8,693	23,919
Finance costs	8	(898,269)	(141,649)
Profit before taxation		4,673,538	17,949,620
Income tax expense	9(i)	(1,468,178)	(5,537,099)
Profit for the year		3,205,360	12,412,521
Total comprehensive income for the year		3,205,360	12,412,521
Earnings per share			
Basic	24(i)	0.08	0.29
Diluted	24(ii)	0.08	0.28

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Share Capital US\$	Share-based Payment Reserve US\$	Retained Earnings US\$	Total Equity US\$
	Note 23(i)	Note 23(ii)	Note 23(iii)	
Balance at January 1, 2012	21,043,041	2,045,377	32,732,476	55,820,894
Profit and total comprehensive income for the year	—	—	3,205,360	3,205,360
Share-based payment expense	—	1,076,833	—	1,076,833
Shares issued	107,825	(36,423)	—	71,402
Balance at December 31, 2012	21,150,866	3,085,787	35,937,836	60,174,489
Balance at January 1, 2011	21,184,590	490,990	20,319,955	41,995,535
Profit and total comprehensive income for the year	—	—	12,412,521	12,412,521
Share-based payment expense	—	1,554,387	—	1,554,387
IPO related costs, net of tax	(141,549)	—	—	(141,549)
Balance at December 31, 2011	21,043,041	2,045,377	32,732,476	55,820,894

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012 AND 2011

	<i>Note</i>	December 31, 2012 US\$	December 31, 2011 US\$
Cash flows from operating activities			
Profit before taxation		4,673,538	17,949,620
<i>Adjustments for:</i>			
Depreciation charges		7,783,086	6,592,158
Amortization charges		194,183	44,063
Gain on disposal of property, plant and equipment		(7,697)	(579)
Provision for obsolescence (reversed)		286,363	(38,837)
Equity-settled share-based payments		1,076,833	1,554,387
Finance income		(8,693)	(23,919)
Finance cost		898,269	141,649
Unrealized foreign exchange loss / (gain)		83,155	(52,086)
		14,979,037	26,166,456
Change in inventories		(3,211,412)	(5,680,583)
Change in prepayments		6,419,526	(6,308,367)
Change in tax asset		–	(532,198)
Change in trade and other receivables		(173,233)	(2,120,985)
Change in trade and other payables		2,788,811	(469,681)
Cash generated from operations		20,802,729	11,054,642
Finance income received		8,693	23,919
Finance expense paid		(830,913)	(141,648)
Income taxes paid		(3,502,059)	(3,013,063)
Net cash from operating activities		16,478,450	7,923,850
Investing activities			
Purchase of property, plant and equipment		(22,821,854)	(12,984,027)
Proceeds from sale of property, plant and equipment		7,697	40,804
Net cash used in investing activities		(22,814,157)	(12,943,223)
Financing activities			
Loans received, net of transaction costs		9,975,000	3,091,142
Loan repayments		(4,409,417)	–
Shares issued		71,402	–
IPO related costs		–	(141,549)
Net cash from financing activities		5,636,985	2,949,593
Effect of movement in exchange rates on cash and cash equivalents		95,502	52,086
Net decrease in cash and cash equivalents		(603,220)	(2,017,694)
Cash and cash equivalents at beginning of the year		8,165,394	10,183,088
Cash and cash equivalents at end of the year	<i>14</i>	7,562,174	8,165,394

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

1. GENERAL INFORMATION

Geodrill Limited (the “company”) is a company registered and domiciled in the Isle of Man. The address of the company’s registered office is First Floor, 18 Peel Road, Ragnall House, Douglas, Isle of Man, IM1 4LZ. The consolidated financial statements of the company for the year ended December 31, 2012 comprise the financial statements of the company and its wholly owned subsidiaries, Geodrill Ghana Limited, Geotool Limited, Geo-Forage BF SARL, Geo-Forage Côte d’Ivoire SARL and DSI Services Limited (“DSI”), together referred to as the “Group”. The Group is primarily involved in the provision of exploration drilling and other mining services.

2. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

g. Financial instruments (continued)

(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.

2. SIGNIFICANT ACCOUNTING POLICIES

(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 as 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:

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

3. 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.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

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.

Amendment to IFRS 9 and 7:

On December 16, 2011, the IASB issued "Mandatory Effective Date of IFRS 9 and Transition Disclosures", which amends IFRS 9 to require application for annual periods beginning on or after January 1, 2015, rather than January 1, 2013. Early application of IFRS 9 is still permitted. The amendments also provide relief from restating comparative information and require disclosures (in IFRS 7) to enable users of financial statements to understand the effect of beginning to apply IFRS 9.

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

4. DETERMINATION OF FAIR VALUES

A number of the company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The following sets out the company's basis of determining fair values of financial instruments.

Loans and receivables

(a) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the current market rate of instruments with similar credit risk profile and maturity at the reporting date. Receivables due within 365 days are not discounted as the carrying values approximate their fair values.

(b) Cash and cash equivalents

The fair value of cash and cash equivalents approximates their carrying values.

Other financial liabilities

(a) Trade and other payables

The fair value of trade and other payables approximates their carrying values.

(b) Loans payable

The fair value of loans payable approximates their carrying values.

(c) Other financial liabilities

Fair value, which is determined for disclosure purposes, is calculated using the present value of future principal and interest cash flows, discounted at the market rates of interest at the reporting date or by using recent arm's-length market transactions. Instruments with maturity periods of twelve months or less such as trade and other payables, and related party payables, are not discounted as their carrying values approximate their fair values.

Share-based payment transactions

The fair value of the share options is measured using the Black-Scholes model. Measurement inputs include the share price on the measurement date, exercise price of the instrument, expected volatility, expected term of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

5. SEGMENT REPORTING

Segmented information is presented in respect of the Group's strategic business units. The primary format (business segments) is based on the Group's management and internal reporting structure, which is submitted to the Chief Executive Officer ("CEO") who is the Chief Operating Decision Maker. The Group's results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly non-operating income, financing cost, taxation and corporate assets and liabilities which are managed centrally. The business units are based on geographical segments categorized as Ghana and outside Ghana. In 2012, included in the revenue are four customers who individually contributed 10% or more to the Group's revenue. One customer contributed 28%, one customer contributed 16%, one customer contributed 13% and one customer contributed 11% to the Group's revenue. In 2011 five customers individually contributed 10% or more to the Group's revenue. One customer contributed 20%, one customer contributed 15%, two customers contributed 13% and one customer contributed 10% to the Group's revenue for 2011.

5. SEGMENT REPORTING (CONTINUED)

	Ghana		Outside Ghana (1)		Intra-Group		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Revenue	37,015	44,916	80,767	64,996	(52,196)	(39,763)	65,586	70,149
Cost of sales	(31,375)	(26,454)	(49,489)	(32,351)	41,130	26,712	(39,734)	(32,093)
Selling, general and administrative	(13,558)	(19,292)	(12,127)	(9,976)	5,879	9,731	(19,806)	(19,537)
Foreign exchange gain (loss)	10	(491)	(493)	40	—	—	(483)	(451)
Results from operating activities	(7,908)	(1,321)	18,658	22,709	(5,187)	(3,320)	5,563	18,068
Finance income	3	—	6	24	—	—	9	24
Finance cost	(635)	(7)	(263)	(135)	—	—	(898)	(142)
Segment results	(8,540)	(1,328)	18,401	22,598	(5,187)	(3,320)	4,674	17,950
Capital expenditures	20,150	12,984	43	—			20,193	12,984

	Dec. 31 2012	Dec. 31 2011	Dec. 31 2012	Dec. 31 2011		Dec. 31 2012	Dec. 31 2011
As at	US\$ '000	US\$ '000	US\$ '000	US\$ '000		US\$ '000	US\$ '000
Non-current assets	62,345	39,219	43	—		62,388	39,219
Intra group balances						(8,320)	(3,322)
Per statement of financial position						54,068	35,897
Total assets	91,665	61,286	73,394	58,246		165,059	119,532
Intra group balances						(77,038)	(45,757)
Per statement of financial position						88,021	73,775
Total liabilities	85,250	48,748	11,074	11,590		96,324	60,338
Intra group balances						(68,477)	(42,384)
Per statement of financial position						27,847	17,954

(1) Revenue from external customers generated outside Ghana represents all revenue attributable to the country of domicile of Geodrill Limited, being the Isle of Man.

6. REVENUE

	2012 US\$	2011 US\$
Drilling related revenue	65,586,459	70,148,809

7. EMPLOYEE BENEFITS EXPENSE

	2012 US\$	2011 US\$
Cost of sales	11,851,742	9,814,193
Selling, general and administrative expenses	6,446,312	5,111,517
	18,298,054	14,925,710

8. FINANCE INCOME AND COSTS

	2012 US\$	2011 US\$
Finance income		
Interest income on cash and cash equivalents	8,693	23,919
Finance costs		
Interest expense on financial liabilities	898,269	141,649

In 2011, the foreign exchange loss of US\$451,301 was included in finance cost. For the 2011 comparative, this amount has been revised from finance cost and has been shown separately.

Effective January 1, 2012, the foreign exchange loss (gain) balance has been presented separately on the statement of the comprehensive income as in management's view, the separate disclosure of the foreign exchange loss provides more relevant and reliable information with respect to the Company's exposure to foreign exchange movements and finance costs. The reclassification has been applied retrospectively and as such the 2011 balances reflect the reclassification of US\$451,301 of foreign exchange loss from finance cost. There is no impact on profit for the year or on basic and diluted earnings per share for the year ended December 31, 2011.

9. TAXATION

(i) Income tax expense

	2012 US\$	2011 US\$
Current tax expense (ii)	3,886,699	3,230,358
Deferred tax (recovery) / expense (iv)	(2,418,521)	2,306,741
	1,468,178	5,537,099

Current tax expense reflects taxes associated with the Group's drilling activities in the period in Burkina Faso and other.

Deferred tax expense relates to the origination and reversals of temporary differences.

(ii) Taxation payable

	Balance at Jan. 1 US\$	Payments During the Year US\$	Charge for the Year US\$	Balance at Dec. 31 US\$
Income Tax				
2012	217,295	(3,502,059)	3,886,699	601,935
2011	—	(3,013,063)	3,230,358	217,295

Tax liabilities up to and including the 2009 year of assessment have been agreed with the tax authorities in Ghana. The remaining tax position is, however, subject to agreement with the tax authorities in the various tax jurisdictions, other than Côte d'Ivoire which has been agreed to as at March 30, 2011.

9. TAXATION (CONTINUED)

(iii) Reconciliation of effective tax rate

	2012 US\$	2011 US\$
Profit before taxation	4,673,538	17,949,620
Proportion of profit before taxation subject to no corporation tax	13,213,496	19,277,788
Proportion of loss before taxation subject to corporate taxation in Ghana at a rate of 25%	(8,539,958)	(1,328,168)
	4,673,538	17,949,620
Current year taxation per tax jurisdiction		
Ghana Corporate taxation (including deferred tax)	(2,418,521)	2,359,188
Withholding tax outside Ghana	3,797,993	3,059,713
Ghana withholding tax	88,706	118,198
Total tax charge	1,468,178	5,537,099
Reconciliation of taxation expense		
Income tax rate for Ghana taxable earnings		
Using Ghana tax rate	—	52,447
Temporary differences	(2,418,521)	2,306,741
Withholding tax outside Ghana	3,797,993	3,059,713
Ghana withholding tax	88,706	118,198
	1,468,178	5,537,099
Effective tax rate	31.4%	30.8%

(iv) Deferred tax liability

	2012 US\$	2011 US\$
Balance at January 1	5,347,079	3,040,338
(Recovery) / Charge for the year	(2,418,521)	2,306,741
Balance at December 31	2,928,558	5,347,079

(v) Recognized deferred tax assets and liabilities

Deferred tax asset assets and liabilities are attributable to the following:

	2012		
	Asset US\$	Liability US\$	Net US\$
Property, plant and equipment	—	2,928,558	(2,928,558)
	2011		
	Asset US\$	Liability US\$	Net US\$
Property, plant and equipment	—	5,347,079	(5,347,079)

(vi) Tax asset

In the normal course of business, Geodrill Ghana Limited is required to make payments to tax authorities in advance of earning the related income. It is anticipated that such amounts will be applied to tax obligations originating in future years.

10. PROPERTY, PLANT AND EQUIPMENT

2012

	Motor Vehicles US\$	Plant & Equipment US\$	Drill Rigs ⁽¹⁾ US\$	Leasehold Improvements US\$	Capital Work in Progress (CWIP) US\$	Total US\$
Cost						
Balance at January 1, 2012	4,567,225	12,363,965	35,026,668	478,246	2,607,298	55,043,402
Additions	—	—	—	42,807	26,105,133	26,147,940
Reclassifications	1,005,579	7,073,376	15,861,756	1,317,928	(25,258,639)	—
Transfer	—	177,264	(177,264)	—	—	—
Disposals	—	(45,000)	—	—	—	(45,000)
Balance at December 31, 2012	5,572,804	19,569,605	50,711,160	1,838,981	3,453,792	81,146,342
Accumulated Depreciation						
Balance at January 1, 2012	2,368,355	6,301,912	10,432,011	44,063	—	19,146,341
Charge for the year	1,202,553	2,557,486	4,023,047	194,183	—	7,977,269
Reclassifications	—	132,948	(132,948)	—	—	—
Disposals	—	(45,000)	—	—	—	(45,000)
Balance at December 31, 2012	3,570,908	8,947,346	14,322,110	238,246	—	27,078,610
Carrying amounts at December 31, 2012	2,001,896	10,622,259	36,389,050	1,600,735	3,453,792	54,067,732

(1) Drill rigs include drill rigs components and rebuilds which are depreciated at the appropriate rates per the Group's accounting policies.

2011

	Motor Vehicles US\$	Plant & Equipment US\$	Drill Rigs ⁽¹⁾ US\$	Leasehold Improvements US\$	Capital Work in Progress (CWIP) US\$	Total US\$
Cost						
Balance at January 1, 2011	2,866,811	8,970,297	22,112,746	—	9,122,888	43,072,742
Additions	—	64,459	—	—	12,919,568	12,984,027
Reclassifications	2,326,074	3,607,371	13,023,467	478,246	(19,435,158)	—
Transfer from motor vehicles	(401,889)	511,434	(109,545)	—	—	—
Transfer from PPE to inventory	—	(789,596)	—	—	—	(789,596)
Disposal	(223,771)	—	—	—	—	(223,771)
Balance at December 31, 2011	4,567,225	12,363,965	35,026,668	478,246	2,607,298	55,043,402
Accumulated Depreciation						
Balance at January, 1 2011	1,659,736	4,411,456	7,092,718	—	—	13,163,910
Charge for the year	1,288,133	1,882,573	3,421,452	44,063	—	6,636,221
Release on disposal	(183,546)	—	—	—	—	(183,546)
Reclassifications	(395,968)	478,127	(82,159)	—	—	—
Transfer from PPE to Inventory	—	(470,244)	—	—	—	(470,244)
Balance at December 31, 2011	2,368,355	6,301,912	10,432,011	44,063	—	19,146,341
Carrying amounts at December 31, 2011	2,198,870	6,062,053	24,594,657	434,183	2,607,298	35,897,061

(1) Drill rigs include drill rigs components and rebuilds which are depreciated at the appropriate rates per the Group's accounting policies.

10. PROPERTY, PLANT AND EQUIPMENT

Depreciation and amortization has been charged in comprehensive income as follows:

	2012 US\$	2011 US\$
Cost of sales	6,580,533	5,304,025
Selling, general and administrative expenses	1,396,736	1,332,196
	<u>7,977,269</u>	<u>6,636,221</u>

Property, plant and equipment with a carrying amount of US\$20,704,685 (2011: Nil) and inventories with a carrying amount of US\$10,671,245 (2011: Nil) have been pledged as security for certain liabilities.

11. INVENTORIES

	2012 US\$	2011 US\$
Spare parts and materials on hand	16,757,082	13,432,681
Spare parts and materials in transit	745,956	858,945
Less: Provision for obsolescence	(957,997)	(671,634)
	<u>16,545,041</u>	<u>13,619,992</u>

The amount of inventories recognized as expense in the year is US\$21,813,641 (2011: US\$18,275,904). Inventory write downs in the year amounted to US\$206,456 (2011: US\$52,560).

12. PREPAYMENTS

	2012 US\$	2011 US\$
Prepaid expenses	196,607	345,644
Advances to suppliers	731,114	7,001,603
	<u>927,721</u>	<u>7,347,247</u>

13. TRADE AND OTHER RECEIVABLES

	2012 US\$	2011 US\$
Trade receivables	8,380,671	7,980,324
Allowance for doubtful debts	(307,237)	–
Net Trade receivables	8,073,434	7,980,324
Cash advances	193,007	105,773
Sundry receivables	119,802	126,913
	<u>8,386,243</u>	<u>8,213,010</u>

Trade receivables and other receivables are recorded at amortized cost. Impairment losses recorded on trade and other receivables during the year amounted to Nil (2011: Nil). The Group's exposure to credit and currency risk and impairment losses related to trade and other receivables is disclosed in note 19(i).

14. CASH AND CASH EQUIVALENTS

	2012 US\$	2011 US\$
Cash at bank	7,246,669	7,811,334
Cash on hand	315,505	354,060
	<u>7,562,174</u>	<u>8,165,394</u>

Bank balances denominated in currencies other than the functional currency are detailed in note 19(iv).

15. LOANS PAYABLE

	2012 US\$	2011 US\$
Term Loan	8,869,205	–
Equipment Loan	3,359,619	–
Promissory Loan	–	3,091,142
Total	<u>12,228,824</u>	<u>3,091,142</u>
Current portion of loans	<u>6,390,730</u>	<u>3,091,142</u>
Non-current loans	<u>5,838,094</u>	<u>–</u>

On September 19, 2012, the Group entered into a term loan (the “Term Loan”) with Zenith Bank (Ghana) Limited, a subsidiary of Zenith Bank Plc, in the amount of US\$10 million. The Term Loan is for a period of 2 years, repayable quarterly, bears interest at a rate of 10.5% per annum and is secured by certain assets of the Group. The Term Loan may be repaid prior to maturity by the Group without penalty, bonus or other costs other than interest accrued to the date of such repayment. The effective interest rate of the loan is 10.73%. The loan is subject to normal course non-financial covenants.

On January 23, 2012, the Group entered into a Sale and Purchase agreement (“Agreement 1”) with Sandvik relating to the purchase of three drill rigs with a total cost price of US\$2.6M. Agreement 1 requires a down payment and the repayment of the balance over a period of 36 months with payment being made once a quarter. The loan bears interest at 7% per annum, includes an arrangement fee and stipulates that final title to the rigs will only pass once the capital amount has been settled. All other risks and rewards of ownership lie with the Group. The effective interest rate of the loan is 7.10%.

On February 25, 2012, the Group entered into a Sale and Purchase agreement (“Agreement 2”) with Sandvik relating to the purchase of three drill rigs with a total cost price of US\$2.6M. Agreement 2 requires a down payment and the repayment of the balance over a period of 36 months with payment being made once a quarter. The loan bears interest at 7% per annum, includes an arrangement fee and stipulates that final title to the rigs will only pass once the capital amount has been settled. All other risks and rewards of ownership lie with the Group. The effective interest rate of the loan is 7.10%.

On August 4, 2011 the Group entered into a loan arrangement with a third party whereby it secured funds in the amount of £2,000,000 sterling. The loan was originally due on August 4, 2012 and was extended to January 3, 2013. The loan was repaid on September 27, 2012. The loan bore interest payable monthly, including arrangement fees, at a rate of 10% per annum (9.5% being interest), and was secured by two of the drill rigs that were purchased with the proceeds of the loan, and one existing rig.

16. TRADE AND OTHER PAYABLES

	2012 US\$	2011 US\$
Trade payables	7,055,279	2,928,498
Creditors and accrued expenses	2,447,818	3,258,574
VAT liability	1,661,181	2,188,395
	<u>11,164,278</u>	<u>8,375,467</u>

Trade and other payables are recorded at amortized cost.

Trade and other payables denominated in other currencies other than the company's functional currency are detailed in note 19(iii).

17. EMPLOYEE BENEFIT OBLIGATION

Defined Contribution Plans

(i) Social Security

The Group contributes to various defined contribution and social security schemes. Under the schemes, the Group makes fixed contributions into a separate fund. The amount contributed during the year was US\$198,180 (2011: \$168,442). The Group's obligation is limited to the relevant contributions which have been recognized in the year-end financial statements as expenses, and liabilities, if due but not paid.

(ii) Provident Fund

The Group has a provident fund scheme for staff under which the Group contributes 10% of staff basic salaries. The amount contributed during the year was US\$25,079 (2011: US\$24,435). The Group's obligation under the plan is limited to the relevant contributions, which have been recognized in the year-end financial statements as expenses, and liabilities, if due but not paid.

18. 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 US\$	Other Financial Liabilities US\$	Carrying Amount US\$	Total Fair Value 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

19. FINANCIAL RISK MANAGEMENT

Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group’s exposure to each of the above risks, the Group’s objectives, policies and processes for measuring and managing risk, methods used to measure the risks and the Group’s management of capital.

Risk management framework

The Board of directors has overall responsibility for the establishment and oversight of the Group’s risk management framework.

The Group’s management team is responsible for developing and monitoring the Group’s risk management policies. The team meets periodically to discuss corporate plans, evaluate progress reports and establish action plans to be taken. The day-to-day implementation of the Board’s decisions rests with the CEO.

(i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial asset fails to meet its contractual obligations, and arises principally from the Group’s receivables from customers and cash and cash equivalents.

Trade and other receivables

The Group’s exposure to credit risk is minimized as customers are given 30 to 60 day credit periods for services rendered. New clients are approved by the CEO and trade receivables are monitored closely by him.

Exposure to credit risks

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2012 US\$	2011 US\$
Trade and other receivables	8,386,243	8,213,010
Cash and cash equivalents	7,562,174	8,165,394
	15,948,417	16,378,404

The maximum exposure to credit risk for trade and other receivables at the reporting date by type of customer was:

	2012 US\$	2011 US\$
Mining and exploration companies	8,071,791	7,980,324
Others	314,452	232,686
	8,386,243	8,213,010

The aging of trade and other receivables due from mining and exploration companies at the reporting dates was:

	2012 US\$	2011 US\$
Less than 30 days	2,822,908	7,213,805
31-60 days	3,703,931	757,560
61-90 days	576,402	8,959
91-180 days	968,550	–
	<u>8,071,791</u>	<u>7,980,324</u>

The maximum exposure to credit risk for trade and other receivables at the report date by country of operation was:

	2012 US\$	2011 US\$
Ghana	3,926,886	5,925,753
Burkina Faso and other	4,144,905	2,054,571
	<u>8,071,791</u>	<u>7,980,324</u>

(ii) **Liquidity risk**

Liquidity risk is the risk that the Group either does not have sufficient financial resources available to meet all of its obligations and commitments as they fall due, or can access them only at excessive cost. The Group's approach to managing liquidity is to ensure that it will maintain adequate liquidity to meet its liabilities when due by monitoring and scheduling cash in bank movements and reinvesting profits earned.

The Group's obligation and principal repayments on its financial liabilities are presented in the following table:

December 31, 2012

	Total US\$	Within One Year US\$	Within Two to Three Years US\$
Non-derivative financial liability			
Trade and other payables	9,503,097	9,503,097	–
Related party payables	923,025	923,025	–
Loan payable	12,166,687	6,328,593	5,838,094
Balance at December 31, 2012	<u>22,592,809</u>	<u>16,754,715</u>	<u>5,838,094</u>

December 31, 2011

Non-derivative financial liability			
Trade and other payables	6,187,072	6,187,072	–
Related party payables	923,025	923,025	–
Loan payable	3,091,142	3,091,142	–
Balance at December 31, 2011	<u>10,201,239</u>	<u>10,201,239</u>	<u>–</u>

(iii) **Market risks**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing returns. Management regularly monitors the level of market risk and considers appropriate strategies to mitigate those risks. Sensitivity analysis relating to key market risks has been provided below.

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Foreign currency risk

The Group is exposed to currency risk on purchases and borrowings that are denominated in currencies other than the functional currency. The other currencies in which these transactions are denominated are EURO, Ghana Cedis (GH¢), Great British Pound (GBP), Central African Franc (CFA), Australian Dollar (AUD) and Canadian Dollar (CAD).

The Group's exposure to foreign currency risk was as follows based on foreign currency amounts.

December 31, 2012

	EURO	GH¢	GBP	CFA	AUD	CAD
Cash and cash equivalents	30,980	279,807	60,919	150,303,680	19,092	8,721
Trade payables	(679,838)	(1,471,542)	(3,595)	—	(3,377,028)	(403,246)
Gross exposure	(648,858)	(1,191,735)	57,324	150,303,680	(3,357,936)	(394,525)

December 31, 2011

	EURO	GH¢	GBP	CFA	AUD	CAD
Cash and cash equivalents	3,598	599,712	6,222	270,659,508	43,311	1,548
Trade payables	(175,531)	(273,107)	(1,933)	—	(5,354,586)	—
Loan payable	—	—	(2,000,000)	—	—	—
Gross exposure	(171,933)	326,605	(1,995,711)	270,659,508	(5,311,275)	1,548

The following significant exchange rates applied during the years:

US\$1=	2012		2011	
	Reporting Rate	Average Rate	Reporting Rate	Average Rate
Euro	0.7565	0.7781	0.7722	0.7188
GH¢	1.9040	1.8373	1.6562	1.5318
GBP	0.6185	0.6310	0.6470	0.6235
CFA	495.3500	496.7710	497.2750	462.5061
AUD	0.9640	0.9658	0.9827	0.9687
CAD	0.9966	0.9996	1.0297	0.9888

Sensitivity analysis on currency risks

The following table shows the effect of a strengthening or weakening US\$ against all other currencies on equity and profit or loss. This sensitivity analysis indicates the potential impact on equity and profit or loss based upon the foreign currency exposures recorded at December 31, (see "foreign currency risk" above) and it does not represent actual or future gains or losses. The sensitivity analysis is based on a change of 200 basis points in the closing exchange rate per currency recorded in the course of the respective financial year.

A strengthening/weakening of the US\$, by the rates shown in the table, against the following currencies at December 31, would have increased/decreased equity and profit and loss by the amounts shown below.

This analysis assumes that all other variables, in particular interest rates, remain constant.

As at December 31,	2012			2011		
		Profit or Loss Impact Before Tax US\$	Equity US\$		Profit or Loss impact Before Tax US\$	Equity US\$
	% Change			% Change		
Euro	±2	±16,678	±16,678	±2	±4,364	±4,364
GH¢	±2	±12,973	±12,973	±2	±3,865	±3,865
GBP	±2	±1,816	±1,816	±2	±39,116	±39,116
CFA	±2	±6,051	±6,051	±2	±10,668	±10,668
AUD	±2	±69,537	±69,537	±2	±105,938	±105,938
CAD	±2	±7,894	±7,894	±2	±30	±30

(b) Interest rate risk

The Group is exposed to interest rate risk on its bank balances, loans and borrowings.

Profile

At the reporting date, the interest rate profiles of the Group's interest-bearing financial instruments were:

	Carrying Amounts	
	2012 US\$	2011 US\$
Variable rate instruments		
Bank balances	7,246,669	7,811,334
Fixed rate instruments		
Loans and borrowings	12,228,824	3,091,142

Sensitivity analysis for variable rate instruments

A change of 200 basis points in the interest rate at the reporting date would have increased / (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2012 and 2011.

As at December 31,	2012			2011		
		Profit or Loss Impact Before Tax US\$	Equity US\$		Profit or Loss Impact Before Tax US\$	Equity US\$
in US\$	% Change			% Change		
Bank balances	±2%	±144,933	±144,933	±2%	±156,227	±156,227

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

(iv) Capital management

The Group manages its capital structure and makes adjustments to it to effectively support the Group's operations. In the definition of capital, the Group includes, as disclosed on its consolidated statement of financial position: share capital, retained earnings, reserves and loans.

The Group's capital at December 31, 2012 and 2011 is as follows:

Capital Management	2012 US\$	2011 US\$
Loans	12,228,824	3,091,142
Share capital	21,150,866	21,043,041
Share-based payment reserve	3,085,787	2,045,377
Retained earnings	35,937,836	32,732,476
	<u>72,403,313</u>	<u>58,912,036</u>

20. RELATED PARTY TRANSACTIONS

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 Côte d'Ivoire SARL	Subsidiary	Côte 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	—	—

(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, 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 valuers/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 US\$	2011 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.

21. **EXCHANGE CONTROL**

All remittances from operating geographical jurisdictions are subject to the approval of the relevant exchange control authorities.

The Group has not experienced any restrictions from the relevant exchange control authorities in the current or prior year.

22. **CAPITAL COMMITMENTS**

As at December 31, 2012, DSI Services Limited had contracted with a third party for the purchase of two drill rigs. Total commitments amount to US\$3,200,000 (December 31, 2011: US\$11,180,638), and are payable within one year.

23. **SHARE CAPITAL AND RESERVES**

(i) **Share capital**

Shares have no par value and the issue of authorized shares is unlimited.

Share capital

	2012	2011
Shares issued and fully paid	42,512,000	42,476,000
Shares reserved for share option plan	4,251,200	4,247,600
Total shares issued and reserved at December 31	46,763,200	46,723,600

Reconciliation of changes in shares

	2012	2011
Shares issued and outstanding at January 1	42,476,000	42,476,000
Issued for cash	36,000	—
Shares issued and outstanding at December 31	42,512,000	42,476,000

All shares rank equally with regards to the Group’s residual assets. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders’ meetings of the company.

(ii) **Share-based payment reserve**

The share-based payment reserve is comprised of the equity portion of the share-based payment transaction as per the company’s share option plan.

(iii) **Retained earnings**

This represents the residual of cumulative annual profits that are available for distribution to shareholders.

24. EARNINGS PER SHARE

(i) Earnings per share

The calculation of basic earnings per share for the year ended December 31, 2012 was based on the profit attributable to ordinary shareholders of US\$3,205,360 (2011: US\$12,412,521) and on the weighted average number of ordinary shares outstanding of 42,496,515 (2011: 42,476,000), calculated as follows:

	2012 US\$	2011 US\$
Profit attributable to ordinary shareholders	3,205,360	12,412,521
Weighted average number of ordinary shares		
	2012 Shares	2011 Shares
Issued ordinary shares at January 1	42,476,000	42,476,000
Effect of shares issued for cash	20,515	–
	42,496,515	42,476,000
Diluted earnings per share	\$0.08	\$0.29

Earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2012 was based on the profit attributable to ordinary shareholders of US\$3,205,360 (2011: US\$12,412,521) and on the weighted average number of ordinary shares after adjustment for the effects of all dilutive potential ordinary shares outstanding of 42,496,515 (2011: 44,020,548), calculated as follows:

	2012 US\$	2011 US\$
Earnings per share – diluted		
Profit attributable to ordinary shareholders	3,205,360	12,412,521
Weighted average number of ordinary shares-diluted		
	2012 Shares	2011 Shares
Weighted average number of ordinary shares – basic	42,496,515	42,476,000
Effect of share options in issue	–	1,544,548
	42,496,515	44,020,548
Diluted earnings per share	\$0.08	\$0.28

Share options granted are anti-dilutive and were not included in the calculation of the diluted earnings per share.

25. DIVIDENDS

No dividends were either declared or paid in 2012 (2011: NIL).

26. EQUITY-SETTLED SHARE-BASED PAYMENTS

(i) Share Option Plan (“SOP”)

The company has established a SOP, which is intended to aid in attracting, retaining and motivating the company’s officers, directors, employees, consultants and advisers through the grant of stock options to such persons.

The maximum number of ordinary shares reserved for issuance pursuant to the SOP and any other security-based compensation arrangements of the company is 10% of the total number of Ordinary Shares then outstanding.

	2012		2011	
	Number of shares subject to option	Weighted average exercise price	Number of shares subject to option	Weighted average exercise price
Balance beginning Jan. 1	2,610,000	C\$2.29	1,440,000	C\$2.00
Granted March 11, 2011	–	–	450,000	C\$3.48
Granted November 9, 2011	–	–	720,000	C\$2.11
Granted March 13, 2012	180,000	C\$3.41	–	–
Granted October 17, 2012	270,000	C\$1.57	–	–
Total Granted	450,000		1,170,000	
Forfeited April 1, 2012	(60,000)	C\$2.00	–	–
Forfeited May 31, 2012	(90,000)	C\$2.00	–	–
Forfeited July 31, 2012	(144,000)	C\$2.00	–	–
Forfeited December 31, 2012	(120,000)	C\$2.00	–	–
Total Forfeited	(414,000)			
Exercised June 6, 2012	(36,000)	C\$2.00	–	–
Total exercised	(36,000)			
Balance ending Dec. 31	2,610,000	C\$2.34	2,610,000	C\$2.29

There were no expired options for the year.

Where relevant, the expected life used in the model used to determine the accounting value attributable to the options has been adjusted based on management’s best estimate of the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations. Expected volatility is based on historical share price volatility over relevant periods.

The following table summarizes the options outstanding at December 31, 2012:

Options series	Exercise prices	Number of options outstanding	Weighted average remaining contractual life	Number of options exercisable
(1) Granted on December 16, 2010	C\$2.00	990,000	2 Yrs & 11 mos	990,000
(2) Granted on March 11, 2011	C\$3.48	450,000	3 Yrs & 2 mos	300,000
(3) Granted on November 9, 2011	C\$2.11	720,000	3 Yrs & 10 mos	480,000
(4) Granted on March 13, 2012	C\$3.41	180,000	4 Yrs & 2 mos	60,000
(5) Granted on October 17, 2012	C\$1.57	270,000	4 Yrs & 7 mos	90,000

The fair values of options granted were calculated using the Black-Scholes option pricing model with the following assumptions:

	Series 1	Series 2	Series 3	Series 4	Series 5
Risk free interest rate	3%	3%	3%	1.55%	1.33%
Expected dividend yield	0%	0%	0%	0%	0%
Stock price volatility	33%	56%	34%	53%	53%
Expected life of options	5 years	5 years	5 years	5 years	5 years
Forfeiture rate	0%	0%	0%	0%	0%

CORPORATE INFORMATION

Company's Registered Office

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IM1 4LZ

Board of Directors

Colin Jones
Daniel Im
Dave Harper
John Bingham
Ron Sellwood
Victoria Prentice

Transfer Agent

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Investor Contact

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Annual Shareholders' Meeting

May 13th, 2013 – 10:00 a.m.
Design Exchange
Canada's Design Museum
234 Bay Street, TD Centre
Toronto, ON M5K 1B2
Canada

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The logo consists of the word "GEODRILL" in a bold, dark blue, sans-serif font. A registered trademark symbol (®) is located at the top right of the word. Below the text are two parallel horizontal orange lines of equal length.