

**GEODRILL LIMITED**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

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"). 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, 2011 and the notes thereto, which are prepared in accordance with International Financial Reporting Standards (IFRS).

The MD&A is dated February 29, 2012. 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 for the most recently completed financial year, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

All references to "US\$" are to United States dollars and all references to "CDN\$" are to Canadian dollars unless otherwise indicated.

**FORWARD-LOOKING INFORMATION**

The 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 are 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**

An experienced workforce and management team coupled with a modern fleet of drill rigs 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.

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

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

The state-of-the-art workshop and supply base at Anwiankwanta, near Kumasi, Ghana, provides a centralized location for repair and storage of equipment and supplies, which in turn minimizes trucking, shipping and supply costs and allows the rigs to be mobilized to drill sites with minimal delay. The location of the workshop and operations base enables the Company to reach most of its current program sites within a 12 hour drive.

## **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 make its performance sustainable and that provide a solid base for continued growth, and competitive advantages in West Africa, including:

- **Business Development.** The Company continually improve its operation with the following developments:
  - Expansion of Workshop engineering facilities with the addition of one new CNC mill in Kumasi West Africa;
  - Increased inventory levels to maintain high levels of mechanical availability for ongoing rig expansion;

- Construction of a 50 man camp and workshop facilities at North West Ghana, West Africa for the ramp of drilling in Wa Gold Project; and
- Increased footprint in Burkina Faso with additional drills and construction of 80 man camp and workshop facilities, currently underway.
- **A Young and Modern Fleet of Drill Rigs and a World Class Workshop:** The Company has accumulated modern state-of-the-art drilling units, with an average age of 2 years or less, and a centrally located world class workshop to promote client satisfaction through reliable operational performance. In addition, 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, having serviced two of its clients for over 10 years. All longer term client relationships of the Company originally commenced as short term drill contracts won under competitive bidding processes, which have been continually renewed as the respective drilling programs of the clients have 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 reach most of its current program sites within a 12 hour drive. The Company has been and continues to expand its bases of operations in West Africa, including Burkina Faso in 2011 and plans to re-enter Cote d'Ivoire in 2012.
- **Low Cost Operations:** The Company has developed low cost operations by maximizing efficiencies, minimizing administrative, overhead and other fixed costs and maintaining a lean management team which has allowed Geodrill to maintain and grow market share even during past periods of industry slowdown.
- **An Active and Experienced Management:** Geodrill is led by David Harper, President and Chief Executive Officer, Terry Burling, Chief Operating Officer and Ian Lacey, Chief Financial Officer and Secretary. This group has been further strengthened in 2011 by the addition of the following individuals to the management team: Roy Sinke, General Manager, Alan McConnon, Training and Operations Manager and Jocelyn Gingras, Country Manager – Burkina Faso. The management team collectively has over 165 years of experience in the drilling industry with all of the management team having West African experience.
- **Well-experienced Board of Directors.** Geodrill Board of Directors is led by John Bingham as Chairman with Dave Harper, Victoria Prentice, Colin Jones and Ron Sellwood. The appointment of Ron Sellwood as an Independent Director has strengthened the board leadership.
- **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.

## **INDUSTRY OVERVIEW**

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

Approximately 95% of the Company's current revenues are derived from ongoing, continuous work programs with existing repeat-business clients. These clients have been renewed from an initial 3 to 12 month contract, into long standing loyal customers.

The diversity of major, intermediate and junior mining clients, coupled with the different drilling services that Geodrill provides, allows the Company to minimize its exposure to the cyclical nature of the commodities industry. The Company has the ability to service junior mining companies that typically undertake higher margin exploratory work during periods of expansion and intermediate and major mining companies that are typically better positioned to maintain stable operations during all phases of the industry cycle. This diverse client base better enables the Company to maintain a steady and reliable income stream during all stages of the commodities cycle more effectively than drilling companies that focus on a specific client type or service.

Geodrill's current client mix is made up of gold companies (exploration, development and production). The drilling services performed by Geodrill are not, however, gold specific and can be easily applied to other precious and base metals. Our drill rigs do not need to be re-tooled or retro-fitted to conduct drilling activities relating to other precious and base metals, and the skill-set of the Company's workers can equally be applied to non-gold drilling activities.

With the uncertainty of global economic conditions, Standard & Poor's downgrading in recent months of the credit ratings of the US and countries within the European Community, and concern over a weakening global economy, gold has, once again, emerged as a preferred safe haven for capital. In 2011, gold production recovered to 2001 peak levels.

This coupled with declining replacement of gold reserves via exploration since 1997 (as indicated in Metals Economic Group (MEG) report) may result in gold supply shortages in the long-term, a fact that has been echoed by several senior gold mining companies. Increased production by the major gold producers over the past decade has resulted in a greater need to add to reserves in order to maintain a life-of-production that satisfies the long-term views of investors and market analysts. This has resulted in a strong demand and record prices, reaching US\$1,888.70 an ounce in August 2011. Also, the London Bullion Market Association's annual survey of metals forecasters in January 2012 pegged gold averaging US\$1,766 a troy ounce this year. Global demand for gold in 2011 rose to 4,067.1 tons worth an

estimated US\$205.5B (2010: US\$131B). This is the first time that demand has exceeded US\$200B according to the World Gold Council. The main driver for the increase was investors in gold funds and gold bars and coins, with demand up 5% on the previous record set in 2010. But the huge increase in demand for jewelry from the rapidly growing middle classes in India and China is another key factor. A total of 500 tons of gold jewelry was bought in 2011, India accounting for one quarter of gold and coin sales. Demand from China also increased by 20% and Central Bank purchases rose from 77 tons in 2010 to 439.7 tons in 2011.

As gold companies focus on exploration and expansion, demand for both drilling and drilling services is anticipated to be robust.

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 iron ore, gold, bauxite and diamonds.

Management's expansion plans include taking advantage of opportunities in other minerals, including iron ore, which may not follow the same economic cycles as precious metals. The proximity of Ghana to countries such as Mauritania, Guinea, Liberia, Sierra Leone, the Democratic Republic of the Congo, Niger, Nigeria, Cameroon and Togo positions the Company favorably in its ability to service these markets as well if it so chooses.

On account of political instability and continuous internal conflict, the Company suspended operations in Cote d'Ivoire during 2010 and redeployed its drill rigs to other contracts in Ghana and Burkina Faso. Having ceased operations in Cote d'Ivoire, the local subsidiary, Geodrill Cote d'Ivoire (SARL), was dissolved on March 30, 2011. The Company continues to monitor closely the political situation in Cote d'Ivoire and is planning to re-enter Cote d'Ivoire in 2012.

In 2011, new subsidiaries have been incorporated within Burkina Faso (Geo-Forage BF) and Cote d'Ivoire (Geo-Forage Cote d'Ivoire) under the Company's Francophone Operating Subsidiary of Geotool Limited (incorporated in the British Virgin Islands).

Work in Burkina Faso accounted for 44% of the Company's revenue for fiscal 2011 compared to 26% of revenue for fiscal 2010.

The Company has strong client relationships, having serviced two of its clients for over 10 years. All longer term client relationships of the Company originally commenced as short term drill contracts won under competitive bidding processes, which have been continually renewed as the respective drilling programs of the clients have progressed through various phases. The Company has received testimonials from senior persons representing Ampella Mining Limited, Azumah Resources Limited, Castle Minerals Limited, Keegan Resources Inc., Perseus Mining Limited and Gryphon Minerals Limited. Each cite high levels of client satisfaction, commending Geodrill's well-maintained rigs, overall efficiency, knowledgeable workforce and high regard for safety and the environment.

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. However, on account of: (i) the robust demand for Geodrill's services with existing and potential new clients; (ii)

the number of tender proposals that Geodrill has historically been asked to bid on; and (iii) the high success rate of the Company in past competitive tender processes (more than a 95% success rate), the Company is confident that it can redeploy its drill rigs to other locations without a significant interruption to the Company's operations in the event that any of its current contracts are not extended, renewed or renewed on favorable terms.

Geodrill's business is not substantially dependent on any one client or contract. For the year ended December 31, 2011, no individual client accounted for more than 20% of Geodrill's revenues and the Company anticipates that four to five different clients will continue to account for approximately 70% of the Company's revenue.

## **PUBLIC OFFERING**

On December 16, 2010, Geodrill closed its initial public offering (the "Offering") of Ordinary Shares. The Ordinary Shares commenced trading on December 21, 2010 on the Toronto Stock Exchange under the symbol "GEO".

The Offering was priced at CDN\$2.00 per share for aggregate gross proceeds of CDN\$40 million. In addition, the Company granted the agents an over-allotment option to purchase up to an additional 3,000,000 shares at the offering price exercisable for a period of 30 days from the date of closing of the Offering, to cover over-allotments, if any, and for market stabilization purposes.

The Offering comprised of 7,500,000 shares which were issued and sold by the Company and 12,500,000 shares which were sold by certain shareholders. The Company received aggregate gross proceeds from the Offering of CDN\$15 million.

On December 21, 2010, the agents exercised the over-allotment option in full and the Company closed the over-allotment option. In connection therewith, the Company issued 3,000,000 Ordinary Shares at a price of CDN\$2.00 per share for aggregate gross proceeds of CDN\$6 million to the Company.

## **OUTSTANDING SECURITIES AS OF FEBRUARY 29, 2012**

The Company is authorized to issue an unlimited number of ordinary shares (the "Ordinary Shares"). As of February 29, 2012 the Company has the following securities outstanding:

Number of Ordinary Shares	42,476,000
Number of options	2,610,000
Fully Diluted	44,636,000

No options were exercised in fiscal 2011 or 2010.

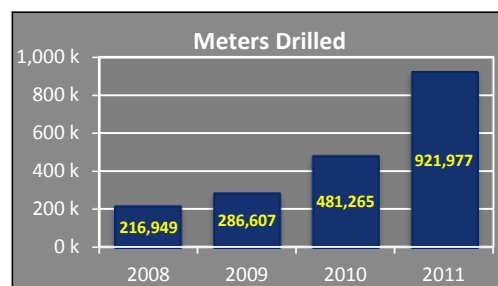
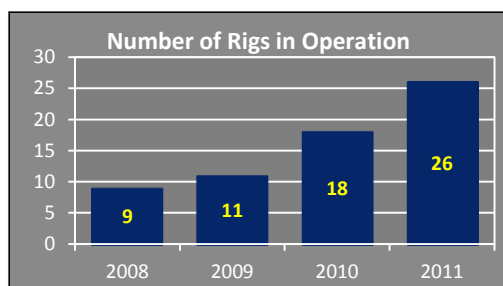
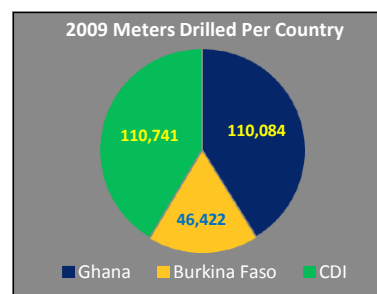
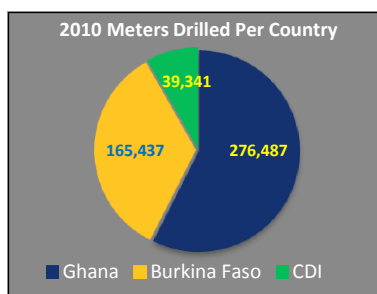
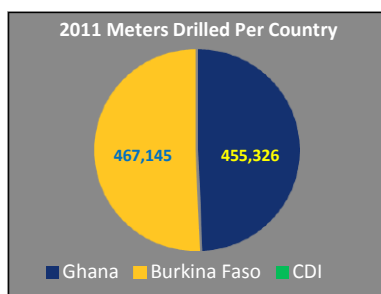
## OVERALL PERFORMANCE

### REVENUE PER COUNTRY

LOCATION	Fiscal 2011 (US\$ thousands)	% Revenue	Fiscal 2010 (US\$ thousands)	% Revenue	Fiscal 2009 (US\$ thousands)	% Revenue
Ghana	39,515	56%	27,753	62%	13,460	53%
Burkina Faso	30,633	44%	11,670	26%	2,869	11%
Cote D' Ivoire	-	0%	5,640	13%	9,301	36%
<b>TOTAL</b>	<b>70,148</b>	<b>100%</b>	<b>45,063</b>	<b>100%</b>	<b>25,630</b>	<b>100%</b>

### METERS DRILLED PER COUNTRY

LOCATION	Fiscal 2011	%	Fiscal 2010	%	Fiscal 2009	%
Ghana	467,145	51%	276,487	57%	110,084	41%
Burkina Faso	455,326	49%	165,437	34%	46,422	17%
Cote D' Ivoire	-	0%	39,341	8%	110,741	41%
<b>TOTAL</b>	<b>922,471</b>	<b>100%</b>	<b>481,265</b>	<b>100%</b>	<b>267,247</b>	<b>100%</b>



Geodrill continues its strong performance as demonstrated by its operational efficiency (reflected by the annual average income per rig, operationally available and working, which at approximately US\$3M is three times what management has determined to be industry average of US\$1M per rig) and in financial terms (EBITDA (as defined below) margin for year ended December 31, 2011 being 36% compared to the

margin of 32% for the year ended December 31, 2010). See "Supplementary Disclosure - Non - IFRS Measures" on pages 25.

The number of drill rigs in operation has increased from 18 to 26 during the year of 2011. With the planned increase of 14 additional operational drill rigs in 2012, making a total of 40, the result will be a 54% increase in the number of operational drill rigs in 2012.

The Company continued to improve its operations in 2011 with revenue generated of US\$70.15M, an increase of 56% when compared to the revenue generated of US\$45.06M in 2010 due to new drilling contracts, the deployment of new drill rigs resulting in increased meters drilled, and increase in prices. Meters drilled for fiscal 2011 totaled 922,471 compared to 481,265 for fiscal 2010.

The gross profit percentage for the year ended December 31, 2011 was 54% compared to 50% for the year ended December 31, 2010 primarily due to an increase in the drill rig fleet in operation, operational efficiency and increase in prices.

Net earnings for the year ended December 31, 2011 was US\$12.41M or US\$0.29 per share, being a 144% increased as compared to US\$5.08M or US\$0.17 per share for the year ended December 31, 2010.

EBITDA margin for the year ended December 31, 2011 was 36%, compared to 32% for the year ended December 31, 2010. See Supplementary Disclosure - "Non - IFRS Measures" on pages 25.



## SELECTED ANNUAL INFORMATION

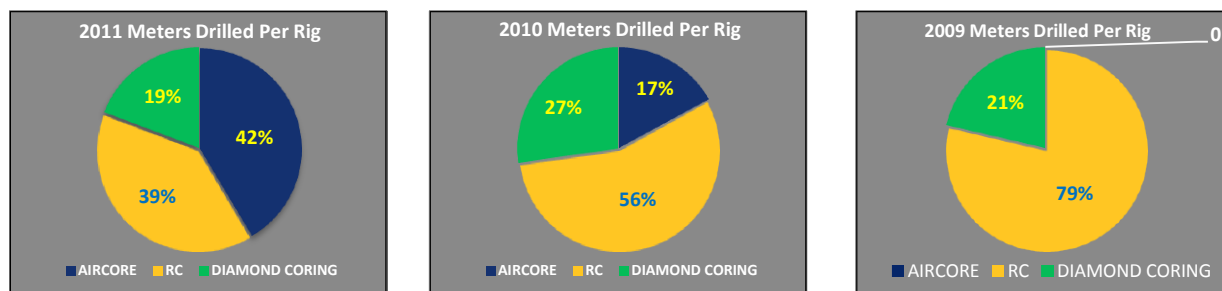
Year Ended December 31 (US\$ thousands)	Fiscal Year Ended			% Change	
	2011	2010	2009	2011 VS. 2010	2010 VS. 2009
<b>Revenue</b>	<b>70,148</b>	<b>45,063</b>	<b>25,630</b>	<b>56%</b>	<b>76%</b>
<b>Cost of Sales</b> <i>Cost of Sales (%)</i>	<b>(32,093)</b> -46%	<b>(22,669)</b> -50%	<b>(15,343)</b> -60%	<b>42%</b>	<b>48%</b>
<b>Gross Profit</b> <i>Gross Margin (%)</i>	<b>38,055</b> 54%	<b>22,394</b> 50%	<b>10,287</b> 40%	<b>70%</b>	<b>118%</b>
<b>Other Income</b> <i>Other Income (%)</i>	<b>1</b> 0%	<b>15</b> 0%	<b>2</b> 0%	<b>-93%</b>	<b>650%</b>
<b>Selling, General and Administrative Expenses</b> <i>Selling, General and Administrative Expenses (%)</i>	<b>(19,537)</b> -28%	<b>(12,166)</b> -27%	<b>(5,180)</b> -20%	<b>61%</b>	<b>135%</b>
<b>Results from Operating Activities</b> <i>Results from Operating Activities (%)</i>	<b>18,519</b> 26%	<b>10,243</b> 23%	<b>5,109</b> 20%	<b>81%</b>	<b>100%</b>
<b>Net Finance Cost</b> <i>Net Finance Cost</i>	<b>(569)</b> -1%	<b>(2,413)</b> -5%	<b>(339)</b> -1%	<b>-76%</b>	<b>612%</b>
<b>Profit Before Taxation</b> <i>Profit Before Taxation (%)</i>	<b>17,950</b> 26%	<b>7,830</b> 17%	<b>4,770</b> 19%	<b>129%</b>	<b>64%</b>
<b>Income Tax Expense</b> <i>Income Tax Expense (%)</i>	<b>(5,537)</b> -8%	<b>(2,748)</b> -6%	<b>(751)</b> -3%	<b>101%</b>	<b>266%</b>
<b>Net Earnings</b> <i>Net Earnings (%)</i>	<b>12,413</b> 18%	<b>5,082</b> 11%	<b>4,019</b> 16%	<b>144%</b>	<b>26%</b>
<b>EBITDA*</b> <i>EBITDA (%)</i>	<b>25,179</b> 36%	<b>14,355</b> 32%	<b>8,264</b> 32%	<b>75%</b>	<b>74%</b>
<b>Meters Drilled</b>	<b>922,471</b>	<b>481,265</b>	<b>267,247</b>	<b>92%</b>	<b>80%</b>
<b>Earnings Per Share</b>					
- Basic	<b>0.29</b>	<b>0.17</b>	<b>0.13</b>	<b>71%</b>	<b>31%</b>
- Diluted	<b>0.28</b>	<b>0.16</b>	<b>0.13</b>	<b>75%</b>	<b>23%</b>
<b>Total Assets</b>	<b>73,775</b>	<b>54,804</b>	<b>26,835</b>	<b>35%</b>	<b>104%</b>
<b>Total Long-Term Liabilities (Deferred Tax)</b>	<b>5,347</b>	<b>3,040</b>	<b>2,806</b>	<b>76%</b>	<b>8%</b>
<b>Cash Dividend Declared</b>	<b>NIL</b>	<b>NIL</b>	<b>NIL</b>		

\*EBITDA = Earnings before interest, taxes, depreciation and amortization. This figures account for and include the dissolution of the subsidiary in Cote d'Ivoire and a reduction in an obsolescence provision. EBITDA for the 12 month period ended December 31,2011 would have been US\$22.58M and an EBITDA margin of 32% if these adjustments were not taken into account.

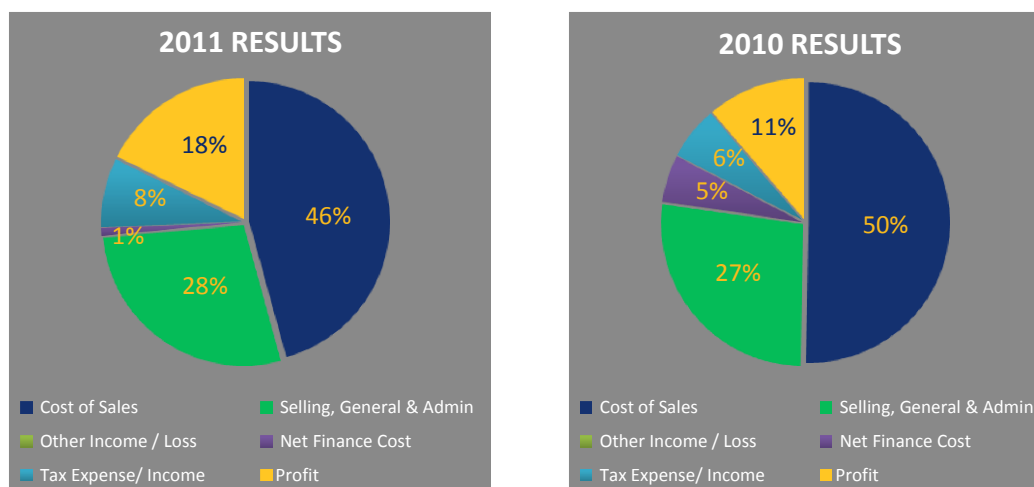
See "Supplemental Disclosure - Non-IFRS Measures" on pages 25.

## RESULTS OF OPERATIONS

### METERS DRILLED PER TYPE OF RIGS FOR 2008-2011



### FISCAL 2011 COMPARED TO FISCAL 2010



### Revenue

Revenue for the year ended December 31, 2011 was US\$70.15M, as compared to US\$45.06M for the corresponding period in 2010, being an increase in revenue of 56%. The increase in revenue is attributable to new drilling contracts, the deployment of new drill rigs resulting in increased meters drilled in the year, and increase in prices. Meters drilled for fiscal 2011 totaled 922,471 compared to 481,265 for fiscal 2010. The increase in revenue does not perfectly correlate with the increase in meters drilled due to the service/drilling mix in 2011. The meters drilled in 2011 were 42% air core, 39% reverse circulation and 19% core as compared to 2010 were 17% air core, 56% reverse circulation and 27% core. Pricing continues to generally improve and be upwardly moving, but continues to be competitive. In part, the increase allows for and offsets the incremental increase in costs of hiring, training and mobilization of new drillers, staffing and consumable costs necessary to accommodate growth.

## **Cost of Sales and Gross Profit**

Gross profit for the year ended December 31, 2011 was US\$38.06M, as compared to US\$22.39M for the year ended December 31, 2010, being an increase of 70%.

The gross profit percentage for the year ended December 31, 2011 was 54% compared to 50% for the year ended December 31, 2010. The increase in the gross profit percentage was primarily due to an increase in the drill rig fleet in operation, meters drilled, operational efficiency and increase in prices. The dissolution of the Cote d'Ivoire operation, which triggered the positive resolution of VAT and salary tax obligations, has positively impacted gross profit. 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.

Cost of sales and staffing costs have increased with general inflation and both local and worldwide demand for drilling and support staff.

Results from operating activities after giving effect to cost of sales and SG&A expenses for the year ended December 31, 2011 were US\$18.52M, being 26% of revenue, as compared to the year ended December 31, 2010 of US\$10.24M, being 23% of revenue.

## **Selling, General and Administrative Expenses**

"SG&A" expenses were US\$19.54M for the year ended December 31, 2011, compared to US\$12.17M for the year ended December 31, 2010. Costs increased due to inflation and including those necessary as being a listed publicly quoted company on the Toronto Stock Exchange, and costs of hiring, training and mobilization of management and support staff necessary to accommodate growth and geographical footprint.

The increase in SG&A expenses for the year 2011 as compared to 2010 includes the following:

- Salaries and Wages, including provident fund contribution, SSNIT contribution and PAYE expenses, increased by US\$0.71M due to the addition of new staff and key management staff to manage the expansion of the business;
- Airfare and travelling expenses increased by US\$1.3M due to additional key management staff, new employees, workers, and expenses incurred during committee and board meetings, including travelling and hotel accommodation;
- Accommodation expenses and supplies for expatriates increased by US\$1M due to additional key management staff, new employees and workers (in Ghana and Burkina Faso) to manage the expansion of the business;
- Director's fees increased by US\$1M due to a larger number of members being in office for the full year, including the cost of issuing share options to the directors;
- Depreciation on motor vehicles allocated to SG&A increased by US\$0.78M relating to an increase in the fleet of motor vehicles necessary to provide for the additional staff and increase in operations. Also, the change in depreciation policy from 5 years to 3 years, which meant that there was a one-off charge for the balance of depreciation for those motor vehicles over 3 years old;

- Professional fees, including legal, consultants and management fees increased by US\$0.48M due to increased compliance requirements for a public listed company;
- Motor running costs of vehicles increased by US\$0.43M due to the larger fleet of vehicles;
- Recruitment, training and seminar expenses increased by US\$0.28M due to the placement fees for hiring new employees and workers, and expenses incurred for training and seminars provided to new employees and workers to manage the expansion of the business;
- Supplies for expatriates increased by US\$0.15M reflecting increased number of expatriate workers retained over the period due to business expansion;
- Repairs and maintenance expense increased by US\$0.21M due to the increase in number of motor vehicles;
- Audit fees increased by US\$0.15M due to the change in from KPMG to Deloitte & Touche and additional cost incurred during quarterly review and interim audit; and
- Security and safety expenses increased by US\$0.18M reflecting the expansion of business operations.

**EBITDA margin (see Supplementary Information – Non-IFRS Measures on page 25)**

EBITDA margin for the year ended December 31, 2011 was 36% (2010: 32%), with this improvement reflecting the following:

- Reduction in cost of sales associated with the reversal in Q1, 2011 of US\$2.05M of VAT and salary taxes no longer considered to be an obligation of the Company;
- Reduction of inventory obsolescence provision resulting in additional income of US\$0.55M.

Without these impacts, EBITDA margin would have been 32% for the year ended December 31, 2011, compared to 32% for the year ended December 31, 2010.

**Depreciation and amortization**

Depreciation and amortization of property, plant and equipment was US\$6.64M for the year ended December 31, 2011 compared to US\$4.06M for the year ended December 31, 2010. The increase in depreciation reflects the additional property, plant and equipment purchases, and the changes in the period of depreciation for drill rigs and motor vehicles. The resulting impact of the change in the depreciation rates was US\$1.04M for the year ended December 31, 2011.

**Net Earnings**

Net earnings were US\$12.41M, being 18% of revenue, for the year ended December 31, 2011, or US\$0.29 per share (US\$0.28 per share diluted), compared to US\$5.08M, being 11% of revenue, for the year ended December 31, 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.

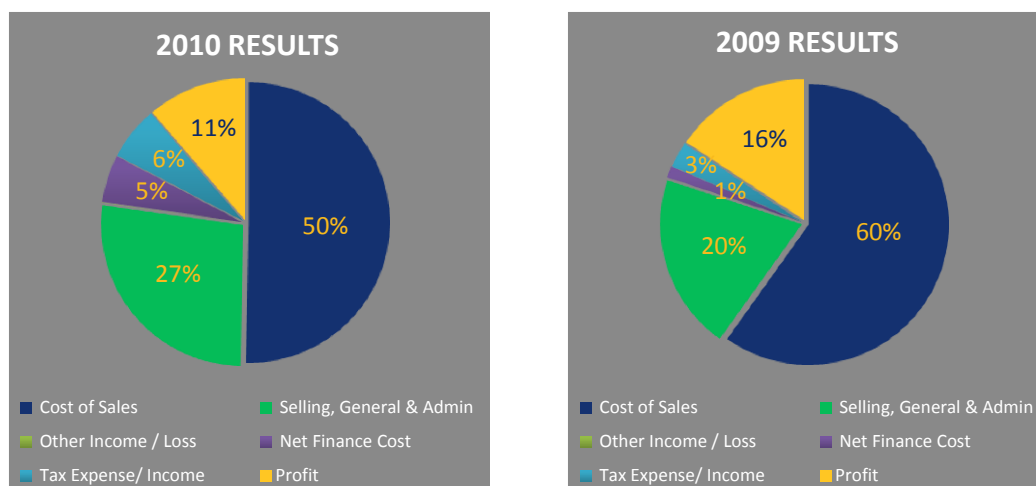
As noted above, revenues increased due to new drilling contracts, meters drilled, deployment of new drill rigs and the increase in prices.

The net earnings for the year ended December 31, 2011 were affected by the following:

- The dissolution of the Cote d'Ivoire operation, which triggered the positive resolution of VAT and salary tax obligations in Cote d'Ivoire, previously expensed in 2010. The net effect of this resolution was reflected in the year ended December 31, 2011 consolidated financial statements of a decrease in cost of sales of US\$2.05M;
- Tax savings of US\$1.42M in Geodrill Ghana Limited was realized due to US\$5.69M bad debts recognized in relation to dissolution of Cote d'Ivoire operation.
- The revised depreciation rates resulting in additional depreciation of US\$1.04M;
- Withholding taxes are accounted for on an accrual basis in 2011 rather than on a cash basis as previous accounting periods, resulting in US\$0.22M of additional withholding tax expenses;
- The reduction of inventory obsolescence provision resulting in additional income of US\$0.55M; and
- The recognition of deferred tax for 2011 resulting in additional tax expense of US\$2.36M.

Without these changes, net earnings for the year ended December 31, 2011 would have been US\$12.01M, being 17% of revenue, or US\$0.27 per share (US\$0.27 per share diluted).

### FISCAL 2010 COMPARED TO FISCAL 2009



## **Revenue**

During the year ended December 31, 2010, the Company recorded revenue of US\$45.06M, as compared to, US\$25.63M during the year ended December 31, 2009, representing an increase of 76%. The increase in revenue is attributable to new drilling contracts and the deployment of 8 new drilling rigs throughout the year. The Company drilled 481,265 meters in total during 2010 and 267,247 meters during 2009.

Management estimates that the annual average income per drill rig is US\$3M, and the Company deployed an average between 14 and 15 drill rigs during the year.

Revenues were positively impacted partially by the recovery of the global economy which increased the demand for commodities coupled with a continuously strong price of gold and the enhanced profitability of mining companies. The increase in profitability has enabled mining companies to generate cash internally to finance their projects, including those projects that in lean times may have been assessed as too speculative or costly to pursue. In addition, the strengthening capital markets for mining companies have provided funding to Geodrill's client base assisting them in initiating and expanding drilling programs.

## **Cost of Sales and Gross Profit**

The gross profit for the year ended December 31, 2010 was US\$22.39M compared to US\$10.29M for the year ended December 31, 2009, being an increase of 118%.

The gross margin percentage for the year ended December 31, 2010 was 50% compared to 40% for the year ended December 31, 2009. The increase in the margin was due to operational efficiencies throughout the year and also, some cost of sales expenses were reclassified to selling, general and administrative expenses.

## **Selling, General and Administrative Expenses**

Selling, general and administrative ("SG&A") expenses were US\$12.17M for the year ended December 31, 2010, compared to US\$5.18M for the year ended December 31, 2009.

The increase in SG&A expenses for the year 2010 as compared to 2009 includes the following:

- Geodrill's staff costs increased from US\$0.8M in 2009 to US\$5.5M in 2010 because of certain key incremental costs incurred as a result of the rapid growth of the Company in 2010 due to the acquisition of 8 new drill rigs. The upfront employee and mobilization costs were also incurred in anticipation of the additional drill rigs that are expected to arrive in Ghana by the end of the first quarter of 2011. The Company incurred additional labor and training costs and related agency fees to hire more employees to enable the Company to deploy the rigs as efficiently as possible once they arrive in Ghana.
- Travel costs increased from US\$1.3M in 2009 to US\$1.7M in 2010 due to the additional drill rigs acquired and additional executive travel.
- Professional fees increased from US\$0.5M in 2009 to US\$1.1M in 2010 due to additional audit and legal expenses.

- Directors fees increased from nil in 2009 to US\$0.9M in 2010 due to the Company appointing a board of directors for corporate direction and governance.

### **EBITDA margin (see Supplementary Disclosure – Non-IFRS Measures on page 25)**

EBITDA for the year ended December 31, 2010 was US\$14.36M, being 32% of revenue, compared to EBITDA for the year ended December 31, 2009 of US\$8.26M, with a margin of 32%. The overall EBITDA margin decreased slightly, but was generally in line with the Company's historical EBITDA margin.

### **Depreciation and amortization**

Depreciation and amortization of property, plant and equipment was US\$4.06M during the year ended December 31, 2010 compared to US\$3.16M year during the year ended December 31, 2009. The Company acquired additional drill rigs and property, plant and equipment throughout the year as part of the Company's expansion.

### **Net Earnings**

Net earnings were US\$5.08M for the year ended December 31, 2010, or US\$0.17 per share (US\$0.16 per share diluted), compared to US\$4.02M for the year ended December 31, 2009, or US\$0.13 per share (US\$0.13 per share diluted). Note that in order to compare the figures from each period in a meaningful fashion, the earnings per share calculation for 2009 were adjusted retrospectively to account for the share split that occurred in 2010.

As noted above, revenues increased due to new drilling contracts and the deployment of 8 new drilling rigs throughout the year. Costs also increased due to the additional rigs, but the Company maintained approximately the same EBITDA margin.

## FOURTH QUARTER SELECTED INFORMATION

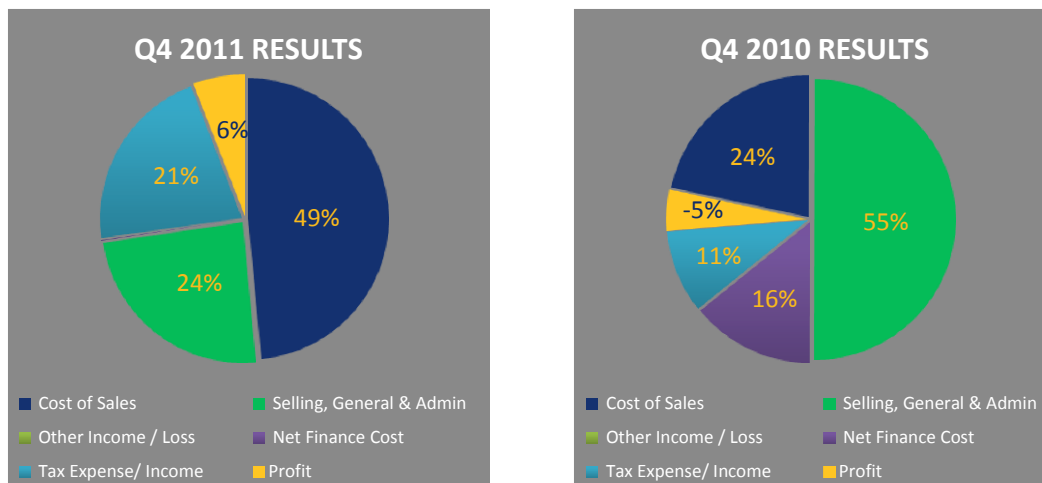
Year Ended December 31 (US\$ thousands)	Fourth Quarter Ended		
	2011	2010	% Change
<b>Revenue</b>	<b>20,863</b>	<b>11,583</b>	<b>80%</b>
Cost of Sales	(10,120)	(2,769)	265%
<i>Cost of Sales (%)</i>	-49%	-24%	
<b>Gross Profit</b>	<b>10,743</b>	<b>8,814</b>	<b>22%</b>
<i>Gross Margin (%)</i>	51%	76%	
Other Income	-	-	0%
<i>Other Income (%)</i>	0%	0%	
Selling, general and administrative expenses	(5,039)	(6,377)	-21%
<i>Selling, general and administrative expenses (%)</i>	-24%	-55%	
<b>Results from operating activities</b>	<b>5,704</b>	<b>2,437</b>	<b>134%</b>
<i>Results from operating activities (%)</i>	27%	21%	
<b>Net finance cost (less income)</b>	<b>(17)</b>	<b>(1,805)</b>	<b>-99%</b>
<i>Net Finance cost ( lessncome) %</i>	0%	-16%	
<b>Profit before taxation</b>	<b>5,687</b>	<b>632</b>	<b>800%</b>
<i>Profit before taxation (%)</i>	27%	5%	
<b>Income tax expense</b>	<b>(4,466)</b>	<b>(1,218)</b>	<b>267%</b>
<i>Incometax expense (%)</i>	-21%	-11%	
<b>Net earnings</b>	<b>1,221</b>	<b>(586)</b>	<b>-308%</b>
<i>Net earnings (%)</i>	6%	-5%	
<b>EBITDA*</b>	<b>7,864</b>	<b>3,633</b>	<b>116%</b>
<i>EBITDA (%)</i>	38%	31%	
<b>Meters Drilled</b>	<b>255,679</b>	<b>157,404</b>	<b>62%</b>
<b>Earnings Per Share</b>			
- Basic	0.03	(0.02)	-250%
- Diluted	0.03	(0.02)	-250%
<b>Total Assets</b>	<b>73,775</b>	<b>54,804</b>	<b>35%</b>
<b>Total Long-Term Liabilities (Deferred Tax)</b>	<b>5,347</b>	<b>3,040</b>	<b>76%</b>
<b>Cash Dividend Declared</b>	<b>NIL</b>	<b>NIL</b>	

\*EBITDA = Earnings before interest, taxes, depreciation and amortization

See "Supplemental Disclosure - Non-IFRS Measures" on pages 25.



## FOURTH QUARTER OF FISCAL 2011 COMPARED TO FISCAL 2010



### Revenue

During the 4<sup>th</sup> quarter of 2011, the Company recorded revenue of US\$20.86M, as compared to US\$11.58M in the 4<sup>th</sup> quarter of 2010, representing an increase of 80%. The Company exhibited strong growth as compared to the same quarter last year, mainly from new drilling contracts, deployment of new drill rigs and increase in prices. The number of drill rigs in operation has increased to 26 in the 4<sup>th</sup> quarter of 2011 representing a 44% increase, from 18 drill rigs in the 4<sup>th</sup> quarter of 2010. Meters drilled for the 4<sup>th</sup> quarter of 2011 was 255,679 compared to 157,404 for the 4<sup>th</sup> quarter of 2010. Pricing continues to generally improve and be upwardly moving, but continues to be competitive. In part, the increase allows for and offsets the incremental increase in costs of hiring, training and mobilization of new drillers, staffing and consumable costs necessary to accommodate growth.

Revenues were positively impacted by the continuing strong price of gold and the enhanced profitability of mining companies. The increase in profitability has enabled mining companies to generate cash internally to finance their projects, including those projects that in lean times may have been assessed as too speculative or costly to pursue. In addition, the strengthening capital markets for mining companies has provided funding to Geodrill's client base assisting them in initiating and expanding drilling programs.

### Cost of Sales and Gross Profit

The gross profit for the 4<sup>th</sup> quarter of 2011 was US\$10.74M, as compared to US\$8.81M for the 4<sup>th</sup> quarter of 2010, being an increase of 22%.

The gross margin percentage for the 4<sup>th</sup> quarter of 2011 was 51% compared to 76% for the 4<sup>th</sup> quarter of 2010. The decrease in the gross margin in the 4<sup>th</sup> quarter of 2011, as compared to 4<sup>th</sup> quarter of 2010 was primarily due to US\$1.55M of cost of sales expenses being re-classified as selling, general and administrative expenses in the 4<sup>th</sup> quarter of 2010. The depreciation rate for drill rigs was revised in 2011, but had minimal impact at US\$0.11M. Drill rig components were estimated to be 25% of the drill rig costs, separately classified and depreciated over 5 years. These drill rig 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.

Cost of sales and staffing costs have increased with general inflation and both local and worldwide demand for drilling and support staff.

Results from operating activities after charging cost of sales and selling, general and administrative expenses for the 4<sup>th</sup> quarter of 2011 were US\$5.70M, being 27% of revenue, as compared to the 4<sup>th</sup> quarter of 2010 of US\$2.44M, being 21% of revenue.

### **Selling, General and Administrative Expenses**

Selling, general and administrative (“SG&A”) expenses were US\$5.04M for the 4<sup>th</sup> quarter of 2011, compared to US\$6.38M for the 4<sup>th</sup> quarter of 2010. Costs increased due to inflation and including those necessary as being a listed publicly quoted company on the Toronto Stock Exchange, and costs of hiring, training and mobilization of management and support staff necessary to accommodate growth and geographical footprint.

The 4<sup>th</sup> quarter of 2010 was higher as compared to 4<sup>th</sup> quarter of 2011 mainly due to the following:

- Salaries and Wages in the 4<sup>th</sup> quarter of 2010 were higher than the 4<sup>th</sup> quarter of 2011 by US\$1M due to the 2 months bonus given in 2010 which was expensed as incurred;
- Directors fee in the 4<sup>th</sup> quarter of 2010 were higher than the 4<sup>th</sup> quarter of 2011 by US\$0.36M due to the cost of issuing share options to directors; and
- Audit fees in the 4<sup>th</sup> quarter of 2010 were higher than the 4<sup>th</sup> quarter of 2011 by US\$0.11M reflecting the full cost of the audit and the IPO for 2010.

SG&A in the 4<sup>th</sup> quarter of 2011 decreased as compared to the 3<sup>rd</sup> quarter of 2011 mainly due to reversal of provision for staff costs of US\$0.24M and decrease in depreciation of motor vehicles which is allocated to SG&A for US\$0.4M, due to one off charge to fully depreciate those motor vehicles over 3 years old in the 3<sup>rd</sup> of quarter of 2011 to effect the change in depreciation policy from 5 years to 3 years.

### **EBITDA margin (see Supplementary Disclosure – Non-IFRS Measures on page 25)**

EBITDA margin for the 4<sup>th</sup> quarter of 2011 was 38%, compared with 31% in the 4<sup>th</sup> quarter of 2010. The increase is due to the increase in utilization of drill rig fleet, meters drilled, operational efficiencies and increase in prices.

EBITDA for the 4<sup>th</sup> quarter of 2011 was also affected by the following:

- The reduction inventory obsolescence provision resulting in additional income of US\$0.55M; and
- The reversal of a provision of staff costs resulting in additional income of US\$0.84M.

Without these changes, EBITDA for the 4<sup>th</sup> quarter of 2011 would have been US\$6.47M, being 31% of revenue.

## Depreciation and amortization

Depreciation and amortization of property, plant and equipment was US\$2.15M during the 4<sup>th</sup> quarter of 2011 compared to US\$1.18M during the 4<sup>th</sup> quarter of 2010. The increase in depreciation reflects the additional property, plant and equipment purchases, and the change in the accounting estimates relating to the rate of depreciation on drill rigs and motor vehicles. The resulting impact on earnings of the change in the depreciation rate was US\$0.51M in the 4<sup>th</sup> quarter of 2011.

## Net Earnings

Net earnings were US\$1.22M for the 4<sup>th</sup> quarter of 2011, being 6% of revenue, or US\$0.03 per share (US\$0.03 per share diluted), compared to a loss of US\$0.59M for the 4<sup>th</sup> quarter of 2010, being 5% of revenue, or a loss of US\$0.02 per share (US\$0.02 loss per share diluted).

Net earnings for the 4<sup>th</sup> quarter of 2011 were affected by changes in:

- The change in depreciation policy resulting in additional depreciation for all property, plant and equipment of US\$0.51M;
- Withholding taxes are accounted for on an accrual basis in 2011 rather than on a cash basis as previous accounting periods, resulting in US\$0.22M of additional withholding tax expenses, for the receivables;
- The reduction of inventory obsolescence provision resulting in additional income of US\$0.55M;
- The reversal of provision of staff costs resulting in additional income of US\$0.84M.; and
- The recognition of deferred tax in the 4<sup>th</sup> quarter of 2011 resulting in additional tax expense of US\$3.48M.

Without these changes, net earnings for the 4<sup>th</sup> quarter of 2011 would have been US\$4.04M, being 19% of revenue.

## SUMMARY OF QUARTERLY RESULTS

(US\$ in thousands)	Fiscal 2011				Fiscal 2010			
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
Revenue	20,863	20,253	16,556	12,476	11,583	11,090	11,854	10,535
Revenue Increase (%)	3%	22%	33%	8%	4%	-6%	13%	
Gross Profit	10,743	9,737	8,738	8,838	8,813	3,595	5,253	4,732
Gross Margin (%)	51%	48%	53%	71%	76%	32%	44%	45%
Net Earnings	1,221	3,088	3,238	4,866	(586)	1,001	3,249	1,418
Per Share - Basic	0.03	0.07	0.08	0.11	(0.02)	0.03	0.11	0.05
Per Share - Diluted	0.03	0.07	0.07	0.11	(0.02)	0.03	0.11	0.05

The Company's operations tend to exhibit a seasonal pattern whereby the 2<sup>nd</sup> quarter (April to June) is the strongest. The 4<sup>th</sup> 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 of 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 4<sup>th</sup> quarter of 2011 had the highest revenue as compared to the previous quarters of 2011 due to increase in operations through availability of additional drill rigs. The revenue in the 4<sup>th</sup> quarter of 2011 increased even though the Company's major operations were shut down for two weeks during Christmas and New Year which was a similar period to prior years.

The wet season occurs (in some geographical areas where we operate, particularly in Burkina Faso) normally in the 3<sup>rd</sup> quarter, but in the recent years the global weather pattern has become somewhat erratic. The wet season likely affects the Company's drilling operations and revenue as companies generally slow operations during this time. However, this is dependent upon the severity of the weather and if alternate contracts can be found, in less affected areas of operation. The Company historically took advantage of the wet season and scheduled the 3<sup>rd</sup> quarter for maintenance and rebuild programs for drill rigs and equipment. In 2011 the wet season had no significant impact on revenue.

#### Effect of Exchange Rate

The Company's revenues 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 and purchases denominated in other currencies.

During the year 2011, the Company incurred a foreign exchange loss of US\$0.46M (2010 US\$0.48M).

The Company's revenue is invoiced in US Dollars. The Company's main purchases were in US Dollars and Australian Dollars, with less than 20% of the purchases in the other (mainly Euros) and local currencies. Other local expenses include purchases and wages which are paid in the local currency. Fluctuations in the US Dollar against the Australian Dollar and local currencies were the cause of the foreign exchange loss in the year.

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

Year Ended December 31 (US\$ thousands)	Fiscal Year Ended			Fourth Quarter Ended		
	Dec 2011	Dec 2010	% Change	Dec 2011	Dec 2010	% Change
Net cash flows from operating activities	7,976	9,325	-14%	6,500	1,714	279%
Net cash flows from investing activities	(12,943)	(17,731)	-27%	(3,895)	(12,939)	-70%
Net cash flow from financing activities	2,949	18,397	-84%	-	19,407	-100%
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(2,018)</b>	<b>9,991</b>	<b>-120%</b>	<b>2,605</b>	<b>8,182</b>	<b>-68%</b>

## **LIQUIDITY AND CAPITAL RESOURCES – FOURTH QUARTER ENDED DECEMBER 31, 2011**

### **Operating Activities**

In the 4<sup>th</sup> quarter of 2011, the Company generated positive operating cash flows in the amount of US\$6.50M, compared to positive operating cash flows of US\$1.71M in the 4<sup>th</sup> quarter of 2010.

Cash inflow in the 4<sup>th</sup> quarter of 2011 from operating activities was driven mainly by the general increase in revenues, which was used to finance the advance payments for drill rigs ordered (also affected through the utilization of extended credit terms from suppliers). Looking forward, it is anticipated that cash flows from operations will continue to be utilized to fund growth.

### **Investing Activities**

Cash outflow from investing activities mainly relates to the Company's investment in property, plant and equipment.

In the 4<sup>th</sup> quarter of 2011, the Company's investment in property, plant and equipment was US\$3.94M compared to US\$10.79M in the 4<sup>th</sup> of quarter 2010. In the 4<sup>th</sup> quarter of 2011, the Company obtained a short-term advance payment from Azumah to meet the financial commitments of advance, progress and final payments relating to additional drill rigs on order. This advance payment from Azumah was fully paid as of December 31, 2011.

### **Financing Activities**

There was no cash outflow from financing activities during the 4<sup>th</sup> quarter of 2011, compared to a cash inflow of US\$19.41M in the 4<sup>th</sup> quarter of 2010.

The Company entered into an agreement (the "Prepayment Agreement") with Azumah Resources Limited (ASX:AZM) ("Azumah") in the 3<sup>rd</sup> quarter of 2011, whereby pursuant to the terms of the Prepayment Agreement, Azumah has agreed to prepay up to US\$3.0M for drilling services. In return Geodrill has agreed to provide Azumah access to at least three drilling rigs and fixed contract rates for Azumah's drilling requirements for 12 months. Performance of the terms of prepayment contract has been secured by the 3 drill rigs. The funds from Azumah were received and fully repaid in the 4<sup>th</sup> quarter of 2011 as such the 3 drill rigs are no longer secured.

## **LIQUIDITY AND CAPITAL RESOURCES – YEAR TO DATE ENDED DECEMBER 31, 2011**

### **Liquidity**

As at December 31, 2011 the Company had cash and cash equivalents equal to US\$8.17 million. In the 3<sup>rd</sup> quarter of 2011, a loan of US\$3.09M (GBP2.0M) from Silverwood Ventures Limited was obtained. In the 4<sup>th</sup> quarter of 2011, funds from the Prepayment Agreement from Azumah were received and paid back. In anticipation of a possible need to fund purchases of additional, previously ordered, drill rigs, the Company is actively exploring alternative options including traditional bank debt, vendor financing, prepayment arrangements with customers and private financing. The Company believes that based on efforts to date, accessing such funding at acceptable rates and on acceptable terms should be achievable; however, no assurance can be given in this regard. In the unlikely event that the Company is

unable to secure acceptable financing arrangements or is unable to pay for the previously ordered drill rigs, the Company may cancel or delay the arrival of the previously drill rigs.

### **Operating Activities**

The Company generated positive operating cash flows in the amount of US\$7.98M for the year ended December 31, 2011, compared to positive operating cash flows of US\$9.33M for the year ended December 31, 2010.

The lower positive cash flows in 2011 compared to 2010 reflected increased prepayments for drill rigs and other property, plant and equipment of US\$6.31M and increased inventory levels of US\$5.68M. The increase in inventory is attributable to increased drilling activities and the decision to minimize the risk of stock outs of key inventory items. Management continues to review the level of inventory holding to minimize obsolescence and stock outs.

### **Investing Activities**

For the year ended December 31, 2011, the Company's investment in property, plant and equipment was US\$12.94M compared to US\$17.73M for the year ended December 31, 2010.

### **Financing Activities**

For the year ended December 31, 2011 cash inflows generated from financing activities were US\$2.95M, compared to cash inflows of US\$18.40M for the year ended December 31, 2010.

For the year ended December 31, 2011, IPO related costs of US\$0.14M were paid. On August 5, 2011, US\$3.09M (GBP2.0M) was received from Silverwood Ventures Limited to facilitate payment for the advance, progress and final payments of certain drill rigs being manufactured. During the 4<sup>th</sup> quarter of 2011, the Prepayment Agreement with Azumah facilitated the receipt of funds that were repaid in the same quarter.

Other than the Prepayment Agreement and Silverwood Loan noted above, the Company did not undertake any financing activities during the fiscal year 2011.

During the fiscal year 2010, the Company received US\$19.2M net proceeds from issuance of share capital due to public listing in Toronto Stock Exchange. Also in fiscal year 2010, to assist in financing the Company's growth strategy, the Company received and paid off a US\$1.94M (AUD2.0M) Convertible Loan Note from Terry Burling, the Chief Operating Officer of the Company. Also, Real Estate Dividends of US\$2.36M were paid to shareholders and a US\$0.6M medium term loan was repaid.

## Contractual Obligations

Contractual Obligations	Payments Due by Period					
	Total	01.01.2012 to 31.12.2012	01.01.2013 to 31.12.2013	01.01.2014 to 31.12.2014	01.01.2015 to 31.12.2015	After 5 years
<b>in US\$ thousands</b>						
Capital Leases Obligations	N/A	N/A	N/A	N/A	N/A	N/A
Operating Leases <sup>(1)</sup>	600,000	160,000	160,000	160,000	120,000	N/A
Purchase Obligations <sup>(2)</sup>	11,180,638	8,249,986	1,465,326	1,465,326	N/A	N/A
Other Short Term Obligations <sup>(3)</sup>	3,271,460	3,271,460	N/A	N/A	N/A	N/A
<b>Total Contractual Obligations</b>	<b>15,052,098</b>	<b>11,681,446</b>	<b>1,625,326</b>	<b>1,625,326</b>	<b>120,000</b>	<b>N/A</b>

### Notes:

- (1) The operating leases relate to the lease payments for the two real estate properties, as fully disclosed under "Transactions with Related Parties".
- (2) The purchase obligations refer to purchase of drill rigs and equipment.
- (3) Refers to the private loan agreement with Silverwood Ventures Limited, including the interest.

Contractual obligations will be funded in the short term by cash flows from operations, the Silverwood Loan, and an agreement to provide financing, subject to final execution. Any additional obligations will be funded by cash flows from operations.

Please see discussion on page 20 under the heading "Liquidity" in regards to the anticipated sources of funding for the Company.

## OUTLOOK

The Company views the industry dynamics underlying demand for its services to be favorable and, accordingly, has added significantly to its capacity through the acquisition of additional drill rigs. All of the Company's drill rigs as at December 31, 2011 are currently committed to contracts. With 26 of the Company's drill rigs commissioned and being utilized on client sites, 1 drill rig is in transit and 13 drill rigs on order and with the supplier under manufacturing (which are expected to arrive in Ghana and be operational in 2012) the Company will be able to leverage increased capacity.

The Company's drill rig fleet and the drill rigs deployed or planned to be operational in the field are noted below:

Make - Model	Type	In Operation as at Mar 31, 2011 No. of Rigs		In Operation as at Jun 30, 2011 No. of Rigs		In Operation as at Sep 30, 2011 No. of Rigs		In Operation as at Dec 31, 2011 No. of Rigs		Planned to be Operational in 2012 No. of Rigs	
UDR - 650	Multi-Purpose	2	1 X 2003 1 X 1993								
UDR - KL900	Multi-Purpose	4	1 X 2007 1 X 2003 1 X 1999 1 X 1998								
Sandvik - DE820	Multi-Purpose	4	1 X 2010 3 X 2008								
Sandvik - DE810	Multi-Purpose									6	6 X 2012
EDM - 2000	Multi-Purpose	2	2 X 2011							2	2 X 2012
Austex - X900	Multi-Purpose					2	2 X 2011	1	1 X 2011	4	4 X 2012
Sandvik - DE710	Core	7	1X 2011 5 X 2010 1 X 2009			1	1X2011				
Austex - X300	Aircore	2	2 X 2010	1	1 X 2011					2	2 X 2012
<b>Total Drill Rigs</b>		<b>21</b>		<b>1</b>		<b>3</b>		<b>1</b>		<b>14</b>	
<b>Cummulative</b>		<b>21</b>		<b>22</b>		<b>25</b>		<b>26</b>		<b>40</b>	

	As at Mar 31, 2011		As at Jun 30, 2011		As at Aug 31, 2011		As at Dec 31, 2011	
	No. of Rigs	Type	No. of Rigs	Type	No. of Rigs	Type	No. of Rigs	Type
Operational	12 7 2	Multi- Purpose Core Only Air core	12 7 3	Multi- Purpose Core Only Air core	14 8 3	Multi- Purpose Core Only Air core	15 8 3	Multi- Purpose Core Only Air core
<b>TOTAL OPERATIONAL</b>	<b>21</b>		<b>22</b>		<b>25</b>		<b>26</b>	
In transit	1	Air core	1	Multi- Purpose			1	Air core
<b>Total In Transit</b>	<b>1</b>		<b>1</b>				<b>1</b>	
In W/Shop	1	Core only	1	Core Only				
<b>Total In W/Shop</b>	<b>1</b>		<b>1</b>				<b>0</b>	
Under Manufacturing	1	Multi- Purpose	4 1	Multi- Purpose Air core	4 1	Multi- Purpose Air core	10 1	Multi- Purpose Air core
<b>Total Under Manufacturing</b>	<b>1</b>		<b>5</b>		<b>5</b>		<b>11 *</b>	
<b>TOTAL DRILL RIGS</b>	<b>24</b>		<b>29</b>		<b>30</b>		<b>38</b>	

Split								
Multi- Purpose	13		17		18		25	
Core Only	8		8		8		8	
Air Core	3		4		4		5	
<b>TOTAL</b>	<b>24</b>		<b>29</b>		<b>30</b>		<b>38</b>	

\* In addition to 11 rigs under manufacturing, there are 2 drill rigs for which manufacturing has not yet started.

The number of drill rigs in operation increased to 26 in the year ended December 31, 2011 representing a 44% increase, from 18 drill rigs as of December 31, 2010. Also, at December 31, 2011, 1 Austex X300 rig was in transit.



There are plans to be 40 rigs operational by December 31, 2012. In January 2012, 1 Austex X300 rig was received. In February 2012, 1 Austex X900 was received. As of February 24, 2012, 4 Sandvik DE810 rigs and 1 Austex X900 rig were in transit.

## SUPPLEMENTARY DISCLOSURE - NON-IFRS MEASURES

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

Additionally, EBITDA is not intended to be a measure of free cash flow for management's discretionary use, as it does 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 EBITDA.

* (\$ in thousands)	Fiscal Year Ended		Fourth Quarter Ended	
	Dec 2011	Dec 2010	Dec 2011	Dec 2010
Results from Operating Activities	18,519	10,242	5,704	2,436
Add:				
Finance Income	24	52	8	20
Depreciation & Amortization	6,636	4,061	2,152	1,177
<b>Earnings Before Interest, Taxation, Depreciation &amp; Amortization</b>	<b>25,179</b>	<b>14,355</b>	<b>7,864</b>	<b>3,633</b>

## DISCLOSURE CONTROLS AND PROCEDURES

The CEO and 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, 2011, the CEO & CFO evaluated the design and operation of the Company's DC&P. Based on that evaluation, the CEO & CFO concluded that the Company's DC&P was effective as at December 31, 2011.

## **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, 2011 and ended on December 31, 2011, 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**

#### **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 recent years, and future serious price declines could cause continued exploration, development of and commercial production by Geodrill's clients to be impracticable. In such event, the operational and financial results from drilling operations would suffer.

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

a significant, sustained fall in commodity prices could substantially reduce future mining expenditures, particularly in relation to exploration and production, leading to a decline in demand for the drilling services offered by the Company which may have a material adverse effect and impact on the Company's business, financial position, results of operations and prospects.

### **Revenues and EBITDA**

The Company does not provide financial guidance. The Company has experienced increasing cash generation from revenues and EBITDA in the past. However, there can be no assurance that this will continue in the future. It may be difficult for the Company to maintain historic EBITDA growth figures, as it did in the past, as the Company expands its operations.

### **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 during 2009, 2010 and 2011, if these 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, David Harper, Terry Burling and Ian Lacey. The Company has added 3 new personnel to its management structure; Roy Sinke, General Manager, Alan McConnon, Training and Operations Manager and Jocelyn Gingras, Country Manager – Burkina Faso, to manage its immediate and planned growth 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, but is in the course of reviewing this at the moment.

### **Ongoing Integration of Business Systems**

The Company is installing an enterprise resource planning system including financial, inventory, asset maintenance, operating information and technology systems. These systems are designed to improve

the business operations and management oversight. However, there may be a level of disruption to the business with incorrect information produced and relied upon while software implementation and training is being implemented and completed - management's attention may be diverted to ensuring the successful integration of the new technology during this process.

### **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 operations are currently based in Ghana and Burkina Faso, West Africa. Conducting operations 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. Operations 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.

### **Specialized Skills and Cost of Labor Increases**

A key limiting factor in the growth of drilling services companies is the supply of qualified drillers, upon whom the Company relies to operate its drills. The increase in demand for drilling services has created a situation where there is a shortage of qualified drillers and competition for drillers is intense. As such, the ability to attract, train and retain high quality drillers is a high priority for all drilling services providers. The Company has recruited Mr. Alan McConnon as Operations and Training Manager, who has 45 years drilling expertise, whose responsibility includes training. The Company may not be able to recruit or retain drillers and other key personnel who meet the Company's high standards, especially as it pursues growth opportunities. 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. In addition, rising rates paid to drillers and helpers will exert pressure on the Company's profit margins if it is unable to pass on such higher costs to its clients through price increases.

### **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. Due to the worldwide increased demand for drilling services, the industry is experiencing tightness in the supply of drilling equipment, including drills, and this could impede the Company's ability to grow its business. 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.

### **Access of Clients to Equity Markets**

Economic factors may make it more difficult for mining companies, particularly junior mining companies, to raise money to fund exploration activity. This difficulty would have an adverse impact on the demand for drilling services and could have a material adverse effect on the financial performance, financial condition, cash flows and growth prospects of the Company.

### **Expansion Plans**

The Company's expansion plans partly rely on the anticipated addition to its drill rig fleet of fourteen additional drill rigs being operational in 2012. A significant delay in delivery or time lag between manufacture, shipping, delivery, commissioning and dispatch to the field may have a material adverse effect on the expansion plans of the Company.

### **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 than the Company. The capital cost to acquire drill rigs is relatively low, enabling current competitors to expand and new competitors to enter the market. In addition, new and current competitors willing to provide services at a lower cost may occur as the West African mining market matures. 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.

### **Inability to Sustain and Manage growth**

The Company's revenue has grown in recent years. The Company's ability to sustain its 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. Future growth and expansion could place significant strain on the Company's management personnel and key drillers and will be likely to require the Company to recruit additional management personnel and train and retain additional key drillers and mechanics.

There can be no assurance that the Company will be able to manage its expanding operations (including any acquisitions) effectively, that it 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 for continued growth or that it will be able to successfully make strategic investments or acquisitions. 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 number of rigs, it may need to expand its operations base or establish a new operations base in order to continue to maintain its fleet of drill rigs. There is no assurance that the Company will be able to secure additional real estate leases at all or on commercial terms acceptable to the Company.

### **Client Contracts**

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

### **International Expansion and Instability**

Expansion internationally entails additional political and economic risk. Some of the countries and areas targeted by the Company for expansion are undergoing industrialization and urbanization and do not have the economic, political or social stability that many developed nations now possess. Other countries have experienced political or economic instability in the past and may be subject to risks beyond the Company's control, such as war or civil disturbances, political, social and economic instability, corruption, nationalization, terrorism, expropriation without fair compensation or cancellation of contract rights, significant changes in government policies, breakdown of the rule of law and regulations and new tariffs, taxes and other barriers, changes in mining or investment policies or shifts in political attitude that may adversely affect the business. There has been an emergence of a trend by some governments to increase their participation in the benefits of rising commodity prices, 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.

### **Lack of Experience in Managing a Public Entity**

Management has historically operated the business of the Company as a privately owned company. The individuals who constitute the Company's senior management team have limited experience in managing a publicly traded entity. The Company may be adversely affected if these individuals are unable to satisfactorily manage a public entity and ensure the Company's compliance with all continuous disclosure and other requirements applicable to public entities.

### **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 operations currently in Ghana, Burkina Faso and has subsidiaries operating in British Virgin Islands. There is a risk in which the countries where Geodrill operates may change their current tax regime with little or no prior notice or that the tax authorities in these jurisdictions may attempt to claim tax on the global revenues of the Company. A change to the tax regimes in these countries or an unfavorable interpretation of the current tax legislation could have a material adverse effect on the profitability of the Company.

### **Credit Risk**

The Company provides credit to its clients in the normal course of its operations. As at December 31, 2011, 100% of the trade accounts receivable are aged less than 90 days and none are considered to be impaired.

One major client represents 27% of the trade accounts receivable as at December 31, 2011. Other major clients represented 18%, and 16% respectively. 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.

### **Future Expansion Strategy**

Although the Company currently expects to grow organically through the acquisition of drill rigs rather than other companies, the Company may in the future determine to pursue growth targets through corporate acquisitions. There is considerable competition within the drilling services industry for suitable acquisition targets. There can be no assurance that suitable candidates will be identified at acceptable prices or that the Company will be able to finance or complete potential acquisitions. The Company's future acquisitions may be subject to unanticipated risks or liabilities. In addition, there can be no assurance that any such acquisitions will be profitable or be successfully integrated into the Company's operations, that any such integration will be smooth or that such acquisition and integration will not have a material adverse effect on the Company's business, financial position, results of operations and prospects.

Expansion into new geographies organically and via acquisitions 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 strong growth 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**

The Harper Family Settlement holds or controls, indirectly, 17,500,000 Ordinary Shares representing approximately 41.23% of the Company's issued Ordinary Shares. As a result, the Harper Family Settlement has 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.

### **Future Sales of Ordinary Shares by the Harper Family Settlement**

Sales of a large number of Ordinary Shares 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 as it intends to use cash for future growth. Other than the Real Estate Dividend in 2010, issued in connection with the pre-Offering 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.

### **RELATED PARTY TRANSACTIONS**

Related party	Relationship	Country of Incorporation	Ownership Interest at 31 December	
			2011	2010
Geodrill Ghana Limited	Subsidiary	Ghana	100%	100%
Geodrill Cote d'Ivoire SARL	Subsidiary	Cote d'Ivoire	-	100%
DSI Services Limited	Subsidiary	British Virgin Islands	100%	100%
Geotool Limited	Subsidiary	British Virgin Islands	100%	-
Geo-Forage BF SARL	Subsidiary	Burkina Faso	100%	-
Geo-Forage Cote d'Ivoire	Subsidiary	Cote d'Ivoire	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**

Transtraders Limited ("TTL") is a company which is owned by Redcroft Limited and Bluecroft Limited who also, collectively, own 41.2% (December 31, 2010: 41.2%) of the issued share capital of Geodrill Limited. TTL has historically been responsible for centralized offshore procurement for the Group. TTL ceased to be the purchasing arm of the Group in June 2010.

On November 1, 2010, the board of directors of Geodrill Limited ratified, confirmed and approved a resolution passed by Geodrill Ghana Limited on September 30, 2010 declaring a dividend to its shareholder, Geodrill Limited, of US\$2,350,000 (the "Real Estate Dividend"), which was satisfied by the distribution of the following Geodrill Ghana Limited's real estate assets: (i) administrative office buildings owned and a long-term lease in respect to the land situated at 20B Aviation Road, Airport Residential Area, Accra, Ghana; and (ii) operations base and workshop owned and a long-term lease in respect to the land located in Anwiankwanta, Ghana, which assets are currently held by the Harper Family Settlement, the then ultimate beneficial shareholder of the company.

Subsequent to the distribution of the Real Estate Dividend, 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 month notice.

Future lease commitments related to the properties are:

	<b>2011</b> <b>US\$</b>	<b>2010</b> <b>US\$</b>
Payable within one year	160,000	160,000
Payable between 1 and 5 years	480,000	640,000
	-----	-----
Total	640,000	800,000
	=====	=====

During the year ended December 31, 2011 lease payment amounted to US\$160,000 (2010: US\$40,000).

(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 pays management fees to Kingston Management (Isle of Man) which is also the licensed and regulated fiduciary service provider of Harper Family Settlement and two of the Directors of Kingston Management (Isle of Man) are also Directors of Geodrill Limited. Management fees paid during the year amounted to US\$178,548 (2010: US\$23,574); which includes an additional cost for 2010 of US\$50,391.

Geodrill Limited, on behalf of Geotool Limited, pays management fees to City Trust Limited. Management fees paid during the year amounted to US\$5,165 (2010: Nil).

Key management personnel compensation for the period comprised:

	<b>2011</b> <b>US\$</b>	<b>2010</b> <b>US\$</b>
Remuneration paid to directors (excluding Equity-settled share-based payments)	1,085,742	613,361
Short-term employee benefits	1,071,703	1,220,442

Share-based payment arrangements	1,554,387	490,990
	-----	-----
Total	3,711,832	2,324,793
	=====	=====

(iii) **Related party balances**

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

		2011	2010
		US\$	US\$
Identity of related party	Nature of Transaction		
Transtraders Limited	Purchase of goods and items of property, plant and equipment	-	6,193,705
Balances outstanding as at 31 December			
Transtraders Limited – payable	Line of credit	(923,025)	(3,646,925)
Transtraders Limited – receivables	Other transaction	-	2,723,900
		-----	-----
Total		(923,025)	(923,025)
		=====	=====

The intercompany payable to Transtraders Limited is unsecured and is interest free.

Transactions with companies within the Group have been eliminated on consolidation.

**SIGNIFICANT ACCOUNTING POLICIES / CRITICAL ACCOUNTING ESTIMATES**

**a. Approval of consolidated financial statements**

The consolidated financial statements were approved by the board of directors and authorized for issue on February 29, 2012.

**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 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 functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the parent company functional currency spot rate of exchange ruling at the reporting date.

All differences are taken to profit or loss with the exception of all monetary items that form part of a net investment in a foreign operation. These are recognized in other comprehensive income until the disposal of the net investment, at which time they are reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income. Non-monetary assets and liabilities are translated at historical exchange rates, if held at historical cost or at exchange rates at the date that fair value was determined if held at fair value. The resulting foreign exchange gains and losses are recognized in other comprehensive income, or profit or loss, as appropriate.

During the fiscal 2011, approximately 1.33% of revenue generated was in Ghana Cedis with the balance of 98.67% being earned in US Dollars. Since most of the input costs related to this revenue is denominated in Ghana Cedis, there was an exchange difference of US\$0.03M. Also, part of the input costs are denominated in Australian Dollars, Euros and Sterling Pounds where exchange differences were made. The total unfavorable foreign exchange translation impact on comprehensive income during fiscal 2011 was US\$0.46M.

**e. Use of estimates and judgments**

The preparation of consolidated 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.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 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 risk and rewards, the Group concludes that it controls SPE.

(iii) 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 finance income or finance costs in

the consolidated statement of 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 profit or loss. 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 FVTL are carried in the consolidated statement of financial position at fair value with changes in fair value recognized in finance income or finance costs in the consolidated statement of 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 22.

(iv) Amortized cost measurement

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

(v) Offsetting

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

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

(vi) Share capital

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

(vii) Compound financial instruments

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

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

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

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

## **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 the consolidated statement of 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 the consolidated statement of 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 the finance expense and a reduction of the outstanding lease liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

### **(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 the consolidated statement of comprehensive income, as incurred.

(iii) Depreciation

Depreciation is recognized in the consolidated statement of 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
Furniture and Fittings	5 years
Plant and Equipment	5 years
Building and Structures	20 years
Drill Rigs	10 years
Drill Rig Components/Rebuilds	5 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 the consolidated statement of comprehensive income in specific periods. The following changes were adopted effective 1 July 2011 on a prospective basis:

- a. The estimated useful life of all motor vehicles was changed from 5 years to 3 years.
- b. The drill rig components were estimated to be 25% of the drill costs, separately classified and depreciated over 5 years. These components had previously been depreciated, together with the drill rigs, over 10 years.
- c. Residual values of the drill rigs are estimated to be 25% of the costs, after deducting the drill rig components.

The amount of the expected effect of the changes in estimates is unknown.

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 profit or loss.

(iv) Impairment

The Group considers at each reporting date whether there is an indication of impairment to any of its assets. If any such indication exists or an annual impairment test is required, the asset's or cash-generating unit's recoverable amount is estimated. 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 cost 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 suitable discount rate in order to calculate present value. Fair values less cost to sell are based on recent market transactions where available and where not available appropriate valuation models are used. Changes in these

estimates can result in significant variations in the carrying value and amounts charged to the consolidated statement of comprehensive income in specific periods.

**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 revision in the net realizable value of inventory. This assessment is performed on an annual basis.

**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 the consolidated statement of 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 service 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 equity, over the period that the employees unconditionally become entitled to the awards. Estimations are made of at the end of each reporting period of the number of instruments which will eventually vest. The impact of any revision is recognized in profit or loss 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 the consolidated statement of 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 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.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend is recognized.

**m. Dividends**

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

**n. Revenue – drilling income**

Revenue from the provision of service 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 income is recognized as revenue when the outcome of the drilling can be estimated reliably and by reference to stage of completion of the drilling at the end of the reporting period. The stage of completion is assessed by reference 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 stage of completion 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 the consolidated statement of comprehensive income using the effective interest method.

**p. Finance cost**

Finance expenses comprise interest expense on borrowings including all financing arrangements. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in the consolidated statement of comprehensive income using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

**q. Post balance sheet events**

Events subsequent to the balance sheet date are reflected in the consolidated 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 year, 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.

**s. Comparatives**

Where necessary, the comparative information has been changed to agree to the current year presentation. In such a case, the nature of the reclassification; the amount of each item that is reclassified; and, the reason for the reclassification, is disclosed.

## APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

### a. New and revised IFRSs applied with no material effect on the consolidated financial statements

The following new and revised IFRSs have been adopted in these consolidated financial statements. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

	<b>Standard / Interpretation</b>	<b>Effective Date</b>
IAS 24 (revised)	Related Party Disclosure	Annual periods beginning on or after January 1, 2011*
IAS 32 Amendment	IAS 32 Financial Instrument Presentation: Classification of Rights Issues	Annual periods beginning on or after February 1, 2010*
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	Annual periods beginning on or after July 1, 2010*
11 individual amendments to 6 standards	Improvements to International Financial Reporting Standards 2010	Amendments are effective for annual periods beginning on or after July 1, 2010 or for annual periods beginning on or after January 1, 2011*

\* All Standards and Interpretations were adopted at their effective date.

#### IAS 24 (revised)

IAS 24 (as revised in 2009) has been revised in the following two respects:

- IAS 24 (as revised in 2009) has changed the definition of a related party; and
- IAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities.

The revisions to this standard were adopted by the Company in 2011. The adoption of these revisions did not have a material impact in the period of adoption.

#### IAS 32 Amendment

The amendment addresses the classification of certain right issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holders to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments. Before the amendment to IAS32, rights, options or warrants to acquire a fixed number of an entity's equity instruments for a fixed amount in foreign currency were classified as derivatives. The amendment requires retrospective application.

The amendments to this standard were adopted by the Company in 2011. The adoption of these amendments did not have a material impact in the period of adoption.

#### IFRIC 19

The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consideration paid will be recognized in profit or loss.

This interpretation was adopted by the company in 2011. The adoption of this interpretation did not have a material impact in the period of adoption.

#### Improvements to IFRS issued in 2010

The changes to these standards were adopted by the Company in 2011. The adoption of these changed standards did not have a material impact in the period of adoption.



**b. 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:

<b>Standard / Interpretation</b>		<b>Effective Date</b>
Amendment to IFRS 7	Disclosure - Transfer of Financial Assets	Annual periods beginning on or after July 1, 2011
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 Interest 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
Amendments to IAS 12	Deferred Tax - Recovery of Underlying Assets	Annual periods beginning on or after January 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
IFRIC 20	Stripping costs in the production phase of a surface mine	Annual periods beginning on or after January 1, 2013 (early adoption permitted)

IFRS 7 amendment:

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The amendments to IFRS 7 will be adopted by the Group for the first time for its financial reporting period ending 31 December 2012.

In terms of the amendments, additional disclosure will be provided regarding transfers of financial assets that are:

- not derecognized in their entirety; or
- derecognized in their entirety but for which the Group retains continuing involvement.

The Group does not believe these amendments will impact its financial reporting.

Additional disclosures will be made by the Group, as required, if the above situations arise.

IFRS 9:

IFRS 9 will be adopted by the Group for the first time for its financial reporting period ending 31 December 2015. The standard will be applied retrospectively, subject to transitional provisions. IFRS 9 addresses the initial measurement and classification of financial assets and will replace the relevant sections of IAS 39.

Under IFRS 9 there are two options in respect of classification of financial assets, namely, financial assets measured at amortized cost or at fair value. Financial assets are measured at amortized cost when the business model is to hold assets in order to collect contractual cash flows and when they give rise to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets are measured at fair value.

Embedded derivatives will no longer be separated from hybrid contracts that have a financial asset host.

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

The classification and measurement requirements of financial liabilities are the same as per IAS 39, barring the following two aspects:

- Fair value changes for financial liabilities (other than financial guarantees and loan commitments) designated at fair value through profit or loss, attributable to the changes in the credit risk of the liability will be presented in other comprehensive income (OCI). The remaining change is recognized in profit or loss. However, if the requirement creates or enlarges an accounting mismatch in profit or loss, then the whole fair value change is presented in profit or loss. The determination as to whether such presentation would create or enlarge an accounting mismatch is made on initial recognition and is not subsequently reassessed.
- Under IFRS 9 derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, are measured at fair value.

IFRS 9 (2010) incorporates the guidance in IAS 39 dealing with fair value measurement, derivatives embedded in host contracts that are not financial assets, and the requirements of IFRIC 9 *Reassessment of Embedded Derivatives*.

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

#### IFRS 10:

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation – Special Purpose Entities has been withdrawn upon the issuance of IFRS 10. Under IFRS 10, there is only one basis for consolidation, which is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

It is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted, provided IFRS 11, IFRS 12 and the related amendments to IFRS 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 11

IFRS 11 replaces IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 Jointly Controlled Entities – Non-monetary Contributions by Venturers has been withdrawn upon the issuance of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

IFRS 11 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted, provided IFRS 10, IFRS 12 and the related amendments to IFRS 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 12

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards

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

Additional disclosures will be made by the Group, as required, if the above situations arise.

### IFRS 13

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures, will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

Additional disclosures will be made by the Group, as required, if the above situations arise.

### Amendments to IAS 1

The amendments retain the option to present profit or loss and other comprehensive income either in one continuous statement or in two separate but consecutive statements.

Items of other comprehensive income are required to be grouped into those that will and will not be subsequently reclassified to profit or loss.

Tax on items of other comprehensive income is required to be allocated on the same basis.

The measurement and recognition of items of profit or loss and other comprehensive income are not affected by the amendments.

Additional disclosures will be made by the Group, as required, if the above situations arise.

### Amendments to IAS 12

The amendments to IAS 12 provide an exception to the general principles in IAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with IAS 40 Investment Property are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The amendments to IAS 12 are effective for annual periods beginning on or after 1 January 2012.

The impact on the financial statements for the Group has is unlikely to be material as the Group currently has no investment properties.

#### IAS 19 (as revised in 2011)

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the “corridor approach” permitted under the previous version of IAS 19, and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions

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

The amended disclosure requirements are intended to aid the assessment of the effect of offsetting arrangements on a company's financial position. The eligibility criteria for offsetting are different in IFRS and U.S. Generally Accepted Accounting Principles (US GAAP). Offsetting, otherwise known as netting, is the presentation of assets and liabilities as a single net amount in the statement of financial position. To address the differences between IFRSs and US GAAP offsetting criteria, new disclosure requirements enable comparison of financial statements prepared in accordance with IFRSs and US GAAP have been added to IFRS 7.

The common disclosure requirements also improve transparency in the reporting of how companies mitigate credit risk, including disclosure of related collateral pledged or received.

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.

### IFRIC 20

IFRIC 20 deals with waste removal costs that are incurred in surface mining activity during the production phase of the mine ('production stripping costs'). The Interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods.

There will be no impact on the financial statements for the Group.

### **Additional Information**

Additional information relating to Geodrill, including the Company's Annual Information Form for the most recently completed financial year, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).