

**GEODRILL LIMITED**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

***FOR THE YEAR ENDED DECEMBER 31, 2010***

Dated March 11, 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" or the "Company"). This discussion contains forward looking statements. Please see "Forward-Looking Statements", for a discussion of the risks, uncertainties and assumptions relating to these statements.

The MD&A should be read in conjunction with the audited consolidated annual financial statements of Geodrill Limited, as of December 31, 2010 and the notes thereto, which are prepared in accordance with International Financial Reporting Standards ("IFRS").

The MD&A is dated March 11, 2011. Disclosure contained in this document is current to that date unless otherwise stated.

Additional information relating to Geodrill can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Forward-Looking Statements**

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, performance, business prospects and opportunities. Often, but not always, forward looking statements 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 statements are 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 statements involve 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 statements contained in this Report. 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 statements, 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 statements prove incorrect, actual results, performance or achievements may vary materially from those expressed or implied by the forward-looking statements contained in this Report.

Forward-looking statements contained herein are made as of the date of this MD&A and the Company disclaims any obligation to update any forward-looking statements, 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 statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

## 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 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 down-time. Multipurpose rigs provide customers 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.

The Company has historically financed its growth internally by reinvesting profits into the business through the acquisition of additional drill rigs and ancillary equipment.

The Company's vertical integration and low cost operations, driven by organic growth, have resulted in total revenues of \$45,062,630 and EBITDA of \$14,303,665 being 31.7% for the fiscal year ended December 31, 2010 compared to total revenues of \$25,629,542 and EBITDA of \$8,260,672 being 32.2% for the fiscal year ended December 31, 2009. Please see "*Non-IFRS Measures*" regarding EBITDA disclosure and the reconciliation.

## Business Strategy

The Company competes with other drilling companies on the basis of price, accuracy, reliability and experience in the marketplace. Geodrill'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, while providing a competitive advantage over its peers, including:

- A Young and Modern Fleet of Drill Rigs and World Class Workshop: modern drill rigs with an average age of less than 2 years, and a centrally located world class workshop to promote customer 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 reduces down time and supplier reliance for these items.

- Local Knowledge: The Company's local 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 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.
- 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 slow down.
- 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, who collectively have over 50 years experience in the drilling industry, with a majority of those years being in West Africa.
- A Skilled and Dedicated Workforce: A favorable compensation and benefits package, coupled with the Company's commitment and track record of hiring and training permanent and contract employees, has reduced unplanned workforce turnover even during robust mining cycles.

## **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", who because of this, although the original contracts may have been for 3 to 12 months, have in effect become similar to the status of "long term clients".

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 predominately 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. Its 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.

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 centre of this development is the recognition that West Africa hosts some of the largest remaining undeveloped mineral deposits, 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 the ongoing parliamentary election and the historic threat of political instability during election periods, the Company suspended operations in Cote d'Ivoire during 2010 and redeployed its drill rigs to other contracts in Ghana and Burkina Faso. The Company is closely monitoring the political situation in Cote d'Ivoire and may re-enter Cote d'Ivoire in the near future.

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 program of the client has progressed through the 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 customer 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, renewed or renewed on favourable terms to the Company. However, on account of: (i) the robust demand for Geodrill's services with existing and potential new customers; (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 customer or contract. In 2010, no individual client accounted for more than 20% of Geodrill's revenues and the Company anticipates that four or five different clients will continue to provide approximately 75% of the Company's revenues (in approximately equal portions).

## Overall Performance of Geodrill Limited

Geodrill continues to outperform its competitors in all respects, including operational efficiency (reflected by the annual average income per rig, which at \$3 million is three times what management has determined to be the industry average of \$1 million per rig) and in financial terms (EBITDA margin for 2010 being 31.7% compared to the 2009 margin of 32.2%).

The number of drill rigs in operation has increased from 10 to 18 drilling rigs during 2010 and it is anticipated that there should be another increase of 12 additional drilling rigs in operation, being a 67% increase by the end of 2011.

For 2010, meters drilled and corresponding incomes generated from each country were:

LOCATION	TOTAL	REVENUE	%
	METERS	TOTAL (US\$ millions)	REVENUE
Ghana	276,486	27	61%
Burkina Faso	165,437	12	26%
Cote d'Ivoire	39,341	6	13%
	<b>481,265</b>	<b>45</b>	<b>100%</b>

**Note:**

Revenue generated in 2010 has been achieved with a rig fleet increasing from 10 in operation in January 2010 rising to 18 in operation at December 2010. Hence, revenue per rig, stated elsewhere in this report at approximately \$3.0 million / rig / annum is consistent with an approximate average of between 14 and 15 operational rigs throughout the year.

## Selected Annual Information

	2008 (US\$)	2009 (US\$)	2010 (US\$)
Revenue	25,326,800	25,629,542	45,062,630
Comprehensive income	4,809,319	4,019,407	5,081,863
Earnings per Ordinary Share <sup>(1)</sup>	0.16 <sup>(1)</sup>	0.13 <sup>(1)</sup>	0.17
Diluted Earnings per Ordinary Share <sup>(1)</sup>	0.16 <sup>(1)</sup>	0.13 <sup>(1)</sup>	0.16
Total assets	20,947,038	26,834,648	54,804,046
Total long-term liabilities	2,754,959	2,806,008	3,040,338
Cash dividends declared	Nil	Nil	Nil

**Note:**

(1) In anticipation of the Offering (as defined below), the directors of the Company passed a resolution on November 1, 2010 to approve the split of the ordinary shares of the Company (the "Ordinary Shares") into 30,000,000 Ordinary Shares by subdividing each Ordinary Share into 15,000,000 (1:15,000,000) Ordinary Shares of the same class. The Comprehensive income per share amount reflects takes into effect the share split. The audited financial statements showed Comprehensive income per share reflecting two issued and outstanding Ordinary Shares of \$2,404,660 per Ordinary Share in 2008 and \$2,009,704 per Ordinary Share in 2009.

## Transactions with Related Parties

Effective July 13, 2010, the Company effected a reorganization to recognize Geodrill Cote d'Ivoire SARL as part of Geodrill. The shares in Geodrill Cote d'Ivoire SARL were previously held by David Harper, President and Chief Executive Officer of the Company, the sole beneficiary of the Harper Family Settlement. Prior to the reorganization, Geodrill Cote d'Ivoire SARL was effectively managed by the officers of Geodrill.

Trans Traders Limited ("TTL") is a company owned by Redcroft Limited and Bluecroft Limited who were previously the only shareholders of Geodrill. TTL was responsible for centralised offshore procurement for Geodrill prior to May 2010. TTL ceased to be the purchasing arm of Geodrill in June 2010. During the intervening period between D.S.I. Services Limited commencing the Company's purchasing in November 2010, purchasing was undertaken between June 2010 and November 2010 individually by Geodrill Ghana and Geodrill. As of December 31, 2010 the Company had a debt owing to TTL in the amount of \$923,025. The Company expects to repay such debt, (interest which has been waived for the last quarter of 2010 and the calendar year 2011), to TTL over the next 12 months out of the cash flow generated by operations.

On October 28, 2010, the Company acquired D.S.I. Services Limited, a subsidiary company originally incorporated on September 9, 2010, situated in the British Virgin Islands. D.S.I. Services Limited commenced trading in November 2010, to act as the Company's purchasing arm.

From January 1 to December 31, 2010, Geodrill paid management fees of \$23,574 (2009 – \$14,647) to Kingston Management (Isle of Man) Ltd ("Kingston Management"). Two of the directors of Kingston Management (being John Bingham and Victoria Prentice) are also directors of Geodrill. Kingston Management is the trustee for the Harper Family Settlement.

Real property is held in Ghana through long term leases with the government authorities rather than as freehold interests. On November 1, 2010, the board of directors of Geodrill ratified, confirmed and approved a resolution passed by Geodrill Ghana Limited on September 30, 2010 declaring a dividend to its shareholder, Geodrill, of \$2,350,000, which was satisfied by the distribution of Geodrill Ghana Limited's following 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 were subsequently distributed to Geodrill's shareholders and are currently held by the Harper Family Settlement, the ultimate beneficial shareholder of the Company. K. Kyei Consultancy Services provided an independent valuation report on the properties. Each of the Company and Geodrill Ghana Limited used the September 2010 valuation report as a guideline to determine the fair market value of the real estate assets and valued the real estate assets as at September 30, 2010 at \$2,150,000, with the balance of \$200,000 being a tax provision based on the Real Estate Dividend. 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 at \$112,000 per annum and the Accra property at \$48,000 per annum. The material terms of the lease agreement include: (i) the annual rent payable shall be reviewed on an

upward only basis every two years based on the average price of two firms of real estate valuers/surveyors or real estate agents; (ii) at the end of the original five year lease term, Geodrill Ghana Limited shall have the option to renew the lease for an additional five year term with similar rent and conditions; and (iii) either party may terminate the lease agreement provided they give the other party 12 months' notice.

In July 14, 2010, the Company received the AUD\$2 million convertible loan note (the "Convertible Loan Note") from Terry Burling, the Chief Operating Officer of the Company. The Convertible Loan Note was unsecured and paid interest at a rate of 8% per annum. On closing of the Initial Public Offering and Secondary Offering (the "Offering"), the principal amount owing under the Convertible Loan Note was automatically converted into 1,976,000 Ordinary Shares to Mr. Burling on closing of the Offering.

On November 17, 2010, in order to assist the Company's working capital position in advance of the Offering, the Harper Family Settlement, the then ultimate beneficial shareholder of the Company, provided the bridge loan (the "Bridge Loan") to the Company in the amount of AUD\$2 million. The Bridge Loan paid interest at a rate of 6% per annum, was unsecured and repayable on demand. The Bridge Loan was repaid in full from the proceeds of the Offering.

The Company provides loans to its employees as an advance of the salaries payable to its employees, which are generally used by the employees to assist with sundry purchases and advance housing rental costs in Ghana. Under the rental system in Ghana, it is typical for landlords to require an advance deposit of up to three years' rent. Geodrill Ghana Limited has set up a separate account out of which these loans are made and subsequent repayments are deposited back into this account. As of December 31, 2010, the aggregate amount of employee loans outstanding was \$81,970 (2009 – \$28,091).

## **Public Offering**

On December 16, 2010, Geodrill closed its 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 was 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 has 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.



## **Disclosure of Outstanding Share Data**

As at March 11, 2011, the issued and outstanding Ordinary Shares totaled 42,476,000.

The Company granted 1,440,000 incentive stock options to Directors and Officers on the closing of the Offering.

## **Results of Operations**

### **Fiscal Year Ended December 31, 2010 compared to Fiscal Year Ended December 31, 2009**

#### **Revenue**

During the year ended December 31, 2010, the Company recorded revenue of \$45.1 million, as compared to, \$25.6 million during the year ended December 31, 2009, representing an increase of 75.8%. 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, primarily in Ghana and Burkina Faso.

Management estimates that the annual average income per drill rig is \$3 million, 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 \$22.4 million compared to \$10.3 million for the year ended December 31, 2009, being an increase of 118%.

The gross margin percentage for the year ended December 31, 2010 was 49.7% compared to 40.1% 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 \$12.2 million for the year ended December 31, 2010, compared to \$5.2 million for the year ended December 31, 2009.

Geodrill's staff costs increased from \$0.8 million in 2009 to \$5.5 million 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 labour 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 \$1.3 million in 2009 to \$1.7 million in 2010 due to the additional drill rigs acquired and additional executive travel.

Professional fees increased from \$0.5 million in 2009 to \$1.1 million in 2010 due to additional audit and legal expenses.

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

**EBITDA margin (see “Non-IFRS Measures” disclosure below)**

EBITDA for 2010 was \$14.3 million, with a margin of 31.7%, compared EBITDA in 2009 of \$8.3 million, with a margin of 32.2%. The overall EBITDA margin decreased slightly, but was generally in line with the Company’s historical EBITDA margin.

**Depreciation and Amortisation**

Depreciation and amortisation of property, plant and equipment was \$4.1 million during the year ended December 31, 2010 compared to \$3.2 million 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 their expansion.

**Net Earnings**

Net earnings were \$5.1 million for the year ended December 31, 2010, or \$0.17 per share (\$0.16 per share diluted), compared to \$4.0 million for the year ended December 31, 2009, or \$0.13 per share (\$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.

**Exchange loss**

The Company’s income is denominated in US Dollars and local currencies. The Company’s main exposure to exchange rate fluctuations arose from certain capital, revenue and wage costs and purchases denominated in other currencies.

During the year ended December 31, 2010, the Company incurred a foreign exchange loss of \$0.1 million as compared to \$0.2 million for the year ended December 31, 2009.

**Effect of Exchange Rate**

The Companies revenue was invoiced in US Dollars. The Company’s main purchases were in Australian Dollars and US Dollars, with less than 20% of the purchases in other (mainly Euros) and local currencies. Other local expenses include local purchases and wages which are paid in the local currency. Accordingly, fluctuations in the US Dollar against the Australian Dollar and local currencies did not have a significant impact on the results of the Company.

## Liquidity and Capital Resources

### *Sources of financing and Capital Resources*

The Company has historically used internally generated funds from operations and Geodrill Ghana Limited (the Company's wholly owned subsidiary) used an overdraft facility of GHC500,000 from Ecobank which is drawn upon on an as needed basis, for liquidity and working capital:

1. Capital Purchase Requirements

To purchase new rigs, to expand capacity and to maintain, rebuild existing drills plant and equipment.

2. Working Capital Requirements

As at December 31, 2010, the Company's working capital (current assets minus current liabilities) was \$15.1 million as compared to \$1.5 million as at December 31, 2009. Current liabilities totaled \$9.8 million as at December 31, 2010, as compared to \$6.4 million as at December 31, 2009 (current liabilities consists of trade and other payables, income tax liability and related party payables). The Company's working capital requirements are primarily used to fund labour costs and inventory acquisition. The Company's principal capital expenditures are the acquisition of drill rigs, auxiliary drilling equipment and vehicles to transport its staff and equipment. The Company's capital expenditures fluctuated mainly in line with capital payments for drill rig purchases and were \$17.7 million for the fiscal year ended December 31, 2010 (2009 – \$6.6 million).

The Company issued share capital in 2010 resulting in net in a net cash inflow of \$17.2 million, and the cash inflow from the Convertible Loan Note of \$2.0 million, resulting in a total inflow of \$19.2 million from the Company's Offering, in resources from the increase in issued share capital. This has and will be used for both capital and working capital expenditure requirements in 2010 and 2011.

The Company plans to incur certain capital expenditures including the acquisition of miscellaneous workshop equipment and an upgrade to the Company's information technology equipment and software. The Company anticipates that the remaining net proceeds of the Offering along with cash flow generated from operations will be sufficient to fund the Company's operations and meet current financial obligations, in respect of the new drill rigs currently in shipping and under construction and ancillary equipment.

The Company intends to fund future capital expenditures including acquisition of new drill rigs from cash generated from the Offering and operations, as it has done in the past. If required, the Company may consider other financing alternatives, including equity or debt financing.

**Cash Flow from Operating Activities**

The Company maintained a positive operating cash flow being \$9.3 million compared to \$5.9 million in 2009. Generally, cash flow from operating activities from 2009-2010 were driven mainly by a net increase in trade and other payable and receivables. However, the decrease in cash flow from operating activities in 2009 was largely caused by expected increases in cost of sales and SG&A expenses coupled with the global slowdown in demand for drilling services.

During the fiscal year 2010, the Company repaid all debt other than related party debt of \$0.9 million due to TTL, as compared to \$0.6 million as at December 31, 2009. Interest was considered as negligible in the fiscal year 2010 and 2009.

**Cash Flow from Investing Activities**

Cash flow from investing activities mainly relates to the Company’s investment in property, plant and equipment. In 2010, the Company’s investment in property, plant and equipment was \$17.7 million compared to \$6.6 million as at December 31, 2009.

**Cash Flow from Financing Activities**

There were two financing activities (see “Transactions with Related Parties”) during the year ended December 31, 2010. Terry Burling loaned the Company AUD\$2,000,000 on July 14, 2010 which converted into 1,976,000 Ordinary Shares at the closing of the Offering. The Company received a bridge loan of AUD\$2 million from Harper Family Settlement, the then ultimate beneficial owner of the Company, on November 17, 2010 in order to then assist the Company’s working capital position in advance of the Offering. The bridge loan was fully repaid in 2010. In 2009, the Company borrowed \$600,000 to finance its operations, particularly vehicle purchases. The loan was fully repaid in 2010.

Other than the Convertible Loan Note, the Bridge Loan and short-term loans and credit facilities, all of the Company’s growth has been financed from cash generated from operations.

**Contractual Obligations**

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long Term Debt	N/A	N/A	N/A	N/A	N/A
Capital Lease Obligations	N/A	N/A	N/A	N/A	N/A
Operating Leases <sup>(1)</sup>	\$800,000	\$160,000	\$320,000	\$320,000	N/A
Purchase Obligations <sup>(2)</sup>	\$8,359,281	\$8,359,281	N/A	N/A	N/A
Other Long Term Obligations	N/A	N/A	N/A	N/A	N/A
<b>Total Contractual Obligations</b>	<b>\$9,159,281</b>	<b>\$8,519,281</b>	<b>\$320,000</b>	<b>\$320,000</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 drilling rigs and tractor bases.

## Fourth Quarter

	<b>Three Months Ended December 31, 2010 (US\$)</b>
Revenue	11,582,977
Cost of sales	(2,769,482)
<b>Gross profit</b>	<b>8,813,495</b>
Other income	-
Selling, general and administrative expenses	(6,377,011)
<b>Results from operating activities</b>	<b>2,436,484</b>
Net finance costs	(1,804,797)
<b>Profit before taxation</b>	<b>631,687</b>
Income tax	(1,217,832)
<b>Comprehensive loss</b>	<b>(586,145)</b>

Revenues for the fourth quarter of 2010 increased from the previous year's fourth quarter due to the additional drill rigs being deployed and a significant increase in new drilling contracts. Some of the cost of sales expenses were reclassified to SG&A expenses, which is a reason that the cost of sales have decreased from the previous year. SG&A expenses increased significantly due to additional staff being required in the fourth quarter to assist with the new drill rigs, additional audit and legal fees, and the appointment of a board of directors for corporate direction and governance. Net finance costs were impacted significantly in the fourth quarter of 2010 due to the fair value calculation of the share-based payment expense in relation to conversion of the Convertible Loan Note into 1,976,000 Ordinary Shares (fair value of \$2 million). Income tax expense was higher in the fourth quarter as the Company captured the balance of deferred taxes for 2010 in the last quarter.

## Adoption of New Accounting Standards

### New Standards and Interpretations not yet adopted

At the date of authorisation of the financial statements for the year ended 31 December 2010 the following standards and interpretations, which are applicable to the Company, were in issue but not yet effective:

Standard/Interpretation		Effective date
IAS 24 (revised)	<i>Related Party Disclosures</i>	Annual periods beginning on or after January 1, 2011*
IAS 32 amendment	<i>IAS 32 Financial Instruments: Presentation: Classification of Rights Issues</i>	Annual periods beginning on or after February 1, 2010*

11 individual amendments to 6 standards	<i>Improvements to International Financial Reporting Standards 2010</i>	Amendments are effective for annual periods beginning on or after July 1, 2010 or for annual periods beginning on or after January 1, 2011*
IFRS 7 amendment	<i>Disclosures – Transfers of Financial Assets</i>	Annual periods beginning on or after July 1, 2011*
IFRS 9	<i>Financial Instruments</i>	Annual periods beginning on or after January 1, 2013*
IFRS 9	<i>Additions to IFRS 9 Financial Instruments</i>	Annual periods beginning on or after January 1, 2013*
IFRIC 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>	Annual periods beginning on or after July 1, 2010*

\* All standards and interpretations will be adopted at their effective date.

The directors are of the opinion that the impact of the application of the Standards and Interpretations will be as follows:

IAS 24 (revised):

IAS 24 (revised) will be adopted by the Company for the first time for its financial reporting period ending December 31, 2011. The standard will be applied retrospectively.

IAS 24 (revised) addresses the disclosure requirements in respect of related parties, with the main changes relating to the definition of a related party and disclosure requirements by government-related entities.

The change in the definition of a related party will not result in any new related party relationships being identified by the Company.

IAS 32 amendment:

The amendment to IAS 32 will be adopted by the Company for the first time for its financial reporting period ending December 31, 2011.

IAS 32 requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants *pro rata* to all of its existing owners of the same class of its own non-derivative equity instruments.

The impact on the financial statements for the Company has not yet been estimated.

Improvements to IFRS 2010:

If an improvement will be material to an entity in the first period of adoption, disclosure of this amendment will be made.

The impact on the financial statements for the Company has not yet been estimated.

IFRS 7 amendment:

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

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

- not derecognised in their entirety; and
- derecognised in their entirety but for which the Company retains continuing involvement.

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

IFRS 9:

IFRS 9 will be adopted by the Company for the first time for its financial reporting period ending December 31, 2013. 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 amortised cost or at fair value. Financial assets are measured at amortised 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 are no longer separated from hybrid contracts that have a financial asset host.

The impact on the financial statements for the Company has not yet been estimated.

Additions to IFRS 9:

The additions to IFRS 9 will be adopted by the Company for the first time for its financial reporting period ending December 31, 2013. The standard will be applied retrospectively, subject to transitional provisions.

Under IFRS 9 (2010), 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 recognised 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 (2010) 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 Company has not yet been estimated.

#### IFRIC 19:

IFRIC 19 will be adopted by the Company for the first time for its financial reporting period ending December 31, 2011. The standard will be applied retrospectively.

IFRIC 19 addresses the accounting treatment for the extinguishment of financial liabilities with equity instruments.

Under IFRIC 19 (AC 452), equity instruments issued to a creditor to extinguish all or part of a financial liability would represent "consideration paid". The equity instruments will be measured on initial measurement at their fair value, unless such fair value cannot be reliably measured, in which case the fair value of the financial liability will be used. The difference between the carrying amount of the financial liability (or part thereof) extinguished and the initial measurement amount of the equity instruments shall be recognised in profit or loss.

The impact on the financial statements for the Company has not yet been estimated

### **Critical Accounting Estimates**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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



### ***Income taxes***

The Company is subject to income tax in the countries where they operate in and significant judgment is required in determining the provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Company recognises tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognised when, despite the Company's belief that its tax return positions are supportable, the Company believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. The Company believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

Local tax law in one or more of the jurisdictions that the Company operates in provides for accelerated capital allowances on property, plant and equipment in the determination of total tax payable. Deferred tax is recognised in respect of the resultant temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date.

### ***Useful lives of property, plant & equipment***

The depreciation methods, estimated useful lives and residual values of property, plant and equipment are reassessed at each reporting date. The Company depreciates its assets over their estimated useful lives, as more fully described in the accounting policies for property, plant and equipment. The actual lives of these assets and residual values can vary depending on a variety of factors, including technological innovation and maintenance programmes. Changes in estimates can result in significant variations in the carrying value and amounts charged to the income statement in specific periods.

### ***Impairment of property, plant & equipment***

The Company's property, plant and equipment is reviewed at each reporting date to determine whether there is an indication of impairment. If any such indication exists, the assets recoverable amount is estimated. The recoverable amount of the cash-generating units is based on value-in-use calculations. These calculations requires an estimation of the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. Changes in these estimates can result in significant variations in the carrying value and amounts charged to the income statement in specific periods.

### ***Revenue – Drilling Revenue***

Revenue from the provision of drilling services is measured at the fair value of the consideration received or receivable, net of discounts and value added taxes. Drilling income for all types of drilling services is recognised 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 Company
- the stage of completion of the drilling service at the end of the reporting period can be measured reliably
- the costs incurred for and to complete the drilling can be measured reliably

### ***Determination of Fair Values***

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

**Trade and other receivables:** The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the current market rate of instruments with similar credit risk profile and maturity at the reporting date. Receivables, all due within 60 were not discounted as the carrying values approximate their fair values.

**Cash and cash equivalents:** The fair value of cash and cash equivalents approximate their carrying values.

**Non-derivative financial liabilities:** Fair value, which is determined for disclosure purposes, is calculated on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. Instruments with maturity period of six months are not discounted as their carrying values approximate their fair values.

**Share-based payment transactions:** The fair value of the employee share options is measured using the Black-Scholes formula. Measurement inputs include the share price on the measurement date, exercise price of the instrument, expected volatility (based on an evaluation of similar entities' volatility, particularly over the historic period commensurate with the expected term), expected term of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

## Outlook

The Company views the industry dynamics underlying demand for its services to be favourable and, accordingly, has added significantly to its capacity through the acquisition of additional drill rigs. All of the Company's drill rigs are at December 31, 2010, currently committed to contracts, with all 18 of the Company's drill rigs commissioned and being utilized on client sites. The Company expects that the six drill rigs currently in transit will arrive in Ghana and be operational by the end of March 2011. The Company also ordered six additional drill rigs, and expects that those six drill rigs operational and in the field by the end of 2011.

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

Make - Model	Type	No. of Rigs	Currently in Operation	No. of Rigs	Planned to be Operational by March 31, 2011	No. of Rigs	Planned To be Operational by December 31, 2011
UDR – 650	Multipurpose	2	1 × 2003 1 × 1993				
UDR – KL900	Multipurpose	4	1 × 2007 1 × 2003 1 × 1999 1 × 1998				
Sandvik – DE820	Multipurpose	4	1 × 2010 3 × 2008				
EDM – 2000	Multipurpose			2	2 × 2011		
Austex – X900	Multipurpose			1	1 × 2011	5	5 × 2011
Sandvik – DE710	Core	6	5 × 2010 1 × 2009	2	2 × 2011		
Austex – X300	Air-Core	2	2 × 2010	1	1 × 2011	1	1 × 2011
<b>Total Drill Rigs</b>		<b>18</b>		<b>6</b>		<b>6</b>	

The Company plans to place all drill rigs with existing clients who are currently under-serviced and to use any additional capacity to bid on additional contract opportunities. Management expects that this strategy of organic growth will allow Geodrill to better service existing clients as well as to expand its current client base while increasing overall meters drilled. The Company will continue the growth strategy across the two countries in which it currently operates, while continuing to assess expansion opportunities throughout West Africa and other jurisdictions of Africa to meet growing demand for its services and expertise. Geodrill believes that its young and modern fleet of drill rigs with an average age of less than 2 years promotes customer satisfaction through reliable operational performance.

## **Risk Factors**

The following are certain factors according to the Company's business and Industry within which it operates. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing in this MD&A and in the Company's final prospectus dated December 9, 2010 under the heading "Risk Factors". These risks are not the only 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 of the Company could be materially adversely effected.

### **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 the drilling 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, fluctuation 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 from Geodrill's customers 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 a major influence on the Company's clients' activity levels and planned expenditures. Gold and base metal prices are currently at levels well above historical averages. Strong commodities market conditions have led to an increased supply of drilling rigs to the market. In the event of a sustained decrease in demand, the market may be oversupplied with drilling 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 customers to obtain equity or debt financing in the future on terms that are favourable. 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 and 2010, 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 costs are 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 is currently largely dependent on the performance of management and, in particular, David Harper, Terry Burling and Ian Lacey. The Company's lean management structure may be strained as the Company pursues growth opportunities in the future as well as meets the additional 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.

### ***Ongoing integration of business systems***

The Company is installing an enterprise resource planning system including new financial, inventory, 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 labour 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 Labour 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 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 customers 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 equipments, 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 Customers 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 six additional drill rigs being operational by the end of the first quarter of 2011 and six additional rigs becoming operational before December 31, 2011. 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.

#### ***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 likely will 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.

### ***Customer Contracts***

The Company's drilling customer contracts are typically for a term of three months to one year and can be cancelled by the customer 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 customers. 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.

### ***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 for 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, Labour 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 labour 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 labour problems in the future, such as prolonged work stoppages due to labour 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. However, 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 affect 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, labour 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 customer 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) 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 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 jurisdiction may attempt to claim tax on the global revenues of the Company. A change to the tax regimes in these countries or an unfavourable 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 customers in the normal course of its operations. As at December 31, 2010, 100% of the trade accounts receivable are aged as less than 60 days and none are considered to be impaired.

One major customer represents 17% of the trade accounts receivable as at December 31, 2010. Major customers represented 16%, 15%, 15%, 12% respectively. The balance all 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.

### **Fair Value**

The fair values of cash, accounts receivable, accounts payable and accrued liabilities is approximately equal to their carrying values due to their short-term maturity period.

### ***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.

### ***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.

### ***Difficulty Enforcing Judgments and Effecting Service of Process***

Some of the directors and officers of Geodrill and Shareholders and some of the experts named in this prospectus reside outside of Canada. Some or all of the assets of those persons and Geodrill may be located outside of Canada. Furthermore, Geodrill and its subsidiaries are incorporated under the laws of a foreign jurisdiction and each resides outside of Canada. Although Geodrill has appointed Cassels Brock & Blackwell LLP, Suite 2100, Scotia Plaza, 40 King Street West, Toronto, Ontario, M5H 3C2, Canada as its respective agent for service of process in Canada, it may not be possible for investors to collect from Geodrill or to enforce judgments obtained in Canadian courts predicated upon the civil liability provisions of applicable Canadian securities laws against Geodrill its Shareholders and any of their respective directors and officers and certain of the experts. Moreover, it may not be possible for investors to effect service of process within Canada upon the parties referred to above.

### ***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 shareholders holds or controls, directly or indirectly, 17,500,000 Ordinary Shares representing approximately 41.23% of the Company's issued Ordinary Shares. As a result, the Harper Family Settlement will have the ability to affect the control of 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 affect 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.

## **Non-IFRS Measures**

EBITDA is defined as Earnings before Interest, Taxes, Depreciation, and Amortisation 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 Company's 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 they 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 (and the reconciliation is also disclosed in note 27 of the Company's financial statements for the year ended December 31, 2010):

	<b>Year ended December 31, 2010 (US\$)</b>	<b>Year ended December 31, 2009 (US\$)</b>
Results from operating activities	10,242,495	5,109,406
Add back: depreciation and amortisation	4,061,170	3,151,266
<b>Earnings before interest, taxation, depreciation and amortisation (EBIDTA)</b>	<b>14,303,665</b>	<b>8,260,672</b>

### **Additional Information**

Additional information relating to the Company, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).