

**GEODRILL LIMITED**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2018**

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

This MD&A is a review of activities and results for the three and nine months ended September 30, 2018 as compared to the corresponding period in the previous year and should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three and nine months ended September 30, 2018, and also in conjunction with the audited annual consolidated financial statements and corresponding MD&A for the year ended December 31, 2017.

This MD&A is dated November 12, 2018. Disclosure contained in this document is current to that date unless otherwise stated.

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

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

**FORWARD-LOOKING INFORMATION**

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

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

Forward-looking information contained herein is made as of the date of this MD&A and the Company disclaims any obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise, except as required by law. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information.

## **Corporate Overview**

Geodrill operates a fleet of Multi-Purpose, Core, Air-Core, Grade Control and Underground drill rigs. The multi-purpose 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. Multi-purpose 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 workshops and supply bases at Anwiankwanta, near Kumasi, Ghana, at Ouagadougou, Burkina Faso, at Bouake, Cote d’Ivoire and at Bamako, Mali provide centralized locations for storage of inventory, equipment and supplies, which in turn minimizes trucking, shipping and supply costs and allows the rigs and inventory to be mobilized to drill sites with minimal delay. The Company has leased a plot of land consisting of a warehouse, workshop and offices in Chingola, Zambia. The Company uses its Zambian facility to support its drilling activity in Zambia and as a base to expand into the African Copperbelt.

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

## **Business Strategy**

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

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

- **Business Development:** The Company continually improves its operations including the following recent and ongoing developments:

A strengthening of the Company’s geographic footprint as the Company has increased its strong presence in West Africa in four primary countries being Ghana, Burkina Faso, Cote d’Ivoire and Mali, and the Company is operating in the African Copperbelt in Zambia.

- **A Modern Fleet of Drill Rigs and World Class Workshops:** The Company has accumulated modern state-of-the-art drilling rigs, and established centrally located world class workshops to promote client satisfaction through reliable operational performance. In addition, within the workshop in Ghana, is a manufacturing facility with the capacity to produce ancillary equipment such as RC drill

rods and RC wire-line drill subs in-house, reducing downtime and reliance on suppliers for these items.

- **Establishing, building and maintaining long-standing relationships with customers:** The Company has strong client relationships. Typically, a longer term client relationship of the Company originally commenced as a short term drill contract won under competitive bidding process, which has been continually renewed as the respective drilling program of the client has progressed through various phases.
- **Support of well-established international and local vendors:** The Company has maintained long standing relationships with international vendors in Australia, Europe, North America and China and has also been supported in West Africa and Zambia by local branches of these suppliers and other local suppliers.
- **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 and the African Copperbelt:** 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 workshops further reduce downtime, as the Company can fairly quickly reach most of its current customer sites.
- **An Active and Experienced Management** Geodrill is led by Dave Harper, President and Chief Executive Officer, Terry Burling, Chief Operating Officer, Greg Borsk, Chief Financial Officer and Greig Rodger, Executive General Manager. This group is also supported by: Stephan Rodrigue, Business Development Manager and Don Seguin, Health, Safety and Environmental ("HSE") Manager.
- **A Skilled and Dedicated Workforce:** A favorable compensation and benefits package, coupled with the Company's track record of quality hiring and commitment to frequent, relevant continuous training programs for both permanent and contract employees, has reduced unplanned workforce turnover even during robust mining cycles. This has also increased efficiency and productivity, ensuring the availability and continuity of a skilled labor force.
- **Maintaining a high level of safety standards to protect its people and the environment:** The Company's HSE Group oversees the design, implementation, monitoring and evaluation of the Company's HSE standards, which standards are generally considered to be stringent standards for drilling firms globally and are higher than what is currently required in all local markets in which Geodrill currently operates. Every aspect of Geodrill's operations is designed to meet the highest HSE standards and includes induction meetings, at least one safety meeting per work site, including non-exploration work sites, regular safety audits and detailed investigations of incidents.
- **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 and the African Copperbelt.

## Market Participants and Geodrill's Client Base

The Company's client base is in Ghana, Burkina Faso, Cote d'Ivoire, Mali and Zambia. For the third quarter of 2018, Ghana accounted for 51% of the Company's revenue and Burkina Faso, Cote d'Ivoire, Mali and Zambia collectively accounted for 49% of the Company's revenue, compared to 50% for Ghana and 50% for Burkina Faso, Cote d'Ivoire, Mali and Zambia collectively in the third quarter of 2017.

Management's plans include continuing to add new clients in West Africa where gold is the primary mineral and adding new clients in the African Copperbelt where copper is the primary mineral. The Company will, however, take advantage of opportunities in other minerals, including lithium, iron ore, manganese, uranium and phosphate. In addition, the proximity to countries such as Senegal, Mauritania, Liberia, Sierra Leone, Nigeria and Cameroon positions the Company favorably in its ability to service these markets as well, if it so chooses. The Company's drilling focus is still predominately on gold and is still predominately in Ghana, Burkina Faso, Cote d'Ivoire and Mali, however, the Company has also been drilling for copper in Zambia.

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

For the three months ended September 30, 2018, two customers individually contributed 10% or more to the Company's revenue. One customer contributed 21% and one customer contributed 12%.

For the three months ended September 30, 2017, one customer individually contributed 10% or more to the Group's revenue. That customer contributed 16%.

## OUTSTANDING SECURITIES AS OF NOVEMBER 12, 2018

The Company is authorized to issue an unlimited number of Ordinary Shares. As of November 12, 2018, the Company has the following securities outstanding:

Number of Ordinary Shares	43,574,500
Number of Options	<u>3,931,600</u>
Fully Diluted	<u>47,506,100</u>

From January 1, 2018 to November 12, 2018, a total of 110,000 options were issued and 335,000 options were exercised. The Company implemented its Normal Course Issuer Bid ("NCIB") on June 5, 2018 and from June 5, 2018 to November 12, 2018 a total of 60,900 shares were repurchased and cancelled under the NCIB.

## OVERALL PERFORMANCE

### Revenue Per Country

Location	Three months ended				Nine months ended			
	Sep 30 2018		Sep 30 2017		Sep 30 2018		Sep 30 2017	
	US\$ 000s	%	US\$ 000s	%	US\$ 000s	%	US\$ 000s	%
Ghana	8,490	51%	10,480	50%	26,005	38%	28,140	45%
Burkina Faso and other	8,120 <sup>(1)</sup>	49%	10,352 <sup>(1)</sup>	50%	42,138 <sup>(1)</sup>	62%	33,865 <sup>(1)</sup>	55%
	16,610	100%	20,832	100%	68,143	100%	62,005	100%

<sup>(1)</sup> Included in Burkina Faso and other is Burkina Faso, Cote d'Ivoire, Mali and Zambia.

### Meters Drilled Per Country

Location	Three months ended				Nine months ended			
	Sep 30 2018		Sep 30 2017		Sep 30 2018		Sep 30 2017	
		%		%		%		%
Ghana	110,267	55%	94,389	45%	336,328	37%	275,692	37%
Burkina Faso and other	89,690 <sup>(1)</sup>	45%	113,384 <sup>(1)</sup>	55%	569,446 <sup>(1)</sup>	63%	460,199 <sup>(1)</sup>	63%
	199,957	100%	207,773	100%	905,774	100%	735,891	100%

<sup>(1)</sup> Included in Burkina Faso and other is Burkina Faso, Cote d'Ivoire, Mali and Zambia.

The Company generated revenue of US\$16.6M in the third quarter of 2018, a decrease of US\$4.2M or 20% when compared to US\$20.8M in the third quarter of 2017. This was due primarily to the prolonged wet season which delayed rigs being deployed to drilling projects. While meters drilled in the third quarter only decreased by 4% (Q3 2018 totaled 199,957 meters versus 207,773 meters drilled in the Q3 2017), revenue reduced by 20% as a result of the mix of meters drilled. The Company drilled more lower cost grade control meters and less higher cost RC and Core meters in Q3 2018 versus Q3 2017. Within the core meters drilled, approximately 28% were underground core meters and 72% were surface core meters. In Q3 2017, the Company had an extremely strong quarter due to the milder wet season and was able to generate revenue of US\$20.8M in the quarter. Furthermore, increased competition in West Africa has led to pressure on pricing. While the Company has operated in West Africa for 20 years and has invested a significant amount of capital into its drill fleet operating in the region with advantages in the form of experience in the market place, accuracy, reliability and safety, pricing still remains a key factor in the awarding of contracts.

The gross profit for the third quarter of 2018 was US\$5.1M, being 31% of revenue compared to a gross profit of US\$9.7M, being 47% of revenue for the third quarter of 2017. The gross profit decrease reflects the decrease in revenue of US\$4.2M and the increase in cost of sales of US\$0.4M. See "Supplementary Disclosure – Non IFRS Measures" on page 17.

EBITDA (as defined herein) for the third quarter of 2018 was (US\$1.0)M, being (6)% of revenue compared to US\$5.0M, being 24% of revenue for the third quarter of 2017. See "Supplementary Disclosure – Non-IFRS Measures" on page 17.

The EBIT (as defined herein) for the third quarter of 2018 was (US\$2.7)M, compared to US\$3.4M for the third quarter of 2017. See "Supplementary Disclosure - Non - IFRS Measures" on page 17.

The net loss for the third quarter of 2018 was US\$3.5M or US\$0.08 per Ordinary Share (US\$0.08 per Ordinary Share fully diluted), compared to net income of US\$2.6M for the third quarter of 2017 or US\$0.06 per Ordinary Share (US\$0.06 per Ordinary Share fully diluted).

## SELECTED FINANCIAL INFORMATION

(in US\$ 000's)	<u>Three Months Ended</u>		<u>% Change</u>	<u>Nine Months Ended</u>		<u>% Change</u>
	Sep 30 2018	Sep 30 2017		Sep 30 2018	Sep 30 2017	
<b>Revenue</b>	<b>16,610</b>	<b>20,832</b>	<b>(20%)</b>	<b>68,143</b>	<b>62,005</b>	<b>10%</b>
<b>Cost of Sales</b>	<b>11,463</b>	<b>11,110</b>	<b>3%</b>	<b>38,818</b>	<b>35,528</b>	<b>9%</b>
<i>Cost of Sales (%)</i>	69%	53%		57%	57%	
<b>Gross Profit</b>	<b>5,147</b>	<b>9,722</b>	<b>(47%)</b>	<b>29,325</b>	<b>26,477</b>	<b>11%</b>
<i>Gross Profit Margin (%)</i>	31%	47%		43%	43%	
<b>Selling, General and Administrative Expenses</b>	<b>7,887</b>	<b>6,018</b>	<b>31%</b>	<b>22,293</b>	<b>17,921</b>	<b>24%</b>
<i>Selling, General and Administrative Expenses (%)</i>	47%	29%		33%	29%	
<b>Foreign Exchange (Gain) / Loss</b>	<b>(85)</b>	<b>311</b>		<b>(275)</b>	<b>339</b>	
<b>(Loss) / Income from Operating Activities</b>	<b>(2,655)</b>	<b>3,393</b>	<b>(178%)</b>	<b>7,307</b>	<b>8,217</b>	<b>(11%)</b>
<i>(Loss) / Income from Operating Activities (%)</i>	(16%)	16%		11%	13%	
<b>Finance Income</b>	<b>3</b>	<b>1</b>		<b>7</b>	<b>1</b>	
<b>EBIT*</b>	<b>(2,652)</b>	<b>3,394</b>	<b>(178%)</b>	<b>7,314</b>	<b>8,218</b>	<b>(11%)</b>
<i>EBIT (%)</i>	(16%)	16%		11%	13%	
<b>Finance Cost</b>	<b>149</b>	<b>127</b>		<b>392</b>	<b>400</b>	
<i>Finance Cost (%)</i>	1%	1%		1%	1%	
<b>(Loss) / Profit Before Taxation</b>	<b>(2,801)</b>	<b>3,267</b>	<b>(186%)</b>	<b>6,922</b>	<b>7,818</b>	<b>(11%)</b>
<i>(Loss) / Profit Before Taxation (%)</i>	(17%)	16%		10%	13%	
<b>Income Tax Expense</b>	<b>667</b>	<b>659</b>		<b>6,646</b>	<b>2,815</b>	
<i>Income Tax Expense (%)</i>	4%	3%		10%	5%	
<b>Net (loss) / income</b>	<b>(3,468)</b>	<b>2,608</b>	<b>(233%)</b>	<b>276</b>	<b>5,003</b>	<b>(94%)</b>
<i>Net (loss) / Income (%)</i>	(21%)	13%		0%	8%	
<b>EBITDA **</b>	<b>(965)</b>	<b>4,955</b>		<b>12,134</b>	<b>13,330</b>	
<i>EBITDA (%)</i>	(6%)	24%		18%	21%	
<b>Meters Drilled</b>	<b>199,957</b>	<b>207,773</b>	<b>(4%)</b>	<b>905,774</b>	<b>735,891</b>	<b>23%</b>
<b>(Loss)/Earnings Per Share</b>						
<b>Basic</b>	<b>(0.08)</b>	<b>0.06</b>		<b>0.01</b>	<b>0.12</b>	
<b>Diluted</b>	<b>(0.08)</b>	<b>0.06</b>		<b>0.01</b>	<b>0.11</b>	
<b>Total Assets</b>	<b>86,082</b>	<b>83,294</b>		<b>86,082</b>	<b>83,294</b>	
<b>Total Long - Term Liabilities</b>	<b>4,330</b>	<b>982</b>		<b>4,330</b>	<b>982</b>	
<b>Cash Dividend Declared</b>	<b>NIL</b>	<b>NIL</b>		<b>NIL</b>	<b>NIL</b>	

\*EBIT = Earnings before interest and taxes

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

See "Supplementary Disclosure Non IFRS Measures" on page 17

## RESULTS OF OPERATIONS

### THREE MONTHS ENDED SEPTEMBER 30, 2018 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2017

#### Revenue

The Company recorded revenue of US\$16.6M for the third quarter of 2018, as compared to US\$20.8M for the third quarter of 2017, representing a decrease of 20%. The decrease in revenue is largely attributable to the decrease in meters drilled due to the slowing down of operations in Burkina Faso, Ivory Coast and Mali as a result of the wet season, the change in the mix of meters drilled, the impact of highly efficient jobs in Q3 2017 and certain large multi-rig jobs being front loaded in the first half of 2018. The total meters drilled decreased by 4% for the third quarter of 2018 compared to the third quarter of 2017. Specifically, the mix of meters also contributed to the decrease in revenue. The Company drilled more grade control meters in Q3 2018 versus Q3 2017 and less RC and Core meters in Q3 2018 versus Q3 2017. The percentage of meters drilled for the third quarter of 2018 can be broken down as to:

Meter Type Percentages	Three months ended	
	Sep 30 2018	Sep 30 2017
Grade control	37%	24%
RC	34%	38%
Surface core	17%	25%
Underground core	7%	0%
Air core	5%	12%
Water bore	0%	1%
	100%	100%

#### Cost of Sales and Gross Profit

The cost of sales for the third quarter of 2018 was US\$11.5M, compared to cost of sales of US\$11.1M for the third quarter of 2017, being an increase of US\$0.4M.

The increase in cost of sales for the third quarter of 2018 as compared to the third quarter of 2017 of US\$0.4M reflects the following:

- Drill rig expenses and fuel costs increased by US\$0.1M. The reason for the increase was that in Q3 2017 the cost to drill certain types of meter for certain jobs was extremely efficient.
- Wages, employee benefits, external services, contractors and other expenses decreased by US\$0.2M due to less workers being employed throughout the Company in conjunction with the decrease in drilling activity.
- Depreciation expense increased by US\$0.1M relating to the large amount of investment in the Company's drill rigs and plant and equipment now being depreciated.
- Repairs and maintenance costs increased by US\$0.4M as more repairs were completed on the Company's drill rigs and plant and equipment.



The gross profit for the third quarter of 2018 was US\$5.1M, compared to a gross profit of US\$9.7M for the third quarter of 2017, being a decrease of US\$4.6M. The gross profit percentage for the third quarter of 2018 was 31% compared to 47% for the third quarter of 2017.

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

SG&A expenses were US\$7.9M for the third quarter of 2018, compared to US\$6.0M for the third quarter of 2017, being an increase of US\$1.9M.

The increase in SG&A expenses for the third quarter of 2018 as compared to the third quarter of 2017 of US\$1.9M reflects the following:

- Wages, employee benefits, external services, contractors and other expenses increased by US\$0.9M. The increase reflects the additional services undertaken by the Company. The Company believes that increasing its workforce and ensuring its workshop and stores are fully staffed and spending on health and safety, training, systems and support employees will better position the Company as it continues to grow, despite the slow quarter.
- Provision for doubtful accounts increased by US\$0.9M due to a provision being made in the quarter against a specific trade receivable in the amount of US\$0.8M and an increase being recorded in the quarter of US\$0.1M in relation to the adoption of IFRS 9.
- Repairs and maintenance increased by US\$0.1M as more repairs were completed on the Company’s motor vehicles.

### **(Loss)/Income from Operating Activities**

Loss from operating activities (after cost of sales, SG&A expenses and foreign exchange gain or loss) for the third quarter of 2018 was US\$2.7M, as compared to the income of US\$3.4M for the third quarter of 2017.

### **EBITDA Margin (see “Supplementary Disclosure – Non-IFRS Measures” on page 17)**

EBITDA margin for the third quarter of 2018 was (6)% compared to 24% for the third quarter of 2017.

### **EBIT Margin (see “Supplementary Disclosure – Non-IFRS Measures” on page 17)**

EBIT margin for the third quarter of 2018 was (16)% compared to 16% for the third quarter of 2017.

### **Depreciation**

Depreciation of property, plant and equipment for the third quarter of 2018 was US\$1.7M (US\$1.5M in cost of sales and US\$0.2M in SG&A) compared to US\$1.6M (US\$1.4M in cost of sales and US\$0.2M in SG&A) for the third quarter of 2017.

### **Income Tax Expense**

Income tax expense was US\$0.7M for both the third quarter of 2018 and the third quarter of 2017. The income tax expense of US\$0.7M in Q3 2018 is comprised of the current tax expense from withholding tax on revenue of US\$0.9M offset by a deferred tax recovery of US\$0.2M relating to tax values being greater than tax losses.

## Net (Loss) / Income

The net loss was US\$3.5M for the third quarter of 2018, or US\$0.08 per Ordinary Share (US\$0.08 per Ordinary Share fully diluted), compared to net income of US\$2.6M, for the third quarter of 2017, or US\$0.06 per Ordinary Share (US\$0.06 per Ordinary Share fully diluted).

## NINE MONTHS ENDED SEPTEMBER 30, 2018 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2017

### Revenue

The Company recorded revenue of US\$68.1M for the nine months ended September 30, 2018, as compared to US\$62.0M for the nine months ended September 30, 2017, representing an increase of 10%. The increase in revenue is largely attributable to the strong demand for the Company's services. The Company has made a significant investment of US\$28.4M in property, plant and equipment since 2015, which has resulted in the Company increasing its capacity to meet the growing demand for its drilling services. In addition to expanding its rig fleet, the Company has also been successful in expanding its client base to include a mix of majors, intermediates and juniors which has contributed to the increase in overall drilling activity and a well balanced mix of drilling services. The total meters drilled increased by 23% for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017. The percentage of meters drilled for the nine months ended September 30, 2018 can be broken down as to:

Meter Type Percentages	Nine months ended	
	Sep 30 2018	Sep 30 2017
RC	42%	41%
Grade control	26%	24%
Air core	15%	14%
Surface core	14%	21%
Underground core	3%	0%
	100%	100%

### Cost of Sales and Gross Profit

The cost of sales for the nine months ended September 30, 2018 was US\$38.8M, compared to cost of sales of US\$35.5M for the nine months ended September 30, 2017, being an increase of US\$3.3M.

The increase in cost of sales for the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017 of US\$3.3M reflects the following:

- Wages, employee benefits, external services, contractors and other expenses increased by US\$2.5M due to more workers being employed throughout the Company in conjunction with the increased drilling activity.
- Drill rig expenses and fuel costs increased by US\$0.7M in conjunction with the increase in revenue and the increase in meters drilled.

- Repairs and maintenance increased by US\$0.4M as more repairs were completed on the Company's drill rigs and plant and equipment.
- Depreciation expense decreased by US\$0.3M relating to a greater proportion of the Company's drill rigs and plant and equipment being fully depreciated.

The gross profit for the nine months ended September 30, 2018 was US\$29.3M, compared to a gross profit of US\$26.5M for the nine months ended September 30, 2017, being an increase of US\$2.8M. The gross profit percentage was 43% for both the nine months ended September 30, 2018 and the nine months ended September 30, 2017.

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

SG&A expenses were US\$22.3M for the nine months ended September 30, 2018, compared to US\$17.9M for the nine months ended September 30, 2017, being an increase of US\$4.4M.

The increase in SG&A expenses for the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017 of US\$4.4M reflects the following:

- Wages, employee benefits, external services, contractors and other expenses increased by US\$3.7M. The increase reflects the additional services undertaken by the Company to support the increased level of activity the Company has been experiencing. The Company believes that increasing its workforce and ensuring its workshop and stores are fully staffed and spending on health and safety, training, systems and support employees will better position the Company as it continues to grow.
- Provision for doubtful accounts increased by US\$0.4M due to a provision of US\$0.9M being made in the nine months ended September 30, 2018 against a specific trade receivable and the increase in the provision for life time credit losses versus a provision being made in the nine months to September 30, 2017 of US\$0.5M against a specific trade receivable.
- Repairs and maintenance increased by US\$0.3M as more repairs were completed on the Company's motor vehicles.

### **Income from Operating Activities**

Income from operating activities (after cost of sales, SG&A expenses and foreign exchange gain or loss) for the nine months ended September 30, 2018 was US\$7.3M, as compared to US\$8.2M for the nine months ended September 30, 2017.

### **EBITDA Margin (see “Supplementary Disclosure – Non-IFRS Measures” on page 17)**

EBITDA margin for the nine months ended September 30, 2018 was 18% compared to 21% for the nine months ended September 30, 2017.

### **EBIT Margin (see “Supplementary Disclosure – Non-IFRS Measures” on page 17)**

EBIT margin for the nine months ended September 30, 2018 was 11% compared to 13% for the nine months ended September 30, 2017.

## Depreciation

Depreciation of property, plant and equipment for the nine months ended September 30, 2018 was US\$4.8M (US\$4.3M in cost of sales and US\$0.5M in SG&A) compared to US\$5.1M (US\$4.6M in cost of sales and US\$0.5M in SG&A) for the nine months ended September 30, 2017.

## Income Tax Expense

Income tax expense was US\$6.6M for the nine months ended September 30, 2018 compared to income tax expense of US\$2.8M for the nine months ended September 30, 2017. The current tax expense from withholding tax on revenue and dividends amounted to US\$5.2M, the current tax expense relating to tax on taxable income amounted to US\$1.1M and the deferred tax expense amounted to US\$0.3M.

## Net Income

The net income was US\$0.3M for the nine months ended September 30, 2018, or US\$0.01 per Ordinary Share (US\$0.01 per Ordinary Share fully diluted), compared to US\$5.0M, for the nine months ended September 30, 2017, or US\$0.12 per Ordinary Share (US\$0.11 per Ordinary Share fully diluted).

## SUMMARY OF QUARTERLY RESULTS

(in US\$ 000s)	2018			2017			2016	
	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Revenue	16,610	27,280	24,252	20,609	20,832	22,621	18,553	18,774
Revenue (Decrease)/Increase %	(39%)	12%	18%	(1%)	(8%)	22%	(1%)	(5%)
Gross Profit	5,147	12,733	11,445	7,060	9,722	9,540	7,216	7,018
Gross Margin (%)	31%	47%	47%	34%	47%	42%	39%	37%
Net (Loss)/Earnings	(3,468)	2,376	1,369	(513)	2,608	2,115	279	1,047
Per Share - Basic	(0.08)	0.06	0.03	(0.01)	0.06	0.05	0.01	0.03
Per Share - Diluted	(0.08)	0.05	0.03	(0.01)	0.06	0.05	0.01	0.02

The Company recorded revenue of US\$16.6M, its first quarterly revenue less than US\$20M since Q1 2017. In the current quarter, revenue has been affected by the wet season, certain multi-rig jobs being completed earlier in the year and a change in the mix of meters drilled. Despite the current quarter, the Company has been able to earn revenue averaging approximately US\$22.7M over the last three quarters. The Company was also able to generate gross profit averaging approximately US\$9.8M over the last three quarters. On a quarter to quarter basis, the Company's revenue decreased by US\$4.2M compared to the third quarter ended September 30, 2017. In Q3 2017 the Company had an extremely strong quarter and was able to generate revenue of US\$20.8M in the quarter. This was the result of clients drilling through the wet season and some extremely efficient jobs in Q3 2017.

The Company's operations have tended to exhibit a seasonal pattern. The first and fourth quarters are affected due to shutdown of exploration activities, often for extended periods over the holiday season. The second quarter is typically affected by the Easter shutdown of exploration activities affecting some of the rigs for up to one week. The wet season occurs (in some geographical areas where the Company operates, particularly in Burkina Faso and Mali) normally in the third quarter, but in recent years the global weather pattern has become somewhat erratic. In Q3 2018 the Company was impacted by the wet season.

The Company has historically taken advantage of the wet season and has scheduled the third quarter for maintenance and rebuild programs for drill rigs and equipment.

### Effect of Exchange Rate Movements

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

The Company's revenue is invoiced in US Dollars and local currencies. The Company's purchases are in Australian Dollars, US Dollars, Euros, Canadian Dollars and local currencies. Other local expenses include purchases and wages which are paid in the local currency.

### SELECTED INFORMATION FROM CONSOLIDATED STATEMENTS OF CASH FLOWS

(in US\$ 000s)	Three months Ended		Nine months Ended	
	Sep 30 2018	Sep 30 2017	Sep 30 2018	Sep 30 2017
Net cash generated from operating activities	2,387	1,401	8,680	6,119
Net cash used in investing activities	(2,214)	(2,908)	(8,777)	(8,553)
Net cash (used in) / provided from financing activities	(692)	(553)	1,736	665
Effect of movement in exchange rates on cash	9	(93)	(83)	238
<b>Net (decrease) / increase in cash</b>	<b>(510)</b>	<b>(2,153)</b>	<b>1,556</b>	<b>(1,531)</b>

### LIQUIDITY AND CAPITAL RESOURCES

#### Liquidity

As at September 30, 2018, the Company had cash of US\$7.2M and had not drawn down on its US\$3.5M Revolving Line of Credit. As at September 30, 2018, the Company had loans payable of US\$6.4M. Since the Company has loans payable, the Company continues to monitor its cash and its capital spending in conjunction with the loans that need to be repaid. As at November 12, 2018, the Company has not drawn down on the US\$3.5M Revolving Line of Credit.

### THIRD QUARTER ENDED SEPTEMBER 30, 2018

#### Operating Activities

In the third quarter of 2018, the Company generated cash from operating activities of US\$2.4M, as compared to US\$1.4M in the third quarter of 2017. The Company realized a loss before taxation of US\$2.8M for the third quarter of 2018; however, the changes in non-cash items and changes in working capital items increased cash by US\$5.2M, resulting in cash generated from operating activities of US\$2.4M.

#### Investing Activities

In the third quarter of 2018, the Company's investment in property, plant and equipment was US\$2.2M, as compared with the US\$2.9M in the third quarter of 2017. The Company continues to grow and believes that one of the Company's greatest attributes is its ability to maintain a modern fleet of drill rigs and related equipment. The Company understands the importance of this and has significantly invested in its property, plant and equipment. Plant and equipment additions in the third quarter of 2018 included costs

associated with rebuilding existing drill rigs and related equipment, new equipment, costs associated with completing certain sites at client premises and costs incurred improving the Company's operating bases in certain countries.

### **Financing Activities**

During the third quarter of 2018, the Company used cash of US\$0.7M in financing activities. The Company repaid an amount of US\$0.6M related to the repayment of loans and paid US\$0.1M relating to the share buy-backs in the quarter. In the third quarter of 2017, the Company used cash of US\$0.6M in financing activities, this was as a result of the company repaying an amount of US\$0.6M relating to the quarterly principal repayment on the US\$5M Term Loan.

### **NINE MONTHS ENDED SEPTEMBER 30, 2018**

#### **Operating Activities**

In the nine months ended September 30, 2018, the Company generated cash from operating activities of US\$8.7M, as compared to generating cash from operating activities of US\$6.1M in the nine months ended September 30, 2017. The Company realized income before taxation of US\$6.9M for the nine months ended September 30, 2018; however, the changes in non-cash items and changes in working capital items generated cash of US\$1.8M resulting in cash generated from operations of US\$8.7M.

#### **Investing Activities**

In the nine months ended September 30, 2018, the Company's investment in property, plant and equipment was US\$8.8M compared to US\$8.6M in the nine months ended September 30, 2017. The Company continues to grow and believes that one of the Company's greatest attributes is its ability to maintain a modern fleet of drill rigs and related equipment. Plant and equipment additions in the nine months ended September 30, 2018 included two drill rigs, costs associated with rebuilding existing drill rigs and related equipment, new equipment, new light vehicles, costs associated with completing certain sites at client premises and costs incurred improving the Company's operating bases in certain countries. The Company continues to balance the need to grow and reinvest in its property, plant and equipment while ensuring there is enough cash to satisfy the debt repayments as they come due.

#### **Financing Activities**

During the nine months ended September 30, 2018, the Company generated cash of US\$1.7M from financing activities. The Company increased its loans by US\$6.5M as a result of entering into the new Ecobank loan, repaid loans of US\$4.9M relating to the old Zenith loans, paid US\$0.1M relating to the Company's share buy-backs and received US\$0.2M from the exercise of stock options. In the nine months ended September 30, 2017, the Company generated cash of US\$0.7M relating to increasing its loans by US\$2.0M, repaying an amount of US\$1.5M related to the quarterly principal repayment on the US\$5M Term Loan and received US\$0.2M from the exercise of stock options.

## Contractual Obligations

Contractual Obligations in US\$	Payments Due by				
	Total	October 1 to Dec 31 2018	2019	2020	2021
Operating Leases <sup>(1)</sup>	600,000	80,000	300,000	200,000	20,000
Loans <sup>(2)</sup>	6,560,000	660,000	2,500,000	2,300,000	1,100,000
<b>Total Contractual Obligations</b>	<b>7,160,000</b>	<b>740,000</b>	<b>2,800,000</b>	<b>2,500,000</b>	<b>1,120,000</b>

(1) The operating leases relate to the lease payments for the two real estate properties, as fully disclosed under "Transactions with Related Parties". The annual rent payable shall be reviewed on an upward only basis every two years based on USA inflation data. In addition, the operating leases includes amounts for other operating sites.

(2) Loans refer to the US\$6.5M Medium Term Loan and the equipment loan, including the related interest.

Contractual obligations will be funded in the short-term by cash as at September 30, 2018 of US\$7.2M, cash flow generated from operations and the US\$3.5M amount still available on the US\$3.5M Revolving Line of Credit.

## OUTLOOK

The Company is continuing to see a recovery in the mineral drilling sector as evidenced by the increase in revenue for each fiscal year since 2014 and as evidenced by the increase in revenues year to date for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017.

As at September 30, 2018, the Company had 62 drill rigs, of which 59 drill rigs were available for operation and three drill rigs were in the workshop. On October 3, 2018, the Company purchased and took delivery of an additional two used drill rigs resulting in the Company having a total of 64 drill rigs as at November 12, 2018.

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

Make - Model	Type	Available for Operation as at Mar 31, 2018 No. of Rigs		Available for Operation as at Jun 30, 2018 No. of Rigs		Available for Operation as at Sept 30, 2018 No. of Rigs		Planned to be available for Operation as at Dec 31, 2018 No. of Rigs	
UDR - 650	Multi-Purpose	2	1x1996 1x2003	2	1x1996 1x2003	2	1x1996 1x2003	2	1x1996 1x2003
UDR - KL900	Multi-Purpose	3	1x1998 1x1999 1x2003	3	1x1998 1x1999 1x2003	3	1x1998 1x1999 1x2003	3	1x1998 1x1999 1x2003
Sandvik - DE840	Multi-Purpose							1	1x2008
Sandvik - DE820	Multi-Purpose	5	1x2007 4x2008	5	1x2007 4x2008	4	1x2007 3x2008	5	1x2007 4x2008
Sandvik - DE810	Multi-Purpose	8	1x2010 7x2012	8	1x2010 7x2012	8	1x2010 7x2012	8	1x2010 7x2012
EDM - 2000	Multi-Purpose	4	2x2010 1x2011 1x2017	4	2x2010 1x2011 1x2017	4	2x2010 1x2011 1x2017	5	3x2010 1x2011 1x2017
Austex - X900	Multi-Purpose	8	4x2011 1x2012 1x2016 2x2017	8	4x2011 1x2012 1x2016 2x2017	8	4x2011 1x2012 1x2016 2x2017	8	4x2011 1x2012 1x2016 2x2017
UDR - 200	Core	1	1x2008	1	1x2008	1	1x2008	1	1x2008
Sandvik - DE710	Core	9	2x2008 1x2009 6x2010	9	2x2008 1x2009 6x2010	9	2x2008 1x2009 6x2010	9	2x2008 1x2009 6x2010
Sandvik - DE740	Core	6	2x2008 1x2009 1x2011 2x2012	8	3x2008 1x2009 2x2011 2x2012	8	3x2008 1x2009 2x2011 2x2012	8	3x2008 1x2009 2x2011 2x2012
Austex - X300	Aircore Grade Control	6	2x2010 3x2011 1x2016	6	2x2010 3x2011 1x2016	6	2x2010 3x2011 1x2016	7	2x2010 3x2011 1x2016 1x2018
Austex - X350	RC Grade Control	1	1x2016	1	1x2016	1	1x2016	1	1x2016
Schramm - GT450	RC / Grade Control							1	1x2013
Boart Longyear - LM90	Underground	3	1x2017 2x2018	5	1x2017 4x2018	5	1x2017 4x2018	5	1x2017 4x2018
<b>Total Drill Rigs Available for Operation</b>		<b>56</b>		<b>60</b>		<b>59</b>		<b>64</b>	

	As at Mar 31, 2018		As at Jun 30, 2018		As at Sep 30, 2018		Planned as at Dec 31, 2018	
	No. of Rigs	Type	No. of Rigs	Type	No. of Rigs	Type	No. of Rigs	Type
Available for Operation	30 16 6 1 3	Multi-Purpose Core Only Air core / grade control RC Grade Control Underground	30 18 6 1 5	Multi-Purpose Core Only Air core / grade control RC Grade Control Grade control	29 18 6 1 5	Multi-Purpose Core Only Air core / grade control RC Grade Control Underground	32 18 7 2 5	Multi-Purpose Core Only Air core / grade control RC Grade Control Underground
<b>TOTAL AVAILABLE FOR OPERATION</b>	<b>56</b>		<b>60</b>		<b>59</b>		<b>64</b>	
In W/Shop	2 1 1	Core Only Grade control Multi-Purpose	1 1	Multi-Purpose Air core / grade control	2 1	Multi-Purpose Air core / grade control		
<b>Total in W/Shop</b>	<b>4</b>		<b>2</b>		<b>3</b>			
Manufacturing - in production								
<b>Total Manufacturing</b>								
In transit	2	Underground						
<b>Total in transit</b>	<b>2</b>							
<b>TOTAL DRILL RIGS</b>	<b>62</b>		<b>62</b>		<b>62</b>		<b>64</b>	

Split								
Multi-Purpose	31		31		31		32	
Core Only	18		18		18		18	
Air Core / grade control	7		7		7		7	
RC Grade Control	1		1		1		2	
Underground	5		5		5		5	
<b>TOTAL</b>	<b>62</b>		<b>62</b>		<b>62</b>		<b>64</b>	



## SUPPLEMENTARY DISCLOSURE - NON-IFRS MEASURES

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

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

Gross profit margin is defined as gross profit as a percentage of revenue. Gross profit margin does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies.

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

(US\$ 000s)	Three months ended		Nine months ended	
	Sep 30, 2018	Sep 30, 2017	Sep 30, 2018	Sep 30, 2017
(Loss) / Income from Operating Activities	(2,655)	3,393	7,307	8,217
Add: Finance Income	3	1	7	1
<b>Earnings Before Interest and Taxes (EBIT)</b>	<b>(2,652)</b>	<b>3,394</b>	<b>7,314</b>	<b>8,218</b>
Add: Depreciation and Amortization	<b>1,687</b>	1,561	4,820	5,112
<b>Earnings Before Interest, Taxes, Depreciation &amp; Amortization (EBITDA)</b>	<b>(965)</b>	<b>4,955</b>	<b>12,134</b>	<b>13,330</b>

## DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer (the "CEO") and the Chief Financial Officer (the "CFO") of the Company are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") for the Company as defined under Multilateral Instrument 52-109 issued by the Canadian Securities Administrators. The CEO and the CFO have designed such DC&P, or caused them to be designed under their supervision, to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by an issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company's management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure. As at September 30, 2018, the CEO and CFO evaluated the design and operation of the Company's DC&P. Based on that evaluation, the CEO and CFO concluded that the Company's DC&P were effective as at September 30, 2018.

## 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 period beginning on January 1, 2018 and ended on September 30, 2018, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## RISK FACTORS

A complete discussion of general risks and uncertainties may be found in the Company's Annual Information Form for the fiscal year ended December 31, 2017 which can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com), and which continue to apply to the business of the Company. The Company is not aware of any significant changes to risk factors from those disclosed at that time.

## FAIR VALUES OF FINANCIAL INSTRUMENTS

As at September 30, 2018 and December 31, 2017, the Group did not hold any financial assets at fair value through profit or loss, derivatives or available-for-sale financial assets.

The carrying values of cash, trade and other receivables, trade and other payables and related party payables approximate their fair value due to the relatively short period to maturity of the instruments. The carrying value of loans payable approximates their fair value as the fixed rate loans have been acquired recently and their carrying value continues to reflect fair value.

There were no financial instruments classified as level 2 or 3 in the fair value hierarchy at September 30, 2018 and December 31, 2017.

### Financial Instruments by Category

	Loans and Receivables US\$	Other Financial Liabilities US\$	Carrying Amount US\$	Total Fair Value US\$
<b>September 30, 2018</b>				
<b>Financial assets</b>				
Trade and other receivables	16,765,084	-	16,765,084	16,765,084
Cash	7,247,374	-	7,247,374	7,247,374
	<u>24,012,458</u>	<u>-</u>	<u>24,012,458</u>	<u>24,012,458</u>
<b>Financial liabilities</b>				
Trade and other payables	-	12,685,697	12,685,697	12,685,697
Related party payables	-	923,025	923,025	923,025
Loans payable	-	6,380,164	6,380,164	6,380,164
	<u>-</u>	<u>19,988,886</u>	<u>19,988,886</u>	<u>19,988,886</u>
<b>December 31, 2017</b>				
<b>Financial assets</b>				
Trade and other receivables	17,660,607	-	17,660,607	17,660,607
Cash	5,691,742	-	5,691,742	5,691,742
	<u>23,352,349</u>	<u>-</u>	<u>23,352,349</u>	<u>23,352,349</u>
<b>Financial liabilities</b>				
Trade and other payables	-	11,485,677	11,485,677	11,485,677
Related party payables	-	923,025	923,025	923,025
Loans payable	-	4,759,215	4,759,215	4,759,215
	<u>-</u>	<u>17,167,917</u>	<u>17,167,917</u>	<u>17,167,917</u>

## RELATED PARTY TRANSACTIONS

Related party	Relationship	Country of Incorporation	Ownership Interest	
			2018	2017
Geodrill Ghana Limited	Subsidiary	Ghana	100%	100%
D.S.I. Services Limited	Subsidiary	British Virgin Islands	100%	100%
Geotool Limited	Subsidiary	British Virgin Islands	100%	100%
Geo-Forage BF SARL	Subsidiary	Burkina Faso	100%	100%
Geo-Forage Cote d'Ivoire SARL	Subsidiary	Cote d'Ivoire	100%	100%
Geo-Forage Mali SARL	Subsidiary	Mali	100%	100%
Geo-Forage Senegal SARL	Subsidiary	Senegal	100%	100%
Geodrill Cote d'Ivoire SARL	Subsidiary	Cote d'Ivoire	100%	100%
Geodrill Limited in Zambia	Registered foreign operating branch	Zambia	100%	100%
The Harper Family Settlement	Significant shareholder	Isle of Man	-	-

### (i) Transactions with related parties

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

The Harper Family Settlement owns 40.1% (December 31, 2017: 40.4%) of the issued share capital of Geodrill Limited. On September 30, 2015, Geodrill Ghana Limited entered into lease agreements with The Harper Family Settlement for the Anwiankwanta property and for the Accra property, both for a five year term at rates consistent with those determined pursuant to the October 1, 2014 rent review. The material terms of the five year lease agreements include: (i) the annual rent payable shall be reviewed on an upward only basis every two years; and (ii) only Geodrill Ghana Limited can terminate the leases by giving twelve months' notice. On October 1, 2016, in conjunction with the rent review, Geodrill Ghana Limited agreed to the increase in rent for the Anwiankwanta property to US\$186,000 per annum and the increase in rent for the Accra property to US\$78,000 per annum. It was also agreed that all future rent increases will be based on USA inflation data.

The Group has paid fees to Clearwater Fiduciary Services Limited during the three and nine month period ended September 30, 2018 of US\$13,249 (three and nine month period ended September 30, 2017: US\$15,507). One of the directors of Clearwater Fiduciary Services Limited is also a director of Geodrill Limited.

The Group has paid fees to MS Risk during the three and nine month period ended September 30, 2018 of US\$3,595 (three and nine month period ended September 30, 2017: US\$NIL). One of the directors of MS Risk is also a director of Geodrill Limited.

Future operating lease commitments related to the properties are:

	September 30, 2018 US\$	December 31, 2017 US\$
Payable within one year	264,000	264,000
Payable between 1 and 5 years	264,000	462,000
Total	528,000	726,000

During the three and nine month periods ended September 30, 2018, lease payments amounted to US\$66,000 and US\$198,000, respectively (September 30, 2017: US\$66,000 and US\$198,000, respectively).

## (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 the Group.

Key management personnel and directors' compensation for the period comprised:

	Three month period ended September 30,		Nine month period ended September 30,	
	2018	2017	2018	2017
	US\$	US\$	US\$	US\$
Short-term benefits	608,275	637,718	2,980,981	2,255,080
Share-based payment arrangements	27,508	97,186	214,752	409,185
	635,783	734,904	3,195,733	2,664,265

## (iii) Related party balances

The related party payable outstanding as at September 30, 2018 amounts to US\$923,025 (December 31, 2017: US\$923,025). The related party payable is to The Harper Family Settlement, is unsecured, interest free and is repayable on demand at the option of the lender.

## SIGNIFICANT ACCOUNTING POLICIES

The Company's IFRS significant accounting policies are provided in Note 2 to the audited annual consolidated financial statements for the year ended December 31, 2017 and can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## NEW AND FUTURE ACCOUNTING STANDARDS

The Company's application of new and revised IFRS are provided in Note 4 to the audited annual consolidated financial statements for the year ended December 31, 2017 and can be found on SEDAR at [www.sedar.com](http://www.sedar.com). There have been no material effects on the condensed interim consolidated financial statements for the quarter ended September 30, 2018. The Company is currently evaluating the impact of accounting pronouncements issued but not yet effective on its consolidated financial statements, however, it does not currently foresee any material changes to its consolidated financial statements in the next twelve months.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making

judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

**(i) Estimates**

**a. Depreciation of property, plant and equipment**

Property, plant and equipment are often used in hostile environments and may be subject to accelerated depreciation. Management considers the reasonableness of useful lives and whether known factors reduce or extend the lives of certain assets. This is accomplished by assessing the changing business conditions, examining the level of expenditures required for additional improvements, observing the patterns of gains or losses on disposition, and considering the various components of the assets.

**b. Share-based payment transactions**

The fair value of share-based payment transactions is based on certain assumptions determined by management. The main areas of estimate relate to the determination of the risk free interest rate, stock price volatility and the forfeiture rate.

**c. Net realizable value of inventory**

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

**d. Allowance for doubtful accounts**

Management reviews trade receivables at each reporting period to determine whether indicators exist which would lead to a downward revision in the net realizable value of the trade receivables. Management's estimate of net realizable value of such trade receivables is based primarily on the ageing of the receivables.

**e. Income tax**

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

The amount recognized as accrued liabilities is the best estimate of the consideration required to settle the related liability, including any related interest charges, taking into account the risks and

uncertainties surrounding the obligation. The Group assesses its liabilities at each reporting period, based upon the best information available, relevant to the tax laws and other appropriate requirements.

**(ii) Judgments**

**a. Assessment of impairment of property, plant and equipment**

The Group tests at each reporting period whether there are indicators of impairment with respect to its property, plant and equipment, in accordance with the accounting policy stated in Note 2g (iv). If such indicators are identified, the recoverable amounts of each cash-generating unit have been determined based on value-in-use calculations. These determinations require the use of judgment.

The Group tests impairment based on the discounted cash flows related to each cash generating unit. The value in use determination is sensitive to changes in cash flow assumptions and the discount rate applied. No impairment charge has been recognized in the periods presented.

**b. Functional currency**

The company applied judgment in determining the functional currency of the company and its subsidiaries. Functional currency was determined based on the currency that mainly influences sales prices, labor, material and other costs of providing services.

**Additional Information**

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