



Capital Drilling Limited
("Capital Drilling", the "Group" or the "Company")

Full Year Results
For the period ended 31 December 2016

Capital Drilling Limited (CAPD:LN), a leading drilling solutions company focused on emerging and developing markets, today announces its full year results for the period ended 31 December 2016.

FULL YEAR FINANCIAL RESULTS FOR THE PERIOD ENDED 31 DECEMBER 2016*

	2016	2015
Average Fleet Size (No. of drill rigs)	94	97
Fleet Utilisation (%)	45	34
ARPOR (\$)	177,000	188,000
Capex (\$ m)	12.8	7.9
Revenue (\$ m)	93.3	78.7
EBITDA (\$ m)	13.1	10.1
EBIT (\$ m)	(1.4)	(4.5)
Net Loss After Tax (\$ m)	(4.8)	(10.2)
Cash Generated From Operating Activities (\$ m)	9.9	22.1
Earnings per Share		
Basic (cents)	(3.6)	(7.6)
Diluted (cents)	(3.6)	(7.6)
Final Dividend Declared (cents)	1.0	2.5
Net Asset Value per Share (cents)	49.5	57.0
Return on Capital Employed (%)	(2.0)	(4.6)
Return on Total Assets (%)	(1.5)	(10.8)
Net Cash (\$ m)	0.6	8.3
Net Cash / Equity (%)	0.9	10.8

**All amounts are in USD unless otherwise stated*

Financial Overview

- Revenue up 19% to \$93.3 million (2015: \$78.7 million)
- EBITDA up 30% to \$13.1 million (2015: \$10.1 million)
- EBIT up 69% to -\$1.4 million (2015: -\$4.5 million)
- Net Loss After Tax of \$4.8 million (2015: a loss of \$10.2 million)
- Net Operating Cash Flows of \$9.8 million (2015: \$22.1 million)
- Aggregated dividend of 4cps paid in 2016[#]
- Net Cash of \$0.6 million (2015: \$8.3 million)
- Declared final 2016 dividend of 1cps

consisting of a final dividend for the year ended 31 December 2015 of 2.5c per share paid on 12 May 2016 and an interim dividend for the six month period ended 30 June 2016 of 1.5c per share paid on 14 October 2016.

Operational and Strategic Review

- Performed strongly on long-term production contracts:
 - Acacia Mining's North Mara Gold Mine, Tanzania
 - AngloGold Ashanti's Geita Gold Mine, Tanzania
 - Centamin's Sukari Gold Mine, Egypt
- Awarded numerous exploration contracts:
 - Aton Resources, Egypt: 1 diamond rig
 - OreCorp Limited, Mauritania; 1 diamond rig
 - Tanga Resources, Tanzania: 1 multi-purpose rig
 - Barrick Gold, Chile: 1 reverse circulation rig
 - Algold, Mauritania: 1 multi-purpose rig
 - Nevsun Resources, Serbia: 4 deep hole exploration directional drilling rigs
 - Ascom Mining, Ethiopia: 2 diamond rigs
 - Resolute, Mali: 1 diamond rig
 - Acacia Exploration Kenya Ltd, Kenya: 3 diamond rigs
 - Mining Resources, Mauritania: 1 reverse circulation rig
 - Thani Stratex, Egypt: 1 diamond rig
 - Tilva (BVI) Inc. (a Rio Tinto/Nevsun Resources JV), Serbia: 2 diamond rigs
 - Acacia Bulyanhulu, Tanzania: 1 diamond and 1 reverse circulation rig
 - AngloGold Ashanti, Geita, Tanzania: 1 diamond underground rig (commenced January 2017)
- Full year benefits of new exploration contracts expected during 2017
- Achievement of a number of world class safety milestones, including:
 - Tanzania (Mwanza Support Facility) achieved 8 years LTI free in January 2016
 - Mauritania (Tasiast Project) achieved 5 years LTI free in February 2016
 - Botswana (Cupric Project) achieved 1 year LTI free in March 2016
 - Tanzania (Geita Gold Mine) achieved 9 years LTI free in April 2016
- Mobilised 14 rigs into four new countries of operation (Mali, Kenya, Ethiopia and Serbia)
- Strong increasing on rig utilisation from 34% in January to 58% in December, with a yearly average utilisation of 45%.
- Purchased 6 new rigs, adding to the fleet's deep hole drilling capacity in addition to rig replacements for long term production contracts. Decommissioned 9 rigs, maintaining our ongoing focus on fleet management.

Management Update

As previously announced, Dewald van Tonder commenced as Chief Financial Officer (CFO) in November 2016. The Finance team was further enhanced with the appointment of Nataly Marchbank as Group Tax Manager, who brings extensive knowledge of the complex African tax environment.

Additionally, the realignment of the Executive Leadership Team and organisational structure was also completed in August 2016. Business units now focus on either exploration or production activities and are more closely aligned with clients' operational structures. This structure is expected to improve the Group's capability to deliver on the diverse requirements of clients in each phase to capitalise on current contracts and future growth opportunities.

Mark Parsons tendered his resignation as Chief Executive Officer in February 2017. Following this, Brian Rudd has taken responsibility for the Company's Exploration Division and Stuart Thomson has taken responsibility for the Production Division. These appointments reflect the delineation of these business units as outlined above.

Commenting on the results, Jamie Boyton [Executive Chairman] said:

“Capital Drilling saw a return to revenue growth in 2016 as the company benefitted from the improving market conditions, particularly in the gold sector. Our stringent cost control measures and focus on cash generation during the downturn enabled the Group to respond quickly to new opportunities as the upturn commenced.

As a result of the expansion in activity, our expenditure increased as we prepared the fleet for operations, mobilised into new operational countries and acquired new rigs to support existing contracts and maintain our young fleet. Our net cash balance reduced due to these investments, however, the expenditure is in line with the Group’s growth strategy and is expected to provide improved revenue and earnings growth in the long term. Our rig utilisation has also increased accordingly, from 34% in January 2016 to 58% in December 2016.

As a result of contracts awarded during 2016, we entered the new year in a substantially stronger position than the previous first quarter, having eight exploration contracts secured as opposed to three in January 2016. I am confident that with our recent realignment to meet the diverse needs of our exploration and production customers, together with our ability to offer a complete drilling service, Capital Drilling is in a solid position to continue the growth achieved last year and deliver a robust result in 2017.”

Results Conference Call

Capital Drilling will host a conference call on Thursday 16 March 2017 at 09:00hr (London, UK time) to update investors and analysts on its results. Participants may join the call by dialling one of the following numbers, approximately 10 minutes before the start of the call. Participants may also wish to download the 2016 Results Presentation which is available by clicking <http://www.capdrill.com/investors/presentations>

Dial in (UK): 0330 336 6013

For a list of international toll-free dial ins click [here](#)

ID Number: 724973

For further information, please visit Capital Drilling’s website www.capdrill.com or contact:

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About Capital Drilling

Capital Drilling provides specialised drilling services to mineral exploration and mining companies in emerging and developing markets, for exploration, development and production stage projects. The Company currently owns and operates a fleet of 93 drilling rigs with established operations in Botswana, Chile, Egypt, Ethiopia, Kenya, Mali, Mauritania, Serbia and Tanzania. The Group's corporate headquarters is in Mauritius.

CHAIRMAN'S STATEMENT

Following a prolonged downturn in the commodities markets over the previous five years, Capital Drilling entered 2016 in excellent financial and operational health, having restructured its business, focusing on the conversion of revenues to cash and strengthening its balance sheet. The drilling services market reached its cyclical low point in 1Q 2016, and we substantially improved our order book during the year as conditions in our key markets progressively improved, with confidence returning to equity markets in the second quarter onwards, driven initially by increased capital raising activity in gold and specialty metal commodities. The base metals markets also improved, with a broader rally following the impact of the United States elections in late 2016.

The increase in capital markets activity and the appreciation of most metal prices drove an uplift in demand for exploration and delineation drilling, with Capital Drilling initially being awarded a number of short duration gold exploration contracts, which were subsequently renewed and extended as the year progressed. Additionally, tendering activity among mid-tier mining groups for delineation contracts increased, a dynamic that had been absent from the market for a number of years. Capital Drilling was successful in the awarding of multi-rig delineation contracts with Resolute Mining (Mali), Acacia Mining (Kenya) and Nevsun Resources (Serbia), all of which continue into the current year.

The impact of increased activity saw utilisation improve from a low of 34% in the month of January to 58% in the month of December, the highest swing in the Company's history. Revenue increased by 19% to \$93.3m for the full year, with H2 driving the uplift, increasing by 24% over H1. The commencement of blast hole drilling services at Acacia Mining's North Mara Gold Mine in December 2015 provided an important contribution to this growth, along with a number of exploration and delineation contracts adding greater client diversification to the portfolio.

Figure 1: RIG UTILISATION

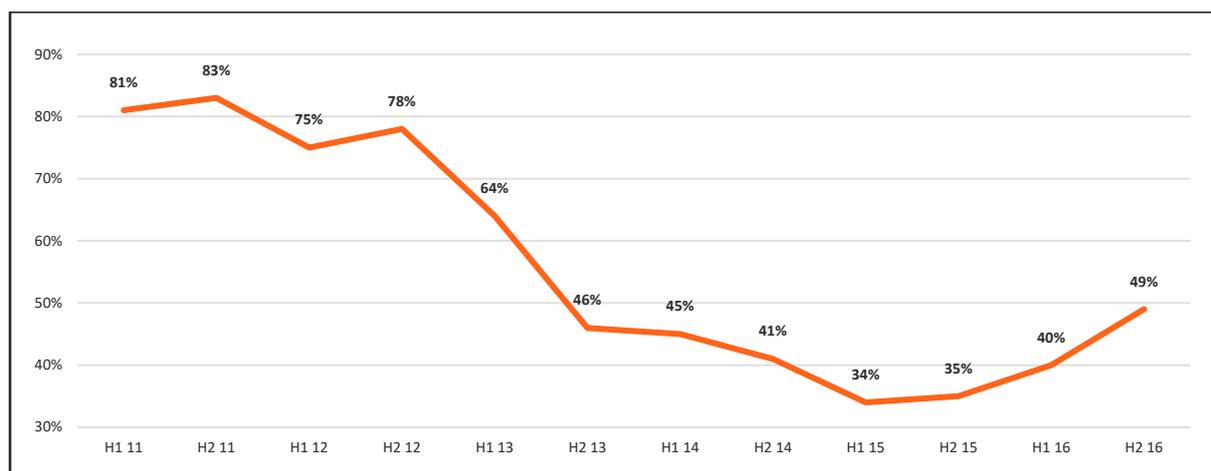
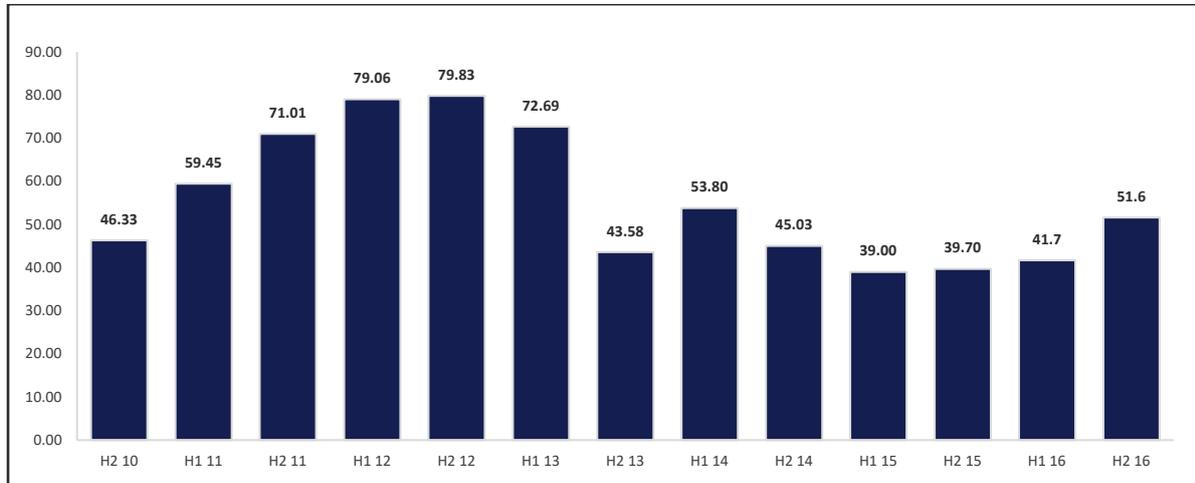


Figure 2: REVENUE



OPERATIONAL UPDATE

The Group's long term production contracts, which contributed a combined 75% of Group revenue in 2016, continue to provide a stable revenue base and performed strongly during 2016. In addition to the long-term contracts at the Geita Gold Mine in Tanzania and the Sukari Gold Mine in Egypt, Capital Drilling commenced blast hole drilling services at Acacia Mining's North Mara Gold Mine, adding to our existing grade control drilling operations. With the Group's production fleet operating at full capacity, additional capital expenditure was incurred to support the existing operations at Sukari and North Mara. Three new rigs were acquired as part of the Company's fleet replacement policy, as the Group maintains its focus on operating one of the youngest fleets in the drilling industry.

In response to the rapid improvement in market conditions for exploration and delineation drilling through 2016, the Group recommissioned 31 rigs and completed a further 4 rebuilds during the year. In addition, Capital Drilling mobilised into four new countries of operation, which included Ethiopia, Kenya, Mali and Serbia. The Group's financial performance reflected additional expenditure associated with establishing our infrastructure in these new markets, increased rig activity and the purchase of three new diamond rigs for Serbia. Mobilisation costs related to the commencing of operations in new countries, including freight and custom duties, impacted profitability and cash flow, particularly in H2 2016, though this trend is expected to reverse as the assets generate free cash flow during 2017 and beyond.

Capital Drilling's activities traditionally lie within the exploration and delineation drilling markets. Improving market conditions, together with recent structural changes and the Company's industry leading capabilities and rig capacity, will improve speed to market and place the Company in a strong position to leverage additional opportunities presented by the ongoing cyclical upturn.

Despite higher capital expenditure and the costs associated with refurbishing unutilised exploration rigs ahead of prospective new contract awards, the balance sheet remains strong, with the Group finishing 2016 with net cash of \$0.6 million (and cash at hand of \$12.7 million).

In line with the Group's solid financial and operating position the Board of Directors have declared a final dividend for the 2016 period of 1cps (US\$1.35 million), payable on 19 May 2017. This represents a decrease on the final 2015 dividend, primarily driven by the improving market conditions which have contributed to higher capital expenditure requirements and working capital outflows, both of which are contributing to a stronger growth profile over 2017.

POST PERIOD MANAGEMENT UPDATE

Following the resignation of Mark Parsons, CEO, in February 2017, Capital Drilling has strengthened the structural changes implemented during 2016 with Brian Rudd taking responsibility for the Company’s Exploration Division and Stuart Thomson taking responsibility for the Production Division. This new structure will allow Capital Drilling to meet the diverse needs of our existing clients and to harness the fast developing new contract opportunities more effectively than before.

On behalf of the Board and myself, I would like to thank Mark for his contribution during his tenure with our company. Under his leadership, we have seen Capital perform strongly through some challenging market conditions and the Company is well placed to capitalise on growth opportunities presented by the improving market conditions.

SAFETY

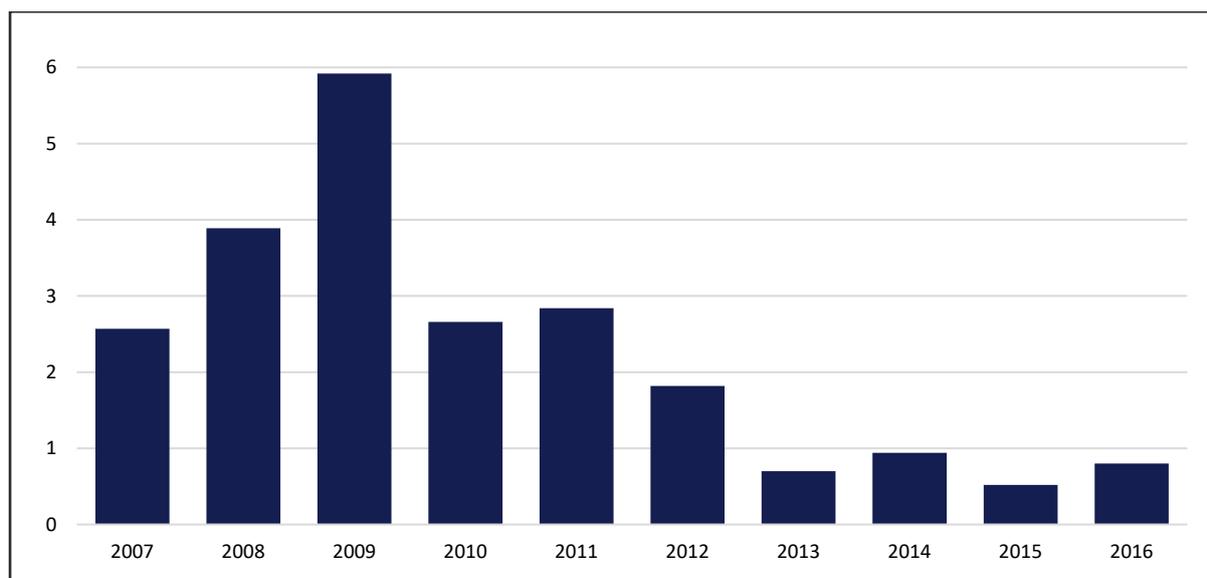
Safety is the Group’s first priority and we expect visible safety leadership at all levels of our business, from the Executive Leadership Team to crews on site. We invest significantly in training programs to ensure our workforce are skilled and competent, and can identify and mitigate hazards in their workplace.

This strong safety culture has contributed to the Company achieving several world class safety milestones, during 2016 including:

- Geita Gold Mine, Tanzania achieved 9 years LTI Free in April 2016
- Mwanza Support facility, Tanzania achieved 8 years LTI Free in January 2016
- Tasiast Gold Mine, Mauritania achieved 5 years LTI Free in February 2016.

The key tracking measure for safety, specifically the AIFR, saw an increase in 2016 due to two LTI’s in 4Q 2016, however 2016 represents another solid safety performance for the Group.

Figure 3: PROGRESSIVE AIFR 2007-2016



OUTLOOK

The cyclical recovery, which commenced last year, reflect an improving market for drilling companies and the mining services sector more generally. Gold and base metal pricing remains strong, and increased activity in the capital markets has continued into 2017. Encouragingly, some of the major mining companies have allocated greater budget expenditure to exploration activity for this financial year and the tendering market conditions to improve.

The long-term production contracts held by the Company will continue to provide a stable revenue base and underpin revenue guidance for 2017, while the recent structural changes to our business, which better align our capabilities with our client's needs, are expected to benefit the Group as conditions in the exploration and delineation market continue to recover.

In addition to the internally focused growth expenditure and returns to shareholders, we have today announced a phased strategic investment of US\$3.8 million to earn a 50% interest in private laboratory testing services company A2 Global Ventures Inc ("A2"). Together with A2 we see significant opportunities to realise synergies and support our customers through the cross selling of services and the sharing of infrastructure. Our investment will accelerate a significant growth programme for A2 with new labs in our core African market and other emerging markets.

I would like to take this opportunity to thank all of our employees, business partners, shareholders, our Board of Directors and other stakeholders for their continued support of our company.

Jamie Boyton
Executive Chairman
16 March 2017

CHIEF FINANCIAL OFFICER'S REVIEW

Overview

During 2016 revenues increased 19% to \$93.3 million. This uplift in revenue was due to Capital Drilling's ability to respond quickly to new opportunities as a result of its prudent cost management throughout the downturn together with the full year revenue contribution by the North Mara production contract.

Capital Drilling has traditionally had a strong exposure to gold exploration, which saw a significant improvement during the year, evidenced by increased capital and equity raisings by junior mining companies, together with expanded brownfield exploration budgets.

In response to the improving market conditions, capital expenditure increased during the year. Six new rigs were purchased to maintain the young rig fleet and increase the deep hole directional drilling capability for new contracts in Serbia, while upgrades were completed on an additional 31 rigs and 4 rigs were rebuilt.

The increase in activity throughout the year also impacted working capital requirements, particularly costs associated with the mobilisation of rigs into new countries of operation.

This expenditure is aligned to the Company's growth strategy of maintaining fleet operational readiness and increasing geographical expansion, and resulted in a reduced net cash balance for the year. It was supported by the strong financial position which was consolidated during subdued market conditions during 2011 to 2015 and will deliver long term growth benefits in the future.

Statement of Comprehensive Income

Reported	2016 \$'m	2015 \$'m
Revenue (\$'m)	93.3	78.7
EBITDA (\$'m)	13.1	10.1
EBITDA (%)	14.0	12.8
EBIT (\$'m)	(1.4)	(4.5)
PBT (\$'m)	(1.0)	(5.5)
NPAT (\$'m)	(4.8)	(10.2)
Basic EPS (cent)	(3.6)	(7.6)
Diluted EPS (cent)	(3.6)	(7.6)

Table 1: Statement of Comprehensive Income (Summary)

Revenue increased by 19% to \$93.3 million (2015: \$78.7 million), with the North Mara production contract, which commenced in December 2015, delivering the greatest contribution to the increase, while revenue from exploration operations increased by 16%.

Rig utilisation for the year was 45% (2015: 34%) on an average fleet size of 94 (2015: 97). Average revenue per operating rig (ARPOR) reduced to \$177,000 (2015: \$188,000) due to the intermittent nature of exploration drilling.

Despite the increase in revenue, the statement of comprehensive income was negatively affected by the following charges, as disclosed in the Annual Financial Statements:

- Non-cash loss on disposal of assets of \$1.3 million, including \$1 million relating to nine rigs decommissioned in 2016



CAPITAL DRILLING

- Prior period tax expenses amounting to \$1.2 million, including \$848,613 relating to the deemed interest tax for the period 2012 to 2015. Associated interest and penalties totalling \$567,637 was included under administrative expenses. Additionally, a \$700,000 provision was raised for the ongoing tax dispute in Tanzania relating to payroll tax for the financial periods 2009 to 2015. This amount was also included under administrative expenses with additional disclosure in note 13 to the Condensed Annual Financial Statements.

Earnings before interest, tax, depreciation and amortisation (“EBITDA”), amounted to \$13.1 million delivering a gross margin of 14% (2015: \$10.1 million or 12.8%), while the net loss for the year reduced to \$4.8 million (2015: a loss of \$10.2 million).

The loss per share for the year was 3.6 cents (2015: 7.6 cents). The weighted average number of ordinary shares used in the loss per share calculation was 134,828,877 (2014: 134,603,264).

Statement of Financial Position

Reported	2016 \$'m	2015 \$'m
Non-current assets	45.8	49.7
Current assets	54.8	45.7
Total assets	100.6	95.4
Non-current liabilities	10.0	5.2
Current liabilities	23.8	13.5
Total liabilities	33.8	18.7
Shareholders' equity	66.8	76.7

Table 2: Statement of Financial Position (Summary)

As at 31 December 2016, shareholders' equity reduced by 13%. The Group distributed a dividend of \$5.4 million to the shareholders and recorded a net loss after tax of \$4.8 million, with \$15.3 million non-cash related expenses contributing to the loss for the reporting period. Despite the net loss for the year the Statement of Financial Position remains strong.

The total rig fleet size at the end of 2016 was 92 drill rigs (2015: 94 drill rigs). Improved market conditions required an increase in capital expenditure of \$4.9 million, to \$12.8 million (2015: \$7.9 million). In order to respond to new opportunities, 31 rigs were recommissioned and 4 rig rebuilds were completed to ensure operational readiness. Additionally, three replacement production drill rigs were acquired, one for the North Mara production contract, while two were acquired for the long-term Sukari production contract. The Group also increased its deep hole directional drilling capability by acquiring three additional exploration drill rigs for contracts in Serbia.

Overall property, plant and equipment reduced from \$49.1 million in 2015 to \$45.1 million in 2016. This was a result of the combined depreciation charge of \$14.5 million (2015: \$14.6 million) and net book value of assets disposed of \$2.3 million being higher than total capital expenditure of \$12.8 million.

Current assets increased to \$54.8 million at 31 December 2016 (2015: \$45.7 million). Trade receivables increased by \$6.5 million, mainly due to additional drilling activity in the last quarter of 2016. Fourth quarter revenue of \$27.8 million was the highest in 24 months, with the Group continuing to achieve quarterly revenue growth throughout most of that period, with the exception of Q4 2015 (\$18.9 million). The increase in current assets was impacted by the quarterly revenue increase of \$8.9 million and no change in debtor days. Inventory increased by \$1.8 million to \$19.4 million in 2016. (2015: \$17.6 million).



CAPITAL DRILLING

Non-current liabilities consisted of a revolving credit facility (“RCF”) provided by Standard Bank (Mauritius) Limited. During the year, the Group utilised an additional \$7 million of the RCF primarily to finance the increased capital spend of \$4.9 million and the increase in working capital requirements of \$11.3 million. The Group was fully compliant with all debt covenants throughout the year.

Current liabilities consisted of trade and other payables, \$18.4 million (2015: \$12.2 million) and tax liabilities of \$3.3 million (2015: \$1.2 million). The year-on-year increase for trade and other payables is largely due to the acquisition of three drill rigs in December 2016 and the settlement of part of the purchase price in 2017, in line with the contractual terms. Tax liabilities increased by \$2.1 million due to prior period tax expenses as outlined above.

Reported	2016 \$'m	2015 \$'m
Opening equity	76.7	91.0
Share based payments	0.3	0.1
Total comprehensive loss	(4.8)	(10.4)
Dividends paid	(5.4)	(4.0)
Closing equity	66.8	76.7

Table 3: Statement of changes in equity (Summary)

Statement of Cash Flows

Reported	2016 \$'m	2015 \$'m
Net cash from operating activities	9.9	22.1
Net cash used in investing activities	(11.6)	(8.5)
Net cash used in financing activities	1.6	(14.0)
Net (decrease) increase in cash and cash equivalents	(0.1)	(0.4)
Opening cash and cash equivalents	13.4	14.7
Translation of foreign currency cash	(0.6)	(0.9)
Closing cash and cash equivalents	12.7	13.4

Table 4: Statement of Cash Flows (Summary)

Reported	2016 \$'m	2015 \$'m
Net cash (debt) at the beginning of the year	8.3	(0.4)
Net (decrease) increase in cash and cash equivalents	(0.1)	(0.4)
Decrease (Increase) in long term liabilities	(7.0)	10.0
Translation of foreign currency cash	(0.6)	(0.9)
Net cash (debt) at the end of the year	0.6	8.3

Table 5: Reconciliation of net cash (debt) position

Net cash generated from operating activities was \$9.9 million (2015: \$22.1 million) with the operating cash margin significantly lower than 2015. The EBITDA result was \$13.1 million (2015: \$10.1 million). After adjusting for non-cash charges to the Statement of Other Comprehensive Income, operating cash flows before working capital changes amounted to \$14.9 million (2015: \$16.8 million).



CAPITAL DRILLING

The increase in activity throughout the year significantly impacted working capital requirements, particularly costs associated with the Company's entry into four new countries. Net Working capital increased with \$11.3 million, resulting in a net cash outflow of \$2.5 million (2015: \$8.8 million inflow).

The capital expenditure increase of \$4.9 million was driven by the Group's strategy of maintaining fleet operational readiness, which is expected to deliver long term growth benefits. Capital expenditure increased from \$7.9 million in 2015 to \$12.8 million in 2016 as a result.

Increased financing requirements of \$7 million were utilised for the increased cash outflows for capital spend and working capital requirements.

The group reported a net cash position of \$0.6 million at 31 December 2016. The reduced net cash is attributed to the higher working capital and capital expenditure requirements.

Critical Accounting Policies

The Financial Statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. The principal accounting standards are set out in the Group's financial statements.

The Financial Statements have been prepared on the historical cost basis and are presented in US dollars, given the Group's transactions are primarily denominated in US dollars.

Property, Plant and Equipment

The Group depreciates all fixed assets over their estimated useful lives, less any pre-agreed salvage value. The carrying value of fixed assets are reviewed annually or more frequently if a triggering event occurs.

Principal Risks and Uncertainties

The Group operates in environments that pose various risks and uncertainties. Aside from the generic risks that face all businesses, the Group's business, financial condition or results of operations could be materially and adversely affected by any of the risks described below.

These risks should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties nor are they listed in order of magnitude or probability. Additional risks and uncertainties that are not presently known to the Directors, or which they currently deem immaterial, may also have an adverse effect on the Group's operating results, financial condition and prospects.

The principal risks associated with the business are:

Area	Description	Mitigation
Fluctuation in levels of mining activity	The Group is highly dependent on the levels of mineral exploration, development and production activity within the markets in which it operates. A reduction in exploration, development and production activities, or in the budgeted expenditure of mining and mineral exploration companies, will cause a decline in the demand for drilling rigs and drilling services.	The Group is seeking to balance these risks by building a portfolio of long term drilling contracts, expanding into new geographic areas and implementing its Lean Operating Model.
Reliance on key customers	The Group's revenue is reliant on a small number of key customers. The loss of a key customer, or a significant reduction in the demand for drilling provided to a key customer will have a significant adverse effect on the Group's revenues.	<p>The Group has entered into long term production contracts with its key customers for periods between 2 to 5 years. Contract renewal negotiations are initiated well in advance of expiry of contracts to ensure contract renewals are concluded without interruption to drilling services.</p> <p>The Group has and continues to monitor projects closely and invest a significant amount of time into client relationship and service level monitoring at all levels of the business. A key part of this process is the quarterly project steering committee meetings with key client stakeholders that provide a forum for monitoring and reporting on project performance and key performance indicators ("KPI's"), contractual issues, pricing and renewal.</p>



Area	Description	Mitigation
<p>Key personnel and staff retention</p>	<p>The Group’s ability to implement a strategy of pursuing expansion opportunities is dependent on the efforts and abilities of its executive directors and senior managers. In addition, the Group’s operations depend, in part, upon the continued services of certain key employees. If the Group loses the services of any of its existing key personnel without timely and suitable replacements, or is unable to attract and retain new personnel with suitable experience as it grows, the Group’s business, financial condition, results of operations and prospects may be materially and adversely affected. In addition, business may be lost to competitors which members of senior management may join after leaving their positions with the Group.</p>	<p>The Group has expanded capabilities in the areas of business development, supply chain, finance, training and health and safety and continues to do so through the recruiting of senior managers in the various fields, implementing comprehensive training programmes and providing employees with international exposure in their fields.</p> <p>The Group has implemented remuneration policies that seeks to recruit suitable talent and to remunerate talent at levels commensurate with market levels.</p>
<p>Operating risks</p>	<p>Operations are subject to various risks associated with drilling including, in the case of employees, personal injury, malaria and loss of life and, in the Group’s case, damage and destruction to property and equipment and interruption or suspension of drill site operations due to unsafe drilling operations. The occurrence of any of these events could adversely impact the Group’s business, financial condition, results of operations and prospects, lead to legal proceedings and damage the Group’s reputation. In particular, clients are placing an increasing focus on occupational health and safety, and deterioration in the Group’s safety record may result in the loss of key clients.</p>	<p>The Executive Leadership Team and managers provide leadership to projects on the management of these risks and actively engage with all levels of employees. The Group have implemented and continue to monitor and update a range of health and safety policies and procedures, including equipment standards and standard work procedures. Employees are provided with training regarding risks associated with their employment, policies and standard work procedures.</p> <p>All serious near misses or incidents are reported and fully investigated and mitigating actions implemented.</p> <p>Health and Safety statistics and incident reports are monitored throughout our projects and the various management structures of the Group, including the HSSE committee. Where necessary policies and procedures are updated to reflect developments and improvement needs.</p> <p>The Group maintains adequate insurance policies to provide insurance cover against operating risks.</p>



Area	Description	Mitigation
Currency fluctuations	The Group receives the majority of its revenues in US dollars. However, some of the Group's costs are in other currencies in the jurisdictions in which it operates. Foreign currency fluctuations and exchange rate risks between the value of the US dollar and the value of other currencies may increase the cost of the Group's operations and could adversely affect the financial results. As a result, the Group is exposed to currency fluctuations and exchange rate risks.	To minimise the Group's risk, the Group tries to match the currency of operating costs with the currency of revenue. Funds are pooled centrally in the head office bank accounts to the maximum extent possible. The group have implemented procedures to allow for the repatriation of funds to the Group's Head Office bank accounts from jurisdictions where exchange control regulations are in effect.
Political, economic and legislative risk	The Group operates in a number of jurisdictions where the political, economic and legal systems are less predictable than in countries with more developed industrial structures. Significant changes in the political, economic or legal landscape in such countries may have a material effect on the Group's operations in those countries. Potential impacts include restrictions on the export of currency, expropriation of assets, imposition of royalties or other taxes targeted at mining companies, and requirements for local ownership. Political instability can also result in civil unrest, industrial action and nullification of existing agreements, mining permits or leases. Any of these may adversely affect the Group's operations or results of those operations.	<p>The Group has invested in a number of countries thereby diversifying exposure to any single jurisdiction.</p> <p>The Group monitors political and regulatory developments in the jurisdictions it operates in through a number of service providers and advisors.</p> <p>Senior management regularly reports to the Board on any political or regulatory changes in the jurisdictions we operate in.</p> <p>Where significant events occur, we work closely with our clients, advisors and other stakeholders to address these events.</p> <p>The Group has also increased their international tax capabilities, by the appointment of an International Tax Manager to ensure and monitor compliance with local legislation.</p>

Viability Statement

The activities of the Group, together with the factors likely to affect its future development, performance, the financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the pages 18 to 32. The Directors have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. These risks and the ways they are being managed and mitigated by a wide range of actions are summarised on pages 13 to 15.



CAPITAL DRILLING

Taking account of the Group's position and principal risks, the Directors assessed the prospects of the Group by reviewing and discussing the annual forecast, the three-year strategic plan and the Group risk framework. Throughout the year the Directors review and discuss the potential impact of each principal risk as well as the risk impact of any major events or transactions. A three-year period is considered appropriate for this assessment because:

- it is the period covered by the strategic plan; and
- it enables a high level of confidence, even in extreme adverse events, due to a number of factors such as:
 - the Group has considerable financial resources together with established business relationships with major, mid-tier and junior mining houses and suppliers in countries throughout the world;
 - high cash generation by the Group's operations;
 - low level of gearing and availability of unutilised facilities with the Group's bankers;
 - flexibility of cash outflows including capital expenditure and dividend payments; and
 - the Group's long term contracts, and equipment availability and diverse geographic operations.

Based on the results of this analysis, the Directors believe that the Group is well placed to manage its business risks successfully as the market conditions continue to improve. The Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.

Going Concern Basis

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement and this Chief Financial Officer's Review. The financial position of the Group, its cash flows and liquidity position are also described in pages 18 to 32 of the attached condensed financial statements.

The Group has borrowings and a debt facility which, together with its clients' receipts, fund its day to day working capital requirements. The Group's forecasts and projections, taking into account potential changes in its performance, show that the Group should be able to operate within the level of its capital structure, current facilities and related covenants. The directors have reviewed the overall Group strategy, the 2017 budget, considered the assumptions contained in the budget and reviewed the critical risks which may impact the Group's performance.

After making such enquiries, the directors believe that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Group continues to adopt the going concern basis in preparing the annual financial statements.

Financial information

The Listing Rules of the UK Listing Authority (LR 9.7A.1) require that preliminary unaudited statements of annual results must be agreed with the listed company's auditor prior to publication, even though an audit opinion has not yet been issued. In addition, the Listing Rules require such statements to give details of the nature of any likely modification that may be contained in the auditor's report to be included with the annual report and accounts. Capital Drilling Limited confirms that it has agreed this preliminary statement of annual results with Deloitte & Touche South Africa and that the Board of Directors has not been made aware of any modification to the auditor's report required to be included with the annual report and accounts for the year ended 31 December 2016.

Responsibility Statement

The Directors confirm to the best of their knowledge that the financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and give a true and accurate reflection of the operating result, cash position and Statement of Financial Position at 31 December 2016. The Directors further confirm that to the best of their knowledge that the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.

Cautionary Statement

This Business Review, which comprises the Chairman's Statement and Chief Financial Officer's Review, has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed.

The Business Review contains certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

By order of the Board

Dewald van Tonder
Chief Financial Officer
16 March 2017



CAPITAL DRILLING

FINANCIAL RESULTS

CONDENSED STATEMENT OF COMPREHENSIVE INCOME For the year ended 31 December 2016

	Note	CONSOLIDATED	
		2016 \$ <i>Unaudited</i>	2015 \$ <i>Audited</i>
Revenue		93,340,025	78,667,853
Cost of sales		(67,032,132)	(56,297,375)
Gross profit		26,307,893	22,370,478
Administration expenses		(13,265,824)	(12,282,756)
Depreciation		(14,492,161)	(14,576,086)
(Loss) profit from operations		(1,450,092)	(4,488,364)
Share of losses from associate		(57,290)	(43,512)
Interest income		94,169	51,730
Finance charges		(772,793)	(849,392)
Realised gain (loss) on available-for-sale shares		797,315	(213,959)
Fair value adjustment on financial assets through profit and loss - Share Options		405,893	-
Loss before tax		(982,798)	(5,543,497)
Taxation		(3,865,483)	(4,624,017)
Loss for the year		(4,848,281)	(10,167,514)
Other comprehensive (loss) income:			
Other comprehensive (expense) income to be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operations		35,665	(138,749)
Share of exchange differences on translation of foreign operations from associate		(38,454)	(35,665)
Net (loss) gain on revaluation of available for sale investments		877,785	(257,509)
Cumulative (gain) loss reclassified to profit and loss		(797,315)	213,959
Total other comprehensive (loss) income for the year		77,681	(217,964)
Total comprehensive (loss) for the year		(4,770,600)	(10,385,478)
Loss per share:			
Basic (cents per share)	5	(3.6)	(7.6)
Diluted (cents per share)	5	(3.6)	(7.6)



CAPITAL DRILLING

CONDENSED STATEMENT OF FINANCIAL POSITION As at 31 December 2016

	Note	CONSOLIDATED	
		2016 \$ <i>Unaudited</i>	2015 \$ <i>Audited</i>
ASSETS			
Non-current assets			
Property, plant and equipment	7	45,129,741	49,114,031
Investment in subsidiaries		-	-
Investment in associate		467,933	528,011
Deferred tax assets		205,706	59,842
Total non-current assets		<u>45,803,380</u>	<u>49,701,884</u>
Current assets			
Inventory		19,361,181	17,576,970
Trade and other receivables		15,591,138	9,044,527
Prepaid expenses and other assets		5,240,278	4,686,905
Investments		1,316,243	222,032
Affiliate accounts receivable		-	-
Taxation		549,435	771,551
Cash and cash equivalents		12,728,555	13,369,091
Total current assets		<u>54,786,830</u>	<u>45,671,076</u>
Total assets		<u>100,590,210</u>	<u>95,372,960</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	8	13,490	13,460
Share premium	8	21,697,470	21,566,856
Equity-settled employee benefits reserve		441,883	282,075
Investments revaluation reserve		36,920	(43,550)
Foreign currency translation reserve		(38,454)	(35,665)
Retained earnings		44,639,236	54,883,674
Total equity (shareholders' deficit)		<u>66,790,545</u>	<u>76,666,850</u>
Non-current liabilities			
Long-term liabilities	9	10,000,000	5,000,000
Deferred tax liabilities		-	201,389
Total non-current liabilities		<u>10,000,000</u>	<u>5,201,389</u>
Current liabilities			
Trade and other payables		18,364,357	12,176,822
Affiliate accounts payable		-	-
Taxation		3,340,183	1,231,898
Current portion of long-term liabilities		2,095,125	96,001
Total current liabilities		<u>23,799,665</u>	<u>13,504,721</u>
Total equity and liabilities		<u>100,590,210</u>	<u>95,372,960</u>



CONDENSED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2016

	Note	Share capital \$	Share premium \$	Equity settled employee benefits reserve \$	Investments revaluation reserve \$	Foreign currency translation reserve \$	Retained earnings \$	Total \$
CONSOLIDATED								
Audited Balance at 31 December 2014		13,459	21,561,190	205,146	-	138,749	69,089,299	91,007,843
Issue of shares		1	5,666	(5,667)	-	-	-	-
Recognition of share-based payments		-	-	82,596	-	-	-	82,596
Total comprehensive loss for the year		-	-	-	(43,550)	(174,414)	(10,167,514)	(10,385,478)
Loss for the year		-	-	-	-	-	(10,167,514)	(10,167,514)
Other comprehensive loss for the year, net of tax		-	-	-	(43,550)	(174,414)	-	(217,964)
Dividends paid		-	-	-	-	-	(4,038,111)	(4,038,111)
Audited Balance at 31 December 2015		13,460	21,566,856	282,075	(43,550)	(35,665)	54,883,674	76,666,850
Issue of shares		30	130,614	(130,644)	-	-	-	-
Recognition of share-based payments		-	-	290,452	-	-	-	290,452
Total comprehensive loss for the year		-	-	-	80,470	(2,789)	(4,848,281)	(4,770,600)
Loss for the year		-	-	-	-	-	(4,848,281)	(4,848,281)
Other comprehensive loss for the year, net of tax		-	-	-	80,470	(2,789)	-	77,681
Dividends paid	6	-	-	-	-	-	(5,396,157)	(5,396,157)
Unaudited Balance at 31 December 2016		13,490	21,697,470	441,883	36,920	(38,454)	44,639,236	66,790,545



CAPITAL DRILLING

CONDENSED STATEMENT OF CASH FLOWS For the year ended 31 December 2016

	Note	CONSOLIDATED	
		2016 \$ <i>Unaudited</i>	2015 \$ <i>Audited</i>
Operating activities:			
Cash generated from operations	10	12,442,477	25,565,086
Interest received		94,169	51,730
Finance charges paid		(773,669)	(852,617)
Taxation paid		(1,882,335)	(2,675,133)
Net cash generated from operating activities		<u>9,880,642</u>	<u>22,089,066</u>
Investing activities:			
Purchase of property, plant and equipment	7	(12,772,084)	(7,926,295)
Purchase of investments		189,467	(290,101)
Investment in associate		-	(607,188)
Proceeds from disposal of property, plant and equipment		1,011,583	344,296
Net cash used in investing activities		<u>(11,571,034)</u>	<u>(8,479,288)</u>
Financing activities:			
Long-term liabilities received	9	14,000,000	-
Long-term liabilities repaid		(7,000,000)	(10,000,000)
Dividend paid	6	(5,396,157)	(4,038,111)
Net cash used in financing activities		<u>1,603,843</u>	<u>(14,038,111)</u>
Net (decrease) increase in cash and cash equivalents		(86,549)	(428,333)
Cash and cash equivalents at the beginning of the year		13,369,091	14,743,976
Translation of foreign currency cash and cash equivalent adjustment		(553,987)	(946,552)
Cash and cash equivalents at the end of the year		<u>12,728,555</u>	<u>13,369,091</u>

NOTES TO THE CONDENSED ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. Basis of preparation

The unaudited preliminary condensed consolidated financial statements are prepared on the going concern basis under the historical cost convention.

The unaudited preliminary condensed consolidated financial information included in this preliminary announcement has been prepared in accordance with the measurement and recognition criteria of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and as a minimum contain the information required by IAS 34: Interim Financial Reporting. Whilst the financial information included in this preliminary announcement has been prepared in accordance with IFRS, this announcement does not itself contain sufficient information to comply with the disclosure requirements of IFRS. The Group's 2016 annual financial statements will be prepared in accordance with IFRS. The unaudited preliminary announcement does not constitute a dissemination of the annual financial reports. A separate dissemination announcement in accordance with Disclosure and Transparency Rules (DTR) 6.3 will be made when the Annual Report and audited consolidated Financial Statements are available on the Company's website.

The accounting policies are in terms of IFRS and consistent with those of the prior year.

The financial information for the years ended 31 December 2016 and 2015 does not constitute the annual financial statements. The annual financial statements for the year ended 31 December 2015 were completed and received an unmodified audit report from the Company's Auditors. The Annual Report and Annual Financial Statements for the year ended 31 December 2016 will be finalised on the basis of the financial information presented by the Directors in this unaudited preliminary announcement. The audit report for the year ended 31 December 2016 has not yet been issued.

2. Operations during the year

During the year ended 31 December 2016, the Group provided drilling services in Botswana, Chile, Egypt, Ethiopia, Mauritania, Mali, Kenya, Tanzania and Serbia. The Group's administrative office is located in Mauritius.

3. Segment analysis

Operating segments are identified on the basis of internal management reports about components of the Group that are regularly reviewed by the Chief Executive Officer in order to allocate resources to the segments and to assess their performance. Information reported to the Group's Chief Executive Officer for the purposes of resource allocation and assessment of segment performance is focused on the region of operation. For the purposes of the segmental report, the information on the operating segments have been aggregated into the principal regions of operations of the Group. The Group's reportable segments are therefore:

NOTES TO THE CONDENSED ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. Segment analysis (continued)

- Africa: Derives revenue from the provision of drilling services.
- Rest of world: Derives revenue from the provision of drilling services and related logistic, equipment rental and IT support services.

The following is an analysis of the Group's revenue and results by reportable segment:

	Africa \$	Rest of world \$	Consolidated \$
<u>2016 Unaudited</u>			
External revenue	90,341,048	2,998,977	93,340,025
Segment gross profit (loss)	32,414,800	(6,106,907)	26,307,893
Administration costs and depreciation	(23,562,392)	(3,000,203)	(26,562,595)
Segment profit (loss)	8,852,408	(9,107,110)	(254,702)
Central administration costs and depreciation			(1,195,390)
Loss from operations			(1,450,092)
Interest income			94,169
Share of losses from associate			(57,290)
Finance charges			(772,793)
Fair value adjustment on financial assets through profit and loss - Share Options			1,203,208
Loss before tax			(982,798)

Included in revenues arising from the Africa segment are revenues of approximately \$73.3 million (2015: \$68.8 million) which arose from sales to customers that represent more than 10% of the Group's revenue.

2015 Audited

External revenue	76,817,256	1,850,597	78,667,853
Segment gross profit (loss)	26,432,416	(4,061,938)	22,370,478
Administration costs and depreciation	(22,895,636)	(2,946,329)	(25,841,965)
Segment profit (loss)	3,536,780	(7,008,267)	(3,471,487)
Central administration costs and depreciation			(1,016,877)
Loss from operations			(4,488,364)
Interest income			51,730
Share of losses from associate			(43,512)
Finance charges			(849,392)
Loss on financial assets through profit and loss			(213,959)
Loss before tax			(5,543,497)

NOTES TO THE CONDENSED ANNUAL FINANCIAL STATEMENTS
For the year ended 31 December 2016

CONSOLIDATED	
2016	2015
\$	\$
<i>Unaudited</i>	<i>Audited</i>

3. Segment analysis (continued)

Segment assets and liabilities:

The following is an analysis of the Group's assets and liabilities by reportable segment:

Segment assets:

Africa	129,798,346	116,395,462
Rest of world	27,346,447	16,559,968
Total segment assets	<u>157,144,793</u>	<u>132,955,430</u>
Head office companies	34,726,134	36,335,219
	<u>191,870,927</u>	<u>169,290,649</u>
Eliminations	<u>(91,280,718)</u>	<u>(73,917,689)</u>
Total Assets	<u><u>100,590,209</u></u>	<u><u>95,372,960</u></u>

Segment liabilities:

Africa	28,342,176	29,764,138
Rest of world	20,235,544	10,782,670
Total segment assets	<u>48,577,720</u>	<u>40,546,808</u>
Head office companies	75,041,287	50,628,610
	<u>123,619,007</u>	<u>91,175,418</u>
Eliminations	<u>(89,819,342)</u>	<u>(72,469,308)</u>
Total Liabilities	<u><u>33,799,665</u></u>	<u><u>18,706,110</u></u>

NOTES TO THE CONDENSED ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. Taxation

Capital Drilling Limited is incorporated in Bermuda. No taxation is payable on the results of the Bermuda business. Taxation for other jurisdictions is calculated in terms of the legislation and rates prevailing in the respective jurisdictions.

The Group operates in multiple jurisdictions with complex legal and tax regulatory environments. In certain of these jurisdictions, the Group has taken income tax positions that management believes are supportable and are intended to withstand challenge by tax authorities. Some of these positions are inherently uncertain and include those relating to transfer pricing matters and the interpretation of income tax laws. The Group periodically reassesses its tax positions. Changes to the financial statement recognition, measurement, and disclosure of tax positions is based on management's best judgment given any changes in the facts, circumstances, information available and applicable tax laws. Considering all available information and the history of resolving income tax uncertainties, the Group believes that the ultimate resolution of such matters will not likely have a material effect on the Group's financial position, statements of operations or cash flows.

Tanzanian tax:

The Intercompany loan from Capital Drilling (Tanzania) Limited to Capital Drilling (Mauritius) Limited gave rise to a deemed interest tax charge of \$0.4 million for the current financial period. Included in the current tax period is an amount of \$0.8 million, excluding penalties and interest for the period 2012 to 2015.



**CAPITAL
DRILLING**

NOTES TO THE CONDENSED ANNUAL FINANCIAL STATEMENTS
For the year ended 31 December 2016

CONSOLIDATED	
2016	2015
\$	\$
<i>Unaudited</i>	<i>Audited</i>

5. Loss per share

Basic loss per share

The losses or earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

Loss for the year, used in the calculation of basic loss per share	(4,848,281)	(10,167,514)
Weighted average number of ordinary shares for the purposes of basic earnings per share	134,828,877	134,603,264
Basic loss per share (cents)	(3.6)	(7.6)

Diluted loss per share

The losses or earnings used in the calculations of all diluted loss per share measures are the same as those used in the equivalent basic loss per share measures, as outlined above.

Weighted average number of ordinary shares used in the calculation of basic earnings per share	134,828,877	134,603,264
Shares deemed to be issued for no consideration in respect of:		
- Dilutive share options #	296,834	48,949
Weighted average number of ordinary shares used in the calculation of diluted loss per share	135,125,711	134,652,213
Diluted loss per share (cents)	(3.6)	(7.6)

For the purposes of calculating diluted earnings per share, the share options of 5.34 million were excluded as they are anti-dilutive as the exercise price is higher than the current share price.



CAPITAL DRILLING

NOTES TO THE CONDENSED ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2016

CONSOLIDATED	
2016	2015
\$	\$
<i>Unaudited</i>	<i>Audited</i>

6. Dividends

Dividends paid:

Final dividend in respect of the year	5,396,157	4,038,111
Total dividends paid	<u>5,396,157</u>	<u>4,038,111</u>

During the 12 months ended 31 December 2016, a dividend of 2.5 cents per ordinary share, totalling to \$3,372,605 was declared and paid to the shareholders on 12 May 2016 followed by a further dividend of 1.5 cents per share which was declared totalling \$2,023,552 and paid on 14 October 2016. The total final dividend paid is \$5,396,157 (2014: \$4.0 million).

In respect of the year ended 31 December 2016, the directors propose that a final dividend of 1 cent per share be paid to shareholders on 19 May 2017. This final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these consolidated financial statements. The proposed final dividend is payable to all shareholders on the Register of Members on 27 April 2017. The total estimated final dividend to be paid is \$1.4 million (2015: \$3.4 million). The payment of this final dividend will not have any tax consequences for the Group.

7. Property, plant and equipment

For the year ended 31 December 2016, the Group spent \$12.8 million (2015: \$7.9 million) on drilling rigs and other assets to expand its operations, safety upgrades and for the replacement of existing assets. The Group disposed of property, plant and equipment with a net book value of \$2.3 million (2015: \$0.9 million) during the year. A loss of \$1.3 million (2015: \$0.6 million) was incurred on the disposal of property, plant and equipment.

8. Issued capital

Authorised

2,000,000,000 (2014: 2,000,000,000) ordinary shares of 0.01 cents (2014: 0.01 cents) each	200,000	200,000
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Issued

134,903,396 (2015: 134,603,681) ordinary shares of 0.01 cents (2015: 0.01 cents) each	13,490	13,460
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Share premium

Balance at the beginning of the year	21,566,856	21,561,190
Issue of shares	130,614	5,666
Balance at the end of the year	<u>21,697,470</u>	<u>21,566,856</u>

On 1 April 2016, the Company issued 299,715 new common shares pursuant to the Company's employee incentive scheme. The shares rank pari passu with the existing ordinary shares.

NOTES TO THE CONDENSED ANNUAL FINANCIAL STATEMENTS
For the year ended 31 December 2016

CONSOLIDATED	
2016	2015
\$	\$
<i>Unaudited</i>	<i>Audited</i>

9. Long term debt

Long term liabilities consist of a \$20 million revolving credit facility (“RCF”) provided by Standard Bank (Mauritius) Limited. The RCF has an annual interest rate of 5.25% above the prevailing three month US\$ LIBOR (payable in arrears), and has an annual commitment fee of 1% of the undrawn balance.

The facility will stepdown as follow:

- \$15 million- 31 August 2017
- \$10 million- 30 November 2017
- Zero- 2 February 2018

Security for the Standard Bank (Mauritius) Limited facility comprises:

- Upward corporate guarantees from Capital Drilling Egypt (Limited Liability Company), Capital Drilling (T) Limited and Capital Drilling Zambia Limited.
- A negative pledge over the assets of Capital Drilling Ltd and Capital Drilling Egypt (Limited Liability Company).

As at the reporting date and during the year under review, the Group has complied with all covenants that attaches to the loan facilities.

Standard Bank (Mauritius) Limited

Balance at the beginning of the year	5,096,001	15,099,226
Amounts received during the year	14,000,000	-
Interest accrued during the year	772,793	839,350
Interest paid during the year	(773,669)	(842,575)
Principal repayments during the year	(7,000,000)	(10,000,000)
	<u>12,095,125</u>	<u>5,096,001</u>
Less: Current portion included under current liabilities	(2,095,125)	(96,001)
Due after more than one year	<u>10,000,000</u>	<u>5,000,000</u>



CAPITAL DRILLING

NOTES TO THE CONDENSED ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2016

	CONSOLIDATED	
	2016	2015
	\$	\$
	<i>Unaudited</i>	<i>Audited</i>
10. Cash generated from (used in) operations		
Loss before tax	(982,798)	(5,543,497)
Adjusted for:		
- Depreciation	14,492,161	14,576,086
- Loss on disposal of property, plant and equipment	1,306,335	598,458
- Share based payment expense	290,452	82,596
- Realised (gains) loss on Available for Sale Shares	(797,315)	213,959
- Fair value adjustment on financial assets through profit and loss	(405,893)	-
- Provision for inventory obsolescence	(172,643)	5,218,537
- Interest income	(94,169)	(51,730)
- Share of profit from associate	57,290	43,512
- Finance charges	772,793	849,392
- Unrealised foreign exchange loss on foreign cash held	500,281	807,751
Operating cash flows before working capital changes	<u>14,966,494</u>	<u>16,795,064</u>
Adjustments for working capital changes:		
- (Increase) in inventory	(1,611,568)	(124,998)
- (Increase) decrease in trade and other receivables	(6,546,611)	1,717,122
- (Increase) decrease in prepaid expenses and other assets	(553,373)	2,314,511
- Increase in trade and other payables	6,187,535	4,863,387
	<u>12,442,477</u>	<u>25,565,086</u>

11. Financial instruments

Financial instruments that are measured in the consolidated statement of financial position or disclosed at fair value require disclosure of fair value measurements by level based on the following fair value measurement hierarchy:

- level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- level 3 – inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Financial assets that are listed equity securities are measured at fair value at the end of each reporting period. They are designated as level 1 in the fair value hierarchy. Their fair value is determined using quote bid prices in an active market.

NOTES TO THE CONDENSED ANNUAL FINANCIAL STATEMENTS
For the year ended 31 December 2016

CONSOLIDATED	
2016	2015
\$	\$
<i>Unaudited</i>	<i>Audited</i>

11. Financial instruments (continued)

The fair values of financial instruments that are not traded in an active market are determined using standard valuation techniques. These valuation techniques maximise the use of observable market data where available and rely as little as possible on Group specific estimates. The directors consider that the carrying value amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements are approximately equal to their fair values. The fair values disclosed for the financial assets and financial liabilities are classified in level 3 of the fair value hierarchy have been assessed to approximate their carrying amounts based on a discounted cash flow assessment.

12. Commitments

The Group has the following commitments:

Committed capital expenditure	1,493,276	348,757
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The Group had outstanding purchase orders amounting to \$4.7 million (2015: \$1.9 million) at the end of the reporting period of which \$1.5 million were for capital expenditure.

13. Contingencies

Zambia tax:

As disclosed in the prior year financial statements, Capital Drilling (Zambia) Limited is a party to various tax claims made by the Zambian Revenue Authority for the tax years 2007 to 2013. On 30 April 2015, the Company received a tax assessment from the Zambian Revenue Authority totaling ZMW 144.1 million (USD equivalent: \$13.1 million), inclusive of penalties and interest. The claims relate to various taxes, including income tax, value added tax, payroll tax and withholding tax. Since the assessment date, Management have responded in detail to these claims, providing the Zambian Revenue Authority with detailed analysis and arguments justifying the Company's tax position. No amount has yet been paid in this regard and no additional communication or actions were received from the Zambian Revenue Authority during the 2016 financial year regarding this matter. Capital Drilling (Zambia) is currently dormant with no drilling revenue since November 2014. An amount of \$1.6 million has been raised relating to certain areas of the claim, however the directors are of the opinion that a significant portion of the tax claim by the Zambia Revenue Authority is without merit.

NOTES TO THE CONDENSED ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2016

13. Contingencies (continued)

Tanzania tax:

Capital Drilling (Tanzania) Limited is a party to a payroll tax claim made by the Tanzania Revenue Authority for the tax years 2009 - 2015. During December 2016, the Company received an immediate demand notice from the Tanzania Revenue Authority for Tanzanian Shillings of 18,598,361,197 (US\$ 8,481,868), inclusive of penalties and interest. The claim relates to payroll taxes, however it should be noted that the assessment raised had no supporting documents to substantiate the assessment raised. Based on the lack of information for the basis of the assessment received by the Tanzania Revenue Authority, management has duly objected against the assessment. The Tanzania Revenue Authority rejected the objection submitted by the company without disclosing any grounds or details thereof for the disallowance. According to the Tanzanian Tax Law Sections 51(1) and (5) of the TAA 2015, a taxpayer is required to pay the tax not in dispute or one third of the assessed tax whichever is greater. It is prudent to note that the Finance Act, 2016 has added a further subsection (9) in Section 51 regarding tax objections and assessments. The said amendment provides: "Where the taxpayer fails to pay the amount stated under subsection (5) within the time provided therein, the assessed tax decision shall be confirmed as final tax assessment in terms of section 15(1)(a) of the Tax Revenue Appeals Act." In accordance with the above-mentioned legislation, management reached an agreement with the Tanzania Revenue Authority to pay \$0.7 million in lieu of the one third of the assessed value. The full amount of \$0.7 million has been provided in the Annual Financial Statements for the period ending 31 December 2016. The Tanzania Tax Authority upon receipt of the agreed amount would disclose the basis of assessment. The lack of disclosure by the Tanzania Revenue Authority results in substantial uncertainty.

The Tanzania Tax Authority also raised a Withholding Tax liability of TZS 2,244,907,829 (US\$ 1,024,268) inclusive of interest and penalties. This pertains to the misinterpretation of the facts by the Tanzania Revenue Authority for assets that were purchased by Capital Drilling Tanzania and not leased. The Tanzania Tax Authority interpreted these assets as a rental agreement for these assets rather than permanent acquisition of these assets, which results in no Withholding Tax liability. Management lodge an objection on 14 November 2016, and paid an upfront payment of TZS 170,000,000 (US\$ 77,564) in order to have the objection validated and acknowledged, as is required per subsection (9) in Section 51 of the Income Tax Act of Tanzania. Based on above, management assessed no further liability with regards to this assessment.

14. Events post the reporting date

Mark Parsons, Chief Executive Officer and Director resigned from executive employment and the Board of Directors effective 28 February 2017. There are no other material events that occurred subsequent to year end until approval of the financial statements.

NOTES TO THE CONDENSED ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2016

15. Glossary

A description of various acronyms is detailed below:

ARPOR	Average Revenue Per Operating Rig
CAPEX	Capital Expenditure
EBIT	Earnings (Loss) Before Interest and Taxes
EBITDA	Earnings (Loss) Before Interest, Taxes, Depreciation and Amortisation
EPS	Earnings (Loss) Per Share
ETR	Effective Tax Rate
HSSE	Health, Safety, Social and Environment
KPI	Key Performance Indicator
LTI	Lost Time Injury
NPAT	Net Profit (Loss) After Tax
PBT	Profit (Loss) Before Tax
YOY	Year On Year
Return on capital employed	EBIT / (Average Equity)
Return on total assets	EBIT / Average Total Assets