CAPITAL DRILLING
EXCELLENCE IN DRILLING

2010 Annual Report

CORPORATE DIRECTORY

CAPITAL DRILLING LIMITED

Bermuda registered number 34477

DIRECTORS

Jamie Boyton
Executive Chairman

Brian Rudd
Chief Executive Officer

David Payne
Chief Financial Officer

Tim Read
Senior Non Executive Director

Alex Davidson
Non Executive Director

Craig Burton
Non Executive Director

COMPANY SECRETARY

David Payne

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Financial Highlights

	2010 USD' mn	2009 USD' mn	Change (%)
Revenue	75.1	59.0	27%
EBIT	14.1	8.9	58%
NPAT	11.1	7.1	57%
Diluted Earnings per share (cents)	9.0	6.6	36%
Cash generated from operations	12.6	9.2	37%
Cash balance at end of year	18.2	1.1	
Net Cash / (Debt) position	0.2	(14.4)	

Underlying results: Refer to page 6 for a reconciliation to the reported results

2010 Year of investment

- Capital expenditure of $18.9m
- Fleet size increased by 23% (14 rigs)
- 2H'10 revenue increased by 61% over previous period
- 2H'10 utilisation rate at 82%
- Commenced operations in Latin America & West Africa
- Commenced 1st energy contract in Papua New Guinea
- Further expansions within existing operations

2011 Platform for growth

- Full year impact of 2010 investments to be felt in 2011
- Buoyant outlook with strong commodity prices and capital market activity
- Robust tendering enquiries from existing and prospective clients
- Rate increases becoming evident
- Utilisation rates improving toward historical peak levels

Chairman's Statement

Capital Drilling is a fast growth drilling company providing specialised drilling services for exploration, development and production stage projects.

Dear Shareholders

This year marks a year of significant achievement and change within the Group. Having started 2010 operating in a market still feeling the impact of the global credit crunch, we saw a strong and rapid improvement in activity, and finished the year operating in an environment of unprecedented demand for our services and record commodity prices. In anticipation of this increased activity, we undertook an initial public offering in June which, in conjunction with the negotiation of new banking facilities, provided the Company with the balance sheet capacity to capitalise on improving market conditions. Accordingly we embarked on a major fleet expansion in 2010, adding 14 new rigs, increasing our fleet by 23% to 74 rigs. We now enter 2011 well positioned, currently with 77 rigs, utilisation rates approaching peak levels last seen in 2008 and an environment offering record levels of opportunity and demand for our services.

Against this economic backdrop, the Company has produced a strong set of results. Profit after tax from underlying operations rose by 57% year-on-year to $11.1 million.

Capital Drilling currently finds itself uniquely positioned, with a substantial exposure to gold and copper which together represented over 80% of the Group's commodity exposure in 2010. With both metals trading near record highs we are seeing a material increase in capital markets activity, particularly in recent months with the return of the exploration companies to the market, with the resultant positive flow through of increasing rig demand and higher industry utilisation rates. The same dynamic is currently evident in a number of other commodities, particularly iron ore and coal. Industry commentary supports this increased demand and increasing industry utilisation rates are having an impact on rig availability and correspondingly, for the first time since 2008, a positive impact on contract pricing. This strong demand environment does however bring with it a number of challenges, most notably the tightening labour market and the increasing lead times on capital equipment.

2010 was a year in which we saw particularly strong demand growth in our traditional regional base of Africa, with the revenue contribution from the continent representing approximately 84% of total revenue, back to levels commensurate with those of 2007. Of particular encouragement was the significant growth within our existing long term customer base, with Capital Drilling expanding its presence in Egypt (Centamin Egypt), Tanzania (African Barrick, AngloGold), Zambia (Equinox) and Mozambique (Riversdale). The Group's ability to expand and leverage off its existing infrastructure vindicates the strategy of partnering with well capitalised customers on high quality, long life of mine assets and we enter 2011 with further expansion opportunities with a number of these customers. The Group continues to place great emphasis on winning good quality contracts and sustainable margins. During 2010 we expanded on the portfolio of clients, adding First Quantum (Zambia) and Kinross Gold (Mauritania).

The commencement of operations in the new geographical regions of Latin America and West Africa are significant milestones for the Group. These markets have traditionally been significant for the drilling industry and represent substantial growth opportunities on which we are hopeful we can report further progress in the near future. Our recent foray into the energy market with Oil Search Limited also provides further service diversification and an exciting future growth opportunity.

The Company completed its IPO in June in difficult market conditions, where we placed 33.8 million new shares with investors at £0.615 per share, generating proceeds of £13.6 million. We also welcomed two new Board members to the Company, Alex Davidson and Tim Read. Both are highly respected and experienced figures in the mining sector and we are benefiting from their input as our Independent Non Executive Directors

Looking to the year ahead, Capital Drilling has never been in a better position. The Company started 2011 with a solid, well capitalised and expanding customer base, amid a backdrop of a commodities industry that is driving strong demand for our services. We enter the year with utilisation rates of over 80%, an improving pricing environment for our services and a strong balance sheet, well positioned for further growth. The Board believes that we will continue to benefit from increasing expenditure in our markets and from Capital Drilling's focus on providing quality services to our customers in dynamic and fast growth markets. The Company is well placed and looking forward to both the challenges and the opportunities that lie ahead.

I would like to take the opportunity to thank our employees, business partners, shareholders and all stakeholders for their continued support.

Jamie Boyton
Executive Chairman

Chief Executive Review

Overview

2010 was a transformational year for Capital Drilling and encouragingly, in the second half, we saw a welcome return of highly supportive market conditions, which helped drive a strong performance for the Company and has us well positioned for the year ahead. The cornerstone of the business, Capital Drilling Africa, had another particularly strong year, with the group expanding its presence with a number of long term customers as well commencing operations in exciting new regions such as Western Africa. Capital Drilling Africa contributed over 80% of Group's 2010 revenue and continues to provide a number of exciting growth opportunities.

With regards to the remainder of the Group, the Company exited Pakistan and Serbia during the year, and established operations in Chile in Latin America, the world's largest market for drilling services. This, combined with the Group's first energy contract in Papua New Guinea, represents new and material opportunities for the Group and we expect a substantially improved performance for these divisions in the year ahead.

The Group's revenue KPIs all demonstrated pleasing trends in 2010, particularly with respect to fleet growth and rig utilisation. We started 2011 with a total of 74 rigs, an increase of 14 rigs year-on-year representing a 23% growth rate. In terms of rig additions, this represents the second strongest year in our history and maintains the long term rate of growth of 1 rig per month. Encouragingly, the rigs were deployed across a mix of existing sites (particularly in Egypt, Zambia and Tanzania) and new sites (specifically Zambia, Mauritania and Chile).

We are pleased to report that this momentum has carried on into 2011, with the Company adding a further three rigs to the fleet, taking the current rig count to 77. These new rigs are being deployed with existing customers, particularly in Tanzania.

Utilisation rates began to climb from the first quarter of 2010 and it was this increase in activity that drove the Board's decision to launch the Company's IPO in London, creating the capital base to facilitate the growth ahead. After dropping rapidly due to the impact of the global credit crunch, utilisation rates showed a material improvement during H2 2010, averaging 82%, an increase of 37% on H1 2011. The performance in 2011 has continued to be strong with utilisation rates currently above 80%, in what are the traditionally softer months of January and February.

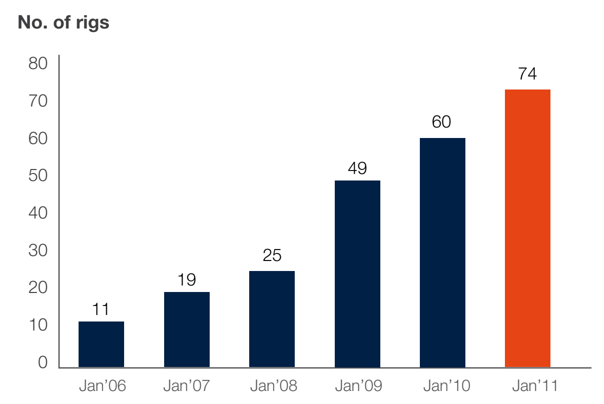
The final revenue KPI, average revenue per operating rig ("APROR") has followed the typical trend of lagging the increase in utilisation which is largely a function of high levels of rig mobilisation during 2010, as the Group commenced a number of new contracts in new geographies. Whilst ARPOR was further restrained by legacy pricing on contracts agreed in 2009, second half ARPOR was $136,000 (up 6% from first half 2010) and reached $138,000 in the fourth quarter 2010. Early signs in 2011 are maintaining this momentum in ARPOR growth.

The combination of these revenue KPIs drove a strong increase in Group revenue, particularly in H2 2010 with revenue of $46.3m representing a 61% increase on the H1 2010. Fully diluted earnings per share for underlying operations were 9 cents, a substantial 36% increase on the previous year even with an enlarged capital base.

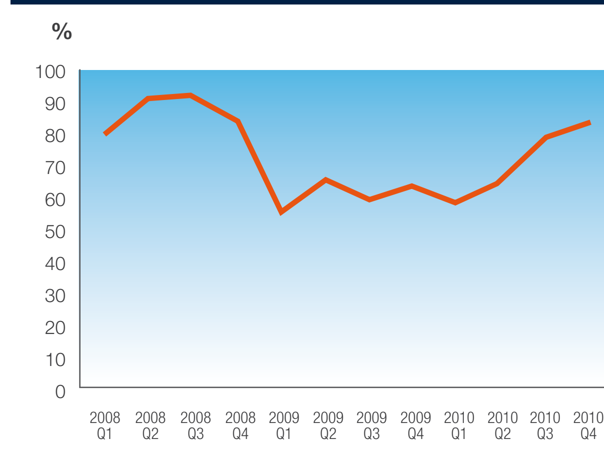
The strength of the operating environment did however bring with it a number of challenges for the management team, most noticeably in labour price inflation, increasing consumables pricing (from both the increased demand and the currency impact), as well as increasing lead times on key capital items. These challenges, while manageable, continue into 2011.

The recent December 2010 contract renewal season has been a busy period, and thanks to our long term relationships and reputation all major contracts were renewed, the majority with price increases and programs extended to include additional drilling rigs. We continue to see improvements in the demand for drilling services across all markets that we operate in and remain confident that we will continue to grow strongly over the foreseeable future.

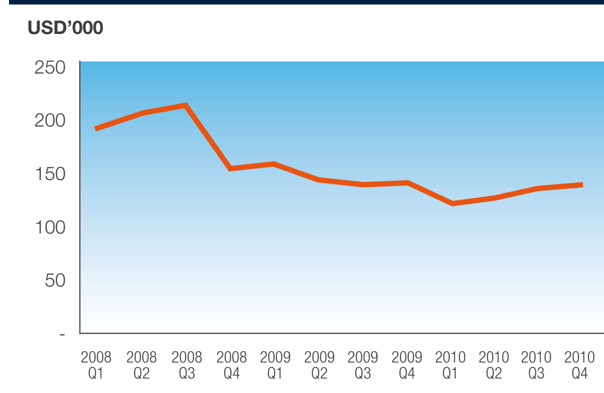
Fleet – growth per annum



Utilisation



APROR



Chief Executive Review

Operating Review

The underlying result for the Group saw a 27% increase year-on-year in revenue to $75.1m and a 57% increase year-on-year in net profit after tax to $11.1m.

Statement of Comprehensive Income	FY-2010 Reported $m	FY-2010 Adjustment $m	FY-2010 Underlying $m	FY-2009 Reported $m	FY-2009 Adjustment $m	FY-2009 Underlying $m
Revenue	75.3	(0.2)	75.1	59.0	-	59.0
Cost of sales	(47.9)	0.1	(47.8)	(37.5)	0.3	(37.3)
Gross profit	27.4	(0.1)	27.3	21.5	0.3	21.7
Administration costs (net of other income)	(7.5)	0.0	(7.4)	(8.7)	0.8	(7.9)
Profit before depreciation, amortisation, finance cost and tax	19.9	(0.1)	19.8	12.8	1.1	13.9
Depreciation and amortisation	(5.8)	-	(5.8)	(4.9)	-	(4.9)
Profit from operations	14.2	(0.1)	14.1	7.9	1.1	8.9
Finance charges	(1.3)	-	(1.3)	(1.3)	-	(1.3)
Profit before tax	12.9	(0.1)	12.8	6.6	1.1	7.6
Taxation	(1.7)	-	(1.7)	(0.5)	-	(0.5)
Profit for the period	11.2	(0.1)	11.1	6.1	1.1	7.1
Earnings per share:						
Basic (cents per share)	9.5		9.4	6.7		7.9
Diluted (cents per share)	9.1		9.0	5.6		6.6

The underlying result has been restated from the reported numbers to reflect non-recurring one off items as outlined below.

	FY-2010 Reported $m	FY-2010 Adjustment $m	FY-2010 Underlying $m	FY-2009 Reported $m	FY-2009 Adjustment $m	FY-2009 Underlying $m
REVENUE	**75.3**			**59.0**		
Sahar		(0.2)	75.1		-	59.0
Cost of Sales	**(47.9)**			**(37.5)**		
Sahar		0.1	(47.8)		0.3	(37.3)
GROSS PROFIT	**27.4**	**(0.1)**	**27.3**	**21.5**	**0.3**	**21.7**
Goodwill		0.5			-	
Sahar		(0.4)			0.0	
FX on loan		(0.3)			0.9	
IPO cost		0.2			0.0	
Other		0.0			(0.2)	
	(7.5)	0.0	(7.4)	(8.7)	0.8	(7.9)
EBITDA	**19.9**	**(0.1)**	**19.8**	**12.8**	**1.1**	**13.9**

The Group reports in two geographical segments, Africa and Rest of the World. A table which sets out the performance of the two geographical segments is outlined on page 8.

Capital Drilling Africa continued to be the dominant contributor to the company, generating revenue of $63.2m representing a 40% year-on-year increase. The Group expanded its activities with a number of long term customers, adding rig capacity in;

• Egypt, with Centamin Egypt
• Mozambique, with Riversdale
• Tanzania, with African Barrick Gold & AngloGold Ashanti
• Zambia, with Equinox Limited

In addition to the growth within the existing customer base, the Company was awarded 2 new significant contracts, with First Quantum in Zambia and Kinross Gold in Mauritania. The move into Mauritania is significant for the Group as it represents the first contract in the substantial West African market, which is roughly equivalent to the size of the East and Southern African markets, which have been the bulk of the Company's exposure since inception.

The largest expansions to the existing operations were seen in Egypt and Zambia. To cater for this growth the Company underwent a significant restructure of our Egyptian operational team to correspond with the increased exposure to production drilling, changes that have already had a positive impact on the performance and efficiency of the operations. Further management depth has recently been added to both Zambia and Tanzania to assist in the continued growth of these businesses.

The fourth quarter of 2010 also saw the return of the junior exploration companies to the market, which represents a significant positive development as they provide further demand momentum and correspondingly increase industry utilisation rates. Capital Drilling has undertaken a number of new contracts in recent months, including Thani Ashanti in Egypt, Andiamo, Sunridge Gold Corp, and Sahar Minerals in Eritrea and Baobab in Mozambique.

Capital Drilling Rest of the World had a softer year when compared to 2009. Revenue decreased by 15% to $11.8m and gross profit from the region halved to $3.4m, largely reflecting the cessation of activities in Pakistan and Serbia. We continue to work in Papua New Guinea for Allied Gold and have recently been awarded a new contract on their Gold Ridge project in the Solomon Islands, which is due to commence in the second quarter of 2011, utilising a rig from the existing fleet. The fourth quarter also saw Capital Energy secure its first contract, with ASX listed Oil Search Limited in Papua New Guinea, utilising an existing rig within the Capital Drilling fleet which was modified for the customer's specific requirements.

Capital Drilling Chile commenced operations in the second quarter, working on an exploration contract with Polar Star. We established a financial and operations support function in Santiago and intend to use this platform to expand the business further in the year ahead. The Latin American market is the largest in the world for the services provided by Capital Drilling, representing over 25% of the worldwide exploration budgets by region, roughly double the size of the African market which has provided the foundation for the Company. The Company expects to add further contracts in the Latin American market in the future.

The significant number of new contract wins provided a unique challenge for the Group in 2010. While international mobilisation is part and parcel of the business, the scale of movement in 2010 was unprecedented, with roughly 25% of the fleet under mobilisation in the second and third quarters of the year. This has a material impact on underlying costs and management time, however these moves were achieved within budget, on time and with a perfect safety record, a highly commendable effort by all involved. The commencement of operations in Mauritania provided another unique challenge for the Group, where we were required to mobilise five new rigs along with over 125 tons of associated support equipment in a six week time frame. Again the team achieved this task injury free and within scope.

Chief Executive Review

Segment Table

Underlying Segment Report FY-2010	Africa			Rest of the World		
	Reported $m	Adjustment $m	Underlying $m	Reported $m	Adjustment $m	Underlying $m
REVENUE	63.2	(0.2)	63.0	12.1	-	12.1
Cost of Sales	(39.2)	0.1	(39.1)	(8.7)	-	(8.7)
GROSS PROFIT	24.0	(0.1)	23.9	3.4	-	3.4

Underlying Segment Report FY-2009	Africa			Rest of the World		
	Reported $m	Adjustment $m	Underlying $m	Reported $m	Adjustment $m	Underlying $m
REVENUE	45.1	-	45.1	13.9		13.9
Cost of Sales	(31.0)	0.2	(30.8)	(6.5)	-	(6.5)
GROSS PROFIT	14.1	0.2	14.3	7.4	-	7.4

Key Performance Indicators

A number of performance indicators are used to compare the business performance and position of the Group.

		2010		2010	2009
	Q4	H2	H1	FY	FY
Average fleet size				65	55
Utilisation	84%	82%	60%	72%	61%
Average revenue Operating Rig (ARPOR)	$138,000	$136,000	$128,000	$132,000	$146,000

Business Development

Outside of the new activities in Latin America and Mauritania, 2010 saw the Company commence a number of other new businesses that have the potential to provide meaningful contributions to the Company's performance in the years ahead.

We established our energy division, Capital Energy, in the second half of the year, and commenced drilling for ASX-listed Oil Search in Papua New Guinea. The contract continues into 2011 and we are in advanced discussions on further opportunities for the year ahead.

We also established another division, Well Force International, in 2010. Well Force offers a wide range of services including bore hole survey, directional drilling equipment and 3D single and multi bore hole planning and deviation control software. The business complements Capital Drilling's operations and has started well, contracting clients in Mauritania and Tanzania in 2010, with further opportunities and prospects ahead in 2011.

To reflect the increasing scale and diversity of the Group's activities, the management team has initiated the process of establishing a presence in Dubai which is expected to commence in the first half of 2011. The premises will house a number of Capital Drilling divisions including Cap-Sat, Well Force International and Capital Support Services, as well as being the centralised procurement & distribution centre for the Group. We also intend to use the facilities as a centralised maintenance facility and expect it will add to the Group's efficiency levels in the years ahead.

Health & Safety

We are pleased to report another strong year for the Group in Health & Safety with a number of significant milestones being achieved in 2010, including achieving over 1.7 million man hours LTI Free.

A number of operating sites were able to report record periods of LTI free activity, including Geita and North Mara in Tanzania, Sukari in Egypt, Lumwana in Zambia as well as a record for the operations in Mozambique. We presented the inaugural annual award for Excellence in Performance & Management of Safety to the Geita site in Tanzania.

Outlook

2011 promises to be another year of sustained growth for Capital Drilling. The business is well positioned with a solid base in the exciting growth market of Africa, and has growth opportunities both within the existing client base and in the broader market. Having now established the business in Latin America the Group is now at advanced stages of discussion on a number of new client opportunities. We expect to see growth in all regions of operation and in the new businesses established in 2010. The macro environment remains highly supportive with record levels of client enquiries in 2011.

The contract renewal season of December 2010 progressed well, with the Company successfully renegotiating all contracts over this period (approximately 50% of total contracts). Encouragingly, we managed to secure our first pricing increases since the global credit crunch which will assist in offsetting the cost pressures experienced in the second half of 2010 and should continue the recent return to a positive trend in operating margins.

Since late January 2011 there has been some significant political upheaval in Egypt, with the fall of President Hosni Mubarak and the installation of an interim government until democratic elections are held in September this year. It is important to clarify that operations at Centamin Egypt's Sukari Gold Project, which accounts for approximately 20% of Capital Drilling's total rig fleet, were not materially impacted by the upheavals and that development, grade control and exploration drilling continues as per normal. Indeed, it is anticipated that Capital Drilling's operations in Egypt will see further growth in 2011.

We remain committed to the Group strategy of targeted growth in the emerging markets, partnering with well capitalised clients, working on long duration quality assets and maintaining a high quality and young fleet, which the Board believes is a key advantage in the regions in which we operate.

With the strengthened balance sheet following the Group's Initial Public Offering in 2010, the continued support of our long term customer base and the dedicated efforts of our employees, we are excited about our prospects for the year ahead, and thank all for their support.

Brian Rudd
Chief Executive Officer
Capital Drilling Limited

Chief Financial Officer's Report

Following the disruption to the global economic environment in 2009, the full year result for 2010 saw a return to the historical growth trend in the business. Particularly pleasing was the contract expansion from within our existing client base which confirms the quality of the service being offered, and the projects to which the Group is contracted.

The business displayed considerable resilience to the pressures arising from increased labour retention costs and the strength in a number of cost input currencies, delivering a substantial increase in earnings combined with a strengthened Balance Sheet. Net earnings increased to $11.1m or 57% year-on-year and net equity increased to $61.4m.

Rapidly improving global conditions and the expansion in contract size within the existing client base saw revenue increase to $75.1m, or 27% year-on-year. Of particular note was the 61% increase in revenue in H2 after three broadly flat previous periods of revenue, as we saw the benefit of the continued fleet growth, better industry conditions and higher utilisation rates. We enter 2011 with high levels of revenue visibility, providing further comfort to the growth prospects within the current client base.

All key metrics continued to improve with utilisation averaging 84% in the fourth quarter, on a fleet that expanded by 23%. The improved utilisation confirms the demand within the sector and for our services and we expect to see an improving pricing environment for our services in 2011, evidence of which started to appear during the December 2010 contract renewal season.

As a result of improving market sentiment, 25% of the drilling fleet was under mobilisation in the first half of 2010 which placed pressure on our margins in H1. Following completion of the unprecedented mobilisation, H2 revenue increased and the business displayed positive operating leverage resulting in a full year EBIT of $14.1m or 18.8% (margin), an increase of 58% from 2009.

Whilst the business displayed resilience, pressure placed on labour from increased global demand resulted in higher labour retention costs which were unable to be offset by increased contract pricing given the lag in the contract renewal season. In addition, raw material costs from rising commodity prices, combined with a deteriorating US Dollar, placed pressure on the Gross Profit margin of the business. These cost pressures were offset by the evidence of operating leverage within the administration costs of the business, thus generating a substantially improved EBIT and net profit after tax margin.

In January 2011, the Board of Directors approved a change in Depreciation methodology. The change provides consistency with industry peers in both policy and estimated useful life and will be accounted for prospectively.

Flat financing costs, combined with a continued low effective tax rate delivered an improved NPAT to $11.1m, or 14.8% (margin), an increase from 12%, an improvement of 57% over the previous year.

Diluted Earnings per share increased by 36% to 9.0 cents on a weighted average number of shares of 122,383,994, from 6.6 cents on a weighted average number of shares of 103,404,878 shares in 2009. The diluted EPS was impacted by non-controlling minority interests, all of which were eliminated at the time of the IPO.

In 2010, the effective tax rate was 13.0%. Despite expanding into new high taxation regions, the business was able to take advantage of carried forward losses as well as continued benefits from double taxation agreements.

Statement of Comprehensive Income

Underlying	FY '10	FY '09	Reported	FY '10	FY '09
Revenue $m	75.1	59.0	Revenue $m	75.3	59.0
EBITDA $m	19.8	13.9	EBITDA $m	19.9	12.8
EBITDA %	26.4	23.5	EBITDA %	26.5	21.7
EBIT $m	14.1	8.9	EBIT $m	14.2	7.9
PBT $m	12.8	7.6	PBT $m	12.9	6.6
NPAT $m	11.1	7.1	NPAT $m	11.2	6.0
Basic EPS (cents)	9.4	7.9	Basic EPS (cents)	9.5	6.7
Diluted EPS (cents)	9.0	6.6	Diluted EPS (cents)	9.1	5.6

Statement of Financial Position

As at 31 December 2010, the Statement of Financial Position showed substantial improvement with net equity increasing to $61.4m. This strengthening is a result of improved retained earnings and current assets from a higher cash position, primarily as a result of the June IPO. The business is now well placed to capitalise on the strong demand from the industry and allow the business to continue targeted expansion.

Statement of Financial Position

	Dec 2010 $m	Dec 2009 $m
Non-current assets	48.2	36.4
Current assets	48.4	21.3
Total Assets	**96.6**	**57.7**
Current liabilities	22.4	17.2
Non-current liabilities	12.8	8.6
Total Liabilities	**35.2**	**25.8**
Total Shareholder's Equity	**61.4**	**31.9**

Current assets increased by 128% to $48.4m. Driven by improved business performance and the proceeds of the IPO, the Group's cash position increased by $14.8m to $18.2m. The Group's Inventory increased by 67% to $14.9m, a strategic decision to cater for further growth of the business and support the new remote locations in West Africa and Latin America. As a consequence of the increased inventory and expansion of capital items, particularly in H2'10, current liabilities increased. Despite this, the liquidity of the business improved from the previous year.

In line with the increase in the drilling fleet to 74 rigs (increase year-on-year of 23%), the net fixed assets of the business increased by 34% to $48.1m. The full impact of this investment will flow through in 2011.

Total debt increased to $18.0m, primarily due to capital expansion and debt restructuring prior to the June IPO.

Significant improvement in the Group's cash-flow was achieved in 2010. Enhancement of margins, improved collections and IPO funds from the June listing provided the basis for the improved liquidity. Higher levels of profitability, from increasing demand and subsequent revenue growth, was offset by working capital outflows in 2010, due to expansion of inventory and receivables. Despite this, net cash from operating activities increased by a commendable 37% to $12.6m. Working capital management continues to be a focus for the business, H2 resulting in a broadly flat working capital flow.

Statement of Cash Flow

	Dec 2010 $m	Dec 2009 $m
Net Cash from Operating Activities	12.6	9.2
Net Cash used in Investing Activities	(18.3)	(7.3)
Net Cash used in Financing Activities	22.8	(6.5)
Net Increase (Decrease) in Cash & Cash Equivalents	17.1	(4.6)
Cash balance at beginning of period	1.1	5.7
Cash Balance at End of Period	**18.2**	**1.1**

Cash used in investing activities was $18.3m, a 151% increase on 2009. The Group's drilling fleet expanded by 14 rigs (increase of 23%) and we expect the full effect of this investment will be seen in 2011. As a result of the substantial increase in Fixed Assets, the Free Cash Flow of the business was negative $5.7m.

Cash from Financing Activities was $22.8m, compared to net cash used of $6.5m in 2009, a direct result of the successful IPO.

The Group's cash position at year end was $18.2m, a substantial increase from the 2009 cash position of $1.1m net of overdraft. Total debt marginally increased as a result of pre IPO debt restructuring and fixed asset additions to $18.9m.

The net cash position of the business improved to $0.2m and, as a result, net gearing was 0%. In 2009, the business had a net debt position of $14.4m.

Treasury and Risk Management

The Group operates under standard Finance Procedures with a centralised Treasury function. As a result, the majority of receivables are centrally received to mitigate any in country cash risk and therefore cash and cash flow is managed by Head Office.

Chief Financial Officer's Report

A reconciliation of the movement in the net cash position is found below.

Net Debt at beginning of year	**(14,406,495)**
Increase in cash and cash equivalents	17,127,545
Increase in loans	(2,771,122)
Loan write off	238,966
Net Cash at end of year	**188,894**

The Group does not undertake any formal currency hedging, though it endeavours to increase the percentage of all transactions in USD denominations as an informal hedge.

Critical Accounting Policies

The Financial statements have been prepared in accordance with IFRS 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 USD, given the Groups transactions are primarily denominated in USD.

Property Plant and Equipment

The Group depreciates all fixed assets over an estimated useful life, less any pre-agreed salvage value. A Balance sheet review is undertaken annually and as such, the asset values are deemed fair and reasonable.

In January 2011, the Board of Directors approved a change in Depreciation methodology, to a pure straight line basis. In addition, certain estimated useful lives were amended to reflect the current condition. The change provides consistency with industry peers in both policy and estimated useful life and will be accounted for prospectively. A summary is detailed below:

Category	Old Policy No of years	New Policy No of years
Rigs	7 – 10	5 – 12
Auto	3 – 7	4 – 7
Associated Drills	1.5 – 7	2 – 7
Others	3 – 5	3 – 5

Taxation

A deferred tax asset and liability is recorded in the Balance sheet. In addition, the business will have carried forward tax losses to the value of $0.7m, essentially the same as 2010. These tax losses, whilst relatively lower, are expected to be utilised in the forthcoming period.

Goodwill

As a result of the purchase of the assets of the Eastern European business of IDS in July 2008, Goodwill was recorded. Following the annual impairment review, the Board of Directors impaired the asset in the current year.

Share Based Payments

In May 2010, the 2010 Discretionary Share Plan was approved. As a result, in 2010, 2,520,000 Options were issued with a vesting period between January 2011 and December 2013 and a share based expense of $5,925 was recorded.

Subsequent to the above, in February 2011, an additional 140,000 options were issued on the same terms and conditions, taking the total options issued to 2,660,000.

Primary Risks

The Group operates in environments that pose various risk and uncertainties. The primary risks associated with the business are:

Fluctuation in levels of mineral exploration

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 the drilling rigs and drilling services.

Key personnel and staff retention

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 that members of senior management may join after leaving their positions with the Group.

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 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.

Operating risks

Operations are subject to various risks associated with drilling including, in the case of employees, personal injury and loss of life and, in the Group's case, damage and destruction to property and equipment, release of hazardous substances to the environment and interruption or suspension of drill site operations due to unsafe drill 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.

Business interruptions and weather conditions

Significant business interruptions as a result of natural disasters, extreme weather conditions, unstable drilling sites, regulatory intervention, delays in necessary approvals and permits or delays in supplies, may reduce the Group's ability to complete drilling services, resulting in performance delays, increased costs and loss of revenue.

As operations are conducted outdoors, they are generally vulnerable to weather and environmental conditions. The Group operates in a variety of locations, some of which are prone to extreme weather conditions. High rainfall can significantly impact drilling activity as well as impede the ability to move drilling rigs between drill sites. Accordingly, weather conditions as well as natural disasters may adversely impact the financial performance of the Group.

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 Chief Executive Review. The financial position of the Group, its cash flows and liquidity position are also described in the Chief Financial Officer's Report from pages 10 to 13. In addition, note 32 of the financial statements include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

As highlighted in note 20 to the financial statements, the Group has borrowings and debt facility which, together with its clients' receipts, fund its day to day working capital requirements. Volatile economic conditions may create uncertainty particularly over (a) the level of demand for the Group's services; (b) exchange rate fluctuations against the US Dollar and thus the consequence for the cost of the Group's direct costs; and (c) the availability of bank financing in the foreseeable future.

The Group's forecasts and projections, taking into account of potential changes in its performance, show that the Group should be able to operate within the level of its capital structure. The Group has held discussion with its bankers about its future borrowing needs and no matters have been drawn to its attention to suggest that these needs may not be met on acceptable terms.

The directors confirm that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Cautionary Statement

This Business Review, which comprises the Chairman's Statement, Chief Executive Review and Chief Financial Officer's Report, has been prepared solely to provide additional information to shareholders to assess the company'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

David Payne
Chief Financial Officer
22 March 2011

Directors’ Profiles

JAMIE PHILLIP BOYTON

JAMIE PHILLIP BOYTON I 39 I Executive Chairman

Jamie Boyton is Executive Chairman of the Company and was appointed as a director on 1 January 2009. He is responsible for overseeing the Company’s strategic & business development, which includes advising on capital markets requirements and growth opportunities. He was previously an Executive Director and the Head of Asian Equity Syndication and Corporate Broking of Macquarie Securities Limited in Hong Kong from August 2006 to September 2007, where he was responsible for a full range of capital raisings for both private and listed companies across the Asia Pacific region. Prior to this, Jamie was a division director of Macquarie Securities Limited in Hong Kong and a director of ABN AMRO Asia (Hong Kong) between August 2000 and July 2006, where he headed the Hedge Funds Sales for Asia, managing the distribution of a range of Asian financial products into the banks’ global hedge fund client base. Jamie has a Bachelor of Commerce (Accounting and Finance) degree from the University of Western Australia.

BRIAN RUDD

BRIAN RUDD I 47 I Chief Executive Officer

Brian Rudd is CEO and one of the founders of the Company. He was appointed as a director on 31 May 2005. He is responsible for the overall business and strategic planning of the Group. Brian has over 23 years of experience in the mining industry in both Australia and Africa. Before establishing the Company, Brian was the operations manager and subsequently, the general manager of Stanley Mining Services (Tanzania) Ltd, a subsidiary of Layne Christensen Co., in East Africa.

DAVID REGAN PAYNE

DAVID REGAN PAYNE I 39 I Chief Financial Officer

David Payne is CFO of the Company and was appointed as a director on 23 February 2007. He is responsible for finance, commercial and corporate, legal and compliance, accounting, internal controls and insurance matters within the Group. He was previously the general manager of an Australian national law firm, Raj Lawyers, from August 2002 to August 2005. Prior to this, David worked at Zurich Financial Services Australia as a manager in several divisions between December 1994 to July 2002. David has a Bachelor of Commerce degree from Murdoch University and a Graduate Diploma in Insurance from Deakin University.

TIMOTHY PHILIP READ I 64 I Senior Independent Non-Executive Director

Tim Read is the Senior Independent Non-Executive Director and was appointed on 28 May 2010. He has over 40 years' experience in the natural resources sector. Tim was president and CEO of Adastra Inc for 7 years, until its takeover by First Quantum in 2006, where he focused on the strategic direction and operational management of this African junior mining company. Prior to this, Tim was global co-head of mining investment banking at Merrill Lynch where he acted for a number of clients including Anglo American, Placer Dome, Billiton, CVRD, Jiang Xi Copper and Energy Africa. He joined Merrill Lynch in 1995 on its takeover of Smith New Court, where he had acted latterly as a director in the corporate finance department (from 1991) and previously as head of mining stock-broking (from 1988). Prior to this, Tim had many years experience in mining investment analysis for several leading firms of stockbrokers. Tim is now a non-executive director for several listed minerals companies including Faroe Petroleum plc (AIM) and Metminco Limited (ASX and AIM), as well as being on the board of Starfield Resources Inc (TSX) following its takeover of Nevoro Inc, where he was chairman. He had previously served on the boards of Cumerio SA and Kopane Diamond Developments plc (as Chairman). Tim also acts as a consultant to a number of minerals companies. He has a BA (Honours) in Economics, is a Fellow of the Chartered Institute of Securities and Investment and a member of the Audit Committee Institute.

TIMOTHY PHILIP READ

ALEXANDER JOHN DAVIDSON I 59 I Independent Non-Executive Director

Alex Davidson is an Independent Non-Executive Director and was appointed on 28 May 2010. He has over 30 years' experience in designing, implementing and managing gold and base metal exploration and acquisition programmes throughout the world. Alex was Executive Vice President, Exploration and Corporate Development at Barrick Gold with responsibility for its international exploration programmes and corporate development activities. Prior to joining Barrick Gold, Alex was Vice President, Exploration for Metall Mining Corporation. In April 2005, he was presented the 2005 A.O. Dufresne Award by the Canadian Institute of Mining, Metallurgy and Petroleum. In 2003, he was named the Prospector of the Year by the Prospectors and Developers Association of Canada. Alex has been a director of a number of London and Toronto listed companies, including Highland Gold, and currently serves on the board of four such companies, including Namakwa Diamonds and Yamana Gold. He received his B.Sc. and his M.Sc. in Economic Geology from McGill University.

ALEXANDER JOHN DAVIDSON

CRAIG IAN BURTON I 47 I Non-Executive Director

Craig Burton is a Non-Executive Director of the Company and was appointed on 1 January 2009. He is currently also chairman of Mirabela Nickel Ltd and a director of Every Day Mine Services Limited. He is an experienced and active investor in start-up projects and businesses, both publicly listed and private. Over the last 20 years, he has co-founded numerous emerging companies, with a focus on the resources, oil and gas, and mining services sectors. He is the co-founder of two ASX 200 companies, Mirabela Nickel Ltd and Panaoramic Resources Ltd. He has a Bachelor of Laws and Jurisprudence degree from the University of Western Australia, a Diploma in Financial Markets, and is a member of the Australian Institute of Company Directors.

CRAIG IAN BURTON

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Glossary

ARPOR	Average Revenue Per Operating Rig
EBIT	Earnings Before Interest and Taxes
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
HSSE	Health, Safety, Social and Environment
KPI	Key Performance Indicator
LTI	Lost Time Injury
NPAT	Net Profit After Tax
YOY	Year On Year

Corporate Governance Statement

Capital Drilling recognises the value and importance of high standards of corporate governance and has put in place a framework appropriate for a smaller quoted company to ensure that such standards are met. For the period from its IPO until 31 December 2010, the Company was subjected to the Combined Code on Corporate Governance that was issued by the Financial Reporting Council in June 2008 (the "Code"). For the financial year ending 31 December 2011, the Company will be subject to the UK Corporate Governance Code that was issued in June 2010 by the Financial Reporting Council. The Company falls outside the FTSE 350 Share Index and is considered a "smaller quoted company".

This section of our annual report sets out how the Company has applied the Code since it was admitted to the Official List in June 2010. The Code is available at www.frc.org.uk. Details of the Company's corporate governance policies and procedures (including the terms of reference of each of its corporate governance committees) can be found on the governance page of the Company's website at www.capdrill.com.

Statement of compliance with the Combined Code

From the date of the Company's admission on the Official List and to trading on the London Stock Exchange's Main Market on 7 June 2010 to the year ended 31 December 2010, the Company has been in compliance with the Code except as explained below.

The Code recommends that at least half the board, excluding the chairman, should comprise independent non-executive directors. The Code recommends that for smaller quoted companies the board should have at least two independent non-executive directors. The Board considers that Alex Davidson and Tim Read are independent, and so the Company satisfies the requirements of the Code for smaller quoted companies. The Board does not consider Craig Burton to be independent because of his historic ties and his significant shareholding in the Company.

The Code also recommends that the Chairman of the Board should be independent. The directors do not consider Jamie Boyton to be independent because of his historic ties with the Company, his employment with the Company and his significant shareholding in the Company and so the Company will not satisfy this requirement of the Code. However, in view of his knowledge of the Company and specific strategic role within the Company, the Board considers it appropriate at this stage, to maintain Jamie Boyton as Chairman. In addition, the Company has appointed a senior independent director (as described below) to be available to address any queries or concerns from shareholders.

The Code also recommends that the Board should appoint one of its independent non-executive directors to be the senior independent director. The senior independent director should be available to shareholders if they have concerns that contact through the normal channels of chairman, chief executive officer or chief financial officer has failed to resolve or for which such contact is inappropriate. The Company's Senior Independent Director is Tim Read.

In accordance with the Code, the Company has established guidelines requiring specific matters to be subject to decision by a majority of the full Board including material acquisitions and disposals, investments and capital projects.

The Code recommends that a UK listed company should establish an audit committee, a remuneration committee and a nomination committee. The Company has each of these committees, the terms of reference of which are described in further detail below. In view of the Company's commitment to health and safety and its desire to minimise the environment impact of the business, the Board has also established a Health, Safety, Social and Environmental Committee, details of which are set out below.

Board of directors

The Board comprises:

Executive Directors:

Jamie Boyton - Executive Chairman
Brian Rudd - Chief Executive Officer
David Payne - Chief Financial Officer and Company Secretary

Non-Executive Directors:

Tim Read - Senior Independent Director (appointed 28 May 2010)
Alex Davidson - Independent Director (appointed 28 May 2010)
Craig Burton - Non-Independent Director

Corporate Governance Statement

The executive and non-executive directors are satisfied that the Company operates an effective board which is collectively responsible for the success of the Company. Together, the executive and non-executive directors bring a broad range of business, commercial and other relevant experience to the Board, which is vital to the management of an expanding company. (Pages 14 and 15 contain descriptions of the background of each director).

The terms and conditions of appointment of the non-executive directors are available for inspection at the Company's registered office and will also be available at the Annual General Meeting. Brief details of these terms and conditions are also set out in the Directors' Remuneration Report.

The Board is satisfied that each of the non-executive directors committed sufficient time during 2010 for the fulfilment of their duties as directors of the Company. None of the non-executive directors have any conflict of interest which has not been disclosed to the Board.

The number of Board and Committee meetings eligible for attendance and attended by each of the directors during the year was as follows:

	Board meetings*	Audit and Risk Committee meetings*	Remuneration Committee meetings*	Nomination Committee meetings*	HSSE Committee meetings*
Number of meetings held in period	4	3	2	1	2
Jamie Boyton	4	–	–	–	–
Brian Rudd	4	–	–	–	2
David Payne	4	–	–	–	–
Tim Read	4	3	2	1	–
Alex Davidson	3	3	–	–	2
Craig Burton	3	–	2	1	–

** - includes meetings held in February 2011*

On appointment, and throughout their tenure, directors receive appropriate training and regular presentations are made to the Board by senior management.

All directors are authorised to obtain, at the Company's expense and subject to the Executive Chairman's approval, independent legal or other professional advice where they consider it necessary. All directors have access to the Company Secretary, who oversees their ongoing training and development needs.

Election and re-election of directors

The Company's Bye-Laws contains detailed rules for the appointment and retirement of directors. There is a formal procedure in place to select and appointment new directors to the Board. These directors are required to retire at the next Annual General Meeting, but can offer themselves for re-election by shareholders. All directors are required to submit themselves for re-election at intervals not exceeding three years.

The Board annually evaluates the performance of individual directors, the Board as a whole and its Committees. The evaluation comprises structured interviews led by the Executive Chairman and the Senior Independent Director with the other directors. The performance of the executive and non-executive directors was appraised by the Executive Chairman, taking into account the views of the other directors. Led by the Senior Independent Director, the performance of the Executive Chairman was assessed by the non-executive directors, taking into account the views of the other executive directors.

Operation of the Board

The Board meets regularly and 4 meetings (including meetings held in February 2011) were held for the period between 7 June 2010 and 31 December 2010. All directors are supplied, in advance of meetings, with appropriate information covering matters which are to be considered. The Executive Chairman also met with the non-executive directors in the absence of the other executive directors.

There is a formal schedule of decisions reserved for the Board. This includes approval of the following: the Group's strategy; the annual operating plan and budget; the annual and interim financial statements; significant transactions; major capital expenditures; risk management policies; the authority levels vested in management; Board appointments; and remuneration policies. As described below, the review of certain matters is delegated to Board Committees, which make recommendations to the Board in relation to those matters reserved for the Board as a whole.

Audit and Risk Committee

The Audit & Risk Committee comprises Tim Read (chairman), Alex Davidson and Craig Burton.

The profiles of the Audit and Risk Committee members are in page 15 and are considered to have recent and relevant financial experience. The Committee met 3 times (including meeting held in February 2011) for the period between 7 June 2010 and 31 December 2010 and had met the external auditors separately on two occasions.

The Committee may, from time to time, invite the Company's Chief Executive Officer and Chief Financial Officer to attend its meetings.

The Code recommends that smaller quoted companies have two independent non-executive directors appointed to the Audit and Risk Committee. Tim Read and Alex Davidson are independent directors and therefore the Company complies with the Code for smaller quoted companies.

The Audit and Risk Committee is primarily concerned with the effectiveness of the Company's accounting policies and practices, financial reporting and internal controls. It is among other things responsible for:

(i) monitoring the integrity of financial statements, including reviewing the financial statements and significant financial returns to regulators and any formal announcements relating to the Company's financial performance;

(ii) reviewing the integrity of internal financial control and risk management systems and codes of corporate conduct and ethics;

(iii) making recommendations to the Board regarding the engagement of independent auditors;

(iv) reviewing the plan, scope and results of the annual audit, the independent auditor's letter of comments and management's response thereto;

(v) reviewing and approving the internal audit plan and management's response to the internal audit;

(vi) receiving reports from the internal audit and others relating to risk control;

(vii) approving all audit and non-audit services;

(viii) reviewing policies and procedures with respect to internal accounting and financial controls; and

(ix) reviewing any changes in accounting policy.

For the period between 7 June 2010 and 31 December 2010, the Audit and Risk Committee:

(i) reviewed the 2010 half-year report and the 2010 annual report and financial statements, in advance of their consideration by the Board, and considered the appropriateness and consistency of application of accounting policies adopted in their preparation and the basis of any major judgements and estimates. As part of this review, the Audit and Risk Committee received a report from the external auditors on their review of the 2010 half-year report and their audit of the 2010 annual report;

(ii) reviewed proposed changes to the Group's internal controls;

(iii) received a report from the external auditors on, and considered the effectiveness of, the Group's accounting and internal control systems and monitored the actions taken by management in response;

(iv) considered and agreed the scope of the review to be undertaken by the external auditors on the 2010 half-year audit and 2010 annual report;

Corporate Governance Statement

(v) agreed the fees to be paid to the external auditors for the review of the 2010 half-year report and for the audit of the 2010 annual report;

(vi) received updates from the auditors on new accounting pronouncements, regulation and best practice; and

(vii) reviewed its own effectiveness.

The chairman of the Audit and Risk Committee reported to the Board on the its activities after each meeting, identifying relevant matters requiring communication to the Board and recommendations on the steps to be taken.

External auditors

The Audit and Risk Committee is responsible for making recommendations to the Board, to be put to shareholders at the Annual General Meeting, in relation to the appointment, re-appointment and removal of the external auditors, as well as for the approval of their remuneration and their terms of engagement. It has considered the independence of the external auditors and is satisfied that independence has been maintained. Following consideration and satisfaction of the performance of the Company's auditors, the Audit and Risk Committee has recommended to the Board that the external auditors be re-appointed. The Audit and Risk Committee also pre-approves any material permitted non-audit engagements with the auditors (of which there were none during the period under review). Regular reports were presented on the fees paid to the external auditors in order to ensure that the relationship between non-audit fees and audit fees was not inappropriate. The Audit and Risk Committee reviewed the external audit plan proposed by the auditors and participated in the review of the quality of the service that they provided. It has also met privately with the external auditors during the year without senior executive management being present.

Internal auditors

The Company did not have a formal internal audit function for the financial year under review. For the financial year under review, the Audit and Risk Committee, having considered the size, complexity of the operations as well as the existing internal control environment, has not recommended the need for an internal audit function. The Company intends to establish an internal audit function and is seeking a suitable candidate to assume this role.

Remuneration Committee

The Remuneration Committee comprises Craig Burton (chairman), Tim Read and Alex Davidson.

In respect of smaller quoted companies, the Code recommends that a company's remuneration committee has at least two independent non-executive directors appointed. Tim Read and Alex Davidson are independent directors and therefore the Company complies with the Code for smaller quoted companies.

The Remuneration Committee sets the remuneration packages for the directors, including basic salary, bonuses and other incentivisation compensation payments and awards. It ratifies policy and framework proposals made by the executive directors in respect of the remuneration for senior executives within the Group. The Remuneration Committee also approves the grant of options under the 2010 Discretionary Share Option Plan. The Remuneration Committee is assisted by the Company Secretary and takes advice as appropriate from external advisers. The Directors' Remuneration Report is set out on pages 23 to 25.

Nomination Committee

The Nomination Committee comprises Craig Burton (chairman), Tim Read and Alex Davidson.

The Code recommends that the majority of members of the nomination committee should be independent non-executive directors. Tim Read and Alex Davidson are independent non-executive directors and therefore the Company complies with the Code for smaller quoted companies. The Code also recommends that the Chairman or an independent non-executive director chairs the nomination committee. Craig Burton, who is not considered independent, is chair and so the Company does not meet the requirements of the Code in this respect. However, in view of his experience and knowledge of the industry sector and the Company, the Board considers it appropriate for Craig Burton to be a member and chairman of the Nomination Committee.

The Nomination Committee deals with appointments to the Board, monitors potential conflicts of interest and reviews annually the independence of the non-executive directors. The Nomination Committee is also responsible for proposing candidates for appointment to the Board having regard to the balance and structure of the Board. The Nomination Committee also continues to look to identify further non-executive directors for appointment with the help of external search consultants to bring the composition of the Board in compliance with Code.

Health, Safety, Social and Environment Committee (the "HSSE Committee")

The Health, Safety, Social and Environment (the "HSSE Committee") is comprises Alex Davidson (chairman), Brian Rudd and Wayne Healey (General Manager - Capital Support Services). The HSSE Committee is responsible for formulating and recommending to the Board a policy on health, safety, social and environmental issues related to the Group's operations. In particular, the HSSE Committee focuses on compliance with applicable standards to ensure that an effective system of health, safety, social and environmental standards, procedures and practices is in place at each of the Group's operations. The HSSE Committee is also responsible for reviewing management's investigation of incidents or accidents that occur to assess whether policy improvements are required. While the HSSE Committee is expected to make recommendations, the ultimate responsibility for establishing the Group's health, safety, social and environmental policies remain with the Board. The terms of reference of the HSSE Committee are available on the Company's website at www.capdrill.com.

Internal Controls

The Company has complied with the Combined Code provisions on internal control having established the procedures necessary to implement the guidance issued in October 2005 (the Turnbull Guidance) and by reporting in accordance with that guidance.

Maintaining a sound system of internal control

The Board conducts a periodic review of the effectiveness of the Group's system of internal controls.

The Board's assessment includes a review of the major financial and non-financial risks to the business and the corresponding internal controls. Where weaknesses or opportunities for improvement are identified, clear action plans are put in place and implementation is monitored by senior management and the executive directors.

In instances where the Group is setting up operations in a new country or a new region, appropriate personnel are deployed or recruited and training is conducted to facilitate the integration with Group operational and financial policies.

In addition, there are clear lines of responsibilities for key risk areas such as acquisitions, capital expenditure, compliance, information technology and operations. These lines of responsibilities are continuously monitored by the executive directors and to ensure that the Group's strategic risk management principles are met.

Reviewing the effectiveness of internal control

The Board has overall responsibility for the Company's system of internal control and reviewing its effectiveness. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives. In pursuing these objectives, internal controls can only provide reasonable and not absolute assurance against material misstatement or loss.

In addition to the process of assessment of internal control and the monitoring of the effectiveness of internal financial control by the Audit and Risk Committee, the process used by the Board to review the effectiveness of the system of internal control can be summarised as follows:

(i) Control environment

The Board is committed to maintaining a control-conscious culture across the Group whilst allowing the business streams sufficient autonomy to manage and develop their businesses. This is communicated to employees by way of regular management meetings and dissemination of updated Group policies. Monthly commercial meetings are also held between the corporate headquarters in Singapore and the respective country managers where weaknesses in internal controls are identified and clear action plans are drawn up.

Corporate Governance Statement

(ii) Financial reporting

There is a comprehensive system of financial reporting to the Board including comparison to an annual budget prepared in line with the Group's strategic plan and formally adopted by the Board, rolling forecasts and monthly reporting of financial and operating results. Key performance indicators are continuously monitored by senior management and executive directors.

(iii) Group procedures manual

Responsibility levels are communicated throughout the Group as part of the Group procedures manual, which sets out delegation of authority and authorisation levels and other control procedures, together with accounting and reporting procedures. The manual is updated periodically to take into account changes in the accounting standards, reporting requirements and operational procedures. Senior management is also provided with training and guidance, where necessary, to ensure that the current and future needs of the Group are met.

Share dealing policy

The Company has a share dealing policy, which imposes dealing obligations at least as rigorous as those required by the Model Code of the Listing Rules. The share dealing policy applies to the directors, persons discharging managerial responsibilities ("PDMR") identified by the Board and other relevant insider employees of the Group, and their respective connected persons. All employees under the share dealing policy are restricted from dealing in the Company's shares during close periods or if they are in possession of inside information.

Shareholder relations

The Executive Chairman, Chief Executive Officer and the Chief Financial Officer are the Group's principal spokesmen with investors, analysts, fund managers, the press and other interested parties. Access is available to the Senior Independent Director and other non-executive directors if this required. The Board is kept informed about shareholder relations and in particular the Senior Independent Director is kept informed of the views of major shareholders. This is done by a combination of reports to the Board on meetings held and feedback to the Board from the Group's advisers. The Group holds briefing meetings with analysts and institutional shareholders, usually following the half year and final results announcements, to ensure that the investing community receives a balanced and complete view of the Group's performance and the issues faced by the business.

The Group provides financial statements to all shareholders twice a year when its half year and full year results are announced and provides interim management statements as required. These results and all other stock exchange announcement information are available on the Group's website www.capdrill.com. Management presentations as well as other information relevant to investors are also available on the website.

All shareholders are given at least 21 working days' notice of the AGM. It is standard practice for all directors to attend the AGM to which all shareholders are invited and at which they may raise questions to the chairmen of the various committees or the Board generally. The proxy votes for and against each resolution, as well as abstentions (which may be recorded on the proxy form accompanying the notice of AGM) are counted before the AGM commences and are made available to shareholders at the close of the formal business of the meeting. The proxy votes are announced through the stock exchange and posted on the Company's website shortly after the close of the meeting.

Directors' Remuneration Report

The Remuneration Committee

The Remuneration Committee comprises Craig Burton (chairman), Tim Read and Alex Davidson.

The Remuneration Committee reviews and determines, on behalf of the Board, the salary and benefits packages of the Executive Chairman and the other executive directors. The Remuneration Committee also considers and approves all awards made by the Company to employees under the 2010 Discretionary Share Option Plan. Fees for the non-executive directors are based on their letters of appointment entered into with the Company and reviewed annually by the Board.

In determining the executive directors' remuneration for the year, the Remuneration Committee consulted the Executive Chairman and/or Chief Executive Officer as appropriate, save in relation to his own remuneration. No director is involved in deciding his own remuneration. In deciding the executive directors' remuneration, the Remuneration Committee draws on its members' experience and knowledge of the industry sector of the Company and also makes use of published reports on directors' remuneration packages within the same industry, taking into account the size and complexity of the business. The Remuneration Committee also has access to advice from independent external advisers where necessary.

Remuneration policy

Compensation packages for executive directors are based on their service agreements entered into with the Company. The package for each executive director currently comprises an annual salary. In addition, each executive director is also issued with share options under the 2010 Discretionary Share Option Plan.

Annual salary

The Remuneration Committee's policy is to set the annual salaries of each executive director at levels that reflect their roles, experience and the practices in the employment market whilst ensuring that they are in line with the pay and employment conditions of other employees within their business units. The remuneration of the executive directors was as follows:

	Salary 2010 US$'000	*Salary 2009 US$'000*
Executive chairman		
Jamie Boyton	325	347
Chief executive officer		
Brian Rudd	392	359
Executive director		
David Payne	325	364

Share incentives

The 2010 Discretionary Share Option Plan

The 2010 Discretionary Share Option Plan was approved by shareholders on 28 May 2010 and will expire on 6 June 2020 or on such earlier date as the Remuneration Committee may at any time determine. It is designed to motivate directors and senior employees, whilst retaining them in the Company's employment, by granting options to acquire shares in the Company.

Share incentives (cont'd)

Under the rules of the 2010 Discretionary Share Option Plan, an employee may not receive options in any financial year such that the aggregate market value of the Company's shares comprised in the options exceeds 200% of his annual salary.

At 31 December 2010, the share options awarded to each director were as follows:

	At 1 January 2010	Granted	Lapsed	Exercised	At 31 December 2010	Exercise price £	Date from which exercisable	Expiry date
Executive chairman								
Jamie Boyton	–	150,000	–	–	150,000	0.80	1 January 2012	31 December 2014
	–	150,000	–	–	150,000	0.80	1 January 2013	31 December 2014
	–	150,000	–	–	150,000	0.80	1 January 2014	31 December 2014
Chief executive officer								
Brian Rudd	–	150,000	–	–	150,000	0.80	1 January 2012	31 December 2014
	–	150,000	–	–	150,000	0.80	1 January 2013	31 December 2014
	–	150,000	–	–	150,000	0.80	1 January 2014	31 December 2014
Executive director								
David Payne	–	150,000	–	–	150,000	0.80	1 January 2012	31 December 2014
	–	150,000	–	–	150,000	0.80	1 January 2013	31 December 2014
	–	150,000	–	–	150,000	0.80	1 January 2014	31 December 2014
Non-executive directors								
Alex Davidson	–	–	–	–	–	–	–	–
Tim Read	–	–	–	–	–	–	–	–
Craig Burton	–	–	–	–	–	–	–	–

Service contracts

The executive directors' service contracts have no specified term. No director has a service contract containing more than a six months notice period or with pre-determined compensation provisions upon termination exceeding six months' salary and benefits. It is the Company's policy that, except where prescribed by law, there should be no automatic entitlement to bonuses in the event of an early termination.

External appointments

The Company recognises that executive directors may be invited to become non-executive directors of other companies and that such appointments can broaden their knowledge and experience to the benefit of the Company and they are entitled to retain any fees earned. Mr Jamie Boyton holds directorships of Sahar Minerals Ltd and Cannon Investment Management. Mr Brian Rudd holds directorship of Sahar Minerals Ltd. None of the other current executive directors held non-executive directorships for which they were remunerated.

Non-executive directors

Non-executive directors are appointed initially until the first AGM of the Company following appointment when they are required to stand for re-election and, subject to their re-election, thereafter for three years before standing again for re-election.

Directors' Remuneration Report

The non-executive directors entered into letters of appointment with the Company on 28 May 2010 for an initial period of three years commencing, thereafter renewable on the agreement of both the Company and the director. The letters of appointment specify the following termination notice periods and fees:

	Notice Period	*Annual Fee / US$*
Alex Davidson	3 months	65,000
Tim Read	3 months	82,500
Craig Burton	3 months	65,000

The annual fees of the non-executive directors were as follow:

	Fees[1] 2010 US$'000	*Fees 2009 US$'000*	*Total 2010 US$'000*	*Total 2009 US$'000*
Non-executive directors				
Alex Davidson	37	–	37	–
Tim Read	47	–	47	–
Craig Burton	37	–	37	–

1 *In the period under review, the non-executive directors' fees are prorated for the number of months appointed*

Approval

This report was approved by the Board of Directors on 22 March 2011 and signed on its behalf by:

Craig Burton
Remuneration Committee Chairman

Directors' Responsibilities

The directors are responsible for preparing this Annual Report and the financial statements in accordance with applicable laws and regulations.

The directors are required to prepare group financial statements for each financial year in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board. The directors have also chosen to prepare the parent company financial statements under IFRSs. The directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

Directors' responsibility statement

We confirm to the best of our knowledge:

1. the financial statements, prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

2. the management report, which is incorporated into the Chief Executive Review and the Chief Financial Officer's Report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Chief Executive Officer
Brian Rudd

Chief Financial Officer
David Payne

22 March 2011

Report of the Independent Auditors

To the Members of Capital Drilling Limited

We have audited the Group and Company annual financial statements of Capital Drilling Limited, which comprise the Group and Company statements of financial position as at 31 December 2010, the Group and company statements of comprehensive income, the consolidated and separate statements of changes in equity and the Group and Company statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 28 to 64.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as issued by the International Auditing and Assurance Standards Board. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by the directors, as well as evaluating the overall financial statement presentation and disclosures. We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements fairly presents, in all material respects, the financial position of the Group and Company as at 31 December 2010 and the group and company financial performance and the Group and Company cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters:

Under the Listing Rules of the London Stock Exchange, we are required to review:

- the director's statement contained within the business review in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Deloitte & Touche
Johannesburg

Per: A.W. Brown
Partner

22 March 2011

Statements of Comprehensive Income

For the year ended 31 December 2010

	Note	Group		Company	
		2010	2009	2010	2009
		$	$	$	$
Revenue	4	75,255,976	59,009,215	6,624,395	15,114,469
Cost of sales		(47,873,623)	(37,550,273)	(6,129,699)	(11,495,119)
Gross profit		27,382,353	21,458,942	494,696	3,619,350
Other income		728,269	592,971	5,091,658	4,966,156
Administration expenses		(8,182,247)	(9,240,143)	(4,219,005)	(5,965,176)
Profit before depreciation, amortisation, finance charges and tax		19,928,375	12,811,770	1,367,349	2,620,330
Administration expenses - Depreciation and amortisation		(5,751,748)	(4,925,394)	(1,764,942)	(2,640,776)
Total administration expenses		(13,933,995)	(14,165,537)	(5,983,947)	(8,605,952)
Profit (loss) from operations	5	14,176,627	7,886,376	(397,593)	(20,446)
Finance charges	6	(1,288,414)	(1,327,061)	(285,739)	(1,101,209)
Profit (loss) before tax		12,888,213	6,559,315	(683,332)	(1,121,655)
Taxation	7	(1,671,101)	(506,316)	(280,331)	(1,102,324)
Profit (loss) for the year		11,217,112	6,052,999	(963,663)	(2,223,979)
Other comprehensive income:					
Exchange differences on translation of foreign operations		(21,449)	(11,024)	–	–
Total comprehensive income (loss) for the year		11,195,663	6,041,975	(963,663)	(2,223,979)
Profit attributable to:					
Equity holders of the parent		11,115,033	5,777,185		
Non-controlling interest		102,079	275,814		
Profit for the year		11,217,112	6,052,999		
Total comprehensive income attributable to:					
Equity holders of the parent		11,093,584	5,766,161		
Non-controlling interest		102,079	275,814		
Total comprehensive income for the year		11,195,663	6,041,975		
Earnings per share:					
Basic (cents per share)	8	9.5	6.7		
Diluted (cents per share)	8	9.1	5.6		

Statements of Financial Position

31 December 2010

	Note	Group		Company	
		2010	2009	2010	2009
		$	$	$	$
ASSETS					
Non-current assets					
Property, plant and equipment	10	48,135,427	35,898,180	21,402,168	21,740,344
Investment in subsidiaries	11	–	–	1,080,373	288,734
Goodwill	12	–	456,784	–	456,784
Deferred tax	13	21,837	23,752	–	21,837
Total non-current assets		48,157,264	36,378,716	22,482,541	22,507,699
Current assets					
Inventory	14	14,923,881	8,934,626	752,513	2,484,250
Trade and other receivables	15	14,965,800	8,807,865	3,949,657	2,111,550
Taxation		316,287	61,936	–	30,060
Affiliate accounts receivable	16	–	–	14,460,727	8,431,168
Cash and cash equivalents	17	18,237,254	3,479,717	10,668,261	1,684,798
Total current assets		48,443,222	21,284,144	29,831,158	14,741,826
Total assets		96,600,486	57,662,860	52,313,699	37,249,525
EQUITY AND LIABILITIES					
Equity					
Share capital	18	13,459	14,400	13,459	14,400
Share premium	18	21,561,190	189,600	21,561,190	189,600
Equity-settled employee benefits reserve	19	5,925	2,250,100	5,925	2,250,100
Foreign currency translation reserve		(32,473)	(11,024)	–	–
Retained earnings (Accumulated loss)		39,821,672	28,360,237	(8,014,509)	(7,050,846)
Equity (deficit) attributable to equity holders of the parent		61,369,773	30,803,313	13,566,065	(4,596,746)
Non-controlling interest		–	1,035,975	–	–
Total equity		61,369,773	31,839,288	13,566,065	(4,596,746)
Non-current liabilities					
Long-term liabilities	20	12,424,065	3,126,310	–	930,963
Executives' loans	21	–	5,274,887	–	5,274,887
Deferred taxation	13	396,999	249,608	–	–
Total non-current liabilities		12,821,064	8,650,805	–	6,205,850
Current liabilities					
Trade and other payables	22	16,166,954	7,517,741	2,721,203	1,136,190
Taxation	23	618,400	170,011	134,478	51,429
Affiliate accounts payable	24	–	–	35,891,953	28,087,679
Current portion of long-term liabilities	20	5,236,505	3,721,847	–	2,971,963
Short-term loans	25	387,790	3,393,160	–	3,393,160
Bank overdraft	17	–	2,370,008	–	–
Total current liabilities		22,409,649	17,172,767	38,747,634	35,640,421
Total equity and liabilities		96,600,486	57,662,860	52,313,699	37,249,525

Statements of Changes in Equity

For the year ended 31 December 2010

	Share capital	Share premium	Equity-settled employee benefits reserve	Foreign currency translation reserve	Retained earnings	Attributable to equity holders of the parent	Non-controlling interest	Total
	$	$	$	$	$	$	$	$
GROUP								
Balance at 31 December 2008	14,400	189,600	2,250,100	–	22,583,052	25,037,152	760,161	25,797,313
Total comprehensive income for the year	–	–	–	(11,024)	5,777,185	5,766,161	275,814	6,041,975
Balance at 31 December 2009	14,400	189,600	2,250,100	(11,024)	28,360,237	30,803,313	1,035,975	31,839,288
Exercise of shareholder share options	2,400	1,917,600	–	–	–	1,920,000	–	1,920,000
Exercise of executive share options	1,800	3,688,300	(2,250,100)	–	–	1,440,000	–	1,440,000
Equity-settled share based payments scheme	–	–	5,925	–	–	5,925	–	5,925
Repayment of capital	–	(2,500,000)	–	–	–	(2,500,000)	–	(2,500,000)
Acquisition of non-controlling interest	89	791,563	–	–	346,402	1,138,054	(1,138,054)	–
Effect of share split	(7,440)	7,440	–	–	–	–	–	–
Issue of shares	2,210	19,594,015	–	–	–	19,596,225	–	19,596,225
Share issue costs	–	(2,127,328)	–	–	–	(2,127,328)	–	(2,127,328)
Total comprehensive income for the year	–	–	–	(21,449)	11,115,033	11,093,584	102,079	11,195,663
Balance at 31 December 2010	13,459	21,561,190	5,925	(32,473)	39,821,672	61,369,773	–	61,369,773

	Share capital	Share premium	Equity-settled employee benefits reserve	Retained earnings	Total
	$	$	$	$	$
COMPANY					
Balance at 31 December 2008	14,400	189,600	2,250,100	(4,826,867)	(2,372,767)
Total comprehensive income for the year	–	–	–	(2,223,979)	(2,223,979)
Balance at 31 December 2009	14,400	189,600	2,250,100	(7,050,846)	(4,596,746)
Exercise of shareholder share options	2,400	1,917,600	–	–	1,920,000
Exercise of executive share options	1,800	3,688,300	(2,250,100)	–	1,440,000
Equity-settled share based payments scheme	–	–	5,925	–	5,925
Repayment of capital	–	(2,500,000)	–	–	(2,500,000)
Acquisition of minority interest	89	791,563	–	–	791,652
Effect of share split	(7,440)	7,440	–	–	–
Issue of shares	2,210	19,594,015	–	–	19,596,225
Share issue costs	–	(2,127,328)	–	–	(2,127,328)
Total comprehensive income for the year	–	–	–	(963,663)	(963,663)
Balance at 31 December 2010	13,459	21,561,190	5,925	(8,014,509)	13,566,065

Statements of Cash Flows

For the year ended 31 December 2010

	Note	Group		Company	
		2010	2009	2010	2009
		$	$	$	$
Operating activities:					
Cash from operations	26	15,257,804	13,025,111	5,910,545	5,354,938
Finance costs		(1,288,414)	(1,327,061)	(285,739)	(1,101,209)
Taxation paid	27	(1,327,757)	(2,490,748)	(146,282)	(1,029,256)
Net cash generated from operating activities		12,641,633	9,207,302	5,478,524	3,224,473
Investing activities:					
Purchase of property, plant and equipment		(18,976,678)	(8,400,360)	(4,691,580)	(3,286,700)
Proceeds from disposal of property, plant and equipment		662,571	1,102,520	542,862	3,703,193
Increase in investment in subsidiaries		–	–	–	(31,133)
Disposal of branches	28	–	–	(43,233)	–
Net cash (used in) generated from investing activities		(18,314,107)	(7,297,840)	(4,191,951)	385,360
Financing activities:					
Exercise of shareholder share options		1,920,000	–	1,920,000	–
Exercise of executive share options		1,440,000	–	1,440,000	–
Repayment of capital	29	(800,000)	–	(800,000)	–
Issue of shares		19,596,225	–	19,596,225	–
Share issue costs		(2,127,328)	–	(2,127,328)	–
Increase in executives' loans		–	1,743,861	–	–
Decrease in executives' loans		(5,274,887)	–	(5,274,887)	(817,706)
Long-term liabilities raised		17,766,391	4,282,414	–	2,041,414
Long-term liabilities repaid		(6,953,978)	(11,466,936)	(3,902,926)	(10,558,600)
(Decrease) increase in short-term liabilities		(2,766,404)	(1,054,473)	(3,154,194)	3,906,545
Net cash generated from (used in) financing activities		22,800,019	(6,495,134)	7,696,890	(5,428,347)
Net increase (decrease) in cash and cash equivalents		17,127,545	(4,585,672)	8,983,463	(1,818,514)
Cash and cash equivalents at the beginning of the year		1,109,709	5,695,381	1,684,798	3,503,312
Cash and cash equivalents at the end of the year		18,237,254	1,109,709	10,668,261	1,684,798

Notes to the Annual Financial Statements

For the year ended 31 December 2010

1. General information

Capital Drilling Limited (the "Company") is incorporated in Bermuda. The Company and its subsidiaries (the "Group") provide drilling services including but not limited to exploration, development, grade control and blast hole drilling services to mineral exploration and mining companies located in emerging and developed markets. The group also provides some procurement, equipment rental and information technology services for mining and mining exploration companies.

During the year ended 31 December 2010, the Group provided drilling services in Chile, Egypt, Eritrea, Hungary, Mauritania, Mozambique, Pakistan, Papua New Guinea, Tanzania, and Zambia. The group's administrative and operations offices are located in Chile, Singapore and South Africa.

2. Adoption of new and revised standards

2.1 Standards and Interpretations adopted with no effect on the financial statements

The following new and revised standards and interpretations issued by the International Accounting Standards Board have been adopted in these financial statements in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

- IFRS 2 Share-based Payment – Amendments relating to group cash-settled share-based payment transactions
- IFRS 3 Business Combinations - Comprehensive revision on applying the acquisition method
- IFRS 8 Operating Segments - Amendments resulting from April 2009 Annual Improvements to IFRSs
- IAS 1Presentation of Financial Statements - Amendments resulting from April 2009 Annual Improvements to IFRSs
- IAS 7 Statement of Cash Flows - Amendments resulting from April 2009 Annual Improvements to IFRSs
- IAS 17 Leases - Amendments resulting from April 2009 Annual Improvements to IFRSs
- IAS 36 Impairment of Assets - Amendments resulting from April 2009 Annual Improvements to IFRSs
- IAS 39 Financial Instruments: Recognition and Measurement - Amendments for eligible hedged items
- IAS 39 Financial Instruments: Recognition and Measurement - Amendments for embedded derivatives when reclassifying financial instruments
- IAS 39 Financial Instruments: Recognition and Measurement - Amendments resulting from April 2009 Annual Improvements to IFRSs
- IFRIC 9 Reassessment of Embedded Derivatives - Amendments resulting from April 2009 Annual Improvements to IFRSs
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation - Amendments resulting from April 2009 Annual Improvements to IFRSs
- IFRIC 17 Distributions of Non-cash Assets to Owners
- IFRIC 18 Transfers of Assets from Customers

2. Adoption of new and revised standards (continued)

2.2 Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements, other than the standards and interpretations adopted above, the following new and revised standards and interpretations were issued by the International Accounting Standards Board but were not yet effective:

- Conceptual Framework for Financial Reporting 2010
- IFRS 3 Business Combinations - Amendments resulting from May 2010 Annual Improvements to IFRSs
- IFRS 7 Financial Instruments: Disclosures - Amendments resulting from May 2010 Annual Improvements to IFRSs
- IFRS 9 Financial Instruments - Classification and Measurement
- IAS 1 Presentation of Financial Statements - Amendments resulting from May 2010 Annual Improvements to IFRSs
- IAS 24 Related Party Disclosures - Revised definition of related parties
- IAS 27 Consolidated and Separate Financial Statements - Amendments resulting from May 2010 Annual Improvements to IFRSs
- IAS 32 Financial Instruments: Presentation - Amendments relating to classification of rights issues
- IAS 34 Interim Financial Reporting - Amendments resulting from May 2010 Annual Improvements to IFRSs
- IFRIC 13 Customer Loyalty Programmes - Amendments resulting from May 2010 Annual Improvements to IFRSs
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction - November 2009 Amendments with respect to voluntary prepaid contributions
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

The directors anticipate that all the above interpretations will be adopted in the Group's financial statements for the future financial periods as it becomes effective. The adoption of these standards and interpretations will have no material impact on the financial statements of the Group in the period of initial application.

3. Summary of significant accounting policies

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. The principal accounting policies adopted in the preparation of these financial statements are set out below. Where additional information has been presented in the current year financial statements, the prior year amounts have been re-presented to be consistent with the presentation in the current year.

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

The financial statements are presented in United States Dollars since that is the currency in which the majority of the Group's transactions are denominated.

The principal accounting policies adopted are set out below.

3. Summary of significant accounting policies (continued)

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the business review on page 13.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair values at the acquisition date, except for non-current assets that are classified as held for sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the costs of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the costs of the business combination, the excess is recognised immediately in profit or loss.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Depreciation is charged so as to write-off the cost of assets less their residual values over their expected useful lives using the straight-line method, on the following bases:

Drilling rigs	7 - 10 years
Associated drilling equipment	18 months - 7 years
Vehicles and trucks	3 - 7 years
Camp and associated equipment	3 - 5 years

Depreciation of drilling rigs is computed based on the number of days drilled.

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

3. Summary of significant accounting policies (continued)

Impairment of tangible and intangible assets

At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount for an individual asset, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event and it is probable that this will result in an outflow of economic benefits that can be reliably estimated. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Cash and cash equivalents

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and deposits held on call with banks. Bank overdrafts are separately disclosed as current liabilities.

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held on call with banks net of bank overdrafts.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from a contract to provide services is recognised by reference to the terms of the contract and is determined as follows:

- revenue from drilling contracts is recognised at the contractual drilling rates as the drilling services are delivered and direct expenses are incurred.
- revenue from procurement services represent the net revenue earned and is recognised when the services are rendered.
- revenue from equipment rental is recognised on a straight-line basis over the lease term.
- revenue from information technology services is recognised when the services are rendered.

3. Summary of significant accounting policies (continued)

Foreign currency

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in United States Dollar, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings.
- exchange differences on transactions entered into to hedge certain foreign currency risks (see below under financial instruments / hedge accounting).
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

Retirement benefits

The Group does not have a legal obligation to provide for retirement benefits, however each subsidiary makes contributions for retirement benefits according to the country's statutory obligations. Contributions for retirement benefits are charged to the statement of comprehensive income as payment falls due.

Taxation

Income tax expense represents the sum of the tax paid and currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the profit and loss statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The Group's liability for current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted in countries where the Company and subsidiaries operate by the statement of financial position date.

Deferred tax

Deferred tax is recognised on differences between carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. Summary of significant accounting policies (continued)

Taxation (continued)

Deferred tax (continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amounts of deferred tax assets are reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the statement of financial position date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average method. Redundant and slow moving stocks are identified and written down to their estimated economic or realisable values. Net realisable value represents the estimated selling price less all estimated costs of completionand costs to be incurred in marketing, selling and distribution.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognised in the other comprehensive income and released to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalised borrowing costs reflect the hedged interest rate.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Leasing

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease terms, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction on rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. Summary of significant accounting policies (continued)

Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each statement of financial position date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to the equity-settled employee benefits reserve.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's statement of financial position when the Group has become a party to the contractual provisions of the instrument.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognised on an effective interest basis for debt instruments.

Trade receivables

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Equity instruments

Equity instruments are recorded at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities, including borrowings and trade payables, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Investments in subsidiaries

Investments in subsidiaries are carried at cost in the stand-alone financial statements of the Company.

3. Summary of significant accounting policies (continued)

Critical accounting judgments and key sources of estimation and uncertainty

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Residual value and useful life

The Group depreciate its assets over its estimated useful lives taking into account residual values, which, following the adoption of IAS16 Property, plant and equipment (revised), are re-assessed on an annual basis. The actual lives and residual values of these assets can vary depending on a variety of factors.

Technological innovation, product life cycles and maintenance programmes all impact the useful lives and residual values of assets. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

Income taxes

The Group recognise the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the statement of financial position date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

Share-based payments

In calculating the charge for the year under IFRS 2, Share-based payments, certain assumptions have been made surrounding the future performance of the Capital Drilling Limited share price and the number of employees likely to remain employed during the duration of the option life period. In addition, in order to arrive at a fair value for each of the grants, certain parameters have been assumed for the 2010 grants and these have been disclosed in note 19.

Contingent liabilities

Management applies its judgement to the fact patterns and advice it receives from its attorney, advocates and other advisors in assessing if an obligation is probable, more likely than not, or remote. This judgement application is used to determine if the obligation is recognised as a liability or disclosed as a contingent liability.

4. Revenue

Revenue from the rendering of services comprises;

	Group		Company	
	2010	2009	2010	2009
	$	$	$	$
Drilling revenue	74,262,772	58,417,506	6,624,395	15,114,469
Information technology revenue	591,096	510,129	–	–
Procurement revenue	188,870	81,580	–	–
Equipment rental	213,238	–	–	–
	75,255,976	59,009,215	6,624,395	15,114,469

5. Profit (loss) from operations

The following items have been recognised as (income) expenses in determining profit (loss) from operations:

	Group		Company	
	2010	2009	2010	2009
	$	$	$	$
Depreciation:				
- Drilling rigs	2,507,208	1,612,580	1,051,788	1,016,719
- Associated drilling equipment	2,012,093	2,092,460	235,580	912,138
- Vehicles and trucks	827,401	921,714	360,378	567,805
- Camp and associated equipment	405,046	298,640	117,196	144,114
	5,751,748	4,925,394	1,764,942	2,640,776
Operating lease expense	1,195,434	978,190	83,008	117,130
Foreign exchange loss (gain)	208,119	1,912,727	(253,068)	1,239,036
Loss on disposal of property, plant and equipment	337,700	588,202	45,008	125,144
Legal and professional fees	680,647	590,991	261,791	231,568
Staff costs	19,820,057	17,668,053	6,256,290	12,047,378
Share-based payment expense	5,925	–	5,925	–
Gain on business disposal	(423,908)	–	–	–
Gain on settlement of loan	(238,966)	–	(238,966)	–
Initial public offering costs not capitalised	279,760	–	279,760	–
Impairment charges (reversals)				
- Goodwill	456,784	–	456,784	–
- Investment in subsidiaries	–	–	–	(13)
- Affiliate accounts receivable	–	–	–	(1,305,176)
	456,784	–	456,784	(1,305,189)

6. Finance cost

	Group 2010	Group 2009	Company 2010	Company 2009
Finance creditors	252,045	27,609	47,823	27,609
Executives' loans	171,891	345,364	171,891	281,572
Bank loans	864,040	908,243	66,025	791,958
Other	438	45,845	–	70
	1,288,414	1,327,061	285,739	1,101,209

7. Taxation

	Group		Company	
	2010	**2009**	**2010**	**2009**
	$	**$**	**$**	**$**
Current taxation:				
- Normal tax - current year	416,828	65,614	40,500	2,064
- Normal tax - prior year over provision	(12,403)	(1,172,215)	–	–
- Withholding tax	1,117,370	2,050,181	239,831	1,100,260
Deferred taxation	149,306	(437,264)	–	–
	1,671,101	506,316	280,331	1,102,324

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 charge for the year can be reconciled to the profit (loss) per the statement of comprehensive income as follows:

	Group 2010	Group 2009	Company 2010	Company 2009
Profit (loss) before tax	12,888,213	6,559,315	(683,332)	(1,121,655)
Tax at the Bermuda corporate tax rate of 0%	–	–	–	–
Effect of different tax rates of operations operating in other jurisdictions	434,833	(656,941)	49,711	–
Foreign withholding taxes paid	1,117,370	2,045,783	239,831	1,100,260
Tax effect of permanent differences in determining taxable profit	62,325	(185,827)	(9,211)	2,064
Prior year over provision	(12,403)	(1,172,215)	–	–
Change in unrecognised deferred tax assets	68,976	475,516	–	–
	1,671,101	506,316	280,331	1,102,324

8. Earnings per share

Basic earnings per share

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

	Group	
	2010	**2009**
	$	**$**
Profit for the year attributable to equity holders of the parent, used in the calculation of basic earnings per share	11,115,033	5,777,185
Weighted average number of ordinary shares for the purposes of basic earnings per share	116,994,604	86,400,000
Basic earnings per share (cents)	9.5	6.7

8. Earnings per share (continued)

Diluted earnings per share

The earnings used in the calculation of diluted earnings per share measures are the same as those used in the equivalent basic earnings per share measures, as outlined above.

	Group	
	2010	2009
	$	$
Weighted average number of ordinary shares used in the calculation of basic earnings per share	116,994,604	86,400,000
Shares deemed to be issued for no consideration in respect of:		
- Dilutive share options	5,389,390	17,004,878
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	122,383,994	103,404,878
Diluted earnings per share (cents)	9.1	5.6

The denominators for the purposes of calculating both basic and diluted earnings per share for the year ended 31 December 2009 have been adjusted to reflect the share split that occurred in 2010 (Refer note 18).

9. Dividends

No dividends were declared during the year under review (2009: $nil).

10. Property, plant and equipment

	Drilling rigs	Associated drilling equipment	Vehicles and trucks	Camp and associated equipment	Total
	$	$	$	$	$
Group - 2010					
Cost					
Balance at 31 December 2009	32,501,481	8,041,531	5,690,861	2,107,481	48,341,354
Additions	10,224,907	3,693,876	4,012,342	1,045,553	18,976,678
Disposal of business	–	–	–	(1,771)	(1,771)
Disposals	(220,350)	(852,965)	(576,875)	(224,306)	(1,874,496)
Translation of foreign operations	–	–	–	18,456	18,456
Balance at 31 December 2010	42,506,038	10,882,442	9,126,328	2,945,413	65,460,221
Accumulated depreciation					
Balance at 31 December 2009	(5,241,839)	(3,916,150)	(2,402,323)	(882,862)	(12,443,174)
Depreciation for the year	(2,507,208)	(2,012,093)	(827,401)	(405,046)	(5,751,748)
Disposal of business	–	–	–	328	328
Disposals	109,646	453,467	210,248	100,864	874,225
Translation of foreign operations	–	–	–	(4,425)	(4,425)
Balance at 31 December 2010	(7,639,401)	(5,474,776)	(3,019,476)	(1,191,141)	(17,324,794)
Carrying amount at 31 December 2010	34,866,637	5,407,666	6,106,852	1,754,272	48,135,427
Carrying amount at 31 December 2009	27,259,642	4,125,381	3,288,538	1,224,619	35,898,180

Drilling rigs, vehicles and trucks, with a total net book value of $5 299 583 (2009: $12 339 242) are encumbered as disclosed in note 20 to the annual financial statements.

10. Property, plant and equipment (continued)

	Drilling rigs	Associated drilling equipment	Vehicles and trucks	Camp and associated equipment	Total
	$	$	$	$	$
Group - 2009					
Cost					
Balance at 31 December 2008	26,686,466	8,021,420	6,370,544	1,575,847	42,654,277
Additions	6,000,575	1,266,575	382,382	750,828	8,400,360
Disposals	(185,560)	(1,246,464)	(1,062,065)	(219,194)	(2,713,283)
Balance at 31 December 2009	32,501,481	8,041,531	5,690,861	2,107,481	48,341,354
Accumulated depreciation					
Balance at 31 December 2008	(3,629,259)	(2,449,031)	(1,801,898)	(660,153)	(8,540,341)
Depreciation for the year	(1,612,580)	(2,092,460)	(921,714)	(298,640)	(4,925,394)
Disposals	–	625,341	321,289	75,931	1,022,561
Balance at 31 December 2009	(5,241,839)	(3,916,150)	(2,402,323)	(882,862)	(12,443,174)
Carrying amount at 31 December 2009	27,259,642	4,125,381	3,288,538	1,224,619	35,898,180
Carrying amount at 31 December 2008	23,057,207	5,572,389	4,568,646	915,694	34,113,936
Company - 2010					
Cost					
Balance at 31 December 2009	19,519,407	3,843,874	3,065,639	908,960	27,337,880
Additions	4,060,876	533,695	5,719	91,290	4,691,580
Transfer of Papua New Guinea branch	–	(490,886)	–	(83,375)	(574,261)
Net transfers from (to) subsidiaries	(2,129,205)	(1,076,494)	244,844	(247,974)	(3,208,829)
Disposals	–	(225,094)	(428,902)	(130,867)	(784,863)
Balance at 31 December 2010	21,451,078	2,585,095	2,887,300	538,034	27,461,507
Accumulated depreciation					
Balance at 31 December 2009	(2,514,283)	(1,745,369)	(1,092,106)	(245,778)	(5,597,536)
Depreciation for the year	(1,051,788)	(235,580)	(360,378)	(117,196)	(1,764,942)
Transfer of Papua New Guinea branch	–	287,953	–	12,709	300,662
Net transfers to (from) subsidiaries	22,017	748,346	1,614	33,507	805,484
Disposals	–	33,993	111,105	51,895	196,993
Balance at 31 December 2010	(3,544,054)	(910,657)	(1,339,765)	(264,863)	(6,059,339)
Carrying amount at 31 December 2010	17,907,024	1,674,438	1,547,535	273,171	21,402,168
Carrying amount at 31 December 2009	17,005,124	2,098,505	1,973,533	663,182	21,740,344

Drilling rigs, vehicles and trucks, with a total net book value of $nil (2009: $9,130,066) are encumbered as disclosed in note 20 to the annual financial statements.

10. Property, plant and equipment (continued)

	Drilling rigs	Associated drilling equipment	Vehicles and trucks	Camp and associated equipment	Total
	$	$	$	$	$
Company - 2009					
Cost					
Balance at 31 December 2008	20,411,208	3,491,062	3,417,622	524,557	27,844,449
Additions	1,821,383	355,849	224,427	399,535	2,801,194
Net transfers from (to) subsidiaries	(2,713,184)	155,652	355,793	10,951	(2,190,788)
Disposals	–	(158,689)	(932,203)	(26,083)	(1,116,975)
Balance at 31 December 2009	19,519,407	3,843,874	3,065,639	908,960	27,337,880
Accumulated depreciation					
Balance at 31 December 2008	(1,694,222)	(569,064)	(575,671)	(82,735)	(2,921,692)
Depreciation for the year	(1,016,719)	(912,138)	(567,805)	(144,114)	(2,640,776)
Net transfers to (from) subsidiaries	196,658	(279,584)	(190,331)	(4,564)	(277,821)
Disposals	–	15,417	241,701	(14,365)	242,753
Balance at 31 December 2009	(2,514,283)	(1,745,369)	(1,092,106)	(245,778)	(5,597,535)
Carrying amount at 31 December 2009	17,005,124	2,098,505	1,973,533	663,182	21,740,344
Carrying amount at 31 December 2008	18,716,986	2,921,998	2,841,951	441,822	24,922,757

11. Investment in subsidiaries

Details of the Company's subsidiaries at 31 December 2010 are as follows:

Unlisted subsidiaries	Country of incorporation	Issued share capital	Percentage held by Group	Percentage held by Company	Carrying value in the stand alone financial statements of the Company 2010	2009
		$	%	%	$	$
Capital Drilling (Mauritius) Limited	Mauritius	–	100	100	–	–
Capital Drilling Netherlands Coöperatief U.A.	The Netherlands	–	100	100	–	–
Capital Drilling (Singapore) Pte. Ltd.	Singapore	1	100	100	1	1
Capital Drilling South Africa (Proprietary) Limited	South Africa	13	100	–	–	13
Capital Drilling (Botswana) (Proprietary) Limited	Botswana	100	100	–	–	–
Capital Drilling Perforaciones Chile Limitada	Chile	1,000	100	–	–	–
Capital Drilling (DRC) Sprl	Democratic Republic of the Congo	10,000	100	100	10,000	10,000
Capital Drilling Egypt (Limited Liability Company)	Egypt	200,000	100	100	591,826	196,000
Capital Drilling Mauritania SARL	Mauritania	3,530	100	–	–	–
Capital Drilling Moçambique Limitada	Mozambique	2,055	100	1	20	20
Capital Drilling Namibia (Proprietary) Limited	Namibia	14	100	–	–	–
Capital Drilling (T) Limited	Tanzania	50,000	100	100	443,826	48,000
Capital Drilling Zambia Limited	Zambia	1,587	100	–	–	–
Cap–Sat Technologies Limited	Bermuda	18,600	100	100	18,600	18,600
Supply Force International Limited	Bermuda	16,000	100	100	16,000	16,000
Well Force International Limited	Bermuda	100	100	100	100	–
Supply Force International Pte Ltd	Singapore	1	100	–	–	–
Supply Force International (Aust) Pty Ltd	Australia	1	100	–	–	–
Capital Drilling D.O.O.	Serbia	2,510,286	100	–	–	–
Sahar Minerals Limited	Bermuda	100	–	–	–	100
					1,080,373	288,734

On 15 March 2010, Sahar Mineral Limited ceased to be a subsidiary of the Group. Sahar Minerals Limited, although at an early stage in its development, is a mineral exploration company, which has a different business model to that of the Group's business. Accordingly, a decision was taken to transfer Sahar Minerals Limited out of the Group. The Group's interests in Sahar Minerals were distributed to the existing shareholders in the form of a capital distribution. Also refer note 29.

During 2010, a decision was taken by the board of directors to liquidate and deregister the operations of Capital Drilling D.O.O. The drilling contracts of this subsidiary had come to an end and the company became dormant. The assets used by the company were transferred to other operations of the Group. The liquidation and deregistration process of this company is still in progress.

11. Investment in subsidiaries (continued)

The drilling contracts of Capital Drilling (DRC) Sprl came to an end during 2010 and the company became dormant. The assets used by the company have been transferred to other operations of the Group. The company will be liquidated and deregistered in the coming financial year.

On 28 May 2010, the group acquired the remaining stakes in Capital Drilling (T) Limited and Capital Drilling Egypt Limited Liability Company through the allotment of 892 800 ordinary shares of 0.01 cents to the minority shareholders in those companies. Also refer note 18.

12. Goodwill

	Group		Company	
	2010	2009	2010	2009
	$	$	$	$
Balance at beginning of year	456,784	456,784	456,784	456,784
Impairment of goodwill	(456,784)	–	(456,784)	–
Balance at end of year	–	456,784	–	456,784

Goodwill arose during 2008 when the Company acquired certain assets from International Drilling Services, a drilling services provider located primarily in Eastern Europe which operated ten drilling rigs, pursuant to an agreement entered into with International Drilling Services Ltd (incorporated in the British Virgin Islands) and, International Drilling Services Save Kovacevica BB 19210 BOR and Drilling Services Bulgaria OOD (companies incorporated in Serbia and Bulgaria respectively). The acquisition related to equipment, computer systems and existing contracts, valued at $7.6 million, which were acquired for $8.2 million.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. During 2010, the goodwill arising from the acquisition described above were written down to $nil as the contracts relating to this acquisition came to an end. The assets acquired during the acquisition were redeployed to other operations of the Group.

13. Deferred tax

The following are the major deferred tax assets and liabilities recognised by the group and company and their movements:

	Group 2010	Group 2009	Company 2010	Company 2009
Movements				
Balance at beginning of the year	(225,856)	(663,120)	21,837	21,837
Disposal of branches	–	–	(21,837)	–
Excess of capital allowances over depreciation	(168,403)	261,221	–	–
Prepayments	12	(48,879)	–	–
Provisions	12,814	(690)	–	–
Net unrealised exchange losses	(2,633)	(2,763)	–	–
Finance lease payable	–	252,593	–	–
Recognised tax loss carried forward	8,904	(24,218)	–	–
Balance at end of the year	(375,162)	(225,856)	–	21,837
Balance at end of the year				
Excess of capital allowances over depreciation	(479,720)	(311,317)	–	728
Net unrealised exchange losses	(8,918)	(6,285)	–	(505)
Prepayments	(2,187)	(2,199)	–	(1,509)
Provisions	40,038	27,224	–	23,123
Recognised tax loss carried forward	75,625	66,721	–	–
Balance at end of the year	(375,162)	(225,856)	–	21,837

13. Deferred tax (continued)

	Group		Company	
	2010	2009	2010	2009
	$	$	$	$
Disclosed as follows:				
Deferred tax assets	21,837	23,752	–	21,837
Deferred tax liabilities	396,999	249,608	–	–

At the statement of financial posisiton date, the Group has unused tax losses of with a tax value of $700,098 (2009: $614 480) available for offset against future profits. A deferred tax asset has been recognised to the value of $75 625 (2009: $66 722) in respect of such losses. No deferred tax asset has been recognised in respect of the remaining $624 473 (2009: $547 758) as there is uncertainty whether there will be sufficient future taxable profits available to offset these losses. These losses may be carried forward indefinitely.

At the statement of financial position date, the aggregate amount of temporary differences associated with unremitted earnings of overseas subsidiaries for which deferred tax liabilities have not been recognised, amounted to $54.4 million (2009: $40.4 million). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of declaration of dividends from the subsidiaries and it is expected that such differences will not reverse in the foreseeable future.

14. Inventory

	Group 2010	Group 2009	Company 2010	Company 2009
Drilling consumables	13,625,861	8,587,640	568,111	2,331,803
Goods-in-transit	1,298,020	346,986	184,402	152,447
	14,923,881	8,934,626	752,513	2,484,250

15. Trade and other receivables

	Group 2010	Group 2009	Company 2010	Company 2009
Trade receivables	7,211,704	6,333,221	330,380	853,709
Other receivables	7,754,096	2,474,644	3,619,277	1,257,841
	14,965,800	8,807,865	3,949,657	2,111,550

Trade receivables have a 15 or 30 day credit period.

Of the Group trade receivables of $7,211,704 (2009: $6,333,221) outstanding at 31 December 2010, $6,485,010 (2009: $5,854,317) is less than 30 days old, $267,778 (2009: $478,502) is between 30 to 45 days old, while the remaining amount is between 45 to 90 days old. Of the Company trade receivables of $330,380 (2009: $853,709) outstanding at 31 December 2010, $234,862 (2009: $853,709) is less than 30 days old, while the remaining amount is between 30 to 45 days.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed annually. The Group currently provides drilling services to a limited number of major and junior exploration and mining companies operating in the countries the group operates in.

No allowance is made for doubtful debts, as the directors anticipate 100% recoverability of the trade receivables.

The directors consider that the carrying amount of trade and other receivables approximate their fair values.

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16. Affiliate accounts receivable

	Company	
	2010	2009
	$	$
Capital Drilling (Mauritius) Limited	–	1,069,684
Capital Drilling Netherlands Cöoperatief U.A.	4,859,336	1,699,092
Capital Drilling South Africa (Proprietary) Limited	1,953,879	2,162,092
Capital Drilling Perforaciones Chile Limitada	2,257,866	–
Capital Drilling Mauritania SARL	312,745	–
Capital Drilling Moçambique Limitada	1,659,164	937,969
Capital Drilling Namibia (Proprietary) Limited	11,934	9,155
Capital Drilling Papua New Guinea (foreign contractor branch)	2,276,385	–
Cap-Sat Technologies Limited	20,473	92,567
Supply Force International Limited	496,015	345,669
Well Force International Limited	612,930	–
Capital Drilling D.O.O.	–	1,882,967
Sahar Minerals Limited	–	231,411
	14,460,727	8,431,168

These receivables are interest free, unsecured and have no fixed terms of repayment. These amounts are denominated in United States Dollars.

17. Cash and cash equivalents

Cash and cash equivalents comprise:

	Group		Company	
	2010	2009	2010	2009
	$	$	$	$
Bank balances	18,121,402	3,440,574	10,664,625	1,660,643
Petty cash	115,852	39,143	3,636	24,155
	18,237,254	3,479,717	10,668,261	1,684,798
Bank overdraft	–	2,370,008	–	–

The directors consider that the carrying amount of cash and cash equivalents approximate their fair values.

18. Share capital and premium

	Group		Company	
	2010	2009	2010	2009
	$	$	$	$
Authorised:				
2,000,000,000 (2009: 204 600) ordinary shares of 0.01 cents (2009: 10 cents) each	200,000	20,460	200,000	20,460
Issued and fully paid:				
134,592,800 (2009: 144 000) ordinary shares of 0.01 cents (2009: 10 cents) each	13,459	14,400	13,459	14,400
Share premium:				
Balance at the beginning of the period	189,600	189,600	189,600	189,600
Exercise of shareholder share options	1,917,600	–	1,917,600	–
Exercise of executive share options	3,688,300	–	3,688,300	–
Repayment of capital	(2,500,000)	–	(2,500,000)	–
Acquisition of minority interest	791,563	–	791,563	–
Effect of share split	7,440	–	7,440	–
Issue of shares	19,594,015	–	19,594,015	–
Share issue costs	(2,127,328)	–	(2,127,328)	–
	21,561,190	189,600	21,561,190	189,600

On 23 April 2010, pursuant to the exercise of fully vested options, the Group allotted 42,000 ordinary shares of 10 cents each at a price of $80.00 per share.

On 28 May 2010, the Group increased and subdivided its authorised share capital into 2,000,000,000 ordinary shares of 0.01 cents each

On the same date, the Group allotted and issued 892 800 ordinary shares of 0.01 cents in consideration for the transfer to the Group of the remaining stakes in Capital Drilling (T) Limited and Capital Drilling Egypt Limited Liability Company.

On 7 June 2010, the Group was admitted to the Official List of the UK Listing Authority and to trading on the Main Market of the London Stock Exchange. As part of the successful listing, 22.1 million ordinary shares of 0.01 cents were issued at $0.8867 (£0.615) per share. The net proceeds amounted to $17.5 million, net of share issue costs.

19. Equity-settled employee benefits reserve

2010 Discretionary share option plan:

On 28 May 2010, shareholders approved the 2010 Discretionary share option plan which was adopted by the board of directors on the same date. All previous share option plans were also terminated on that date.

All employees of the Group are eligible to participate in the scheme. Employees to who options are offered are required to accept the offer prior to issuance of the option certificate. Options are exercisable at a price equal to the average quoted market price of the Group's shares on the date of grant. The vesting period is three years or such shorter or longer period as determined by the Remuneration Committee on the date of grant. If the options remain unexercised after a period of ten years from the date of grant the options expire. Options are forfeited if the employee leaves the Group before the options vest. Details of the share options outstanding during the year are as follows:

Acceptance date by employee	Number	Vesting date	Expiry date	Weighted average Exercise Price	Weighted average grant date fair value per option
				£	$
19/11/2010 to 15/12/2010	2,520,000	⅓ on 1/1/2011 ⅓ on 1/1/2012 ⅓ on 1/1/2013	31/12/2014	0.800	0.078

Options were priced using a binomial option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions, and behavioural considerations. Expected volatility is based on management's expectation of the future volatility in the Company's share price. The Group recognised a total expense of $5,925 related to these options in 2010.

	Group and company	
	2010	2009
Inputs into the model		
Grant date share price	£0.770 – £0.815	–
Grant date exchange rate (1 GBP = USD)	1.555 – 1.599	–
Exercise price	£0.80	–
Expected volatility	5.0%	–
Option life	1503 days	–
Dividend yield	0.0%	–
Risk-free interest rate	0.5%	–

The following reconciles the number of outstanding share options granted under the 2010 Discretionary share option plan at the beginning and end of the year:

	2010	2009
Balance at beginning of the year	–	–
Granted during the year	2,520,000	–
Exercised during the year	–	–
Balance at end of the year	2,520,000	–
Exercisable at the end of the period	–	–

19. Equity-settled employee benefits reserve (continued)

Previous incentive options plan:

With the adoption of the 2010 Discretionary share option plan on the On 28 May 2010, the previous incentive options plan was terminated. All options issued under this plan were fully vested and exercisable from 1 January 2009. No expense was recognised in the current or prior year as the grant date fair value of the options were fully recognised by 31 December 2008. All options were exercised by the option holders on 23 April 2010 at an exercise price of $80 per share.

The following reconciles the number of outstanding share options granted under the previous incentive options plan at the beginning and end of the year:

	Group and company	
	2010	2009
Balance at beginning of the year	18,000	18,000
Exercised during the year	(18,000)	–
Balance at end of the year	–	18,000
Exercisable at the end of the period	–	18,000

20. Long-term liabilities

	Group		Company	
	2010	2009	2010	2009
	$	$	$	$
Standard Bank plc				
Balance at the beginning of the year	3,902,926	12,420,112	3,902,926	12,420,112
Amount received during the year	–	2,041,414	–	2,041,414
Capital repayments during the year	(3,902,926)	(10,558,600)	(3,902,926)	(10,558,600)
	–	3,902,926	–	3,902,926
Less: Current portion included under current liabilities	–	(2,971,963)	–	(2,971,963)
Due after more than one year	–	930,963	–	930,963

The Standard Bank plc loan was a two year loan bearing interest at LIBOR plus 6% per annum with a fixed monthly capital repayment plus interest. The loan was denominated in United States Dollars. Each drawdown was payable in 24 instalments of the same capital amount and interest on outstanding balance. Proceeds of drilling contracts of three major clients: Pharaoh Gold Mine, Tethyan Copper Company Limited and Equinox Zambia Limited were assigned to Standard Bank plc. The assignment of the receivables from Equinox Minerals was removed in November 2009 and Tranche 1 was fully paid the security released at the same date. The loan was also secured against drilling rigs, vehicles and drilling rods with a book value of $9 130 066 at 31 December 2009. During 2010, as a condition of the Standard Bank (Mauritius) Limited facilities, a portion of the proceeds from that facility was utilised to settle the Standard Bank plc loan and all security held by Standard Bank plc was released.

20. Long-term liabilities (continued)

	Group		Company	
	2010	2009	2010	2009
	$	$	$	$
Stanbic Bank Zambia Limited				
Balance at the beginning of the year	2,195,844	167,985	–	–
Amount received during the year	136,939	2,241,000	–	–
Capital repayments during the year	(513,988)	(213,141)	–	–
	1,818,795	2,195,844	–	–
Less: Current portion included under current liabilities	(579,142)	(540,753)	–	–
Due after more than one year	1,239,653	1,655,091	–	–

The loan is repayable over 4 years and attracts an interest rate of LIBOR plus 8%. The loan is denominated in United States Dollars. Proceeds of a drilling contract with Equinox Zambia Limited has been assigned to Stanbic Bank Zambia Limited. The loan is also secured by drilling rigs and vehicles with a total net book value of $2,282,385 (2009: $2,045,923). Also refer to note 10.

	Group 2010 $	Group 2009 $	Company 2010 $	Company 2009 $
National Bank of Commerce Limited				
Balance at the beginning of the year	749,387	1,444,582	–	–
Amount received during the year	–	–	–	–
Capital repayments during the year	(749,387)	(695,195)	–	–
	–	749,387	–	–
Less: Current portion included under current liabilities	–	(209,131)	–	–
Due after more than one year	–	540,256	–	–

The loan comprised facilities that were repayable monthly and attracted interest at a fixed rate of 6% per annum. The loan was secured against drilling rigs and other equipment with a net book value of $1,163,253 at 31 December 2009. During 2010, as a condition of the Standard Bank (Mauritius) Limited facilities, a portion of the proceeds from that facility was utilised to settle the National Bank of Commerce Limited loan and all security held by National Bank of Commerce Limited was released.

	Group 2010 $	Group 2009 $	Company 2010 $	Company 2009 $
Atlas Copco Customer Finance AB				
Balance at the beginning of the year	–	–	–	–
Amount received during the year	2,629,452	–	–	–
Capital repayments during the year	(454,344)	–	–	–
	2,175,108	–	–	–
Less: Current portion included under current liabilities	(657,363)	–	–	–
Due after more than one year	1,517,745	–	–	–

The Atlas Copco Customer Finance AB loan is denominated in United States Dollar and incurs interest at a fixed interest rate of 8.9% per annum. These loans are repayable quarterly instalments of $164 341 in arrears over a period of four years. The loan is secured against drilling rigs with a net book value of $3 017 198. Also refer note 10.

20. Long-term liabilities (continued)

	Group		Company	
	2010	2009	2010	2009
	$	$	$	$
Standard Bank (Mauritius) Limited				
Balance at the beginning of the year	–	–	–	–
Amount received during the year	15,000,000	–	–	–
Capital repayments during the year	(1,333,333)	–	–	–
	13,666,667	–	–	–
Less: Current portion included under current liabilities	(4,000,000)	–	–	–
Due after more than one year	9,666,667	–	–	–

During 2010, the Group (through Capital Drilling (Mauritius) Limited) entered into a debt facility with Standard Bank (Mauritius) Limited. The new facility comprises (i) a $15 million medium term loan ("MTL") facility and (ii) a $1 million settlement limit facility. The MTL facility was fully drawn down during the year and is repayable over four years from the earliest of the first anniversary of the first draw down or full utilisation. The MTL facility has an annual interest rate of 5.5% above the prevailing three month US$ LIBOR (payable in arrears). Standard Bank (Mauritius) Limited charged a structuring fee of 1% of the MTL facility and an annual commitment fee of 1.25% of the undrawn balances of the MTL facility. At 31 December 2010, the full MTL facility has been utilised, while the $1 million settlement limit facility remains available for utilisation by the group.

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

- An on-demand, irrevocable and unconditional corporate guarantee for $15 million.
- Joint and several cross and upstream corporate guarantees from Capital Drilling Egypt (Limited Liability Company), Capital Drilling (Tanzania) Limited, Capital Drilling (Botswana) (Proprietary) Limited, Capital Drilling Namibia (Proprietary) Limited, Capital Drilling Moçambique Limitada, Capital Drilling South Africa (Proprietary) Limited and Capital Drilling Zambia Limited.
- A pledge over the shares in Capital Drilling Mauritius Limited, Capital Drilling Egypt (Limited Liability Company), Capital Drilling (Tanzania) Limited and Capital Drilling Zambia Limited.
- A first ranking floating charge over the assets of the Capital Drilling (Mauritius) Limited.
- An assignment of proceeds due under the drilling contracts with Pharaoh Gold Mines Limited, together with a pledge over the account into which the assigned debts will be held.

Covenants attached to the new facilities are:

- Debt to EBITDA ratio of the Group not to exceed 2.5 times during any 12 month period.
- Annual proceeds of assigned agreements to exceed at least twice the annual debt repayment.
- Limitations on the Group's African operating companies incurring further third party indebtedness.

In addition, there are dividend and transaction restrictions and a requirement for an all risks insurance policy of the assets.

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20. Long-term liabilities (continued)

	Group		Company	
	2010	2009	2010	2009
	$	$	$	$
Total long term liabilities	17,660,570	6,848,157	–	3,902,926
Less: Current portion included under current liabilities	(5,236,505)	(3,721,847)	–	(2,971,963)
Total due after more than one year	12,424,065	3,126,310	–	930,963

21. Executives' loans

	Group 2010	Group 2009	Company 2010	Company 2009
James Boyton	–	1,945,085	–	1,945,085
Craig Burton	–	2,034,810	–	2,034,810
Brian Rudd	–	161,462	–	161,462
David Payne	–	483,394	–	483,394
Willem Schuts	–	650,136	–	650,136
	–	5,274,887	–	5,274,887

These loans were unsecured and bore interest at 9% per annum. These amounts were denominated in United States Dollars. These loans were fully settled during the year ended 31 December 2010.

22. Trade and other payables

	Group 2010	Group 2009	Company 2010	Company 2009
Trade payables	11,526,135	5,317,602	1,059,086	517,435
Other payables				
- Accrued expenses	1,890,788	1,643,990	140,111	510,349
- Value Added Tax	322,252	376,916	–	–
- Employee related liabilities	632,821	179,233	18,279	108,406
- Unearned revenue	1,794,958	–	1,503,727	–
	16,166,954	7,517,741	2,721,203	1,136,190

Total trade payables comprise liabilities for the purchase of goods and services. Trade payables have terms ranging from payment on delivery up to 90 days. The Group has financial risk management policies in place to ensure that all payables are paid within the appropriate credit time frame.

23. Taxation

	Group 2010	Group 2009	Company 2010	Company 2009
Withholding tax	348,021	142,097	93,978	51,429
Income tax	270,379	27,914	40,500	–
	618,400	170,011	134,478	51,429

24. Affiliate accounts payable

	Company	
	2010	2009
	$	$
Capital Drilling (Mauritius) Limited	5,469,219	–
Capital Drilling (Singapore) Pte. Ltd.	7,645	37,340
Capital Drilling (Botswana) (Proprietary) Limited	549	549
Capital Drilling (DRC) Sprl	4,015,626	3,481,605
Capital Drilling Egypt (Limited Liability Company)	7,106,756	8,175,258
Capital Drilling (T) Limited	17,914,813	15,299,177
Capital Drilling Zambia Limited	1,377,345	1,093,750
	35,891,953	28,087,679

These payables are interest free, unsecured and have no fixed terms of repayment. These amounts are denominated in United States Dollars.

25. Short-term loans

	Group		Company	
	2010	2009	2010	2009
	$	$	$	$
International Drilling Services Limited	–	3,393,160	–	3,393,160
Minera Polar Mining Chile Limitada	387,790	–	–	–
	387,790	3,393,160	–	3,393,160

The loan from International Drilling Services Limited ("IDS") related to the acquisition described in note 12. The loan bore interest at the 1 month LIBOR rate plus 3% per annum. On 16 June 2010 a settlement agreement was entered into with IDS whereby the remaining obligations owing under the loan at that date was settled through the payment of AUD2 700 000 and the sale of assets to the value of AUD100 000. A gain of $238 966 was recognised in the statement of comprehensive income regarding this settlement.

The loan from Minera Polar Mining Chile Limitada is denominated in United States Dollars, and attracts interest at 7% per annum. The loan is repayable through a deduction of 15% from the drilling invoices issued by the Group relating to the Polar Star Mining Project in Chile.

26. Cash from operations

	Group		Company	
	2010	2009	2010	2009
	$	$	$	$
Profit (loss) before tax	12,888,213	6,559,315	(683,332)	(1,121,655)
Adjusted for:				
- Depreciation	5,751,748	4,925,394	1,764,942	2,640,776
- Loss on disposal of property, plant and equipment	337,700	588,202	45,008	125,144
- Impairment reversal on investments in subsidiaries and affiliate accounts receivable	–	–	–	(1,305,189)
- Impairment of goodwill	456,784	–	456,784	–
- Share-based payment expense	5,925	–	5,925	–
- Exchange differences on translating foreign operations	(35,480)	(11,024)	–	–
- Gain on settlement of loan	(238,966)	–	(238,966)	–
- Gain on business disposal	(423,908)	–	–	–
- Finance charges	1,288,414	1,327,061	285,739	1,101,209
Operating profit before working capital changes	20,030,430	13,388,948	1,636,100	1,440,285
Adjustments for working capital changes:				
- (Increase) decrease in inventory	(5,989,255)	325,529	805,091	1,268,724
- (Increase) decrease in trade and other receivables	(6,513,859)	405,229	(3,108,406)	3,009,098
- Increase in affiliate accounts receivable	–	–	(4,361,498)	(4,300,819)
- Increase (decrease) in trade and other payables	7,730,488	(1,094,595)	731,626	(2,677,820)
- Increase in affiliate accounts payable	–	–	10,207,632	6,615,470
	15,257,804	13,025,111	5,910,545	5,354,938

27. Taxation paid

	Group 2010	Group 2009	Company 2010	Company 2009
Amount unpaid at beginning of the year	108,075	114,983	21,369	12,192
Amounts charged to the income statement (excluding deferred taxation)	1,521,795	2,483,840	259,391	1,038,433
Net amount unpaid at the end of the year	(302,113)	(108,075)	(134,478)	(21,369)
	1,327,757	2,490,748	146,282	1,029,256

28. Disposal of branches

	Group		Company	
	2010	2009	2010	2009
	$	$	$	$
Property, plant and equipment	–	–	273,599	–
Deferred tax	–	–	21,837	–
Inventory	–	–	926,646	–
Trade and other receivables	–	–	1,070,299	–
Trade and other payables	–	–	(646,613)	–
Taxation	–	–	(20,940)	–
Book value of assets transferred	–	–	1,624,828	–
Loan advanced to subsidiaries on transfer	–	–	(1,668,061)	–
Cash transferred to subsidiary	–	–	(43,233)	–

Effective 1 January 2010, the Papua New Guinea branch of the company was transferred to Capital Drilling (Singapore) Pte. Ltd. Effective 25 October 2010, a new subsidiary company, Well Force International Limited was incorporated. The assets and liabilities attributable to that operation was transferred to the newly formed legal entity.

29. Repayment of capital

	Group 2010	Group 2009	Company 2010	Company 2009
Property, plant and equipment	1,443	–	–	–
Investment in subsidiaries	–	–	100	–
Trade and other receivables	155,924	–	–	–
Trade and other accounts payable	(581,175)	–	–	–
Book value of business distributed	(423,808)	–	100	–
Deferred revenue	(1,500,000)	–	(1,500,000)	–
Holding company accounts receivable distributed	(200,100)		(200,100)	
Gain on disposal	423,908	–	–	–
	(1,700,000)	–	(1,700,000)	–
Reduction in share premium	2,500,000	–	2,500,000	–
Cash flow on reduction of capital	800,000	–	800,000	–

On 15 March 2010, Sahar Minerals Limited ceased to be a subsidiary of the Group. Sahar Minerals Limited, although at an early stage in its development, is a mineral exploration company, which has a different business model to that of the Group's business. Accordingly, a decision was taken to transfer Sahar Minerals Limited out of the Group. The Group's interests in Sahar Minerals Limited were distributed to the existing shareholders in the form of a capital distribution. As part of that transaction a return of capital was made to the Group's shareholders on 30 April 2010 of $2.5 million. A part of this $2.5 million distribution was a $1.5 million drilling credit which will reduce as the Group performs drilling services for Sahar Minerals Limited. Sahar Minerals Limited has entered into a drilling contract with the Group.

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30. Lease commitments

Leasing arrangements

The Group has entered into several operating leases for premises, with a maximum period of up to 5 years. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

Non-cancellable operating lease commitments:

	Group		Company	
	2010	2009	2010	2009
	$	$	$	$
Not longer than 1 year	915,767	481,406	19,308	15,240
Between 2 and 5 years	461,742	1,115,673	–	–
	1,377,509	1,597,079	19,308	15,240

31. Segmental analysis

Operating segments are identified on the basis of internal management reports about components of the Group that are regularly reviewed by the chief operating decision maker, in this case, the chief executive, in order to allocate resources to the segments and to assess their performance. Information reported to the Group's chief executive for the purposes of resource allocation and assessment of segment performance is focussed on the country 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 under IFRS 8 are therefore:

- Africa: Derives revenue from the provision of drilling services and related procurement, equipment rental and information technology support services

- Rest of world: Derives revenue from the provision of drilling services and related procurement, equipment rental and information technology support services

Information regarding the Group's operating segments is reported below. At 31 December 2010, the management reviewed the composition of the Group's operating segments and the allocations of operations to the reportable segments. Amounts reported for the prior year have been re-presented to conform to the current year presentation.

Segment revenue and results:

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

2010	Africa	Rest of world	Consolidated
	$	$	$
External revenue	63,445,158	11,810,818	75,255,976
Segment gross profit	23,964,242	3,418,111	27,382,353
Administration costs and depreciation, net of other income	(11,062,030)	(1,804,330)	(12,866,360)
	12,902,212	1,613,781	14,515,993
Central administration costs and depreciation			(1,018,046)
Head office companies other income			678,680
Profit from operations			14,176,627
Finance charges			(1,288,414)
Profit before tax			12,888,213

31. Segmental analysis (continued)

2009	Africa	Rest of world	Consolidated
	$	$	$
External revenue	45,071,758	13,937,457	59,009,215
Segment gross profit	14,132,047	7,326,895	21,458,942
Administration costs and depreciation, net of other income	(8,924,171)	(3,641,347)	(12,565,518)
	5,207,876	3,685,548	8,893,424
Central administration costs and depreciation			(1,600,019)
Head office companies other income			592,971
Profit from operations			7,886,376
Finance charges			(1,327,061)
Profit before tax			6,559,315

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of central administration costs, depreciation, other income, finance charges and income tax. This is the measure reported to the group's chief executive for the purpose of resource allocation and assessment of segment performance.

	Group	
	2010	2009
	$	$
Segment assets:		
Africa	109,196,805	72,326,603
Rest of world	49,740,355	38,867,387
Total segment assets	158,937,160	111,193,990
Head office companies	26,546,069	13,492,948
	185,483,229	124,686,938
Eliminations	(88,882,743)	(67,024,078)
	96,600,486	57,662,860

For the purposes of monitoring segment performance and allocating resources between segments the Group's chief executive monitors the tangible, intangible and financial assets attributable to each segment. All assets are allocated to reportable segments with the exception of goodwill and investments, property, plant and equipment used by the head office companies, certain amounts included in other receivables, and cash and cash equivalents held by the head office companies

Other segment information:

Depreciation

	2010	2009
Africa	4,975,732	3,534,730
Rest of world	730,067	1,346,469
Total segment depreciation	5,705,799	4,881,199
Head office companies	45,949	44,195
	5,751,748	4,925,394

Additions to property, plant and equipment

	2010	2009
Africa	15,869,810	7,434,770
Rest of world	2,237,925	956,654
Total segment additions to property, plant and equipment	18,107,735	8,391,424
Head office companies	868,943	8,936
	18,976,678	8,400,360

31. Segmental analysis (continued)

Information about major customers

Included in revenues arising from the Africa segment are revenues of approximately $45.2 million (2009: $23.3 million) which arose from sales to customers that represent more than 10% of the Group's revenue. Included in 2009 revenues arising from the Rest of World segment were revenues of approximately $7.7 million which arose from sales to a customer that represents more than 10% of the Group's revenue.

32. Financial instruments

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2009.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in notes 20 and 25, cash and cash equivalents disclosed in note 17 and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 18 and the statement of changes in equity.

Risk management is conducted within a framework of policies and guidelines that are continuously monitored by management and the board of directors, the objective being to minimise exposure to market risks (interest rate risk, foreign currency risk and price risk), credit risk, and liquidity risk.

	Group		Company	
	2010	2009	2010	2009
	$	$	$	$
Categories of financial instruments				
Financial assets				
Cash and cash equivalents	18,237,254	3,479,717	10,668,261	1,684,798
Loans and receivables	14,965,800	8,807,865	18,410,384	10,542,718
	33,203,054	12,287,582	29,078,645	12,227,516
Financial liabilities				
Amortised cost	34,215,314	25,403,953	2,721,203	13,707,163

Foreign currency risk management

The Group undertakes transactions in foreign currencies which give rise to risk of exchange rate fluctuations. To management the Group's risk to foreign currency fluctuations and foreign exchange rate risk, the Group tries to match the currency of operating costs with the currency of revenue as well as the currency of financial assets with the currency of financial liabilities. Financial assets and liabilities denominated in foreign currencies are reviewed regularly by management to ensure that the Group is not unduly exposed to foreign currencies.

32. Financial instruments (continued)

Foreign currency risk management (continued)

The carrying amounts of the Group's foreign currency denominated monetary assets, consisting of cash and other receivables, and monetary liabilities, consisting of trade and other payables, at the 31 December 2010 are as follows:

	Group		Company	
	2010	2009	2010	2009
	$	$	$	$
Foreign currency risk management				
Assets:				
Australian Dollar	4,207,083	1,385,700	444,142	155,155
Egyptian Pound	164,812	289,222	–	–
South African Rand	29,239	546,182	–	131,361
Tanzanian Shillings	552,419	21,076	–	–
Zambian Kwacha	511,056	353,754	–	–
All other currencies	2,487,310	731,334	805,461	572,108
	7,951,919	3,327,268	1,249,603	858,624
Liabilities				
Australian Dollar	6,902,840	4,996,046	343,192	3,553,281
Egyptian Pound	812,400	486,153	–	–
South African Rand	1,026,867	717,806	190,793	225,494
Tanzanian Shillings	331,533	938,228	–	3,323
Zambian Kwacha	192,369	884,395	–	–
All other currencies	1,447,227	736,892	63,398	355,771
	10,713,236	8,759,520	597,383	4,137,869

Foreign Currency sensitivity analysis:

The Group is exposed to a number of currencies, which are listed below.

The following table details the Group's sensitivity to a 10% change in the United States Dollar against the relevant foreign currencies. The sensitivity analysis includes the outstanding foreign currency denominated monetary items at year end together with the income and expense items during the year and adjusts their translation for a 10% change in foreign currency rates.

The positive number below indicates an increase in profit where the United States Dollar strengthens by 10% against the relevant currency. For a 10% weakening of the United States Dollar against the relevant currency, there would be an equal and opposite impact on the profit.

	Group		Company	
	2010	2009	2010	2009
	$	$	$	$
Australian Dollar profit (loss)	243,855	(377,942)	(9,177)	(265,667)
Egyptian Pound profit (loss)	59,637	(19,693)	–	–
South African Rand profit (loss)	90,693	(15,484)	17,345	18,110
Tanzanian Shillings profit (loss)	(20,081)	(91,715)	–	(332)
Zambian Kwacha profit (loss)	4,221	(74,831)	–	–
All other currencies profit (loss)	(97,813)	(838)	(63,778)	140,756

32. Financial instruments (continued)

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk relates to potential exposure on trade and other receivables and bank balances.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed annually. Amounts owing from the Group's customers are continuously monitored. The Group currently provides drilling services to a limited number of major and junior exploration and mining companies operating in the countries the group operates in.

The credit risk on bank balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

At year-end, the Group did not consider there to be any significant concentration of credit risk. Also refer notes 15 and 17.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

Liquidity risk tables:

The following table details the Group's remaining contractual maturity for its financial assets and liabilities. The tables for assets have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The tables for liabilities represent undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay based on the interest rates at the reporting date:

2010	**Weighted average Interest rate**	**1 month**	**1 – 3 months**	**3 months – 1 year**	**1 – 5 years**
		$	**$**	**$**	**$**
Financial assets					
Non-interest bearing loans and receivables	0.00%	14,240,370	725,430	–	–
Financial liabilities					
Non-interest bearing	0.00%	12,130,901	3,546,746	489,308	–
Variable interest rate instruments	6.28%	462,086	912,502	4,044,478	11,735,911
Fixed interest rate instruments	8.61%	215,403	136,066	907,948	1,626,973
Total		12,808,390	4,595,314	5,441,734	13,362,884

32. Financial instruments (continued)

2009	Weighted average Interest rate	1 month	1 – 3 months	3 months – 1 year	1 – 5 years
		$	$	$	$
Financial assets					
Non-interest bearing loans and receivables	0.00%	8,807,865	–	–	–
Financial liabilities					
Non-interest bearing	0.00%	5,657,959	1,517,855	341,927	–
Variable interest rate instruments	8.16%	226,779	450,594	1,978,792	8,799,046
Fixed interest rate instruments	5.88%	740,050	1,473,309	4,994,383	2,880,636
Total		6,624,788	3,441,758	7,315,102	11,679,682

Interest rate risk

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and variable interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings. The Group's exposures to interest rates on financial liabilities are detailed below.

Interest rate sensitivity analysis:

The sensitivity analyses below have been determined based on the exposure to interest rates at the statement of financial position date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the statement of financial positions date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher and all other variables were held constant, the Group's profit for the year ended 31 December 2010 would decrease by $77 427 (2009: $30 494). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings. The increase in the Group's sensitivity to interest rates, is directly attributable to the new variable interest rate long term debt facilities, offset by the settlements that occurred during the year, as disclosed in note 20.

33. Related parties

During the year, the Company and its subsidiaries, in the ordinary course of business, entered into various sale and purchase transactions with related parties of the Group. All transactions are entered into at amounts negotiated between the parties.

	Group		Company	
	2010	2009	2010	2009
	$	$	$	$
Management fees received from subsidiaries	–	–	1,403,159	2,356,772
Rental income received from subsidiaries	–	–	5,190,479	2,016,413
Pre-acquisition loan concession from Cap-Sat Technologies Limited	–	592,971	–	592,971
Service charges paid to Capital Drilling South Africa (Proprietary) Limited	–	–	513,494	852,759
Service charges paid to Capital Drilling (Singapore) Pte. Ltd.	–	–	1,480,921	737,898
Service charges paid to Capital Drilling Netherlands Coöperatief U.A.	–	–	–	11,735
Logistics fees paid to Supply Force International Limited	–	–	107,137	54,390
Information technology charges paid to Cap-Sat Technologies Limited	–	–	140,846	107,522
Interest paid on executives' loans	–	(345,364)	–	(281,572)
Directors' emoluments	1,161,863	1,071,438	758,478	761,106

As at 31 December 2010 and 31 December 2009 there were loans payable and receivable to the company's subsidiaries. Details of these loans are disclosed in note 16 and note 24.

As at 31 December 2009 there were loans payable to the certain of the Group's executives. Details of these are disclosed in note 21.

Included in unearned revenue included in accounts payable as at 31 December 2010, is an amount of $1,398,727 relating to drilling services to be provided to Sahar Minerals Limited, a company which has similar shareholders to the Group.

34. Capital commitments

The group has the following commitments:

	Group	
	2010	2009
	$	$
Committed capital expenditure	2,026,212	1,530,136

The Group also had outstanding purchase orders amounting to $2.5 million (2009: $2.0 million) at the reporting date.

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