

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

**Full Year Results  
for the year ended 31 December 2018**

Capital Drilling Limited (CAPD:LN), a leading drilling solutions company focused on the African markets, today announces its full year results for the year ended 31 December 2018.

**FULL YEAR FINANCIAL RESULTS (UNAUDITED) FOR THE YEAR ENDED 31 DECEMBER 2018\***

	2018	2017
Average Fleet Size (No. of drill rigs)	93	93
Fleet Utilisation (%)	51	53
ARPOR (\$)	194,000	194,000
Capex (\$ m)	11.9	10.8
Revenue (\$ m)	116.0	119.4
EBITDA <sup>1</sup> (\$ m)	28.3	24.3
EBIT <sup>1</sup> (\$ m)	14.8	11.7
Net Profit After Tax (\$ m)	7.7	5.2
Cash From Operations (\$ m)	28.2	25.2
Earnings per Share		
Basic (cents)	5.7	3.9
Diluted (cents)	5.7	3.8
Final Dividend per Share (cents)	1.5	1.2
Net Asset Value per Share <sup>1</sup> (cents)	55.8	51.8
Return on Capital Employed (%)	17.5	14.3
Return on Total Assets (%)	13.9	11.1
Net Cash <sup>1</sup> (\$ m)	10.9	4.9
Net Cash/Equity (%)	14.3	7.0

\*All amounts are in USD unless otherwise stated

<sup>(1)</sup> EBITDA, EBIT, Net Asset Value per share and Net Cash are non-IFRS financial measures and should not be used in isolation or as a substitute for Capital Drilling Limited financial results presented in accordance with IFRS.

**Financial Overview**

- Significant increase in profitability and net cash
- Full year 2018 revenue of \$116.0 million, marginally above the top end of the 2018 guidance of \$105 to \$115 million (2017: \$119.4 million)
- EBITDA up 16% to \$28.3 million (2017: \$24.3 million)
- EBIT up 26% to \$14.8 million (2017: \$11.7 million)
- Net Profit After Tax up 48% to \$7.7 million (2017: \$5.2 million)
- Net Operating Cash Flows up 9% to \$22.5 million (2017: \$20.7 million)
- Final Dividend of US1.5cps, up 25% (2017: US1.2cps) to be paid on 3 May 2019

- Net Cash up 122% to \$10.9 million (2017: \$4.9 million).
- The Company anticipates full year 2019 revenues of between \$110 and \$120 million underpinned by existing contracts.

### **Operational and Strategic Review**

- Maintained full year ARPOR at \$194,000, a significant achievement given the rig mobilisation into West Africa in H1 2018
- Annual rig utilisation 51% in 2018 (2017: 53%) with rig utilisation of 56% in H2 2018 driven by the commencement of new contracts in West Africa
- Purchased two new blast hole rigs in H1 2018, while disposing of four rigs during the year (sale and decommissioning), with a fleet size of 91 rigs at end of 2018
- Continued strong performance on our long-term contracts:
  - Acacia Mining's North Mara Gold Mine (Tanzania)
  - AngloGold Ashanti's Geita Gold Mine (Tanzania)
  - Centamin's Sukari Gold Mine (Egypt)
  - Resolute Mining's Syama Gold Mine (Mali)
  - Kinross Gold's Tasiast Mine (Mauritania)
- Awarded extension on three long terms contracts, including:
  - Resolute Mining's Syama Gold Mine: Awarded a three-year extension on surface drilling and delineation drilling
  - Centamin's Sukari Mine: Awarded a five-year extension, covering our existing blast hole and grade control drilling services
  - AngloGold Ashanti's Geita Gold Mine: Awarded a one-year extension covering our underground grade control and underground exploration drilling services
- Awarded numerous exploration contracts over 2018, including:
  - Aton Resources (Egypt)
  - De Beers (Botswana)
  - Graphex Mining (Tanzania)
  - Hummingbird Resources (Mali)
  - OreCorp Limited (Mauritania)
  - Sama Resources (Côte d'Ivoire)
  - Strandline Resources (Tanzania)
- Significant progress in the implementation of the West Africa strategy:
  - Established infrastructure with offices, warehouses, workshops and accommodation in Bamako, Mali, and Yamoussoukro, Côte d'Ivoire, adding to the existing presence in Mauritania
  - Doubled rig count in the region to 31 rigs during the period
  - Broadened Business Development presence
- Successful contract awards in West Africa including:
  - Resolute Mining (mentioned above)
  - Kinross Gold (mentioned above)
  - Hummingbird Resources
  - Orecorp Limited
  - Sama Resources: commenced a 6,000m diamond drilling contract
- Outstanding safety performance with a record achievement of zero LTI's and 0.45 AFIR (51% decline from 2017) for the year, reflecting our uncompromising commitment to safety
- Achievement of a number of world class safety milestones, including:
  - Mali (Syama Project) achieved two years LTI free
  - Tanzania (North Mara Project) achieved two years LTI free
  - Tanzania (Geita Project) achieved one-year LTI free

## **Board and Management Update**

The Company appointed Michael Rawlinson as Non-Executive Director in August 2018, who replaced Craig Burton. Michael was also appointed chair of the Remuneration Committee.

We are further pleased to announce today the appointment of Jodie North as Chief Operating Officer effective March 2019. Jodie was previously the Executive for Production and is bringing significant experience into this new role.

### **Commenting on the results, Jamie Boyton (Executive Chairman) said:**

*“Capital Drilling enjoyed a year of significant progress with record net cash generated from our assets, a further strengthening of the balance sheet, as well as key strategic growth into West Africa. The quality of our business mix further improved with extensions to a number of our long-term drilling contracts, ARPOR remaining consistently robust, whilst utilisation saw a further improvement in the second half of the year, particularly with our exploration rig fleet. All of these metrics were underpinned by an exceptional safety record with zero LTIs and a halving of our AIFR to an industry leading 0.45, which demonstrates the management’s focus on our goal of a zero harm strategy.*

*The outlook for 2019 remains encouraging, albeit amidst mixed market drivers, specifically supportive commodity prices, in particular gold which represents circa 90% of Group revenue, offset by continued weak capital markets that impacted the funding for exploration activity. Our significantly increased presence in the key West African markets provides optimism for further contract wins over the year ahead. We believe that the careful investments we have made in 2018, both in terms of infrastructure as well as continually maintaining a high quality and young fleet, combined with our strong focus on cost discipline and return metrics on our asset base, will reap further benefits to all of our stakeholders over the course of the current financial year.*

*Our stated strategy of building our long-term business, coupled with a robust balance sheet and a focus on maximising the generation of free cash, is expected to see shareholders enjoy strong dividend growth, with a final payment for 2018 of 1.5c per share”*

**For further information, please visit Capital Drilling’s website [www.capdrill.com](http://www.capdrill.com) or contact:**

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### **About Capital Drilling**

Capital Drilling provides specialised drilling services to mineral exploration and mining companies in emerging and developing markets, for exploration, development and production stage projects. The Company currently owns and operates a fleet of 91 drilling rigs with established operations in Botswana, Côte d'Ivoire, Egypt, Ghana, Kenya, Mali, Mauritania and Tanzania. The Group's corporate headquarters are in Mauritius.

## **CHAIRMAN'S STATEMENT**

During 2018, Capital Drilling achieved a number of pleasing results, including: record safety achievement of zero Lost Time Injuries (LTI's); successful strategic expansion into West Africa; solid performance from the Group's core long-term contracts; and contract extensions with existing long-term clients. Financially, our full year results were the strongest reported for many years, with a significant increase in our profitability measures, including a net profit after tax of \$7.7 million representing a 48% increase on 2017 (\$5.2 million). The improved performance contributed to a solid increase in the Group's return on capital, in addition to strong cash generation, allowing continued investment, debt reduction and an increase in dividends.

The operating environment produced some mixed signals during 2018. Commodity prices were generally supportive, particularly gold which represents approximately 90% of our overall business by revenue and 50% of the drilling industry's revenue, by commodity. The strong gold price continued to drive solid operating margins for our mining customers, contributing to improved budgets across 2018. Conversely, capital markets activity levels remained weaker over the course of the year, particularly in Canada, restricting access to finance for junior explorers, a critical customer group in early stage exploration drilling. While these customers remained active during 2018, the projects were generally budget constrained which continues to be prevalent as we enter 2019. Most recently, an increase in M&A activity in the sector has driven increasing interest from generalist investors, which is a positive sign for new investment in the sector.

Revenue decreased 3% to \$116.0 million following a 28% increase in 2017 (\$119.4 million), reflecting lower utilisation in the first half as idle rigs were redeployed to West Africa. Second half revenue (\$61.5 million) was 13% higher than H1 2018 (\$54.5 million) as assets arrived in the region and new contracts commenced drilling. During H2 2018, the West African region contributed 24% of total revenue, up from 18% in H1 2018 and substantially increased from 2017 (13%). These results validate the Board's decision to expand its presence into this highly active market.

The Group reported a net profit after tax (NPAT) of \$7.7 million (2017: \$5.2 million), a very strong 48% increase on 2017, with Basic Earnings Per Share (EPS) increasing to 5.7 cps (2017: 3.9cps). This was particularly pleasing as it was achieved despite weaker revenue and increased costs associated with fleet mobilisation and the establishment of infrastructure in West Africa.

Improved working capital movements coupled with ongoing financial discipline and tight expenditure controls delivered an outstanding net cash improvement. Working capital was significantly stronger in the second half following first half outflows associated with establishing the West African presence. Net cash as at 31 December was \$10.9 million, up from \$4.9 million at December 31, 2017, after the payment of \$2.4 million in dividends in 2018. The strong net cash position enabled the Group to reduce gross debt by 25% to \$9 million from 2017 (\$12 million).

In line with the Group's solid financial and operating position, the Board of Directors have declared a final dividend for the 2018 period of 1.5cps (\$2.04 million), payable on 3 May 2019. This is up 25% on the 2017 final dividend and reflects the stronger profit and balance sheet result, while retaining ample capacity to execute on the Company's strategy into 2019 and beyond.

## **OPERATIONAL UPDATE**

The improvement in global drilling activity continued into 2018. Capital Drilling's key markets of Egypt and Tanzania did not however experience the uplift in exploration activity seen in other mining regions. As a result, while the long-term blast hole and grade control contracts were performing well, the Company was not benefitting from the increase in exploration and management accelerated the Group's strategic expansion into the high-growth West African region over H1 2018 and into H2.

Throughout the year assets were redeployed into the region, while infrastructure was established in Bamako, Mali, and Yamoussoukro, Côte d'Ivoire, in addition to existing facilities in Mauritania. The rig count in the region was doubled over the course of the year to 31, over one third of the total fleet, and the Group increased its key operational personnel in the region while adding further Business Development resources.

Capital Drilling benefitted from this investment with a number of contract wins, including: delineation drilling for Hummingbird Resources at the Yanfolila Gold Mine, Mali; two-year maintenance contract at Kinross's Tasiast Gold Mine, Mauritania; three year surface drilling and delineation contract extension at Resolute Mining's operations in Mali; and delineation drilling contract with new client Sama Resources at its Yepleu property in Côte d'Ivoire. Contracts commenced in the second half, with stronger revenues reflected as a result.

The Company also saw stronger exploration activity in the second half with a number of contract wins, despite the softer equity markets. New contracts included: Aton Resources, Egypt; Graphex Mining Limited, Tanzania; De Beers Holdings, Botswana; Acacia Mining, Kenya; and Strandline Resources, Tanzania.

While fleet utilisation was subdued in the first half (H1 2018: 46%) due to rig mobilisation into West Africa, it increased substantially in H2 2018 to 56%, driven by the commencement of the new contracts outlined above. The annual average fleet remained flat at 93 rigs (2017: 93 rigs).

Average Revenue per Operating Rig (ARPOR) remained consistent with 2017 at \$194,000 per month - an outstanding result from our operational teams given the lower utilisation in the first half.

The Group's long-term contracts, Geita Gold Mine (AngloGold Ashanti) and North Mara Gold Mine (Acacia) in Tanzania, Sukari Gold Mine (Centamin) in Egypt, Tasiast Gold Mine (Kinross) in Mauritania and Syama Mine (Resolute) in Mali, all continued to perform well during 2018.

Significantly, the Company was awarded contract extensions at Sukari Gold Mine for a further five years and Geita Gold Mine for underground drilling services for a further one year. These extensions reflect the Group's professional service delivery to its clients. Capital Drilling will continue to focus on securing long-term contracts with blue chip clients to provide revenue stability and greater visibility of future revenue and earnings.

Capital Drilling's production fleet of blast hole and grade control rigs continued to operate at near full capacity over the year. Throughout 2018, the Company acquired two new production rigs to support our operations. The Group continues to focus on maintaining a solid rig maintenance and rebuild program, in addition to retiring older assets, to maintain its industry leading reputation for asset quality. With an average fleet age of approximately five years, Capital Drilling continues to lead the market in equipment standards and reliability.

## **SAFETY**

The Group has an uncompromising commitment to the safety of its employees and all other stakeholders. It expects visible safety leadership at all levels of the business, from the Executive Leadership Team to crews on site. The Company invests significantly in training programs to ensure its workforce is skilled, competent and can identify and mitigate hazards in the workplace.

As highlighted above, the Group delivered an outstanding safety achievement of zero LTI's during 2018 the year. This is an industry leading result and a record for Capital Drilling and makes us very proud of the level of professionalism in the Group's safety culture.

Additionally, the All Injury Frequency Rate (AIFR) more than halved to 0.45 (2017: 0.92), well below industry standards.

Capital Drilling achieved a number of site records and safety milestones during 2018 including:

- Mali, Syama Project: 1 year LTI free in June 2018
- Tanzania, North Mara Project: 2 years LTI free in March 2018
- Tanzania, Geita Project: 1 year LTI free in March 2018

## **OUTLOOK**

As we enter 2019, we continue to face an external environment providing mixed signals for growth. As raised earlier, commodity prices are generally supportive and the recent strength in the gold price highly supportive for an increase in drilling activity. Capital markets activity levels do however remain challenging, particularly in Canada, which is continuing to restrict access to finance for junior explorers. Critically, our long-term contracts continue to underpin Group revenues, which combined with existing exploration contracts, provide baseline revenues similar to the result achieved in 2018. In addition, our increased presence in the high growth West African market positions us well for further contract wins throughout 2019. Against this backdrop, we anticipate a further improvement in profitability in 2019 with our ongoing discipline in managing the business.

Capital Drilling will continue to focus on improving the key metrics of the business, growing the portfolio of long-term mine-site based contracts, further expanding the business in the West African region and maintaining the growth of free cash flow to continue the delivery of returns to all our stakeholders.

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

Jamie Boyton  
Executive Chairman  
14 March 2019

## CHIEF FINANCIAL OFFICER'S REVIEW

### Overview

2018 experienced a significant increase in both profitability and cash levels. Net cash increased to \$10.9 million (2017: \$4.9 million), the highest levels since listing in 2010, with \$22.5m generated from operating activities. As a consequence, Net Profit After Tax increased 48% to \$7.7 million (2017: \$5.2 million), despite a 3% decrease in 2018 revenues to \$116m (2017: \$119m).

The increased cash generation has enabled the Group to fund the West Africa expansion strategy from operating cash, as well as to reduce the long-term debt by \$3 million, down 25% (2017: no movement).

This increased profitability was driven by the continuation of the savings initiatives implemented in 2017. The Group's key long-term contracts continue to perform strongly, with stable revenues at Sukari Gold Mine (Egypt), Geita and North Mara (Tanzania) and increased revenues at Tasiast (Mauritania). In addition, contract extensions were awarded at Sukari (five year extension on grade control and blast hole), Geita Gold Mine (one year extension on underground grade control and exploration drilling) and Syama (three year extension on surface drilling and delineation).

Despite more subdued capital markets, Capital Drilling secured additional contracts in both its strategically important area of West Africa and elsewhere in Africa, winning contracts with Hummingbird Resources (Mali), Sama Resources (Côte d'Ivoire), Graphex Mining (Tanzania) and De Beers (Botswana).

Capital expenditure (Capex) of \$11.9 million (2017: \$10.8 million) continued to support the new and existing contracts and increased presence in West Africa, with \$7 million spent on growth Capex (2017: \$6.4 million) and additional spend on ancillary assets to support the fleet. During the year two new blast hole rigs were purchased and four diamond rigs decommissioned.

### Statement of Comprehensive Income

Reported	2018 \$'m	2017 \$'m
Revenue	116.0	119.4
EBITDA	28.3	24.3
EBITDA (%)	24.4	20.4
EBIT	14.8	11.7
PBT	12.6	9.7
NPAT	7.7	5.2
Basic EPS (cent)	5.7	3.9
Diluted EPS (cent)	5.7	3.8

Table 1: Statement of Comprehensive Income (Summary)

Rig utilisation for the year was 51% (2017: 53%) on an average fleet size of 93 (2017: 93). Average revenue per operating rig (ARPOR) was maintained at \$194,000 (2017: \$194,000) per month.

Most contract margin results improved due to greater operational focus and performance management, with a more hands-on approach by the Executive Leadership Team in involving and upskilling the project management teams to focus on profitability. The escalating margin improvement trend from Q4 2017 continued for FY 2018.

Earnings before interest, tax, depreciation and amortisation ("EBITDA"), amounted to \$28.3 million delivering a margin of 24.4% (2017: \$24.3 million, or 20.4%), a 20% increase in margin, year on year.



Profit Before Tax (PBT) was impacted by Net Interest of \$0.65 million (2017: \$1.0 million) and loss of \$1.6 million on new business opportunities. These investments are expected to increase the Group's service offering to clients. The costs also include \$0.1 million relating to an associate's IPO, which has since listed, with an unrealised gain of \$0.6 million.

The Effective Tax Rate of 39% (2017: 46%) is partly due to final taxes on entities no longer contributing to Group revenues, the cost of cash repatriation and the impact of commencing operations in countries where we are yet to benefit from normalised tax margins, as Minimum Income Tax rates are applied. These tax levels are above the Group Tax targets and are expected to see a decline in 2019.

Profit after tax for the year was \$7.7 million (2017: \$5.2 million), up 48%.

The earnings per share for the year was 5.7 cents (2017: profit of 3.9 cents), up 46%. The weighted average number of ordinary shares used in the earnings per share calculation was 135,670,075 (2017: 135,162,396).

### Statement of Financial Position

Reported	2018 \$'m	2017 \$'m
Non-current assets	40.3	44.2
Current assets	66.2	61.4
Total assets	106.5	105.6
Non-current liabilities	9.0	12.0
Current liabilities	21.8	23.5
Total liabilities	30.8	35.5
Shareholders' equity	75.7	70.1

Table 2: Statement of Financial Position (Summary)

As at 31 December 2018, shareholders' equity increased by 8.1%. The Group distributed dividends of \$2.4 million (2017: \$2.0 million) to the shareholders and recorded a net profit after tax of \$7.7 million (2017: \$5.2 million). Net cash is \$10.9 million (2017: \$4.9 million). The net profit for the year has further strengthened the Statement of Financial Position.

The total rig fleet size at the end of 2018 was 91 drill rigs (2017: 93). The strategic capital expenditure in 2018 resulted in a marginally increased requirement in 2018 of \$11.9 million (2017: \$10.8 million).

Overall property, plant and equipment reduced from \$41.4 million in 2017 to \$38.8 million in 2018, reflecting depreciation of \$13.5 million (2017: \$12.6 million), assets disposed of \$1.0 million (2017: \$1.9 million) and additional capital expenditure of \$11.9 million (2017: 10.8 million).

Current assets increased to \$66.2 million at 31 December 2018 (2017: \$61.4 million). Inventory decreased by \$1.9 million to \$19.8 million (2017: \$21.7 million) as part of an inventory rationalisation programme. Trade receivables decreased by \$0.8 million due to improved collections. Cash and cash equivalents increased by \$3.0 million to \$19.9 million (2017: \$16.9 million).

Non-current liabilities were \$9 million at end of year, as the \$12 million revolving credit facility ("RCF") provided by Standard Bank (Mauritius) Limited was reduced by \$3 million. The Group was fully compliant with all debt covenants throughout the year.

Current liabilities consisted of trade and other payables, \$18.1 million (2017: \$19.7 million), current portion of long-term liabilities \$0.03 million (2017: \$0.04 million) and tax liabilities of \$3.7 million (2017: \$3.7 million).



## CAPITAL DRILLING

Reported	2018 \$'m	2017 \$'m
Opening equity	70.1	66.8
Share based payments	0.3	0.2
Total comprehensive income	7.7	5.1
Dividends paid	(2.4)	(2.0)
Closing equity	75.7	70.1

Table 3: Statement of changes in equity (Summary)

### Statement of Cash Flows

Reported	2018 \$'m	2017 \$'m
Net cash from operating activities	22.5	20.7
Net cash used in investing activities	(14.2)	(14.7)
Net cash used in financing activities	(5.4)	(2.0)
Net increase in cash and cash equivalents	2.9	3.9
Opening cash and cash equivalents	16.9	12.7
Translation of foreign currency cash	0.1	0.2
Closing cash and cash equivalents	19.9	16.9

Table 4: Statement of Cash Flows (Summary)

Reported	2018 \$'m	2017 \$'m
Net cash at the beginning of the year	4.9	0.6
Net increase in cash and cash equivalents	2.9	3.9
Decrease in long term liabilities	3.0	0.0
Translation of foreign currency cash	0.1	0.2
Net cash at the end of the year	10.9	4.9

Table 5: Reconciliation of net cash (debt) position

Net cash generated from operating activities was \$22.5 million (2017: \$20.7 million) with the operating cash significantly higher than 2017 due to the improved EBITDA result of \$28.3 million (2017: \$24.3 million), offset by an increased spend on payables.

The capital expenditure increase of \$1.1 million in 2018 followed on the \$2.0 million decrease in 2017, driven by the Group's commitment to meeting existing client requirements and the strategy of maintaining fleet operational readiness for the expansion into West Africa, which is expected to deliver long-term growth benefits.

The increase in Financing activities related to a \$3.0 million payment on the long-term liabilities (2017: No movement) and an increased dividend payment of \$2.4 million (2017: \$2.0 million).

The Group reported a net cash position of \$10.9 million at 31 December 2018. The increased net cash is attributed to the improved profitability for the year.

### Critical Accounting Policies

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

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

**Property, Plant and Equipment**

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

**Principal Risks and Uncertainties**

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

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

The principal risks associated with the business are:

Area	Description	Mitigation
<b>Fluctuation in levels of mining activity</b>	The Group is highly dependent on the levels of mineral exploration, development and production activity within the markets in which it operates. A reduction in exploration, development and production activities, or in the budgeted expenditure of mining and mineral exploration companies, will cause a decline in the demand for drilling rigs and drilling services, as was evident in the 2014 and 2015 financial years.	The Group is seeking to balance these risks by building a portfolio of long-term drilling contracts and expanding into new geographic areas and the implementation of our Lean Operating Model that is utilised for smaller contracts. The focus on longer term contracts is evidenced by a 5-year extension at Sukari, a 3-year contract at Syama and contract extensions at Geita, Tasiast and North Mara.

Area	Description	Mitigation
<p><b>Reliance on key customers</b></p>	<p>The Group’s revenue is reliant on a small number of key customers. The loss of a key customer, or a significant reduction in the demand for drilling provided to a key customer will have a significant adverse effect on the Group’s revenues.</p>	<p>The Group has entered into long-term contracts with its key customers for periods between 2 to 5 years. Contract renewal negotiations are initiated well in advance of expiry of contracts to ensure contract renewals are concluded without interruption to drilling services.</p> <p>The Group has and continues to monitor projects closely and invest a significant amount of time into client relationship and service level monitoring at all levels of the business. A key part of this process is the quarterly project steering committee meetings with key client stakeholders that provide a forum for monitoring and reporting on project performance and performance indicators, contractual issues, pricing and renewal. The West Africa expansion is intended to negate the customer concentration risk.</p>
<p><b>Key personnel and staff retention</b></p>	<p>The Group’s ability to implement a strategy of pursuing expansion opportunities is dependent on the efforts and abilities of its Executive Directors and senior managers. In addition, the Group’s operations depend, in part, upon the continued services of certain key employees. If the Group loses the services of any of its existing key personnel without timely and suitable replacements, or is unable to attract and retain new personnel with suitable experience as it grows, the Group’s business, financial condition, results of operations and prospects may be materially and adversely affected. In addition, business may be lost to competitors which members of senior management may join after leaving their positions with the Group.</p>	<p>The Group has expanded capabilities in the areas of business development, supply chain, finance, training and health and safety and continues to do so through the recruiting of senior managers in the various fields, implementing comprehensive training programmes and providing employees with international exposure in their fields.</p> <p>The Group has implemented remuneration and incentive policies that seeks to recruit suitable talent and to remunerate talent at levels commensurate with market levels.</p>



Area	Description	Mitigation
<p><b>Operating risks</b></p>	<p>Operations are subject to various risks associated with drilling including, in the case of employees, personal injury, malaria and loss of life and in the Group’s case, damage and destruction to property and equipment, release of hazardous substances into 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.</p>	<p>The Executive Chairman, Executive Leadership Team and managers provide leadership to projects on the management of these risks and actively engage with all levels of employees. The Group have implemented and continue to monitor and update a range of health and safety policies and procedures including equipment standards and standard work procedures. Employees are provided with training regarding risks associated with their employment, policies and standard work procedures.</p> <p>Health and Safety statistics and incident reports are monitored throughout our projects and the various management structures of the Group, including the HSSE committee. Where necessary policies and procedures are updated to reflect developments and improvement needs.</p>
<p><b>Currency fluctuations</b></p>	<p>The Group receives the majority of its revenues in US dollars. However, some of the Group’s costs are in other currencies in the jurisdictions in which it operates. Foreign currency fluctuations and exchange rate risks between the value of the US dollar and the value of other currencies may increase the cost of the Group’s operations and could adversely affect the financial results. As a result, the Group is exposed to currency fluctuations and exchange rate risks.</p>	<p>To minimise the Group’s risk, the Group tries to match the currency of operating costs with the currency of revenue. Funds are pooled centrally in the head office bank accounts to the maximum extent possible. The group have implemented procedures to allow for the repatriation of funds to the Group’s Head Office bank accounts from jurisdictions where exchange control regulations are in effect. Despite the improved repatriation achieved in 2018, there is continuous focus on improvement. To this effect the Group has appointed a Treasury Manager in 2019.</p>



Area	Description	Mitigation
<b>Political, economic and legislative risk</b>	<p>The Group operates in a number of jurisdictions where the political, economic and legal systems are less predictable than in countries with more developed industrial structures. Significant changes in the political, economic or legal landscape in such countries may have a material effect on the Group's operations in those countries. Potential impacts include restrictions on the export of currency, expropriation of assets, imposition of royalties or other taxes targeted at mining companies, and requirements for local ownership. Political instability can also result in civil unrest, industrial action and nullification of existing agreements, mining permits or leases. Any of these may adversely affect the Group's operations or results of those operations.</p>	<p>The Group has invested in a number of countries thereby diversifying exposure to any single jurisdiction.</p> <p>The Group monitors political and regulatory developments in the jurisdictions it operates through a number of service providers and advisors.</p> <p>Senior management regularly reports to the Board on any political or regulatory changes in the jurisdictions we operate in.</p> <p>Where significant events occur, we work closely with our clients, advisors and other stakeholders to address these events.</p> <p>The Group has also increased their international tax and compliance capabilities, by the appointment of a Head of Tax, Audit and Compliance to ensure and monitor compliance with local legislation.</p>
<b>Technological risk</b>	<p>New Innovation has the possibility of changing an industry with regards to methods and equipment, giving a cost or productivity advantage.</p>	<p>The Executive - Assets is constantly in contact with the OEMs, and attends all the major trade and industry trade shows. The ELT team consist of significant experience and knowledge in the operational field and are aware of all new industry developments. The Group's rigs are outfitted with the latest safety equipment as the technology is proven, providing a competitive advantage.</p>

**Viability Statement**

The activities of the Group, together with the factors likely to affect its future development, performance, the financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the pages 16 to 31. The Directors have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. These risks and the ways they are being managed and mitigated by a wide range of actions are summarised on pages 11 to 14.

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

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

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

#### **Cautionary Statement**

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

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

By order of the Board

André Koekemoer  
Chief Financial Officer  
14 March 2019

**Financial Results**

**CONDENSED STATEMENT OF COMPREHENSIVE INCOME  
For the year ended 31 December 2018**

	Notes	CONSOLIDATED	
		2018 \$ <i>Unaudited</i>	2017 \$ <i>Audited</i>
Revenue		116,020,535	119,447,366
Cost of sales		(70,726,861)	(80,180,448)
Gross profit		45,293,674	39,266,918
Administration expenses		(16,990,046)	(14,939,639)
Depreciation		(13,484,326)	(12,586,369)
Profit from operations		14,819,302	11,740,910
Share of losses from associate		(869,668)	(601,816)
Interest income		401,020	199,630
Finance charges		(1,051,348)	(1,192,002)
Realised loss on available-for-sale shares		-	(99,435)
Fair value adjustment on financial assets through profit and loss - Share Options		(47,234)	(358,657)
Fair value loss on investments in equity instruments designated as FVTPL		(672,705)	-
Profit before tax		12,579,367	9,688,630
Taxation	4	(4,855,332)	(4,475,578)
Profit for the year		7,724,035	5,213,052
<b>Other comprehensive income (loss):</b>			
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operations		18,510	38,454
Share of exchange differences on translation of foreign operations from associate		-	(18,510)
Movement in investment revaluation		100,322	-
Net loss on revaluation of available for sale investments (net of taxation)		-	(262,944)
Cumulative gain reclassified to profit and loss (net of taxation)		-	99,435
Total other comprehensive income (loss) for the year		118,832	(143,565)
Total comprehensive income for the year		7,842,867	5,069,487
<b>Earnings per share:</b>			
Basic (cents per share)	5	5.7	3.9
Diluted (cents per share)	5	5.7	3.8



**CONDENSED STATEMENT OF FINANCIAL POSITION**  
As at 31 December 2018

	Notes	CONSOLIDATED	
		2018 \$ <i>Unaudited</i>	2017 \$ <i>Audited</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	38,819,190	41,405,764
Investment in associates		1,482,368	2,750,295
Deferred tax assets		9,102	7,297
<b>Total non-current assets</b>		<b>40,310,660</b>	<b>44,163,356</b>
<b>Current assets</b>			
Inventory	10	19,785,408	21,691,569
Trade and other receivables		15,770,617	16,554,256
Prepaid expenses and other assets		4,777,803	2,863,167
Investments		5,705,113	3,260,331
Taxation		253,776	136,590
Cash and cash equivalents		19,888,764	16,911,383
<b>Total current assets</b>		<b>66,181,481</b>	<b>61,417,296</b>
<b>Total assets</b>		<b>106,492,141</b>	<b>105,580,652</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	8	13,581	13,524
Share premium	8	22,231,662	21,933,772
Equity-settled employee benefits reserve		409,995	432,476
Investments revaluation reserve		(26,267)	(126,589)
Foreign currency translation reserve		-	(18,510)
Retained earnings		53,103,024	47,823,617
<b>Total equity</b>		<b>75,731,995</b>	<b>70,058,290</b>
<b>Non-current liabilities</b>			
Long-term liabilities	9	9,000,000	12,000,000
Deferred tax liabilities		9,320	-
<b>Total non-current liabilities</b>		<b>9,009,320</b>	<b>12,000,000</b>
<b>Current liabilities</b>			
Trade and other payables		18,064,237	19,731,133
Taxation		3,656,705	3,749,644
Current portion of long-term liabilities		29,884	41,585
<b>Total current liabilities</b>		<b>21,750,826</b>	<b>23,522,362</b>
<b>Total equity and liabilities</b>		<b>106,492,141</b>	<b>105,580,652</b>



**CONDENSED STATEMENT OF CHANGES IN EQUITY**  
For the year ended 31 December 2018

	Note	Share capital \$	Share premium \$	Equity settled employee benefits reserve \$	Investments revaluation reserve \$	Foreign currency translation reserve \$	Retained earnings \$	Total \$
<b>CONSOLIDATED</b>								
Balance at 31 December 2016 (Audited)		13,490	21,697,470	441,883	36,920	(38,454)	44,639,236	66,790,545
Issue of shares		34	236,302	(236,336)	-	-	-	-
Recognition of share-based payments		-	-	226,929	-	-	-	226,929
Total comprehensive (loss) income for the year		-	-	-	(163,509)	19,944	5,213,052	5,069,487
Profit for the year		-	-	-	-	-	5,213,052	5,213,052
Other comprehensive (loss) income for the year, net of tax		-	-	-	(163,509)	19,944	-	(143,565)
Dividends paid		-	-	-	-	-	(2,028,671)	(2,028,671)
Balance at 31 December 2017 (Audited)		13,524	21,933,772	432,476	(126,589)	(18,510)	47,823,617	70,058,290
Issue of shares		57	297,890	(297,947)	-	-	-	-
Recognition of share-based payments		-	-	275,466	-	-	-	275,466
Total comprehensive income for the year		-	-	-	100,322	18,510	7,724,035	7,842,867
Profit for the year		-	-	-	-	-	7,724,035	7,724,035
Other comprehensive income for the year, net of tax		-	-	-	100,322	18,510	-	118,832
Dividends paid	6	-	-	-	-	-	(2,444,628)	(2,444,628)
Balance at 31 December 2018 (Unaudited)		13,581	22,231,662	409,995	(26,267)	-	53,103,024	75,731,995

**CONDENSED STATEMENT OF CASH FLOWS**  
For the year ended 31 December 2018

	Notes	CONSOLIDATED	
		2018 \$ <i>Unaudited</i>	2017 \$ <i>Audited</i>
<b>Operating activities:</b>			
Cash generated from operations	11	28,191,229	25,184,253
Interest received		401,020	199,630
Finance charges paid		(1,063,049)	(1,245,542)
Taxation paid		(5,057,942)	(3,454,863)
Net cash generated from operating activities		<u>22,471,258</u>	<u>20,683,478</u>
<b>Investing activities:</b>			
Purchase of property, plant and equipment	7	(11,927,850)	(10,786,507)
Purchase of investments		(2,647,630)	(2,565,689)
Purchase of Investment in associate		-	(2,902,688)
Proceeds from disposal of property, plant and equipment		418,686	1,539,665
Net cash used in investing activities		<u>(14,156,794)</u>	<u>(14,715,219)</u>
<b>Financing activities:</b>			
Proceeds from long-term liabilities	9	-	6,500,000
Long-term liabilities repaid	9	(3,000,000)	(6,500,000)
Dividend paid	6	(2,444,628)	(2,028,671)
Net cash used in financing activities		<u>(5,444,628)</u>	<u>(2,028,671)</u>
<b>Net increase in cash and cash equivalents</b>		2,869,836	3,939,588
Cash and cash equivalents at the beginning of the year		16,911,383	12,728,555
Translation of foreign currency cash and cash equivalent adjustment		107,545	243,240
Cash and cash equivalents at the end of the year		<u>19,888,764</u>	<u>16,911,383</u>

## **NOTES TO THE CONDENSED ANNUAL FINANCIAL STATEMENTS**

**For the year ended 31 December 2018**

### **1. Basis of preparation**

The unaudited preliminary condensed consolidated financial statements are prepared on the going concern basis under the historical cost convention, except for certain financial instruments which are measured at fair value. The directors are responsible for the preparation of the preliminary unaudited announcement.

The unaudited condensed consolidated financial statements included in this preliminary announcement has been prepared in accordance with the measurement and recognition criteria of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Whilst the financial information included in this preliminary unaudited announcement has been prepared in accordance with IFRS, this announcement does not itself contain sufficient information to comply with the disclosure requirements of IFRS. The unaudited preliminary statements have been prepared in accordance with International Accounting Statements ("IAS") 34 – Interim Financial Statements. The Group's 2018 Annual Consolidated Financial Statements will be prepared in accordance with IFRS. The unaudited preliminary announcement does not constitute a dissemination of the annual financial reports. A separate dissemination announcement in accordance with Disclosure and Transparency Rules (DTR) 6.3 will be made when the Annual Report and audited consolidated Financial Statements are available on the Company's website. As from 1 January 2018 – IFRS 9 Financial Instruments and IFRS 15 – Revenue from Customers became effective and the full impact of the new standards have been disclosed in the full financial statements.

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

The financial information for the years ended 31 December 2018 and 2017 does not constitute the annual financial statements. The annual consolidated financial statements for the year ended 31 December 2017 were completed and received an unmodified audit report from the Company's Auditors. The Annual Report and Annual Consolidated Financial Statements for the year ended 31 December 2018 will be finalised on the basis of the financial information presented by the Directors in this unaudited preliminary announcement. The audit report on the full set of consolidated financial statements for the year ended 31 December 2018 has not yet been issued.

### **2. Operations during the year**

During the year ended 31 December 2018, the Group provided drilling services in Botswana, Egypt, Mauritania, Mali, Kenya and Tanzania. The Group's administrative office is located in Mauritius. The Group comprise of Capital Drilling Limited and all its subsidiaries.

### **3. Segment analysis**

Operating segments are identified on the basis of internal management reports regarding components of the Group. These are regularly reviewed by the Chairman in order to allocate resources to the segments and to assess their performance. Operating segments are identified based on the regions of operations. 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:

**NOTES TO THE CONDENSED ANNUAL FINANCIAL STATEMENTS**

**For the year ended 31 December 2018**

**3. Segment analysis (continued)**

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

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

	Africa \$	Rest of world \$	Consolidated \$
<u>2018 Unaudited</u>			
External revenue	115,263,721	756,814	116,020,535
Segment profit (loss)	<u>23,177,443</u>	<u>(2,478,328)</u>	20,699,115
Central administration costs and depreciation			<u>(5,879,813)</u>
Profit from operations			14,819,302
Interest income			401,020
Share of losses from associate			(869,668)
Finance charges			(1,051,348)
Net loss on financial assets at fair value through profit and loss			(719,939)
Profit before tax			<u>12,579,367</u>

The total revenue of \$122.9m from the Africa segment includes \$82.6m (2017: \$84.3m) from customers that represent more than 10% of the Group's revenue.

2017 Audited

External revenue	<u>109,438,811</u>	<u>10,008,555</u>	<u>119,447,366</u>
Segment profit (loss)	<u>20,443,313</u>	<u>(4,230,092)</u>	16,213,221
Central administration costs and depreciation			<u>(4,472,311)</u>
Profit from operations			11,740,910
Interest income			199,630
Share of losses from associate			(601,816)
Finance charges			(1,192,002)
Net loss on financial assets at fair value through profit and loss			(458,092)
Profit before tax			<u>9,688,630</u>



# CAPITAL DRILLING

## NOTES TO THE CONDENSED ANNUAL FINANCIAL STATEMENTS For the year ended 31 December 2018

CONSOLIDATED	
2018	2017
\$	\$
<i>Unaudited</i>	<i>Audited</i>

### 3. Segment analysis (continued)

#### Segment assets and liabilities:

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

#### Segment assets:

Africa	183,018,762	156,825,920
Rest of world	13,855,989	16,630,783
Total segment assets	196,874,751	173,456,703
Head office companies	52,730,121	41,030,351
	249,604,872	214,487,054
Eliminations	(143,112,731)	(108,906,402)
Total Assets	106,492,141	105,580,652

#### Segment liabilities:

Africa	51,040,236	38,977,584
Rest of world	9,002,688	11,588,762
Total segment assets	60,042,924	50,566,346
Head office companies	112,362,444	92,278,111
	172,405,368	142,844,457
Eliminations	(141,645,222)	(107,322,095)
Total Liabilities	30,760,146	35,522,362

**NOTES TO THE CONDENSED ANNUAL FINANCIAL STATEMENTS**

**For the year ended 31 December 2018**

**4. Taxation**

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

The Group operates in multiple jurisdictions with complex legal and tax regulatory environments. In certain of these jurisdictions, the Group has taken income tax positions that management believes are supportable and are intended to withstand challenge by tax authorities. Some of these positions are inherently uncertain and relates to the interpretation of income tax laws. The Group periodically reassesses its tax positions. Changes to the financial statement recognition, measurement, and disclosure of tax positions is based on management's best judgment given any changes in the facts, circumstances, information available and applicable tax laws. Considering all available information and the history of resolving income tax uncertainties, the Group believes that the ultimate resolution of such matters will not likely have a material effect on the Group's financial position, statements of operations or cash flows. Refer to Note 14 (Contingencies) for more detail on Tanzania and Zambia.



**CAPITAL  
DRILLING**

**NOTES TO THE CONDENSED ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 31 December 2018**

<b>CONSOLIDATED</b>	
<b>2018</b>	<b>2017</b>
\$	\$
<i>Unaudited</i>	<i>Audited</i>

**5. 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:

Earnings for the year, used in the calculation of basic earnings per share	7,724,035	5,213,052
Weighted average number of ordinary shares for the purposes of basic earnings per share	135,670,075	135,162,396
Basic earnings per share (cents)	5.7	3.9

Diluted earnings per share

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

Weighted average number of ordinary shares used in the calculation of basic earnings per share	135,670,075	135,162,396
Shares deemed to be issued for no consideration in respect of:		
– Dilutive share options #	271,765	402,485
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	135,941,840	135,564,881
Diluted earnings per share (cents)	5.7	3.8

# For the purposes of calculating diluted earnings per share, the share options of 2.16 million were excluded as they are anti-dilutive as the exercise price is higher than the current share price.





# CAPITAL DRILLING

## NOTES TO THE CONDENSED ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2018

	CONSOLIDATED	
	2018	2017
	\$	\$
	<i>Unaudited</i>	<i>Audited</i>
<b>6. Dividends</b>		
Dividends paid:		
Final dividend in respect of the year	2,444,628	2,028,671
Total dividends paid	<u>2,444,628</u>	<u>2,028,671</u>

Dividends paid:

Final dividend in respect of the year

Total dividends paid

During the 12 months ended 31 December 2018, a dividend of 1.2 cents (2017: 1 cent) per ordinary share, totalling to \$1,629,751 (2017: \$1,352,471) was declared and paid to the shareholders on 18 May 2018 (2017: 19 May 2017) followed by a further dividend of 0.6 cents (2017: 0.5 cents) per share which was declared totalling \$814,876 (2017: \$676,200) and paid on 3 October 2018 (2017: 6 October 2017). The total dividend paid is \$2,444,628 (2017: \$2,028,671).

In respect of the year ended 31 December 2018, the directors propose that a final dividend of 1.5 cents (2017: 1.2 cents) per share be paid to shareholders on 3 May 2019 (2017: 18 May 2018). This final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these Consolidated Financial Statements. The proposed final dividend is payable to all shareholders on the Register of Members on 12 April 2019 (2017: 26 April 2018). The total estimated final dividend to be paid is \$2.04 million (2017: \$1.60 million). The payment of this final dividend will not have any tax consequences for the Group.

## 7. Property, plant and equipment

For the year ended 31 December 2018, the Group spent \$11.9 million (2017: \$10.8 million) on drilling rigs and other assets to expand its operations, safety upgrades and for the replacement of existing assets. The Group disposed of property, plant and equipment with a net book value of \$1.0 million (2017: \$1.9 million) during the year. A loss of \$0.6 million (2017: \$0.4 million) was incurred on the disposal of property, plant and equipment.

## 8. Share capital

### Authorised

2,000,000,000 (2017: 2,000,000,000) ordinary shares of 0.01 cents (2017: 0.01 cents) each

200,000

200,000

### Number of ordinary shares issued

135,812,596 (2017: 135,247,159) ordinary shares of 0.01 cents (2017: 0.01 cents) each

13,581

13,524

### Share premium

Balance at the beginning of the year

21,933,772

21,697,470

Share issue cost

297,890

236,302

Balance at the end of the year

22,231,662

21,933,772

On 3 April 2018, the Company issued 565,437 (2017: 343,763) new common shares pursuant to the Company's employee incentive scheme. The shares rank pari passu with the existing ordinary shares.

**NOTES TO THE CONDENSED ANNUAL FINANCIAL STATEMENTS**  
For the year ended 31 December 2018

<b>CONSOLIDATED</b>	
<b>2018</b>	<b>2017</b>
\$	\$
<i>Unaudited</i>	<i>Audited</i>

**9. Long term Liabilities**

Long term liabilities consist of a \$12 million revolving credit facility ("RCF") provided by Standard Bank (Mauritius) Limited following a renewal of the Facilities Agreement on 30 October 2017. The interest rate on the RCF is the prevailing three-month US LIBOR (payable in arrears) plus a margin of 5.75%, and an annual commitment fee of 1.5% of the undrawn balance.

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

- Upward corporate guarantees from Capital Drilling (T) Limited, Capital Drilling (Botswana) Proprietary Limited and Capital Drilling Ltd.
- A negative pledge over the assets of Capital Drilling (T) Limited and Capital Drilling Ltd.

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

Standard Bank (Mauritius) Limited

Balance at the beginning of the year	12,041,585	12,095,125
Amounts received during the year	-	6,500,000
Interest accrued during the year	912,285	1,160,627
Interest paid during the year	(923,986)	(1,214,167)
Principal repayments during the year	<u>(3,000,000)</u>	<u>(6,500,000)</u>
	9,029,884	12,041,585
Less: Current portion included under current liabilities	<u>(29,884)</u>	<u>(41,585)</u>
Due after more than one year	<u><u>9,000,000</u></u>	<u><u>12,000,000</u></u>

**10. Inventory**

The cost of inventories recognised as an expense in the current year amounts to \$10.9m (2017: \$10.8m). During the year, the Group wrote off \$2.4m (2016: \$905k) of inventory resulting in a reduction in the carrying amount of the provision.



# CAPITAL DRILLING

## NOTES TO THE CONDENSED ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2018

	CONSOLIDATED	
	2018 \$ <i>Unaudited</i>	2017 \$ <i>Audited</i>
<b>11. Cash generated from operations</b>		
Profit before tax	12,579,367	9,688,630
Adjusted for:		
– Depreciation	13,484,326	12,586,369
– Loss on disposal of property, plant and equipment	611,412	384,450
– Share based payment expense	275,466	226,929
– Fair value gain on investments in equity instruments designated as at FVTPL	672,705	-
– Realised loss on available-for-sale shares	-	99,435
– Fair value adjustment on financial assets through profit and loss	47,234	358,657
– Provision for inventory obsolescence	(2,374,104)	(905,428)
– Interest income	(401,020)	(199,630)
– Share of loss from associate	869,668	601,816
– Finance charges	1,051,348	1,192,002
– Unrealised foreign exchange gain on foreign	(107,545)	(204,786)
Operating cash flows before working capital changes	<u>26,708,857</u>	<u>23,828,444</u>
Adjustments for working capital changes:		
– Decrease (increase) in inventory	4,280,265	(1,424,960)
– Decrease (increase) in trade and other receivables	783,639	(963,118)
– (Increase) decrease in prepaid expenses and other assets	(1,914,636)	2,377,111
– (Decrease) increase in trade and other payables	(1,666,896)	1,366,776
	<u>28,191,229</u>	<u>25,184,253</u>

## 12. Financial instruments

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

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

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

**NOTES TO THE CONDENSED ANNUAL FINANCIAL STATEMENTS**

**For the year ended 31 December 2018**

**12. Financial instruments (continued)**

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

The standard comprises guidance on Classification and Measurement, Impairment Hedge Accounting and Derecognition:

- IFRS 9 introduces a new approach to the classification of financial assets, which is driven by the business model in which the asset is held and their cash flow characteristics. A new business model was introduced which does allow certain financial assets to be categorised as 'fair value through other comprehensive income FVTOCI' in certain circumstances. The requirements for financial liabilities are mostly carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk.
- The new model introduces a single impairment model being applied to all financial instruments, as well as an 'expected credit loss' model for the measurement of financial assets.
- IFRS 9 contains a new model for hedge accounting that aligns the accounting treatment with the risk management activities of an entity, in addition, enhanced disclosures will provide better information about risk management and the effect of hedge accounting on the financial statements.
- IFRS 9 carries forward the derecognition requirements of financial assets and liabilities from IAS 39.
- Prepayment Features with Negative Compensation. The narrow-scope amendment allows companies to measure particular prepayable financial assets with negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met.

Capital Drilling has assessed the impact of this amendment and found no material impact on specific or general provisions for credit losses on its separate and consolidated financial statements other than the additional disclosure requirements. Based on the historical loss ratios we are of the view that the impairment of trade receivables due to the change of the impairment model is not material. IFRS 9 will not significantly impact the accounting treatment of inter-company loans. The company and group does not have any hedged exposures and hedge accounting is therefore not applicable.

In determining the impact of IFRS 9 on the entity, the following was considered:

- There was no Impairment on trade receivables with Expected Credit Losses. All outstanding amounts were recovered as expected.
- Investments previously classified as available-for-sale were reclassified as FVTPL
- Capital Drilling did not have any hedge accounting, nor any liabilities at amortised cost

As a result of the above, there was no need to restate prior years and there is no impact on opening retained earnings.

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<b>CONSOLIDATED</b>	
<b>2018</b>	<b>2017</b>
\$	\$
<i>Unaudited</i>	<i>Audited</i>

**13. Commitments**

The Group has the following commitments:

Committed capital expenditure	722,728	1,711,481
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The Group had outstanding purchase orders amounting to \$2.8 million (2017: \$2.8 million) at the end of the reporting period of which \$0.7 million [2017: \$1.7 million] were for capital expenditure.

**14. Contingencies**

Zambia tax:

As disclosed in the prior year Financial Statements, Capital Drilling (Zambia) Limited is a party to various tax claims made by the Zambian Revenue Authority for the tax years 2007 to 2013. On 30 April 2015, the Company received a tax assessment from the Zambian Revenue Authority totalling ZMW 144.1 million (\$ equivalent: \$13.1 million), inclusive of penalties and interests. The claims relate to various taxes, including income tax, value added tax, payroll tax and withholding tax. Since the assessment date, Management has responded in detail to these claims, providing the Zambian Revenue Authority with detailed analysis and arguments justifying the Company's tax position. No amount has yet been paid in this regard and no additional communication or actions were received from the Zambian Revenue Authority during the 2018 financial year regarding this matter. Capital Drilling (Zambia) Limited is currently dormant with no drilling revenue since November 2014. An amount of \$1.6 million was raised in 2015 relating to certain areas of the claim, however the directors are of the opinion that a significant portion of the tax claim by the Zambia Revenue Authority is without merit.

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**For the year ended 31 December 2018**

**14. Contingencies (continued)**

Tanzania tax:

Capital Drilling (T) Ltd is party to a payroll tax claim made by the Tanzanian Revenue Authority (TRA) for the tax years 2009-2015. During the financial year ended 31 December 2016, the company received an immediate demand notice from the (TRA) for Tanzanian Shillings (TZS) of 18,598,361,197 (\$ 8,374,660), inclusive of penalties and interest. Management objected to the assessment raised by the TRA and requested the calculations of the notice. In order to object, according to Tanzanian Tax Law Sections 51(1) and (5) of the TAA 2015, a taxpayer is required to pay the tax amount not in dispute or one third of the assessed tax whichever is greater. It is prudent to note that the Finance Act in 2016 added a further subsection (9) in Section 51 regarding tax objections and assessments. The said amendment provides: "Where the taxpayer fails to pay the amount stated under subsection (5) within the time provided therein, the assessed tax decision shall be confirmed as final tax assessment in terms of section 15(1)(a) of the Tax Revenue Appeals Act." In accordance with the above-mentioned legislation, management reached an agreement with the TRA to pay TZS1,500,000,000 (\$0.7 million) in lieu of the one third of the assessed value. This amount was fully provided for in the 2016 Annual Financial Statements. In June 2017 the TRA provided their workings to Capital Drilling (T) Ltd. Capital Drilling (T) Ltd identified differences with the TRA on both the specific merits and methodology used to determine the value. Capital Drilling (T) Ltd has maintained an engaging relationship with the TRA to find closure and resolution to this matter. In order to continue the discussions and negotiations with the TRA, Capital Drilling (T) Ltd has, at the request of the TRA, paid a additional amount of TZS1,100,000 (\$0.5 million), increasing the total amount paid to TZS2,600,000 (\$1,129 million) as at 31 December 2018. This is in line with the aforementioned Tanzanian Tax Law.

The TRA also raised a Withholding Tax liability of TZS 2,244,907,829 (\$ 1,024,268) inclusive of interests and penalties. The TRA considered assets purchased by Capital Drilling (T) Ltd as leased. The TRA interpreted these assets as a rental agreement rather than permanent acquisition of these assets, which results in no Withholding Tax liability. Management lodged an objection on 14 November 2016 and paid an upfront payment of TZS 170,000,000 (\$73,826) in order to have the objection validated and acknowledged, as is required per subsection (9) in Section 51 of the Income Tax Act of Tanzania. Based on the above, management assessed no further liability with regards to this assessment. On 14 November 2018 the TRA issued a final assessment of TZS129,160,458 (\$56,091), leaving the company in a net refundable position of TZS40,839,542 (U\$17,735)

**NOTES TO THE CONDENSED ANNUAL FINANCIAL STATEMENTS**

**For the year ended 31 December 2018**

**15. Glossary**

A description of various acronyms is detailed below:

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