MASTER DRILLING

2017

AUDITED CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

TABLE OF CONTENTS

DIRECTORS' RESPONSIBILITIES AND APPROVAL

The directors of Master Drilling Group ("the Group") are required in terms of the Companies Act No. 71 of 2008 ("Companies Act"), to maintain adequate accounting records and are responsible for the preparation, the content and integrity of the Group's annual financial statements and related financial information included in this report. It is their responsibility to ensure that the Group's annual financial statements fairly present the state of affairs of the Group as at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with International Financial Reporting Standards ("IFRS"), the Companies Act and the Johannesburg Stock Exchange ("JSE") Listings Requirements. The external auditors are engaged to express an independent opinion on the Group's financial statements.

The Group's annual financial statements are prepared in accordance with IFRS, and the South African Institute of Chartered Accountants ("SAICA") Financial Reporting Guides as issued by the Accounting Practices Committee ("APC") and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and JSE Listing Requirements, and are based upon appropriate accounting policies and the requirements of the Companies Act consistently applied and supported by reasonable and prudent judgements and estimates.

The audited financial statements have been prepared by the corporate reporting staff, headed by Willem Ligthelm CA(SA), the Group's management accountant. This process was supervised by André Jean van Deventer CA(SA), the Group's chief financial officer.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Group and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the directors set standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly-defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Group and all employees are required to maintain the highest ethical standards in ensuring the Group's business is conducted in a manner that in all reasonable circumstances, is above reproach. While operating risk cannot be fully eliminated, the Group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

Based on the information and explanations provided by management, the directors are of the opinion that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the Group's cash flow forecast for the year to 31 December 2018 and, in the light of this review and the current financial position, they are satisfied that the Group has access to adequate resources to continue in operational existence for the foreseeable future.

The directors are responsible for the financial affairs of the Group.

The external auditors are responsible for independently auditing and reporting on the Group's financial statements. In accordance with section 29(1)(e)(ii) of the Companies Act, the annual financial statements of the Group, for the year ended 31 December 2017, have been audited by Grant Thornton, the Group's independent external auditors, whose unqualified audit report can be found on pages 6 to 9 of this document.

DIRECTORS' RESPONSIBILITIES AND APPROVAL (CONTINUED)

The Group's annual financial statements set out on pages 3 to 68, which have been prepared on the going concern basis, were approved by the directors on 19 March 2018 and were signed on its behalf by:

Daniël Coenraad Pretorius
Director

Johannesburg
19 March 2018

André Jean van Deventer
Director

Johannesburg
19 March 2018

SECRETARY'S CERTIFICATE

In my capacity as company secretary, I hereby certify that in terms of section 88(2)(e) of the Companies Act, for the year ended 31 December 2017, the Group has lodged with the Companies and Intellectual Property Commission, all such returns and notices as are required of a public company in terms of the Companies Act, and that all such returns and notices are true, correct and up-to-date.

Andrew Colin Beaven
Company Secretary

6 Dwars Street
Krugersdorp
1741
19 March 2018

AUDIT COMMITTEE REPORT

for the year ended 31 December 2017

This report is provided by the audit committee in respect of the 2017 financial period of the Group. The Group's audit committee is established as a statutory committee in terms of section 94(2) of the Companies Act and oversees audit committee matters for all of the South African subsidiaries within the Group, as permitted by section 94(2)(a) of the Companies Act.

The audit committee's operation is guided by a detailed charter, a copy of which can be found on the Group's website (www.masterdrilling.com). The Audit Committee Charter was informed by the Companies Act, JSE Listing Requirements as well as the Corporate Governance Principles under King IV and approved by the directors. The Audit Committee Charter is reviewed on an annual basis.

MEMBERSHIP

The audit committee consisted of four non-executive directors of which three were independent at all times during the year. The members therefore comprise of JP de Wet (Chairman), AA Deshmukh, ST Ferguson and JL Botha. In addition, the chief financial officer, risk manager, as well as the internal and external auditors are permanent invitees to the audit committee meetings. The audit committee meets at least four times a year and details of attendance are contained in the governance report of the integrated report which will be released end of April 2018.

DUTIES AND RESPONSIBILITIES

The audit committee has executed its duties and responsibilities during the period in accordance with its charter as they relate to the Group's accounting, internal auditing, internal control and financial reporting practices.

During the period under review:
In respect of the external auditor and the external audit, the audit committee, amongst other matters:

- nominated Grant Thornton as the external auditor for the financial period ended 31 December 2018;
- ensured that the appointment of the external auditor complied with all applicable legal and regulatory requirements for the appointment of an auditor. The audit committee confirms that the auditor is accredited by the JSE;
- approved the external audit engagement letter, the plan and the budgeted audit fees payable to the external auditor for 2017;
- obtained an annual written statement from the auditor that its independence was not impaired;
- determined the nature and extent of all non-audit services provided by the external auditor and approved the applicable non-audit services undertaken in terms of the audit charter;
- considered whether any reportable irregularities were identified and reported by the external auditor in terms of the Auditing Profession Act, 2005, and determined that there were none; and
- nominated the external auditor for both the holding and subsidiary companies.

In respect of the annual financial statements, the audit committee, amongst other matters:

- confirmed the going concern as the basis of preparation of the annual financial statements;
- examined and reviewed the annual financial statements, as well as all financial information disclosed to the public prior to submission and approval by the directors;
- ensured that the annual financial statements fairly present the financial position of the Group as at the end of the period and the results of operations and cash flows for the financial period;
- considered the appropriateness of the accounting policies adopted and changes thereto;
- reviewed the external auditor's audit report;
- reviewed the representation letter relating to the annual financial statements which was signed by management; and
- considered any problems identified and reviewed any significant legal and tax matters that could have a material impact on the annual financial statements.

In respect of internal financial control and internal audit, the audit committee, amongst other matters:

- reviewed the Group's system of internal financial control during the year under review, with input and reports from the independent internal auditors. The audit committee confirmed that there were no material areas of concern that would render the internal financial controls ineffective;
- has a robust process of identifying and evaluating the principal risks. Regular reports on the status of risks and controls are presented to executive management teams throughout the year. The audit committee reviews reports on the overall Group's risk profile on two occasions during the year and conducts in-depth reviews of specific risks during its meetings over the course of the year. Each principal risk is assigned to either the Board or the relevant Board committees to oversee executive management actions in response to that risk. The Audit Committee reviews that oversight process on an annual basis.
- appointed an internal auditor with the necessary international presence to ensure effective service delivery to the audit committee; and
- reviewed internal audit reports and deliberated on the audit findings of the internal auditor as part of the internal audit work programme.

In respect of legal and regulatory requirements, to the extent that these may have an impact on the annual financial statements, the audit committee:

- reviewed legal matters with management that could have a material effect on the Group; and
- considered reports provided by management and the external auditor regarding compliance with legal and regulatory requirements.

In respect of the co-ordination of assurance activities, the audit committee reviewed the plans and outcomes and concluded that the assurance activities are adequate to address all significant financial risks facing the business.

In respect of the company's integrated report, the audit committee collaborated with the risk, social, ethics and sustainability, remuneration and company's governance committees to ensure the accuracy and completeness of the report. The integrated report is expected to be released in April 2018.

In addition, the audit committee:

- considered the expertise, resources and experience of the finance function and concluded that these were appropriate; and
- considered the experience and expertise of the chief financial officer and concluded that these were appropriate.
- reviewed sections 3, 8, 13, 15 and 22 and schedule 8 of the JSE Listings Requirements and confirm that based on the amended requirements for the JSE-accreditation of Auditors, effective 15 October 2017, we were satisfied that:

  (i) the audit firm has met all the criteria stipulated in the requirements, including that the audit regulator has completed a firm-wide independent quality control (ISQC 1) inspection on the audit firm during its previous inspection cycle;

  (ii) the auditors have provided to the audit committee, the required IRBA inspection decision letters, findings report and the proposed remedial action to address the findings, both at the audit firm and the individual auditor levels; and

  (iii) both the audit firm and the individual auditor understand their roles and have the competence, expertise, experience and skills required to discharge their specific audit and financial reporting responsibilities.

INDEPENDENCE OF THE EXTERNAL AUDITOR

The audit committee is satisfied that Grant Thornton is independent of the Group after taking the following factors into account:

- representations made by Grant Thornton to the audit committee;
- the auditor does not, except as external auditor or in rendering permitted non-audit services, receive any remuneration or other benefit from the Group;
- the external auditor's independence was not impaired by any consultancy, advisory or other work undertaken by the external auditor;
- the external auditor's independence was not prejudiced as a result of any previous appointment as external auditor; and
- the criteria specified for independence by the Independent Regulatory Board for Auditors and international regulatory bodies.

ANNUAL FINANCIAL STATEMENTS

Following the review by the audit committee of the annual financial statements of the Group for the period ended 31 December 2017, the audit committee is of the view that, in all material aspects, they comply with the relevant provisions of the Companies Act, IFRS, APC and JSE requirements and fairly present the consolidated position at that date and the results of operations and cash flows for the period then ended.

Having satisfied itself in all respects, the audit committee has recommended the financial statements, for the period ended 31 December 2017, for approval to the directors. The directors have subsequently approved the financial statements, which will be open for consideration at the forthcoming annual general meeting.

On behalf of the audit committee

J P de Wet
Chairman of the audit committee

Johannesburg
19 March 2018

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF

MASTER DRILLING GROUP LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the consolidated financial statements of Master Drilling Group Limited and its subsidiaries (the Group) as set out on pages 14 to 68, which comprise the consolidated statement of financial position as at 31 December 2017 , and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017 , and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Independent Regulatory Board for Auditors *Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion .

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation and existence of plant and machinery:	
As disclosed in note 3 to the consolidated financial statements, the Group has plant and machinery with a carrying values of USD 101 million (2016: USD 76 million).	• We have assessed management's useful lives assessment for consistency with expectations and prior periods. • We have assessed management's reasoning for the change in the depreciation method as well as the appropriate disclosure thereof in note 3.2 to the financial statements.
Management is required to assess useful lives and to consider indicator of impairment, relating to drilling machinery on an annual basis (refer accounting policy note 1.7).	• We recalculated the depreciation charge for the year and performed analytical review procedures to compare the actual charge to expectations.
Furthermore, the existence of drilling machinery is challenging to verify due to the drilling machinery being operational in various remote locations, including underground mines, across the world.	• We verified samples of drilling machinery through a combination of physical inspection and other relevant procedures. • For drilling equipment on site, we confirmed the existence via revenue generation.
During the period under review management refined the process of assessing the useful life of drill rods. Per note 3.2 management has changed the method of depreciation to better reflect the expected pattern of consumption.	• Any drilling equipment that were not utilised during the period was considered for indicators of impairment.
Due to the judgement involved in the determination of useful lives and indicators of impairment of the drilling machinery as well as difficulty in confirmation of the existence thereof, it is deemed a key audit matter.	• We furthermore reviewed control documentation relating to physical movement of drilling machinery between sites and countries
Taxation	
As disclosed in note 20 to the consolidated financial statements, the Group has a tax expense of USD 5.5 million (2016: USD 2.9 million).	• Our audit work included among others, using our taxation specialists to assess the rates of taxations in the various jurisdictions and to assess the reasonableness of deferred taxation assets and liabilities raised.
Master Drilling operates in multiple jurisdictions and has taxation obligation denominated in multiple foreign currencies. This gives rise to complexity in determining Master Drillings' tax charge and deferred assets and liabilities.	• The specialist assisted with the assessment of the reasonableness of deferred taxation assets and liabilities
Due to the complexity noted, the recognition and fair presentation of Master Drilling's tax charge and balances has been identified as a key audit matter.	• Our audit work furthermore included the inspection of past tax assessments received, consultations with local tax specialists and correspondence with the tax authorities in the various jurisdiction.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa, which we obtained prior to the date of this report, and the Annual Report, which is expected to be made available to us after that date. Other information does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Grant Thornton has been the auditor of Master Drilling Group Limited for six years.

Grant Thornton.

GRANT THORNTON
Registered Auditors
Practice Number: 903485E

J Barradas
Registered Auditor
Chartered Accountant (SA)

19 March 2018

@Grant Thornton
Wanderers Office Park
52 Corlett Drive
Illovo, 2196

DIRECTORS' REPORT

NATURE OF BUSINESS

Master Drilling Group Limited is an investment holding company, whose subsidiary companies provide specialised drilling services to blue chip major and mid-tier companies in the mining, civil engineering, construction and hydro-electric power sectors, across a number of commodities and geographics.

GOING CONCERN BASIS OF ACCOUNTING

The annual financial statements have been prepared on the basis of accounting policies, applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

BENEFICIAL SHAREHOLDERS HOLDING 5% OR MORE OF MASTER DRILLING'S ISSUED SHARE CAPITAL

As at 31 December 2017	**%**
Barrange (Pty) Ltd	29,0
MDG Equity Holdings (Pty) Ltd	25,9
Nedbank Ltd	5,1

FUND MANAGERS HOLDING 5% OR MORE OF MASTER DRILLING'S ISSUED SHARE CAPITAL

As at 31 December 2017	%
Kagiso Asset Management	12,0
Abax Investments	6,9
Coronation Fund Management	6,5

Share capital

Authorised

500 000 000 ordinary shares of no par value.

There was no movement in authorised ordinary shares while 2 327 286 ordinary shares were issued during the financial year.

Unissued ordinary shares

	Number of shares	
	2017	2016
At 1 January	**351 734 509**	351 734 509
Issued during the year	**2 327 286**	–
At 31 December	**349 407 223**	351 734 509

There have been no changes to the unissued ordinary share capital of the Company since year end to the date of this report.

RIGHTS ATTACHING TO SHARES

All of the authorised and issued ordinary shares are of the same class, and rank *pari passu* with each other and are fully paid. Accordingly, no share has any special rights to dividends, capital or profits of the Company. No share has any preferential voting, exchange or conversion rights. The rights attaching to the shares may only be varied by a special resolution passed by the requisite majority of the Company's shareholders at a general meeting.

CONTROL OF SHARE CAPITAL

In accordance with the Memorandum of Incorporation, the authorised but unissued ordinary shares of the Company are under the control of the directors, subject to the provisions of the Companies Act and the JSE Listings Requirements.

In terms of the JSE Listings Requirements and as permitted by the Memorandum of Incorporation of the Company, the shareholders of the Company have authorised the directors to issue ordinary shares held under their control for cash, subject to certain restrictions as set out below:

1. This authority shall be limited to a maximum number of 7 529 639 ordinary shares (being 5% of the issued ordinary shares in the share capital of the Company);
2. This authority shall only be valid until the next annual general meeting of the Company but shall not extend beyond 15 months:
3. An announcement, in compliance with section 11.22 of the Listings Requirements of the JSE Limited, shall be published after any issue representing, on a cumulative basis within the period contemplated as in paragraph 2 above, 5% (7 529 639) of the number of ordinary shares in issue prior to the issue concerned excluding treasury shares; and
4. In the event of a sub-division or consolidation of issued ordinary shares during the period contemplated as per paragraph 2 above, this authority must be adjusted accordingly to represent the same allocation ratio.
5. In determining the price at which an issue of ordinary shares for cash shall be made in terms of this authority, the maximum discount permitted shall be 10% of the weighted average traded price of the ordinary shares on the JSE Limited over the 30 business days prior to the date that the price of the issue is agreed between the Company and the party subscribing for the securities; and
6. Any issue of ordinary shares under this authority shall be made only to a public shareholder, as defined in the Listings Requirements of the JSE Limited.
7. Any equity securities issued under the authority during the period contemplated in paragraph 2 above, must be deducted from such number in 1 above.

There were no repurchases of ordinary shares during the period under review.

DIRECTORS' INTERESTS IN SHARES

The interests of Directors and associates in the ordinary share capital of the Company at 31 December 2017, are made up as follows:

	Total % holding of issued capital	**Beneficial Direct 2017**	**Indirect 2017**	Beneficial Direct 2016	Indirect 2016
Executive Director					
DC Pretorius	52,6	**500 900**	**78 630 565**	900	78 630 565
AJ van Deventer	1,7	**727 648**	**1 752 316**	727 648	2 252 316
GR Sheppard	2,0	**–**	**2 955 884**	–	2 955 884
BJ Jordaan	2,0	**1 781 861**	**1 228 336**	1 781 861	1 228 336
Total Executive Directors	58,3	**3 010 409**	**84 567 101**	2 510 409	85 067 101

Rounding of % may result in computational discrepancies.

At 31 December 2017, the directors of the Company held direct and indirect interests in 58,3% (2016: 59,1%) of the Company's issued ordinary share capital. Refer note 21.1. There has been no change to the directors' shareholding since year-end to date of this report.

DIRECTORS' REPORT (CONTINUED)

DIVIDENDS

Dividend declared

The Board approved a dividend on 19 March 2018 of ZAR26,0 cents per share payable to all shareholders recorded in the Company's share register on 18 May 2018.

Dividend

Since listing in 2012, the Company has achieved compound annual growth in profit after taxation of 7.5% In USD terms and delivered on the key strategic objectives set out in its listing prospectus. This, coupled with significant ongoing cash generation, enables the company to strike a balance between continued investment in capital projects to support the company's further growth and enhancing returns to shareholders through the payment of appropriate dividends. Thus, the Board has declared a gross dividend of ZAR26,0 cents per share on 19 March 2018 payable to all shareholders recorded in the company's share register on 18 May 2018.

The dividend is payable from distributable reserves and is subject to dividend withholding tax of 20% which results in a net dividend of ZAR20,8 cents per share to shareholders subject to such dividend withholding tax. This dividend represents a six times earnings cover. Even though the level of cover for the dividend decreased, the dividend is still somewhat more conservative than the earnings cover at which our dividend policy is likely to settle over time.

The number of shares in issue at date of declaration amount to 150 592 777 and the company's tax reference number is 9797/433/15/9.

In order to comply with the requirements of Strate, the following details are relevant:

Last date to trade cum dividend:	Tuesday 15 May 2018
Trading *ex* dividend commences:	Wednesday 16 May 2018
Record date:	Friday 18 May 2018
Payment date:	Monday 21 May 2018

Shares may not be dematerialised or re-materialised between Wednesday, 16 May and Friday 18 May 2018, both dates inclusive.

Any dividend unclaimed after a period of three years from the date on which the same has been declared to be payable shall be forfeited and revert to the Company.

There are no arrangements under which future dividends are waived or agreed to be waived.

BORROWING POWERS

The borrowing powers of the directors of the Company and its subsidiaries have not been exceeded during the past four years and may only be varied by amending the relevant provisions of the Memorandum of Incorporation of the particular company. Such amendment must be effected in accordance with sections 16(1) and 16(4) of the Companies Act and would require a special resolution.

The directors of subsidiaries within the Group are restricted from borrowing any amount without the approval of its majority shareholder, Master Drilling International.

LEGAL PROCEEDINGS

There are no governmental, legal or arbitration proceedings, including any proceedings that are pending or threatened, of which Master Drilling is aware, that may have or have had in the recent past, being at least the previous 12 months, a material effect on the Group's financial position.

The Group is not a party to unduly onerous funding arrangements.

MATERIAL CHANGE

The financial and trading position of Master Drilling Group Limited has not materially changed for the financial year. The ultimate holding company, Master Drilling Group Limited, is incorporated in South Africa.

CHANGES TO THE BOARD

There were no changes to the Board since 31 December 2016.

SEPARATE COMPANY FINANCIAL STATEMENTS

A copy of the Master Drilling Group Limited company financial statements can be found on the company's website (www.masterdrilling.com).

ANNUAL GENERAL MEETING

The annual general meeting of Master Drilling Group Limited will be held at Grant Thornton, Wanderers Office Park, 52 Corlett Drive, Johannesburg, on Thursday, 7 June 2018 at 09h00.

SUBSIDIARIES

The subsidiaries of Master Drilling are disclosed in Note 29 of this document.

EVENTS SUBSEQUENT TO YEAR-END

The Board approved a dividend on 19 March 2018 of ZAR26,0 cents per share payable to all shareholders recorded in the Company's share register on 18 May 2018. The dividend declared is not reflected in the financial statements for the year ended 31 December 2017.

After 31 December 2017 financial year, the Group excercised its option to acquire the remainder of the 60% shares in Bergteamet Raiseboring Europe AB to increase its current shareholding to 100%. The purchase of the remainder of the shares amounted to SEK 69 825 000.

MATERIAL RESOLUTIONS

No material special resolutions were passed during the year under review, except those passed at the annual general meeting held on 20 July 2017. Copies of all material resolutions taken by the subsidiaries during the year under review may be obtained from the office of the Company Secretary.

OPERATING SEGMENTS

Changes were made to the operating segments from those disclosed at 31 December 2016. The changes will enable the chief decision maker, under the direct supervision of the resident boards, to improve the assessment of the performances and make better informed decisions on the allocation of resources to the different operating segments. The comparative reporting periods were adjusted accordingly as the information was available. See note 27 for more details.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note(s)	2017 USD	2016 USD
Assets			
Non-current assets			
Property, plant and equipment	3	**119 075 667**	105 316 594
Goodwill	4	**3 083 427**	3 043 042
Financial assets	5	**3 098 512**	10 068 354
Deferred tax asset	6	**2 010 263**	1 733 825
Investment in associate	34	**6 022 115**	6 023 825
		133 289 984	126 185 640
Current assets			
Inventories	7	**23 894 609**	24 437 264
Related-party loans	24	**102 641**	70 486
Trade and other receivables	8	**38 191 737**	39 014 664
Cash and cash equivalents	9	**40 211 629**	21 690 039
		102 400 616	85 212 453
Non-current assets held for sale	35	**1 255 128**	1 209 520
		103 655 744	86 421 973
Total assets		**236 945 728**	212 607 613
Equity and liabilities			
Equity			
Share capital	10	**148 703 721**	146 607 965
Reserves		**(83 855 527)**	(91 010 256)
Retained income		**88 221 320**	74 427 478
		153 069 514	130 025 187
Non-controlling interest		**8 255 315**	16 291 360
		161 324 829	146 316 547
Liabilities			
Non-current liabilities			
Interest bearing borrowings	12	**36 263 625**	17 806 057
Finance lease obligations	13	**1 682 765**	1 950 891
Deferred tax liability	6	**9 189 125**	9 266 022
		47 135 515	29 022 970
Current liabilities			
Interest bearing borrowings	12	**4 659 387**	8 650 837
Finance lease obligations	13	**1 444 820**	2 579 699
Related party loans	24	**195 483**	160 622
Current tax payable		**2 098 947**	1 561 045
Trade and other payables	14	**20 086 747**	22 998 427
Cash and cash equivalents	9	**–**	1 317 466
		28 485 384	37 268 096
Total liabilities		**75 620 899**	66 291 066
Total equity and liabilities		**236 945 728**	212 607 613

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note(s)	2017 USD	2016 USD
Revenue	16	**121 424 109**	118 102 983
Cost of sales		**(76 794 271)**	(75 159 529)
Gross profit		**44 629 838**	42 943 454
Other operating income		**3 674 987**	4 645 115
Other operating expenses		**(23 378 396)**	(21 743 714)
Operating profit	17	**24 926 429**	25 844 855
Investment revenue	18	**510 325**	808 845
Finance costs	19	**(2 850 878)**	(1 940 479)
Share of (loss)/profit from equity accounted investment	34	**(1 710)**	556 085
Profit before taxation		**22 584 166**	25 269 306
Taxation	20	**(5 134 100)**	(2 949 412)
Profit for the year		**17 450 066**	22 319 894
Other comprehensive income that will subsequently be classifiable to profit and loss:			
Exchange differences on translating foreign operations		**7 403 109**	6 618 019
Other comprehensive income for the year net of taxation		**7 403 109**	6 618 019
Total comprehensive income		**24 853 175**	28 937 913
Profit attributable to:		**17 450 066**	22 319 894
Owners of the parent		**17 202 923**	21 195 750
Non-controlling interest		**247 143**	1 124 144
Total comprehensive income attributable to:		**24 853 175**	28 937 913
Owners of the parent		**24 606 032**	27 813 769
Non-controlling interest		**247 143**	1 124 144
Earnings per share (USD)	22		
Basic earnings per share (cents)		**11.5**	14.3
Diluted earnings per share (USD)	22		
Diluted basic earnings per share (cents)		**11.4**	14.0
Earnings per share (ZAR)			
Basic earnings per share (cents)		**153,1**	210,0
Diluted earnings per share (ZAR)			
Diluted basic earnings per share (cents)		**151,7**	205,6

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

USD	Share capital	Equity due to change in control of interests	Foreign currency translation reserve
Balance as at 31 December 2015	146 607 965	(58 264 013)	(39 992 078)
Share-based payments	–	–	–
Dividends declared by subsidiaries	–	–	–
Total comprehensive income for the year	–	–	6 618 019
Total changes	–	–	6 618 019
Balance as at 31 December 2016	146 607 965	(58 264 013)	(33 374 059)
Share-based payments	**–**	**–**	**–**
Issue of ordinary shares	**2 095 756**	**–**	**–**
Dividends declared by subsidiaries	**–**	**–**	**–**
Dividends to shareholders	**–**	**–**	**–**
Derecognition of non-controlling interest	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**–**	**7 403 109**
Total changes	**2 095 756**	**–**	**7 403 109**
Balance as at 31 December 2017	**148 703 721**	**(58 264 013)**	**(25 970 950)**
Note(s)	10	11	

	Share-based payments reserve	Total reserves	Retained income	Attributable to owners of the parent	Non-controlling interest	Total Shareholders' equity
	372 467	(97 883 624)	53 231 728	101 956 069	16 309 067	118 265 136
	255 349	255 349	–	255 349	–	255 349
	–	–	–	–	(1 141 851)	(1 141 851)
	–	6 618 019	21 195 750	27 813 769	1 124 144	28 937 913
	255 349	6 873 368	21 195 750	28 069 118	(17 707)	28 051 411
	627 816	(91 010 256)	74 427 478	130 025 187	16 291 360	146 316 547
	290 858	**290 858**	**–**	**290 858**	**–**	**290 858**
	(539 238)	**(539 238)**	**–**	**1 556 518**	**–**	**1 556 518**
	–	**–**	**–**	**–**	**(306 140)**	**(306 140)**
	–	**–**	**(3 409 081)**	**(3 409 081)**		**(3 409 081)**
	–	**–**	**–**	**–**	**(7 977 048)**	**(7 977 048)**
	–	**7 403 109**	**17 202 923**	**24 606 032**	**247 143**	**24 853 175**
	(248 380)	**7 154 729**	**13 793 842**	**23 044 327**	**(8 036 045)**	**15 008 281**
	379 436	**(83 855 527)**	**88 221 320**	**153 069 514**	**8 255 315**	**161 324 829**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note(s)	2017 USD	2016 USD
Cash flows from operating activities			
Cash generated from operations	23.1	**32 843 989**	26 551 147
Investment revenue		**510 325**	808 845
Finance costs		**(2 850 878)**	(1 940 479)
Tax paid	23.2	**(5 497 412)**	(5 840 274)
Net cash inflow from operating activities		**25 006 024**	19 579 239
Cash flows from investing activities			
Purchase of property, plant and equipment		**(15 833 126)**	(16 364 467)
Sale of property, plant and equipment		**170 560**	1 060 693
Financial assets movement		**398 460**	303 556
Acquisition of subsidiary	23.3	**–**	(3 894 451)
Net cash outflow from investing activities		**(15 264 106)**	(18 894 669)
Cash flows from financing activities			
Proceeds from financial liabilities		**20 000 000**	8 678 685
Repayment of financial liabilities		**(6 574 430)**	(9 736 013)
Proceeds from financial leases		**554 741**	1 524 268
Repayment of financial leases		**(2 382 326)**	(2 891 833)
Related party loan movement		**2 706**	84 574
Issue of share capital		**1 556 518**	–
Dividends paid to shareholders		**(3 409 081)**	–
Dividends paid to BEE partners		**(306 140)**	(1 141 851)
Net cash inflow/(outflow) from financing activities		**9 441 988**	(3 482 170)
Total cash inflow/(outflow) for the period		**19 183 906**	(2 797 600)
Cash at the beginning of the period		**20 372 573**	22 496 770
Effect of exchange rate movement on cash balances		**655 150**	673 403
Total cash at end of the period		**40 211 629**	20 372 573

ACCOUNTING POLICIES

1. PRESENTATION OF FINANCIAL INFORMATION

The Group's consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards, the SAICA Financial reporting guides as issued by the Accounting Pronouncements Committee and Financial Reporting Pronouncements as issued the Financial Reporting Standards Council, the requirements of the Companies Act and the JSE Listings Requirements. The consolidated annual financial statements have been prepared on the historical cost basis, except for certain financial instruments at fair value or amortised cost, and incorporate the principal accounting policies set out below. They are presented in United States Dollar ("USD").

The significant accounting policies are consistent in all material respects with those applied in the previous year except for the list of amendments to IFRSs that are mandatory and effective for the annual financial year ending 31 December 2017 as indicated below:

Amendments to IAS 7 *Statement of Cash Flows;*
Amendments to IAS 12 *Income Tax;*

Management has reviewed the above mentioned mandatory standards and has accommodated for these, where applicable, in the annual financial statements for the financial year ending 31 December 2017.

1.1 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary environment in which the entity operates, i.e. "functional currency". The consolidated annual financial statements are presented in USD (the "presentation currency"). Management believes that USD is more useful to the users of the consolidated financial statements, as this currency most reliably reflects the global business performance of the Group as a whole.

1.2 Consolidation

Basis of consolidation

The Group annual financial statements incorporate all entities which are controlled by the Group.

At inception the Group annual financial statements had been accounted for under the pooling of interest method as acquisition of entities under common control, which is excluded from IFRS 3. The entities had been accounted for at historical carrying values for the period presented.

Adjustments are made when necessary to the financial statements of subsidiaries to bring their accounting policies in line with those of the Group.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Control is considered to exist if all of the factors below are satisfied.

(a) *The investor has power over the investee, i.e. the investor has existing rights that give it the ability to direct the relevant activities;*

(b) *The investor has exposure, or rights to variable returns from its involvement with the investee; and*

(c) *The investor has the ability to use its power over the investee to affect the amount of the investors returns.*

The Group assesses its control of an investee at the time of its initial investment and again if changes in facts and circumstances affect one or more of the control factors listed above. In assessing whether the Group has control over an investee, consideration is given to many factors including shareholding, voting rights and their impact on the Group's ability to direct the management, operations and returns of the investee; contractual obligations; minority shareholder rights and whether these are protective or substantive in nature; and the financial position of the investee.

1.3 Business combinations

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

1.4 Significant judgements and sources of estimation uncertainty

In preparing the Group annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial information and related disclosures. Use of available information and the application of judgement are inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial information. Significant judgements include:

(a) Trade receivables and loans and receivables

Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the trade receivable, probability that the trade receivable will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

(b) Inventories

Management estimates the net realisable values of inventories, taking into account the economic and market conditions within the industry available at each reporting date. The future realisation of these inventories may be effected by future technology or other market-driven changes that may reduce future selling prices. Management uses judgement on the critical spares kept for the specialised drilling equipment. Critical spares do not have a specific write off period due to the specialised nature.

(c) Taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

The Group recognises 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 end of the reporting year could be impacted.

(d) Useful lives of depreciable assets

Management reviews its estimate of the useful lives and residual values of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain assets. Management uses judgement to determine the useful lives and residual values based on the specific environmental conditions it operates within. As the majority of the assets are purpose built, no specific benchmark is available.

1.5 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see note 4) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or Groups of cash-generating units) that is expected to benefit from the synergies of the combination.

1.6 Investment in associate

The results, assets and liabilities are incorporated in these consolidated annual financial statements using the equity method of accounting. An investment in associate is initially recognised in the consolidated statement of financial position at cost and adjusted for thereafter to recognise the Group's share of the profit or loss in associate and other comprehensive income of the associate.

1.7 Property, plant and equipment

Property, plant and equipment are initially measured at cost and subsequently at cost less any accumulated depreciation and accumulated impairment losses.

Patents are acquired by the Group and have an infinite useful live. Patents are carried at cost less accumulated impairment losses. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment. Cost associated with equipment upgrades that result in increased capabilities or performance enhancements of property and equipment are capitalised. If a replacement part is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

An asset under construction will be reclassified to the relevant asset category as soon as it is available for use. Assets under construction are not depreciated but tested for impairment.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life	Depreciation method
Land	Indefinite	Not Applicable
Buildings	20 years	Straight line
Drilling Rigs (included under plant and machinery)		
– Raisebore\Piling	20 years	Straight line
– Blindhole	20 years	Straight line
– Dropraise	20 years	Straight line
– Blasting	15 000 machine hours	Units of production
– Slim drilling rigs (surface)	10 years	Straight line
– Slim drilling rigs (underground)	3 – 5 years	Straight line
Other drilling equipment (included under plant and machinery)		
– Drill rods	Percentage useful life remaining	Percentage useful life remaining
– Slim drilling surface rods	6 500 drilling metres	Units of production
– Drum rods	15 000 drilling metres	Units of production
– Reamers and reamer wings	2 000 drilling metres	Units of production
– Fins	1 000 drilling metres	Units of production
– Stem bars	800 drilling metres	Units of production
– Pilot and reaming stabilisers	800 drilling metres	Units of production
– Cross overs	600 drilling metres	Units of production
– Bitsubs	600 drilling metres	Units of production
– Raise beams	5 years	Straight line
– Locomotives	5 years	Straight line
– Tool and rod cars	5 years	Straight line
– Water pumps	5 years	Straight line
Furniture and fixtures	5 – 10 years	Straight line
Vehicles		
– Light duty vehicles	2 – 5 years	Straight line
– Heavy duty vehicles	5 – 10 years	Straight line
IT equipment	5 years	Straight line
Computer software	3 – 10 years	Straight line

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year based on the economic, market and operating environment conditions. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset. Depreciation is recognised on a straight-line basis or units of production method as appropriate, to write down the cost less estimated residual values of the property, plant and equipment.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.8 Segment reporting

The Group has four operating segments. In identifying these operating segments, management generally follows the Group's geographical spread. Each of these operating segments is managed separately as each requires different technologies, marketing approaches and other resources.

1.9 Financial instruments

(a) *Classification*

The Group classifies financial assets and financial liabilities into the following categories:

– loans and receivables;
– cash and cash equivalents;
– financial liabilities measured at amortised cost; and
– preference shares are classified as loans and receivables.

Classification depends on the purpose for which the financial instruments were obtained/incurred and takes place at initial recognition. Classification is assessed on an annual basis, except for derivatives and financial assets designated as at fair value through profit or loss, which shall not be classified out of the fair value through profit or loss category.

(b) *Initial recognition and measurement*

Financial instruments are recognised initially when the Group becomes a party to the contractual provisions of the instruments.

The Group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

For financial instruments which are not at fair value through profit or loss, transaction costs are included in the initial measurement of the instrument.

(c) *Subsequent measurement*

Loans and receivables are subsequently measured at amortised cost, using the effective interest rate method, less accumulated impairment losses.

(d) *Impairment of financial assets*

At each reporting date the Group assesses all financial assets, to determine whether there is objective evidence that a financial asset or Group of financial assets has been impaired.

For amounts due to the Group, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in profit or loss.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in profit or loss.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in profit or loss within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

(e) Loans to/(from) related parties

These include loans to and from related parties and are recognised initially at fair value plus direct transaction costs.

Loans to related parties are classified as loans and receivables and measured at amortised cost.

Loans from related parties are classified as financial liabilities measured at amortised cost.

(f) Loans to employees

These financial assets are classified as loans and receivables.

(g) Trade and other receivables

Trade receivables are measured at initial recognition at fair value including transaction costs, and are subsequently measured at amortised cost using the effective interest rate method.

Trade and other receivables are classified as loans and receivables.

(h) Trade and other payables

Trade payables are initially measured at fair value including transaction costs, and are subsequently measured at amortised cost, using the effective interest rate method.
Trade and other payables are classified as financial liabilities at amortised cost.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents are classified as loans and receivables.

(j) Bank overdrafts and borrowings

Bank overdrafts and borrowings are initially measured at fair value including transaction costs, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

Bank overdraft and borrowings are classified as financial liabilities at amortised cost.

1.10 Non-current assets held for sale

Non-current assets are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised in profit or loss.

Once classified as held for sale, non-current assets are no longer depreciated.

1.11 Tax

(a) Current tax assets and liabilities

Current tax for current and prior years is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior years exceeds the amount due for those years, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior years are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting year.

(b) Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting year.

(c) Tax expenses

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the year, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different year, to other comprehensive income; or
- a business combination.

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same or a different year, to other comprehensive income.

1.12 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

(a) Finance leases

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each year during the lease term so as to produce a constant periodic rate of return on the remaining balance of the liability.

(b) Operating leases

Operating lease payments are recognised as an expense on a straightline basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease liability. This liability is not discounted.

Any contingent rents are expensed in the year in which they are incurred.

1.13 Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories are assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

When inventories are utilised, the carrying amount of those inventories are recognised as an expense in the year in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the year the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the year in which the reversal occurs.

1.14 Impairment of goodwill and property, plant and equipment

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which Management monitors goodwill.

An impairment loss is recognised for the amount by which the asset's or cash-generating units carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is allocated *pro rata* to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

1.15 Employee benefits

(a) Short-term employee benefits

The cost of short-term employee benefits (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised as an expense in the year in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of profit-sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

(b) Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

1.16 Contingencies

Contingent assets are disclosed when it is virtually certain there will be an inflow of future economic benefits. Contingent liabilities are recognised when it is probable that there will be outflow of economic resources.

1.17 Revenue

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the end of the reporting year.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recognised that are recoverable.

Contract revenue is recognised by reference to the stage of completion of the transaction at the end of the reporting year. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Contract revenue comprises:

- the initial amount of revenue agreed in the contract;
- variations in contract work, claims and incentive payments;
- to the extent that it is probable that they will result in revenue; and
- they are capable of being reliably measured.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for services provided in the normal course of business, net of trade discounts and volume rebates, and value added tax.

Interest is recognised, in profit or loss, using the effective interest rate method.

Dividends are recognised, in profit or loss, when the Group's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the year during which the service is performed.

1.18 Cost of sales

The related cost of providing services recognised as revenue in the current year is included in cost of sales.

Contract costs comprise:

- costs that relate directly to the specific contract;
- costs that are attributable to contract activity in general and can be allocated to the contract; and
- such other costs as are specifically chargeable to the customer under the terms of the contract.

1.19 Translation on foreign currencies

(a) Foreign currency translation

A foreign currency transaction is translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate).

At the end of the reporting year:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the year or in previous financial statements are recognised in profit or loss in the year in which they arise.

When a gain or loss on a non-monetary item is recognised in other comprehensive income and accumulated in equity, any exchange component of that gain or loss is recognised in other comprehensive income and accumulated in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(b) *Translation to presentation currency*

The results and financial position of operations are translated into the presentation currency using the following procedures:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each item of profit or loss are translated at exchange rates at the dates of the transactions; and
- all resulting exchange differences are recognised in other comprehensive income and accumulated as a separate component of equity.

Exchange differences arising on a monetary item that forms part of a net investment in a foreign operation are recognised initially to other comprehensive income and accumulated in the translation reserve. They are recognised in profit or loss as a reclassification adjustment through to other comprehensive income on disposal of net investment.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation.

The cash flows of a foreign subsidiary are translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.

Related party transactions are those where a transfer of resources or obligations between related parties occur, regardless of whether or not a price is charged.

1.20 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any temporary investment of those borrowings; and
- weighted average of the borrowing costs applicable to the entity on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs begins when:

- expenditures for the asset have occurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are in progress.

Capitalisation is suspended during extended years in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

All other borrowing costs are recognised as an expense in the year in which they are incurred.

1.21 Share-based payments

Eligible employees of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments.

(a) Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. That cost is recognised, together with a corresponding increase in other capital reserves in equity, over the year in which the performance and/or service conditions are fulfilled in employee benefits expense. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting year has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

The statement of profit or loss expense or credit for a year represents the movement in cumulative expense recognised as at the beginning and end of that year and is recognised in employee benefits expense. No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the expense had the terms not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

2. STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN ADOPTED EARLY BY THE GROUP

At the date of authorisation of these annual financial statements, certain new standards, amendments and interpretations to existing standards have been published by the International Accounting Standards Board but are not yet effective, and have not been early adopted by the Group. Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first year beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group's annual financial statements is provided below.

2.1 IFRS 9 Financial instruments

The new Standard for financial instruments (IFRS 9) replaces IAS 39 'Financial Instruments: Recognition and Measurement'. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets.

IFRS 9 also contains new requirements on the application of hedge accounting. The new requirements look to align hedge accounting more closely with entities' risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness.

Management has identified the following areas that are expected to be most impacted by the application of IFRS 9:

(a) *the classification and measurement of the Group's financial assets. Management intends to hold most financial assets and collects the associated cash flows and is currently assessing the underlying effects of the cash flows to classify financial assets correctly. Management expects the majority of financial assets to continue to be accounted for at amortised cost;*

(b) *the impairment of financial assets by applying the expected credit loss model. This will be applied to the Group's trade receivables and investments in debt-type assets but no material impact to the valuation is expected; and the measurement of equity investments at cost less impairment. All such investments will instead be measured at fair value with changes in fair value presented either in profit or loss or in other comprehensive income. To present, changes in other comprehensive income requires making an irrevocable designation on initial recognition or at the date of transition to the new Standard. This would have affected the Group's investment in Bergteamet Raiseboring Europe (see note 34) but the Group has subsequently obtained control since the end of the financial year (see note 36).*

2.2 IFRS 2 Share-based payment

Classification and Measurement of Share-based Payment Transactions: A collection of three distinct narrow-scope amendments dealing with classification and measurement of share-based payments.

Management do not anticipate that the application of the amendments to this standard will have a significant impact on the Group's future annual financial statements as the Group does not have any cash-settled share-based payment arrangements or any withholding tax arrangements with tax authorities in relation to share-based payments

This is effective for annual years beginning or after 1 January 2018.

2.3 IFRS 16 Leases

IFRS 16 will replace IAS 17 'Leases' and three related Interpretations. It completes the IASB's long-running project to overhaul lease accounting. Leases will be recorded in the statement of financial position in the form of a right-of-use asset and a lease liability.

Management is yet to fully assess the impact of the Standard and therefore is unable to provide quantified information. However, in order to determine the impact, the Group is in the process of:

(a) *performing a full review of all agreements to assess whether any additional contracts will become lease contracts under IFRS 16's new definition of a lease*

(b) *deciding which transitional provision to adopt; either full retrospective application or partial retrospective application (which means comparatives do not need to be restated). The partial application method also provides optional relief from reassessing whether contracts in place are, or contain, a lease, as well as other reliefs. Deciding which of these practical expedients to adopt is important as they are one-off choices*

(c) *assessing current disclosures for operating leases (note 13.2) as these are likely to form basis of the amounts to be capitalised as right-of-use assets*

(d) *determining which optional accounting simplifications are available and whether to apply them*

(e) *considering the IT system requirements and whether a new leasing system is needed. This is being considered in line with implementing IFRS 9 so the Group only have to undergo one set of system changes assessing the additional disclosures that will be required*

This is effective for annual years beginning on or after 1 January 2019.

2. STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN ADOPTED EARLY BY THE GROUP continued

2.4 IFRS 15 Revenue

New standard that requires entities to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is achieved through a five-step methodology that is required to be applied to all contracts with customers.

The Group revenue consists of contract revenue. Contract revenue comprises:

(a) *the initial amount of revenue agreed in the contract;*

(b) *variations in contract work, claims and incentive payments;*

(c) *to the extent that it is probable that they will result in revenue; and*

(d) *they are capable of being reliably measured.*

Management assessed that the contract's performance obligations are satisfied over time and that the method used to measure the progress towards completion of the contract will continue to be appropriate under IFRS 15.

This is effective for annual years beginning on or after 1 January 2018.

2.5 IAS 28 Investment in Associates and Joint Ventures

Annual Improvements 2014-2016 Cycle: Clarification that a venture capital organisation, or a mutual fund, unit trust and similar entities may elect, at initial recognition, to measure investments in an associate or joint venture at fair value through profit or loss separately for each associate or joint venture.

Management do not anticipate that this new standard will have an impact on the Group's annual financial statements as the Group obtained control of its associate since the end of the financial year and is unlikely to be a venture capital organisation. (See note 36).

This is effective for annual years beginning on or after 1 January 2018.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

3. PROPERTY, PLANT AND EQUIPMENT

2017 USD	Cost	Accumulated depreciation and impairment losses	Carrying value
Land and buildings	**4 267 124**	**(124 152)**	**4 142 972**
Plant and machinery	**140 270 031**	**(39 146 361)**	**101 123 670**
Assets under construction	**392 338**	**(2 567)**	**389 771**
Furniture and fittings	**1 461 158**	**(382 136)**	**1 079 022**
Motor vehicles	**3 434 946**	**(1 699 685)**	**1 735 261**
IT equipment	**743 646**	**(444 396)**	**299 250**
Finance lease: Plant and equipment	**13 414 269**	**(4 560 949)**	**8 853 320**
Computer software	**2 591 229**	**(1 378 429)**	**1 212 800**
Patents	**239 601**	**–**	**239 601**
Total	**166 814 342**	**(47 738 575)**	**119 075 667**

2016 USD	Cost	Accumulated depreciation and impairment losses	Carrying value
Land and buildings	4 003 516	(80 517)	3 922 999
Plant and machinery	108 189 065	(31 481 087)	76 707 978
Assets under construction	2 398 153	(2 566)	2 395 587
Furniture and fittings	1 403 341	(339 278)	1 064 063
Motor vehicles	3 158 777	(1 354 858)	1 803 919
IT equipment	887 221	(376 563)	510 658
Finance lease: Plant and equipment	22 349 043	(4 909 530)	17 439 513
Computer software	2 187 833	(945 456)	1 242 377
Patents	229 500	–	229 500
Total	144 806 449	(39 489 855)	105 316 594

Borrowing cost

Included in the cost of land and buildings are capitalised borrowing cost related to the acquisition of land to the amount of 2017: USD 64 625 (2016: USD 138 978) calculated at a capitalisation rate of 5,9%.

3. PROPERTY, PLANT AND EQUIPMENT continued

3.1 Reconciliation of property, plant and equipment

2017 USD	**Opening balance**	**Additions**	**Exchange difference on consolidation of foreign subsidiaries**
Land and buildings	**3 922 999**	**71 550**	**186 510**
Plant and machinery	**76 707 978**	**13 364 454**	**4 194 304**
Assets under construction	**2 395 587**	**1 719 392**	**5 548**
Furniture and fittings	**1 064 063**	**41 214**	**7 049**
Motor vehicles	**1 803 919**	**358 472**	**25 915**
IT equipment	**510 658**	**101 639**	**11 017**
Finance lease: Plant and equipment	**17 439 513**	**147 415**	**977 162**
Computer software	**1 242 377**	**18 889**	**48 265**
Patents	**229 500**	**10 101**	**–**
	105 316 594	**15 833 126**	**5 455 770**

2016 USD	Opening balance	Additions	Exchange difference on consolidation of foreign subsidiaries
Land and buildings	3 572 664	297 042	90 182
Plant and machinery	58 950 433	12 271 956	2 743 043
Assets under construction	5 505 621	695 298	9 148
Furniture and fittings	797 036	291 614	106 480
Motor vehicles	1 683 547	509 263	(24 152)
IT equipment	249 540	187 740	10 805
Finance lease: Plant and equipment	17 481 071	1 524 268	856 607
Computer software	1 063 054	587 286	76 512
Patents	229 500	–	–
	89 532 466	16 364 467	3 868 625

Security

Moveable assets to the value of ZAR 1,2 billion (USD 96.9 million at closing spot rate) of the South African subsidiaries have been bonded to ABSA Capital as security for an interest bearing loan.

3.2 Change in Estimate

Drill rods were previously depreciated using an estimated useful life of 30 000 drilling meters, which was done based on management's best estimate of the expectancy of the drill rod's useful life. The Group conducted a drill rod evaluation review and it was established that some of the rods still had reasonable useful life left when the 30 000 drilling meters were reached. Therefore the current method doesn't reflect an reasonable useful life of the rods.

It was concluded that the useful life of the rods should rather be estimated using the actual measurement of rods rather than the straight line method.

Assets acquired through business combination	Reclassifications and transfers to/ from inventory	Disposals	Depreciation	Impairment of fixed assets	Total
–	**–**	**–**	**(38 087)**	**–**	**4 142 972**
–	**11 384 687**	**(150 381)**	**(4 191 694)**	**(185 678)**	**101 123 670**
–	**(3 730 756)**	**–**	**–**	**–**	**389 771**
–	**3 316**	**(2 089)**	**(34 531)**	**–**	**1 079 022**
–	**(14 971)**	**(75 197)**	**(362 877)**	**–**	**1 735 261**
–	**(175 477)**	**(9 895)**	**(138 692)**	**–**	**299 250**
–	**(8 692 643)**	**–**	**(1 018 127)**	**–**	**8 853 320**
–	**175 793**	**(180)**	**(272 344)**	**–**	**1 212 800**
–	**–**	**–**	**–**	**–**	**239 601**
–	**(1 050 051)**	**(237 742)**	**(6 056 352)**	**(185 678)**	**119 075 667**

Assets acquired through business combination	Reclassifications and transfers to/from inventory	Disposals	Depreciation	Impairment of fixed assets	Total
–	–	–	(36 889)	–	3 922 999
4 840 001	3 417 381	(711 201)	(4 535 247)	(268 388)	76 707 978
–	(3 814 480)	–	–	–	2 395 587
8 046	–	(68 967)	(70 146)	–	1 064 063
72 350	152 798	(47 477)	(542 410)	–	1 803 919
2 694	172 983	(2 887)	(110 217)	–	510 658
42 925	(1 317 090)	–	(1 148 268)	–	17 439 513
–	–	–	(484 475)	–	1 242 377
–	–	–	–	–	229 500
4 966 016	(1 388 408)	(830 532)	(6 927 652)	(268 388)	105 316 594

Impairment

During 2017, the Exploration department in our African segment recognised an impairment loss of USD185 678. The main elements were a write-down of the idle slim drilling rigs to their value in use. The calculation of value in use is most sensitive to mining commodity cycles. The future cash flows of the particular drill rigs were negatively affected by the current declining commodity prices of our customers, which mainly comprise of mining operations. As a result our customers reduced and deferred exploration slim drilling activities.

4. GOODWILL

	2017 USD	2016 USD
Goodwill recognised from value chain business combinations	**2 612 584**	2 612 584
Goodwill recognised from raisebore business combinations	**470 843**	430 458
Goodwill recognised from business combinations	**3 083 427**	3 043 042

Impairment testing

For the purpose of annual impairment testing, goodwill is allocated to the operating segment which is expected to benefit from the synergies of the business combination in which the goodwill arose.

The recoverable amount was determined based on a value-in-use calculation covering a five-year forecast, followed by an extrapolation of expected cash flows for the remaining useful lives using the growth rates determined by management. The present value of the expected cash flows of the segment is determined by applying a suitable discount rate.

The recoverable amount of the value chain cash generating unit exceeds the carrying value by USD1 655 466 (2016: USD16 855 255). The recoverable amount of the raise bore cash-generating unit exceeds the carrying value by USD103 838 (2016: USD5 112 260)

	Growth rate 2017	Discount rate 2017	Growth rate 2016	Discount rate 2016
Cash-generating unit	**2,5% – 8,0%**	**10,0% – 12,0%**	3,6% – 8,0%	10,0% – 16,4%

Growth rate

The growth rates reflect the long-term average growth rates for the cash generating units.

Discount rate

The discount rates reflect appropriate adjustments relating to market risk and specific risk factors.

Cash flow assumptions

Management's key assumptions include the purchasing benefits based on consumption quantities. Cash flow projections reflect these purchasing benefits being realised.

5. FINANCIAL ASSETS

Subsidiary	Master Drilling Exploration (Pty) Ltd	Raisebore Rental (Pty) Ltd (*)	Drilling Technical Services (Pty) Ltd	Total
BEE Partner	**Epha Drilling (Pty) Ltd**	**Mosima Drilling (Pty) Ltd**	**Mosima Drilling (Pty) Ltd**	
2017 USD				
Opening balance	**2 617 462**	**7 368 303**	**82 589**	**10 068 354**
Exchange rate differences on translation	**286 905**	**742 385**	**9 053**	**1 038 343**
Preference dividends receivable capitalised	**209 324**	**–**	**401**	**209 725**
Redemption of financial assets	**–**	**(7 977 048)**	**–**	**(7 977 048)**
Preference dividend received	**(107 222)**	**(133 640)**	**–**	**(240 862)**
Closing balance	**3 006 469**	**–**	**92 043**	**3 098 512**

(*) Previously known as Master Drilling South Africa (Pty) Ltd

2016 USD				
Opening balance	2 576 714	6 514 829	67 741	9 159 284
Exchange rate differences on translation	337 896	865 848	8 883	1 212 627
Preference dividends receivable capitalised	212 257	525 130	5 965	743 352
Preference dividends received	(509 405)	(537 504)	–	(1 046 909)
Closing balance	2 617 462	7 368 303	82 589	10 068 354

Variable rate cumulative redeemable preference shares. The variable rate is 72% of the prevailing South African prime overdraft rate as published by First National Bank.

Preference shares are redeemable the earlier of 10 years from date of issue or at the election of the holder when the BEE company ceases to be wholly-owned by black persons.

The carrying amounts of the investments are considered a reasonable approximation for the fair value.

During 2017, the transaction between Raisebore Rental (Pty) Ltd (previously known as Master Drilling South Africa (Pty) Ltd) and Mosima Drilling (Pty) Ltd) was dissolved as the business requirements of Raisebore Rental (Pty) Ltd changed. This will result in Mosima (Pty) Ltd not receiving the economic benefits the transaction it was initially expected to achieve. The transaction was dissolved at fair value and all adjustments related to this transaction have been accounted for in the Group's financial statements.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

6. DEFERRED TAX

	2017 USD	2016 USD
Property, plant and equipment	**9 719 545**	7 353 923
Pre-payments	**(17 044)**	(17 709)
Allowance for doubtful debts	**(169 600)**	–
Finance leases	**22 413**	1 912 099
Accrual for leave pay	**(147 646)**	(306 192)
Assessed loss	**(1 973 320)**	(1 198 561)
Unrealised foreign exchange profit/loss	**(255 486)**	(211 363)
Net deferred tax liability	**7 178 862**	7 532 197
Deferred tax liability	**9 189 125**	**9 266 022**
Deferred tax asset	**2 010 263**	**1 733 825**
	7 178 862	**7 532 197**
Reconciliation of deferred tax liability		
Reported as at 1 January	**7 532 197**	6 263 620
Exchange differences on translation of foreign operations	**553 395**	598 617
Change in tax rate	**(52 793)**	(173 555)
Property, plant and equipment	**1 655 192**	1 875 566
Pre-payments	**–**	(100 929)
Allowance for doubtful debts	**(171 444)**	183 225
Finance leases	**(1 949 596)**	(185 769)
Provisions	**217 069**	(168 404)
Assessed loss	**(605 158)**	(1 025 520)
Share-based payment scheme liability	**–**	265 346
	7 178 862	7 532 197

7. INVENTORIES

	2017 USD	2016 USD
Consumables	**12 402 082**	13 266 711
Cutters	**10 076 553**	10 181 831
Work in progress	**1 764 832**	1 600 816
	24 243 467	25 049 358
Allowance for obsolete inventory	**(348 858)**	(612 094)
	23 894 609	24 437 264

8. TRADE AND OTHER RECEIVABLES

	2017 USD	2016 USD
Trade receivables - Normal	**27 333 869**	26 789 516
Trade receivables - Retention	**5 021 356**	3 098 167
Loans to employees	**40 636**	81 097
Pre-payments	**1 054 572**	1 372 357
Deposits	**82 219**	46 890
Indirect taxes	**1 691 851**	1 426 352
Sundry	**2 967 234**	6 200 285
	38 191 737	39 014 664
Trade and other receivables past due but not impaired		
The ageing of amounts past due but not impaired is as follows:		
Outstanding on normal cycle terms	**18 330 132**	10 981 269
1 month past due	**6 029 069**	6 702 871
2 months past due	**3 084 459**	5 591 572
3 months and over past due	**5 413 060**	6 748 090
Allowance for doubtful debts	**(501 495)**	(136 119)
Normal and retention trade receivables	**32 355 225**	29 887 683
Trade receivables of South African subsidiaries have been ceded to ABSA Capital as security for an interest bearing loan.		
The movement in allowance for doubtful debts is presented below		
Balance 1 January	**136 119**	636 799
Exchange differences on translation of foreign operations	**6 698**	58 431
Amounts written off	**–**	–
Allowance for doubtful debts provided/(reversed) for	**358 678**	(559 111)
	501 495	136 119
The carrying amount in USD of trade and other receivables are denominated in the following currencies:		
United States Dollar (USD)	**18 223 187**	17 591 574
South African Rands (ZAR)	**6 162 910**	7 119 116
Brazilian Reals (BRL)	**2 943 824**	4 455 101
Mexican Peso (MXN)	**594 427**	373 151
Chilean Peso (CLP)	**7 558 388**	7 360 884
Peruvian Nuevo Sol (PEN)	**630 645**	1 289 943
CFA Franc BCEAO (XOF)	**712 913**	–
Chinese Yuan Renminbi (CNY)	**339 833**	440 543
Guatemalan Quetzal (GTQ)	**3 175**	–
Zambian Kwacha (ZMW)	**351 527**	–
Colombian Peso (COP)	**594 787**	217 247
Indian Rupee (INR)	**43 673**	–
Austalian Dollar (AUD)	**32 448**	–
Euro (EUR)	**–**	167 105
	38 191 737	39 014 664

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

9. CASH AND CASH EQUIVALENTS

	2017 USD	2016 USD
Cash on hand	**50 902**	56 164
Bank balances	**37 288 050**	18 518 382
Short-term deposits	**2 872 677**	3 115 493
Bank overdraft	**–**	(1 317 466)
	40 211 629	20 372 573
Current assets	**40 211 629**	21 690 039
Current liabilities	**–**	1 317 466

BBVA Continental holds a bank guarantee to the value of PEN 100 000 as cover for potential unpaid invoices

10. SHARE CAPITAL

Authorised	**2017 Number of shares**		2016 Number of shares	
Ordinary shares	**500 000 000**	**–**	500 000 000	–

Reconciliation of number of shares issued:	**2017 Number of shares**	**Value USD**	2016 Number of shares	Value USD
Balance at the beginning of the period	**148 265 491**	**146 607 965**	148 265 491	146 607 965
Movement	**2 327 286**	**2 095 756**	–	–
Balance at the end of the period	**150 592 777**	**148 703 721**	148 265 491	146 607 965

The un-issued shares are under the control of the directors. The increase in the number of issued shares is a result of share options that were excercised during the year.

11. EQUITY DUE TO CHANGE IN CONTROL OF INTEREST

	2017 USD	2016 USD
Foreign entities acquired through business combinations	**9 594 855**	9 594 855
South African entities acquired through business combinations	**21 506 359**	21 506 359
South African assets acquired through business combinations	**27 162 799**	27 162 799
Total	**58 264 013**	58 264 013

12. INTEREST-BEARING BORROWINGS

	2017 USD	2016 USD
12.1 Held at amortised cost		
Secured		
ABSA Capital, a division of ABSA Bank Limited	**40 923 012**	23 318 197
A portion of the initial loan, USD 3 530 251, is denominated in USD and bears interest at the margin rate of 2.95% over libor as applicable. The remainder of the loan, USD 17 392 761, is denominated in ZAR and bears interest at the margin rate of 2,95% over jibar as applicable. The loan is repayable in 20 quarterly instalments of which 11 remain.		
An additional loan to the value of USD 20 000 000 was approved and advanced during the current reporting period. The USD denominated portion of the loan, USD10 000 000, bears interest at a marginal rate of between 3.45% and 3.90% over libor as applicable. The remainder of the loan, USD10 000 000, is denominated in ZAR and bears interest at a marginal rate of between 3,45% and 3,90% over jibar as applicable. The full capital value of the loan is repayable in December 2022 while interest is repayable in quarterly installments since September 2017.		
Banco Internacional del Perú S.A.A.	**–**	2 334 544
A portion of the loan, USD 500 000, is denominated in Peruvian Nuevo Sol, secured by owned plant and machinery which is pledged as collateral, bears interest at 5,1% and is repayable in 2 monthly installments of USD 350 000 and USD 150 000.		
The balance, USD 1 834 544, is denominated in United States Dollar, secured by property, bears interest at 5,5% per annum and is repayable in monthly installments of USD 19 000. The loan was settled during the current year.		
Kibali Goldmines SPRL	**–**	804 153
The loan is denominated in USD, secured by owned plant and machinery which is pledged as collateral, bears no interest and is repayable over the drilling contract period. This loan was settled in the previous financial year		
Total interest-bearing borrowings	**40 923 012**	26 456 894
Non-current liabilities		
At amortised cost	**36 263 625**	17 806 057
Current liabilities		
At amortised cost	**4 659 387**	8 650 837
	40 923 012	26 456 894

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

12. INTEREST-BEARING BORROWINGS continued

12.2 Changes in liabilities arising from financing activities

	2017 USD	2017 USD	2017 USD
	Financial Liabilities	Finance Leases	Total
Opening balance	26 456 894	4 530 590	30 987 484
Foreign exchange movement	1 040 548	424 580	1 465 128
Cash flows – drawdown	20 000 000	554 741	20 554 741
Cash flows – repayments	(6 574 430)	(2 382 326)	(8 956 756)
Closing balance	40 923 012	3 127 585	44 050 597

13. LEASE OBLIGATION

	2017 USD	2016 USD
13.1 Finance lease obligations: Plant and machinery		
Minimum lease payment due		
– within one year	1 633 806	2 949 949
– in second to fifth year	1 885 147	2 097 081
	3 518 953	5 047 030
Less: Future finance charges	(391 368)	(516 440)
Present value of minimum lease payment	3 127 585	4 530 590
– within one year	1 444 820	2 579 699
– in second to fifth year	1 682 765	1 950 891
Present value of minimum lease payments	3 127 585	4 530 590

Interest is payable at rates between zero and 2% above the current bank lending rate applicable in the respective countries. The settlement dates are between one and five years and therefore recorded at cost. The leases are secured by a pledge over certain fixed assets of the Group.

	2017 USD	2016 USD
13.2 Operating lease obligations		
Office space		
– within one year	103 332	97 179
– in second to fifth year	348 706	327 943
	452 038	425 122
Workspace		
– within one year	104 456	98 237
– in second to fifth year	352 500	331 511
	456 956	429 748

Operating leases were signed for a period of 10 years with a renewal option at the end of the contract term. An annual escalation of 6% is applicable.

14. TRADE AND OTHER PAYABLES

	2017 USD	2016 USD
Trade payables	**7 956 216**	9 931 942
Income received in advance	**–**	391 683
Indirect taxes	**6 654 506**	5 914 578
Leave pay accruals	**2 070 242**	1 821 971
Other accruals	**3 405 783**	4 938 253
	20 086 747	22 998 427

15. CAPITAL COMMITMENTS

	2017 USD	2016 USD
Capital expenditure authorised by the directors and contracted for within 12 months. Capital expenditure will be funded through cash generated from operations.	**4 579 527**	**4 276 175**

16. REVENUE

	2017 USD	2016 USD
Rendering of services	**121 424 109**	118 102 983

17. OPERATING PROFIT

	2017 USD	2016 USD
Operating profit for the year is stated after accounting for the following:		
(Loss)/Gain on sale of property, plant and equipment	**(67 183)**	230 161
Impairment	**(774 936)**	(268 388)
Profit on exchange differences	**179 336**	1 821 056
Depreciation on property, plant and equipment	**(6 056 352)**	(6 927 652)
Employee costs	**(50 966 319)**	(44 785 383)
Operating lease expense	**(198 191)**	(172 450)
Auditors' remuneration	**(255 804)**	(208 124)

Research and development

Blind Shaft Boring System (BSBS) is similar to the Horizontal Raise Boring project, launched in 2016, in terms of the benefits it can deliver to the mining and construction sectors. BSBS is an in-house technology currently being developed that promises to change mining and construction significantly.

The Group expensed USD 1.3 million of research and development costs in the consolidated annual financial statement for the year ended 31 December 2017 (2016: USD 1.5 million).

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

18. INVESTMENT REVENUE

	2017 USD	2016 USD
Total dividends received		
Unlisted preference dividends	**321 583**	743 352
Total interest received		
Bank	**60 702**	59 054
Other	**128 040**	6 439
	510 325	808 845

19. FINANCE COST

	2017 USD	2016 USD
Financial liabilities	**2 174 192**	1 194 220
Finance leases	**283 732**	456 865
Bank	**301 853**	278 482
Other	**91 101**	10 912
	2 850 878	1 940 479

Finance costs are disclosed net of borrowing cost capitalised relating to the acquisition of land. Refer to note 3.

20. TAXATION

	2017 USD	2016 USD
Current		
Normal taxation	**6 040 830**	2 293 305
Current taxation	**5 231 760**	3 936 680
Under/(Over) provision	**809 070**	(1 643 375)
Deferred taxation: Temporary differences	**(906 730)**	656 107
	5 134 100	2 949 412

20. TAXATION continued

	2017 USD	2016 USD
Reconciliation of the tax expense		
Accounting profit	**22 584 166**	25 269 306
Tax at the applicable tax rate	**5 502 316**	4 592 417
Under/(Over) provision	**809 070**	(1 643 375)
Exempt income	**(4 371 627)**	(2 336 512)
Non-deductible expenses	**2 724 372**	571 321
Deferred taxation: Change in tax rate	**78 771**	187 408
Assessed loss not recognised	**741 163**	1 729 360
Assessed loss previously not recognised	**(349 965)**	(151 207)
Taxation per statement of comprehensive income	**5 134 100**	2 949 412

The total unrecognised assessed loss at 31 December 2017 is USD2 544 768 (2016: USD 4 029 099).

	2017 USD	2016 USD
Normal taxation charge/(refund) per entity within the Group		
DCP Properties SAC	**15 129**	–
Master Drilling Exploration (Pty) Ltd	**409 833**	609 730
Master Drilling Chile SA	**275 577**	318 739
Master Drilling Peru SAC	**1 394 792**	–
Master Drilling do Brasil Ltda	**479 007**	–
Master Drilling Mexico SA	**–**	–
Master Drilling Malta Limited	**1 554 235**	1 894 395
Master Drilling Guatemala SA	**–**	195 253
Jiangsu Master Mining Engineering Technology Company Limited	**–**	30 126
Master Drilling RDC SPRL	**389 921**	(677 929)
Master Drilling Colombia SAS	**80 900**	503 304
Master Drilling Zambia Limited	**1 232 820**	(256 579)
Master Drilling International Ltd	**2 988**	(655 736)
Master Drilling Changzhou Co Ltd	**–**	213 921
Master Drilling Ecuador SA	**–**	103 670
Master Drilling USA LLC	**–**	14 411
Drilling Technical Services SAC	**2 567**	–
Martwick Ltd	**18**	–
Master Drilling Mali SARL	**163 884**	–
MD Drilling Services Tanzania SARL	**39 159**	–
	6 040 830	2 293 305

Conservative provisions for taxation in some jurisdictions in previous years as well as raising of deferred tax assets on historically loss making entities returning to profitability have led to a decrease in taxation expense in the previous year. The impact on taxation as a result potential future dividends is impractical to calculate as at 31 December.

The change in tax rate relates to Chile where the tax rate changed from 24,00% to 25,50%.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

21. DIRECTORS' REMUNERATION

2017 USD	Basic salary	Travel allowance	Bonus
Executive directors			
Danie Pretorius	396 178	27 048	279 419
Andre van Deventer	293 384	18 032	110 755
Gary Sheppard	390 477	–	117 970
Koos Jordaan	251 678	18 032	110 755
Sub-total	1 331 717	63 112	618 899
Non-executive directors			
Hennie vd Merwe	–	–	–
Johan Botha	–	–	–
Shane Ferguson	–	–	–
Jacques de Wet	–	–	–
Akhter Deshmukh	–	–	–
Sub-total	–	–	–
Alternate director			
Eddie Dixon	128 409	15 327	102 869
Sub-total	128 409	15 327	102 869
Prescribed Officer			
Roelof Swanepoel	133 460	10 819	–
Sub-total	133 460	10 819	–
Total	1 593 586	89 258	721 768

A prescribed officer is defined as having general executive control over and management of a significant portion of the Group or regularly participates therein to a material degree, and is not a director of the Group. The prescribed officer as disclosed in 2016 has resigned is no longer an employee of the Group

Fringe benefits	Provident/ Pension fund contributions	Director's fees	Consulting and legal fees	Gains on exercise of options	Total
24 681	–	–	–	303 538	1 030 864
16 901	–	–	–	302 075	741 147
–	–	–	–	302 075	810 522
17 275	–	–	–	302 075	699 815
58 857	–	–	–	1 209 763	3 282 348
–	–	50 004	–	–	50 004
–	–	27 751	–	–	27 751
–	–	–	115 863	–	115 863
–	–	28 209	–	–	28 209
–	–	38 028	–	–	38 028
–	–	143 992	115 863	–	259 855
26 295	–	–	–	–	272 900
26 295	–	–	–	–	272 900
8 776	–	–	–	–	153 055
8 776	–	–	–	–	153 055
93 928	–	143 992	115 863	1 209 763	3 968 158

21. DIRECTORS' REMUNERATION continued

2016 USD	Basic salary	Travel allowance	Bonus
Executive directors			
Danie Pretorius	299 083	24 509	572 436
Andre van Deventer	193 635	16 339	259 809
Gary Sheppard	369 436	–	186 198
Koos Jordaan	189 242	16 339	259 809
Sub-total	1 051 396	57 187	1 278 252
Non-executive directors			
Hennie vd Merwe	–	–	–
Johan Botha	–	–	–
Shane Ferguson	–	–	–
Jacques de Wet	–	–	–
Akhter Deshmukh	–	–	–
Sub-total	–	–	–
Alternate director			
Eddie Dixon	140 841	10 961	–
Chris O'Neill	105 302	13 888	33 283
Sub-total	246 143	24 849	33 283
Prescribed Officer			
Pieter van Wyngaard	28 656	4 300	–
Sub-total	28 656	4 300	–
Total	1 326 195	86 336	1 311 535

Fringe benefits	Provident/ Pension fund contributions	Directors' fees	Consulting and legal fees	Gains on exercise of options	Total
21 416	–	–	–	–	917 444
14 335	–	–	–	–	484 118
16 046	2 321	–	–	–	574 001
14 213	–	–	–	–	479 603
66 010	2 321	–	–	–	2 455 166
–	–	37 926	–	–	37 926
–	–	24 355	–	–	24 355
–	–	24 114	60 686	–	84 800
–	–	24 114	–	–	24 114
–	–	32 606	–	–	32 606
–	–	143 115	60 686	–	203 801
906	–	–	–	–	152 708
8 362	12 785	–	–	–	173 620
9 268	12 785	–	–	–	326 328
1 515	3 159	–	–	–	37 630
1 515	3 159	–	–	–	37 630
76 793	18 265	143 115	60 686	–	3 022 925

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

21. DIRECTORS' REMUNERATION continued

21.1 Directors' interest

2017	Number of shares: Direct beneficial	Number of shares: Indirect beneficial	Total	Percentage of issued ordinary share capital
Executive directors				
Danie Pretorius	**500 900**	**78 630 565**	**79 131 465**	**52.55%**
Andre van Deventer	**727 648**	**1 752 316**	**2 479 964**	**1.65%**
Gary Sheppard		**2 955 884**	**2 955 884**	**1.96%**
Koos Jordaan	**1 781 861**	**1 228 336**	**3 010 197**	**2.00%**
Total	**3 010 409**	**84 567 101**	**87 577 510**	**58.16%**

2016	Number of shares: Direct beneficial	Number of shares: Indirect beneficial	Total	Percentage of issued ordinary share capital
Executive directors				
Danie Pretorius	900	78 630 565	78 631 465	53.03%
Andre van Deventer	727 648	2 252 316	2 979 964	2.01%
Gary Sheppard	–	2 955 884	2 955 884	1.99%
Koos Jordaan	1 781 861	1 228 336	3 010 197	2.03%
Total	2 510 409	85 067 101	87 577 510	59.06%

22. EARNINGS PER SHARE

	2017 USD	2016 USD
Reconciliation between earnings and headline earnings		
Basic earnings for the year	**17 450 066**	22 319 894
Deduct:		
Non-controlling interest	**(247 143)**	(1 124 144)
Attributable to owners of the parent	**17 202 923**	21 195 750
Loss/(Gain) on disposal of fixed assets	**67 183**	(230 161)
Impairment of plant and equipment	**185 678**	268 388
Tax effect on loss on disposal of fixed assets and impairments	**(70 801)**	(48 284)
Headline earnings for the year	**17 384 983**	21 185 693
Earnings per share (cents)	**11.5**	14.3
Diluted earnings per share (cents)	**11.4**	14.0
Headline earnings per share (cents)	**11.6**	14.3
Diluted headline earnings per share (cents)	**11.5**	14.0
Net asset value per share (cents)	**107.6**	98.7
Tangible net asset value per share (cents)	**105.6**	96.6
Dividends per share (cents)	**30.0**	–
Weighted average number of ordinary shares at the end of the year for the purpose of basic earnings per share and headline earnings per share	**149 894 366**	148 265 491
Effect of dilutive potential ordinary shares – employee share options	**1 603 877**	3 003 793
Weighted average number of ordinary shares at the end of the year for the purpose of diluted basic earnings per share and diluted headline earnings per share	**151 498 243**	151 269 284

23. CASH GENERATED FROM OPERATIONS

23.1 Cash generated from operations

	2017 USD	2016 USD
Profit before taxation	**22 584 166**	25 269 306
Adjustments for:		
Depreciation and amortisation	**6 056 352**	6 927 652
Impairment	**845 891**	268 388
Share of profit from equity accounted investment	**1 710**	(556 085)
Translation effect of foreign operations	**2 203 374**	1 134 652
Share-based payment – equity settled	**290 858**	255 349
Share-based payment – liability	**–**	(706 681)
Loss/(Gain) on disposal of fixed assets	**67 183**	(230 161)
Investment revenue	**(510 325)**	(808 845)
Finance costs	**2 850 878**	1 940 479
Changes in working capital:		
Inventories	**542 655**	(3 529 733)
Trade and other receivables	**822 927**	(7 479 267)
Trade and other payables	**(2 911 680)**	4 066 093
	32 843 989	26 551 147

23.2 Tax paid

	2017 USD	2016 USD
Reported as at 1 January	**1 561 045**	5 195 800
Current tax for the period recognised in profit and loss	**6 040 830**	2 293 305
Exchange effect on consolidation of foreign subsidiaries	**(5 516)**	(87 786)
Balance at end of the period	**(2 098 947)**	(1 561 045)
	5 497 412	5 840 274

23.3 Net cash flow on business combinations

In January 2016, the Group acquired 100% of the equity instruments of Bergteamet Latin America SpA, a Chilean based raise bore drilling business, thereby obtaining control. The acquisition was made to further expand the Group's presence within Chile.

The acquisition of Bergteamet Latin America SpA was settled in cash amounting to USD4 000 000. The purchase agreement included an amount of USD432 285 still payable and was settled as at 3 December 2017. As part of the acquisition, the Group acquired the liability of employee termination costs. The employees were terminated as part of the previous shareholder requiring the re-assigning of these employees to other operations within its Group. The remainder of the consideration was settled during the current year.

The assets and liabilities of Bergteamet Latin America were considered to be stated at fair value after a proper analysis was performed. This acquisition transaction resulted in goodwill of USD430 548 which is primarily related to the expected future profitability of Bergteamet Latin America SpA's operations.

	2017 **USD**	2016 USD
The fair value of assets and liabilities assumed at date of acquisition was:		
Assets		
Property, plant and equipment	–	**4 966 016**
Net Working capital	–	**(964 189)**
Trade and other receivables	–	**962 575**
Cash and cash equivalents	–	**105 549**
Inventory	–	**1 332 552**
Trade and other payables	–	**(3 364 865)**
Total assets and liabilities acquired	–	**4 001 827**
Group's share of total assets and liabilities acquired	–	**4 001 827**
Goodwill at acquisition	–	**430 458**
Total consideration	–	**4 432 285**
Cash and cash equivalents on hand at acquisition	–	**(105 549)**
Consideration still payable	–	**(432 285)**
Net cash outflow on acquisition of subsidiaries	–	**3 894 451**
Profit after tax since acquisition date included in the consolidated results for the year	–	**1 769 112**
Turnover since acquisition date included in the consolidated results for the year	–	**3 750 069**
Group profit after tax since acquisition date included in the consolidated results for the year	–	**22 319 894**
Group turnover since acquisition date included in the consolidated results for the year	–	**118 102 983**

24. RELATED PARTY LOANS RECEIVABLE FROM/(OWING TO)

	2017 USD	2016 USD
MD Training Centre (Pty) Ltd	**1 366**	–
MD Employees Trust	**(1 232)**	584
Basfour 276 (Pty) Ltd	**–**	1 510
MDG Equity Holdings (Pty) Ltd [1, 3 & 4]	**15 467**	–
Epha Drilling (Pty) Ltd [2]	**(95 494)**	(78 272)
Mosima Drilling (Pty) Ltd [2]	**(94 366)**	(76 487)
MD Drilling Employee Trust	**(3 882)**	(4 039)
MD HDSA Trust [2]	**42 905**	35 966
DCP BEE Foundation Trust [2]	**1 986**	1 699
The Drillcorp BEE Trust [2]	**40 155**	30 490
MD Argentina	**(509)**	(1 824)
MD Engineering Trust	**762**	237
	(92 842)	(90 136)
Related party loans receivable from	**102 641**	70 486
Related party loans owing to	**195 483**	160 622
	(92 842)	(90 136)

Loans with related parties that involves directors were settled during the previous financial year. The above loans are with legal entities where the following related parties have control:

[1] Danie Pretorius
[2] BEE Partner
[3] Andre van Deventer
[4] Koos Jordaan

25. RISK MANAGEMENT

25.1 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in notes 12 and 13, cash and cash equivalents disclosed in note 9, and equity as disclosed in the statement of financial position.

In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The ABSA Capital facility has the following covenant ratio requirements:
– leverage ratio less than 1.5;
– debt service cover ratio not less than 1.4; and
– interest coverage rate not less than 4.

The above covenant ratios are closely monitored by management and as at 31 December 2017 the above covenant ratios were adhered to.

25.2 Financial risk management

The Group’s activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk.

The Group’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group’s financial performance. The principles for financial management are included in the Group's treasury policy and cover specific areas, such as foreign exchange risk, interest rate risk, credit risk.

25.3 Interest rate risk

As the Group has no significant interest-bearing assets, other than interest bearing preference shares, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group’s interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During 2017 the Group's borrowings at variable rate were denominated in the US Dollars, South African Rand, Peruvian Sol and Chillian Peso. Interest bearing borrowings comprise 27,3% of equity and is therefore deemed to be low risk.

2017 USD	**+50 basis points**	**-50 basis points**
Profit and loss	**(204 615)**	**204 615**
Equity, net of finance tax	**(158 100)**	**158 100**

25.4 Credit risk

Credit risk is managed on a Group basis as well as individual company basis.

Credit risk consists mainly of cash deposits, cash equivalents, trade debtors, related party loans and preference shares.

Trade receivables comprise a widespread customer base of which the majority consists of large international mining companies. Management evaluates credit risk relating to customers on an ongoing basis. Individual risk limits are set in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

The maximum credit risk the Group is exposed to is the receivable balance on the trade receivables and related party loans as disclosed in notes 8 and 24 respectively.

25.5 Liquidity risk

Management manages cash flow on a Group-basis through an on-going review of future commitments and credit facilities. Cash flow forecasts are prepared and borrowing facilities are monitored for compliance with internal balance sheet ratio targets.

The table below analyses the Group's financial liabilities into the relevant maturity Groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

25. RISK MANAGEMENT continued

2017 USD	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	5 years and after
Long-term interest bearing borrowings	4 659 387	4 236 181	12 027 444	20 000 000
Finance lease obligations	1 444 820	963 961	455 046	263 758
Related party loans	195 483	–	–	–
Current tax payable	2 098 947	–	–	–
Trade and other payables	20 086 764	–	–	–

2016 USD	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	5 years and after
Long-term interest bearing borrowings	8 650 837	5 710 292	12 095 765	–
Finance lease obligations	2 579 699	1 332 381	618 510	–
Related party loans	160 622	–	–	–
Current tax payable	1 561 045	–	–	–
Trade and other payables	22 998 427	–	–	–

25.6 Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to ZAR, CLP, BRL and PEN. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. Management is of the view that only the ZAR poses a significant foreign exchange risk given its volatility against the USD.

The Group reviews its foreign currency exposure, including commitments on an ongoing basis, and has adopted a formal treasury policy to monitor and manage the foreign exchange risk.

Illustrated below is the estimated impact on profitability due to currency movements:

		USD	USD
Currency		**+10%**	**-10%**
Peruvian Sol	PEN	(4 040)	4 937
South African Rand	ZAR	(98 940)	120 926
Chilean Peso	CLP	(71 502)	87 391
Brazilian Real	BRL	(69 210)	84 590
Zambian Kwacha	ZMW	(45 743)	55 908
Guatemalan Quetzal	GTQ	879	(1 075)
Central African Franc	XOF	(38 311)	46 824
Colombian Peso	COP	(7 863)	9 610
Australian Dollar	AUD	(566)	691
Indian Rupee	INR	22 711	(27 758)

26. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of the financial assets in each category are as follows:

2017 **USD**	**Loans and receivables**	**Total**
Cash and cash equivalents	**40 211 629**	**40 211 629**
Financial assets	**3 098 512**	**3 098 512**
Loans to related parties	**102 641**	**102 641**
Trade and other receivables	**38 191 738**	**38 191 738**
	81 604 520	**81 604 520**

2016 USD	Loans and receivables	Total
Cash and cash equivalents	21 690 039	21 690 039
Financial assets	10 068 355	10 068 355
Loans to related parties	70 486	70 486
Trade and other receivables	39 014 665	39 014 665
	70 843 545	70 843 545

The carrying amounts of the financial liabilities in each category are as follows:

Financial liabilities at amortised cost	**2017** **USD**	2016 USD
Financial lease obligations	**3 127 585**	4 530 590
Financial liabilities	**40 923 012**	26 456 894
Loans to related parties	**195 483**	160 622
Trade and other payables	**20 086 747**	15 261 878
	64 332 827	46 409 984

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

27. SEGMENT REPORTING

27.1 Mining activity

The following table shows the distribution of the Group's combined sales by mining activity, regardless of where the goods were produced:

	2017 USD	2016 USD
Sales revenue by stage of mining activity		
Exploration	**973 412**	695 690
Capital	**4 339 904**	22 792 887
Production	**116 110 793**	94 614 406
	121 424 109	118 102 983
Gross profit by stage of mining activity		
Exploration	**383 107**	297 369
Capital	**830 043**	9 350 969
Production	**43 416 688**	33 295 116
	44 629 838	42 943 454

The chief decision maker of the Group is the chief executive officer. The chief executive officer, under the direct supervision of the resident board, manages the activities of the Group concomitant to the inherent risks facing these activities. It is for this reason that the activities are separated between exploration, capital and production stage drilling. The equipment and related liabilities of the Group can be used at multiple stages and therefore cannot be presented per activity.

27.2 Geographical segments

Although the Group's major operating divisions are managed on a worldwide basis, they operate in four principal geographical areas of the world.

	2017 USD	2016 USD
Sales revenue by geographical market		
Africa	**54 737 735**	49 006 600
Central and North America	**14 619 849**	11 064 465
Other Countries	**–**	–
South America	**52 066 525**	58 031 918
	121 424 109	118 102 983
Gross profit by geographical market		
Africa	**24 880 016**	21 467 899
Central and North America	**4 547 869**	2 011 437
Other Countries	**–**	2 131 646
South America	**15 201 953**	17 332 472
	44 629 838	42 943 454

The gross profit percentages vary based on drilling ground conditions, competition in the markets and the mix of in-country and foreign cost.

A customer in the African region, operating in the capital and production segments, accounts for 14% (2016: African region 9%) of the Group's revenue.

Assets and liabilities are relocated to amongst operating segments based the project requirements with these different segments. Transactions within the operating segments occur at arm's length.

	2017 USD	2016 USD
Depreciation by geographical market		
Africa	**2 813 563**	3 594 065
Central and North America	**465 299**	374 197
Other Countries	**42 009**	43 727
South America	**2 735 481**	2 915 663
	6 056 352	6 927 652

	2017 USD	2016 USD
Investment revenue by geographical market		
Africa	**261 559**	764 121
Central and North America	**749**	1 207
Other Countries	**168 101**	3 169
South America	**79 916**	40 348
	510 325	808 845

	2017 USD	2016 USD
Finance cost by geographical market		
Africa	**1 834 711**	1 103 886
Central and North America	**209 404**	167 597
Other Countries	**204 635**	233 814
South America	**602 128**	435 182
	2 850 878	1 940 479

	2017 USD	2016 USD
Taxation by geographical market		
Africa	**1 334 731**	762 444
Central and North America	**312 205**	(146 543)
Other Countries	**2 203 622**	1 709 223
South America	**1 283 542**	624 288
	5 134 100	2 949 412

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

27. SEGMENT REPORTING continued

	2017 USD	2016 USD
Total assets by geographical market		
Africa	**95 020 536**	88 457 389
Central and North America	**24 975 860**	24 418 504
Other Countries *	**25 208 838**	17 392 080
South America **	**91 740 494**	82 339 638
Total assets as per statement of financial position	**236 945 728**	212 607 611
Total liabilities by geographical market		
Africa	**34 438 606**	37 032 675
Central and North America	**8 457 641**	18 306 283
Other Countries	**6 535 299**	1 082 223
South America	**26 189 353**	9 869 885
Total liabilities as per statement of financial position	**75 620 899**	66 291 066

* *Assets in Other Countries includes the investment in associate.*

** *Assets in South America includes the non-current asset held for sale. See Note 35*

28. CONTINGENCY

	2017 USD	2016 USD
Payment bonds issued to customers	**42 801**	38 573
Retention bonds issued to customers	**238 654**	2 586 224
Performance bonds issued to customers	**–**	2 288 898
	281 455	4 913 695

The bonds are issued to customers and underwritten by Lombard's Insurance.

29. INVESTMENTS IN SUBSIDIARIES

Master Drilling Group Limited investment in subsidiaries	Effective holding	Status	Country
MDI Exco Ltd	**100%**	Investment Holding	Malta
Raisebore Rental (Pty) Ltd	**100%**	Operational	RSA
Drilling Technical Services (Pty) Ltd	**74%**	Operational	RSA
Master Drilling Exploration (Pty) Ltd	**74%**	Operational	RSA
Master Drilling International Ltd	**100%**	Investment Holding	Malta
MDG Shared Services (Pty) Ltd	**100%**	Operational	RSA
Master Sinkers (Pty) Ltd	**100%**	Operational	RSA
Master Tunneling (Pty) Ltd	**100%**	Operational	RSA
Master Drilling New Technologies Holdings (Pty) Ltd	**100%**	Operational	RSA
Master Drilling (Pty) Ltd	**100%**	Operational	RSA

29. INVESTMENTS IN SUBSIDIARIES continued

Master Drilling Group Limited investment in subsidiaries	Effective holding	Status	Country
Master Drilling International Limited investment in subsidiaries			
Master Drilling Chile SA	100%	Operational	Chile
Master Drilling Peru SAC	100%	Operational	Peru
Master Drilling do Brasil Ltda	100%	Operational	Brazil
Master Drilling Mexico SA	100%	Operational	Mexico
Master Drilling Zambia Ltd	100%	Operational	Zambia
Master Drilling Australia (Pty) Ltd	100%	Operational	Australia
Master Drilling Colombia S.A.S	100%	Operational	Colombia
Master Drilling Namibia (Pty) Ltd	100%	Dormant	Namibia
Drillcorp Burkina Faso SA	80%	Dormant	Burkina Faso
Drillcorp Cote d'Ivoire SA	80%	Dormant	Cote d'Ivoire
Drillcorp Botswana (Pty) Ltd	100%	Dormant	Botswana
Master Drilling Guatemala SA	100%	Operational	Guatemala
Master Drilling RDC Sprl	100%	Operational	DRC
Master Drilling Malta Ltd	100%	Operational	Malta
Jiangsu Master Mining Engineering Technology Company Ltd	100%	Dormant	China
Master Drilling Jiangsu Company Ltd	100%	Operational	China
Martwick Ltd	100%	Dormant	Ireland
Drilling Technical Services SAC	100%	Dormant	Peru
DCP Properties SAC	100%	Operational	Peru
Master Drilling Changzhou Co. Ltd	100%	Operational	China
Orbit Insurance Company Ltd	100%	Operational	Anguilla
Master Drilling Ecuador SA	100%	Operational	Ecuador
Master Drilling USA LLC	90%	Operational	USA
MD Drilling Services Tanzania Ltd	100%	Operational	Tanzania
Master Drilling Sierra Leone Ltd	100%	Dormant	Sierra Leone
Mater Drilling India Private Ltd	100%	Operational	India
Master Drilling Ghana Sprl	100%	Operational	Ghana
Master Drilling Malta Limited investment in subsidiaries			
Master Drilling Chile División Raise Borer SpA	100%	Operational	Chile

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

30. RELATED PARTIES

Relationships	
Subsidiaries	Refer to note 29
Shareholder with significant influence	Barrange (Pty) Ltd
	MDG Equity Holdings (Pty) Ltd
Companies controlled by directors	Refer to note 24
Related party balances	Refer to note 24
Associate	Refer to note 34

Salaries paid to key management amounts to 2017: USD1 563 075 (2016: USD 1 279 037).

Rentals paid to Barrange (Pty) Ltd amounts 2017: USD 187 640 (2016: USD 152 250).

Key management is defined as the employees who have the authority to directly or indirectly plan and control the specific business operations within the country it operates in. Key management excludes the directors and prescribed officer of the Group. Refer to note 21 for disclosure on directors' and prescribed officer's remuneration.

31. SHARE OPTION SCHEME

General

The Group adopted the plan on 15 November 2012. The plan is administered by its compliance officer under the direction of the remuneration committee (the "RemCo"). The plan allows the grant of options to acquire fully paid ordinary shares to eligible employees after admission. An eligible employee is any employee (including any executive director) of any member of the Group, but shall not include any non-executive director of the Group, any member of the RemCo or any trustee of an employee benefit trust.

Any eligible employee selected at the discretion of the RemCo shall be eligible to receive grants under the plan. In making this selection, the RemCo shall take into account the contribution of the eligible employee's division to the Group and his/her individual performance measured in the context of the applicable internal performance appraisal process, amongst other factors.

Form of option

The plan allows for the grant of options in such form as the RemCo may consider appropriate, including to allow for options to be granted to individuals in jurisdictions outside the Republic of South Africa, subject to appropriate regulatory approvals. The plan allows for the grant of options with an exercise price determined by the RemCo at the date of grant. Options is granted for no consideration and will be non-transferable, except to the option holder's heirs or executors on death.

Plan limits

Overall

The maximum number of shares in respect of which options can be granted under the plan is five million shares. Options may be settled by existing shares purchased through the market, newly issued shares or shares held in treasury. Shares purchased through the market will not count towards this plan limit.

Individual
The maximum number of shares in respect of which options can be granted to any one option holder under the Plan is 500 000 shares in any three year cycle. Subject to this, the maximum value of shares subject to an option to be awarded to an option holder will not usually exceed 200% of his/her base salary per financial year of the Group.

Vesting and exercise
Options will vest no earlier than the third anniversary of the date of grant. Options can be exercised in whole or in part once they have vested up to the tenth anniversary of the date of grant.

Cessation of employment or office
In the event that an option holder ceases to be an employee or officer of the Group or a Group company, their options will generally lapse. Where the reason for leaving is death, disability, retirement (with agreement of the RemCo) or retrenchment, options will vest and become exercisable for a limited period following the date of cessation, as they will for any other reason determined at the sole discretion of the RemCo.

Corporate transactions
On a change of control of the Group, a takeover, merger or on a voluntary winding up, unvested options will vest and become exercisable for a limited period, subject a pro rata reduction of the option to reflect the period between grant and change of control. Vested options remain exercisable for a limited period. However, no subsisting option may be rolled over, i.e. released in consideration of the grant of a new option in the acquiring company (including the arrangement that assumes equity securities which have already vested and been issued in terms of the plan, and which usually revert back to the overall plan limits referred to above.

Variation of share capital
In the event of any sub-division or consolidation, the RemCo shall, and in the event of a capitalisation issue, special dividend, rights issue or reduction of capital, it may, vary the number of shares subject to options and their exercise price, as well as the plan and individual limits in such manner as it considers appropriate, in accordance with the JSE listings requirements, having first obtained auditor confirmation.

Voting and dividend rights
Option holders will have no right to voting or dividends until the acquisition of the shares following exercise of the option.

Amendments
The rules of the plan may be amended from time to time by the RemCo, except to the extent the JSE listings requirements requires such amendment to be approved by an ordinary resolution passed at a general meeting of the Group with a 75% majority (excluding shares held by option holders).

Options issued
During 2017, 835 000 options have been granted as at 31 December 2017 and the date of this report. Refer to note 32.

32. SHARE-BASED PAYMENTS

Long-term incentive scheme

The long-term incentive is granted to eligible employees of the parent. The incentive comprises of the issue of either shares in the company, phantom shares based on the company shares or cash settlement. Vesting are dependant on the performance conditions which include annual compound growth in profit after tax as well as the annual compound growth in the share price of Master Drilling Group Limited.

The eligible employee must remain in service of the Group until terminal date.

No expense was recognised for the current or prior year as the initial policy period of three years lapsed at the end of 2015.

Share option plan

Under the share option plan, share options of the Group are granted to eligible employees of the Group. The exercise price of the share options is determined on the grant date. The share options vest on the third anniversary of the grant date.

The fair value of the share options is estimated at the grant date using the Black-Scholes Option Pricing Model, taking into account the terms and conditions upon which the share options were granted.

The contractual term of each share option granted is until the tenth anniversary of the grant date. There are no cash settlement alternatives. The Group does not have a past practice of cash settlement for these share options.

The expense recognised for employee services received during the year is as follows:

	2017 USD	2016 USD
Expense arising from equity-settled share-based payment transactions	**290 858**	255 349

Movements during the year:

The following table illustrates the number and exercise prices in ZAR ("EP") of, and movements in share options.

	Number	**EP**
Outstanding at 1 January 2016	**2 477 714**	
Granted during the year	**(500 000)**	**13.64**
Outstanding at 31 December 2016	**1 977 714**	
Granted during the year	**(835 000)**	**1.30**
Outstanding at 31 December 2017	**1 142 714**	

Directors' interest in the share options granted to date comprise of 2 000 000 share options granted and excercised during the current financial year.

The total number of share options excercised, including that of the directors, amounted to 2 327 286

The remaining contractual life for the share options outstanding as at 31 December 2017 was 1.92 years (2016: 0.95).

The average fair value of the options granted during the year was ZAR 1209 cents (2016: ZAR 444 cents).

The following table list the inputs to the model used for the share plan for 31 December 2017:

	2017	2016
Expected volatility	**30%**	30%
Risk-free interest rate	**7.5%**	6.0%
Expected life of share options	**3 years**	3 years
Weighted average exercise price	**9.79**	10.79
Model used	**Black-Scholes**	Black-Scholes

33. NON-CONTROLLING INTEREST

The following subsidiaries have material non-controlling interest.

2017 USD	**Master Drilling Exploration (Pty) Ltd**	**Raisebore Rental (Pty) Ltd (*)**	**Drilling Technical Services (Pty) Ltd**	**Master Drilling USA LLC**
Principal place of business	**RSA**	**RSA**	**RSA**	**USA**
Non-controlling interest ("NCI")	**26%**	**26%**	**26%**	**10%**
Revenue	**15 789 591**	**10 222 342**	**19 831 185**	**2 712 939**
Profit/(Loss)	**2 030 561**	**(942 898)**	**(530 325)**	**(356 504)**
Total comprehensive income/(loss)	**2 030 561**	**(942 898)**	**(530 325)**	**(356 504)**
Profit/Loss allocated to NCI	**527 946**	**(245 153)**	**(137 884)**	**(35 650)**
Comprehensive income attributable to NCI	**527 946**	**(245 153)**	**(137 884)**	**(35 650)**
Non-current assets	**10 384 401**	**34 107 850**	**1 768 390**	**596 826**
Current assets	**8 377 635**	**428 041**	**15 707 687**	**1 389 995**
Non-current liabilities	**1 860 872**	**29 768 658**	**22 205**	**1 973 248**
Current liabilities	**4 270 744**	**1 644 119**	**19 381 383**	**263 020**
Net assets	**12 630 420**	**3 123 115**	**(1 927 511)**	**(249 447)**
Net assets attributable to NCI	**3 283 909**	**812 010**	**(501 153)**	**(64 856)**
Cash flows from operating activities	**3 497 156**	**8 587 840**	**4 464 863**	**(1 245 569)**
Cash flows from investing activities	**1 438 505**	**7 654 655**	**5 069 973**	**(391 234)**
Cash flows from financing activities	**(1 956 486)**	**(13 948 001)**	**8 609**	**1 850 342**
Net increase/(decrease) in cash and cash equivalents	**2 979 175**	**2 294 494**	**9 543 445**	**213 539**
Dividends paid	**606 355**	**571 109**	**–**	**–**

(*) Previously known as Master Drilling South Africa (Pty) Ltd

33. NON-CONTROLLING INTEREST continued

2016 USD	Master Drilling Exploration (Pty) Ltd	Master Drilling South Africa (Pty) Ltd	Drilling Technical Services (Pty) Ltd	Master Drilling USA LLC
Principal place of business	RSA	RSA	RSA	USA
Non-controlling interest ("NCI")	26%	26%	26%	10%
Revenue	11 781 365	16 146 362	21 440 616	927 224
Profit/Loss	2 197 731	2 069 981	(2 594 404)	37 057
Total comprehensive income	2 197 731	2 069 981	(2 594 404)	37 057
Profit/Loss allocated to NCI	571 410	538 195	(674 545)	3 706
Comprehensive income attributable to NCI	571 410	538 195	(674 545)	3 706
Non-current assets	9 840 593	32 132 369	719 310	82 686
Current assets	5 801 709	12 720 606	13 912 596	867 462
Non-current liabilities	2 392 541	9 910 874	–	–
Current liabilities	3 291 272	24 137 258	16 497 650	843 091
Net assets	9 958 488	10 804 843	(1 865 745)	107 057
Net assets attributable to NCI	2 589 207	2 809 259	(485 094)	10 706
Cash flows from operating activities	2 720 005	(810 860)	3 629 165	418 118
Cash flows from investing activities	1 028 515	(599 405)	(2 277 708)	122 905
Cash flows from financing activities	(3 779 249)	298 214	(4 158)	–
Net increase/(decrease) in cash and cash equivalents	(30 729)	(1 112 051)	1 347 298	541 023
Dividends paid	2 094 945	2 296 791	–	–

34. INVESTMENT IN ASSOCIATE

On 1 December 2015, the Group purchased a 40% equity interest in Bergteamet Raiseboring Europe AB ("Bergteamet") for USD 5 333 165 (SEK 46 555 000). Bergteamet's operations located within Sweden, Norway, Finland and Ireland are very similar to that of the Group and will provide the Group with a strategic footprint into the European market.

The Group does not have control of Bergteamet via the call option it has for the remainder of the shares in Bergteamet. The call option does not give rise to the substantive control of Bergteamet until such time as the Group exercises the call option which expires 31 March 2019 or the put option which expired on 31 May 2017. The put option gives the option to put the current 40% owned by the Group back to the sellers at the original purchase price thus effectively cancelling the transaction. Management considered the valuation of the call and put option. At year end the mark to market valuation did not present a material impact on the initial value of the call option.

The financial year end of Bergteamet is 31 August. This was the reporting date established when that company was incorporated, and a change of reporting date is not permitted. For the purpose of applying the equity method of accounting, the financial information of Bergteamet have been used. Appropriate adjustments were made for fair value adjustments at acquisition, 1 December 2015, differences in accounting policies and effects of significant transactions up to 31 December 2017.

The table below summarises and also reconciles the statement of comprehensive income's financial information as at 31 December.

	2017 USD	2016 USD
Revenue	**9 873 828**	16 011 794
Profit from continuing operations	**(4 275)**	1 390 213
Total comprehensive income	**(4 275)**	1 390 213
Group's share of total comprehensive income	**(1 710)**	556 085
Dividends received from associate	**104 207**	–

The table summarises and also reconciles the statement of financial position's financial information as at 31 December to the carrying amount of the Group's interest in Bergteamet.

	2017 USD	2016 USD
Non-current assets	**9 962 208**	8 765 242
Current assets	**6 456 978**	7 986 687
Non-current liabilities	**4 581 086**	(5 134 029)
Current liabilities	**3 614 112**	(3 246 175)
Net assets	**8 223 988**	8 371 725
Group's share of net assets	**3 289 595**	3 348 690
Goodwill	**2 734 230**	2 119 050
Share of profit from equity accounted investment	**(1 710)**	556 085
Investment in Bergteamet	**6 022 115**	6 023 825

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

35. NON-CURRENT ASSETS HELD FOR SALE

In September 2016, management committed to a plan to sell the land and building owned in Peru. Master Drilling Peru uses the land and building to house its administrative and workshop facilities. Management's plan is to develop another piece of land owned in Peru into offices and workshop facilities.

In the previous financial year's annual financial statements, it was indicated that management expected to finalise the sales transaction during May 2017. Since the release of the previous year's financial statements, the interested buyer at the time decided against finalising the transaction as a better opportunity presented itself that satisfied their requirements. Management still has the intention to sell and is actively marketing the land and buildings. Negotiations to sell the land and buildings are at an advanced stage with a new interested buyer. The sale is expected to be finalised towards the end of the second quarter in 2018.

The movement in the amount disclosed as non-current asset held for sale relates to foreign exchange differences as the property's value is denominated in PEN.

No impairment losses were recognised in profit and loss as the fair value less costs to sell exceeds the carrying amount.

As at 31 December, the assets held for sale were comprised of the following:

	2017 USD	2016 USD
Land and buildings	1 255 128	1 209 520
Assets held for sale	**1 255 128**	**1 209 520**

36. SUBSEQUENT EVENTS

The Board approved a dividend of ZAR26,0 cents per ordinary share on 19 March 2018 payable to all shareholders recorded in the register on 18 May 2018. The dividend declared is not reflected in the financial statements for the year ended 31 December 2017.

After 31 December 2017 financial year, the Group excercised its option to acquire the remainder of the 60% shares in Bergteamet Raiseboring Europe AB to increase its current shareholding to 100%. The purchase of the remainder of the shares amounted to SEK 69 825 000 (USD 8 532 621 - closing spot rate).

Due to the recent nature of the acquisition The initial accounting for the acquisition has not been finalised as it is impractical in the limited time frame to do so. Management is still in the process of determining all identifiable assets and liabilities, therefore, initial accounting for the business combination is incomplete and will be finalised during the next financial period.

Refer to note 34 for more information on the Group's Investment in Associate as at 31 December 2017.

SUPPLEMENTARY INFORMATION

ANALYSIS OF SHAREHOLDING

Size of holdings	Number of shareholders	% of total shareholders	Number of shares	% of shares in issue
1 – 1 000	832	47.1%	295 592	0.2%
1 001 – 10 000	716	40.6%	2 493 678	1.7%
10 001 – 100 000	130	7.4%	3 575 747	2.4%
100 001 – 1 000 000	70	4.0%	27 374 022	18.2%
1 000 000+	17	96.0%	116 853 738	77.6%
Total	**1 765**	**100.0%**	**150 592 777**	**100.0%**

Shareholder type				
Public shareholders	1 756	99.1%	63 015 267	40.9%
Non-public shareholders				
Directors' indirect holdings	6	0.6%	84 567 101	57.4%
Directors' direct holdings	3	0.3%	3 010 409	1.7%
Total	**1 765**	**100.0%**	**150 592 777**	**100.0%**

According to the share register of the Company the following fund managers other than directors are registered as holding in excess of 5% of the issued share capital of the Company:

	Number of shares	% of shares in issue
Kagiso Asset Management	18 117 370	12.0%
Abax Investments	10 430 863	6.9%
Coronation Fund Management	9 718 489	6.5%
Total	**38 266 722**	**25.4%**

According to the share register of the Company the following beneficial shareholders other than directors are registered as holding in excess of 5% of the issued share capital of the Company:

	Number of shares	% of shares in issue
Barrange (Pty) Ltd	43 691 650	29.0%
MDG Equity Holdings (Pty) Ltd	38 954 436	25.9%
Nedbank	7 662 822	5.1%
Total	**90 308 908**	**60.0%**

Stock exchange information as at 31 December

JSE share code: MDI

		2017	2016
Market price (ZAR cents)	– high	**1 835**	1 615
	– low	**1 260**	1 102
	– closing	**1 260**	1 500
Shares traded		**19 238 466**	20 710 864

CORPORATE INFORMATION

MASTER DRILLING GROUP LIMITED

Registration number: 2011/008265/06
Incorporated in the Republic of South Africa
JSE share code: MDI
ISIN: ZAE000171948

REGISTERED AND CORPORATE OFFICE

4 Bosman Street
PO Box 902
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South Africa

DIRECTORS

Executive

Daniël (Danie) Coenraad Pretorius	Chief executive officer and founder
André Jean van Deventer	Financial director and chief financial officer
Barend Jacobus (Koos) Jordaan	Executive director
Gareth (Gary) Robert Sheppard #	Chief operating officer

Non-executive

Hendrik (Hennie) Roux van der Merwe	Chairman and independent non-executive
Akhter Alli Deshmukh	Independent non-executive
Jacques Pierre de Wet	Independent non-executive
Johan Louis Botha	Independent non-executive
Shane Trevor Ferguson	Non-executive
Fred (Eddie) George Dixon	Alternate director

Resident in Peru

COMPANY SECRETARY

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INDEPENDENT AUDITOR

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South African member of Grant Thornton International Limited
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2196
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SHARE TRANSFER SECRETARIES

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Master Drilling posts information that is important to investors on the main page of its website at www.masterdrilling.com and under the "investors" tab on the main page. The information is updated regularly and investors should visit the website to obtain important information about Master Drilling.

NOTES

www.masterdrilling.com