MASTER DRILLING

2018

AUDITED CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

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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 auditor is 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 financial manager. 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 2019 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 auditor is 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 2018, have been audited by BDO South Africa Incorporated., the Group's independent external auditor, whose unqualified audit report can be found on pages 6 to 10 of this document.

DIRECTORS' RESPONSIBILITIES AND APPROVAL (CONTINUED)

The Group's annual financial statements set out on pages 3 to 78, which have been prepared on the going concern basis, were approved by the directors on 25 March 2019 and were signed on its behalf by:

Daniël Coenraad Pretorius
Director

Johannesburg
25 March 2019

André Jean van Deventer
Director

Johannesburg
25 March 2019

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 2018, 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
25 March 2019

AUDIT COMMITTEE REPORT
for the year ended 31 December 2018

This report is provided by the audit committee in respect of the 2018 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 whom three were independent at all times during the year. The members therefore comprise of AW Brink (Chairman), AA Deshmukh, ST Ferguson and OM Matloa. 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 2019.

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:
- noted the merger transaction of the Grant Thornton, Group's current auditor, with BDO South Africa Incorporated;
- nominated BDO South Africa Incorporated as the external auditor for the financial period ended 31 December 2019;
- 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 2018;
- 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;
- considered and reviewed any complex taxation areas that could have a material impact on the 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.

AUDIT COMMITTEE REPORT (CONTINUED)

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 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 risk management and governance the audit committee, amongst other matters:

- reviewed the Group's continued Enterprise Risk Management implementation initiatives, which form part of the process to establish a combined assurance framework across the business. This process-driven tool will enable visualisation, assessment, and management of key risks within the Group. Considerable progress has been made during the last quarter of 2018 and the audit committee is monitoring the progress of implementation on a quarterly basis; and
- reviewed the group's policies on risk assessment and risk management, including fraud risks and Information Technology risks as they pertain to financial reporting and the going-concern assessment, and found them to be sound.

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 2019.

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.
- considered the key audit matters as determined by BDO South Africa Incorporated and as described in the independent auditor's report.
- 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, the audit committee was 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 auditor has 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.

MEMBERSHIP AND ATTENDANCE AT MEETINGS

The audit committee's members attended the following meetings:

Members	8 March 2018	31 May 2018	16 August 2018	18 October 2018
Jacques Pierre de Wet *	✓	✓	n/a	n/a
Andries Willem Brink **	n/a	n/a	✓	✓
Johan Louis Botha *	✓	Apology	n/a	n/a
Akhter Ali Deshmukh	✓	✓	✓	✓
Share Trevor Ferguson	✓	✓	✓	✓
Octavia Matshidiso Matloa **	n/a	n/a	✓	✓

** = retired at the Annual General Meeting on 07 June 2018*

*** = appointed at the Annual General Meeting on 07 June 2018. SW Brink's appointment Is effective 01 July 2018*

INDEPENDENCE AND SUITABILITY OF THE EXTERNAL AUDITOR

The audit committee is satisfied that BDO South Africa Incorporated is independent and suitable for the Group after taking the following factors into account:

- representations made by BDO South Africa Incorporated 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 2018, 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 2018, 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

Andries Willem Brink
Chairman of the audit committee

Johannesburg
25 March 2019

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF

MASTER DRILLING GROUP LIMITED

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

OPINION

We have audited the consolidated financial statements of (the group) set out on pages 16 to 78, which comprise the consolidated statement of financial position as at , 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 , 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.

The following key audit matters relate to the consolidated financial statements.

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 value of USD121.9 million (2017: USD101 million). Management is required to assess useful lives and to consider indicators of impairment, relating to drilling machinery on an annual basis (refer accounting policy note 1.7). 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. The rod depreciation method applied from 2017 relies on management to physically measure each rod which could be subject to error due to the large quantity of rods which are kept at various locations worldwide. 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, the valuation and existence of plant and machinery is deemed a key audit matter.	Our audit procedures included the following: • We have assessed management's useful lives assessment and depreciation periods for consistency with expectations and prior periods. • We recalculated the depreciation charge for the year and performed analytical review procedures to compare the actual charge to expectations. • 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. • We furthermore reviewed control documentation relating to physical movement of drilling machinery between sites and countries. • Any drilling equipment that were not utilised during the period was considered for indicators of impairment. We also focused on the adequacy of the group's disclosures (refer note 3), that is required in terms of IAS 16 Property, Plant and Equipment.
Step acquisition of Bergteamet Raiseboring Europe AB During the year, the Group purchased the remaining 60% of the share capital in Bergteamet Europe in Sweden. This has been classified as an investment in a subsidiary and has been consolidated for a 9 month period into the Group's results as disclosed in note 23.3.1. of the financial statements. The purchase price which was settled through a cash consideration amounted to USD8.5 million.	Our audit procedures included the following: • We reviewed the shareholder agreement to ensure that the acquisition is accounted for at the correct effective date of acquisition. • We tested the provisional fair values assigned to the assets and liabilities acquired in the business combination. • We tested for completeness of the liabilities and contingent liabilities identified. • We inspected the consolidation entries for accuracy and reasonableness.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Due to the complexities of accounting for the step acquisition in terms of IFRS 3 Business Combinations, and the significance of the judgements and assumptions applied by management in the determination of the fair values of identifiable assets, liabilities acquired and contingent liabilities, this has been considered to be a key audit matter.	We also focused on the adequacy of the group's disclosures (refer note 23.3.1), that is required in terms of IFRS 3 Business Combinations.
Acquisition of Atlantis Group During the year, the group purchased the business of Atlantis Group which operates in South Africa, Zambia, India and Brazil. This has been classified as a business combination as the assets purchased and liabilities assumed constituted businesses in terms of IFRS 3 Business Combinations. The individual businesses has been absorbed into the exisiting Companies of the Group for a 4 month period as disclosed in note 23.3.2. The total purchase price of USD6.3 million was settled through a cash consideration. Due to the complexities of accounting for a business acquisition in terms of IFRS 3 Business Combinations, and the significance of the judgements and assumptions applied by management in determination of the fair values of identifiable assets, liabilities acquired and contingent liabilities, this has been considered to be a key audit matter.	Our audit procedures included the following: • We reviewed the acquisition agreement to ensure that the acquisition is accounted for at the correct effective date of acquisition. • We tested the provisional fair values assigned to the assets and liabilities acquired in the business combination. • We tested for completeness of the liabilities and contingent liabilities identified. • We inspected consolidation entries for accuracy and reasonableness. We also focused on the adequacy of the group's disclosures (refer note 23.3.2), that is required in terms of IFRS 3 Business Combinations.
Taxation As disclosed in note 20 to the consolidated financial statements, the group has a tax expense of USD4.0 million (2017: USD5.1 million). 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. 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 procedures included the following: • We recalculated management's estimates for taxation in significant tax jurisdictions. • We used taxation specialists to assess the rates of taxations in the various jurisdictions. • The specialist assisted with the assessment of the reasonableness of deferred taxation assets and liabilities. • 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. We also focused on the adequacy of the group's disclosures (refer note 20), that is required in terms of IAS 12 Income Taxes.

OTHER INFORMATION

The 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 responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the 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 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 to liquidate the group and / or the company 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 and the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the .

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

- Conclude on the appropriateness of the 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 and the company'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 and / or the company 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 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 BDO South Africa Inc.has been the auditor of for seven years.

BDO South Africa Inc

BDO South Africa Incorporated
Registered Auditors

J Barradas
Director
Registered Auditor

25 March 2019

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 going concern basis. 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 2018	%
Barrange (Pty) Ltd	29,0
MDG Equity Holdings (Pty) Ltd	25,9
Investec	6,0
Nedbank Ltd	5,3

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

As at 31 December 2018	%
Kagiso Asset Management	10,8
Abax Investments	6,5
Coronation Fund Management	5,7
Investec Asset Management	6,0

Share capital

Authorised

500 000 000 ordinary shares of no par value.

There was no movement in authorised or issued ordinary shares during the financial year.

Unissued ordinary shares

	Number of shares	
	2018	2017
At 1 January	**349 407 223**	**351 734 509**
Issued during the year	**–**	**2 327 286**
At 31 December	**349 407 223**	**349 407 223**

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 2018, are made up as follows:

	Total % holding of issued capital	Beneficial Direct 2018	Indirect 2018	Beneficial Direct 2017	Indirect 2017
Director					
DC Pretorius	52,5	**500 900**	**78 636 565**	500 900	78 630 565
AJ van Deventer	1,8	**727 648**	**1 944 136**	727 648	1 752 316
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 Directors	58,3	**3 010 409**	**84 764 921**	3 010 409	84 567 101

Rounding of % may result in computational discrepancies.

At 31 December 2018, the directors of the Company held direct and indirect interests in 58,3% (2017: 58,3%) 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.

DIVIDENDS

Dividend declared

The Board approved a dividend on 25 March 2019 of ZAR26,0 cents per share payable to shareholders recorded in the Company's share register on 17 May 2019.

Dividend

Since listing in 2012, the Company has achieved compound annual growth 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 25 March 2019 payable to shareholders recorded in the company's share register on 17 May 2019.

The dividend is payable from distributable reserves and if subject to dividend withholding tax of 20%, a net dividend of ZAR20,8 cents per share to shareholders will be payable subject to such dividend withholding tax. This dividend represents a 5.5 times earnings cover.

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 provided:

Last date to trade cum dividend:	Tuesday 14 May 2019
Trading *ex* dividend commences:	Wednesday 15 May 2019
Record date:	Friday 17 May 2019
Payment date:	Monday 20 May 2019

Shares may not be dematerialised or re-materialised between Wednesday, 15 May and Friday 17 May 2019, 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.

The Company complies with the requirements of the Companies Act in terms of satisfying the solvency and liquidity test with the declaration of this dividend.

BORROWING POWERS

The borrowing powers of the directors of the Company and its subsidiaries have not been exceeded 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.

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. The Group however acquired two business combinations during the current financial year. Refer to note 23.3 for more details.

CHANGES TO THE BOARD

The following changes to the Board and the dates thereof are detailed in the table below:

Name	Position	Change	Date
Jacques Pierre de Wet	Non-executive director	Retired	07 June 2018
Johan Louis Botha	Non-executive director	Retired	07 June 2018
Andries Willem Brink	Non-executive director	Appointment	07 June 2018 #
Octavia Matshidiso Matloa	Non-executive director	Appointment	07 June 2018

Effective 1 July 2018

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 BDO South Africa Incorporated, Wanderers Office Park, 52 Corlett Drive, Johannesburg, on Thursday, 6 June 2019 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 25 March 2019 of ZAR26,0 cents per share payable to shareholders recorded in the Company's share register on 17 May 2019. The dividend declared is not reflected in the financial statements for the year ended 31 December 2018.

MATERIAL RESOLUTIONS

No material special shareholders resolutions were passed during the year under review, except those passed at the annual general meeting held on 7 June 2018. Copies of all material shareholders resolutions taken by the subsidiaries during the year under review may be obtained from the office of the Company Secretary.

OPERATING SEGMENTS

There were no changes made to the reporting segments during the current financial year. See note 27 for more details.

On behalf of the Board

Hendrik Roux van der Merwe
Chairman

Johannesburg
25 March 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note(s)	2018 USD	2017 USD
Assets			
Non-current assets			
Property, plant and equipment	3	**146 215 603**	119 075 667
Goodwill	4	**3 175 092**	3 083 427
Financial assets	5	**2 734 277**	3 098 512
Deferred tax asset	6	**2 994 311**	2 010 263
Investment in associate	34	**2 605 117**	6 022 115
		157 724 400	133 289 984
Current assets			
Inventories	7	**25 787 869**	23 894 609
Related-party loans	24	**101 831**	102 641
Trade and other receivables	8	**48 179 847**	38 191 737
Derivative financial instrument	36	**53 958**	–
Cash and cash equivalents	9	**33 725 131**	40 211 629
		107 848 636	102 400 616
Non-current assets held for sale	35	**808 928**	1 255 128
		108 657 564	103 655 744
Total assets		**266 381 964**	236 945 728
Equity and liabilities			
Equity			
Share capital	10	**148 703 721**	148 703 721
Reserves		**(95 498 376)**	(83 855 527)
Retained income		**101 837 302**	88 221 320
		155 042 647	153 069 514
Non-controlling interest		**9 002 330**	8 255 315
		164 044 977	161 324 829
Liabilities			
Non-current liabilities			
Interest bearing borrowings	12	**50 458 654**	36 263 625
Finance lease obligations	13	**1 203 072**	1 682 765
Deferred tax liability	6	**9 434 322**	9 189 125
		61 096 048	47 135 515
Current liabilities			
Interest bearing borrowings	12	**7 306 843**	4 659 387
Finance lease obligations	13	**1 273 282**	1 444 820
Related party loans	24	**174 720**	195 483
Current tax payable		**3 385 537**	2 098 947
Trade and other payables	14	**28 690 020**	20 086 747
Cash and cash equivalents	9	**410 537**	–
		41 240 939	28 485 384
Total liabilities		**102 336 987**	75 620 899
Total equity and liabilities		**266 381 964**	236 945 728

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note(s)	2018 USD	2017 USD
Revenue	16	**138 721 765**	121 424 109
Cost of sales		**(95 155 229)**	(76 794 271)
Gross profit		**43 566 536**	44 629 838
Other operating income		**5 909 368**	3 674 987
Other operating expenses		**(25 827 367)**	(23 378 396)
Operating profit	17	**23 648 537**	24 926 429
Investment revenue	18	**736 169**	510 325
Finance costs	19	**(2 858 491)**	(2 850 878)
Share of loss from equity accounted investment	34	**(26 948)**	(1 710)
Profit before taxation		**21 499 267**	22 584 166
Taxation	20	**(4 027 469)**	(5 134 100)
Profit for the year		**17 471 798**	17 450 066
Other comprehensive income that will subsequently be classifiable to profit and loss:			
Exchange differences on translating foreign operations		**(11 979 325)**	7 403 109
Other comprehensive income for the year net of taxation		**(11 979 325)**	7 403 109
Total comprehensive income		**5 492 473**	24 853 175
Profit attributable to:		**17 471 798**	17 450 066
Owners of the parent		**16 774 334**	17 202 923
Non-controlling interest		**697 464**	247 143
Total comprehensive income attributable to:		**5 492 473**	24 853 175
Owners of the parent		**4 795 009**	24 606 032
Non-controlling interest		**697 464**	247 143
Earnings per share (USD)	22		
Basic earnings per share (cents)		**11.1**	11.5
Diluted earnings per share (USD)	22		
Diluted basic earnings per share (cents)		**11.0**	11.4
Earnings per share (ZAR)			
Basic earnings per share (cents)		**147,1**	153,1
Diluted earnings per share (ZAR)			
Diluted basic earnings per share (cents)		**145,7**	151,7

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 2016	146 607 965	(58 264 013)	(33 374 059)
Share-based payments	–	–	–
Issue of ordinary shares	1 556 518	–	–
Issue of ordinary shares for share-based payment reserve	539 238	–	–
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)**
Adjustment from the adoption of IFRS 9	–	–	–
Contribution for non-controlling partner	–	–	–
Share-based payments	–	–	–
Dividends declared by subsidiaries	–	–	–
Dividends to shareholders	–	–	–
Total comprehensive income for the year	–	–	(11 979 325)
Total changes	–	–	(11 979 325)
Balance as at 31 December 2018	**148 703 721**	**(58 264 013)**	**(37 950 275)**
Note(s)	10	11	

Share-based payments reserve	Total reserves	Retained income	Attributable to owners of the parent	Non-controlling interest	Total Shareholders' equity
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
–	–	–	1 556 518	–	1 556 518
(539 238)	(539 238)	–	–	–	–
–	–	–	–	(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**
–	**–**	**(80 221)**	**(80 221)**	**–**	**(80 221)**
–	**–**	**–**	**–**	**185 145**	**185 145**
336 476	**336 476**	**–**	**336 476**	**–**	**336 476**
–	**–**	**–**	**–**	**(135 594)**	**(135 594)**
–	**–**	**(3 078 131)**	**(3 078 131)**	**–**	**(3 078 131)**
–	**(11 979 325)**	**16 774 334**	**4 795 009**	**697 464**	**5 492 473**
336 476	**(11 642 849)**	**13 615 982**	**1 973 133**	**747 015**	**2 720 148**
715 912	**(95 498 376)**	**101 837 302**	**155 042 647**	**9 002 330**	**164 044 977**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note(s)	2018 USD	2017 USD
Cash flows from operating activities			
Cash generated from operations	23.1	**25 801 932**	32 843 989
Dividends received		**444 540**	321 583
Interest received		**291 629**	188 742
Finance costs		**(2 858 491)**	(2 850 878)
Tax paid	23.2	**(4 854 787)**	(5 497 412)
Net cash inflow from operating activities		**18 824 823**	25 006 024
Cash flows from investing activities			
Purchase of property, plant and equipment		**(16 920 012)**	(15 833 126)
Sale of property, plant and equipment		**1 595 764**	170 560
Financial assets proceeds		**362 937**	398 460
Acquisition of associate	34	**(2 605 117)**	–
Acquisition of subsidiaries	23.3	**(14 689 135)**	–
Net cash outflow from investing activities		**(32 255 563)**	(15 264 106)
Cash flows from financing activities			
Proceeds from financial liabilities	12.2	**20 000 000**	20 000 000
Repayment of financial liabilities	12.2	**(6 604 694)**	(6 574 430)
Proceeds from financial leases	12.2	**597 942**	554 741
Repayment of financial leases	12.2	**(1 249 171)**	(2 382 326)
Related party loan (repayment)/proceeds		**(19 953)**	2 706
Issue of share capital		**–**	1 556 518
Dividends paid to shareholders		**(3 078 131)**	(3 409 081)
Dividends paid to BEE partners		**(135 594)**	(306 140)
Net cash inflow from financing activities		**9 510 399**	9 441 988
Total cash (outflow)/inflow for the period		**(3 920 341)**	19 183 906
Cash at the beginning of the period		**40 211 629**	20 372 573
Effect of exchange rate movement on cash balances		**(2 976 694)**	655 150
Total cash at end of the period		**33 314 594**	40 211 629

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 IFRS that are mandatory and effective for the annual financial year ending 31 December 2018 as indicated below:

IFRS 9 *Financial Instruments ("IFRS 9"); and*
IFRS 15 *Revenue from Contracts with Customers ("IFRS 15")*

Management has reviewed the above-mentioned mandatory standards and has applied these, where applicable, in the consolidated annual financial statements for the financial year ending 31 December 2018. Refer to note 1.9 and 26 for more details on IFRS 9 and note 1.18 for details on IFRS 15.

1.1 Functional and presentation currency

Items included in the consolidated annual 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

The Group applies the IFRS 9 simplified model of recognising lifetime expected credit losses for all trade receivables as these items do not have a significant financing component.

In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared industry credit risk characteristics. Credit losses are measured in accordance with industry related values as reported by Moody's Investor Services.

Trade receivables are written off (ie derecognised) when there is no reasonable expectation of recovery. Failure to make payments within contractual agreement from the invoice date and failure to engage with the Group on alternative payment arrangement amongst others is considered indicators of no reasonable expectation of recovery.

(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.

(e) Business combinations

Management uses knowledge and experience of the industry it operates within to determine the fair value of all identifiable assets and liabilities acquired via business combinations to determine goodwill.

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 indefinite useful life as the Group's plan and ability is to renew and maintain the patent indefinitely. It is expected that the patent will generate revenue for the Group for an unlimited period of time. Patents are carried at cost less accumulated impairment losses. Patents are assessed annually for possible impairment.

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.

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

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.

When adopting IFRS 9, the Group has applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of IFRS 9 in relation to classification, measurement and impairment are recognised in retained earnings.

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. The Group applies the new hedge accounting requirements prospectively and all hedges qualify for being regarded as continuing hedging relationships.

(a) Classification

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

- amortised cost; and
- fair value through profit and loss.

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.

Classification is determined by:

- the entity's business model for managing financial instrument; and
- the contractual cashflow characteristics.

(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 based on the business model and cashflow characteristics.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

All derivative financial instruments used for hedge accounting are recognised initially at fair value.

(c) Subsequent measurement

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

Financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at fair value through profit and loss ("FVTPL") such as equity investments.

The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

All derivative financial instruments are subsequently measured at FVTPL.

(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.

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and fair value through other comprehensive income ("FVOCI"), trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Impairment losses are recognised in profit or loss.

Recognition of credit losses is no longer dependent on the Group first identifying a credit loss. The Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

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 financial assets carried 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 financial assets carried under amortised cost.

(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 financial assets carried under amortised cost.

(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 financial assets carried at amortised cost.

(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.

(k) Derivative financial instruments

The Group uses forward foreign exchange contracts to mitigate exchange rate exposure arising from dividends payable to shareholders in South African Rand ("ZAR"). All forward foreign exchange contracts have been designated as hedging instruments carried at fair value through profit and loss.

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.

1.13 Inventories

Inventories are measured at the lower of cost and net realisable value. Provision for obsolete stock is made on the basis of stock becoming redundant and no future economic benefits is expected to flow to the Group.

The cost of inventories is 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.

ACCOUNTING POLICIES (CONTINUED)

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

IFRS 15 'Revenue from Contracts with Customers' and the related 'Clarifications to IFRS 15 Revenue from Contracts with Customers' (hereinafter referred to as 'IFRS 15') replace IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations.

The Group revenue consists of contract revenue. Many of the Group's contracts comprise a variety of performance obligations including, but not limited to, mobilisation, piloting, reaming and demobilisation. Revenue recognized from contracts are in terms of nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors

To determine whether to recognise revenue, the Group follows a 5-step process:

(a) identifying the contract with a customer
(b) identifying the performance obligation
(c) determining the transaction price
(d) allocating the transaction price to the performance obligation
(e) recognising revenue when/as performance obligations are satisfied

Contract revenue comprises:

(a) the initial amount of revenue agreed in the contract;
(b) variations in contract work, claims and incentive payments;

The Group's revenue is recognized:

(c) to the extent that it is probable that the performance obligations are satisfied, the customer obtains control of the service and will result in revenue; and
(d) that it is capable of being reliably measured.

While IFRS 15 represents significant new guidance, management's assessment indicated that the contract’s performance obligations and related contract costs 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.

Interest is recognised, in profit or loss, using the effective interest rate method. Interest is disclosed as investment income in the statement of profit and loss and other comprehensive income.

Dividends are recognised, in profit or loss, when the Group’s right to receive payment has been established. Dividends received is disclosed as investment income in the statement of profit and loss and other comprehensive income.

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

In the prior year, the group’s revenue policy was as follow:

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:

(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.

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.

ACCOUNTING POLICIES (CONTINUED)

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 16 Leases

IFRS 16 will replace IAS 17 'Leases' and three related Interpretations. It completes the IASB's longrunning 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. There are two important reliefs provided by IFRS 16 for assets of low value and short-term leases of less than 12 months.

IFRS 16 is effective from periods beginning on or after 1 January 2019. Early adoption is permitted, however, the Group have decided not to early adopt.

Management's initial calculations indicate that the adoption of IFRS 16 will have an impact of USD6 625 849 on both Right of Use Asset and Right of Use Liability.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

3. PROPERTY, PLANT AND EQUIPMENT

2018 **USD**	**Cost**	**Accumulated depreciation and impairment losses**	**Carrying value**
Land and buildings	**4 249 534**	**(1 041 678)**	**3 207 856**
Plant and machinery	**171 927 007**	**(50 028 352)**	**121 898 655**
Assets under construction	**10 590 920**	**(2 396)**	**10 588 524**
Furniture and fittings	**1 437 999**	**(711 798)**	**726 201**
Motor vehicles	**4 194 501**	**(2 519 707)**	**1 674 794**
IT equipment	**716 754**	**(448 086)**	**268 668**
Finance lease: Plant and equipment	**7 876 916**	**(1 197 278)**	**6 679 638**
Computer software	**2 398 727**	**(1 467 061)**	**931 666**
Patents	**239 601**	**–**	**239 601**
Total	**203 631 959**	**(57 416 356)**	**146 215 603**

2017 USD	Cost	Accumulated depreciation and impairment losses	Carrying value
Land and buildings	4 267 124	(124 152)	4 142 972
Plant and machinery	142 393 202	(41 269 532)	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	168 937 513	(49 861 846)	119 075 667

Borrowing cost

Included in the cost of property, plant and equipment are capitalised borrowing cost related to the acquisition of land to the amount of 2018: USD491 544 (2017: USD64 625) calculated at a capitalisation rate of 5,9%.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

3. PROPERTY, PLANT AND EQUIPMENT continued

3.1 Reconciliation of property, plant and equipment

2018 USD	Opening balance	Additions	Exchange difference on consolidation of foreign subsidiaries
Land and buildings	**4 142 972**	**168 124**	**(241 592)**
Plant and machinery	**101 123 670**	**9 180 218**	**(6 015 418)**
Assets under construction	**389 771**	**7 134 385**	**(24 816)**
Furniture and fittings	**1 079 022**	**17 415**	**11 068**
Motor vehicles	**1 735 261**	**224 011**	**(52 188)**
IT equipment	**299 250**	**121 591**	**(15 393)**
Finance lease: Plant and equipment	**8 853 320**	**38 267**	**(1 040 338)**
Computer software	**1 212 800**	**36 001**	**(69 954)**
Patents	**239 601**	**–**	**–**
	119 075 667	**16 920 012**	**(7 448 631)**

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

Security

Moveable assets to the value of ZAR1,2 billion (USD96.9 million at closing spot rate) of the South African subsidiaries have been bonded to ABSA Capital as security for an interest bearing loan.

Impairment

The Exploration department in our African segment recognised an impairment loss of USD nil (2017: USD185 678).

Assets acquired through business combination	Reclassifications and transfers (to)/from inventory/assets held for sale	Disposals	Depreciation	Impairment of fixed assets	Total
–	(808 928)	–	(52 720)	–	3 207 856
22 035 018	695 473	(38 301)	(5 082 005)	–	121 898 655
–	3 089 184	–	–	–	10 588 524
587	(3 866)	(1 267)	(376 758)	–	726 201
12 519	351 736	(119 366)	(477 178)	–	1 674 795
–	–	(55 097)	(81 683)	–	268 668
2 667 952	(2 532 740)	(432 576)	(874 248)	–	6 679 637
13 870	–	(75)	(260 976)	–	931 666
–	–	–	–	–	239 601
24 729 946	**790 859**	**(646 682)**	**(7 205 568)**	**–**	**146 215 603**

Assets acquired through business combination	Reclassifications and transfers (to)/from inventory/assets held for sale	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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

4. GOODWILL

	2018 USD	2017 USD
Goodwill recognised from value chain business combinations	**2 612 584**	2 612 584
Goodwill recognised from raisebore business combinations	**562 508**	470 843
Goodwill recognised from business combinations	**3 175 092**	3 083 427

The change in goodwill from the previous financial year arose from the acquisition of Bergteamet Raiseboring Europe AB and Atlantis Group. Refer to note 23.3 for more details.

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 USD4 992 887 (2017: USD1 655 466). The recoverable amount of the raise bore cash-generating unit exceeds the carrying value by USD679 011 (2017: USD103 838)

	Growth rate 2018	Discount rate 2018	Growth rate 2017	Discount rate 2017
Cash-generating unit	**2,5% – 8,0%**	**10,0% – 12,0%**	2,5% – 8,0%	10,0% – 12,0%

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**	
2018 **USD**				
Opening balance	**3 006 469**	**–**	**92 043**	**3 098 512**
Exchange rate differences on translation	**(417 632)**	**–**	**(12 786)**	**(430 418)**
Preference dividends receivable capitalised	**208 373**	**–**	**12 136**	**220 509**
Preference dividend received	**(154 326)**	**–**	**–**	**(154 326)**
Closing balance	**2 642 884**	**–**	**91 393**	**2 734 277**

(*) Previously known as Master Drilling South Africa (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 dividends received	(107 222)	(133 640)	–	(240 862)
Closing balance	3 006 469	–	92 043	3 098 512

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 historically disadvantaged individuals.

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

	2018 USD	2017 USD
Property, plant and equipment	**8 272 266**	9 719 545
Pre-payments	**(103 111)**	(17 044)
Allowance for expected credit losses / doubtful debt	**(76 638)**	(169 600)
Income in advance	**(78 104)**	–
Finance leases	**1 023 987**	22 413
Accrual for leave pay	**(204 778)**	(147 646)
Assessed loss	**(2 531 680)**	(1 973 320)
Unrealised foreign exchange profit/loss	**138 069**	(255 486)
Net deferred tax liability	**6 440 011**	7 178 862
Deferred tax liability	**9 434 322**	9 189 125
Deferred tax asset	**2 994 311**	2 010 263
	6 440 011	7 178 862
Reconciliation of deferred tax liability		
Reported as at 1 January	**7 178 862**	7 532 197
Exchange differences on translation of foreign operations	**(894 712)**	553 395
Change in tax rate	**42 047**	(52 793)
Property, plant and equipment	**200 873**	1 655 192
Pre-payments	**(86 072)**	–
Income in advance	**(73 339)**	–
Allowance for expected credit losses / doubtful debt	**76 658**	(171 444)
Finance leases	**1 079 201**	(1 949 596)
Provisions	**(82 603)**	217 069
Assessed loss	**(869 546)**	(605 158)
Unrealised foreign exchange profit/loss	**(131 358)**	–
	6 440 011	7 178 862

7. INVENTORIES

	2018 USD	2017 USD
Consumables	**14 859 686**	12 402 082
Cutters	**10 157 565**	10 076 553
Work in progress	**964 728**	1 764 832
	25 981 979	24 243 467
Allowance for obsolete inventory	**(194 110)**	(348 858)
	25 787 869	23 894 609

8. TRADE AND OTHER RECEIVABLES

	2018 USD	2017 USD
Trade receivables - Normal	**32 511 631**	27 333 869
Trade receivables - Retention	**5 449 738**	5 021 356
Loans to employees	**119 777**	40 636
Pre-payments	**693 501**	1 054 572
Deposits	**827 369**	82 219
Indirect taxes	**3 304 990**	1 691 851
Sundry	**5 272 841**	2 967 234
	48 179 847	38 191 737
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	**18 590 455**	18 330 132
1 month past due	**9 269 296**	6 029 069
2 months past due	**3 978 446**	3 084 459
3 months and over past due	**7 249 989**	5 413 060
Allowance for doubtful debts	**(1 126 817)**	(501 495)
Normal and retention trade receivables	**37 961 369**	32 355 225
Trade receivables of South African subsidiaries have been ceded to ABSA Capital as security for an interest bearing loan. Retention receivables are collectable within a period of 12 months.		
The movement in allowance for doubtful debts is presented below		
Balance 1 January	**501 495**	136 119
Adjustment from the adoption of IFRS 9	**80 221**	–
Exchange differences on translation of foreign operations	**(57 625)**	6 698
Amounts written off	**–**	–
Allowance for credit losses provided for	**602 726**	358 678
	1 126 817	501 495
The carrying amount in USD of trade and other receivables are denominated in the following currencies:		
United States Dollar (USD)	**20 419 586**	18 223 187
South African Rands (ZAR)	**8 703 918**	6 162 910
Brazilian Reals (BRL)	**3 091 482**	2 943 824
Mexican Peso (MXN)	**91 500**	594 427
Chilean Peso (CLP)	**7 705 700**	7 558 388
Peruvian Nuevo Sol (PEN)	**975 082**	630 645
CFA Franc BCEAO (XOF)	**3 339**	712 913
Chinese Yuan Renminbi (CNY)	**224 476**	339 833
Guatemalan Quetzal (GTQ)	**6 906**	3 175
Zambian Kwacha (ZMW)	**1 063 825**	351 527
Colombian Peso (COP)	**102 019**	594 787
Euro (EUR)	**512 078**	–
Swedish Krona (SEK)	**1 070 442**	–
Australian Dollar (AUD)	**41 828**	32 448
Canadian Dollar (CAD)	**289 801**	–
Indian Rupee (INR)	**3 877 865**	43 673
	48 179 847	38 191 737

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

9. CASH AND CASH EQUIVALENTS

	2018 USD	2017 USD
Cash on hand	**267 467**	50 902
Bank balances	**31 884 080**	37 288 050
Short-term deposits	**1 573 584**	2 872 677
Bank overdraft	**(410 537)**	–
	33 314 594	40 211 629
Current assets	**33 725 131**	40 211 629
Current liabilities	**410 537**	–

ICICI Bank holds a bank guarantee to the value of INR 19 066 500 as cover for potential unpaid invoices

10. SHARE CAPITAL

Authorised	**2018 Number of shares**		2017 Number of shares	
Ordinary shares	**500 000 000**		500 000 000	–

Reconciliation of number of shares issued:	**2018 Number of shares**	**Value USD**	2017 Number of shares	Value USD
Balance at the beginning of the period	**150 592 777**	**148 703 721**	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**	150 592 777	148 703 721

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

	2018 USD	2017 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

		2018 USD	2017 USD
12.1	**Held at amortised cost**		
	Secured		
	ABSA Capital, a division of ABSA Bank Limited	**55 477 719**	40 923 012
	A portion of the initial loan, USD3 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, USD17 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 7 remain.		
	An additional loan to the value of USD40 000 000 was approved during the 2017 financial year with advances to the amount of USD20 000 000 per year taking place in 2017 and 2018 respectively. The USD denominated portion of the loan, USD30 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 instalments since September 2017.		
	Swedbank	**2 287 778**	–
	The loan is denominated in Swedish Krona, secured by owned plant and machinery which is pledged as collateral. The loan bears interest at a 2.45% 3-month fixing period rate.		
	The loan is repayable in equal quarterly installments of which the final will be payable in 2022		
	Total interest-bearing borrowings	**57 765 497**	40 923 012
	Non-current liabilities		
	At amortised cost	**50 458 654**	36 263 625
	Current liabilities		
	At amortised cost	**7 306 843**	4 659 387
		57 765 497	40 923 012

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

12. INTEREST-BEARING BORROWINGS continued

12.2 Changes in liabilities arising from financing activities

	2018 USD	2018 USD	2018 USD
	Financial Liabilities	**Finance Leases**	**Total**
Opening balance	**40 923 012**	**3 127 585**	**44 050 597**
Foreign exchange movement	**(3 123 461)**	**(404 259)**	**(3 527 720)**
Acquisition	**3 447 179**	**–**	**3 447 179**
Cash flows – drawdown	**20 000 000**	**597 942**	**20 597 942**
Cash flows – repayments	**(3 481 233)**	**(844 914)**	**(4 326 147)**
Closing balance	**57 765 497**	**2 476 354**	**60 241 851**

	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

		2018 USD	2017 USD
13.1	**Finance lease obligations: Plant and machinery**		
	Minimum lease payment due		
	– within one year	**1 363 884**	1 633 806
	– in second to fifth year	**1 307 659**	1 885 147
		2 671 543	3 518 953
	Less: Future finance charges	**(195 189)**	(391 368)
	Present value of minimum lease payment	**2 476 354**	3 127 585
	– within one year	**1 273 282**	1 444 820
	– in second to fifth year	**1 203 072**	1 682 765
	Present value of minimum lease payments	**2 476 354**	3 127 585
	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.		
13.2	**Operating lease obligations**		
	Office space		
	– within one year	**442 733**	103 332
	– two and more years	**3 688 394**	348 706
		4 131 127	452 038
	Workspace		
	– within one year	**513 047**	104 456
	– two and more years	**1 097 417**	352 500
		1 610 464	456 956

New 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 between 1.75% and 5.27% across the Group is applicable.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

14. TRADE AND OTHER PAYABLES

	2018 USD	2017 USD
Trade payables	**7 423 846**	7 956 216
Income received in advance	**822 402**	–
Indirect taxes	**3 914 138**	6 654 506
Leave pay accruals	**1 983 405**	2 070 242
Onerous contracts	**1 714 836**	–
Business combination consideration payable	**1 420 684**	–
Investment in associate consideration payable	**897 837**	–
Employee related	**2 971 288**	–
Other accruals	**7 541 584**	3 405 783
	28 690 020	20 086 747

15. CAPITAL COMMITMENTS

	2018 USD	2017 USD
Capital expenditure authorised by the directors and contracted for within 12 months. Capital expenditure will be funded through cash generated from operations.	**1 189 801**	**4 579 527**

16. REVENUE

	2018 USD	2017 USD
Rendering of services	**138 721 765**	121 424 109

Refer to note 27 – Segment Reporting for disaggregation of revenue

17. OPERATING PROFIT

	2018 USD	2017 USD
Operating profit for the year is stated after accounting for the following:		
Gain/(Loss) on sale of property, plant and equipment	**949 084**	(67 183)
Impairment	**–**	(774 936)
Profit on exchange differences	**2 034 582**	179 336
Depreciation on property, plant and equipment	**(7 205 569)**	(6 056 352)
Employee costs	**(54 144 470)**	(50 966 319)
Operating lease expense	**(955 623)**	(198 191)
Auditors' remuneration	**(226 686)**	(255 804)

Research and development

Blind Shaft Boring System (BSBS) was 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 industry significantly.

The Group expensed USD 0.6 million of research and development costs in the consolidated annual financial statement for the year ended 31 December 2018 (2017: USD 1.3 million).

18. INVESTMENT REVENUE

	2018 USD	2017 USD
Total dividends received		
Unlisted preference dividends	**444 540**	321 583
Total interest received		
Bank	**230 299**	60 702
Other	**61 330**	128 040
	736 169	510 325

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

19. FINANCE COST

		2017 USD
Financial liabilities	**2 425 862**	2 174 192
Finance leases	**200 904**	283 732
Bank	**154 984**	301 853
Other	**76 741**	91 101
	2 858 491	2 850 878

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

20. TAXATION

	2018 USD	2017 USD
Current		
Normal taxation	**5 524 399**	6 040 830
Current taxation	**6 994 758**	5 231 760
(Over)/Under provision	**(1 470 359)**	809 070
Deferred taxation: Temporary differences	**(1 496 930)**	(906 730)
	4 027 469	5 134 100
Reconciliation of the tax expense		
Accounting profit	**21 499 267**	22 584 166
Tax at the applicable tax rate	**6 789 872**	5 502 316
(Over)/Under provision	**(1 470 359)**	809 070
Exempt income	**(3 439 294)**	(4 371 627)
Non-deductible expenses	**2 081 109**	2 724 372
Deferred taxation: Change in tax rate	**158 810**	78 771
Assessed loss not recognised	**420 765**	741 163
Assessed loss previously not recognised	**(513 434)**	(349 965)
Taxation per statement of profit or loss and other comprehensive income	**4 027 469**	5 134 100

The total unrecognised assessed loss at 31 December 2018 is USD3 265 658 (2017: USD2 544 768).

20. TAXATION continued

	2018 USD	2017 USD
Normal taxation charge/(refund) per entity within the Group		
DCP Properties	–	15 129
Master Drilling Exploration (Pty) Ltd	1 055 555	409 833
Master Drilling Chile SA	146 827	275 577
Master Drilling Peru SAC	701 891	1 394 792
Master Drilling do Brasil Ltda	491 941	479 007
Master Drilling Mexico SA	174 013	–
Master Drilling Malta Limited	2 648 814	1 554 235
Master Drilling Guatemala SA	3 492	–
Master Drilling Training Services (Pty) Ltd	1 875	–
Master Drilling DRC sprl	–	389 921
Master Drilling Colombia SAS	76 273	80 900
Master Drilling Zambia Limited	(208 044)	1 232 820
Master Drilling International Ltd	(741 531)	2 988
Master Drilling Mali SARL	45 464	163 884
Master Drilling Changzhou Co Ltd	64 934	–
Bergteamet Latin America SpA	347 153	–
Bergteamet Raiseboring Europe AB	221 945	–
Master Drilling Madencilik Ve Ticaret Limited Sirketi	65 212	–
Master Drilling India	299 173	–
Drilling Admin Services SAC	94 831	–
Drilling Technical Services	243 117	2 567
Martwick Ltd	(18)	18
Master Drilling (Pty) Ltd	(169 360)	–
MD Drilling Services Tanzania SARL	(39 158)	39 159
	5 524 399	6 040 830

The effect of the change in tax rate amounted to USD158 810 due toPeru's tax rate changed from 28,00% to 29,50%.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

21. DIRECTORS' REMUNERATION

2018 USD	Basic salary	Travel allowance	Bonus
Executive directors			
Danie Pretorius	399 919	–	188 007
Andre van Deventer	291 887	–	133 529
Gary Sheppard	373 520	–	–
Koos Jordaan	298 462	–	–
Sub-total	1 363 788	–	321 536
Non-executive directors			
Hennie vd Merwe	–	–	–
Johan Botha	–	–	–
Shane Ferguson	–	–	–
Octavia Matloa	–	–	–
Andries Brink	–	–	–
Jacques de Wet	–	–	–
Akhter Deshmukh	–	–	–
Sub-total	–	–	–
Alternate director			
Eddie Dixon	177 880	–	58 920
Sub-total	177 880	–	58 920
Prescribed Officer			
Roelof Swanepoel	207 220	–	56 605
Sub-total	207 220	–	56 605
Total	1 748 888	–	437 061

A prescribed officer is defined as having general executive control over and management of a significant portion of the

Fringe benefits	Provident/ Pension fund contributions	Director's fees	Consulting and legal fees	Gains on exercise of options	Total
19 239	–	–	–	–	607 165
12 932	–	–	–	–	438 348
14 422	–	–	–	–	387 942
13 623	–	–	–	–	312 085
60 216	–	–	–	–	1 745 540
–	–	63 239	–	–	63 239
–	–	–	–	–	–
–	–	30 220	95 316	–	125 536
–	–	17 602	–	–	17 602
–	–	17 579	–	–	17 579
–	–	–	–	–	–
–	–	40 642	–	–	40 642
–	–	169 362	95 316	–	264 598
28 368	–	–	–	–	265 168
28 368	–	–	–	–	265 168
1 580	–	–	–	–	271 944
1 580	–	–	–	–	271 944
90 164	–	169 362	95 316	–	2 547 250

Group or regularly participates therein to a material degree, and is not a director of the Group.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

21. DIRECTORS' REMUNERATION continued

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

Fringe benefits	Provident/ Pension fund contributions	Directors' 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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

21. DIRECTORS' REMUNERATION continued

21.1 Directors' interest

2018	Number of shares: Direct beneficial	Number of shares: Indirect beneficial	Total	Percentage of issued ordinary share capital
Executive directors				
Danie Pretorius	**500 900**	**78 636 565**	**79 137 465**	**52.55%**
Andre van Deventer	**727 648**	**1 944 136**	**2 671 784**	**1.77%**
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**	**84 764 921**	**87 775 330**	**58.29%**

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%

22. EARNINGS PER SHARE

	2018 USD	2017 USD
Reconciliation between earnings and headline earnings		
Basic earnings for the year	**17 471 798**	17 450 066
Deduct:		
Non-controlling interest	**(697 464)**	(247 143)
Attributable to owners of the parent	**16 774 334**	17 202 923
(Gain)/Loss on disposal of fixed assets	**(949 084)**	67 183
Impairment of plant and equipment	**–**	185 678
Tax effect on (gain)/loss on disposal of fixed assets and impairments	**296 687**	(70 801)
Headline earnings for the year	**16 121 937**	17 384 983
Earnings per share (cents)	**11.1**	11.5
Diluted earnings per share (cents)	**11.0**	11.4
Headline earnings per share (cents)	**10.7**	11.6
Diluted headline earnings per share (cents)	**10.6**	11.5
Net asset value per share (cents)	**109.0**	107.6
Tangible net asset value per share (cents)	**106.9**	105.6
Dividends per share (cents)	**26.0**	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	**150 592 777**	149 894 366
Effect of dilutive potential ordinary shares – employee share options	**1 530 000**	1 603 877
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	**152 122 777**	151 498 243

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

23. CASH GENERATED FROM OPERATIONS

23.1 Cash generated from operations

	2018 USD	2017 USD
Profit before taxation	**21 499 267**	22 584 166
Adjustments for:		
Depreciation and amortisation	**7 205 568**	6 056 352
Impairment	**–**	845 891
Share of loss from equity accounted investment	**26 948**	1 710
Translation effect of foreign operations	**(519 249)**	2 203 374
Share-based payment – equity settled	**336 476**	290 858
(Gain)/Loss on disposal of fixed assets	**(949 084)**	67 183
Dividends received	**(444 540)**	(321 583)
Interest received	**(291 629)**	(188 742)
Finance costs	**2 858 491**	2 850 878
Changes in working capital:		
Inventories	**1 715 417**	542 655
Trade and other receivables	**(6 754 239)**	822 927
Trade and other payables	**1 118 506**	(2 911 680)
	25 801 932	32 843 989

23.2 Tax paid

	2018 USD	2017 USD
Reported as at 1 January	**2 098 947**	1 561 045
Acquired through business combination	**241 515**	–
Current tax for the period recognised in profit and loss	**5 524 399**	6 040 830
Exchange effect on consolidation of foreign subsidiaries	**375 463**	(5 516)
Balance at end of the period	**(3 385 537)**	(2 098 947)
	4 854 787	5 497 412

23.3 Net cash flow on business combinations

	Note(s)		
Acquistion of Bergteamet Raiseboring Europe AB	23.3.1	**9 335 904**	–
Acquistion of Atlantis Group	23.3.2	**5 353 231**	–
Total		**14 689 135**	–

23.3.1 Acquistion of Bergteamet Raiseboring Europe AB

On 1 March 2018, the Group excercised its option to acquire the remainder of the 60% shares in Bergteamet Raiseboring Europe AB to increase its shareholding to 100%. The purchase of the remainder of the shares amounted to SEK69 825 000 (USD8 509 222).

The Group previously accounted for Bergteamet Raiseboring Europe AB as an investment in associate with equity accounting when only 40% of shareholding was held.

The goodwill amount represents a provisional calculation on the acquisition. A detailed purchase price allocation is being performed and the directors currently anticipate that there will be a fair value revaluation of drilling equipment.

	2018 USD	2017 USD
The fair value of assets and liabilities assumed at date of acquisition was:		
Assets		
Property, plant and equipment	**17 099 264**	–
Current tax receivable	**165 517**	–
Non-current interest bearing loans and borrowings	**(3 447 179)**	–
Deferred taxation liability	**(407 032)**	–
Net working capital		–
Trade and other receivables	**3 233 870**	–
Inventory	**3 608 677**	–
Trade and other payables	**(5 005 518)**	–
Cash and other equivalents	**(826 682)**	–
Total assets and liabilities acquired	**14 420 917**	–
Group's share of total assets and liabilities acquired	**14 420 917**	–
Goodwill at acquisition	**92 489**	–
Total consideration	**14 513 406**	–
Cash and cash equivalents on hand at acquisition	**826 682**	–
Fair value of 40% interest held prior to acquisition	**(6 004 184)**	–
Net cash outflow on acquisition of subsidiaries	**9 335 904**	–
Turnover since acquisition date included in the consolidated results for the year	**10 634 299**	–
Profit after tax since acquisition date included in the consolidated results for the year	**1 360 458**	–
Group turnover since acquisition date included in the consolidated results for the year	**111 663 770**	–
Group profit after tax since acquisition date included in the consolidated results for the year	**16 390 524**	–

23. CASH GENERATED FROM OPERATIONS continued

23.3.2 Acquisition of Atlantis Group

On 3 September 2018, the Group acquired all the business assets and liabilities of the Atlantis Group. The purchase price for the entire Atlantis Group amounted to ZAR99 500 000 (USD6 773 914)

The Atlantis Group's operations are located in South Africa, Zambia, India and Brazil and all of the business assets and liabilities acquired have been accounted for in the respective segments the assets and liabilities relate to. Refer to Note 27.2 for more details on the segments.

The goodwill amount represents a provisional calculation on the acquisition. A detailed purchase price allocation is being performed and the directors currently anticipate that there will be a fair value revaluation of drilling equipment.

The fair value of assets and liabilities assumed at date of acquisition was:

	2018 USD	2017 USD
Assets		
Property, plant and equipment	**7 808 635**	–
Net working capital		
Trade and other payables	**(1 058 548)**	–
Total assets and liabilities acquired	**6 750 087**	–
Group's share of total assets and liabilities acquired	**6 750 087**	–
Goodwill at acquisition	**23 828**	–
Total consideration	**6 773 915**	–
Consideration still payable	**(1 420 684)**	–
Net cash outflow on acquisition of subsidiaries	**5 353 231**	–
Turnover since acquisition date included in the consolidated results for the year	**2 550 769**	–
Profit after tax since acquisition date included in the consolidated results for the year	**530 666**	–
Group turnover since acquisition date included in the consolidated results for the year	**35 471 813**	–
Group profit after tax since acquisition date included in the consolidated results for the year	**5 221 277**	–

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

	2018 USD	2017 USD
MD Training Centre (Pty) Ltd	–	1 366
MD Employees Trust	(4 479)	(1 232)
Basfour 276 (Pty) Ltd	–	–
MDG Equity Holdings (Pty) Ltd [1, 3 & 4]	16 281	15 467
Epha Drilling (Pty) Ltd [2]	(90 832)	(95 494)
Mosima Drilling (Pty) Ltd [2]	(78 918)	(94 366)
MD Drilling Employee Trust	35 850	(3 882)
MD HDSA Trust [2]	1 913	42 905
DCP BEE Foundation Trust [2]	7 741	1 986
The Drillcorp BEE Trust [2]	39 366	40 155
MD Argentina	(491)	(509)
MD Engineering Trust	680	762
	(72 889)	(92 842)
Related party loans receivable from	101 831	102 641
Related party loans owing to	174 720	195 483
	(72 889)	(92 842)

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

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 2018 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 2018 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 16,2% of equity and is therefore deemed to be low risk.

2018 **USD**	**+50 basis points**	**-50 basis points**
Profit and loss	**(289 753)**	**289 753**
Equity, net of finance tax	**(233 713)**	**233 713**

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.

2018 **USD**	**Less than** **1 year**	**Between** **1 and 2 years**	**Between** **2 and 5 years**	**5 years** **and after**
Long-term interest bearing borrowings	**7 306 843**	**7 459 836**	**22 597 703**	**20 586 260**
Finance lease obligations	**1 273 282**	**676 228**	**378 370**	**148 474**
Related party loans	**72 889**	**–**	**–**	**–**
Current tax payable	**4 424 035**	**–**	**–**	**–**
Trade and other payables	**28 690 020**	**–**	**–**	**–**

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	–	–	–	–
Current tax payable	2 098 947	–	–	–
Trade and other payables	20 086 764	–	–	–

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

25. RISK MANAGEMENT continued

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	**(147 735)**	**180 565**
Chilean Peso	CLP	**(138 855)**	**169 712**
South African Rand	ZAR	**(243 910)**	**298 112**
Brazilian Real	BRL	**(184 413)**	**225 393**
Zambian Kwacha	ZMW	**(184 309)**	**225 267**
Central African Franc	XOF	**(9 491)**	**11 600**
Colombian Peso	COP	**(15 458)**	**18 893**
Australian Dollar	AUD	**13 610**	**(16 634)**
Indian Rupee	INR	**(64 553)**	**78 899**

26. 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.

When adopting IFRS 9, the Group has applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of IFRS 9 in relation to classification, measurement and impairment are recognised in retained earnings.

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. The Group applies the new hedge accounting requirements prospectively and all hedges qualify for being regarded as continuing hedging relationships.

Management has identified the following areas that are 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 collect the associated cash flows. After assessing the underlying effects of the cash flows, financial assets were considered to be classified and accounted for at either amortised cost or fair value through profit or loss.

26. FINANCIAL INSTRUMENTS continued

(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.

On the date of initial application, 1 January 2018, the financial instruments of the Group were reclassified as follows:

	Measurement category		Carrying amount		
	Original IAS 39 category	New IFRS 9 category	Closing balance – 31 December 2017 (IAS 39)	Adoption of IFRS 9	Opening Balance – 1 January 2018 (IFRS 9)
Non-current financial assets					
Financial assets	Held to maturity	Amortised cost	3 098 512	–	**3 098 512**
			3 098 512	–	**3 098 512**
Current financial assets					
Trade and other receivables	Amortised cost	Amortised cost	37 137 165	(80 221)	**37 056 944**
Related-party loans	Amortised cost	Amortised cost	102 641	–	**102 641**
Cash and cash equivalents	Amortised cost	Amortised cost	40 211 629	–	**40 211 629**
			77 451 435	(80 221)	**77 371 214**

The effect of the adoption of IFRS 9 has been disclosed in the statement of changes in equity and note 8 respectively.

There have been no changes to the measurement of financial liabilities as a result of the application of IFRS 9.

Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 at 1 January 2018:

	IAS carrying amount – 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount – 1 January 2018	Retained earnings effect
Amortised cost					
Amortised cost	77 451 435	–	–	77 451 435	–
From held to maturity	–	3 098 512	–	3 098 512	–
	77 451 435	3 098 512	–	80 549 947	–
Held to maturity					
To amortised cost	3 098 512	(3 098 512)	–	–	–
	3 098 512	(3 098 512)	–	–	–

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

26. FINANCIAL INSTRUMENTS continued

2018
USD

	Category	Value
Non-current financial assets		
Financial assets	**Amortised Cost**	**2 734 277**
Current financial assets		
Trade and other receivables	**Amortised Cost**	**44 181 356**
Related-party loans	**Amortised Cost**	**101 831**
Derivative financial instrument	**FVTPL**	**53 958**
Cash and cash equivalents	**Amortised Cost**	**33 725 131**

	Category	Value
Non-current financial liabilities		
Financial lease obligations	**Amortised Cost**	**1 203 072**
Financial liabilities	**Amortised Cost**	**50 458 654**
Current financial liabilities		
Financial lease obligations	**Amortised Cost**	**1 273 282**
Financial liabilities	**Amortised Cost**	**7 306 843**
Loans to related parties	**Amortised Cost**	**174 720**
Trade and other payables	**Amortised Cost**	**15 787 832**
Cash and cash equivalents	**Amortised Cost**	**410 537**

2017
USD

	Category	Value
Non-current financial assets		
Financial assets	Amortised Cost	3 098 512
Current financial assets		
Trade and other receivables	Amortised Cost	38 191 737
Related-party loans	Amortised Cost	102 641
Cash and cash equivalents	Amortised Cost	40 211 629

	Category	Value
Non-current financial liabilities		
Financial lease obligations	Amortised Cost	1 682 765
Financial liabilities	Amortised Cost	36 263 625
Current financial liabilities		
Financial lease obligations	Amortised Cost	1 444 820
Financial liabilities	Amortised Cost	4 659 387
Loans to related parties	Amortised Cost	195 483
Trade and other payables	Amortised Cost	20 086 747

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:

	2018 USD	2017 USD
Sales revenue by stage of mining activity		
Exploration	**3 762 574**	973 412
Capital	**21 849 982**	4 339 904
Production	**113 109 208**	116 110 793
	138 721 765	121 424 109
Gross profit by stage of mining activity		
Exploration	**1 561 718**	383 107
Capital	**7 943 321**	830 043
Production	**34 061 497**	43 416 688
	43 566 536	44 629 838

The chief operating decision maker of the Group is the chief executive officer. Information reported to the group's chief operating decision maker for purposes of resource allocation and assessment of segment performance is focused on geographical areas. Each reportable segment derives its revenues from the sale of goods related services. The accounting policies of the reportable segments are the same as the group's accounting policies.

27.2 Geographical segments

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

	2018 USD	2017 USD
Sales revenue by geographical market		
Africa	**47 011 105**	54 737 735
Central and North America	**17 437 769**	14 619 849
Other Countries	**16 195 137**	–
South America	**58 077 754**	52 066 525
	138 721 765	121 424 109
Gross profit by geographical market		
Africa	**16 641 344**	24 880 016
Central and North America	**4 739 601**	4 547 869
Other Countries	**5 921 443**	–
South America	**16 264 148**	15 201 953
	43 566 536	44 629 838

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

27. SEGMENT REPORTING continued

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 6% (2017: African region 14%) 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.

	2018 USD	2017 USD
Depreciation by geographical market		
Africa	**3 374 462**	2 813 563
Central and North America	**706 619**	465 299
Other Countries	**1 212 791**	42 009
South America	**1 911 696**	2 735 481
	7 205 568	6 056 352

	2018 USD	2017 USD
Investment revenue by geographical market		
Africa	**301 152**	261 559
Central and North America	**4 038**	749
Other Countries	**248 373**	168 101
South America	**182 605**	79 916
	736 169	510 325

	2018 USD	2017 USD
Finance cost by geographical market		
Africa	**1 250 988**	1 834 711
Central and North America	**575 583**	209 404
Other Countries	**370 205**	204 635
South America	**661 715**	602 128
	2 858 491	2 850 878

	2018 USD	2017 USD
Taxation by geographical market		
Africa	**868 065**	1 334 731
Central and North America	**98 665**	312 205
Other Countries	**1 564 038**	2 203 622
South America	**1 496 701**	1 283 542
	4 027 469	5 134 100

27. SEGMENT REPORTING continued

	2018 USD	2017 USD
Total assets by geographical market		
Africa *	**78 419 639**	95 020 536
Central and North America	**43 961 799**	24 975 860
Other Countries	**50 543 357**	25 208 838
South America **	**93 457 169**	91 740 494
Total assets as per statement of financial position	**266 381 964**	236 945 728
Total liabilities by geographical market		
Africa	**34 698 362**	34 438 606
Central and North America	**23 690 201**	8 457 641
Other Countries	**16 561 972**	6 535 299
South America	**27 386 452**	26 189 353
Total liabilities as per statement of financial position	**102 336 987**	75 620 899

** Assets in Africa includes the investment in associate. See Note 34*

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

28. CONTINGENCY

	2018 USD	2017 USD
Payment bonds issued to customers	**36 856**	42 801
Retention bonds issued to customers	**205 502**	238 654
Performance bonds issued to customers	**13 908**	–
	256 266	281 455

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

29. INVESTMENTS IN SUBSIDIARIES

Master Drilling Group Limited investment in subsidiaries	% holding 2018	% holding 2017	Status	Country
MDI Exco Ltd	**100.00%**	100.00%	Investment Holding	Malta
Raisebore Rental (Pty) Ltd	**100.00%**	100.00%	Operational	RSA
Drilling Technical Services (Pty) Ltd	**74.00%**	74.00%	Operational	RSA
Master Drilling Exploration (Pty) Ltd	**74.00%**	74.00%	Operational	RSA
Master Drilling International Ltd	**85.00%**	85.00%	Investment Holding	Malta
MDG Shared Services (Pty) Ltd	**52.91%**	100.00%	Operational	RSA
Master Sinkers (Pty) Ltd	**51.00%**	100.00%	Operational	RSA
Master Tunneling (Pty) Ltd	**100.00%**	100.00%	Operational	RSA
Master Drilling New Technologies Holding (Pty) Ltd	**90.00%**	90.00%	Operational	RSA
MD Training Services (Pty) Ltd	**50.79%**	–	Operational	RSA
MD Retail (Pty) Ltd	**100.00%**	–	Operational	RSA
Master Drilling (Pty) Ltd	**100.00%**	100.00%	Operational	RSA
Master Drilling International Limited investment in subsidiaries				
Master Drilling Chile SA	**100.00%**	100.00%	Operational	Chile
Master Drilling Peru SAC	**100.00%**	100.00%	Operational	Peru
Master Drilling do Brasil Ltda	**100.00%**	100.00%	Operational	Brazil
Master Drilling Mexico SA	**100.00%**	100.00%	Operational	Mexico
Master Drilling Zambia Ltd	**100.00%**	100.00%	Operational	Zambia
Master Drilling Australia (Pty) Ltd	**100.00%**	100.00%	Operational	Australia
Master Drilling Colombia S.A.S	**100.00%**	100.00%	Operational	Colombia
Master Drilling Namibia (Pty) Ltd	**100.00%**	100.00%	Dormant	Namibia
Drillcorp Burkina Faso SA	**80.00%**	80.00%	Dormant	Burkina Faso
Drillcorp Cote d'Ivoire SA	**80.00%**	80.00%	Dormant	Cote d'Ivoire
Master Drilling Botswana (Pty) Ltd	**100.00%**	100.00%	Dormant	Botswana
Master Drilling Guatemala SA	**100.00%**	100.00%	Operational	Guatemala
Master Drilling RDC Sprl	**100.00%**	100.00%	Operational	DRC
Master Drilling Malta Ltd	**100.00%**	100.00%	Operational	Malta
Jiangsu Master Mining Engineering Technology Company Ltd	**100.00%**	100.00%	Dormant	China
Master Drilling Jiangsu Company Ltd	**100.00%**	100.00%	Operational	China
Martwick Ltd	**100.00%**	100.00%	Dormant	Ireland
Drilling Technical Services SAC	**100.00%**	100.00%	Dormant	Peru
Drilling Admin Services SAC	**100.00%**	100.00%	Operational	Peru
DCP Properties SAC	**100.00%**	100.00%	Operational	Peru
Master Drilling Changzhou Co. Ltd	**100.00%**	100.00%	Operational	China
Orbit Insurance Company Ltd	**100.00%**	100.00%	Operational	Anguilla

29. INVESTMENTS IN SUBSIDIARIES continued

Master Drilling Group Limited investment in subsidiaries	% holding 2018	% holding 2017	Status	Country
Master Drilling Ecuador SA	**100.00%**	100.00%	Operational	Ecuador
Master Drilling USA LLC	**90.00%**	90.00%	Operational	USA
MD Drilling Services Tanzania Ltd	**100.00%**	100.00%	Operational	Tanzania
Master Drilling Sierra Leone Ltd	**100.00%**	100.00%	Dormant	Sierra Leone
Mater Drilling India Private Ltd	**100.00%**	100.00%	Operational	India
Bergteamet Raiseboring Europe AB	**100.00%**	40.00%	Operational	Sweden
Master Drilling Mali SARL	**100.00%**	100.00%	Operational	Mali
Master Drilling Madencilik Ve Ticaret Limited Sirketi’	**100.00%**	–	Operational	Turkey
MD Katanga Drilling Company SAS	**49.00%**	–	Operational	DRC
MDX - Masterdrill Explorações E Sondagens Ltda	**100.00%**	–	Operational	Brazil
Master Drilling Canada Ltd	**100.00%**	–	Operational	Canada
Master Drilling Ghana Sprl	**100.00%**	–	Operational	Ghana
Master Drilling Malta Limited investment in subsidiaries				
Master Drilling Chile División Raise Borer SpA	**100.00%**	100.00%	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 2018: USD1 578 461 (2017: USD1 563 075).

Rentals paid to Barrange (Pty) Ltd amounts 2018: USD191 543 (2017: USD187 640).

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
No additional share options were granted for the year ended 31 December 2018. Refer to note 32.

32. SHARE-BASED PAYMENTS

Share-based payment 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 2018.

32. SHARE-BASED PAYMENTS continued

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:

	2018 USD	2017 USD
Expense arising from equity-settled share-based payment transactions	**336 476**	290 858

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**	
Granted during the year	**–**	**N/A**
Outstanding at 31 December 2018	**1 142 714**	

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

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 2018 was 2.31 years (2016: 1.92).

No share options were granted during the current year.

The following table list the inputs to the model used for the share plan for 31 December 2018:

	2018	2017
Expected volatility	**30%**	30%
Risk-free interest rate	**7.5%**	7.5%
Expected life of share options	**3 years**	3 years
Weighted average exercise price	**9.79**	9.79
Model used	**Black-Scholes**	Black-Scholes

33. NON-CONTROLLING INTEREST

The following subsidiaries have material non-controlling interest.

2018 USD	Master Drilling Exploration (Pty) Ltd	Master Sinkers (Pty) Ltd (*)	Drilling Technical Services (Pty) Ltd	Master Drilling USA LLC
Principal place of business	RSA	RSA	RSA	USA
Non-controlling interest ("NCI")	26%	49%	26%	10%
Revenue	18 253 130	–	20 337 874	4 895 068
Profit/(Loss)	2 381 491	(9 877)	581 191	845 080
Total comprehensive income/(loss)	2 381 491	(9 877)	581 191	845 080
Profit/Loss allocated to NCI	619 188	(4 840)	151 110	84 508
Comprehensive income attributable to NCI	619 188	(4 840)	151 110	84 508
Non-current assets	7 831 509	275 346	674 273	469 686
Current assets	4 152 942	32 442	28 488 322	1 947 309
Non-current liabilities	1 316 304	312 934	21 170 939	1 567 547
Current liabilities	1 921 494	4 729	7 623 312	253 815
Net assets	8 746 653	(9 875)	368 344	595 634
Net assets attributable to NCI	2 274 130	(4 839)	95 769	59 563
Cash flows from operating activities	3 814 720	(91 323)	(9 579 807)	45 642
Cash flows from investing activities	(204 768)	(216 407)	6 488	–
Cash flows from financing activities	(5 702 105)	307 887	2 707 773	(405 701)
Net increase/(decrease) in cash and cash equivalents	(2 092 153)	157	(6 865 546)	(360 059)
Dividends paid	(521 516)	–	–	–

(*) Master Sinkers (Pty) Ltd did not have non-controlling interest in the previous financial year

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

33. NON-CONTROLLING INTEREST continued

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	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	–	–

(*) *The non-controlling sharegholders of Raisebore Rental (Pty) Ltd will no long receive the economic benefits the transaction was initially expected to achieve. The transaction was dissolved at fair value during 2017 and all adjustments related to this transaction have been accounted for in the Group's financial statements accordingly.*

34 INVESTMENT IN ASSOCIATE

Investment in associate – Bergteamet Raiseboring Europe AB	34.1	**–**	6 022 115
Investment in associate – TunnelPro S.r.L	34.2	**2 605 117**	–
Total		**2 605 117**	6 022 115

34.1 Investment in associate - Bergteamet Raiseboring Europe AB

On 1 December 2015, the Group purchased a 40% equity interest in Bergteamet Raiseboring Europe AB ("Bergteamet") for SEK46 555 000 (USD5 333 165). 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.

On 1 March 2018, the Group excercised its option to acquire the remainder of the 60% shares in Bergteamet Raiseboring Europe AB to increase its shareholding to 100%. The purchase of the remainder of the shares amounted to SEK69 825 000 (USD8 509 222). The Group now accounts for the investment as a subsidiary. Refer to Note 23.3 for more details.

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

	2018 USD	2017 USD
Revenue	**–**	9 873 828
Loss from continuing operations	**–**	(4 275)
Total comprehensive loss	**–**	(4 275)
Group's share of total comprehensive loss	**–**	(1 710)
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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

34. INVESTMENT IN ASSOCIATE continued

	2018 USD	2017 USD
Non-current assets	–	9 962 208
Current assets	–	6 456 978
Non-current liabilities	–	4 581 086
Current liabilities	–	3 614 112
Net assets	–	8 223 988
Group's share of net assets	–	3 289 595
Goodwill	–	2 734 230
Share of loss from equity accounted investment	–	(1 710)
Investment in associate	–	6 022 115

34.2 Investment in associate – TunnelPro S.r.L

On 25 January 2018, the Group entered into a shareholder agreement with Ghella SpA to establish a new associate named TunnelPro Srl in Italy. The Group owns 49% of the shareholder rights in TunnelPro Srl. The purchase consideration relating to the Group's share amount to EUR2 107 000 (USD2 412 963). The investment will provide the Group with a strategic footprint in the European as well as Tunnelboring market. The effective date of the agreement is 23 October 2018. Consideration payable at year end amounts to EUR784 000 (USD897 837).

The Group does not control TunnelPro Srl and have elected the equity accounting method for the investment in associate.

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

	2018 USD	2017 USD
Revenue	288 214	–
Loss from continuing operations	(54 997)	–
Total comprehensive loss	(54 997)	–
Group's share of total comprehensive loss	(26 949)	–
Dividends received from associate	–	–

34. INVESTMENT IN ASSOCIATE continued

34.2 Investment in associate – TunnelPro S.r.l. continued

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.

	2018 USD	2017 USD
Non-current assets	**232 397**	–
Current assets	**8 604 168**	–
Non-current liabilities	**–**	–
Current liabilities	**6 419 176**	–
Net assets	**2 417 389**	–
Group's share of net assets	**1 184 521**	–
Goodwill	**1 447 545**	–
Share of loss from equity accounted investment	**(26 949)**	–
Investment in associate	**2 605 117**	–

35 NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale – Peru	35.1	**–**	1 255 128
Non-current assets held for sale – Chile	35.2	**808 928**	–
Total		**808 928**	1 255 128

35.1 Non-current assets held for sale – Peru

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. The sale of the land and building realised during May 2018 and proceeds to the value of USD2.08 million was received from an external buyer.

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 in Peru were comprised of the following:

	2018 USD	2017 USD
Land and buildings	**–**	1 255 128
Assets held for sale	**–**	**1 255 128**

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

35. NON-CURRENT ASSETS HELD FOR SALE continued

35.2 Non-current assets held for sale – Chile

In October 2018, management committed to a plan to sell the property owned in Chile. Efforts to sell the property have started and a sale is expected to be finalised towards the end first quarter of 2019.

Management's intention to sell is driven by the need for a bigger facility to cater for the expansion of the Chilean business in the last couple of years which resulted in more workshop space to successfully service and maintain the increased plant and machinery.

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:

	2018 USD	2017 USD
Land and buildings	**808 928**	–
Assets held for sale	**808 928**	**–**

	2018 USD	2017 USD
36 DERIVATIVE FINANCIAL INSTRUMENT		
Derivative financial asset	**2 053 958**	–
Derivative financial liability	**2 000 000**	–
Gain on derivative financial instrument recognized through profit and loss	**53 958**	–

The Group uses forward foreign exchange contracts to mitigate exchange rate exposure arising from dividends payable to shareholders in South African Rand ("ZAR"). Fair values of this derivative have been estimated by reference to quoted bid prices in active markets at the reporting date and are categorised within Level 1 of the fair value hierarchy. The fair value of the USD derivative reflects the US-dollar spot rate as at the reporting date

37 SUBSEQUENT EVENTS

The Board approved a dividend of ZAR26,0 cents per ordinary share on 25 March 2019 payable to shareholders recorded in the register on 17 May 2019. The dividend declared is not reflected in the financial statements for the year ended 31 December 2018.

SUPPLEMENTARY INFORMATION

ANALYSIS OF SHAREHOLDING

Size of holdings	Number of shareholders	% of total shareholders	Number of shares	% of shares in issue
1 – 1 000	892	49.5%	302 156	0.2%
1 001 – 10 000	689	38.3%	2 402 992	1.6%
10 001 – 100 000	141	7.8%	4 248 272	2.8%
100 001 – 1 000 000	60	3.3%	22 967 566	15.3%
1 000 000+	19	1.1%	120 671 791	80.1%
Total	**1 801**	**100.0%**	**150 592 777**	**100.0%**

Shareholder type				
Public shareholders	1 788	99.3%	62 817 447	41.7%
Non-public shareholders				
Directors' indirect holdings	10	0.6%	84 764 921	56.3%
Directors' direct holdings	3	0.2%	3 010 409	2.0%
Total	**1 788**	**99.3%**	**62 817 447**	**41.7%**

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	16 204 735	10.8%
Abax Investments	9 816 206	6.5%
Investec Asset Management	9 017 452	6.0%
Coronation Fund Managers	8 515 141	5.7%
Total	**43 553 534**	**28.9%**

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	43 696 650	29.0%
MDG Equity Holdings (Pty) Ltd	38 954 436	25.9%
Investec	9 034 396	6.0%
Nedbank Group	7 967 608	5.3%
Total	**99 653 090**	**66.2%**

Stock exchange information as at 31 December

JSE share code: MDI

		2018	2017
Market price (ZAR cents)	– high	**1 500**	1 835
	– low	**873**	1 260
	– closing	**1 017**	1 260
Shares traded		**11 158 485**	19 238 466

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
Fochville, 2515
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
Andries Willem Brink	Independent non-executive
Octavia Matshidiso Matloa	Independent non-executive
Shane Trevor Ferguson	Non-executive
Fred (Eddie) George Dixon	Alternate director

Resident in Peru

COMPANY SECRETARY

Andrew Colin Beaven
6 Dwars Street
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South Africa
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South Africa

JSE SPONSOR

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100 Grayston Drive, Sandown
Sandton, 2196
South Africa

INDEPENDENT AUDITOR

BDO South Africa Incorporated
South African member of BDO Group
52 Corlett Drive
Illovo
2196
South Africa

SHARE TRANSFER SECRETARIES

Computershare Investor Services Proprietary Limited
(Registration number: 2004/003647/07)
Rosebank Towers, 15 Biermann Avenue
Rosebank, 2196
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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