MASTER DRILLING

2019

AUDITED CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

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DIRECTORS' RESPONSIBILITIES AND APPROVAL

The directors of Master Drilling Group Limited and its subsidiaries ("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 2020 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 2019, 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 23 March 2020 and were signed on its behalf by:

Daniël Coenraad Pretorius
Director

Johannesburg
23 March 2020

André Jean van Deventer
Director

Johannesburg
23 March 2020

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 2019, 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
23 March 2020

AUDIT COMMITTEE REPORT
for the year ended 31 December 2019

This report is provided by the audit committee in respect of the 2019 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 detailed terms of reference, a copy of which can be found on the Group's website (www.masterdrilling.com). The Audit Committee Terms of Reference 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 Terms of Reference 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 disclosed later in this report.

DUTIES AND RESPONSIBILITIES

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

During the period under review:
In respect of the external auditor and the external audit, the audit committee, amongst other matters:
- nominated BDO South Africa Incorporated as the external auditor for the financial period ended 31 December 2020;
- 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 audit plan and the budgeted audit fees payable to the external auditor for 2019;
- 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 terms of reference;
- 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 whether any complex taxation areas exist that could have a material impact on the financial statements and determined that there were none;
- 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:

- appointed an internal auditor with the necessary international presence to ensure effective service delivery to the audit committee;
- reviewed the terms of reference of the internal audit function and approved the internal audit work plan;
- reviewed internal audit reports and deliberated on the audit findings of the internal auditor as part of the internal audit work programme;
- considered the Group's system of internal financial control, during the year under review and reports from the independent internal auditors;
- is aware of the internal control deficiencies that were identified by the review of the internal financial control environment by internal auditors and will ensure oversight of management's implementation of remedial actions; and
- performed an assessment on the effectiveness of the internal audit function and found it to be satisfactory.

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 Enterprise Risk Management implementation initiatives, which form part of the process to establish a combined assurance framework across the business; and
- is an integral component of the risk management process and oversees the risk committee functions as they pertain to:
  - Financial reporting risk;
  - internal financial controls; and
  - fraud and information technology risk as it relates to financial reporting.

In respect of the co-ordination of assurance activities, the audit committee reviewed the plans and outcomes as outlined in the combined assurance framework and concluded that the assurance activities are focused 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 governance committees to ensure the accuracy and completeness of the report. The integrated report is expected to be released in April 2020.

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 confirmed 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	18 March 2019	30 May 2019	19 August 2019	13 November 2019
Andries Willem Brink	✓	✓	✓	✓
Akhter Ali Deshmukh	✓	✓	✓	A
Shane Trevor Ferguson	✓	A	✓	✓
Octavia Matshidiso Matloa	✓	✓	✓	✓

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 2019, 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 2019, 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
23 March 2020

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 Master Drilling Group Limited and its subsiaries (the group) set out on pages 14 to 76, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the group as at 31 December 2019, 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 sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively. 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 USD 134.1 million (2018: USD 121.9 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. Due to the judgement involved in the determination of useful lives and indicators of impairment of the drilling machinery as well as difficulty in confirmation of the existence thereof, it is deemed a key audit matter.	**Our audit procedures included the following:** • We have assessed management's useful lives assessment for consistency with expectations and prior periods. • We have assessed management's depreciation method as well as the appropriate disclosure thereof in note 1.7 to the financial statements. • We recalculated the depreciation charge for the year and performed analytical review procedures to compute 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. • Any drilling equipment that were not utilized during the period was considered for indicators of impairment. • We furthermore reviewed control documentation relating to physical movements of drilling machinery between sites and countries. • We assessed the adequacy of the disclosures to the financial statements in relation to the requirements of the reporting framework.
Assessment of going concern As required by IAS 1: When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The escalation in the global spread and effects of the Covid-19 pandemic since year-end is likely to have an impact on the Group's customers and suppliers in most if not all geographies in which the Group operates. The assessment requires a high degree of judgement and therefore was assessed to be a Key Audit Matter As at the date of signing this report, the Board considered the current cash position of the Group, and did stress tests on the ability of the Group to absorb periods of up to 3 months without any revenue being generated and found that the Group will be able to service its obligations.	**Our audit procedures included the following:** • We have obtained management's cash flow forecasts regarding going concern assessment and reviewed this for reasonableness taking into account the current environment. • We compared expenses included in the assessment to current year for reasonableness. • We assessed the expected downward adjustment on revenue as a result of the Covid-19 pandemic for reasonableness. • We re-performed the loan covenant calculations to determine the likelihood of breaching these in the next 12 months. • We critically analysed management's stress-test for appropriateness. • We tested the mathematical accuracy of the models. We also focused on the adequacy of the Group's disclosures (refer to post balance sheet events note 37) that is required in terms of IFRS.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the document titled Master Drilling Consolidated Annual Financial Statements for the year ended 31 December 2019, which includes 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. The 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 and will 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, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group 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 directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's 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 directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that BDO South Africa Inc. has been the auditor of Master Drilling Group Limited and its subsidiaries for two years.

BDO South Africa Inc.

BDO South Africa Incorporated
Registered Auditors

EFG Dreyer
Director
Registered Auditor

24 March 2020

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 geographies.

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 for the next 12-month period 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 3% OR MORE OF MASTER DRILLING'S ISSUED SHARE CAPITAL

As at 31 December 2019	**%**
Barrange (Pty) Ltd	29,0
MDG Equity Holdings (Pty) Ltd	25,9
Investec	5,9
Nedbank Ltd	4,3

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

As at 31 December 2019	%
Kagiso Asset Management	11,8
Abax Investments	7,3
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	
	2019	2018
At 1 January	**349 407 223**	**349 407 223**
Issued during the year	–	–
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.
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.
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 2019, are made up as follows:

	Total % holding of issued capital	**Beneficial Direct 2019**	**Indirect 2019**	Beneficial Direct 2018	Indirect 2018
Director					
DC Pretorius	52,5	**500 900**	**78 641 565**	**500 900**	**78 636 565**
AJ van Deventer	1,8	**727 648**	**1 944 136**	**727 648**	**1 944 136**
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**	**84 769 921**	**3 010 409**	**84 764 921**

Rounding of % may result in computational discrepancies.

DIRECTORS' REPORT (CONTINUED)

At 31 December 2019, the directors of the Company held direct and indirect interests in 58,3% (2018: 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

In view of currently prevailing global volatility and uncertain economic conditions the Board deems it advisable that cash resources should be protected, and thus resolved on 23 March 2020 not to declare a dividend in respect of the 2019 financial year. The Board remains committed to consider the continuation of the Company's dividend history in future financial periods, once circumstances permit.

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 the board 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. Refer to note 38 for more information on a contingent liability relating to a claim from the owner of the Atlantis Group.

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

MATERIAL CHANGE

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

CHANGES TO THE BOARD

There were no changes to the Board since the previous reporting period except for the appointment of AW Brink as the Group's lead independent director on 20 November 2019.

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 Tuesday, 9 June 2020 at 09:00.

SUBSIDIARIES

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

EVENTS SUBSEQUENT TO YEAR-END

On 19 March 2020, after the end of the 2019 financial year, the Group fulfilled all the conditions and acquired Geoserve Exploration Drilling (Pty) Ltd, a wholly owned subsidiary within our African segment. The purchase consideration payable amounts to ZAR100 and assumed the bank overdraft facility and certain liabilities of the acquiree. A detailed purchase price allocation will be performed during 2020 and disclosed in the 2020 financial statements.

The escalation in the global spread and effects of the Covid-19 pandemic since yearend is likely to have an impact on our business and that of our customers and suppliers in most if not all geographies in which the Group operates. As at the date of signing this report, the Board considered the current cash position of the Group, and did stress tests on the ability of the Group to absorb periods of up to 3 months without any revenue being generated and found that the Group will be able to service its obligations. Management and the Board are and will remain focused on managing this unfortunate situation as best as possible.

MATERIAL RESOLUTIONS

No material special shareholders resolutions were passed during the year under review, except those passed at the annual general meeting held on 6 June 2019. 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
23 March 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note(s)	2019 USD Audited	2018 USD Restated	2017 USD Restated
Assets				
Non-current assets				
Property, plant and equipment	3	**158 014 917**	145 044 336	119 075 667
Intangibles	4	**3 487 216**	4 346 359	3 083 427
Financial assets	5	**5 320 645**	4 345 662	4 709 897
Deferred tax asset	6	**6 175 360**	2 994 311	2 010 263
Investment in associate	34	**3 710 575**	2 605 117	6 022 115
		176 708 713	159 335 785	134 901 369
Current assets				
Inventories	7	**27 855 901**	25 787 869	23 894 609
Related-party loans	24	**103 842**	101 831	102 641
Trade and other receivables	8	**50 734 496**	48 179 847	38 191 737
Derivative financial instrument	36	**296 323**	53 958	–
Cash and cash equivalents	9	**19 723 118**	33 725 131	40 211 629
		98 713 680	107 848 636	102 400 615
Non-current assets held for sale	35	**808 928**	808 928	1 255 128
		99 522 608	108 657 564	103 655 744
Total assets		**276 231 321**	267 993 349	238 557 113
Equity and liabilities				
Equity				
Share capital	10	**148 703 721**	148 703 721	148 703 721
Reserves		**(97 974 826)**	(93 886 991)	(82 244 142)
Retained income		**114 437 446**	101 837 302	88 221 320
		165 166 341	156 654 032	154 680 899
Non-controlling interest		**9 964 308**	9 002 330	8 255 315
		175 130 649	165 656 362	162 936 214
Liabilities				
Non-current liabilities				
Interest bearing borrowings	12	**39 113 277**	50 458 654	36 263 625
Lease obligations	13	**5 534 231**	–	–
Instalment lease obligations	13	**618 716**	1 203 072	1 682 765
Deferred tax liability	6	**11 602 658**	9 434 322	9 189 125
		56 868 882	61 096 048	47 135 515
Current liabilities				
Interest bearing borrowings	12	**12 334 035**	7 306 843	4 659 387
Lease obligations	13	**457 626**	–	–
Instalment lease obligations	13	**898 059**	1 273 282	1 444 820
Related party loans	24	**481 067**	174 720	195 483
Current tax payable		**2 943 562**	3 385 537	2 098 947
Trade and other payables	14	**26 901 528**	28 690 020	20 086 747
Cash and cash equivalents	9	**215 913**	410 537	–
		44 231 790	41 240 939	28 485 384
Total liabilities		**101 100 672**	102 336 987	75 620 899
Total equity and liabilities		**276 231 321**	267 993 349	238 557 113

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note(s)	2019 USD	2018 USD
Revenue	16	**148 327 852**	138 721 765
Cost of sales		**(104 199 262)**	(95 155 229)
Gross profit		**44 128 590**	43 566 536
Other operating income		**3 074 752**	5 909 368
Other operating expenses		**(24 756 349)**	(25 827 367)
Operating profit	17	**22 446 993**	23 648 537
Investment revenue	18	**1 139 831**	736 169
Finance costs	19	**(4 601 505)**	(2 858 491)
Share of profit/(loss) from equity accounted investment	34	**10 529**	(26 948)
Profit before taxation		**18 995 848**	21 499 267
Taxation	20	**(3 614 278)**	(4 027 469)
Profit for the year		**15 381 570**	17 471 798
Other comprehensive income that will subsequently be classified to profit and loss:			
Exchange differences on translating foreign operations		**(3 947 546)**	(11 979 325)
Other comprehensive income for the year net of taxation		**(3 947 546)**	(11 979 325)
Total comprehensive income		**11 434 024**	5 492 473
Profit attributable to:		**15 381 570**	17 471 798
Owners of the parent		**15 263 136**	16 774 334
Non-controlling interest		**118 434**	697 464
Total comprehensive income attributable to:		**11 434 024**	5 492 473
Owners of the parent		**11 315 590**	4 795 009
Non-controlling interest		**118 434**	697 464
Earnings per share (USD)	22		
Basic earnings per share (cents)		**10.1**	11.1
Diluted earnings per share (USD)	22		
Diluted basic earnings per share (cents)		**10.1**	11.0
Earnings per share (ZAR)			
Basic earnings per share (cents)		**145,9**	147,1
Diluted earnings per share (ZAR)			
Diluted basic earnings per share (cents)		**145,9**	145,7

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

USD	Share capital	Equity due to change in control of interests	Foreign currency translation reserve	Transaction between equity holders
Balance as at 31 December 2017 – as previously reported	148 703 721	(58 264 013)	(25 970 950)	–
Opening balance adjustment (refer to note 39)	–	–	–	1 611 385
Balance as at 31 December 2017 – restated	148 703 721	(58 264 013)	(25 970 950)	1 611 385
Adjustment from the adoption of IFRS 9	–	–	–	–
Contribution from non-controlling partner (Contribution from IDC)	–	–	–	–
Share-based payments	–	–	–	–
Dividends declared by subsidiaries	–	–	–	–
Dividends paid 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)**	**1 611 385**
Share-based payments	**–**	**–**	**–**	**–**
Dividends paid to shareholders	**–**	**–**	**–**	**–**
Dividends declared by subsidiaries	**–**	**–**	**–**	**–**
Contribution from non-controlling partner (Contribution from IDC)	**–**	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**–**	**(3 947 546)**	**–**
Total changes	**–**	**–**	**(3 947 546)**	**–**
Balance as at 31 December 2019	**148 703 721**	**(58 264 013)**	**(41 897 821)**	**1 611 385**
Note(s)	10	11		

Share-based payments reserve	Total reserves	Retained income	Attributable to owners of the parent	Non-controlling interest	Total Shareholders' equity
379 436	(83 855 527)	88 221 320	153 069 514	8 255 315	161 324 829
–	1 611 385	–	1 611 385	–	1 611 385
379 436	(82 244 142)	88 221 320	154 680 899	8 255 315	162 936 214
–	–	(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	**(93 886 991)**	**101 837 302**	**156 654 032**	**9 002 330**	**165 656 362**
(140 289)	**(140 289)**	**–**	**(140 289)**	**–**	**(140 289)**
–	**–**	**(2 662 992)**	**(2 662 992)**	**–**	**(2 662 992)**
–	**–**	**–**	**–**	**(525 953)**	**(525 953)**
–	**–**	**–**	**–**	**1 369 497**	**1 369 497**
–	**(3 947 546)**	**15 263 136**	**11 315 590**	**118 434**	**11 434 024**
(140 289)	**(4 087 835)**	**12 600 144**	**8 512 309**	**961 978**	**9 474 287**
575 623	**(97 974 826)**	**114 437 446**	**165 166 341**	**9 964 308**	**175 130 649**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note(s)	2019 USD	2018 USD
Cash flows from operating activities			
Cash generated from operations	23.1	**23 607 299**	25 801 932
Dividends received		**947 439**	444 540
Interest received		**192 393**	291 629
Finance costs		**(4 850 280)**	(2 858 491)
Tax paid	23.2	**(5 122 813)**	(4 854 787)
Net cash inflow from operating activities		**14 774 038**	18 824 823
Cash flows from investing activities			
Purchase of property, plant and equipment		**(14 876 878)**	(16 920 012)
Sale of property, plant and equipment		**948 278**	1 595 764
Financial assets proceeds		**631 553**	362 937
Acquisition of associate	34	**(897 837)**	(2 605 117)
Additional investment in associate		**(3 048 673)**	–
Acquisition of subsidiaries		**–**	(14 689 135)
Net cash outflow from investing activities		**(17 243 557)**	(32 255 563)
Cash flows from financing activities			
Advance from financial liabilities	12.2	**–**	20 000 000
Repayment of financial liabilities	12.2	**(6 798 814)**	(6 604 694)
Advance from leases	12.2	**–**	597 942
Repayment of leases	12.2	**(1 502 917)**	(1 249 171)
Related party loan advance/(repayment)		**304 335**	(19 953)
Dividends paid to shareholders		**(2 662 992)**	(3 078 131)
Dividends paid to BEE partners		**(525 953)**	(135 594)
Net cash inflow from financing activities		**(11 186 341)**	9 510 399
Total cash outflow for the period		**(13 655 860)**	(3 920 341)
Cash at the beginning of the period		**33 314 594**	40 211 629
Effect of exchange rate movement on cash balances		**(151 529)**	(2 976 694)
Total cash at end of the period		**19 507 205**	33 314 594

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").

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. PRESENTATION OF FINANCIAL INFORMATION continued

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 an accredited investor services company.

Failure to make payments within contractual agreement from the invoice date and failure to engage with the Group on alternative payment arrangement amongst other is considered indicators of an increase in credit risk.

In making this assessment, as far as available, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations. These assessments are done in the various business units for the specific countries that it operates in.

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.

The group assesses expected credit losses for inter-group receivables based on the underlying liquid assets of the individual subsidiaries for on-demand collectability. Refer to note 8 for provision matrix.

(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. Allowance for obsolete inventory is made for items within the group that can not be used in the group for its operations.

(c) Taxation

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

The Group recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the end of the reporting year could be impacted.

(d) Useful lives of depreciable assets

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

1.5 Goodwill

Goodwill arising on an acquisition of a business is carried at cost in the functional currency as established at the date of acquisition of the business (see note 4) less accumulated impairment losses, if any. Goodwill is translated to presentation currency and difference is accounted for as a foreign currency translation difference.

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. PRESENTATION OF FINANCIAL INFORMATION continued

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 and intangibles

(a) *Intangibles*

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.

Computer software are initially measured at cost and subsequently at cost less any accumulated amortisation and accumulated impairment losses.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Costs include costs incurred initially to acquire computer software. 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 derecognized.

Item	Average useful life	Depreciation Method
Computer software	3 – 10 years	Straight line

(b) *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.

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	Remaining useful life	Remaining useful life
– 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

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. PRESENTATION OF FINANCIAL INFORMATION continued

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 standard for financial instruments (IFRS 9) provides guidance on the classification and measurement of financial assets and 'expected credit loss' model for the impairment of financial assets.

(a) Classification

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

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

Classification of financial assets and financial liabilities 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 at fair value.

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

(c) Subsequent measurement

Financial instruments 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 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 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 has been impaired.

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses. The Group considers risks related to the clients that it deals with in the industries it operates in, to calculate the ECL provision. The Group's clients have been fairly consistent over an extensive period of time, making it possible to consider the past events, current conditions, reasonable and supportable forecasts available from the clients it deals with in the determination of the ECL provision.

Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost, trade receivables, loan commitments that are not measured at fair value through profit or loss.

Besides for the trade and receivables, the Group performed credit risk assessment on its financial assets, related parties and cash and cash equivalents and concluded that no ECL provision is necessary

Impairment losses are recognised in profit or 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.

1. PRESENTATION OF FINANCIAL INFORMATION continued

1.9 Financial instruments continued

(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

Fair values for simple over-the-counter derivative financial instruments are based on market quotes. These quotes are assessed for reasonableness by discounting estimated future cash flows using the market rate for similar instruments at measurement date. 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) Finance leases

A lease, in terms of IAS 17, 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.

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.

(b) IFRS 16 leases

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

– leases of low value assets; and
– leases with a duration of 12 months or less.

IFRS 16 was adopted 1 January 2019 without restatement of comparative figures. The following policies apply subsequent to the date of initial application, 1 January 2019. As a lessee, the group previously classified leases as operating or finance lease. Under IFRS 16, the group recognizes lease assets and lease liabilities for most leases.

1. PRESENTATION OF FINANCIAL INFORMATION continued

1.12 Leases continued

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying amount of lease liability includes amount expected to be payable under the agreement while the right of use asset are initially measured at the same amount as the lease liability.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease.

When the group revises its estimate of the term of any lease, it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

Refer to note 3 and 13 of the financial statements to see the impact of both the right of use of assets and liabilities.

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.

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. PRESENTATION OF FINANCIAL INFORMATION continued

1.16 Contingencies

Contingent assets are disclosed when it is probable 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

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 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. The Group determines the selling prices based on the specific work to be performed as requested by the client. Management has not changed its judgement on the recognition of revenue under IFRS 15.

Revenue is recognised using the output method based on the progress towards completion of the contract or meters drilled.

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

1.18 Investment income

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.

1.19 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.

1.20 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.

ACCOUNTING POLICIES (CONTINUED)

1. PRESENTATION OF FINANCIAL INFORMATION continued

1.20 Translation on foreign currencies continued

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.

1.21 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.

1.22 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

2.1 Standards, amendments and interpretations adopted

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 2019 as indicated below:

- IFRS 16 *Leases ("IFRS 16"); and*
- IFRIC 23 *Uncertainty over income tax treatments ("IFRIC 23")*

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 2019. Refer to note 3.1 and 13 for more details on IFRS 16 and note 20.2 for details on IFRIC 23

2.2 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.

2.2.1 IAS 1 *Presentation of Financial Statements*

Amendments were made to the definition of material.

IAS 1 is effective from periods beginning on or after 1 January 2020. Early adoption is permitted, however, the Group have decided not to early adopt.

The directors has assessed the impact of the new standards, they believe the new standards will not have a material impact on the Group's financial statements.

2.2.2 IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Amendments were made to the definition of material.

IAS 8 is effective from periods beginning on or after 1 January 2020. Early adoption is permitted, however, the Group have decided not to early adopt.

The directors has assessed the impact of the new standards, they believe the new standards will not have a material impact on the Group's financial statements.

2.2.3 IFRS 3 *Business Combinations*

Amendments were made to the definition of business.

IFRS 3 is effective from periods beginning on or after 1 January 2020. Early adoption is permitted, however, the Group have decided not to early adopt.

The directors has assessed the impact of the new standards, they believe the new standards will not have a material impact on the Group's financial statements.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

3. PROPERTY, PLANT AND EQUIPMENT

2019 **USD**	**Cost**	**Accumulated depreciation and impairment losses**	**Carrying value**
Land and buildings	**5 359 499**	**(940 359)**	**4 419 140**
Right of use assets: Land and buildings	**6 569 097**	**(662 908)**	**5 906 188**
Instalment agreement: Plant and machinery	**6 077 860**	**(658 785)**	**5 419 076**
Plant and machinery	**184 582 130**	**(50 451 936)**	**134 130 194**
Assets under construction	**5 006 522**	**(2 566)**	**5 003 956**
Furniture and fittings	**1 534 522**	**(504 323)**	**1 030 199**
Motor vehicles	**5 101 501**	**(3 225 625)**	**1 875 876**
IT equipment	**765 454**	**(535 166)**	**230 288**
Total	**214 996 585**	**(56 981 668)**	**158 014 917**

2018 USD	Cost	Accumulated depreciation and impairment losses	Carrying value
Land and buildings	4 249 534	(1 041 678)	3 207 856
Instalment agreement: Plant and machinery	7 876 916	(1 197 278)	6 679 638
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
Total	200 993 631	(55 949 295)	145 044 336

Borrowing cost

Included in the cost of property, plant and equipment are capitalised borrowing cost related to the acquisition of plant and machinery to the amount of 2019: USD795 020 (2018: USD491 544) calculated at a capitalisation rate of 10,6%.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

3. PROPERTY, PLANT AND EQUIPMENT continued

3.1 Reconciliation of property, plant and equipment

2019 USD	Opening balance	Additions	Exchange difference on consolidation of foreign subsidiaries	Adjustment with the adoption of IFRS 16
Land and buildings	3 207 856	1 086 600	126 668	–
Right of use assets:				
Land and buildings	–	–	(76 979)	6 646 076
Instalment agreement:				
Plant and machinery	6 679 637	136 060	(23 886)	–
Plant and machinery	121 898 655	9 846 006	(1 029 514)	–
Assets under construction	10 588 524	3 748 439	(9 031)	–
Furniture and fittings	726 201	118 240	23 055	–
Motor vehicles	1 674 795	645 004	(7 119)	–
IT equipment	268 668	102 218	(2 567)	–
	145 044 336	15 682 567	(999 373)	6 646 076

2018 USD	Opening balance	Additions	Exchange difference on consolidation of foreign subsidiaries	Adjustment with the adoption of IFRS 16
Land and buildings	4 142 972	168 124	(241 592)	–
Instalment agreement:				
Plant and machinery	8 853 320	38 267	(1 040 338)	–
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)	–
	117 623 266	16 884 011	(7 378 677)	–

Security

Moveable assets to the value of ZAR1,2 billion (USD85.9 million at closing spot rate) of the South African subsidiaries have been bonded to ABSA Capital as security for an interest bearing loan.

The Group reclassified Computer Software and Patents from Property, Plant and Equipment (note 3) to Intangibles (note 4) as an improvement of disclosure.

Impairment

During 2019, throughout the Group, plant and machinery were impaired during the current financial period. The future cash flows of these specific rigs were negatively affected by the current declining demand for the smaller class machinery.

Assets acquired through business combination	Reclassifications and transfers (to)/from inventory/assets held for sale	Disposals	Depreciation	Impairment of fixed assets	Total
–	**–**	**–**	**(1 984)**	**–**	**4 419 140**
–	**–**	**–**	**(662 908)**	**–**	**5 906 188**
–	**(870 532)**	**(12 727)**	**(489 477)**	**–**	**5 419 076**
–	**9 627 047**	**(359 302)**	**(5 514 728)**	**(337 970)**	**134 130 194**
–	**(9 323 976)**	**–**	**–**	**–**	**5 003 956**
–	**212 261**	**(12 038)**	**(37 520)**	**–**	**1 030 199**
–	**559 104**	**(511 290)**	**(484 618)**	**–**	**1 875 876**
–	**(978)**	**(36 845)**	**(100 208)**	**–**	**230 288**
–	**202 926**	**(932 202)**	**(7 291 443)**	**(337 970)**	**158 014 917**

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
2 667 952	(2 532 740)	(432 576)	(874 248)	–	6 679 637
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
24 716 076	790 859	(646 607)	(6 944 592)	–	145 044 336

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

4. INTANGIBLE ASSETS

4.1 Intangible assets

2019 USD	**Cost**	**Accumulated amortisation and impairment losses**	**Carrying value**
Computer software	**2 341 050**	**(1 790 194)**	**550 856**
Patents	**212 182**	**–**	**212 182**
Total	**2 553 232**	**(1 790 194)**	**763 038**

2018 USD	Cost	Accumulated amortisation and impairment losses	Carrying value
Computer software	2 398 727	(1 467 061)	931 666
Patents	239 601	–	239 601
Total	2 638 328	(1 467 061)	1 171 267

2019 USD	**Opening balance**	**Additions**	**Exchange difference on consolidation of foreign subsidiaries**
Computer software	**931 666**	**5 958**	**4 397**
Patents	**239 601**	**–**	**(27 419)**
	1 171 267	**5 958**	**(23 022)**

2018 USD	Opening balance	Additions	Exchange difference on consolidation of foreign subsidiaries
Computer software	1 212 800	36 001	(69 954)
Patents	239 601	–	–
	1 452 401	36 001	(69 954)

Impairment

During 2019, the Mexican subsidiary impaired its accounting system with the implementation of the accounting system that is rolled out through out the rest of Group.

Assets acquired through business combination	Reclassifications and transfers (to)/from inventory/assets held for sale	Disposals	Amortisation	Impairment of fixed assets	Total
–	(206 070)	**–**	**(138 347)**	**(46 748)**	**550 856**
–	–	**–**	**–**	**–**	**212 182**
–	(206 070)	**–**	**(138 347)**	**(46 748)**	**763 038**

Assets acquired through business combination	Reclassifications and transfers (to)/ from inventory/ assets held for sale	Disposals	Amortisation	Impairment of fixed assets	Total
13 870	–	(75)	(260 976)	–	931 666
–	–	–	–	–	239 601
13 870	–	(75)	(260 976)	–	1 171 267

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

4. INTANGIBLE ASSETS continued

4.2 GOODWILL

	2019 USD	2018 USD
Goodwill recognised from value chain business combinations	**2 221 699**	2 612 584
Goodwill recognised from raisebore business combinations	**502 478**	562 508
Goodwill recognised from business combinations	**2 724 177**	3 175 092

The change in goodwill from the previous financial year arose due to the underlying goodwill in emerging currencies converted to presentation currency. The effect as a result of foreign exchange differences amounts to USD450 915.

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 for the value chain cash generating unit exceeds the carrying value by USD7 098 970 (2018: USD4 992 887). The recoverable amount of the raise bore cash-generating unit exceeds the carrying value by USD555 374 (2018: USD679 011)

	Growth rate 2019	**Discount rate 2019**	Growth rate 2018	Discount rate 2018
Cash-generating unit	**2,00% – 5,00%**	**9,75% – 12,00%**	2,50% – 8,00%	10,00% – 12,00%

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. Five year 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
Investment in BEE Partner	**Epha Drilling (Pty) Ltd**	**Mosima Drilling (Pty) Ltd**	**Mosima Drilling (Pty) Ltd**	
2019 USD				
Opening balance - restated	**4 254 269**	**–**	**91 393**	**4 345 662**
Exchange rate differences on translation	**76 395**	**–**	**(2 642)**	**73 753**
Preference dividends receivable capitalised	**1 835 293**	**–**	**6 469**	**1 841 762**
Preference dividend received	**(940 532)**	**–**	**–**	**(940 532)**
Closing balance	**5 225 425**	**–**	**95 220**	**5 320 645**
2018 USD				
Opening balance - restated	4 617 854	–	92 043	4 709 897
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 - restated	4 254 269	–	91 393	4 345 662
2017 USD				
Opening balance – as previously reported	2 617 462	7 368 303	82 589	10 068 354
Opening balance adjustment (refer to note 39)	1 611 385	–	–	1 611 385
Opening balance - restated	**4 228 847**	**7 368 303**	**82 589**	**11 679 739**
Exchange rate differences on translation	286 905	742 385	9 053	1 038 343
Redemption of financial assets	–	(7 977 048)	–	(7 977 048)
Preference dividends receivable capitalised	209 324	–	401	209 725
Preference dividend received	(107 222)	(133 640)	–	(240 862)
Closing balance - restated	4 617 854	–	92 043	4 709 897

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.

5. FINANCIAL ASSETS continued

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. An error has been identified in 2015 which have been corrected in the prior year. Refer to note 39 for more details.

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.

6. DEFERRED TAX

	2019 USD	2018 USD
Property, plant and equipment	**9 746 826**	8 272 266
Pre-payments	**347 187**	(103 111)
Allowance for expected credit losses	**(325 171)**	(76 638)
Income in advance	**(29 674)**	(78 104)
Leases	**905 538**	1 023 987
Accrual for leave pay	**(351 056)**	(204 778)
Assessed loss	**(5 469 459)**	(2 531 680)
Unrealised foreign exchange profit/loss	**603 107**	138 069
Net deferred tax liability	**5 427 298**	6 440 011
Deferred tax liability	**11 602 658**	9 434 322
Deferred tax asset	**(6 175 360)**	(2 994 311)
	5 427 298	6 440 011
Reconciliation of deferred tax liability		
Reported as at 1 January	**6 440 011**	7 178 862
Exchange differences on translation of foreign operations	**(262 883)**	(894 712)
Change in tax rate	**–**	42 047
Property, plant and equipment	**2 013 548**	200 873
Pre-payments	**450 285**	(86 072)
Income in advance	**41 554**	(73 339)
Allowance for expected credit losses	**(283 726)**	76 658
Finance leases	**(131 714)**	1 079 201
Provisions	**(158 680)**	(82 603)
Assessed loss	**(3 325 682)**	(869 546)
Unrealised foreign exchange profit/loss	**644 585**	(131 358)
	5 427 298	6 440 011

Deferred taxation assets have been recognised in respect of tax losses and temporary differences where, having reviewed the financial projections of the Group, the directors are of the opinion that it is probable that these assets will be recoverable.

The total unrecognised assessed loss at 31 December 2019 is USD5 532 824 (2018: USD3 265 658).

7. INVENTORIES

	2019 USD	2018 USD
Consumables	**17 503 998**	14 859 686
Cutters	**10 140 170**	10 157 565
Work in progress	**691 876**	964 728
	28 336 044	25 981 979
Allowance for obsolete inventory	**(480 143)**	(194 110)
	27 855 901	25 787 869

The carrying amount of inventory as presented represent the cost price of inventory and no inventory is carried at fair value less cost to sell

The Group did not write down any inventory items, nor has it reversed any write-down of inventory during the current or previous financial year.

8. TRADE AND OTHER RECEIVABLES

	2019 USD	2018 USD
Trade receivables – Normal	**33 901 268**	32 511 631
Trade receivables – Normal (Gross)	**36 696 597**	33 638 448
Impairment allowance of trade receivables	**(2 795 329)**	(1 126 817)
Trade receivables – Retention	**5 603 489**	5 449 738
Loans to employees	**152 812**	119 777
Pre-payments	**3 349 227**	1 302 039
Deposits	**866 593**	827 369
Indirect taxes	**4 569 627**	3 304 990
Sundry	**2 291 480**	4 664 303
	50 734 496	48 179 847
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 expected credit losses is presented below		
Balance 1 January	**1 126 817**	581 716
Exchange differences on translation of foreign operations	**(25 376)**	(57 625)
Amounts written off	**–**	–
Allowance for credit losses provided for	**1 693 888**	602 726
	2 795 329	1 126 817

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

8. TRADE AND OTHER RECEIVABLES continued

	2019 USD	2018 USD
Expected credit losses matrix:		
Current	**2.84% to 2.95%**	
30 days	**2.94% to 3.00%**	
31 to 60 days	**3.19% to 3.25%**	
61 to 90 days	**3.69% to 3.95%**	
90 + days	**4.05% to 4.15%**	
The carrying amount in USD of trade and other receivables are denominated in the following currencies:		
United States Dollar (USD)	**17 537 778**	20 419 586
South African Rands (ZAR)	**7 580 681**	8 703 918
Brazilian Reals (BRL)	**3 074 568**	3 091 482
Mexican Peso (MXN)	**73 741**	91 500
Chilean Peso (CLP)	**6 273 167**	7 705 700
Peruvian Nuevo Sol (PEN)	**986 710**	975 082
CFA Franc BCEAO (XOF)	**2 308**	3 339
Chinese Yuan Renminbi (CNY)	**627 776**	224 476
Guatemalan Quetzal (GTQ)	**7 520**	6 906
Zambian Kwacha (ZMW)	**1 739 911**	1 063 825
Colombian Peso (COP)	**433 218**	102 019
Euro (EUR)	**844 022**	512 078
Swedish Krona (SEK)	**2 020 375**	1 070 442
Australian Dollar (AUD)	**1 158**	41 828
Canadian Dollar (CAD)	**6 143 964**	289 801
Indian Rupee (INR)	**3 387 599**	3 877 865
	50 734 496	48 179 847

9. CASH AND CASH EQUIVALENTS

	2019 USD	2018 USD
Cash on hand	**70 914**	267 467
Bank balances	**16 558 137**	31 884 080
Short-term deposits (*)	**3 094 067**	1 573 584
Bank overdraft	**(215 913)**	(410 537)
	19 507 205	33 314 594
Current assets	**19 723 118**	33 725 131
Current liabilities	**215 913**	410 537

(*) Includes a bank guarantee that ICICI Bank holds to the value of INR 19 066 500 as cover for supplier invoices

10. SHARE CAPITAL

Authorised	2019 Number of shares		2018 Number of shares	
Ordinary shares	**500 000 000**	**–**	500 000 000	–

Reconciliation of number of shares issued:	2019 Number of shares	Value USD	2018 Number of shares	Value USD
Balance at the beginning of the period	**150 592 777**	**148 703 721**	150 592 777	148 703 721
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. There were no changes to share capital in the current year.

11. EQUITY DUE TO CHANGE IN CONTROL OF INTEREST

	2019 USD	2018 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

Equity that arose with the formation of the Group on the initial Johannesburg Stock Exchange Listing.

12. INTEREST-BEARING BORROWINGS

	2019 USD	2018 USD
12.1 Held at amortised cost		
Secured		
ABSA Capital, a division of ABSA Bank Limited	**49 818 523**	55 477 719
A portion of the loan, USD35 926 042, is denominated in USD. The remainder of the loan, USD13 922 481, is denominated in ZAR. The loan is repayable in 20 quarterly instalments.		
The USD denominated portion of the loan bears interest at a marginal rate of between 3.45% and 3.90% over libor as applicable. The remainder of the loan 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 by the end of March 2022 while interest is repayable in quarterly instalments since September 2017.		

12. INTEREST-BEARING BORROWINGS continued

	2019 USD	2018 USD
Swedbank *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*	**1 628 788**	2 287 778
Total interest-bearing borrowings	**51 447 311**	57 765 497
Non-current liabilities		
At amortised cost	**39 113 277**	50 458 654
Current liabilities		
At amortised cost	**12 334 035**	7 306 843
	51 447 311	57 765 497

12.2 Changes in liabilities arising from financing activities

	2019 USD Financial Liabilities	2019 USD Leases	2019 USD Total
Opening balance	**57 765 497**	**2 476 354**	**60 241 851**
Foreign exchange movement	**480 629**	**(144 443)**	**336 185**
Cash flows – drawdown	**–**	**–**	**–**
Cash flows – repayments	**(6 798 814)**	**(1 502 917)**	**(8 301 731)**
Closing balance	**51 447 312**	**828 994**	**52 276 305**

	2018 USD Financial Liabilities	2018 USD Leases	2018 USD 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

13. LEASE OBLIGATION

		2019 USD	2018 USD
13.1	**Lease obligations**		
	Minimum lease payment due		
	– within one year	**995 529**	–
	– in second to fifth year	**3 989 583**	–
	– more than five years	**10 657 598**	–
		15 642 710	–
	Less: Future finance charges	**(9 650 853)**	–
	Present value of minimum lease payment	**5 991 857**	
	– within one year	**457 626**	–
	– in second to fifth year	**1 843 464**	–
	– more than five years	**3 690 767**	–
		5 991 857	
13.2	**Installment lease obligations**		
	Installment lease obligations		
	Minimum lease payment due		
	– within one year	**924 089**	1 363 884
	– in second to fifth year	**665 074**	1 307 659
		1 589 163	2 671 543
	Less: Future finance charges	**(72 387)**	(195 189)
	Present value of minimum lease payment	**1 516 776**	2 476 354
	– within one year	**898 059**	1 273 282
	– in second to fifth year	**618 716**	1 203 072
	Present value of minimum lease payments	**1 516 776**	2 476 354

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.

		2019 USD	2018 USD
13.3	**Operating lease obligations**		
	Office Space		
	– within one year	**–**	442 733
	– in second to fifth year	**–**	3 688 394
	– more than five years	**–**	–
		–	4 131 127
	Workshop		
	– within one year	**–**	513 047
	– in second to fifth year	**–**	1 097 417
	– more than five years	**–**	–
		–	1 610 464

New leases were signed for a periods ranging between 2 to 10 years with a renewal option at the end of the contract term. An annual escalation of between 1.75% and 6.00% across the Group is applicable.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

13. LEASE OBLIGATION continued

	2019 USD	2018 USD
13.4 Lease obligation reconciliation		
Office Space		
Opening balance	**5 741 591**	
Additions	**702 596**	
Interest expense	**562 872**	
Lease payments	**(937 261)**	
Foreign exchange movements	**(77 941)**	
Closing balance	**5 991 857**	

The Group adopted IFRS 16 using the modified retrospective approach, with recognition of transitional adjustments on the date of initial application (01 January 2019), without restatement of comparative figures. The Group elected to apply the practical expedient to not reassess whether a contract is, or contains a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. The definition of lease under IFRS 16 was applied only to contracts entered into or changed on or after 01 January 2019

14. TRADE AND OTHER PAYABLES

	2019 USD	2018 USD
Trade payables	**13 643 509**	7 423 846
Income received in advance	**134 884**	822 402
Indirect taxes	**1 678 789**	3 914 138
Leave pay accruals	**2 147 816**	1 983 405
Onerous contracts	**535 377**	1 714 836
Business combination consideration payable	**1 228 602**	1 420 684
Investment in associate consideration payable	**–**	897 837
Employee related	**3 454 042**	2 971 288
Other accruals	**4 078 509**	7 541 584
	26 901 528	28 690 020

15. CAPITAL COMMITMENTS

	2019 USD	2018 USD
Capital expenditure authorised by the directors and contracted for within 12 months. Capital expenditure will be funded through cash generated from operations.	**1 568 610**	**1 189 801**

16. REVENUE

	2019 USD	2018 USD
Rendering of services	**148 327 852**	138 721 765

Refer to note 27 – Segment Reporting for disaggregation of revenue

17. OPERATING PROFIT

	2019 USD	2018 USD
Operating profit for the year is stated after accounting for the following:		
Gain on sale of property, plant and equipment	**16 076**	949 084
Impairment	**(384 717)**	–
Profit on exchange differences	**1 926 229**	2 034 582
Depreciation on property, plant and equipment	**(7 429 791)**	(7 205 569)
Employee costs	**(58 053 712)**	(54 144 470)
Operating lease expense	**–**	(955 623)
Auditors' remuneration	**(248 293)**	(226 686)

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 0.4 million of research and development costs in the consolidated annual financial statement for the year ended 31 December 2019 (2018: USD0.6 million).

18. INVESTMENT INCOME

	2019 USD	2018 USD
Total dividends received		
Unlisted preference dividends	**947 439**	444 540
Total interest received		
Bank	**175 175**	230 299
Other	**17 217**	61 330
	1 139 831	736 169

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

19. FINANCE COST

	2019 USD	2018 USD
Financial liabilities	**2 673 459**	2 425 862
Leases	**1 822 487**	200 904
Bank	**105 559**	154 984
Other	**–**	76 741
	4 601 505	2 858 491

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

20. TAXATION

20.1 Taxation

	2019 USD	2018 USD
Current		
Normal taxation	**4 627 926**	5 524 399
Current taxation	**5 339 878**	6 994 758
(Over)/Under provision	**(711 952)**	(1 470 359)
Deferred taxation: Temporary differences	**(1 013 648)**	(1 496 930)
	3 614 278	4 027 469
Reconciliation of the tax expense		
Accounting profit	**18 995 848**	21 499 267
Tax at the applicable tax rate	**6 452 941**	6 789 872
(Over)/Under provision	**(711 952)**	(1 470 359)
Exempt income – Dividends	**(3 639 763)**	(3 439 294)
Non-deductible expenses - Fines and penalties	**153 707**	2 081 109
Deferred taxation: Change in tax rate	**–**	158 810
Assessed loss not recognised	**1 799 081**	420 765
Assessed loss previously not recognised	**(439 736)**	(513 434)
Taxation per statement of profit or loss and other comprehensive income	**3 614 278**	4 027 469

Deferred taxation assets have been recognised in respect of tax losses and temporary differences where, having reviewed the financial projections of the Group, the directors are of the opinion that it is probable that these assets will be recoverable.

The total unrecognised assessed loss at 31 December 2019 is USD5 532 824 (2018: USD3 265 658).

	2019 USD	2018 USD
Normal taxation charge/(refund) per entity within the Group		
DCP Properties SAC	**35 002**	–
Master Drilling Exploration (Pty) Ltd	**221 912**	1 055 555
Master Drilling Chile SA	**589 238**	146 827
Master Drilling Peru SAC	**–**	701 891
Master Drilling do Brasil Ltda	**336 339**	491 941
Master Drilling Mexico SA	**769 522**	174 013
Master Drilling Malta Limited	**869 489**	2 648 814
Master Drilling Guatemala SA	**358**	3 492
Master Drilling Training Services (Pty) Ltd	**3 499**	1 875
Master Drilling RDC sprl	**201 178**	–
Master Drilling Colombia SAS	**94 078**	76 273
Master Drilling Zambia Limited	**758 343**	(208 044)
Master Drilling International Ltd	**–**	(741 531)
Master Drilling Mali SARL	**–**	45 464
Drilling Technical Services SAC	**(102 719)**	–
Master Drilling Australia Ltd	**123**	–
Master Drilling USA LLC	**(336 307)**	–
MD Katanga Drilling Company SAS	**94 941**	–
Master Drilling Changzhou Co Ltd	**54 440**	64 934
Bergteamet Latin America SpA	**41 308**	347 153
Bergteamet Raiseboring Europe AB	**299 104**	221 945
Master Drilling Madencilik Ve Ticaret Limited Sirketi	**9 049**	65 212
Master Drilling India Ltd	**172 106**	299 173
Drilling Admin Services SAC	**–**	94 831
Drilling Technical Services (Pty) Ltd	**–**	243 117
Martwick Ltd	**–**	(18)
Master Drilling (Pty) Ltd	**516 700**	(169 360)
MD Drilling Services Tanzania SARL	**223**	(39 158)
	4 627 926	5 524 399

There were no changes in tax rates within the Group during 2019.

20.2 Uncertainty over tax treatments

The Group elected to apply IFRIC 23 retrospectively with the cumulative effect recorded in retained earnings as at the date of initial application, 1 January 2019. The assesment on the adoption of IFRIC 23 indicated no change in corporate tax liabilities. The Group will continue to assess the impact of the uncertainty over tax treatment and disclose accordingly in future financial statements.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

21. DIRECTORS' REMUNERATION

2019 USD	Basic salary	Travel allowance	Bonus
Executive directors			
Danie Pretorius	534 091	–	91 773
Andre van Deventer	387 352	–	284 284
Gary Sheppard	345 914	–	288 729
Koos Jordaan	248 688	–	395 217
Sub-total	1 516 045	–	1 060 003
Non-executive directors			
Hennie vd Merwe	–	–	–
Shane Ferguson	–	–	–
Octavia Matloa	–	–	–
Andries Brink	–	–	–
Akhter Deshmukh	–	–	–
Sub-total	–	–	–
Alternate director			
Eddie Dixon	164 776	–	108 138
Sub-total	164 776	–	108 138
Prescribed Officer			
Roelof Swanepoel	140 136	–	–
Sub-total	140 136	–	–
Total	1 820 957	–	1 168 141

A prescribed officer is defined as having general executive control over and management of a significant portion of the Group or regularly participates therein to a material degree, and is not a director of the Group.

Fringe benefits	Provident/ Pension fund contributions	Director's fees	Consulting and legal fees	Gains on exercise of options	Total
20 239	–	–	–	–	646 103
15 728	–	–	–	–	687 364
24 593	5 972	–	–	–	665 208
34 512	–	–	–	–	678 417
95 072	–	–	–	–	2 677 092
–	–	61 234	–	–	61 234
–	–	–	96 292	–	96 292
–	–	29 339	–	–	29 339
–	–	29 339	–	–	29 339
–	–	39 527	–	–	39 527
–	–	159 439	96 292	–	255 731
11 810	17 875	–	–	–	302 599
11 810	17 875	–	–	–	302 599
3 579	8 494	–	–	–	152 209
3 579	8 494	–	–	–	152 209
110 461	–	159 439	95 316	–	3 387 631

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

21. DIRECTORS' REMUNERATION continued

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

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

21. DIRECTORS' REMUNERATION continued

21.1 Directors' interest

2019	Number of shares: Direct beneficial	Number of shares: Indirect beneficial	Total	Percentage of issued ordinary share capital
Executive directors				
Danie Pretorius	**500 900**	**78 641 565**	**79 142 465**	**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**	**84 769 921**	**87 780 330**	**58.29%**

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%

22. EARNINGS PER SHARE

	2019 USD	2018 USD
Reconciliation between earnings and headline earnings		
Basic earnings for the year	**15 381 570**	17 471 798
Deduct:		
Non-controlling interest	**(118 434)**	(697 464)
Attributable to owners of the parent	**15 263 136**	16 774 334
Gain on disposal of fixed assets	**(16 076)**	(949 084)
Impairment of plant and equipment	**384 717**	–
Tax effect on (gain)/loss on disposal of fixed assets and impairments	**(103 553)**	296 687
Headline earnings for the year	**15 528 224**	16 121 937
Earnings per share (cents)	**10.1**	11.1
Diluted earnings per share (cents)	**10.1**	11.0
Headline earnings per share (cents)	**10.3**	10.7
Diluted headline earnings per share (cents)	**10.2**	10.6
Dividends per share (cents)	**26.0**	26.0
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**	150 592 777
Effect of dilutive potential ordinary shares – employee share options	**1 080 000**	1 530 000
Weighted average number of ordinary shares at the end of the year for the purpose of diluted basic earnings per share and diluted headline earnings per share	**151 672 777**	152 122 777

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

23. CASH GENERATED FROM OPERATIONS

23.1 Cash generated from operations

	2019 USD	2018 USD
Profit before taxation	**18 995 848**	21 499 267
Adjustments for:		
Depreciation and amortisation	**7 429 791**	7 205 568
Derivative movement	**242 365**	–
Impairment	**384 717**	–
Share of (profit)/loss from equity accounted investment	**(10 529)**	26 948
Translation effect of foreign operations	**(329 027)**	(519 249)
Share-based payment – equity settled	**(140 289)**	336 476
Gain on disposal of fixed assets	**(16 076)**	(949 084)
Dividends received	**(947 439)**	(444 540)
Interest received	**(192 393)**	(291 629)
Finance costs	**4 601 505**	2 858 491
Changes in working capital:		
Inventories	**(2 068 032)**	1 715 417
Trade and other receivables	**(2 554 649)**	(6 754 239)
Trade and other payables	**(1 788 493)**	1 118 506
	23 607 299	25 801 932

23.2 Tax paid

	2019 USD	2018 USD
Reported as at 1 January	**3 385 537**	2 098 947
Acquired through business combination	**–**	241 515
Current tax for the period recognised in profit and loss	**4 627 926**	5 524 399
Exchange effect on consolidation of foreign subsidiaries	**52 912**	375 463
Balance at end of the period	**(2 943 562)**	(3 385 537)
	5 122 813	4 854 787

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

	2019 USD	2018 USD
Barrange (Pty) Ltd	**1 093**	–
MD Employees Trust [2]	**(207)**	(4 479)
TunnelPro Srl	**(195 719)**	–
MDG Equity Holdings (Pty) Ltd [1, 3 & 4]	**(92)**	16 281
Epha Drilling (Pty) Ltd [2]	**(103 965)**	(90 832)
Mosima Drilling (Pty) Ltd [2]	**(81 070)**	(78 918)
MD Drilling Employees Trust [2]	**(3 148)**	35 850
MD HDSA Trust [2]	**39 739**	1 913
DCP BEE Foundation Trust [2]	**16 872**	7 741
The Drillcorp BEE Trust [2]	**45 381**	39 366
MD Argentina SA	**(96 866)**	(491)
MD Engineering Employees Trust [2]	**757**	680
	(377 225)	(72 889)
Related party loans receivable from	**103 842**	101 831
Related party loans owing to	**481 067**	174 720
	(377 225)	(72 889)

Transactions relate to administration and management fees are payable within 30 days of statement. Related party loans are interest free.

The trusts included as related parties were established for the benefit of employees of the Group. The trusts were founded by a related party to the Group, DC Pretorius. The Group does not consolidate the trusts as the Group does not have the right to appoint the trustees of the trust nor is the Group a beneficiary of the trust.

The trusts are sponsored by its founder and the Group lends money to trustees, employees of the Group, and pays the accounting and administration fees on behalf of the trusts. The Group is also assisting in the dividend distribution process of the trust due to insufficient resources available within the trusts.

For Epha Drilling (Pty) and Mosima Drilling (Pty), the employees of the Group effectively owns 26% of the shares in Master Drilling (Pty) Ltd and Master Drilling Exploration (Pty) Ltd respectively via preference shares. These companies are sponsored through dividends declared on profits from the companies respectively.

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

Salaries paid to key management amounts to 2019: USD1 877 336 (2018: USD1 578 461).

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. Key management excludes the directors and prescribed officer of the Group. Refer to note 21 for disclosure on directors' remuneration.

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 2019 the above covenant ratios were all 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 2019 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 22,5% of equity and is therefore deemed to be low risk.

2019 **USD**	**+50 basis points**	**-50 basis points**
Profit and loss	**(294 780)**	**294 780**
Equity, net of finance tax	**(238 693)**	**238 693**

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.

2019 **USD**	**Less than** **1 year**	**Between** **2 and 5 years**	**5 years** **and after**
Long-term interest bearing borrowings	**12 334 035**	**39 113 277**	**–**
Lease obligations	**1 355 685**	**2 337 271**	**3 815 677**
Related party loans	**481 067**	**–**	**–**
Current tax payable	**2 943 562**	**–**	**–**
Trade and other payables	**26 901 528**	**–**	**–**

2018 USD	Less than 1 year	Between 2 and 5 years	5 years and after
Long-term interest bearing borrowings	7 306 843	30 057 539	20 586 260
Finance lease obligations	1 273 282	1 054 598	148 474
Related party loans	72 889	–	–
Current tax payable	4 424 035	–	–
Trade and other payables	28 690 020	–	–

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, CAD, INR 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%**
Chilean Peso	CLP	**(244 004)**	**298 227**
Turkish Lira	TRY	**(16 320)**	**19 947**
Swedish Krona	SEK	**(127 491)**	**155 822**
Peruvian Sol	PEN	**421 513**	**(515 183)**
Central African Franc	XOF	**16 567**	**(20 248)**
Chinese Tuan Renminbi	CNY	**(48 993)**	**59 880**
Euro	EUR	**17**	**(20)**
Australian Dollar	AUD	**23 305**	**(28 484)**
Brazilian Real	BRL	**(28 706)**	**35 086**
Canadian Dollar	CAD	**68 448**	**(83 659)**
Colombian Peso	COP	**(19 335)**	**23 632**
Guatemalan Quetzal	GTQ	**(84)**	**102**
Indian Rupee	INR	**(115 104)**	**140 683**
Zambian Kwacha	ZMW	**(63 245)**	**77 299**
South African Rand	ZAR	**(116 464)**	**142 345**

26. FINANCIAL INSTRUMENTS

2019
USD

	Category	Value
Non-current financial assets		
Financial assets	Amortised Cost	5 320 645
Current financial assets		
Trade and other receivables	Amortised Cost	42 815 642
Related-party loans	Amortised Cost	103 842
Derivative financial instrument	FVTPL	296 323
Cash and cash equivalents	Amortised Cost	19 723 118

	Category	Value
Non-current financial liabilities		
Lease obligations	Amortised Cost	5 534 231
Financial liabilities	Amortised Cost	39 113 277
Current financial liabilities		
Financial lease obligations	Amortised Cost	457 626
Financial liabilities	Amortised Cost	12 334 035
Loans to related parties	Amortised Cost	481 067
Trade and other payables	Amortised Cost	17 856 902
Cash and cash equivalents	Amortised Cost	215 913

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)

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

27. SEGMENT REPORTING

27.1 Mining activity

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

	2019 USD	2018 USD
Sales revenue by stage of mining activity		
Exploration	**3 819 938**	3 762 574
Capital	**22 157 343**	21 849 982
Production	**122 350 571**	113 109 208
	148 327 852	138 721 765
Gross profit by stage of mining activity		
Exploration	**1 080 308**	1 561 718
Capital	**8 560 898**	7 943 321
Production	**34 487 384**	34 061 497
	44 128 590	43 566 536

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.

	2019 USD	2018 USD
Sales revenue by geographical market		
Africa	**49 637 943**	47 011 105
Central and North America	**27 039 051**	17 437 769
Other Countries	**22 433 946**	16 195 137
South America	**49 216 912**	58 077 754
	148 327 852	138 721 765
Gross profit by geographical market		
Africa	**19 390 419**	16 641 344
Central and North America	**(220 295)**	4 739 601
Other Countries	**12 526 964**	5 921 443
South America	**12 431 502**	16 264 148
	44 128 590	43 566 536

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

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.

	2019 USD	2018 USD
Depreciation by geographical market		
Africa	**2 977 680**	3 374 462
Central and North America	**899 843**	706 619
Other Countries	**1 435 168**	1 212 791
South America	**2 117 875**	1 911 696
	7 430 566	7 205 568

	2019 USD	2018 USD
Investment revenue by geographical market		
Africa	**998 164**	301 152
Central and North America	**–**	4 038
Other Countries	**72 932**	248 373
South America	**68 735**	182 605
	1 139 831	736 169

	2019 USD	2018 USD
Finance cost by geographical market		
Africa	**1 477 449**	1 250 988
Central and North America	**1 452 643**	575 583
Other Countries	**262 303**	370 205
South America	**1 409 111**	661 715
	4 601 506	2 858 491

	2019 USD	2018 USD
Taxation by geographical market		
Africa	**3 162 005**	868 065
Central and North America	**(1 239 819)**	98 665
Other Countries	**428 749**	1 564 038
South America	**1 263 343**	1 496 701
	3 614 278	4 027 469

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

27. SEGMENT REPORTING continued

	2019 USD	2018 USD
Total assets by geographical market		
Africa *	**83 656 785**	78 419 639
Central and North America	**48 759 985**	43 961 799
Other Countries	**48 628 929**	50 543 357
South America **	**95 185 622**	93 457 169
Total assets as per statement of financial position	**276 231 321**	266 381 964
Total liabilities by geographical market		
Africa	**36 583 796**	34 698 362
Central and North America	**27 038 214**	23 690 201
Other Countries	**11 732 594**	16 561 972
South America	**25 746 068**	27 386 452
Total liabilities as per statement of financial position	**101 100 672**	102 336 987

** 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

	2019 USD	2018 USD
Payment bonds issued to customers	**1 919 665**	36 856
Retention bonds issued to customers	**275 823**	205 502
Performance bonds issued to customers	**1 820 917**	13 908
	4 016 405	256 266

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

29. INVESTMENTS IN SUBSIDIARIES

Master Drilling Group Limited investment in subsidiaries	% holding 2019	% holding 2018	Status	Country	Functional Currency
MDI Exco Ltd	**100.00%**	100.00%	Investment Holding	Malta	USD
Raisebore Rental (Pty) Ltd	**100.00%**	100.00%	Operational	RSA	ZAR
Drilling Technical Services (Pty) Ltd	**74.00%**	74.00%	Operational	RSA	ZAR
Master Drilling Exploration (Pty) Ltd	**74.00%**	74.00%	Operational	RSA	ZAR
Master Drilling International Ltd	**85.00%**	85.00%	Investment Holding	Malta	USD
MDG Shared Services (Pty) Ltd	**52.91%**	52.91%	Operational	RSA	ZAR
Master Sinkers (Pty) Ltd	**51.00%**	51.00%	Operational	RSA	ZAR
Master Tunneling (Pty) Ltd	**100.00%**	100.00%	Operational	RSA	ZAR
Master Drilling New Technologies Holding (Pty) Ltd	**90.00%**	90.00%	Operational	RSA	ZAR
MD Training Services (Pty) Ltd	**50.79%**	50.79%	Operational	RSA	ZAR
MD Retail (Pty) Ltd	**100.00%**	100.00%	Operational	RSA	ZAR
Master Drilling (Pty) Ltd	**100.00%**	100.00%	Operational	RSA	ZAR
Master Drilling International Limited investment in subsidiaries					
Master Drilling Chile SA	**100.00%**	100.00%	Operational	Chile	CLP
Master Drilling Peru SAC	**100.00%**	100.00%	Operational	Peru	PEN
Master Drilling do Brasil Ltda	**100.00%**	100.00%	Operational	Brazil	BRL
Master Drilling Mexico SA	**100.00%**	100.00%	Operational	Mexico	USD
Master Drilling Zambia Ltd	**100.00%**	100.00%	Operational	Zambia	ZMW
Master Drilling Australia (Pty) Ltd	**100.00%**	100.00%	Operational	Australia	AUD
Master Drilling Colombia S.A.S	**100.00%**	100.00%	Operational	Colombia	COP
Master Drilling Namibia (Pty) Ltd	**100.00%**	100.00%	Dormant	Namibia	NAD
Drillcorp Burkina Faso SA	**80.00%**	80.00%	Dormant	Burkina Faso	XOF
Drillcorp Cote d'Ivoire SA	**80.00%**	80.00%	Dormant	Cote d'Ivoire	XOF
Master Drilling Botswana (Pty) Ltd	**100.00%**	100.00%	Dormant	Botswana	BWP
Master Drilling Guatemala SA	**100.00%**	100.00%	Operational	Guatemala	GTQ
Master Drilling RDC Sprl	**100.00%**	100.00%	Operational	DRC	USD
Master Drilling Malta Ltd	**100.00%**	100.00%	Operational	Malta	USD
Jiangsu Master Mining Engineering Technology Company Ltd	**100.00%**	100.00%	Dormant	China	CNY
Master Drilling Jiangsu Company Ltd	**100.00%**	100.00%	Operational	China	CNY
Martwick Ltd	**100.00%**	100.00%	Dormant	Ireland	EUR
Drilling Technical Services SAC	**100.00%**	100.00%	Dormant	Peru	PEN
Drilling Admin Services SAC	**100.00%**	100.00%	Operational	Peru	PEN
DCP Properties SAC	**100.00%**	100.00%	Operational	Peru	PEN

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

29. INVESTMENTS IN SUBSIDIARIES continued

Master Drilling Group Limited investment in subsidiaries	% holding 2019	% holding 2018	Status	Country	Functional Currency
Master Drilling Changzhou Co. Ltd	**100.00%**	100.00%	Operational	China	CNY
Orbit Insurance Company Ltd	**100.00%**	100.00%	Operational	Anguilla	USD
Master Drilling Ecuador SA	**100.00%**	100.00%	Operational	Ecuador	USD
Master Drilling USA LLC	**90.00%**	90.00%	Operational	USA	USD
MD Drilling Services Tanzania Ltd	**100.00%**	100.00%	Operational	Tanzania	USD
Master Drilling Sierra Leone Ltd	**100.00%**	100.00%	Dormant	Sierra Leone	USD
Mater Drilling India Private Ltd	**100.00%**	100.00%	Operational	India	INR
Bergteamet Raiseboring Europe AB	**100.00%**	100.00%	Operational	Sweden	SEK
Master Drilling Mali SARL	**100.00%**	100.00%	Operational	Mali	XOF
Master Drilling Madencilik Ve Ticaret Limited Sirketi’	**100.00%**	100%	Operational	Turkey	TRY
MD Katanga Drilling Company SAS	**49.00%**	49%	Operational	DRC	USD
MDX - Masterdrill Explorações E Sondagens Ltda	**100.00%**	100%	Operational	Brazil	BRL
Master Drilling Canada Ltd	**100.00%**	100%	Operational	Canada	CAD
Master Drilling Ghana Sprl	**100.00%**	100%	Operational	Ghana	
Master Drilling Malta Limited investment in subsidiaries					
Master Drilling Chile División Raise Borer SpA	**100.00%**	100.00%	Operational	Chile	CLP

The Group obtains control in MD Katanga Drilling Company SAS, where effective shareholding is less than 50% via contractual arrangements.

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

Rentals paid to Barrange (Pty) Ltd amounts 2019: USD200 225 (2018: USD191 543).

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.

31. SHARE OPTION SCHEME continued

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 2019. 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 2019.

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:

	2019 USD	2018 USD
Expense arising from equity-settled share-based payment transactions	**(140 289)**	336 476

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**	
Granted during the year	**–**	
Cancelled during the year	**450 000**	
Outstanding at 31 December 2019	**1 592 714**	

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 2019 was 0.83 years (2018: 2.31).

No share options were granted during the current year but 450 000 were cancelled due to employees leaving the Group and not fulfilling the qualification requirements.

The following table list the inputs to the model used for the share plan for 31 December 2019:

	2019	2018
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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

33. NON-CONTROLLING INTEREST

The following subsidiaries have material non-controlling interest.

2019 USD	Master Drilling Exploration (Pty) Ltd	Master Drilling New Technology Holdings (Pty) Ltd (*)	Master Sinkers (Pty) Ltd	Drilling Technical Services (Pty) Ltd	Master Drilling USA LLC
Principal place of business	RSA	RSA	RSA	RSA	USA
Non-controlling interest ("NCI")	26%	10%	49%	26%	10%
Revenue	14 523 011	–	37 491	20 560 863	196 381
Profit/(Loss)	1 152 364	257 087	38 751	99 006	(143 977)
Total comprehensive income/(loss)	1 152 364	257 087	38 751	99 006	(143 977)
Profit/Loss allocated to NCI	299 615	25 709	18 988	25 742	(14 398)
Comprehensive income attributable to NCI	299 615	25 709	18 988	25 742	(14 398)
Non-current assets	10 189 174	14 148 511	951 445	1 809 385	97 181
Current assets	8 813 168	1 407 767	430 906	26 598 044	252 936
Non-current liabilities	1 766 326	15 341 833	–	27 129	406 002
Current liabilities	1 866 268	123 743	32 338	27 832 909	46 870
Net assets	15 369 749	90 701	1 350 013	547 392	(102 754)
Net assets attributable to NCI	3 996 135	9 070	661 507	142 322	(10 275)
Cash flows from operating activities	1 161 249	(1 150 704)	2 968	3 257 013	(316 013)
Cash flows from investing activities	(3 280 973)	(11 980 296)	(1 091 625)	(1 291 016)	(64 694)
Cash flows from financing activities	1 638 421	13 849 643	1 089 878	(3 234 659)	355 654
Net increase/(decrease) in cash and cash equivalents	(481 303)	718 643	1 221	(1 268 662)	(25 053)
Dividends paid	(545 952)	–	–	–	–

2018 USD	Master Drilling Exploration (Pty) Ltd	Master Drilling New Technology Holdings (Pty) Ltd (*)	Master Sinkers (Pty) Ltd	Drilling Technical Services (Pty) Ltd	Master Drilling USA LLC
Principal place of business	RSA	RSA	RSA	RSA	USA
Non-controlling interest ("NCI")	26%	0%	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 Drilling New Technology Holdings (Pty) Ltd did not have a non-controlling interest in the prior year.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

34 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.

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.

	2019 USD	2018 USD
Revenue	**579 316**	288 214
Loss from continuing operations	**21 488**	(54 997)
Total comprehensive loss	**21 488**	(54 997)
Group's share of total comprehensive loss	**10 529**	(26 949)
Dividends received from associate	**–**	–

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.

	2019 USD	2018 USD
Non-current assets	**1 418 837**	232 397
Current assets	**6 315 664**	8 604 168
Non-current liabilities	**–**	–
Current liabilities	**2 415 535**	6 419 176
Net assets	**5 318 966**	2 417 389
Group's share of net assets	**2 606 293**	1 184 521
Goodwill	**1 093 753**	1 447 545
Share of loss from equity accounted investment	**10 529**	(26 949)
Investment in associate	**3 710 575**	2 605 117

35 NON-CURRENT ASSETS HELD FOR SALE – CHILE

In October 2018, management committed to a plan to sell the property owned in Chile. The sales transaction for the property was sold as at 31 December 2019 with the condition that payment will occur with the transfer deed being transferred to the buyer. As at date of the audit report, the condition has not yet been met and the Group continues to recognise the property as a non-current asset held for sale until all conditions are met. It is expected to be finalised towards the end first quarter of 2020.

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:

	2019 USD	2018 USD
Land and buildings	**808 928**	808 928
Assets held for sale	**808 928**	**808 928**

	2019 USD	2018 USD
36 DERIVATIVE FINANCIAL INSTRUMENT		
Derivative financial asset	**4 796 323**	2 053 958
Derivative financial liability	**4 500 000**	2 000 000
Gain on derivative financial instrument recognized through profit and loss	**296 323**	53 958

The Group uses forward foreign exchange contracts to mitigate exchange rate exposure arising future commitments in emerging currencies. 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

On 19 March 2020, after the end of the 2019 financial year, the Group fulfilled all the conditions and acquired Geoserve Exploration Drilling (Pty) Ltd, a wholly owned subsidiary within our African segment. The purchase consideration payable amounts to ZAR100 and assumed the bank overdraft facility and certain liabilities of the acquiree. A detailed purchase price allocation will be performed during 2020 and disclosed in the 2020 financial statements

The escalation in the global spread and effects of the Covid-19 pandemic since yearend is likely to have an impact on our business and that of our customers and suppliers in most if not all geographies in which the Group operates. As at the date of signing this report, the Board considered the current cash position of the Group, and did stress tests on the ability of the Group to absorb periods of up to 3 months without any revenue being generated and found that the Group will be able to service its obligations. Management and the Board are and will remain focused on managing this unfortunate situation as best as possible.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (CONTINUED)

38. CONTINGENT LIABILITY

The Group is the defendant in legal proceedings brought by the owner of the Atlantis Group. Management's assessment, based on its interpretation of the underlying purchase agreement, independent legal advice and legal council, is that the basis for the claim has little merit and it is not probable that an outflow will be required to settle the claim. The Group's assessment of the fair value of this contingent liability, taking into account the range of possible outcomes of the judicial process does not exceed outstanding purchase price consideration.

39. CORRECTION OF PRIOR YEAR ERROR

During 2019, the Group discovered that it erroneously omitted the reversal of an investment transaction in financial assets since 2015. As a consequence, financial assets and reserves have been understated. The errors have been corrected by restating each of the affected financial statement line items for prior periods. Refer to the statement of changes in equity and note 5 to see the impact of the error.

	2017 - as reported	2017 - restated	Change
Financial Assets	3 098 512	4 709 897	1 611 385
Reserves	(83 855 527)	(82 244 142)	1 611 385
	2018 - as reported	2018 - restated	Change
Financial Assets	2 734 277	4 345 662	1 611 385
Reserves	(95 498 376)	(93 886 991)	1 611 385

40. RESTATEMENT OF PRIOR PERIOD

The Group reclassified Computer Software and Patents from Property, Plant and Equipment (note 3) to Intangibles (note 4) as an improvement of disclosure.

	2018 - as reported	2018 - restated	Change
Property, plant and equipment	146 215 603	145 044 336	(1 171 267)
Intangibles	3 175 092	4 346 359	1 171 267

SUPPLEMENTARY INFORMATION

ANALYSIS OF SHAREHOLDING

Size of holdings	Number of shareholders	% of total shareholders	Number of shares	% of shares in issue
1 – 1 000	1 044	55.8%	318 237	0.2%
1 001 – 10 000	630	33.7%	2 215 726	1.5%
10 001 – 100 000	114	6.1%	3 948 635	2.6%
100 001 – 1 000 000	60	3.2%	22 506 602	14.9%
1 000 000+	22	1.2%	121 603 577	80.7%
Total	**1 870**	**100.0%**	**150 592 777**	**100.0%**

Shareholder type				
Public shareholders	1 857	99.3%	62 812 447	41.7%
Non-public shareholders				
Directors' indirect holdings	10	0.5%	84 769 921	56.3%
Directors' direct holdings	3	0.2%	3 010 409	2.0%
Total	**1 870**	**100.0%**	**150 592 777**	**100.0%**

According to the share register of the Company the following fund managers other than directors are registered as holding in excess of 3% of the issued share capital of the Company:

	Number of shares	% of shares in issue
Kagiso Asset Management	17 763 503	11.8%
Abax Investments	11 040 344	7.3%
Investec Asset Management	8 967 043	6.0%
Coronation Fund Managers	5 152 799	3.4%
Total	**42 923 689**	**28.5%**

According to the share register of the Company the following beneficial shareholders other than directors are registered as holding in excess of 3% 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	8 844 740	5.9%
Nedbank Group	6 670 430	4.4%
Total	**98 166 256**	**65.2%**

Stock exchange information as at 31 December

JSE share code: MDI

		2019	2018
Market price (ZAR cents)	– high	**1 225**	1 500
	– low	**910**	873
	– closing	**1 028**	1 017
Shares traded		**21 571 390**	11 158 485

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
Krugersdorp
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South Africa
PO Box 158, Krugersdorp, 1740
South Africa

JSE SPONSOR

Investec Bank Limited
(Registration number: 1969/004763/06)
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
(PO Box 61051, Marshalltown, 2107)
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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.

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