MASTER DRILLING

2019

ABRIDGED ANNUAL FINANCIAL RESULTS

SALIENT FEATURES FOR THE PERIOD

- USD Revenue increased by 6.9% to USD148.3 million
- USD Earnings per share decreased by 9.0% to 10.1 cents
- ZAR Earnings per share decreased by 0,8% to 145,9 cents
- USD Headline earnings per share decreased by 3.7% to 10.3 cents
- ZAR Headline earnings per share increased by 4,9% to 148,8 cents
- Stable order book of USD142.1 million
- Healthy pipeline of USD297.0 million
- Continued focus on working capital management
- Mobile Tunnel Borer pilot project initiated in South Africa

CONTENTS

COMMENTARY

ABOUT MASTER DRILLING

Master Drilling was established in 1986 and listed on the Johannesburg Stock Exchange in 2012. The company delivers innovative drilling technologies and has built trusted partner relationships with blue-chip major and mid-tier companies in the mining, hydro-electric energy, civil engineering and construction sectors across various commodities worldwide for over 30 years. The Master Drilling business model of providing drilling solutions to clients through tailor-made designs coupled with a flexible support and logistics chain, makes it the preferred drilling partner throughout the lifecycle of projects from exploration to production and capital stages.

CEO, Danie Pretorius provided an overview of the business for the past year, commenting as follows:

"I am pleased that Master Drilling was able to maintain stable performance in the face of increased challenges in 2019. Looking back at the past year, good progress was made in delivering on the targets that we set out to achieve, especially in advancing the testing and commissioning of new technology and in deploying the largest machines in our fleet**."**

"We continued to explore opportunities for the expansion of our presence, services and exposure through our foray into new markets and our search for business acquisitions that would integrate well into our value chain and provide increased revenue and profits. As business conditions become more difficult and exploration drilling budgets continue to dwindle, we believe it is critical to not only manage existing operations optimally but also adapt to changing conditions and plan for a different future. Master Drilling's future remains firmly driven by investments in technology, people and processes that will generate consistent and long-term returns**."**

"In the short- to medium-term we have to continue to manage volatility and uncertainty as best we can, the impact of which ultimately reflects on working capital, revenue and profit fluctuations. Some of the factors that give rise to volatility and uncertainty are sudden changes in global trade, geopolitical risk, exchange rate movements and unforeseen events such as weather disruptions and the outbreak of deadly and infectious diseases. The past financial year was unfortunately marked by some unforeseen events, some of which have spilled over into 2020**."**

FINANCIAL OVERVIEW

Revenue increased 6.9% to USD148.3 million and operating profit decreased slightly to USD22.4 million. This was a respectable result given the adverse global market conditions experienced. Costs increased in line with the increase in revenue aligned with the new business operations.

Continuous investment in middle management human capital to support future growth and lower utilisation rates due to adverse demand had a negative impact on the profit after tax. Profits In the current year were negatively impacted by restructuring costs within business units within the Group.

USD earnings per share (EPS) decreased 9.0% to 10.1 cents, and ZAR EPS decreased 0,8% to 145,9 cents. USD headline earnings per share (HEPS) decreased 3.7% to 10.3 cents, and ZAR HEPS increased 4,9% to 148,8 cents.

Net cash generation decreased to USD23.6 million. This is as a result of the worsening working capital cycle which came on the back of slower payment from debtors due to challenging global economic conditions. Cash resources continue to be managed stringently to cater for emerging opportunities that require specific design, planning and investment.

Master Drilling's capital spend was 82.3% on expansion and 17.7% on sustaining the existing fleet.

Debt decreased from USD57.8 million to USD51.4 million and the gearing ratio, including cash, changed from 16.2% to 22.5% in the 2019 financial year.

COMMENTARY continued

OPERATIONAL OVERVIEW

The past year was characterised by volatility across markets, including equity, currency and commodity markets. As a business that generates USD revenues off an emerging currency cost base, we benefit from emerging currency weakness.

Safety

One of the main focus areas across the Group is safety. Not only do we develop innovative solutions for clients that aim to increase safety during drilling operations, whether it be in mining or civil works, safety within the Group is also of paramount importance. A number of safety initiatives implemented over the past three years have led to an overall reduction in the lost time injury frequency rate by almost 15% over the period and a decline of 18% in all injuries.

Our goal is zero harm. To achieve this, in 2019 we developed and implemented a mobile application to manage our Safety, Health, Environmental and Quality (SHEQ) initiatives.

South America

Our South American operations, together with those in Africa, continue to generate the most significant portion of our overall revenue. Operations in this region span across Chile, Peru, Ecuador and Brazil. A number of challenges were encountered in this region in 2019, most notably in Peru and Chile.

Throughout the year, we continued with our review of the Peruvian business with a view to rightsizing operations and increasing efficiency. As a result, and because of relatively stringent labour laws governing retrenchments, higher than desired once-off costs were incurred. However, the business had to be restructured to align with commercial activities in the country, which have declined in what has become an aggressive pricing environment. However, we believe that in order to maintain sustainable, long-term business activities, profit margins need to be adequate and that our compelling offering will ultimately lead to renewed business opportunities in this market in future. In addition, our Peruvian operations also continue to support activities in Columbia and Ecuador. In Columbia, opportunities exist for copper and gold projects.

In Chile, where we have benefited from contracts with state-owned entity CODELCO in the copper sector, although operations are stable and continue, for the first time in many years political uncertainty and instability surfaced in 2019. A state of emergency was declared by Chile's president when unrest erupted over an increase in subway fares. The level of inequality in Chile is very high and might continue to pose social and political challenges. In addition, Chile's production of copper declined in 2019 on the back of lower ore grades, strikes and weather-related disruptions. However, Chile remains the top copper producer in the world and our revenue target for 2020 remains solid.

Finally, in Brazil, returns and performance remained on track and results were aligned to our expectations.

Central and North America

Our Mexican operations performed slightly under expectations in 2019 on the back of delays on some contracts, which however gained momentum towards the end of the year. To supplement this momentum, we are exploring additional diversification opportunities.

In Canada, where we recorded a significant number of enquiries in 2019, some of which successfully converted into project work, the commencement of our activities was partly delayed by protracted on-boarding processes. Although activity got underway during the second half of the year, and we ultimately executed the projects and realised an increase in revenue, our performance was disappointing and the margins we realised were sub-optimal.

The investment we undertook in the US a few years back has also not lived up to our expectations but we firmly believe that it was strategically sound and that good opportunities will materialise in future, especially on the back of the prevailing focus on increased mechanisation and modernisation in the sector.

Africa

Although revenue from Africa has slowed as contracts in some countries, such as Zambia and Mali have come to an end, performance was still pleasing in 2019, with the region accounting for xx% of overall revenue. We continue to operate on the African continent in a number of countries such as Sierra Leone and the DRC, with a total of xx machines deployed across the projects underway. Activity is further picking up, particularly in the western region, where Master Drilling has been awarded a contract by AngloGold in Ghana; we are also involved in the Subika project in this country. Elevated levels of global uncertainty spurred demand for gold as a safe-haven asset in 2019; together with increased demand from central banks, the gold price moved higher. This might continue to bode well for gold mines, at least in the short-term.

In South Africa, the unexpected termination of the Kolomela iron ore mine drilling contract, notwithstanding our compliance with the requirements of the project, has impacted negatively on the business. As a result, and with opportunities for new projects in South Africa remaining limited, we have been exploring developments in neighbouring countries. Nonetheless, South Africa remains the world's leading supplier of Platinum Group Metals (PGMs), catering for the significant demand for these commodities from China. As such, our revenue exposure to platinum has increased significantly over the past year, on the back of the work we are doing at Northam's Zondereinde mine, which features a world-record deep shaft. In addition, we are accessing opportunities in Zimbabwe through our work for Zimplats, located on the Hartley Geological complex that has 80% of the country's known PGM resources.

While the domestic mining sector still provides isolated and marginal opportunities, in overall terms it is shrinking, and new capital expenditure is not forthcoming. Increasingly, with cost pressures rising, uncertainty persisting and labour policies remaining inflexible, an inevitable shift towards increased mechanisation will occur over time and we will be well positioned to exploit resultant opportunities.

Master Drilling will continue to support its loyal domestic clients although growth will likely remain subdued.

We remain committed to expansion into appropriate African countries.

Scandinavia

Our investment in Bergteamet, our gateway to Scandinavia and the rest of Europe is yielding the expected returns. The order book looks promising with expansion into neighbouring European countries.

Our foray into this region continues. We are currently investigating opportunities to expand our service offering both in Scandinavia and the rest of Europe.

India

In India, through the acquisition of the Atlantis Group operations in 2018, Master Drilling secured a stable portfolio of contracts, which supplemented the work we separately secured from Vedanta Limited, and which got underway in 2019. We are pleased with the performance of our operations in this country, both in terms of efficiencies and revenues. The initial contract is coming to an end towards the end of 2020 and negotiations are currently underway for additional work to be performed under a new contract.

Other regions

Our drive to maintain geographical and commodity exposure diversification continued in 2019. Master Drilling continues to explore opportunities in Russia and Australia, where there is a significant amount of activity and appetite for modern and mechanised drilling solutions.

COMMENTARY continued

Technology

We believe technological innovation will continue to drive increased safety in the global mining sector through the reduction of labour intensity, as well as result in overall efficiency and performance gains, as is already evident. Master Drilling has always and continues to utilise technological innovation to provide drilling solutions across a number of sectors, principally mining, but also construction and civil works. We have committed significant investment towards this technology drive over the years, ensuring a feasible capital mix relative to machine utilisation.

The focus on the development and testing of new machines continued in 2019; the commissioning of the Mobile Tunnel Borer (MTB) got underway, as did the first phase of commissioning of the shaft boring system. Master Drilling adopts a phased approach to the development of new technology in order to mitigate conceptual risks. Inevitably, there is a lag between investment and the flow-through to return on the capital employed which means that the benefit of developing these innovative systems will only fully materialise in coming years.

Plant and equipment

The fleet consists of 143 raise bore and 30 slim drilling rigs. The total fleet's utilisation rate was 64%. The rate of new rigs coming on stream will settle with a focus on larger units, which typically generate higher income. No new slim rigs are in the pipeline at this point.

Skills development

The delivery of innovative concepts and drilling solutions would not be possible without a highly skilled and specialised team. We focus on the optimal use of all resources, including skills and knowledge. Over the years, both through psychometric-based recruitment processes and the acquisition of other established businesses that could be integrated into the vertical value chain of our business, Master Drilling has ensured it has accessed highly skilled teams.

To ensure the continued development of skills, alongside the exponential development of technology, Master Drilling has established a training centre which is a first of its kind in this specialised field. SETA accreditation has already been obtained. Not only does this ensure that we continue to have the necessary skills within our business, it also ensures that we contribute to skills development in the country and meaningfully impact communities.

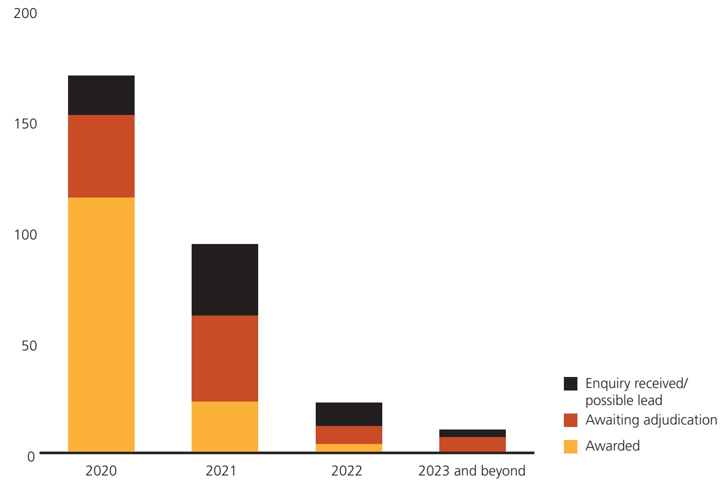
Dividend

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.

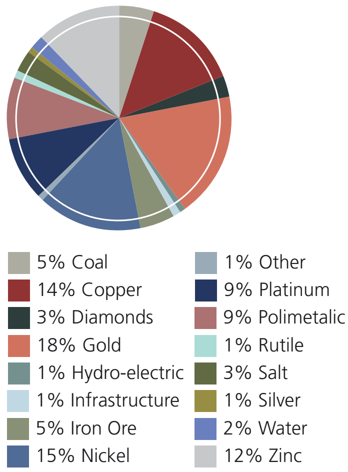
PIPELINE AND COMMITTED ORDERS

As at 31 December 2019 our pipeline totalled USD297 021 346 while the committed order book totalled USD142 123 271 for 2020 and beyond, spread as follows:

Pipeline (USD' million)



Committed orders

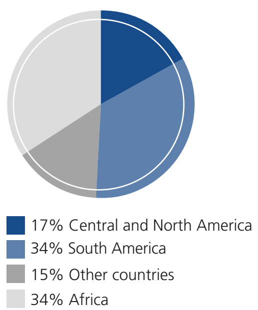


REVENUE

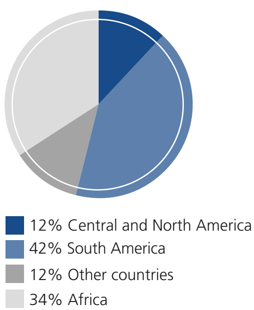
The following graphs reflect the Group's combined revenue for financial years ended 31 December:

Revenue by geographical area

2019

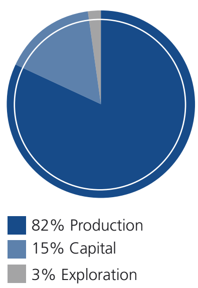


2018

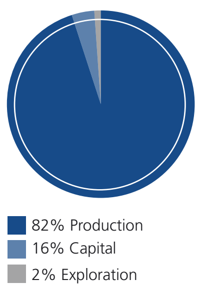


Revenue by mining activity

2019

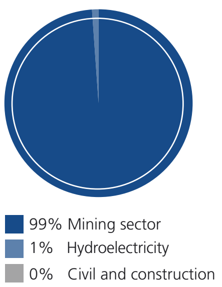


2018

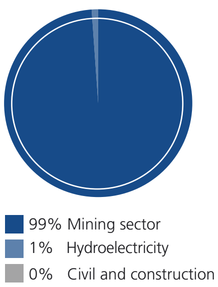


Revenue business sector

2019

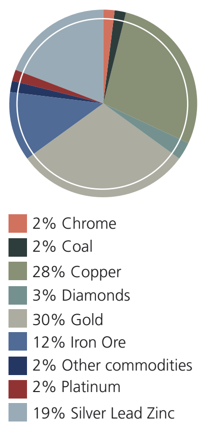


2018

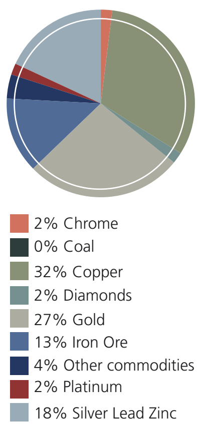


Revenue by commodity

2019



2018



OUTLOOK AND PROSPECTS

Diversification across regions, commodities, currencies and industries remains a key part of our long-term strategy. We are experiencing good demand with increased enquiries across the various regions and commodities and expect this to continue.

With volatility and uncertainty likely to prevail in global markets in the foreseeable future, we remain cautiously optimistic that the resolution, or the minimisation of geopolitical factors as well as a measured, rather than significant slowdown in the global economy will create a favourable operating environment in time.

Various opportunities in first world countries such as Australia, Canada and USA are coming to fruition and are expected to increase the Group's footprint across the world in the near future.

As outlined earlier, we believe that we have used the past year to solidify the foundations of our business, which will not only help it withstand the anticipated environment but will also ensure that Master Drilling remains at the helm of some of the rapid changes shaping our industry. We will continue with our efforts to expand our footprint in countries where we do not yet have a presence and to look for opportunities to expand our sector and service diversification. This, together with our existing footprint, services and the depth of our engineering and innovation capabilities position us well to remain a leader in the sector, bearing fruit for all our stakeholders.

Master Drilling's technology and experience put the company in a strong position to continue to support its clients' drive to improve productivity and efficiencies whilst reducing operational risk.

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		**6 175 360**	2 994 311	2 010 263
Investment in associate		**3 710 575**	2 605 117	6 022 115
		176 708 713	159 335 785	134 901 369
Current assets				
Inventories		**27 855 901**	25 787 869	23 894 609
Related-party loans		**103 842**	101 831	102 641
Trade and other receivables	6	**50 734 496**	48 179 847	38 191 737
Derivative financial instrument		**296 323**	53 958	–
Cash and cash equivalents		**19 723 118**	33 725 131	40 211 629
		98 713 680	107 848 636	102 400 615
Non-current assets held for sale		**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		**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		**39 113 277**	50 458 654	36 263 625
Lease obligations	7	**5 534 231**	–	–
Instalment lease obligations	7	**618 716**	1 203 072	1 682 765
Deferred tax liability		**11 602 658**	9 434 322	9 189 125
		56 868 882	61 096 048	47 135 515
Current liabilities				
Interest bearing borrowings		**12 334 035**	7 306 843	4 659 387
Lease obligations	7	**457 626**	–	–
Instalment lease obligations	7	**898 059**	1 273 282	1 444 820
Related party loans		**481 067**	174 720	195 483
Current tax payable		**2 943 562**	3 385 537	2 098 947
Trade and other payables	8	**26 901 528**	28 690 020	20 086 747
Cash and cash equivalents		**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		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		22 446 993	23 648 537
Investment revenue		1 139 831	736 169
Finance costs		(4 601 505)	(2 858 491)
Share of profit/(loss) from equity accounted investment		10 529	(26 948)
Profit before taxation		18 995 848	21 499 267
Taxation	9	(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)	10		
Basic earnings per share (cents)		10.1	11.1
Diluted earnings per share (USD)	10		
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 CASH FLOWS

	Note(s)	2019 USD	2018 USD
Cash flows from operating activities			
Cash generated from operations	11.1	**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		**(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		**(897 837)**	(2 605 117)
Additional investment in associate		**(3 048 673)**	–
Acquisition of subsidiaries	11.2	**–**	(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

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 14)	**–**	**–**	**–**	**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**

	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**

NOTES TO THE ABRIDGED CONSOLIDATED ANNUAL FINANCIAL RESULTS

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.

ACCOUNTING POLICIES

1. BASIS OF PRESENTATION

The abridged audited financial results have been prepared in accordance with IAS 34: Interim Financial Reporting, International Financial Reporting Standards, the SAICA reporting guides as issued by the Accounting Standards Board and the requirements of the South African Companies Act, (Act No 71 of 2008), as amended and the Listings Requirements of the JSE Limited. The audited consolidated annual financial statements have been prepared on the historical cost basis, except certain financial instruments at fair value, and incorporate the principal accounting policies set out below. They are presented in United States Dollar ("USD").

The significant accounting policies are consistent in all material respects with those applied in the previous year, except for the adoption of new standards and amendments which became effective in the current year.

The audited consolidated financial statements for Master Drilling Group Limited for the period ended 31 December 2019 have been audited by BDO South Africa Incorporated, who expressed an unmodified audit opinion thereon. A copy of the auditor's report on the audited consolidated financial statements are available on www.masterdrilling.com. These abridged audited consolidated financial results were derived from the consolidated annual financial statements.

The consolidated annual financial statements for Master Drilling Group Limited (Registration number 2011/008265/06), for the period ended 31 December 2019, have been audited by BDO South Africa Incorporated, the Company's independent external auditors, whose unqualified audit report can be found on pages 6 to 10 of the consolidated annual financial statements 2019, which are available on: www.masterdrilling.com.

The audited consolidated financial statements presented have been prepared by the corporate reporting staff of Master Drilling, 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 auditor's report does not necessarily report on all of the information contained in this abridged audited consolidated financial results. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement they should obtain a copy of the auditor's report together with the accompanying financial information from the issuer's registered office.

2. SIGNIFICANT ACCOUNTING POLICIES

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 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.

Property, plant and equipment

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

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

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.

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

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.

NOTES TO THE ABRIDGED CONSOLIDATED ANNUAL FINANCIAL RESULTS continued

Functional and presentation currency

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

Going concern

Based on the information available to it, the Board of Directors believes that the Group remains a going concern.

Issued capital

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

Operating segments

There were no changes made to the reporting segments during the current financial year.

Changes to the board

There were no changes made to the board since the previous reporting period except for AW Brink being appointed as the Group's lead independent director effective 20 November 2019.

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 09h00.

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 year end 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.

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	**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 land to the amount of 2019: USD795 020 (2018: USD491 544) calculated at a capitalisation rate of 10,6%.

NOTES TO THE ABRIDGED CONSOLIDATED ANNUAL FINANCIAL RESULTS 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	–	–	(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 in 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 ABRIDGED CONSOLIDATED ANNUAL FINANCIAL RESULTS 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 ABRIDGED CONSOLIDATED ANNUAL FINANCIAL RESULTS 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.

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

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**	
2017 USD				
Opening balance – as previously reported	2 617 462	7 368 303	82 589	10 068 354
Opening balance adjustment (refer to note 14)	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.

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 14 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. 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.

NOTES TO THE ABRIDGED CONSOLIDATED ANNUAL FINANCIAL RESULTS continued

6. TRADE AND OTHER RECEIVABLES continued

The movement in expected credit losses is presented below

	2019 USD	2018 USD
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

Expected credit losses matrix:

	2019	2018
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%**	
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

7. LEASE OBLIGATION

7.1 Lease obligation

	2019 USD	2018 USD
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

7.2 Lease obligations

	2019 USD	2018 USD
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	

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.

7.3 Operating lease obligations

	2019 USD	2018 USD
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

7.4 Lease obligation reconciliation

	2019 USD	2018 USD
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

NOTES TO THE ABRIDGED CONSOLIDATED ANNUAL FINANCIAL RESULTS continued

8. 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

9. TAXATION

9.1 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).

9. TAXATION continued

9.1 Taxation continued

	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

9.2 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 ABRIDGED CONSOLIDATED ANNUAL FINANCIAL RESULTS continued

10. 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

11 CASH GENERATED FROM OPERATIONS

11.1 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

12. CAPITAL COMMITMENTS

	2018 USD	2017 USD
Capital expenditure authorised by the directors and contracted for within 12 months. Capital expenditure will be funded through cash generated from operations.	**1 568 610**	4 579 527

13. SEGMENT REPORTING

13.1 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.

NOTES TO THE ABRIDGED CONSOLIDATED ANNUAL FINANCIAL RESULTS continued

13.2 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.

	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

13. SEGMENT REPORTING continued

13.2 Geographical segments continued

	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

	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.*

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

NOTES TO THE ABRIDGED CONSOLIDATED ANNUAL FINANCIAL RESULTS continued

14 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

15 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

16 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.

CORPORATE INFORMATION

MASTER DRILLING GROUP LIMITED

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

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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	Technical 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

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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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