



2020

ABRIDGED ANNUAL FINANCIAL RESULTS
for the year ended 31 December 2020

SALIENT FEATURES FOR THE PERIOD

- USD Revenue decreased by 17.0% to USD123.1 million
- USD Earnings per share decreased by 78.1% to 2.2 cents
- ZAR Earnings per share decreased by 75,1% to 36,3 cents
- USD Headline earnings per share decreased by 74.8% to 2.6 cents
- ZAR Headline earnings per share decreased by 71,4% to 42,6 cents
- Stable order book of USD212.8 million
- Healthy pipeline of USD539.9 million
- Continued focus on working capital management
- Cash from operating activities increased by 72.7% to USD25.5 million

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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 clients 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 capital and production stages.

Commenting on the results for the year ended 31 December 2020, Danie Pretorius, CEO of Master Drilling, said:

“Master Drilling’s overall performance for the year was weighed down by the weak global economic growth environment entering 2020 which was compounded by the material impact of Covid-19, across the 23 countries in which we operate, from a human, financial and operational perspective. Although the Group experienced a significant decline in revenue in the South American operations, primarily due to government-imposed Covid-19 restrictions, this was offset by regions such as India, Africa and Scandinavia which remained operational and received various stimulus packages.

Despite a decrease in revenue, the Group experienced much-improved overall cash generation and maintained adequate liquidity whilst prioritising proactive measures around costs, working capital and capex during these uncertain times. These initiatives provide us with a solid platform for the current year as we execute on exciting contracts and opportunities.

Technological innovation is a key priority for Master Drilling as we continue to support our clients to move down the cost curve, optimise their operations and increase safety. Our recent investment in AVA is aligned with our strategy to diversify our services and invest in businesses that help us meet our clients’ demand for increased mechanisation and digitisation. Other opportunities with low capital requirements and short return cycles are currently under consideration.

Although the shape of recovery remains uncertain, we have seen a turnaround in the past six months across the commodities and regions that we are already exposed to. Having made significant investments in our fleet, technology and geographical diversification over the past couple of years, we are now positioned to capitalise on the predicted bull run without requiring additional capital investment.”

FINANCIAL OVERVIEW

Revenue decreased 17.0% to USD123.1 million and operating profit decreased to USD12.3 million. This was a respectable result given the adverse global market conditions experienced. Cost savings initiatives were implemented as far possible to limit the impact of the Covid-19 pandemic.

USD earnings per share (EPS) decreased 78.1% to 2.2 cents, and ZAR EPS decreased 75,1% to 36,3 cents. USD headline earnings per share (HEPS) decreased 74.8% to 2.6 cents, and ZAR HEPS decreased 71,4% to 42,6 cents.

Net cash generation improved to USD25.5 million. Cash resources continue to be managed stringently to cater for emerging opportunities that require specific design, planning and investment.

Master Drilling's total capital spend of USD9.2 million was 52.9% on expansion and 47.1% on sustaining the existing fleet.

Debt decreased from USD51.4 million to USD42.1 million and the gearing ratio, including cash, changed from 22.5% to 10.3% in the 2020 financial year.

COMMENTARY **continued**

OPERATIONAL OVERVIEW

Master Drilling entered the year facing a challenging operating environment as well as deteriorating economic and socio-political fundamentals across many of its operations. The negative impact of those factors on the mining sector were compounded by the outbreak of the Covid-19 pandemic during the second quarter and subsequent lockdown measures across the countries in which the Group operates.

In particular, the international movement of people and goods has proven incredibly challenging and costly. Even though mining remained an essential component of economic activity throughout the pandemic, limited production led mining companies to build up supply chains and logistics capacity around their respective operating mines.

Despite these unprecedented challenges, the teams managed to stabilise production, partially mitigating the significant financial impact during the initial hard lockdowns of the first half. Subsequently, the Group was awarded new exploration projects and mobilised an additional fleet to service existing clients with a considerable improvement in drilling and exploration activity becoming more apparent and creating a healthy pipeline.

Against this backdrop, it is evident that the flexibility of Master Drilling's business model and the geographical spread of its operations have assisted in cushioning the Covid-19 blow while ensuring sustainability in the short to medium term.

Safety and response to Covid-19

From the onset of the pandemic, Master Drilling put in place extensive safety measures and support structures for its staff, their families and the communities in which we operate.

Through the Crisis Committee, the Group is continuously evaluating risks and adjusting responses, working closely with health authorities and clients to ensure that all sites are adhering to all protocols and guidance.

We continue to support and comply with all requirements set by governments and clients to contain the spread of the virus. Whilst doing that, the Group has also ensured that it continues to deliver services in a safe and responsible manner. Thankfully, the Group experienced relatively low infection rates.

Early proactive measures ensured the Group maintained adequate headroom in terms of liquidity and implemented stringent measures across the business to manage costs, optimise working capital and capital expenditure, and drive a stronger focus on cash flow generation during these uncertain times.

South America

Operations in South America, which include Brazil, Chile, Ecuador and Peru were severely impacted by Covid-19, with some of the world's highest infection rates throughout the year.

Although revenue in the region experienced a significant decline, primarily due to government-imposed Covid-19 restrictions, various restructuring initiatives to right-size our footprint and costs were completed and the businesses continued to show resilience amid the pandemic with Brazil output normalising in the second half of 2020 and all contracts continuing as operationally planned.

Brazil finished the 2020 year in a strong position as delays incurred during the Covid-19 period were recovered during the latter part of the year. The business will continue to look for diversification opportunities, including those in the civil construction sector.

In Chile, margins are showing improvements following the restructuring initiatives. The newly established Joint Venture Master Drilling Besalco S.A. has been successfully awarded a project in Chuiqicamata (Codelco) which positions Master Drilling for additional vertical and horizontal development projects within the country.

Peru continued to present difficult conditions with strict lockdowns in 2020 restricting human capital mobilisation to sites. Revenue remained low, despite Peru starting operations again in July with a couple of machines working. Although the utilisation of the rest of the machines deployed in Peru increased in the fourth quarter, this was not sufficient to offset losses incurred earlier in the year. The management restructuring process was completed during the second half of 2020 and the low revenue necessitated a further reduction in the labour force in addition to the initial restructuring plan. The Peruvian Government Covid-19 related special labor arrangement provided some relief.

Central and North America

Operations in the region have been bedded down and the strategy to grow Master Drilling as a differentiated competitor in the market is progressing.

Canada continues to have the largest exploration budget in the world, offering many opportunities for growth. Our most valuable contract in this region is progressing well and the first rig deployed on the project recently completed the first ever bore hole in Labrador. The second rig has been commissioned and has successfully completed its first pilot hole.

We continue with our efforts to secure contractors licenses across each state in the USA. Doing this will assist in driving our new business pipelines, focusing primarily on mining-rich Nevada but also Arizona.

The Mexican operations experienced a challenging first half of 2020. Due to mining being declared a non-essential service during the initial nationwide lockdown, business operations were severely affected. Currency fluctuation compounded these challenges, affecting performance negatively. It is, however, encouraging to see signs of recovery with numerous requests for proposals coming to market for new projects in 2021.

The region offers great opportunities driven by increased mechanisation and modernisation providing a good platform for our automation and remote controlling solutions.

Africa

Master Drilling currently has a large fleet deployed across key projects and the region is now the largest contributor of revenue and profits for the Group. Operationally, the pandemic had less impact on operations in the region with no sites closing due to the pandemic. However, logistical issues such as various delays experienced in mobilising equipment to site and ensuring clearances by the necessary authorities had to be managed.

The aggressive expansion into West Africa continued as part of the Group's diversification strategy, with a specific focus on gold producers. The global uncertainty spurred demand for gold as a safe-haven asset in 2019 and this trend accelerated in 2020 which is positive for producers in the short-term.

In Ghana, an initial contract commenced in the second quarter and the Company's footprint was expanded further with different clients during the remainder of 2020 thereby securing a long-term sustainable business.

Operations in Mali will see a marginal growth in revenue due to an increased scope of work. DRC delivered a satisfactory performance aligned with expectations.

Botswana continues to offer great opportunities, with a contract secured in the first half of 2020 now under way. This long-term project is a sign of encouraging opportunities available in the country.

Even though the South African mining sector still provides isolated opportunities, it is shrinking in overall size due to the unfavourable environment limiting new capital expenditure.

COMMENTARY continued

Africa continued

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

We remain committed to expansion into African countries meeting our investment criteria.

Scandinavia

After a very positive start to the year, we experienced a slowdown in the latter half of the year, because of mines postponing the start-up of new projects in response to the uncertainty caused by secondary Covid-19 waves. The 18-month underground project is progressing well, and Master Drilling has been awarded an additional shaft. Discussions are also currently underway for other drilling contracts.

The Civil infrastructure sector has been a key focus area and we are starting to see an increase in raisebore enquiries for projects that have historically been excavated conventionally.

India

The Indian operations are performing well. The original contract expired during the year but after successful negotiations it was extended with a bigger scope of work for a further three years. Further discussions regarding expansion are continuing.

Other regions

Master Drilling is growing its presence in Australia, Russia and Central Asia, with a focus on raise boring.

In Australia, our break-through contract is well under way with growing interest from prospective clients providing a healthy pipeline of new projects. Mobilisation and project start-ups were impacted by travel restrictions and unplanned shipping delays, but an office has been set up and all essential personnel have been appointed.

There is a growing appetite in Russia for mechanised mining services and the Group has commenced its first drilling project in this region with a partner. The initiatives in this region is beginning to bear fruit and there is a healthy pipeline of opportunities in the greater region.

Technology

Technological innovation is a key priority for Master Drilling to support clients to move down the cost curve, optimise their operations and increase safety.

Master Drilling recently announced the acquisition of a 40% stake in AVA Solutions (AVA), a specialist in data-driven mine fleet management solutions. Currently, AVA's unique digital platform analyses and tracks vehicles across 28 different sites in 5 countries for a range of blue-chip companies. This investment is aligned with the Group's strategy to diversify its services and invest in businesses that help meet clients' demand for increased mechanisation and digitisation. Other opportunities with low capital requirements and short return cycles are currently under review.

As previously reported, the decision was made to exit the TunnelPro business due to a lack of contract opportunities, cost management requirements and general economic conditions. However, the skills and intellectual property transfer to Master Drilling was completed successfully and the strategy for our Mobile Tunnel Borer (MTB) technology remains sound. The MTB is currently undergoing maintenance and improvements in Fochville following project cancellations because of Covid-19 in March 2020. New project approvals are pending.

The Shaft Boring System is set to replace the conventional shaft-sinking methods. Progress is being made with the Industrial Development Corporation (IDC) to support this approach in co-funding and financing, limiting Master Drilling's contribution and preserving cash.

Plant and equipment

The fleet consists of 145 raise bore and 58 slim drilling rigs. The total fleet's utilisation rate was 60%. The rate of new rigs coming on board 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

Safety across the Group is of paramount importance and one of the main focus areas, with a goal of zero harm. A number of safety initiatives implemented over the past three years have led to an overall reduction in the lost time injury frequency rate of almost 15% over the period and a decline of 18% in all injuries.

In addition, a mobile application was developed and implemented to manage Safety, Health, Environmental and Quality (SHEQ) initiatives. This initiative demonstrates Master Drilling's ability to deploy innovative solutions to increase safety during drilling operations, whether for mining or civil works, across its employee and client base.

Investments in upskilling the workforce also remain an integral part of achieving targeted top line growth. Various activities were implemented to ensure the business remains sustainable. In 2020, the Group embarked on a Human Capital project that will focus on reviewing the current skills requirements and ensure that these align with its future growth and expansion vision.

The MD Training Centre received accreditation from the Mining Qualifications Authority (MQA) and the first accredited Management Training programmes were conducted. The B-BBEE skills development initiatives for the SA entities are now being coordinated and financed via the MD Training centre. Applications for extension of scope have been submitted to the MQA which will enhance the portfolio of training that will be conducted by MD Training.

Raisebore Qualification training material was developed and submitted for accreditation to the MQA and a business plan has been finalised and the training material translated to Portuguese and Spanish to ensure uniform standards of training across the Group. During the Covid-19 lockdown restrictions, the material, as well as accompanying tests, were presented remotely via the Learner Management System (LMS) to mitigate the risk of lapsing qualifications.

The B-BBEE accreditation for the Training Centre was finalised with a level 2 rating being awarded.

Dividend

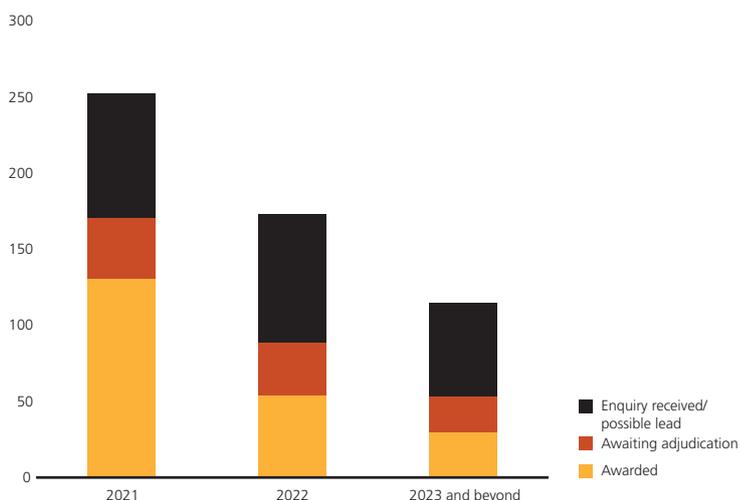
In view of currently prevailing global volatility and uncertain economic conditions the Board deems it advisable that cash resources should be protected, and thus resolved on 22 March 2021 not to declare a dividend in respect of the 2020 financial year. The Board remains committed to consider the continuation of the Company's dividend history in future financial periods, once circumstances permit.

COMMENTARY continued

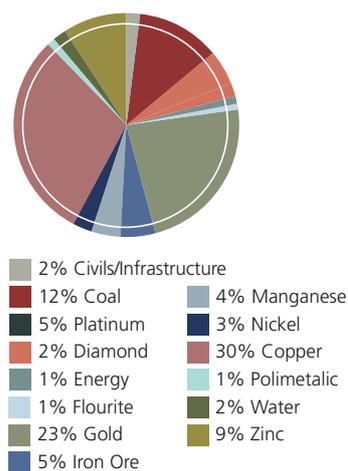
PIPELINE AND COMMITTED ORDERS

As at 31 December 2020 our pipeline totalled USD539 903 987 while the committed order book totalled USD212 775 709 for 2021 and beyond, spread as follows:

Pipeline (USD' million)



Committed orders

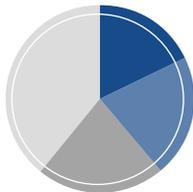


REVENUE

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

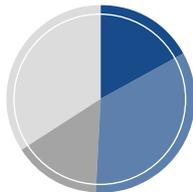
Revenue by geographical area

2020



- 18% Central and North America
- 21% South America
- 22% Other countries
- 39% Africa

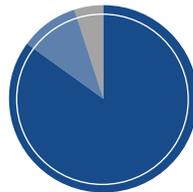
2019



- 17% Central and North America
- 34% South America
- 15% Other countries
- 34% Africa

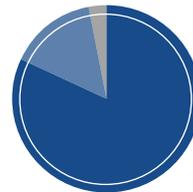
Revenue by mining activity

2020



- 85% Production
- 10% Capital
- 5% Exploration

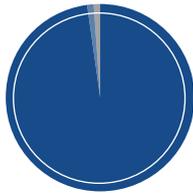
2019



- 82% Production
- 15% Capital
- 3% Exploration

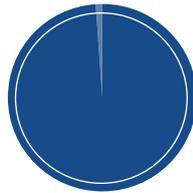
Revenue business sector

2020



- 98% Mining sector
- 1% Hydroelectricity
- 1% Civil and construction

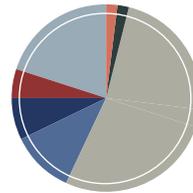
2019



- 99% Mining sector
- 1% Hydroelectricity
- 0% Civil and construction

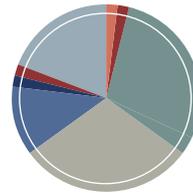
Revenue by commodity

2020



- 2% Chrome
- 2% Coal
- 23% Copper
- 3% Diamonds
- 27% Gold
- 11% Iron Ore
- 7% Other commodities
- 5% Platinum
- 20% Silver Lead Zinc

2019



- 2% Chrome
- 2% Coal
- 28% Copper
- 3% Diamonds
- 30% Gold
- 12% Iron Ore
- 2% Other commodities
- 2% Platinum
- 19% Silver Lead Zinc

OUTLOOK AND PROSPECTS

Master Drilling's diversified footprint, proactive capital management and quick response to ensure the safety of employees and clients have ensured a commendable performance during the Covid-19 pandemic. The Group's diversification across regions, commodities, currencies and industries proved to be a key factor in this and will remain a key part of Master Drilling's strategy.

The Group remains committed to ensuring the safety of its people and will continue using innovative mechanised equipment in its operations. This is also the future of the industry with an increased focus on mechanisation and remote operations which is the space in which Master Drilling likes to operate and is well placed to compete. Opportunities to diversify outside of the traditional drilling business into areas such as AI will also continue.

Although the shape of recovery and the pace at which vaccines will be rolled out globally remains uncertain, the uptick in the past six months across the commodities and regions that Master Drilling is already exposed to is encouraging.

Pipeline and committed orders as at 31 December 2020 totalled USD539.9 while the committed order book totalled USD212.8 for 2021 and beyond. In the short to medium term, the sales pipeline is expected to normalise and increase with further tactical acquisitions and joint ventures supporting performance.

Having made significant investments in its fleet, technology and geographical diversification over the past couple of years, the Group is now positioned to capitalise on the predicted bull run without requiring additional capital investment.

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

as at 31 December

	Notes	2020 USD Audited	2019 USD Audited
Assets			
Non-current assets			
Property, plant and equipment	3	156 281 876	158 014 917
Intangibles and goodwill	4	3 448 922	3 487 216
Financial assets		5 303 058	5 320 645
Deferred tax asset		1 651 701	6 175 360
Investment in associate		–	3 710 575
		166 685 557	176 708 713
Current assets			
Inventories		24 627 227	27 855 901
Related-party loans		105 377	103 842
Trade and other receivables	5	43 842 104	50 734 496
Current tax receivable		2 687 120	–
Derivative financial instrument		18 959	296 323
Cash and cash equivalents		24 790 077	19 723 118
		96 070 864	98 713 680
Non-current assets held for sale			
		2 381 810	808 928
		98 452 674	99 522 608
Total assets			
		265 138 231	276 231 321
Equity and liabilities			
Equity			
Share capital		149 259 486	148 703 721
Reserves		(100 641 125)	(97 974 826)
Retained income		117 773 867	114 437 446
		166 392 228	165 166 341
Non-controlling interest			
		9 757 161	9 964 308
		176 149 389	175 130 649
Liabilities			
Non-current liabilities			
Interest bearing borrowings		27 083 992	39 113 277
Lease liabilities		3 589 672	5 534 231
Instalment sales liabilities		282 920	618 716
Deferred tax liability		9 405 537	11 602 658
		40 362 121	56 868 882
Current liabilities			
Interest bearing borrowings		15 021 835	12 334 035
Lease liabilities		357 885	457 626
Instalment sales liabilities		533 576	898 059
Related party loans		183 950	481 067
Current tax payable		5 614 795	2 943 562
Trade and other payables	6	26 914 680	26 901 528
Cash and cash equivalents		–	215 913
		48 626 721	44 231 790
Total liabilities			
		88 988 842	101 100 672
Total equity and liabilities			
		265 138 231	276 231 321

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December

	Note(s)	2020 USD	2019 USD
Revenue		123 141 882	148 327 852
Cost of sales		(95 175 065)	(104 199 262)
Gross profit		27 966 817	44 128 590
Other operating income		2 348 058	3 074 752
Other operating expenses		(18 004 684)	(23 062 461)
Operating profit		12 310 191	24 140 881
Investment income		272 565	1 139 831
Finance costs		(2 964 742)	(4 601 505)
Movement of expected credit losses allowances		(1 194 200)	(1 693 888)
Gain on bargain purchase		592 916	–
Loss on disposal of investment in associate		(1 378 542)	–
Share of (loss)/profit from equity accounted investment		(151 276)	10 529
Profit before taxation		7 486 912	18 995 848
Taxation	7	(4 279 745)	(3 614 278)
Profit for the year		3 207 167	15 381 570
Other comprehensive income that will subsequently be classified to profit and loss:			
Exchange differences on translating foreign operations		(2 225 307)	(3 947 546)
Other comprehensive loss for the year net of taxation		(2 225 307)	(3 947 546)
Total comprehensive income		981 860	11 434 024
Profit attributable to:		3 207 167	15 381 570
Owners of the parent		3 336 421	15 263 136
Non-controlling interest		(129 254)	118 434
Total comprehensive income attributable to:		981 860	11 434 024
Owners of the parent		1 111 114	11 315 590
Non-controlling interest		(129 254)	118 434
Earnings per share (USD)	8		
Basic earnings per share (cents)		2.2	10.1
Diluted earnings per share (USD)	8		
Diluted basic earnings per share (cents)		2.2	10.1
Earnings per share (ZAR)			
Basic earnings per share (cents)		36.3	145,9
Diluted earnings per share (ZAR)			
Diluted basic earnings per share (cents)		36.3	145,9

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December

	Note(s)	2020 USD	2019 USD
Cash flows from operating activities			
Cash generated from operations	9.1	29 614 914	23 607 299
Dividends received		–	947 439
Interest received		220 478	192 393
Finance costs		(2 142 606)	(4 850 280)
Tax paid	9.2	(2 180 925)	(5 122 813)
Net cash inflow from operating activities		25 511 861	14 774 038
Cash flows from investing activities			
Purchase of property, plant and equipment		(9 221 450)	(14 876 878)
Purchase of intangibles		(52 670)	–
Sale of property, plant and equipment		1 421 106	948 278
Advances to related parties		(15 350)	–
Financial assets proceeds		–	631 553
Proceeds on disposal/(Acquisition) of associate		56 000	(897 837)
Additional investment in associate		(285 824)	(3 048 673)
Acquisition of subsidiaries	9.3	(941 601)	–
Net cash outflow from investing activities		(9 039 789)	(17 243 557)
Cash flows from financing activities			
Advance from financial liabilities		–	–
Repayment of financial liabilities		(9 393 708)	(6 798 814)
Repayment of leases		(1 014 506)	(1 502 917)
(Repayment)/Advances from related parties		(292 512)	304 335
Issue of share capital		52 199	–
Dividends paid to shareholders		–	(2 662 992)
Dividends paid to BEE partners		(15 354)	(525 953)
Net cash outflow from financing activities		(10 663 881)	(11 186 341)
Total cash inflow/(outflow) for the period		5 808 191	(13 655 860)
Cash at the beginning of the period		19 507 205	33 314 594
Effect of exchange rate movement on cash balances		(525 319)	(151 529)
Total cash at end of the period		24 790 077	19 507 205

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December

USD	Share capital	Equity due to change in control of interests	Foreign currency translation reserve	Transactions between equity holders
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	–	–	–	–
Issue of share capital	555 765	–	–	–
Dividends declared by subsidiaries	–	–	–	–
Total comprehensive income for the year	–	–	(2 225 307)	–
Total changes	555 765	–	(2 225 307)	–
Balance as at 31 December 2020	149 259 486	(58 264 013)	(44 123 128)	1 611 385

Share-based payments reserve	Total reserves	Retained income	Attributable to owners of the parent	Non-controlling interest	Total Shareholders' equity
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
62 574	62 574	–	62 574	–	62 574
(503 566)	(503 566)	–	52 199	–	52 199
–	–	–	–	(77 893)	(77 893)
–	(2 225 307)	3 336 421	1 111 114	(129 254)	981 860
(440 992)	(2 666 299)	3 336 421	1 225 887	(207 147)	1 018 740
134 631	(100 641 125)	117 773 867	166 392 228	9 757 161	176 149 389

NOTES TO THE ABRIDGED CONSOLIDATED ANNUAL FINANCIAL RESULTS

for the year ended 31 December 2020

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 2020 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 2020, have been audited by BDO South Africa Incorporated, the Company's independent external auditors, whose unmodified audit report can be found on pages 6 to 10 of the consolidated annual financial statements 2020, 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 and intangibles assets

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

for the year ended 31 December

2. SIGNIFICANT ACCOUNTING POLICIES 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.

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.

The escalation in the global spread and effects of the Covid-19 pandemic during 2020 is likely to have a continuous impact on our business and that of our customers and suppliers in most, if not all geographies in which the Group operates until the roll-out of the vaccines have been successfully completed. 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 six months' lower than normal 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.

Operating segments

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

Changes to the board

The only change to the board of directors was the appointment of HJ Faul as an independent non-executive director effective 09 June 2020.

Annual general meeting

The annual general meeting of Master Drilling Group Limited will be held virtually, on Monday, 14 June 2021 at 09:00. More details on arrangements around the virtual annual general meeting will be disclosed in the notice and proxy that will be available no later than 30 April 2021.

Subsequent events

In January 2021, after the end of the 2020 financial year, the Group fulfilled all the conditions and acquired a 40% interest in Applied Vehicle Analysis (Pty) Ltd. The purchase consideration payable would amount to ZAR8,0 million.

The directors are not aware of any other matters or circumstances arising since the reporting date to the date of this report, not otherwise dealt with in this report.

3. PROPERTY, PLANT AND EQUIPMENT

2020 USD	Cost	Accumulated depreciation and impairment losses	Carrying value
Land and buildings	2 929 739	(843 878)	2 085 861
Right of use assets: Land and buildings	4 965 931	(1 262 869)	3 703 062
Instalment sale: Plant and machinery	7 409 668	(1 709 522)	5 700 146
Plant and machinery	196 212 205	(55 932 206)	140 279 999
Assets under construction	945 307	(2 566)	942 741
Furniture and fittings	1 401 232	(147 103)	1 254 129
Motor vehicles	5 026 064	(3 070 855)	1 955 209
IT equipment	691 655	(330 926)	360 729
Total	219 581 801	(63 299 925)	156 281 876

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 sale: 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

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 2020: USD0 (2019: USD795 020) calculated at a capitalisation rate of 10,6% for 2019.

NOTES TO THE ABRIDGED CONSOLIDATED ANNUAL FINANCIAL RESULTS continued

for the year ended 31 December

3. PROPERTY, PLANT AND EQUIPMENT continued

3.1 Reconciliation of property, plant and equipment

2020 USD	Opening balance	Additions	Exchange difference on consolidation of foreign subsidiaries	Adjustment with the adoption of IFRS 16
Land and buildings	4 419 140	236 285	(90 119)	–
Right of use assets: Land and buildings	5 906 188	–	(118 891)	–
Instalment sale: Plant and machinery	5 419 076	6 231	925 816	–
Plant and machinery Assets	134 130 194	7 248 652	(2 332 474)	–
under construction	5 003 956	432 601	(73 446)	–
Furniture and fittings	1 030 199	326 750	(26 349)	–
Motor vehicles	1 875 876	746 612	(71 649)	–
IT equipment	230 288	224 320	4 314	–
	158 014 917	9 221 451	(1 782 798)	–

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 sale: Plant and machinery	6 679 637	136 060	(23 886)	–
Plant and machinery Assets	121 898 655	9 846 006	(1 029 514)	–
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

Security

Moveable assets to the value of ZAR1,2 billion (USD81.9 million at closing spot rate) of the South African subsidiaries have been bonded to ABSA Capital as security for an interest bearing loan.

Property, plant and equipment to the value of SEK11.0 million (USD1.3 million at closing rate) of the European entity have been pledged to Swedbank as security for an interest bearing loan.

Assets acquired through business combination	Reclassifications and transfers (to)/from inventory/assets held for sale/derecognition of assets	Disposals	Depreciation	Impairment of assets	Total
–	(2 381 810)	(94 801)	(2 834)	–	2 085 861
–	(1 484 275)	–	(599 960)	–	3 703 062
–	–	(26 681)	(624 296)	–	5 700 146
1 414 730	7 970 401	(662 945)	(7 488 559)	–	140 279 999
–	(4 370 906)	(49 464)	–	–	942 741
–	–	(47 875)	(28 596)	–	1 254 129
–	–	(103 745)	(491 885)	–	1 955 209
–	–	(28 323)	(69 870)	–	360 729
1 414 730	(266 590)	(1 013 834)	(9 306 000)	–	156 281 876

Assets acquired through business combination	Reclassifications and transfers (to)/from inventory/assets held for sale/derecognition of assets	Disposals	Depreciation	Impairment of assets	Total
–	–	–	(1 984)	–	4 419 140
–	–	–	(662 908)	–	5 906 189
–	(870 532)	(12 727)	(489 477)	–	5 419 075
–	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

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.

NOTES TO THE ABRIDGED CONSOLIDATED ANNUAL FINANCIAL RESULTS continued

for the year ended 31 December

4. INTANGIBLE ASSETS AND GOODWILL

4.1 Intangible assets

2020 USD	Cost	Accumulated amortisation and impairment losses	Carrying value
Computer software	2 187 543	(1 802 665)	384 878
Patents	202 482	–	202 482
Total	2 390 025	(1 802 665)	587 360

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

2020 USD	Opening balance	Additions	Exchange difference on consolidation of foreign subsidiaries
Computer software	550 856	52 670	(64 284)
Patents	212 182	–	(9 700)
	763 038	52 670	(73 984)

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)

Assets acquired through business combination	Reclassifications and transfers (to)/from inventory/assets held for sale	Disposals	Amortisation	Impairment of intangible assets	Total
–	–	–	(154 364)	–	384 878
–	–	–	–	–	202 482
–	–	–	(154 364)	–	587 360

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

NOTES TO THE ABRIDGED CONSOLIDATED ANNUAL FINANCIAL RESULTS continued

for the year ended 31 December

4. INTANGIBLE ASSETS continued

4.1 Intangible assets continued

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.

Impairment testing

For the purpose of annual impairment testing, patents are allocated to the plant and machinery within the group that is expected to benefit from the use of the patent.

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 business utilising the patent exceeds the carrying value by USD4 335 359 (2019: USD5 535 966)

	Growth rate 2020	Discount rate 2020	Growth rate 2019	Discount rate 2019
Patents	3.50%	11.40%	4.30%	14.50%

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 present value of the cash flow to be generated by utilisation of the patent discounted at the applicable discount rate. Five-year cash flow projections reflect these benefits to be realised.

4.2 Goodwill

	2020 USD	2019 USD
Goodwill recognised from value chain business combinations	2 324 063	2 221 699
Goodwill recognised from raisebore business combinations	537 499	502 478
Goodwill recognised from business combinations	2 861 562	2 724 177

2020 USD	Opening balance	Exchange difference on consolidation of foreign subsidiaries	Total
Goodwill recognised from value chain business combinations	2 221 699	102 364	2 324 063
Goodwill recognised from raisebore business combinations	502 478	35 021	537 499
Goodwill recognised from business combinations	2 724 177	137 385	2 861 562

2019 USD	Opening balance	Exchange difference on consolidation of foreign subsidiaries	Total
Goodwill recognised from value chain business combinations	2 612 584	(390 885)	2 221 699
Goodwill recognised from raisebore business combinations	562 508	(60 030)	502 478
Goodwill recognised from business combinations	3 175 092	(450 915)	2 724 177

Impairment testing

For the purpose of annual impairment testing, goodwill is allocated to the cash generating units 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 forecasted period 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.

NOTES TO THE ABRIDGED CONSOLIDATED ANNUAL FINANCIAL RESULTS continued

for the year ended 31 December

4. INTANGIBLE ASSETS continued

4.2 Goodwill continued

The recoverable amount for the value chain cash generating unit exceeds the carrying value by USD1 103 073 (2019: USD7 098 970). The recoverable amount of the raise bore cash-generating unit exceeds the carrying value by USD6 038 158 (2019: USD555 374)

	Growth rate 2020	Discount rate 2020	Growth rate 2019	Discount rate 2019
Value chain business combination	2.60%	11.81%	2.00%	9.75%
Raisebore business combination	2.45%	13.28%	5.00%	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 discounted future net cash flows generated using the applicable discount rate. Five-year cash flow projections reflect these benefits being realised.

5. TRADE AND OTHER RECEIVABLES

	2020 USD	2019 USD
Trade receivables	37 278 279	39 504 757
Trade receivables – Normal (Gross)	38 488 814	36 696 597
Impairment allowance of trade receivables	(3 731 677)	(2 795 329)
Trade receivables – Retention (Gross)	2 521 142	5 603 489
Loans to employees	119 967	152 812
Prepaid expenses	1 033 205	3 349 227
Deposits	240 719	866 593
Indirect taxes	3 824 954	4 569 627
Other receivables	1 344 980	2 291 480
	43 842 104	50 734 496

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 group's policy does not allow for loans to employees to exceed the monetary value of earnings due to the employee in the notice period. As a result no expected credit loss allowances have been recognised.

Retention trade receivables are considered for expected credit losses based on the same assumptions as for normal trade receivables.

The movement in expected credit losses is presented below

Balance 1 January	2 795 329	1 126 817
Exchange differences on translation of foreign operations	(257 852)	(25 376)
Amounts written off	–	–
Allowance for credit losses provided for	1 194 200	1 693 888
	3 731 677	2 795 329

Expected credit losses matrix:

Current	0,10% to 3.25%	2.84% to 2.95%
30 days	0,20% to 3.50%	2.94% to 3.00%
31 to 60 days	3,21% to 3.95%	3.19% to 3.25%
61 to 90 days	3,57% to 4.45%	3.69% to 3.95%
90 + days	4,12% to 4.85%	4.05% to 4.15%

The carrying amount in USD of trade and other receivables are denominated in the following currencies:

	2020 USD	2019 USD
United States Dollar (USD)	14 892 558	17 537 778
South African Rands (ZAR)	6 489 979	7 580 681
Brazilian Reals (BRL)	3 279 495	3 074 568
Mexican Peso (MXN)	–	73 741
Chilean Peso (CLP)	5 297 898	6 273 167
Peruvian Nuevo Sol (PEN)	1 058 815	986 710
CFA Franc BCEAO (XOF)	708 394	2 308
Chinese Yuan Renminbi (CNY)	46 331	627 776
Guatemalan Quetzal (GTQ)	8 030	7 520
Zambian Kwacha (ZMW)	–	1 739 911
Turkish Lira (TRY)	9 758	–
Colombian Peso (COP)	33 781	433 218
Euro (EUR)	–	844 022
Botswana Pula (BWP)	808 659	–
Swedish Krona (SEK)	1 307 457	2 020 375
Australian Dollar (AUD)	2 151 360	1 158
Canadian Dollar (CAD)	3 911 745	6 143 964
Indian Rupee (INR)	3 837 844	3 387 599
	43 842 104	50 734 496

NOTES TO THE ABRIDGED CONSOLIDATED ANNUAL FINANCIAL RESULTS continued

for the year ended 31 December

6. TRADE AND OTHER PAYABLES

	2020 USD	2019 USD
Trade payables	14 301 951	13 643 509
Income received in advance	782 505	134 884
Indirect taxes	4 485 337	1 678 789
Leave pay accruals	1 855 028	2 147 816
Onerous contracts	–	535 377
Business combination consideration payable	1 172 463	1 228 602
Employee related	3 264 537	3 454 042
Other accruals	1 052 859	4 078 509
	26 914 680	26 901 528

7. TAXATION

7.1 Taxation

	2020 USD	2019 USD
Current		
Normal taxation	1 858 983	4 627 926
Current taxation	2 826 825	5 339 878
Over provision	(967 842)	(711 952)
Deferred taxation: Temporary differences	2 420 762	(1 013 648)
	4 279 745	3 614 278
Reconciliation of the tax expense		
Accounting profit	7 486 912	18 995 848
Tax at the applicable tax rate	5 324 189	6 452 941
(Over)/Under provision	(967 842)	(711 952)
Exempt income	(204 190)	(3 639 763)
Non-deductible expenses - Fines and penalties	34 969	153 707
Assessed loss not recognised	1 494 723	1 799 081
Utilisation of assessed loss previously not recognised	(1 402 104)	(439 736)
Taxation per statement of profit or loss and other comprehensive income	4 279 745	3 614 278

	2020 USD	2019 USD
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 estimated loss at 31 December 2020 is USD7 950 226 (2019: USD5 532 824).		
Normal taxation charge/(benefit) per entity within the Group		
Bergteamet Latin America SpA	(254 834)	41 308
Bergteamet Raiseboring Europe AB	540 593	299 104
DCP Properties SAC	–	35 002
Drilling Technical Services (Pty) Ltd	285 472	–
Drilling Technical Services SAC	–	(102 719)
Master Drilling (Pty) Ltd	(408 333)	516 700
Master Drilling Australia Ltd	–	123
Master Drilling Changzhou Co Ltd	126 121	54 440
Master Drilling Chile SA	–	589 238
Master Drilling Colombia SAS	–	94 078
Master Drilling do Brasil Ltda	321 544	336 339
Master Drilling Exploration (Pty) Ltd	157 586	221 912
Master Drilling Ghana Ltd	340 184	–
Master Drilling Guatemala SA	–	358
Master Drilling India Ltd	1 235 337	172 106
Master Drilling International Ltd	(1 565 768)	–
Master Drilling Madencilik Ve Ticaret Limited Sirketi	1 427	9 049
Master Drilling Malta Limited	(410 110)	869 489
Master Drilling Mexico SA	–	769 522
Master Drilling Peru SAC	115 098	–
Master Drilling RDC sprl	452 173	201 178
Master Drilling Training Services (Pty) Ltd	–	3 499
Master Drilling USA LLC	502 822	(336 307)
Master Drilling Zambia Limited	–	758 343
MD Botswana (Pty) Ltd	116 902	–
MD Drilling Services Tanzania SARL	–	223
MD Katanga Drilling Company SAS	294 230	94 941
MD Traning Services (Pty) Ltd	8 539	–
	1 858 983	4 627 926

NOTES TO THE ABRIDGED CONSOLIDATED ANNUAL FINANCIAL RESULTS continued

for the year ended 31 December

8. EARNINGS PER SHARE

	2020 USD	2019 USD
Reconciliation between earnings and headline earnings		
Basic earnings for the year	3 207 167	15 381 570
<i>Deduct:</i>		
Non-controlling interest	129 254	(118 434)
Attributable to owners of the parent	3 336 421	15 263 136
Gain on disposal of property, plant and equipment	(287 516)	(16 076)
Loss on disposal of investment in associate	1 378 542	–
Gain on bargain purchase	(592 916)	–
Impairment of plant and equipment	–	384 717
Tax effect on (gain)/loss on disposal of property, plant and equipment and impairments	80 505	(103 553)
Headline earnings for the year	3 915 036	15 528 224
Earnings per share (cents)	2.2	10.1
Diluted earnings per share (cents)	2.2	10.1
Headline earnings per share (cents)	2.6	10.3
Diluted headline earnings per share (cents)	2.6	10.2
Dividends per share (cents)	–	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	150 759 818	150 592 777
Effect of dilutive potential ordinary shares – employee share options (*)	–	1 080 000
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	150 759 818	151 672 777

(*) None of the share options were considered dilutive in the current year. The total number of share options in issue is disclosed in note 31 of the full consolidated annual financial statements.

9. CASH GENERATED FROM OPERATIONS

9.1 Cash generated from operations

	2020 USD	2019 USD
Profit before taxation	7 486 912	18 995 848
Adjustments for:		
Depreciation and amortisation	9 460 634	7 429 791
Fair value adjustment on derivatives	272 742	242 365
Impairment		384 717
Gain on bargain purchase	(592 916)	–
Share of (profit)/loss from equity accounted investment	–	(10 529)
Translation effect of foreign operations	2 010 453	(329 027)
Exchange rate differences – interest bearing borrowings	1 027 199	–
Share-based payment – equity settled	62 574	(140 289)
Loss on disposal of investment in associate	1 378 542	–
Gain on disposal of fixed assets	(287 516)	(16 076)
Movement in expected credit loss allowance	1 194 200	–
Movement in allowance for obsolete inventory	(233 381)	–
Dividends received	(262 944)	(947 439)
Interest received	(220 478)	(192 393)
Finance costs	2 964 742	4 601 505
Changes in working capital:		
Inventories	2 164 097	(2 068 032)
Trade and other receivables	4 562 923	(2 554 649)
Trade and other payables	(1 372 869)	(1 788 493)
	29 614 914	23 607 299

9.2 Tax paid

	2020 USD	2019 USD
Reported as at 1 January	2 943 562	3 385 537
Acquired through business combination	2 320	–
Current tax for the period recognised in profit and loss	1 858 983	4 627 926
Exchange effect on consolidation of foreign subsidiaries	303 736	52 912
Balance at end of the period	(2 927 676)	(2 943 562)
	2 180 925	5 122 813

NOTES TO THE ABRIDGED CONSOLIDATED ANNUAL FINANCIAL RESULTS continued

for the year ended 31 December

9. CASH GENERATED FROM OPERATIONS continued

9.3 Net cash flow on business combination

On 19 March 2020, the Group fulfilled all the conditions of the agreement, and acquired Geoserve Exploration (Pty) Ltd, a wholly owned subsidiary within the African segment. The purchase consideration payable amounted to ZAR100 and assumed the bank overdraft facility and certain liabilities of the acquiree.

The gain on bargain purchase amount represents a value on acquisition after a detailed purchase price allocation was performed on the drilling equipment based where the fair value was considered.

In terms of the contractual agreement with the previous shareholders, contingent consideration would have been payable if specific pre-defined conditions were met as at 31 December 2020. Based on the assessment of these pre-defined conditions, not all the conditions were satisfied and contingent consideration is estimated at a value of USD0.

The carrying amount of assets and liabilities assumed at date of acquisition was:

	2020 USD	2019 USD
Assets		
Property, plant and equipment	1 414 730	–
Liabilities		
Current tax payable	(2 320)	–
Working capital		
Trade and other receivables	904 261	–
Inventory	350 022	–
Trade and other payables	(1 132 176)	–
Cash and other equivalents	(941 595)	–
Total assets and liabilities acquired	592 922	–
Group's share of total assets and liabilities acquired	592 922	–
Gain on bargain purchase	(592 916)	–
Total consideration	6	–
Cash and cash equivalents on hand	941 595	–
Consideration paid	6	–
Net cash outflow on acquisition of subsidiary	941 601	–
Turnover since acquisition date included in the consolidated results for the year	4 609 955	–
Profit after tax since acquisition date included in the consolidated results for the year	926 554	–
Group turnover since acquisition date included in the consolidated results for the year	90 168 581	–
Group profit after tax since acquisition date included in the consolidated results for the year	1 207 167	–

10. CAPITAL COMMITMENTS

	2020 USD	2019 USD
Capital expenditure authorised by the directors and contracted for within 12 months. Capital expenditure will be funded through cash generated from operations.	61 213	1 568 610

11. SEGMENT REPORTING

11.1 Mining activity

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

	2020 USD	2019 USD
Sales revenue by stage of mining activity		
Exploration	6 621 232	3 819 938
Capital	11 872 468	22 157 343
Production	104 648 182	122 350 571
	123 141 882	148 327 852
Gross profit by stage of mining activity		
Exploration	1 503 751	1 080 308
Capital	2 696 362	8 560 898
Production	23 766 704	34 487 384
	27 966 817	44 128 590

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 services rendered. The accounting policies of the reportable segments are the same as the group's accounting policies.

11.2 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.

	2020 USD	2019 USD
Sales revenue by geographical market		
Africa	48 058 729	49 637 943
Central and North America	22 301 560	27 039 051
Other countries	27 089 653	22 433 946
South America	25 691 940	49 216 912
	123 141 882	148 327 852

NOTES TO THE ABRIDGED CONSOLIDATED ANNUAL FINANCIAL RESULTS continued

for the year ended 31 December

11. SEGMENT REPORTING continued

11.2 Geographical segments continued

	2020 USD	2019 USD
Gross profit by geographical market		
Africa	13 630 563	19 390 419
Central and North America	4 739 832	(220 295)
Other countries	6 792 132	12 526 964
South America	2 804 290	12 431 502
	27 966 817	44 128 590

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

	2020 USD	2019 USD
Depreciation by geographical market		
Africa	3 165 507	2 977 680
Central and North America	2 189 081	899 843
Other Countries	1 519 382	1 435 168
South America	2 586 394	2 117 875
	9 460 364	7 430 566

	2020 USD	2019 USD
Investment revenue by geographical market		
Africa	262 944	998 164
Central and North America	–	–
Other Countries	9 621	72 932
South America	–	68 735
	272 565	1 139 831

	2020 USD	2019 USD
Finance cost by geographical market		
Africa	1 228 859	1 477 449
Central and North America	684 751	1 452 643
Other Countries	218 411	262 303
South America	832 721	1 409 111
	2 964 742	4 601 506

	2020 USD	2019 USD
Taxation by geographical market		
Africa	(1 017 013)	3 162 005
Central and North America	1 460 907	(1 239 819)
Other Countries	2 338 323	428 749
South America	1 697 528	1 263 343
	4 479 745	3 614 278
	2020 USD	2019 USD
Total assets by geographical market		
Africa *	89 204 947	83 656 785
Central and North America	46 031 792	48 759 985
Other Countries	62 990 707	48 628 929
South America **	66 910 785	95 185 622
Total assets as per statement of financial position	265 138 231	276 231 321
Total liabilities by geographical market		
Africa	31 412 364	36 583 796
Central and North America	21 511 840	27 038 214
Other Countries	12 093 814	11 732 594
South America	23 970 824	25 746 068
Total liabilities as per statement of financial position	88 988 842	101 100 672

* Assets in Africa includes the investment in associate.

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

12. SUBSEQUENT EVENTS

In January 2021, after the end of the 2020 financial year, the Group fulfilled all the conditions and acquired a 40% interest in Applied Vehicle Analysis (Pty) Ltd. The purchase consideration payable would amount to ZAR8,0 million.

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 22 March 2021 not to declare a dividend in respect of the 2020 financial year. The Board remains committed to consider the continuation of the Company's dividend history in future financial periods, once circumstances permit.

The directors are not aware of any other matters or circumstances arising since the reporting date to the date of this report, not otherwise dealt with in this report.

CORPORATE INFORMATION

MASTER DRILLING GROUP LIMITED

Registration number: 2011/008265/06
Incorporated in the Republic of South Africa
JSE share code: MDI
ISIN: ZAE000171948 ||| LEI 37890095B2AFC611E529

REGISTERED AND CORPORATE OFFICE

4 Bosman Street
PO Box 902
Fochville, 2515
South Africa

DIRECTORS

Executive

Daniël (Danie) Coenraad Pretorius
André Jean van Deventer
Barend Jacobus (Koos) Jordaan
Gareth (Gary) Robert Sheppard #

Chief executive officer and founder
Financial director and chief financial officer
Technical director
Chief operating officer

Non-executive

Hendrik (Hennie) Roux van der Merwe
Akhter Alli Deshmukh
Andries Willem Brink
Octavia Matshidiso Matloa
Hendrik Johannes Faul
Shane Trevor Ferguson

Chairman and independent non-executive
Independent non-executive
Independent non-executive
Independent non-executive
Independent non-executive
Non-executive

Resident in Peru

COMPANY SECRETARY

Andrew Colin Beaven
6 Dwars Street
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South Africa
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South Africa

JSE SPONSOR

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INDEPENDENT AUDITORS

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South African member of the BDO Group
52 Corlett Drive
Illovo
2196
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SHARE TRANSFER SECRETARIES

Computershare Investor Services Proprietary Limited
(Registration number: 2004/003647/07)
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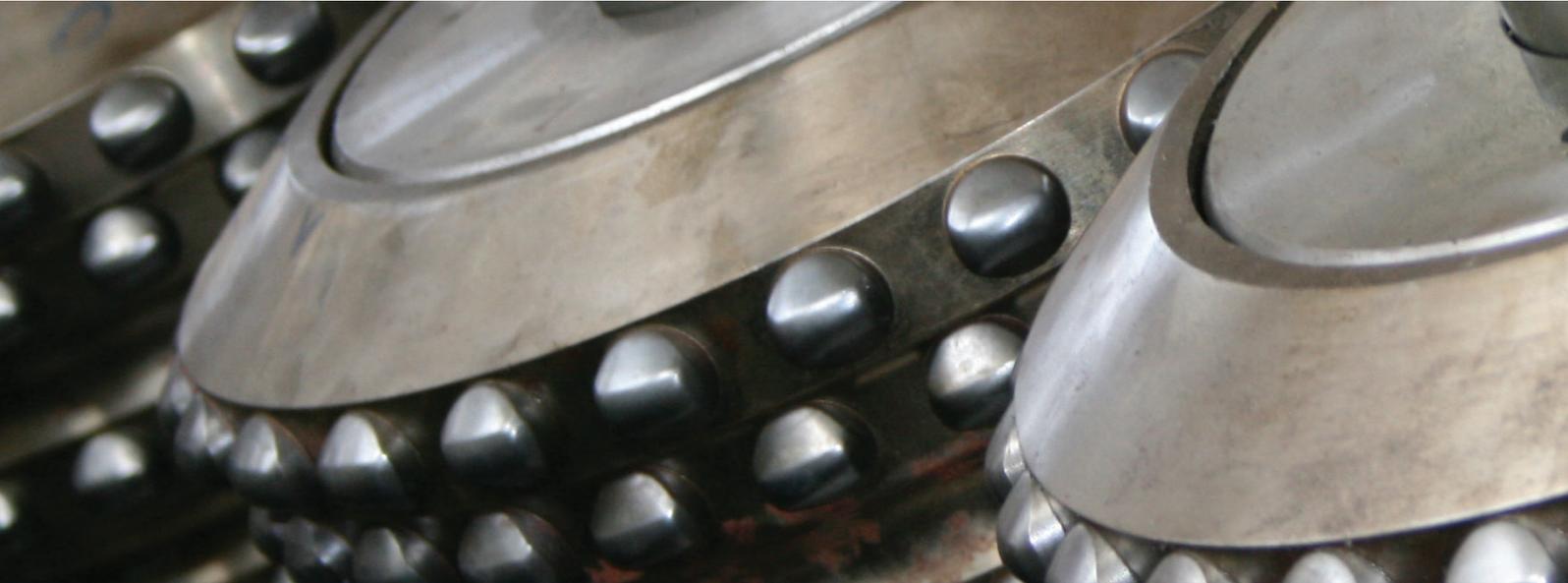
MASTER DRILLING WEBSITE

www.masterdrilling.com

COMPANY SECRETARIAL E-MAIL

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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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