Master Drilling Group Limited
Annual Financial Statements
for the year ended 31 December 2018

General Information

Country of incorporation and domicile	South Africa
Nature of business and principal activities	Investment holding company, whose subsidiary companies provide specialised drilling services to major, mid-tier and junior mining companies
Directors	AA Deshmukh AJ Van Deventer BJ Jordaan DC Pretorius GR Sheppard HR Van Der Merwe JL Botha (retired at AGM on 7 June 2018) JP De Wet (retired at AGM on 7 June 2018) ST Ferguson FG Dixon - Alternate director AW Brink (appointed at AGM on 7 June 2018) OM Matloa (appointed at AGM on 7 June 2018)
Business address	No 4 Bosman Street Fochville 2515
Postal address	PO Box 902 Fochville 2515
Bankers	First National Bank - a division of FirstRand Bank Limited ABSA Bank Limited
Auditors	BDO South Africa Incorporated Chartered Accountants (SA) Registered Auditors
Secretary	Andrew Beaven
Company registration number	2011/008265/06
Level of assurance	These annual financial statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008.
Preparer	The annual financial statements were prepared under the supervision of: AJ van Deventer CA(SA) - Chief Financial Officer

Index

The reports and statements set out below comprise the annual financial statements presented to the shareholders:

Directors' Responsibilities and Approval

The directors are required in terms of the Companies Act 71 of 2008 to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

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

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

The directors have reviewed the company's cash flow forecast for the year to 31 December 2019 and, in light of this review and the current financial position, they are satisfied that the company has or had access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the company's financial statements. The financial statements have been examined by the company's external auditors and their report is presented on pages 4 to 6.

The annual financial statements set out on pages 10 to 38, which have been prepared on the going concern basis, were approved by the directors on 25 March 2019 and were signed on their behalf by:

Director

Director

Johannesburg

25 March 2019

Tel: +27 011 488 1700
Fax: +27 010 060 7000
www.bdo.co.za

22 Wellington Road
Parktown, 2193
Private Bag X60500
Houghton, 2041
South Africa

Wanderers Office Park
52 Corlett Drive
Illovo, 2196

Independent Auditor's Report

To the shareholders of

Master Drilling Company Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Master Drilling Company Limited (the company) set out on pages 9 to 36 which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for opinion

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

Key audit matters

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

The following key audit matters relate to the financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment testing of Inter-group receivables: As disclosed in note 5 to the financial statements, the Company has granted loans to subsidiary companies with a carrying value of R325 million (2017: R285 million). The Company is required to consider indicators of impairment with respect to recoverability of the loans to these subsidiaries companies in line with the requirements of IFRS 9. This annual consideration is a KAM as the balance of loans to subsidiaries is material to the separate financial statements and the recovery of the loan amounts is subject to significant judgment.	Our audit procedures included, the following: • We have assessed management's assessment lifetime risk of default and the subsidiaries ability to repay the loans on demand. • We have assessed the loan recovery options and credit loss scenarios. • We considered the ability of the subsidiaries to repay the loans, the success of which hinges on the execution of drilling contracts and the launch of specific projects by the subdiaries. We also focused on the adequacy of the Company's disclosures (refer note 5), that is required in terms of the fair value of the loans to subsidiaries.

The Company has performed impairment testing on the cash-generating units assigned to the loans to subsidiaries.

Other information

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

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

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

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's and the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company and / or the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the company audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

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

BDO South Africa Inc

BDO South Africa Incorporated
Registered Auditors

J Barradas
Director
Registered Auditor

25 March 2019

Directors' Report

The directors have pleasure in submitting their report on the annual financial statements of Master Drilling Group Limited for the year ended 31 December 2018.

1. Nature of business

Master Drilling Group Limited was incorporated in South Africa with interests in the investment holding industry, whose subsidiary companies provide specialised drilling services to major, mid-tier and junior mining companies. The company operates in South Africa.

2. Review of financial results and activities

The annual financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Companies Act 71 of 2008. The accounting policies have been applied consistently compared to the prior year.

Full details of the financial position, results of operations and cash flows of the company are set out in these annual financial statements.

3. Share capital

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

	2018	2017
Unissued ordinary shares	Number of shares	
Ordinary shares	349 407 223	349 407 223

There have been no changes to the authorised or issued share capital during the year under review.

Rights attaching to shares

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

Control of share capital

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

Directors' Report

4. Dividends

Dividend declared

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

Dividend

Since listing in 2012, the Company has achieved compound annual growth and delivered on the key strategic objectives set out in its listing prospectus. This, coupled with significant ongoing cash generation, enables the company to strike a balance between continued investment in capital projects to support the company's further growth and enhancing returns to shareholders through the payment of appropriate dividends. Thus, the Board has declared a gross dividend of ZAR26,0 cents per share on 25 March 2019 payable to shareholders recorded in the company's share register on 17 May 2019.

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

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

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

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

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

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

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

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

5. Directorate

The directors in office at the date of this report are as follows:

Directors
AA Deshmukh
AJ Van Deventer
BJ Jordaan
DC Pretorius
GR Sheppard
HR Van Der Merwe
JL Botha (retired at AGM on 7 June 2018)
JP De Wet (retired at AGM on 7 June 2018)
ST Ferguson
FG Dixon - Alternate director
AW Brink (appointed at AGM on 7 June 2018)
OM Matloa (appointed at AGM on 7 June 2018)

Directors' Report

6. Events after the reporting period

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

The directors are not aware of any other material event which occurred after the reporting date and up to the date of this report.

7. Going concern

The directors believe that the company has adequate financial resources to continue in operation for the foreseeable future and accordingly the annual financial statements have been prepared on a going concern basis. The directors have satisfied themselves that the company is in a sound financial position and that it has access to sufficient borrowing facilities to meet its foreseeable cash requirements. The directors are not aware of any new material changes that may adversely impact the company. The directors are also not aware of any material non-compliance with statutory or regulatory requirements or of any pending changes to legislation which may affect the company.

8. Auditors

BDO South Africa Incorporated were appointed as auditors for the company for 2018.

9. Secretary

The company secretary is Mr Andrew Beaven.

Postal address:	PO Box 158 Krugersdorp 1740
Business address:	6 Dwars Street Krugersdorp 1739

10. Consolidation

Group accounts have been separately prepared as the directors have elected the exemption contained in IFRS 10: Consolidated and seperate financial statements.

Statement of Financial Position as at 31 December 2018

Figures in Rand	Notes	2018	2017
Assets			
Non-Current Assets			
Investments in subsidiaries	3	734 648 852	734 647 758
Deferred tax	4	2 626 106	1 445 921
		737 274 958	**736 093 679**
Current Assets			
Loans to group companies	5	593 916 292	552 987 058
Trade and other receivables	6	-	917
Current tax receivable		788 202	788 202
Cash and cash equivalents	7	34 257	6 082 024
		594 738 751	**559 858 201**
Total Assets		**1 332 013 709**	**1 295 951 880**
Equity and Liabilities			
Equity			
Share capital	8	1 270 970 271	1 270 970 271
Reserves		(193 207 293)	(198 045 952)
Retained income		18 317 348	55 392 874
		1 096 080 326	**1 128 317 193**
Liabilities			
Current Liabilities			
Loans from group companies	10	235 361 229	166 712 925
Trade and other payables	11	572 154	921 762
		235 933 383	**167 634 687**
Total Equity and Liabilities		**1 332 013 709**	**1 295 951 880**

Statement of Profit or Loss and Other Comprehensive Income

Figures in Rand	Note(s)	2018	2017
Revenue		7 486 200	4 151 250
Other operating expenses		(11 284 752)	(8 215 601)
Operating loss	12	**(3 798 552)**	**(4 064 351)**
Investment revenue	13	23 095 011	23 738 175
Finance costs	14	(18 398 048)	(12 058 482)
Profit before taxation		**898 411**	**7 615 342**
Taxation	15	1 180 185	1 114 875
Profit for the year		**2 078 596**	**8 730 217**

Statement of Changes in Equity

Figures in Rand	Share capital	Share based payment reserve	Equity due to change in control of interests	Total reserves	Retained income	Total equity
Balance at 01 January 2017	**1 243 172 641**	**4 953 247**	**(202 744 405)**	**(197 791 158)**	**91 742 304**	**1 137 123 787**
Profit for the year	-	-	-	-	8 730 217	8 730 217
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**8 730 217**	**8 730 217**
Issue of shares	27 797 630	-	-	-	-	27 797 630
Share option reserve	-	(254 794)	-	(254 794)	-	(254 794)
Dividends	-	-	-	-	(45 079 647)	(45 079 647)
Total contributions by and distributions to owners of company recognised directly in equity	**27 797 630**	**(254 794)**	**-**	**(254 794)**	**(45 079 647)**	**(17 536 811)**
Balance at 01 January 2018	**1 270 970 271**	**4 698 453**	**(202 744 405)**	**(198 045 952)**	**55 392 874**	**1 128 317 193**
Profit for the year	-	-	-	-	2 078 596	2 078 596
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**2 078 596**	**2 078 596**
Share option reserve	-	4 838 659	-	4 838 659	-	4 838 659
Dividends	-	-	-	-	(39 154 122)	(39 154 122)
Total contributions by and distributions to owners of company recognised directly in equity	**-**	**4 838 659**	**-**	**4 838 659**	**(39 154 122)**	**(34 315 463)**
Balance at 31 December 2018	**1 270 970 271**	**9 537 112**	**(202 744 405)**	**(193 207 293)**	**18 317 348**	**1 096 080 326**
Note(s)	8		9			

Statement of Cash Flows

Figures in Rand	Note(s)	2018	2017
Cash flows from operating activities			
Cash generated from (used in) operations	16	691 416	(3 925 550)
Interest revenue		17 981 658	12 141 133
Dividend revenue		5 113 353	11 597 042
Finance costs		(18 398 048)	(12 058 482)
Net cash from operating activities		**5 388 379**	**7 754 143**
Cash flows from investing activities			
Acquisition of investments in subsidiaries		(1 094)	(389 718)
Loans advanced to group companies		(40 929 234)	(86 100 752)
Net cash from investing activities		**(40 930 328)**	**(86 490 470)**
Cash flows from financing activities			
Proceeds on share issue		-	27 797 630
Proceeds from loans from group companies		68 648 304	102 074 371
Dividends paid		(39 154 122)	(45 079 647)
Net cash from financing activities		**29 494 182**	**84 792 354**
Total cash movement for the year		**(6 047 767)**	**6 056 027**
Cash at the beginning of the year		6 082 024	25 997
Total cash at end of the year	7	**34 257**	**6 082 024**

Accounting Policies

1. Presentation of annual financial statements

The principal accounting policies applied in the preparation of these annual financial statements are set out below.

1.1 Basis of preparation

The annual financial statements have been prepared on the going concern basis in accordance with, and in compliance with, International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and effective at the time of preparing these annual financial statements and the Companies Act 71 of 2008 of South Africa, as amended.

These annual financial statements comply with the requirements of the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council.

The annual financial statements have been prepared on the historic cost convention, unless otherwise stated in the accounting policies which follow and incorporate the principal accounting policies set out below. They are presented in Rands, which is the company's functional currency.

These accounting policies are consistent with the previous period except for IFRS9: Financial Instruments.

1.2 Significant judgements and sources of estimation uncertainty

The preparation of annual financial statements in conformity with IFRS requires management, from time to time, to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Critical judgements in applying accounting policies

The critical judgements made by management in applying accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognised in the financial statements, are outlined as follows:

Trade receivables

The company assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in profit or loss, the company makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Taxation

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

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

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Business combinations

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

1.3 Investments in subsidiaries

Investments in subsidiaries are carried at cost less any accumulated impairment losses.

The cost of an investment in a subsidiary is the aggregate of:
- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the company; plus
- any costs directly attributable to the purchase of the subsidiary.

An adjustment to the cost of a business combination contingent on future events is included in the cost of the combination if the adjustment is probable and can be measured reliably.

1.4 Financial instruments

Financial instruments held by the company are classified in accordance with the provisions of IFRS 9 Financial Instruments.

Broadly, the classification possibilities, which are adopted by the company ,as applicable, are as follows:

Financial assets which are debt instruments:
- Amortised cost. (This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is met by holding the instrument to collect contractual cash flows); or
- Fair value through other comprehensive income. (This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is achieved by both collecting contractual cash flows and selling the instruments); or
- Mandatorily at fair value through profit or loss. (This classification automatically applies to all debt instruments which do not qualify as at amortised cost or at fair value through other comprehensive income); or
- Designated at fair value through profit or loss. (This classification option can only be applied when it eliminates or significantly reduces an accounting mismatch).

Financial liabilities:
- Amortised cost; or
- Mandatorily at fair value through profit or loss. (This applies to contingent consideration in a business combination or to liabilities which are held for trading); or
- Designated at fair value through profit or loss. (This classification option can be applied when it eliminates or significantly reduces an accounting mismatch; the liability forms part of a group of financial instruments managed on a fair value basis; or it forms part of a contract containing an embedded derivative and the entire contract is designated as at fair value through profit or loss).

Classification

The company classifies financial assets and financial liabilities into the following categories:
- Loans and receivables
- Financial liabilities measured at amortised cost

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

1.4 Financial instruments (continued)

Initial recognition and measurement

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

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

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

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

Subsequent measurement

Financial instruments at fair value through profit or loss are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in profit or loss for the period.

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

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Impairment of financial assets

At each reporting date the company assesses all financial assets, other than those at fair value through profit or loss, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

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

Impairment losses are recognised in profit or loss.

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

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

Loans to (from) group companies

These include loans to and from holding companies, fellow subsidiaries, subsidiaries, joint ventures and associates and are recognised initially at fair value plus direct transaction costs.

Loans to group companies are classified as loans and receivables.

Loans from group companies are classified as financial liabilities measured at amortised cost.

Accounting Policies

1.4 Financial instruments (continued)

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in profit or loss.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

1.5 Tax

Current tax assets and liabilities

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

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

Deferred tax assets

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

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

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

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

Accounting Policies

1.5 Tax (continued)

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:
- a transaction or event which is recognised, in the same or a different period, to other comprehensive income, or
- a business combination.

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

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

1.6 Leases

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

Operating leases – lessee

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

Any contingent rents are expensed in the period they are incurred.

1.7 Impairment of assets

The company assesses at each end of the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the company estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the company also:
- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.
- tests goodwill acquired in a business combination for impairment annually.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the units. The impairment loss is allocated to reduce the carrying amount of the assets of the unit in the following order:
- first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit and
- then, to the other assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

Accounting Policies

1.7 Impairment of assets (continued)

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.8 Share capital and equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

1.9 Employee benefits

Short-term employee benefits

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

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

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

Defined contribution plans

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

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the company's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

1.10 Revenue

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

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

1.11 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.12 Related parties

Related parties are considered to be related if one party has the ability to control or jointly control the other party or exercise significant influence over the other party in making financial and operating decisions. Key management personnel are also regarded as related parties. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including all executive and non-executive directors.

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

Accounting Policies

1.13 Translation of foreign currencies

Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in Rands, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

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

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

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

Cash flows arising from transactions in a foreign currency are recorded in Rands by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

1.14 Share based payments

Goods or services received or acquired in a share-based payment transaction are recognised when the goods or as the services are received. A corresponding increase in equity is recognised if the goods or services were received in an equity-settled share-based payment transaction or a liability if the goods or services were acquired in a cash-settled share-based payment transaction.

When the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets, they are recognised as expenses.

For equity-settled share-based payment transactions the goods or services received and the corresponding increase in equity are measured, directly, at the fair value of the goods or services received provided that the fair value can be estimated reliably.

If the fair value of the goods or services received cannot be estimated reliably, or if the services received are employee services, their value and the corresponding increase in equity, are measured, indirectly, by reference to the fair value of the equity instruments granted.

If the share based payments granted do not vest until the counterparty completes a specified period of service, company accounts for those services as they are rendered by the counterparty during the vesting period, (or on a straight line basis over the vesting period).

If the share based payments vest immediately the services received are recognised in full.

For all share-based payment transactions management assess, at each reporting period, until vesting, the number of options expected to vest. Changes in the estimated number of options expected to vest will be accounted for as part of the cost recognised in each period with the corresponding adjustment taken to equity or to a liability.

For equity settled share-based payment transactions the fair value of the options are determined on grant date and are not subsequently adjusted, whilst for cash settled options the fair value of the options is recalculated at each reporting date up to and including settlement date.

Notes to the Annual Financial Statements

2. New Standards and Interpretations

At the date of approval of these annual financial statements, certain new accounting standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the entity.

Management anticipates that all of the pronouncements will be adopted in the entity's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the entity's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the entity's annual financial statements.

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the company has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations.

IFRS15 Revenue from Contracts with Customers has not been adopted as the company's only source of revenue is dividends and interest, and the standard is thus not relevant.

Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions

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

The effective date of the amendment is for years beginning on or after 01 January 2018.

The company has adopted the amendment for the first time in the 2018 annual financial statements.

The impact of the amendment is not material.

Notes to the Annual Financial Statements

2. New Standards and Interpretations (continued)

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurements of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a)impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the outstanding principal are generally measured at amortised cost at the end of subsequent reporting periods. Debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on outstanding principal, are measured at FVTOCI. All other debt and equity investments are measured at fair value at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of the liability is presented in other comprehensive income, unless the recognition of the effect of the changes of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Under IAS 39, the entire amount of the change in fair value of a financial liability designated as at fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. It is therefore no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principal of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The effective date of the standard is for years beginning on or after 01 January 2018.

The company has adopted the standard for the first time in the 2018 annual financial statements.

The impact of the standard is not material.

2. New Standards and Interpretations (continued)

2.2 Standards and interpretations not yet effective

The company has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the company's accounting periods beginning on or after 01 January 2019 or later periods:

IFRS 16 Leases

IFRS 16 Leases is a new standard which replaces IAS 17 Leases, and introduces a single lessee accounting model. The main changes arising from the issue of IFRS 16 which are likely to impact the company are as follows:

Company as lessee:

- Lessees are required to recognise a right-of-use asset and a lease liability for all leases, except short term leases or leases where the underlying asset has a low value, which are expensed on a straight line or other systematic basis.
- The cost of the right-of-use asset includes, where appropriate, the initial amount of the lease liability; lease payments made prior to commencement of the lease less incentives received; initial direct costs of the lessee; and an estimate for any provision for dismantling, restoration and removal related to the underlying asset.
- The lease liability takes into consideration, where appropriate, fixed and variable lease payments; residual value guarantees to be made by the lessee; exercise price of purchase options; and payments of penalties for terminating the lease.
- The right-of-use asset is subsequently measured on the cost model at cost less accumulated depreciation and impairment and adjusted for any re-measurement of the lease liability. However, right-of-use assets are measured at fair value when they meet the definition of investment property and all other investment property is accounted for on the fair value model. If a right-of-use asset relates to a class of property, plant and equipment which is measured on the revaluation model, then that right-of-use asset may be measured on the revaluation model.
- The lease liability is subsequently increased by interest, reduced by lease payments and re-measured for reassessments or modifications.
- Re-measurements of lease liabilities are affected against right-of-use assets, unless the assets have been reduced to nil, in which case further adjustments are recognised in profit or loss.
- The lease liability is re-measured by discounting revised payments at a revised rate when there is a change in the lease term or a change in the assessment of an option to purchase the underlying asset.
- The lease liability is re-measured by discounting revised lease payments at the original discount rate when there is a change in the amounts expected to be paid in a residual value guarantee or when there is a change in future payments because of a change in index or rate used to determine those payments.
- Certain lease modifications are accounted for as separate leases. When lease modifications which decrease the scope of the lease are not required to be accounted for as separate leases, then the lessee re-measures the lease liability by decreasing the carrying amount of the right of lease asset to reflect the full or partial termination of the lease. Any gain or loss relating to the full or partial termination of the lease is recognised in profit or loss. For all other lease modifications which are not required to be accounted for as separate leases, the lessee re-measures the lease liability by making a corresponding adjustment to the right-of-use asset.
- Right-of-use assets and lease liabilities should be presented separately from other assets and liabilities. If not, then the line item in which they are included must be disclosed. This does not apply to right-of-use assets meeting the definition of investment property which must be presented within investment property. IFRS 16 contains different disclosure requirements compared to IAS 17 leases.

The effective date of the standard is for years beginning on or after 01 January 2019.

The company expects to adopt the standard for the first time in the 2019 annual financial statements.

The expected impact of the standard is ZAR nil.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

3. Investments in subsidiaries

Name of company	% holding 2018	% holding 2017	Carrying amount 2018	Carrying amount 2017
Drilling Technical Services Proprietary Limited	74,00 %	74,00 %	2 444 058	2 444 058
MDG Shared Services Proprietary Limited	52,91 %	100,00 %	2 480 011	2 480 015
Master Drilling Exploration Proprietary Limited	74,00 %	74,00 %	160 681 481	160 681 481
MDI Exco Limited	100,00 %	100,00 %	79 027 688	79 027 688
Master Drilling International Limited	85,00 %	85,00 %	490 013 226	490 013 226
Raisebore Rental Proprietary Limited	100,00 %	100,00 %	1 000	1 000
Master Sinkers Proprietary Limited	51,00 %	100,00 %	102	100
Master Drilling Proprietary Limited	100,00 %	100,00 %	100	100
Master Drilling New Technology Holding Proprietary Limited	90,00 %	90,00 %	90	90
MD Training Services Proprietary Limited	50,79 %	- %	96	-
MD Retail Proprietary Limited	100,00 %	- %	1 000	-
			734 648 852	734 647 758

The carrying amounts of subsidiaries are shown net of impairment losses.

A written cession in securitatem debiti agreement concluded contemporaneously between ABSA Capital (Barclays) and Master Drilling Group Limited in terms of which, inter alia, Master Drilling Group Limited cede to ABSA Capital (Barclays) its right, title and interest in and to its shares in, and claims against, Master Drilling South Africa Proprietary Limited, Drilling Technical Services Proprietary Limited and Master Drilling Exploration Proprietary Limited (and any other subsidiary which the company may form, acquire or incorporate from time to time), as security for its obligations to ABSA Capital (Barclays).

Master Drilling Group Limited investment in subsidiaries	% effective holding 2018	Status	Country	% effective holding 2017
- MDI Exco Limited	100,00 %	Operational	Malta	100,00 %
- Raisebore Rental Proprietary Limited	100,00 %	Operational	RSA	100,00 %
- Drilling Technical Services Proprietary Limited	74,00 %	Operational	RSA	74,00 %
- Master Drilling Exploration Proprietary Limited	74,00 %	Operational	RSA	74,00 %
- Master Drilling International Limited	85,00 %	Investment	Malta	85,00 %
- MDG Shared Services Proprietary Limited	52,91 %	Operational	RSA	100,00 %
- Master Sinkers Proprietary Limited	51,00 %	Operational	RSA	100,00 %
- Master Drilling Proprietary Limited	100,00 %	Operational	RSA	100,00 %
- Master Drilling New Technology Holding Proprietary Limited	90,00 %	Investment	RSA	90,00 %
- MD Training Services Proprietary Limited	50,79 %	Operational	RSA	- %
- MD Retail Proprietary Limited	100,00 %	Operational	RSA	- %

4. Deferred tax

Deferred tax asset

	2018	2017
Temporary differences	1 359 678	425 174
Tax losses available for set off against future taxable income	1 266 428	1 020 747
Total deferred tax asset	**2 626 106**	**1 445 921**

Reconciliation of deferred tax asset

	2018	2017
At beginning of year	1 445 921	331 046
Increases in tax loss available for set off against future taxable income	1 180 185	1 114 875
	2 626 106	**1 445 921**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

5. Loans to group companies

Equity loan to subsidiary

Raisebore Rental Proprietary Limited	266 405 584	266 405 584

Company with common directors

MDG Equity Holdings Proprietary Limited	236 744	56 557

Subsidiaries

Master Drilling Exploration Proprietary Limited	-	8 739 480
MDG Shared Services Proprietary Limited	17 480 952	12 049 135
Drilling Technical Services Proprietary Limited	285 191 731	264 338 010
Master Drilling New Technology Holding Proprietary Limited	4 871 658	-
Master Sinkers Proprietary Limited	1 892 971	-
Master Drilling Proprietary Limited	16 438 360	-
Master Drilling Changzhou Co. Limited	202 667	202 667
Master Drilling Mexico SA	303 998	303 998
Master Drilling do Brasil Limiteda	274 163	274 163
Master Drilling Peru SAC	617 464	617 464
	327 273 964	**286 524 917**

The above loans are unsecured, bear interest at JIBAR + 2.95% and are repayable on demand, except for the Drilling Techncial Services Proprietary Limited loan of which R115 000 000 (2017: R115 000 000) is interest free.

Split between non-current and current portions

Current assets	593 916 292	552 987 058

6. Trade and other receivables

Non-financial instruments:

Value Added Taxation	-	917

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	34 257	6 082 024

Limited suretyship of R88 million for Master Drilling Exploration Proprietary Limited.

8. Share capital

Authorised

500 000 000 Ordinary no par value shares	500 000 000	500 000 000

Issued

Ordinary no par value shares	1 270 970 271	1 270 970 271

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

9. Equity due to change in control of interests

Assets acquired throug business combination	(202 744 405)	(202 744 405)

10. Loans from group companies

Fellow subsidiaries

Master Drilling Exploration Proprietary Limited	61 090 430	-
MD Training Services Proprietary Limited	638 237	-
Raisebore Rental Proprietary Limited	173 632 562	162 616 354
Master Drilling Proprietary Limited	-	4 096 571
	235 361 229	**166 712 925**

The above loans are unsecured, bear interest at JIBAR + 2.95% and are repayable on demand.

Split between non-current and current portions

Current liabilities	235 361 229	166 712 925

11. Trade and other payables

Financial instruments:		
Trade payables	39 370	129 356
Other payables	471 115	792 406
Non-financial instruments:		
Value Added Taxation	61 669	-
	572 154	**921 762**

12. Operating loss

Operating loss for the year is stated after charging the following, amongst others:

Auditor's remuneration - external		
Audit fees	440 000	437 223

Employee costs

Employee costs	8 353 003	4 841 973

Operating lease charges		
Premises	-	73 946

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

13. Investment revenue

Dividend revenue		
Subsidiaries	5 113 353	11 597 042
Interest revenue		
Investments in financial assets:		
Bank	50 192	134 277
Other interest received	295 394	336 628
Loans to subsidiaries	17 636 072	11 670 228
Total interest revenue	**17 981 658**	**12 141 133**
	23 095 011	**23 738 175**

14. Finance costs

Loans to group companies	18 381 519	12 058 346
Bank	-	136
Other interest	16 529	-
Total finance costs	**18 398 048**	**12 058 482**

15. Taxation

Major components of the tax income

Deferred		
Originating and reversing temporary differences	(1 180 185)	(1 114 875)

Reconciliation of the tax income

Reconciliation between accounting profit and tax income.

Accounting profit	898 411	7 615 342
Tax at the applicable tax rate of 28% (2017: 28%)	251 555	2 132 296
Tax effect of adjustments on taxable income		
Dividends received	(1 431 740)	(3 247 171)
	(1 180 185)	**(1 114 875)**

16. Cash generated from (used in) operations

Profit before taxation	898 411	7 615 342
Adjustments for:		
Dividend revenue	(5 113 353)	(11 597 042)
Interest revenue	(17 981 658)	(12 141 133)
Finance costs	18 398 048	12 058 482
Movement in share based payment reserve	4 838 659	(254 794)
Changes in working capital:		
Trade and other receivables	917	127 659
Trade and other payables	(349 608)	265 936
	691 416	**(3 925 550)**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

17. Tax paid

	2018	2017
Balance at beginning of the year	788 202	788 202
Balance at end of the year	(788 202)	(788 202)
	-	-

18. Changes in liabilities arising from financing activities

Reconciliation of liabilities arising from financing activities - 2018

	Opening balance	Cash flows	Closing balance
Loans from group companies	166 712 925	68 648 304	235 361 229
	166 712 925	**68 648 304**	**235 361 229**

Reconciliation of liabilities arising from financing activities - 2017

	Opening balance	Cash flows	Closing balance
Loans from group companies	64 638 554	102 074 371	166 712 925
	64 638 554	**102 074 371**	**166 712 925**

19. Related parties

Relationships

Subsidiaries of Master Drilling Group Limited	MDI Exco Limited Raisebore Rental Proprietary Limited Drilling Technical Services Proprietary Limited Master Drilling Exploration Proprietary Limited Master Drilling International Limited MDG Shared Services Proprietary Limited Master Sinkers Proprietary Limited Master Tunneling Proprietary Limited Master Drilling New Technology Holding Proprietary Limited Master Drilling Proprietary Limited MD Training Services Proprietary Limited MD Retail Proprietary Limited

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

19. Related parties (continued)

Subsidiaries of Master Drilling International Limited	Master Drilling Chile SA Master Drilling Peru SAC Master Drilling do Brasil Ltda Master Drilling Mexico SA Master Drilling Zambia Ltd Master Drilling Australia Proprietary Limited Master Drilling Colombia S.A.S Master Drilling Namibia Proprietary Limited Drillcorp Burkina Faso SA Drillcorp Cote d'Ivoire SA Drillcorp Botswana Proprietary Limited Master Drilling Guatemala SA Master Drilling RDC Sprl Master Drilling Malta Limited Jiangsu Master Mining Engineering Technology Company Limited Master Drilling Jiangsu Company Limited Martwick Limited Drilling Technical Services SAC DCP Properties SAC Master Drilling Changzhou Co. Limited Orbit Insurance Company Limited Master Drilling Ecuador SA Master Drilling USA LLC MD Drilling Services Tanzania Limited Master Drilling Sierra Leone Limited Master Drilling India Private Limited Bergteamet Raiseboring Europe AB Master Drilling Mali SARL Master Drilling Madencilik Ve Ticaret Limited Sirketi’ MD Katanga Drilling Company SAS MDX - Masterdrill Explorações E Sondagens Ltda Master Drilling Canada Limited Master Drilling Ghana Sprl
Subsidiary of Master Drilling Malta Limited	Master Drilling Chile División Raise Borer SpA
Companies with common directors	Barrange Exotic Game Proprietary Limited Barrange Proprietary Limited DNA Developments Proprietary Limited Drilling Properties Proprietary Limited Epha Drilling Proprietary Limited Erf 1044 Fochville Proprietary Limited Erf 429 Keursands Eksklusiewe Vakansieoord Proprietary Limited MDG Equity Holdings Proprietary Limited Mosima Drilling Proprietary Limited Nicaud Companies 101 Proprietary Limited The 1997 DP Investment Trust The AMI Trust The DCP BEE Foundation Trust The Drillcorp BEE Trust The MD Drilling Employee Trust The MD Engineering Employee Trust The MD HDSA Trust Vandev Investments Proprietary Limited

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

19. Related parties (continued)

Shareholder with significant influence	DC Pretorius
Directors	AA Deshmukh AJ Van Deventer BJ Jordaan DC Pretorius GR Sheppard HR Van Der Merwe JL Botha (retired at AGM on 7 June 2018) JP De Wet (retired at AGM on 7 June 2018) ST Ferguson FG Dixon - Alternate director AW Brink (appointed at AGM on 7 June 2018) OM Matloa (appointed at AGM on 7 June 2018)

Related party balances

	2018	2017
Loan accounts - Owing (to) by related parties		
Drilling Technical Services Proprietary Limited	285 191 731	264 338 010
MDG Shared Services Proprietary Limited	17 480 952	12 049 135
Master Drilling Exploration Proprietary Limited	(61 090 430)	8 739 480
Raisebore Rental Proprietary Limited	92 773 022	103 789 230
Master Drilling Proprietary Limited	16 438 360	(4 096 571)
MDG Equity Holdings Proprietary Limited	236 744	56 557
Master Drilling Changzhou Co. Limited	202 667	202 667
Master Drilling Mexico SA	303 998	303 998
Master Drilling do Brasil Limiteda	274 163	274 163
Master Drilling Peru SAC	617 464	617 464
MD Training Services Proprietary Limited	(638 237)	-
Master Drilling New Technology Holding Proprietary Limited	4 871 658	-
Master Sinkers Proprietary Limited	1 892 971	-
	358 555 063	**386 274 133**

Related party transactions

	2018	2017
Interest paid to (received from) related parties		
Drilling Technical Services Proprietary Limited	(15 360 544)	(10 680 146)
MDG Shared Services Proprietary Limited	(1 419 581)	(990 083)
Raisebore Rental Proprietary Limited	16 164 274	9 704 662
Master Drilling Exploration Proprietary Limited	2 186 563	2 253 183
Master Drilling Proprietary Limited	(530 755)	100 501
Master Sinkers Proprietary Limited	(91 000)	-
Master Drilling New Technology Holding Proprietary Limited	(234 192)	-
MD Training Services Proprietary Limited	30 682	-
	745 447	**388 117**

Figures in Rand	2018	2017

19. Related parties (continued)

Purchases from (sales to) related parties		
Drilling Technical Services Proprietary Limited	(655 200)	(405 000)
MDG Shared Services Proprietary Limited	(616 200)	(405 000)
MDG Shared Services Proprietary Limited	15 015	365 546
Master Drilling Exploration Proprietary Limited	(2 491 200)	(1 620 000)
Raisebore Rental Proprietary Limited	(616 200)	(1 316 250)
Raisebore Rental Proprietary Limited	-	68 109
Master Drilling Proprietary Limited	(2 491 200)	(405 000)
Master Drilling Proprietary Limited	36 602	29 864
MD Training Services Proprietary Limited	(308 100)	-
MD Training Services Proprietary Limited	93 695	-
Master Drilling New Technology Holding Proprietary Limited	(308 100)	-
	(7 340 888)	**(3 687 731)**

20. Directors' and prescribed officer's emoluments

Executive

2018

	Emoluments	Bonus	Fringe benefits	Total
AJ Van Deventer	3 867 421	1 769 220	171 346	5 807 987
BJ Jordaan	3 954 540	-	180 507	4 135 047
DC Pretorius	5 298 812	2 491 046	254 908	8 044 766
GR Sheppard	4 949 027	-	191 091	5 140 118
	18 069 800	**4 260 266**	**797 852**	**23 127 918**

2017

	Emoluments	Travel allowance	Bonus	Fringe benefits	Gains on exercies of options	Total
AJ Van Deventer	3 904 848	240 000	1 474 111	224 953	4 020 520	9 864 432
BJ Jordaan	3 349 751	240 000	1 474 111	229 923	4 020 520	9 314 305
DC Pretorius	5 273 005	360 000	3 718 981	328 490	4 040 000	13 720 476
GR Sheppard	5 197 127	-	1 570 147	-	4 020 521	10 787 795
	17 724 731	**840 000**	**8 237 350**	**783 366**	**16 101 561**	**43 687 008**

Notes to the Annual Financial Statements

20. Directors' and prescribed officer's emoluments (continued)

Non-executive

2018

	Directors' fees	Consulting and legal fees	Total
AA Deshmukh	538 502	-	538 502
O Matloa	233 222	-	233 222
A Brink	232 920	-	232 920
HR Van Der Merwe	837 901	-	837 901
ST Ferguson	401 456	1 262 906	1 664 362
	2 244 001	**1 262 906**	**3 506 907**

2017

	Directors' fees	Total
AA Deshmukh	506 140	506 140
HR Van Der Merwe	665 539	665 539
JL Botha	369 352	369 352
JP De Wet	375 451	375 451
ST Ferguson	1 542 106	1 542 106
	3 458 588	**3 458 588**

Alternate

2018

	Emoluments	Bonus	Fringe benefits	Total
FG Dixon	2 356 863	780 669	375 862	3 513 394

2017

	Emoluments	Travel allowance	Bonus	Fringe benefits	Total
FG Dixon	1 709 087	204 000	1 369 158	349 978	3 632 223

Prescribed officer

2018

	Emoluments	Bonus	Fringe benefits	Pension and medical aid	Total
R Swanepoel	1 995 613	1 500 000	107 562	-	3 603 175

2017

	Emoluments	Travel allowance	Fringe benefits	Pension and medical aid	Total
R Swanepoel	1 776 315	144 000	116 800	-	2 037 115

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

21. Share based payments

Long term incentive scheme

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

No expense was recognised for the current or prior year as the initial policy period of three years lapsed at the end of 2018.

Share Option Plan

Under the share option plan, share options of the Group are granted to eligible employees of the Group. The exercise price of the share options is determined on the grant date. The share options vest on the third anniversary of the grant date.The fair value of the share options is estimated at the grant date using the Black-Scholes Option Pricing Model, taking into account the terms and conditions upon which the share options were granted.

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

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

	2018	2017
Expense arising from equity-settled share based payment transactions	4 458 206	3 871 233

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

	Number	**EP**
Outstanding at 1 January 2016	2 477 714	
Granted during the year	(500 000)	13,64
Outstanding at 1 January 2017	1 977 714	
Granted during the year	(835 000)	1,30
Outstanding at 31 December 2017	1 142 714	
Granted during the year	-	N/A
Outstanding at 31 December 2018	**1 142 714**	

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

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

The remaining contractual life for the share options outstanding as at 31 December 2018 was 2.31 years (2017: 1.92).

The average fair value of the options granted during the year was ZAR 1209 cents (2017: ZAR 1209 cents).

The following table lists the inputs to the model used for the Share option Plan for 31 December 2018:	**2018**	**2017**
Expected volatility	30 %	30 %
Risk-free interest rate	7,5 %	7,5 %
Expected life of share options	3 years	3 years
Weighted average share price	9,79	9,79
Model used	Black-Scholes	Black-Scholes

The expected volatility was determined by calculating the historical volatility of the Company's share price since listing.

22. Share Option Scheme

21.1 General

The Company adopted the Plan on 15 November 2012. The Plan is administered by its Compliance Officer under the direction of the Remuneration Committee (the “RemCo”) of the Board. The Plan allows the grant of options to acquire fully paid ordinary shares to eligible employees after Admission. An eligible employee is any employee (including any Executive Director) of any member of the Group, but does not include any Non-Executive Director of the Company, any member of the RemCo or any trustee of an employee benefit trust.

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

21.2 Form of option

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

21.3 Plan Limits

(a) Overall
The maximum number of shares in respect of which Options can be granted under the Plan is 5 000 000 shares. Options may be settled by existing shares purchased through the market, newly issued shares or shares held in treasury. Shares purchased through the market will not count towards this Plan limit.

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

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

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

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

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

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

Notes to the Annual Financial Statements

22. Share Option Scheme (continued)

(h) Amendments
The Rules of the Plan may be amended from time to time by the RemCo, except to the extent the JSE Listings Requirements requires such amendment to be approved by an ordinary resolution passed at a general meeting of the Company with a 75% majority (excluding shares held by optionholders).

(i) Options issued
During the year ended 31 December 2018, no share options were granted under the Share Option Scheme. Refer to note 21.

23. Financial instruments and risk management

Categories of financial instruments

Categories of financial assets

2018

	Note(s)	Amortised cost	Total	Fair value
Loans to group companies	5	593 916 292	593 916 292	593 916 292
Cash and cash equivalents	7	34 257	34 257	34 257
		593 950 549	**593 950 549**	**593 950 549**

2017

	Note(s)	Amortised cost	Total	Fair value
Loans to group companies	5	552 987 058	552 987 058	552 987 058
Cash and cash equivalents	7	6 082 024	6 082 024	6 082 024
		559 069 082	**559 069 082**	**559 069 082**

Categories of financial liabilities

2018

	Note(s)	Amortised cost	Total	Fair value
Trade and other payables	11	510 485	510 485	510 485
Loans from group companies	10	235 361 229	235 361 229	235 361 229
		235 871 714	**235 871 714**	**235 871 714**

2017

	Note(s)	Amortised cost	Total	Fair value
Trade and other payables	11	921 762	921 762	921 762
Loans from group companies	10	166 712 925	166 712 925	166 712 925
		167 634 687	**167 634 687**	**167 634 687**

23. Financial instruments and risk management (continued)

Pre tax gains and losses on financial instruments

Gains and losses on financial assets

2018

	Note(s)	Amortised cost	Total
Recognised in profit or loss:			
Interest revenue	13	17 981 658	17 981 658

2017

	Note(s)	Amortised cost	Total
Recognised in profit or loss:			
Interest revenue	13	12 141 133	12 141 133

Gains and losses on financial liabilities

2018

	Note(s)	Amortised cost	Total
Recognised in profit or loss:			
Finance costs	14	(18 398 048)	(18 398 048)

2017

	Note(s)	Amortised cost	Total
Recognised in profit or loss:			
Finance costs	14	(12 058 482)	(12 058 482)

Capital risk management

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

The capital structure of the company consists of borrowings disclosed in note 10, cash and cash equivalents disclosed in note 7 and equity as disclosed in the statement of financial position.

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

Consistent with others in the industry, the company monitors capital on the basis of the gearing ratio.

The company's strategy is to maintain a gearing ratio of less than 30%.

Notes to the Annual Financial Statements

23. Financial instruments and risk management (continued)

Financial risk management

Overview

The company's activities expose it to a variety of financial risks including interest rate risk, credit risk and liquidity risk.

The company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance. The company uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (company treasury) under policies approved by the board. Company treasury identifies, evaluates and hedges financial risks in close co-operation with the company's operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Credit risk

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The company only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

The maximum exposure to credit risk is presented in the table below:

		2018			2017		
		Gross carrying amount	**Credit loss allowance**	**Amortised cost / fair value**	**Gross carrying amount**	**Credit loss allowance**	**Amortised cost / fair value**
Loans to group companies	5	593 916 292	-	593 916 292	552 987 058	-	552 987 058
Cash and cash equivalents	7	34 257	-	34 257	6 082 024	-	6 082 024
		593 950 549	**-**	**593 950 549**	**559 069 082**	**-**	**559 069 082**

Notes to the Annual Financial Statements

23. Financial instruments and risk management (continued)

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, company treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The company's risk to liquidity is a result of the funds available to cover future commitments. The company manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The maturity profile of contractual cash flows of non-derivative financial liabilities, and financial assets held to mitigate the risk, are presented in the following table. The cash flows are undiscounted contractual amounts.

2018

		Less than 1 year	Total	Carrying amount
Current liabilities				
Trade and other payables	11	510 485	510 485	510 485
Loans from group companies	10	235 361 229	235 361 229	235 361 229
		235 871 714	**235 871 714**	**235 871 714**

2017

		Less than 1 year	Total	Carrying amount
Current liabilities				
Trade and other payables	11	921 762	921 762	921 762
Loans from group companies	10	166 712 925	166 712 925	166 712 925
		167 634 687	**167 634 687**	**167 634 687**