MASTER DRILLING

REPORT TO SHAREHOLDERS

UNAUDITED INTERIM REPORT
FOR THE SIX MONTHS ENDED 30 JUNE 2018

SALIENT FEATURES FOR THE PERIOD

- USD Revenue was up by 11.3%
- USD Earnings per share decreased by 4.5% to 6.3 cents
- ZAR Earnings per share decreased by 10,9% to 77,5 cents
- USD Headline earnings per share decreased by 10.6% to 5.9 cents
- ZAR Headline earnings per share decreased by 16,6% to 72,6 cents
- Committed order book of USD114.4 million
- Pipeline of USD358.2 million
- Following dividend for 2017, dividend will be considered at year-end

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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 companies in the mining, civil engineering and construction sectors across various commodities worldwide for over 30 years. The Master Drilling business model of providing drilling solutions to clients through tailor-made designs coupled with a flexible support and logistics chain makes it the preferred drilling partner throughout the lifecycle of projects from exploration to production and capital stages.

Commenting on the results for the six months to end June 2018, Danie Pretorius, CEO of Master Drilling, said:

"The challenging conditions experienced in 2017 partly persisted over the six months ending June 2018, as the optimism generated by domestic political developments at the start of the year gave way to the realisation that the economy remains weak and both political and economic prospects uncertain. Being able to maintain a stable business amid such conditions is difficult, but not impossible and that is evident in our half-year results.

As expected, the uptick in the global economy and commodity cycle is bearing fruit in our business as we receive new contracts and a steady flow of new enquiries that feed into the pipeline. Our presence in Central and North America is growing, while our recent acquisition, Bergteamet, is making progress in Europe beyond Scandinavia. Our diversification strategy is well under way and, coupled with our continuous focus on delivering new technologies, bodes well for the growth of the business.

Domestically, notwithstanding a difficult and uncertain environment, we continue to maintain our presence in the mining sector where viable opportunities arise, while increasingly the value we can add across other exploration activities is becoming evident, particularly in water exploration. This is a reflection of how our business is able to adapt to evolving requirements and also the importance of technological development.

It is fitting therefore that we continue to work hard on this front and look forward to the launch of the newly developed Mobile Tunnel Borer in September which will increase our horizontal service offerings. We will also continue to focus our efforts on technology that enhances operations and, above all, improves safety."

FINANCIAL OVERVIEW

Revenue increased 11.3% to USD67.4 million and operating profit increased 6.0% to USD12.9 million. The increase in revenue was due to the addition of one new machine and the acquisition of Bergteamet Raiseboring Europe AB, compared to the same period last year.

The impact of foreign exchange movements on revenue was less than the impact thereof on cost, resulting in overall stable profitability and profit after tax decreasing 3.3% to USD9.7 million.

USD earnings per share (EPS) decreased 4.5% to 6.3 cents, and ZAR EPS decreased 10,9% to 77,5 cents due to the stronger ZAR compared to the same period last year. USD headline earnings per share (HEPS) decreased 10.6% to 5.9 cents, and ZAR HEPS decreased 16,6% to 72,6 cents compared to the same period last year.

Net cash generation remained unchanged at USD11.7 million, following the initial investments in working capital to cater for higher volumes of work coming on stream involving new projects across the Group. Debtor days increased due to longer payment cycles as a result of weak economic conditions. Master Drilling will continue to manage debtors actively to ensure good conversion to cash. Cash resources continue to be managed stringently to cater for emerging opportunities that require specific design, planning and investment.

During the reporting period, 95.7% of the Master Drilling capital spend was on capacity expansion with the remaining 4.3% allocated towards maintenance capital.

Debt increased slightly from USD 44.1 million to USD 45.9 million due to the acquisition of Bergteamet Raiseboring Europe AB. Net of cash, the gearing ratio changed from 5.9% to 10.9% compared to the same reporting period in the prior year.

OPERATIONAL OVERVIEW

Commodity markets remained upbeat during the first half of 2018, while the ZAR strengthened on the back of political optimism. However, domestic economic conditions remained subdued and pressure mounted on the local mining sector. In contrast, increased capital expenditure in offshore commodity markets benefited Master Drilling's business, with a noticeable increase in enquiries and new contracts being secured.

South America

There were encouraging developments in the region during the first half of the year. Master Drilling's innovative technology is aimed at, amongst other things, ensuring safety of personnel on sites and as such any fatality is regrettable and viewed in a serious light. We remain confident that our focus on safety is unwavering and continue to work closely with mine management to prevent a re-occurrence of an unfortunate fatality at the beginning of the year.

The outlook for operations in Brazil remains strong. This comes on the back of new operational records being achieved. Chile delivered satisfactory operational performance and the outlook is equally positive, with capital expenditure at our client, CODELCO (a state-owned entity), going ahead and resulting in a resumption of projects that were previously won but put on hold due to the lower copper price environment.

Meanwhile, projects in Peru are progressing at a slower pace than anticipated. One of the complications being encountered is rigid labour laws, which place pressure on overhead costs and consequently competitiveness and margins.

The hydroelectric project in Colombia was completed at the end of January 2018 and we will be looking to re-deploy the equipment to another site in the region as the need arises. Our diversification strategy across other industries such as hydroelectric power has been successful, with as much as 5% of our revenue now being derived from non-mining related projects.

Central and North America

Master Drilling is particularly bullish on the prospects for increased business in this region, following its success in securing several contracts in Canada related to nickel and diamond mining. One of these projects is due to commence during the second half of 2018, while another will commence in Q1 2019.

Master Drilling has deployed additional equipment to sites in Mexico, where it has also been awarded new contracts. These customer projects will commence as soon as the logistical issues being encountered are resolved. It is encouraging to note that with the improvement in the international commodity environment, the backlog in capital expenditure spend is being addressed and customer projects previously considered non-viable are being revisited, resulting in new opportunities for Master Drilling. These positive developments are reflected in the health of our pipeline and the leads for the re-deployment of our technology on new projects.

Africa

Uncertainty continued to prevail in the domestic mining sector over the first half of the year, under-pinned by proposed policies that are not business and investor friendly, among which the proposed expropriation of land without compensation and the draft Mining Charter, now in its third draft. Such factors impact on the viability of mining companies and their ability to meet payment commitments. Master Drilling continues to monitor these developments closely and to manage working capital as deftly as possible.

Amid difficult conditions, Master Drilling's work on the Kolomela project (slim drilling) has continued successfully for six years, with the company recently being nominated for an excellence and safety award in relation to this project. With Master Drilling having recently secured a project at Anglo American's Sishen mine, it would also seem that there continue to be opportunities locally. In particular, more enquiries are being received for the drilling of bigger and deeper holes.

Enquiries are also being received from other sectors of the economy, particularly with regards to projects related to water exploration, where Master Drilling has secured a R19 million contract with the City of Cape Town. Master Drilling expects to receive more enquiries involving complex water exploration work that requires its innovative engineering capabilities, as the country seeks to ensure a sustainable water supply.On the rest of the continent, with some projects nearing completion, contributions from African operations to group results will gradually diminish. Nonetheless, projects remain underway in Zambia, where additional equipment is being re-deployed from operations in the DRC that are winding up, while a new project is due to start in Ghana at the end of the year.

Scandinavia

Master Drilling has successfully merged Bergteamet's activities into the core business. The performance of Bergteamet was pleasing over the past six months, particularly as the company was awarded projects in the rest of Europe, including France, Spain and Turkey. This has in turn resulted in new enquiries and an improved pipeline for the business.

India

The project we undertook in India in support of Vedanta Limited, a London Stock Exchange listed, globally diversified natural resources major with interests in Zinc, Lead, Silver, Copper, Iron Ore, Aluminium, Power and Oil & Gas, got off to a very good start in 2018. The project is achieving high levels of operational efficiencies and we have already deployed a second machine to the site, with further expansion opportunities being explored.

Technology

Master Drilling is synonymous with innovative technology and development. Being able to provide clients with advanced and effective drilling solutions and services across geographies and sectors sets us apart from competitors and ensures that we remain ahead of our customers' evolving requirements. In September 2018, we will be launching the Mobile Tunnel Borer. We are also making progress on the Blind Shaft Boring technology, which we expect to launch in Q1 2019.

Increasingly, the challenge we face in maintaining our technological advantage, is the sourcing and retention of appropriate skills and of personnel that can be up-skilled over time as part of our on-going skills development commitment. We continue to focus on this as a critical element of our growth strategy.

Skills development

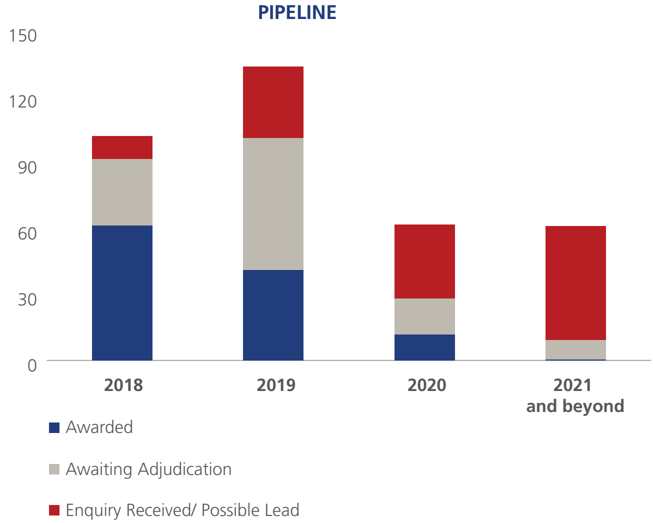
Retaining expertise and skills development are key priorities for Master Drilling. We are investing in skills development based on a skills gap analysis previously conducted. This investment will extend our capacity to support our growth strategy. The rest of 2018 will focus on targeted technical training in general.

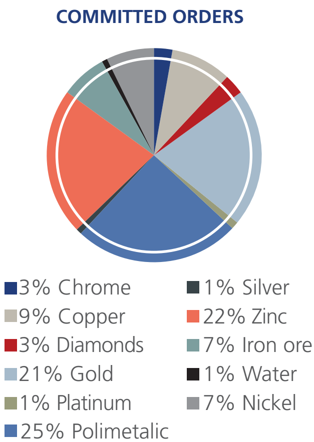
OUTLOOK AND PROSPECTS

The business remained stable and made good progress over the past six months, notwithstanding a number of headwinds, including currency developments. Having continued to focus on expanding the pipeline and optimising operations geographically, as some of these headwinds subside, we are cautiously optimistic that we will record some improvements during the remainder of the financial year. In particular, the positive developments filtering through from the improvement in the commodity cycle, coupled with weaker emerging market currencies should prove supportive of firmer revenue and lower costs.

PIPELINE AND COMMITTED ORDERS

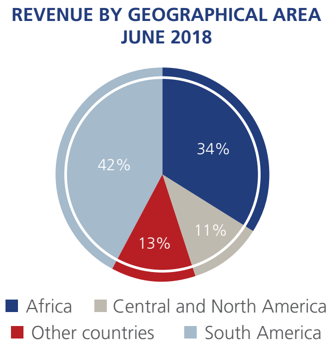
As at 30 June 2018 our pipeline totalled USD358 192 132 (2017: USD226 085 095) while the committed order book totalled USD114 449 011 (2017: USD115 337 358) for the remainder of 2018 and beyond, spread as follows:

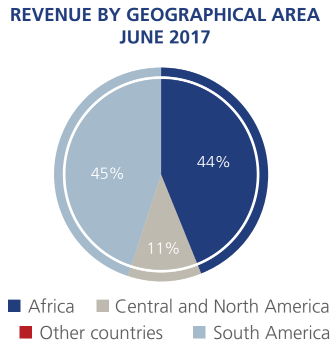


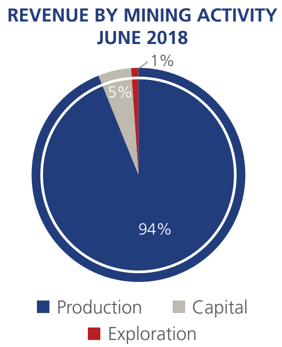


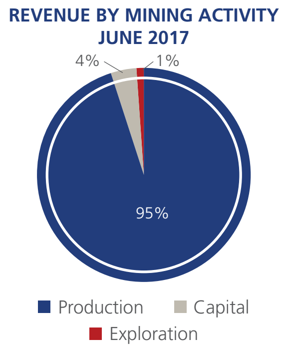
REVENUE

The following graphs reflect the Group's combined revenue for financial periods ended 30 June:

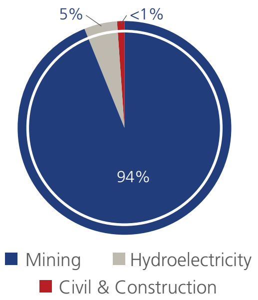




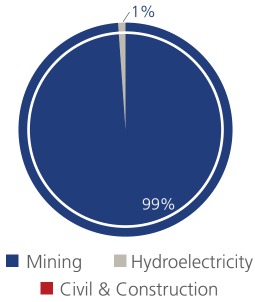




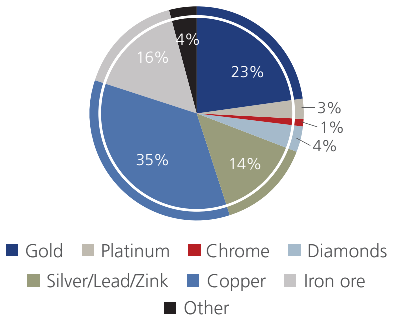
REVENUE BY BUSINESS SECTOR
JUNE 2018



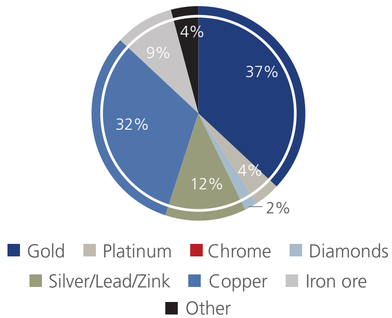
REVENUE BY BUSINESS SECTOR
JUNE 2017



REVENUE BY COMMODITY
JUNE 2018



REVENUE BY COMMODITY
JUNE 2017



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, infrastructure and hydroelectric energy sectors, across a number of commodities and geographies. Master Drilling is the leader in the raise bore drilling services industry

ACCOUNTING POLICIES

1. BASIS OF PRESENTATION

The condensed unaudited consolidated interim financial statements 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 condensed unaudited consolidated interim 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 audited consolidated annual financial statements for the year ended 31 December 2017 except for the adoption both IFRS 9 and IFRS 15 which had no impact on the unaudited interim financial results for the six months ended 30 June 2018.

The condensed unaudited consolidated interim financial statements presented have been prepared by the corporate reporting staff of Master Drilling, headed by Willem Ligthelm CA(SA), the Group's management accountant. This process was supervised by André Jean van Deventer CA(SA), the Group's chief financial officer.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The Group financial statements incorporate all entities which are controlled by the Group.

At inception, the Group 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 inter-company transactions, balances, income and expenses are eliminated in full on consolidation/combination.

Non-controlling interests in the net assets of combined subsidiaries are identified and recognised separately from the Group's interest therein, and are recognised within equity. Losses of subsidiaries attributable to non-controlling interests are allocated to the non-controlling interest even if this results in a debit balance being recognised for non-controlling interest.

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 measures 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

The cost of an item of property, plant and equipment is recognised as an asset when:

a. it is probable that future economic benefits associated with the item will flow to the Group; and
b. the cost of the item can be measured reliably.

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 infinite useful live. Patents are carried at cost less accumulated impairment losses. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment. Cost associated with equipment upgrades that result in increased capabilities or performance enhancements of property and equipment are capitalised. If a replacement part is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

An asset under construction will be reclassified to the relevant asset category as soon as it is available for use.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the Group is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

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 condensed unaudited consolidated interim financial statements are presented in USD (the "presentation currency"). Management believes that USD is more useful to the users of the consolidated financial statements, as this currency most reliably reflects the global business performance of the Group as a whole.

GOING CONCERN

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

ISSUED CAPITAL

There were no movement in share capital since 31 December 2017.

OPERATING SEGMENTS

There were no changes made to the operating segments from those disclosed at 31 December 2017.

SUBSEQUENT TO REPORTING PERIOD

There have been no significant events subsequent to 30 June 2018 which require adjustment or additional disclosure to interim results.

DIVIDENDS

The Board resolved not to declare an interim dividend but rather to consider an appropriate dividend at year-end.

CHANGES TO THE BOARD

The following changes were made to the Board since 31 December 2017.

Name	Position	Event	Date of Event
Jacques Pierre de Wet	Independent non-executive chairman of the Audit Committee. Member of the: Risk; Social, Ethics and Sustainability; Remuneration and Nominations Committees	Retire at MDGL AGM 2018	7 June 2018
Johan Louis Botha	Independent non-executive chairman of the: Risk; Social, Ethics and Sustainability Committees. Member of the Audit Committee	Retire at MDGL AGM 2018	7 June 2018
Andries Willem Brink	Independent non-executive chairman of Audit; Risk; Social, Ethics and Sustainability Committees. Member of Nominations and Remuneration Committees	Elected by shareholders at the MDGL AGM 2018	7 June 2018
Octavia Matshidiso Matloa	Independent non-executive member of Audit; Risk; Social Ethics and Sustainability Committees	Elected by shareholders at the MDGL AGM 2018	7 June 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note(s)	Unaudited six months ended Jun 2018 USD	Audited year ended Dec 2017 USD
Assets			
Non-current assets			
Property, plant and equipment	3	**134 494 962**	119 075 667
Intangible assets	4	**3 185 008**	3 083 427
Financial assets		**2 905 073**	3 098 512
Deferred tax asset		**3 276 389**	2 010 263
Investment in associate		**–**	6 022 115
		143 861 432	133 289 984
Current assets			
Inventories		**24 527 307**	23 894 609
Related-party loans		**109 408**	102 641
Trade and other receivables	5	**43 226 377**	38 191 737
Cash and cash equivalents		**28 397 399**	40 211 629
		96 260 491	102 400 616
Non-current assets held for sale	6	**–**	1 255 128
		96 260 491	103 655 744
Total assets		**240 121 923**	236 945 728
Equity and liabilities			
Equity			
Share capital		**148 703 721**	148 703 721
Reserves		**(91 202 031)**	(83 855 527)
Retained income		**94 558 590**	88 221 320
		152 060 280	153 069 514
Non-controlling interest		**8 530 512**	8 255 315
		160 590 792	161 324 829
Liabilities			
Non-current liabilities			
Interest bearing borrowings		**34 587 039**	36 263 625
Finance lease obligations		**2 964 382**	1 682 765
Deferred tax liability		**8 330 206**	9 189 125
		45 881 627	47 135 515
Current liabilities			
Interest bearing borrowings		**6 806 085**	4 659 387
Finance lease obligations		**1 573 431**	1 444 820
Related party loans		**582 834**	195 483
Current tax payable		**4 477 350**	2 098 947
Trade and other payables	7	**20 209 804**	20 086 747
		33 649 504	28 485 384
Total liabilities		**79 531 131**	75 620 899
Total equity and liabilities		**240 121 923**	236 945 728

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note(s)	**Unaudited six months ended Jun 2018 USD**	Unaudited six months ended Jun 2017 USD	Audited year ended Dec 2017 USD
Revenue		**67 379 315**	60 517 224	121 424 109
Cost of sales		**(43 462 398)**	(37 721 857)	(76 794 271)
Gross profit		**23 916 917**	22 795 367	44 629 838
Other operating income		**1 978 649**	1 199 133	3 674 987
Other operating expenses		**(13 039 357)**	(11 864 464)	(23 378 396)
Operating profit		**12 856 209**	12 130 036	24 926 429
Investment revenue		**573 256**	430 194	510 325
Finance costs		**(1 486 240)**	(1 017 267)	(2 850 878)
Share of profit from equity accounted investment		**(17 929)**	(22 156)	(1 710)
Profit before taxation		**11 925 296**	11 520 807	22 584 166
Taxation		**(2 234 699)**	(1 504 260)	(5 134 100)
Profit for the year		**9 690 597**	10 016 547	17 450 066
Other comprehensive income that will subsequently be classifiable to profit and loss:				
Exchange differences on translating foreign operations		**(7 506 025)**	3 632 631	7 403 109
Other comprehensive income/(loss) for the year net of taxation		**(7 506 025)**	3 632 631	7 403 109
Total comprehensive income		**2 184 572**	13 649 178	24 853 175
Profit attributable to:		**9 690 597**	10 016 547	17 450 066
Owners of the parent		**9 415 400**	9 822 231	17 202 923
Non-controlling interest		**275 197**	194 316	247 143
Total comprehensive income attributable to:		**2 184 572**	13 649 178	24 853 175
Owners of the parent		**1 909 375**	13 454 862	24 606 032
Non-controlling interest		**275 197**	194 316	247 143
Earnings per share (USD)	8			
Basic earnings per share (cents)		**6.3**	6.6	11.5
Diluted earnings per share (USD)	8			
Diluted basic earnings per share (cents)		**6.2**	6.5	11.4
Earnings per share (ZAR)				
Basic earnings per share (cents)		**77,5**	87,0	153,1
Diluted earnings per share (ZAR)				
Diluted basic earnings per share (cents)		**76,3**	85,7	151,7

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

USD	Share capital	Equity due to change in control of interests	Foreign currency translation reserve
Balance as at 30 June 2017	148 374 435	(58 264 013)	(29 741 428)
Share-based payments	–	–	–
Issue of ordinary shares	329 286	–	–
Derecognition of Non-Controlling Interest	–	–	–
Dividends declared by subsidiaries	–	–	–
Total comprehensive income for the year	–	–	3 770 478
Total changes	–	–	3 770 478
Balance as at 31 December 2017	148 703 721	(58 264 013)	(25 970 950)
Share-based payments	**–**	**–**	**–**
Total comprehensive income for the year	**–**	**–**	**(7 506 025)**
Dividends to shareholders	**–**	**–**	**–**
Total changes	**–**	**–**	**(7 506 025)**
Balance as at 30 June 2018	**148 703 721**	**(58 264 013)**	**(33 476 975)**

	Share-based payments reserve	Total reserves	Retained income	Attributable to owners of the parent	Non-controlling interest	Total Shareholders' equity
	238 365	(87 767 076)	80 840 628	141 447 987	16 485 676	157 933 663
	141 071	141 071	–	141 071	–	141 071
	–	–	–	329 286	–	329 286
	–	–	–	–	(7 977 048)	(7 977 048)
	–	–	–	–	(306 140)	(306 140)
	–	3 770 478	7 380 692	11 151 170	52 827	11 203 997
	141 071	3 911 549	7 380 692	11 292 241	(8 230 361)	3 391 166
	379 436	(83 855 527)	88 221 320	153 069 514	8 255 315	161 324 829
	159 521	**159 521**	**–**	**159 521**	**–**	**159 521**
	–	**(7 506 025)**	**9 415 400**	**1 909 375**	**275 197**	**2 184 572**
	–	**–**	**(3 078 130)**	**(3 078 130)**	**–**	**(3 078 130)**
	159 521	**(7 346 504)**	**6 137 270**	**(1 009 234)**	**275 197**	**(734 037)**
	538 957	**(91 202 031)**	**94 558 590**	**152 060 280**	**8 530 512**	**160 590 792**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note(s)	**Unaudited six months ended Jun 2018 USD**	Unaudited six months ended Jun 2017 USD
Cash flows from operating activities			
Cash generated from operations	9	**11 650 683**	11 689 257
Interest income		**573 256**	430 194
Finance costs		**(1 486 240)**	(1 017 267)
Tax paid		**(2 049 554)**	(1 871 942)
Net cash from operating activities		**8 688 145**	9 230 242
Cash flows from investing activities			
Purchase of property, plant and equipment		**(7 103 330)**	(5 953 419)
Sale of property, plant and equipment		**1 964 230**	176 828
Financial assets movement		**193 439**	(478 925)
Acquisition of subsidiary	10	**(9 335 904)**	–
Net cash from investing activities		**(14 281 565)**	(6 255 516)
Cash flows from financing activities			
Proceeds of financial liabilities		**–**	19 000 000
Repayment of financial liabilities		**(1 795 530)**	(2 675 737)
Proceeds from financial leases		**328 842**	482 885
Repayment of financial leases		**(100 151)**	(808 524)
Related party loan movement		**380 584**	(4 416)
Proceeds on issue of share capital		**–**	1 311 164
Dividends paid		**(3 078 130)**	(3 409 081)
Net cash from financing activities		**(4 264 385)**	13 896 291
Total cash movement for the period		**(9 857 805)**	16 871 017
Cash at the beginning of the period		**40 211 629**	20 372 573
Effect of exchange rate movement on cash balances		**(1 956 425)**	413 967
Total cash at end of the period		**28 397 399**	37 657 557

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

3. PROPERTY, PLANT AND EQUIPMENT

Jun 2018 USD	**Cost**	**Accumulated depreciation and impairment losses**	**Carrying value**
Land and buildings	**4 312 022**	**(137 433)**	**4 174 589**
Plant and machinery	**150 372 324**	**(40 677 461)**	**109 694 863**
Assets under construction	**9 370 626**	**(3 380 566)**	**5 990 060**
Furniture and fittings	**1 446 162**	**(389 298)**	**1 056 864**
Motor vehicles	**3 316 199**	**(1 674 992)**	**1 641 207**
IT equipment	**723 450**	**(451 764)**	**271 686**
Finance lease: Plant and equipment	**17 120 717**	**(6 722 879)**	**10 397 838**
Computer software	**2 438 449**	**(1 386 764)**	**1 051 685**
Patents	**216 170**	**–**	**216 170**
Total	**189 316 119**	**(54 821 161)**	**134 494 962**

Dec 2017 USD	Cost	Accumulated depreciation and impairment	Carrying value
Land and buildings	4 267 124	(124 152)	4 142 972
Plant and machinery	140 270 031	(39 146 361)	101 123 670
Assets under construction	392 338	(2 567)	389 771
Furniture and fittings	1 461 158	(382 136)	1 079 022
Motor vehicles	3 434 946	(1 699 685)	1 735 261
IT equipment	743 646	(444 396)	299 250
Finance lease: Plant and equipment	13 414 269	(4 560 949)	8 853 320
Computer software	2 591 229	(1 378 429)	1 212 800
Patents	239 601	–	239 601
Total	166 814 342	(47 738 575)	119 075 667

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS continued

3.1 Reconciliation of property, plant and equipment

Jun 2018 USD	**Opening balance**	**Additions**	**Exchange difference on consolidation of foreign subsidiaries**
Land and buildings	**4 142 972**	**7 388**	**(106 206)**
Plant and machinery	**101 123 670**	**1 271 374**	**(5 918 175)**
Assets under construction	**389 771**	**5 615 356**	**(15 067)**
Furniture and fittings	**1 079 022**	**8 109**	**(10 103)**
Motor vehicles	**1 735 261**	**144 084**	**(53 489)**
IT equipment	**299 250**	**50 360**	**(14 559)**
Finance lease: Plant and equipment	**8 853 320**	**–**	**(405 906)**
Computer software	**1 212 800**	**6 659**	**(54 413)**
Patents	**239 601**	**–**	**(23 431)**
	119 075 667	**7 103 330**	**(6 601 349)**

Dec 2017 USD	Opening balance	Additions	Exchange difference on consolidation of foreign subsidiaries
Land and buildings	3 922 999	71 550	186 510
Plant and machinery	76 707 978	13 364 454	4 194 304
Assets under construction	2 395 587	1 719 392	5 548
Furniture and fittings	1 064 063	41 214	7 049
Motor vehicles	1 803 919	358 472	25 915
IT equipment	510 658	101 639	11 017
Finance lease: Plant and equipment	17 439 513	147 415	977 162
Computer software	1 242 377	18 889	48 265
Patents	229 500	10 101	–
	105 316 594	15 833 126	5 455 770

Security

Moveable assets to the value of ZAR1.2 billion of the South African subsidiaries have been bonded to Absa Capital as security for an interest-bearing loan.

Assets acquired through business combination	Reclassifications and transfers	Disposals	Depreciation	Impairment of fixed assets	Total
–	**150 950**	**–**	**(20 515)**	**–**	**4 174 589**
14 404 336	**1 419 437**	**(97 880)**	**(2 507 899)**	**–**	**109 694 863**
–	**–**	**–**	**–**	**–**	**5 990 060**
587	**–**	**(928)**	**(19 823)**	**–**	**1 056 864**
12 519	**–**	**(10 634)**	**(186 534)**	**–**	**1 641 207**
–	**(4 103)**	**(190)**	**(59 072)**	**–**	**271 686**
2 667 952	**–**	**–**	**(717 528)**	**–**	**10 397 838**
13 870	**–**	**–**	**(127 231)**	**–**	**1 051 685**
–	**–**	**–**	**–**	**–**	**216 170**
17 099 264	**1 566 284**	**(109 632)**	**(3 638 602)**	**–**	**134 494 962**

Assets acquired through business combination	Reclassifications and transfers	Disposals	Depreciation	Impairment of fixed assets	Total
–	–	–	(38 087)	–	4 142 972
–	11 384 687	(150 381)	(4 191 694)	(185 678)	101 123 670
–	(3 730 756)	–	–	–	389 771
–	3 316	(2 089)	(34 531)	–	1 079 022
–	(14 971)	(75 197)	(362 877)	–	1 735 261
–	(175 477)	(9 895)	(138 692)	–	299 250
–	(8 692 643)	–	(1 018 127)	–	8 853 320
–	175 793	(180)	(272 344)	–	1 212 800
–	–	–	–	–	239 601
–	(1 050 051)	(237 742)	(6 056 352)	(185 678)	119 075 667

Impairment

During 2017, the Exploration department in our African segment recognised an impairment loss of USD185 678. The main elements were a write-down of the idle slim drilling rigs to their value in use. The calculation of value in use is most sensitive to mining commodity cycles. The future cash flows of the particular drill rigs were negatively affected by the current declining commodity prices of our customers, which mainly comprise of mining operations. As a result our customers reduced and deferred exploration slim drilling activities.

4. INTANGIBLE ASSETS

	Jun 2018 USD	Dec 2017 USD
Goodwill recognised from value chain business combinations	**2 612 584**	2 612 584
Goodwill recognised from raisebore business combinations	**572 424**	470 843
Goodwill recognised from business combinations	**3 185 008**	3 083 427

Goodwill recognised

The increase in goodwill during the period arose with the acquisition of Bergteamet Raiseboring Europe AB. Refer to note 9.2 for more details.

5. TRADE AND OTHER RECEIVABLES

	Jun 2018 USD	Dec 2017 USD
Trade receivables – Normal	**31 567 468**	27 333 869
Trade receivables – Retention	**4 195 756**	5 021 356
Loans to employees	**137 994**	40 636
Pre-payments	**1 208 401**	1 054 572
Deposits	**105 387**	82 219
Indirect taxes	**3 316 882**	1 691 851
Sundry	**2 694 489**	2 967 234
	43 226 377	38 191 737
Trade and other receivables past due but not impaired		
The ageing of amounts past due but not impaired is as follows:		
Outstanding on normal cycle terms	**19 309 568**	18 330 132
One month past due	**9 109 506**	6 029 069
Two months past due	**3 824 421**	3 084 459
Three months and over past due	**4 389 388**	5 413 060
Allowance for doubtful debts	**(869 659)**	(501 495)
	35 763 224	32 355 225
Trade receivables of South African subsidiaries have been ceded to Absa Capital as security for interest-bearing loan.		
The movement in allowance for doubtful debts is presented below		
Balance 1 January	**501 495**	136 119
Exchange differences on translation of foreign operations	**(9 773)**	6 698
Amounts written off	**–**	–
Allowance for doubtful debts (reversed)/provided for	**377 937**	358 678
	869 659	501 495

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

	USD	USD
United States Dollar (USD)	**20 349 347**	18 223 187
South African Rands (ZAR)	**6 647 959**	6 162 910
Brazilian Reals (BRL)	**2 898 709**	2 943 824
Mexican Peso (MXN)	**59 287**	594 427
Chilean Peso (CLP)	**6 102 513**	7 558 388
Peruvian Nuevo Sol (PEN)	**685 978**	630 645
CFA Franc BCEAO (XOF)	**292 252**	712 913
Chinese Yuan Renminbi (CNY)	**251 944**	339 833
Guatemalan Quetzal (GTQ)	**6 608**	3 175
Zambian Kwacha (ZMW)	**–**	351 527
Colombian Peso (COP)	**330 778**	594 787
Indian Rupee (INR)	**2 754 264**	43 673
Swedish Krona (SEK)	**1 478 817**	–
Australian Dollars (AUD)	**36 384**	32 448
Euro (EUR)	**1 331 537**	–
	43 226 377	38 191 737

6. NON-CURRENT ASSETS HELD FOR SALE

In September 2016, management committed to a plan to sell the land and building owned in Peru. Master Drilling Peru uses the land and building to house its administrative and workshop facilities. Management's plan is to develop land owned into offices and workshop facilities. The sale of the land and building realised during May 2018 and proceeds to the value of USD2.08 million was received from a external buyer.

No impairment losses were recognised in profit and loss as the carrying amount of the assets held for sale exceed the fair value less cost to sell. A profit of USD0.8 million was realised on the transaction which was accounted for through profit and loss.

As at the end of the reporting period, the assets held for sale comprised of the following:

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

7. TRADE AND OTHER PAYABLES

	Jun 2018 USD	Dec 2017 USD
Trade payables	**8 695 143**	7 956 216
Income received in advance	**1 227 500**	–
Indirect taxes	**4 430 038**	6 654 506
Leave pay accruals	**2 880 701**	2 070 242
Other accruals	**2 976 422**	3 405 783
	20 209 804	20 086 747

8. EARNINGS PER SHARE

	Jun 2018 USD	Jun 2017 USD	Dec 2017 USD
Reconciliation between earnings and headline earnings			
Basic earnings for the year	**9 690 597**	10 016 548	17 450 066
Deduct:			
Non-controlling interest	**(275 197)**	(194 316)	(247 143)
Attributable to owners of the parent	**9 415 400**	9 822 231	17 202 923
(Gain)/Loss on disposal of fixed assets	**(845 952)**	(2 327)	67 183
Impairment of plant and equipment	**–**	–	185 678
Tax effect on loss on disposal of fixed assets and impairments	**249 555**	558	(70 801)
Headline earnings for the year	**8 819 003**	9 820 463	17 384 983
Earnings per share (USD cents)	**6.3**	6.6	11.5
Diluted earnings per share (USD cents)	**6.2**	6.5	11.4
Headline earnings per share (USD cents)	**5.9**	6.6	11.6
Diluted headline earnings per share (USD cents)	**5.8**	6.5	11.5
Net asset value per share (USD cents)	**106.6**	106.2	107.6
Tangible net asset value per share (USD cents)	**104.5**	104.2	105.6
Dividends per share (ZAR cents)	**26.0**	30.0	30.0
Weighted average number of ordinary shares at the end of the year for the purpose of basic earnings per share and headline earnings per share	**150 592 777**	148 694 258	149 894 366
Effect of dilutive potential ordinary shares – employee share options	**1 530 000**	2 593 519	1 603 877
Weighted average number of ordinary shares at the end of the year for the purpose of diluted basic earnings per share and diluted headline earnings per share	**152 122 777**	151 287 777	151 498 243

9. CASH GENERATED FROM OPERATIONS

	Jun 2018 USD	Jun 2017 USD
Profit before taxation	**11 925 296**	11 520 807
Adjustments for:		
Depreciation and amortisation	**3 638 602**	3 768 516
Impairment	**–**	–
Share of profit from equity accounted investment	**17 929**	22 156
Translation effect of foreign operations	**(450 445)**	907 958
Share-based payment – equity settled	**159 521**	65 855
(Profit)/Loss on sale of assets	**(845 952)**	2 327
Interest received	**(573 256)**	(430 194)
Finance costs	**1 486 240**	1 017 267
Changes in working capital:		
Inventories	**2 975 979**	(2 406 057)
Trade and other receivables	**(1 800 770)**	2 154 104
Trade and other payables	**(4 882 461)**	(4 933 482)
	11 650 683	11 689 257

10. NET CASH FLOW ON BUSINESS COMBINATIONS

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

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

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

	Jun 2018 USD	Jun 2017 USD
The fair value of assets and liabilities assumed at date of acquisition was:		
Assets		
Property, plant and equipment	**17 099 264**	–
Current tax receivable	**165 517**	
Non-current interest-bearing loans and borrowings	**(3 447 179)**	
Deferred taxation liability	**(407 032)**	
Net working capital	**1 010 347**	–
Trade and other receivables	**3 233 870**	–
Cash and cash equivalents	**(826 682)**	–
Inventory	**3 608 677**	–
Trade and other payables	**(5 005 518)**	–
Total assets and liabilities acquired	**14 420 917**	–

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS continued

10. NET CASH FLOW ON BUSINESS COMBINATIONS (continued)

	Jun 2018 USD	Jun 2017 USD
Group's share of total assets and liabilities acquired	14 420 917	–
Fair value of 40% interest held prior to acquisition	(6 004 184)	
Consideration paid	(8 509 222)	
Goodwill at acquisition	92 489	–
Total consideration	14 513 406	–
Cash and cash equivalents on hand at acquisition	826 682	–
Non-cash consideration for the 40% interest held prior to acquisition	(6 004 184)	–
Net cash outflow on acquisition of subsidiaries	9 335 904	–
Turnover since acquisition date included in the consolidated results for the period	5 505 204	–
Profit after tax since acquisition date included in the consolidated results for the period	1 036 856	–
Group turnover since acquisition date included in the consolidated results for the period	67 379 315	–
Group profit after tax since acquisition date included in the consolidated results for the period	9 690 597	–

11. CAPITAL COMMITMENTS

	Jun 2018 USD	Dec 2017 USD
Capital expenditure authorised by the directors and contracted for within 12 months. Capital expenditure will be funded through cash generated from operations.	2 098 947	4 579 527

12. SEGMENT REPORTING

12.1 Mining activity

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

	Jun 2018 USD	Jun 2017 USD	Dec 2017 USD
Sales revenue by stage of mining activity			
Exploration	**602 942**	269 563	973 412
Capital	**3 115 163**	10 496 193	4 339 904
Production	**63 661 210**	49 751 468	116 110 793
	67 379 315	60 517 224	121 424 109
Gross profit by stage of mining activity			
Exploration	**144 385**	106 645	383 107
Capital	**1 619 518**	4 197 059	830 043
Production	**22 153 014**	18 491 663	43 416 688
	23 916 917	22 795 367	44 629 838

The chief decision maker of the Group is the chief executive officer. The chief executive officer, under the direct supervision of the resident board, manages the activities of the Group concomitant to the inherent risks facing these activities. It is for this reason that the activities are separated between exploration, capital and production stage drilling. The equipment and related liabilities of the Group can be used at multiple stages and therefore cannot be presented per activity.

12.2 Geographical segments

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

	Jun 2018 USD	Jun 2017 USD	Dec 2017 USD
Sales revenue by geographical market			
Africa	**22 702 248**	27 382 245	54 737 735
Central and North America	**7 086 045**	6 370 055	14 619 849
Other countries (*)	**8 875 339**	–	–
South America	**28 715 683**	26 764 924	52 066 525
	67 379 315	60 517 224	121 424 109
Gross profit by geographical market			
Africa	**10 667 105**	13 002 342	24 880 016
Central and North America	**(67 774)**	1 207 002	4 547 869
Other countries (*)	**3 033 523**	–	–
South America	**10 284 063**	8 586 023	15 201 953
	23 916 917	22 795 367	44 629 838

12. SEGMENT REPORTING continued

12.2 Geographical segments continued

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

	Jun 2018 USD	Jun 2017 USD	Dec 2017 USD
Depreciation by geographical market			
Africa	**1 647 830**	1 757 021	2 813 563
Central and North America	**184 624**	123 522	465 299
Other countries (*)	**599 418**	356 838	42 009
South America	**1 206 730**	1 531 135	2 735 481
	3 638 602	3 768 516	6 056 352

	Jun 2018 USD	Jun 2017 USD	Dec 2017 USD
Investment revenue by geographical market			
Africa	**164 236**	242 445	261 559
Central and North America	**73**	300	749
Other countries (*)	**247 139**	134 154	168 101
South America	**161 808**	53 295	79 916
	573 255	430 194	510 325

	Jun 2018 USD	Jun 2017 USD	Dec 2017 USD
Finance cost by geographical market			
Africa	**705 240**	615 667	1 834 711
Central and North America	**214 505**	91 369	209 404
Other countries (*)	**270 460**	90 764	204 635
South America	**296 035**	219 467	602 128
	1 486 240	1 017 267	2 850 878

	Jun 2018 USD	Jun 2017 USD	Dec 2017 USD
Taxation by geographical market			
Africa	**1 258 060**	1 071 828	1 334 731
Central and North America	**5 559**	19 746	312 205
Other countries (*)	**585 209**	5 698	2 203 622
South America	**385 871**	406 988	1 283 542
	2 234 699	1 504 260	5 134 100

(*) Other countries include new operations in Scandinavia and India.

CORPORATE INFORMATION

MASTER DRILLING GROUP LIMITED

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

REGISTERED AND CORPORATE OFFICE

4 Bosman Street
PO Box 902
Fochville, 2515
South Africa

DIRECTORS

Executive

Daniël (Danie) Coenraad Pretorius	Chief executive officer and founder
André Jean van Deventer	Financial director and chief financial officer
Barend Jacobus (Koos) Jordaan	Technical director
Gareth (Gary) Robert Sheppard #	Chief operating officer

Non-executive

Hendrik Roux van der Merwe	Chairman and independent non-executive
Akhter Alli Deshmukh	Independent non-executive
Andries Willem Brink	Independent non-executive
Octavia Matshidiso Matloa	Independent non-executive
Shane Trevor Ferguson	Non-executive
Fred George Dixon	Alternate director

Resident in Peru

COMPANY SECRETARY

Andrew Colin Beaven
6 Dwars Street
Krugersdorp
1739
South Africa
PO Box 158, Krugersdorp, 1740
South Africa

JSE SPONSOR

Investec Bank Limited
(Registration number: 1969/004763/06)
100 Grayston Drive, Sandown
Sandton, 2196
South Africa

CORPORATE INFORMATION continued

INDEPENDENT AUDITORS

Grant Thornton Johannesburg Partnership
South African member of Grant Thornton International Limited
52 Corlett Drive
Illovo
2196
South Africa

SHARE TRANSFER SECRETARIES

Computershare Investor Services Proprietary Limited
(Registration number: 2004/003647/07)
Rosebank Towers, 15 Biermann Avenue
Rosebank, 2196
(PO Box 61051, Marshalltown, 2107)
South Africa

INVESTOR RELATIONS CONTACTS

Monica Ambrosi
Instinctif Partners
Telephone: +27 11 050 7506
Mobile: +27 82 659 9226
E-mail: MasterDrilling@instinctif.com

GENERAL E-MAIL QUERIES

info@masterdrilling.com

MASTER DRILLING WEBSITE

www.masterdrilling.com

COMPANY SECRETARIAL E-MAIL

Companysecretary@masterdrilling.com

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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