

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

REPORT TO SHAREHOLDERS

UNAUDITED INTERIM REPORT  
FOR THE SIX MONTHS ENDED 30 JUNE 2017

HIGHLIGHTS FOR THE PERIOD

- USD Revenue was up by 12.5%
- USD Earnings per share increased by 4.8% to 6.6 cents
- ZAR Earnings per share decreased by 10,7% to 87,0 cents
- USD Headline earnings per share increased by 4.8% to 6.6 cents
- ZAR Headline earnings per share decreased by 10,7% to 87,0 cents
- Committed order book of USD115.3 million
- Pipeline of USD226.1 million
- Following maiden dividend for 2016, dividend will only be considered at year-end

COMMENTARY

About Master Drilling

Master Drilling, world leader in the raise bore drilling services industry, was established in 1986 and listed on the Johannesburg Stock Exchange in 2012. The company delivers innovative drilling technology solutions and has built trusted partner relationships with blue-chip major and mid-tier companies in the mining, civil engineering, infra-structure and hydroelectric energy sectors across various commodities worldwide. The Master Drilling business model of providing drilling solutions to clients through tailor-made designs coupled with a flexible support and logistics chain makes it the preferred drilling partner throughout the lifecycle of projects from exploration to capital and production stages.

Commenting on the 2017 interim results, Danie Pretorius, CEO of Master Drilling, said:

"Despite a volatile macro-economic and political environment globally, we reported good interim results today underpinned by a solid USD revenue increase of 12.5% to USD60.5 million. The stronger emerging market currencies during the current reporting period however had an adverse impact on earnings.

Although the extended commodity down cycle put pressure on the business, we still maintain a healthy pipeline of USD226.1 million and a committed order book of USD115.3 million. Our focus on an innovative culture that supports the customer underpins the resilience of the company's business model throughout economic and commodity cycles.

As a technology-driven company with a global footprint and the ability to customise solutions to suit specific drilling technology challenges, the current environment presents us with meaningful opportunities beyond the mining sector. We continue to actively evaluate the environment our current and prospective clients operate in, to ensure that we maintain our position as a solution-driven partner across industries, regions, commodities and currencies."

Financial Overview

Revenue increased 12.5% to USD60.5 million and operating profit decreased 9.6% to USD12.1 million. The increase in revenue was due to the addition of two new machines compared to the same period last year and the impact caused by favourable foreign exchange movements in emerging currencies. The upside of the foreign exchange movements on revenue was less than the impact thereof on cost, resulting in overall lower profitability.

The decision to invest in people and capabilities to drive future growth resulted in profit before tax decreasing 9.4% to USD11.5 million. Conservative provisions for taxation in some jurisdictions during previous years led to a decrease in taxation which supported a profit after taxation of USD10.0 million.

USD earnings per share (EPS) increased 4.8% to 6.6 cents, and ZAR EPS decreased 10.7% to 87.0 cents due to the stronger ZAR compared to the same period last year. USD headline earnings per share (HEPS) increased 4.8% to 6.6 cents, and ZAR HEPS decreased 10.7% to 87.0 cents compared to the same period last year.

Net cash generation improve to USD11.7 million following investments in 2016 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 current 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.

91.1% of the Master Drilling capital spend was on capacity expansion with the remaining 8.9% allocated towards sustainability.

Debt increased from USD31.0 million to USD47.0 million due to the draw-down of an additional ABSA Facility to fund capital investment for future growth. The net of cash gearing ratio improved slightly to 5.9%.

#### Operational Overview

The first half of 2017 saw steady market activities, lower than targeted utilisation rates and the initiation of two new projects that supported the Group's financial performance compared to the same period last year. The current operating environment stabilised with a healthy level of enquiries and improved operational base throughout.

#### South America

The Peruvian business experienced a slow start to 2017, however, activities increased since May and the pipeline for the remainder of the year remains strong.

The Brazilian business has stabilised over the reporting period and is doing well. An increase in the hydroelectric energy sector is evident and a number of proposals were submitted and are awaiting feedback.

The Chilean business is under pressure due to Codelco, the Group's major client in Chile, cutting back on capital projects and scaling back on work already awarded due to the lower copper price environment.

A hydroelectric energy project to the value of USD1.9 million was awarded in Colombia and is expected to be completed towards the end of 2017. Once successfully completed, this technology should assist to unlock the hydroelectric energy sector for the company across geographies.

#### Central and North America

The Mexican business had a very strong start to the year. This was supported by a marketing drive and a recovery in the silver price. Despite market pressures in the Mexican environment, the country outlook remains positive for the remainder of 2017 and beyond.

An exciting new machine with dual capability of blind shaft boring and raise bore drilling was shipped to the USA during the reporting period. The North American market is anticipated to remain strong based on enquiries received as well as the anticipated spend on infrastructure development.

#### Africa

The potential impact of the proposed new mining charter created great uncertainty in the South African mining industry. Master Drilling continues to support loyal clients through the extended downturn in the commodity cycle which currently results in subdued growth in this industry.

Our Zambian operations reported low activity but are performing in line with expectations. In the DRC, our contracts are doing well and will near completion in the second half of 2017. Our other African projects in Mali, Sierra Leone and Tanzania are performing as expected.

We remain committed to expansion into appropriate African countries.

#### Scandinavia

Our investment in Bergteamet Raiseboring Europe AB has not performed quite in line with our expectations in the first half of 2017 due to adverse market conditions and decisions on the next phase of investment have been postponed.

#### Technology

The continuous improvement in our technology and services remains the cornerstone in providing clients with the specialised, adaptive and integrated solutions that they require to stay ahead in their respective markets. Master Drilling is well positioned to respond to the growing mechanisation trend within the mining and civil industries thanks to our technological leadership skills, and our proven services track record.

Master Drilling continued to strengthen its internally developed technology service offering during the period and met several development milestones on its world-first technologies that we are confident will gain traction within our markets.

The concept phase of our Mobile Tunnel Borer is expected to commence in September 2017. This allows for continuous mining with no blasting involved in the process, significantly enhancing mining efficiencies. We believe this to be where substantial future growth shall originate from.

The Industrial Development Corporation of South Africa Limited (IDC) confirmed partial funding for the first phase of our Blind Shaft Boring System (BSBS) development. The BSBS allows cost-effective and safe access to ore bodies at great depths and situated in hard substrate. With the entire operation conducted without the need for blasting, noise or fumes are no longer a feature of the drilling process, and environmental impact is minimal.

Recent developments in Tunnel Boring Machinery have resulted in equipment that is able to bore out a suitably sized excavation at a rate that far exceeds that of conventional methods. Weighing 16 metric tons, our Gripper Machine is designed with a steering system to follow the seam as required and relies on friction and thrust to advance during drilling and to maintain its "grip" inside the hole, while preventing itself from falling down the hole.

Our innovative tailored technology solutions meet the specific conditions and drilling requirements of our clients, unlocking value across the geographies, sectors and commodities we operate in.

#### Plant and equipment

Two raise bore machines were added during the reporting period, contributing 4,7% towards growth in revenue. The fleet now comprises of 106 raise bore and 33 slim drilling rigs. The introduction rate of new rigs coming on stream will settle down with a focus on specialised technological solutions to satisfy our clients' needs.

#### 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 2017 will focus on targeted technical training in general.

#### Outlook and prospects

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

The IDC has approved the partial funding of the first phase of the BSBS project, and roll-out of the project is expected to take place in 2019. Further opportunities to develop home-grown technologies that support cost-effective, simpler and improved drilling systems are also being explored with the IDC.

Various opportunities in first-world countries such as Australia, Canada and USA are still being investigated.

We will continue to focus on working capital management whilst decreasing project initiation costs. New geographies, clients and technologies require large initial outlays and Master Drilling's robust support approach enables optimal operations and maintenance support that are essential towards building trust with clients.

We expect the utilisation rates of our raise bore rigs to continue at approximately 70% for the remainder of 2017 with an aim to drive rates to mid-70% from 2018 to improve return on investments.

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

Our vertically integrated business model supports specialised solutions in design and assembly of rigs, training and

engineering support and, ultimately, diverse drilling applications in a diversity of geographical locations and industries.

#### 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 2016.

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.

###### 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 life. 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.

#### 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.

#### 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

During the current reporting period, share options granted previously were exercised and resulted in an additional 2 000 000 shares being issued.

#### Operating segments

Changes were made to the operating segments from those disclosed at 31 December 2016. The changes will enable the chief decision maker, under the direct supervision of the resident boards, to improve the assessment of performances and make better informed decisions on the allocation of resources to the different operating segments. The comparative reporting periods were adjusted accordingly as the information was available. See note 13 for more details.

#### Subsequent to reporting period

There have been no significant events subsequent to 30 June 2017 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

There were no changes to the Board since 31 December 2016.

#### Consolidated Statement of Financial Position

Unaudited six	Audited year
months ended	ended

	Note(s)	Jun 2017 USD	Dec 2016 USD
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	3	110 127 773	105 316 594
Intangible assets	4	3 043 042	3 043 042
Financial assets		11 002 585	10 068 354
Deferred tax asset		2 009 869	1 733 825
Investment in associate		6 001 669	6 023 825
		132 184 938	126 185 640
<b>Current assets</b>			
Inventories		26 843 321	24 437 264
Related-party loans		77 580	70 486
Trade and other receivables	5	36 860 560	39 014 664
Cash and cash equivalents		37 657 557	21 690 039
		101 439 018	85 212 453
Non-current assets held for sale	6	1 264 336	1 209 520
		102 703 354	86 421 973
<b>Total assets</b>		<b>234 888 292</b>	<b>212 607 613</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	7	148 374 435	146 607 965
Reserves		(87 767 076)	(91 010 256)
Retained income		80 840 628	74 427 478
		141 447 987	130 025 187
Non-controlling interest		16 485 676	16 291 360
		157 933 663	146 316 547
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Interest bearing borrowings	8	38 155 609	17 806 057
Finance lease obligations		2 221 150	1 950 891
Deferred tax liability		9 127 846	9 266 022
		49 504 605	29 022 970
<b>Current liabilities</b>			
Interest bearing borrowings	8	4 625 547	8 650 837
Finance lease obligations		1 983 801	2 579 699
Related party loans		157 944	160 622
Current tax payable		2 617 787	1 561 045
Trade and other payables	9	18 064 945	22 998 427
Cash and cash equivalents		-	1 317 466
		27 450 024	37 268 096
<b>Total liabilities</b>		<b>76 954 628</b>	<b>66 291 066</b>
<b>Total equity and liabilities</b>		<b>234 888 292</b>	<b>212 607 613</b>

Consolidated Statement of Profit or loss and Other Comprehensive Income

	Note(s)	Unaudited six months ended Jun 2017 USD	Unaudited six months ended Jun 2016 USD	Audited year ended Dec 2016 USD
Revenue		60 517 224	53 808 765	118 102 983
Cost of sales		(37 721 857)	(31 997 953)	(75 159 529)
Gross profit		22 795 367	21 810 812	42 943 454
Other operating income		1 199 133	516 516	4 645 115
Other operating expenses		(11 864 464)	(8 914 143)	(21 743 714)
Operating profit		12 130 036	13 413 185	25 844 855
Investment revenue		430 194	398 053	808 845
Finance costs		(1 017 267)	(1 276 002)	(1 940 479)
Share of profit from equity accounted investment		( 22 156)	176 233	556 085
Profit before taxation		11 520 807	12 711 469	25 269 306
Taxation		(1 504 260)	(3 024 302)	(2 949 412)
Profit for the year		10 016 547	9 687 167	22 319 894
Other comprehensive income that will subsequently be classifiable to profit and loss:				
Exchange differences on translating foreign operations		3 632 631	4 599 036	6 618 019
Other comprehensive income/(loss) for the year net of taxation		3 632 631	4 599 036	6 618 019

Total comprehensive income		13 649 178	14 286 203	28 937 913
Profit attributable to:		10 016 547	9 687 167	22 319 894
Owners of the parent		9 822 231	9 369 698	21 195 750
Non-controlling interest		194 316	317 469	1 124 144
Total comprehensive income attributable to:		13 649 178	14 286 203	28 937 913
Owners of the parent		13 454 862	13 968 734	27 813 769
Non-controlling interest		194 316	317 469	1 124 144
Earnings per share (USD)	10			
Basic earnings per share (cents)		6.6	6.3	14.3
Diluted earnings per share (USD)	10			
Diluted basic earnings per share (cents)		6.5	6.2	14.0
Earnings per share (ZAR)				
Basic earnings per share (cents)		87,0	97,4	210,0
Diluted earnings per share (ZAR)				
Diluted basic earnings per share (cents)		85,7	95,7	205,6

#### Consolidated Statement of Changes in Equity

	Share capital	Equity due to change in control of interests	Foreign currency translation reserve	Share-based payments reserve	Total reserves	Retained income	Attributable to owners of the parent	Non-controlling interest	Total Shareholders' equity
USD									
Balance as at 30 June 2016	146 607 965	(58 264 013)	(35 393 042)	466 438	(93 190 617)	62 601 426	116 018 774	16 626 536	132 645 310
Share-based payments	-	-	-	161 378	161 378	-	161 378	-	161 378
Dividends declared by subsidiaries	-	-	-	-	-	-	-	(1 141 851)	(1 141 851)
Total comprehensive income for the year	-	-	2 018 983	-	2 018 983	11 826 052	13 845 035	806 675	14 651 710
Total changes	-	-	2 018 983	161 378	2 180 361	11 826 052	14 006 413	(335 176)	13 671 237
Balance as at 31 December 2016	146 607 965	(58 264 013)	(33 374 059)	627 816	(91 010 256)	74 427 478	130 025 187	16 291 360	146 316 547
Issue of ordinary shares	1 766 470	-	-	(455 306)	(455 306)	-	1 311 164	-	1 311 164
Share-based payments	-	-	-	65 855	65 855	-	65 855	-	65 855
Dividends declared by subsidiaries	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	3 632 631	-	3 632 631	9 822 231	13 454 862	194 316	13 649 178
Dividends to shareholders	-	-	-	-	-	(3 409 081)	(3 409 081)	-	(3 409 081)
Total changes	1 766 470	-	3 632 631	(389 451)	3 243 180	6 413 150	11 422 800	194 316	11 617 116
Balance as at 30 June 2017	148 374 435	(58 264 013)	(29 741 428)	238 365	(87 767 076)	80 840 628	141 447 987	16 485 676	157 933 663

Note 7

#### Consolidated Statement of Cash Flows

	Note(s)	Unaudited six months ended Jun 2017 USD	Unaudited six months ended Jun 2016 USD
Cash flows from operating activities			
Cash generated from operations	11.1	11 689 257	4 391 721
Interest income		430 194	398 053
Finance costs		(1 017 267)	(1 276 002)
Tax paid		(1 871 942)	(1 362 779)
Net cash from operating activities		9 230 242	2 150 993
Cash flows from investing activities			
Purchase of property, plant and equipment		(5 953 419)	(7 330 531)
Sale of property, plant and equipment		176 828	800 868
Financial assets movement		(478 925)	-
Acquisition of subsidiary		-	(1 543 451)
Acquisition of associate		-	-
Net cash from investing activities		(6 255 516)	(8 073 114)
Cash flows from financing activities			
Proceeds of financial liabilities		19 000 000	7 963 443
Repayment of financial liabilities		(2 675 737)	(3 786 965)
Proceeds from financial leases		482 885	734 573
Repayment of financial leases		(808 524)	(1 719 501)
Related party loan movement		(4 416)	(143 821)
Proceeds on issue of share capital		1 311 164	-

Dividends paid	(3 409 081)	-
Net cash from financing activities	13 896 291	3 047 729
Total cash movement for the period	16 871 017	(2 874 392)
Cash at the beginning of the period	20 372 573	22 496 770
Effect of exchange rate movement on cash balances	413 967	350 007
Total cash at end of the period	37 657 557	19 972 385

Property, plant and equipment

Jun 2017	Cost	Accumulated depreciation and impairment losses	Carrying value
USD			
Land and buildings	4 206 200	(100 313)	4 105 887
Plant and machinery	125 015 244	(37 045 628)	87 969 620
Assets under construction	3 879 053	(2 567)	3 876 487
Furniture and fittings	1 211 391	(152 850)	1 058 540
Motor vehicles	3 310 540	(1 582 746)	1 727 794
IT equipment	951 617	(451 678)	499 940
Finance lease: Plant and equipment	13 081 018	(3 532 806)	9 548 211
Computer software	2 449 540	(1 337 746)	1 111 794
Patents	229 500	-	229 500
Total	154 334 103	(44 206 333)	110 127 773

Dec 2016	Cost	Accumulated depreciation and impairment	Carrying value
USD			
Land and buildings	4 003 516	(80 517)	3 922 999
Plant and machinery	108 189 065	(31 481 087)	76 707 978
Assets under construction	2 398 153	(2 566)	2 395 587
Furniture and fittings	1 403 341	(339 278)	1 064 063
Motor vehicles	3 158 777	(1 354 858)	1 803 919
IT equipment	887 221	(376 563)	510 658
Finance lease: Plant and equipment	22 349 043	(4 909 530)	17 439 513
Computer software	2 187 833	(945 456)	1 242 377
Patents	229 500	-	229 500
Total	144 806 449	(39 489 855)	105 316 594

Borrowing cost

Included in the cost of land and buildings are capitalised borrowing cost related to the acquisition of land in Peru to the amount of USD52 961 (2016: USD138 978) calculated at a capitalisation rate of 5,9%.

3.1 Reconciliation of property, plant and equipment

Jun 2017	Opening balance	Additions	Exchange difference on consolidation of foreign subsidiaries	Assets acquired through business combination	Reclassifications and transfers	Disposals	Depreciation	Impairment of fixed assets	Total
USD									
Land and buildings	3 922 999	52 961	139 622	-	6 925	-	(16 620)	-	4 105 887
Plant and machinery	76 707 978	4 025 831	2 011 878	-	8 397 201	(152 889)	(3 020 379)	-	87 969 620
Assets under construction	2 395 587	1 474 036	6 864	-	-	-	-	-	3 876 487
Furniture and fittings	1 064 063	7 919	2 749	-	2 203	(345)	(18 049)	-	1 058 540
Motor vehicles	1 803 919	229 949	17 810	-	(15 096)	(21 337)	(287 451)	-	1 727 794
IT equipment	510 658	63 924	5 936	-	(6 875)	(4 583)	(69 120)	-	499 940
Finance lease: Plant and equipment	17 439 513	98 799	736 130	-	(8 528 810)	-	(197 421)	-	9 548 211
Computer software	1 242 377	-	28 893	-	-	-	(159 476)	-	1 111 794
Patents	229 500	-	-	-	-	-	-	-	229 500
	105 316 594	5 953 419	2 949 882	-	(144 452)	(179 154)	(3 768 516)	-	110 127 773

Exchange difference on Assets acquired



Dec 2016 USD	Opening balance	Additions	consolidation of foreign subsidiaries	through business combination	Reclassifications and transfers	Disposals	Depreciation	Impairment of fixed assets	Total
Land and buildings	3 572 664	297 042	90 182	-	-	-	(36 889)	-	3 922 999
Plant and machinery	58 950 433	12 271 956	2 743 043	4 840 001	3 417 381	(711 201)	(4 535 247)	(268 388)	76 707 978
Assets under construction	5 505 621	695 298	9 148	-	(3 814 480)	-	-	-	2 395 587
Furniture and fittings	797 036	291 614	106 480	8 046	-	(68 967)	(70 146)	-	1 064 063
Motor vehicles	1 683 547	509 263	(24 152)	72 350	152 798	(47 477)	(542 410)	-	1 803 919
IT equipment	249 540	187 740	10 805	2 694	172 983	(2 887)	(110 217)	-	510 658
Finance lease: Plant and equipment	17 481 071	1 524 268	856 607	42 925	(1 317 090)	-	(1 148 268)	-	17 439 513
Computer software	1 063 054	587 286	76 512	-	-	-	(484 475)	-	1 242 377
Patents	229 500	-	-	-	-	-	-	-	229 500
	89 532 466	16 364 467	3 868 625	4 966 016	(1 388 408)	(830 532)	(6 927 652)	(268 388)	105 316 594

#### 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.

#### Impairment

During 2016, the Exploration segment in our South African segment recognised an impairment loss of USD268 388. The main elements were a write-down of the idle slim drilling drill rigs to their value in use. The calculation of value in use is most sensitive to the mining commodity cycles. The future cash flows of the particular drill rigs was negatively affected by the current declining commodity prices of our customers, which mainly comprise of mining operations. As a result of the declining prices, our customers reduced and deferred exploration slim drilling activities.

#### Intangible assets

	2017 USD	2016 USD
Goodwill recognised from value chain business combinations	2 612 584	2 612 584
Goodwill recognised from raisebore business combinations	430 458	430 458
Goodwill recognised from business combinations	3 043 042	3 043 042

#### Goodwill recognised

The increase of USD430 458 in goodwill during 2016 arose with the Bergteamet Latin America SpA acquisition transaction.

#### Trade and other receivables

	Jun 2017 USD	Dec 2016 USD
Trade receivables - Normal	29 592 979	26 789 516
Trade receivables - Retention	2 898 955	3 098 167
Loans to employees	104 432	81 097
Pre-payments	1 137 874	1 372 357
Deposits	70 367	46 890
Indirect taxes	559 093	1 426 352
Sundry	2 496 860	6 200 285
	36 860 560	39 014 664

#### Trade and other receivables past due but not impaired

The ageing of amounts past due but not impaired is as follows:

	2017 USD	2016 USD
Outstanding on normal cycle terms	20 492 525	10 981 269
One month past due	5 403 974	6 702 871
Two months past due	3 715 707	5 591 572
Three months and over past due	3 024 133	6 748 090
Allowance for doubtful debts	(144 405)	(136 119)
	32 491 934	29 887 683

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

	2017 USD	2016 USD
Balance 1 January	136 119	636 799
Exchange differences on translation of foreign operations	8 286	58 431
Amounts written off	-	-
Allowance for doubtful debts (reversed)/provided for	-	(559 111)

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

	USD	USD
United States Dollar (USD)	19 589 827	17 591 574
South African Rands (ZAR)	8 635 592	7 119 116
Brazilian Reals (BRL)	1 999 286	4 455 101
Mexican Peso (MXN)	381 154	373 151
Chilean Peso (CLP)	5 499 848	7 360 884
Peruvian Nuevo Sol (PEN)	118 318	1 289 943
Chinese Yuan Renminbi (CNY)	259 607	440 543
Guatemalan Quetzal (GTQ)	48	-
Colombian Peso (CLP)	209 775	217 247
Euro (EUR)	167 105	167 105
	36 860 560	39 014 664

#### 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. Negotiations to sell the land and buildings are at an advanced stage. The sale is expected to be finalised by end of 2017.

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. The movement in balance since the end of the previous reporting period originated as a result of the PEN foreign exchange movement against the USD.

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

	Jun 2017	Dec 2016
	USD	USD
Land and buildings	1 264 336	1 209 520
Assets held for sale	1 264 336	1 209 520

#### Share capital

	Jun 2017	Dec 2016
	Number of shares	Number of shares
Authorised		
Ordinary shares	500 000 000	- 500 000 000

	Jun 2017		Dec 2016	
Reconciliation of number of shares issued:	Number of shares	Value USD	Number of shares	Value USD
Balance at the beginning of the reporting period	148 265 491	146 607 965	148 265 491	146 607 965
Movement	2 000 000	1 766 470	-	-
Balance at the end of the reporting period	150 265 491	148 374 435	148 265 491	146 607 965

The unissued shares are under the control of the directors. The increase in the number of issued shares is a result of share options that were exercised during the six months since the last reporting period. The Group is holding 327 286 treasury shares allocated but not yet issued.

#### Interest-bearing Borrowings

	Jun 2017	Dec 2016
	USD	USD
Held at amortised cost		
Secured		
Kibali Goldmines SPRL	-	804 153
The loan is denominated in USD, secured by owned plant and machinery which is pledged as collateral, bears no interest and is repayable over the drilling contract period. The loan was settled during the current reporting period		
Banco Internacional del Perú S.A.A.	2 042 150	2 334 544
A portion of the loan, USD500 000, is denominated in Peruvian Nuevo Sol, secured by owned plant and machinery which is pledged as collateral, bears interest at 5,1% and is repayable in two monthly installments of USD350 000 and USD150 000 in July 2017.		

The balance, USD1 542 150, is denominated in USD, secured by property, bears interest at 5,5% per annum and is repayable in monthly installments of USD19 000.

Absa Capital, a division of Absa Bank Limited

A portion of the loan, USD14 298 828, is denominated in USD and bears interest at the margin rate of 2,95% over libor as applicable. The remainder of the loan, USD6 440 178, is denominated in ZAR and bears interest at the margin rate of 2,95% over jibar as applicable. The loan is repayable in 20 quarterly installments of which 15 remains.

An additional loan to the value of USD20 000 000 was approved during the current reporting period and USD19 000 000 was advanced in June 2017. The USD denominated portion of the loan, USD9 000 000 bears interest at the margin rate of between 3,45% and 3,90% over libor as applicable. The remainder of the loan, USD10 000 000, is denominated in ZAR and bears interest at the margin rate of between 3,45% and 3,90% over jibar as applicable. The full capital value of the loan is repayable in December 2022 while interest is repayable in quarterly installments from September 2017.

Total interest-bearing borrowings	40 739 006	23 318 197
Non-current liabilities		
At amortised cost	38 155 609	17 806 057
Current liabilities		
At amortised cost	4 625 547	8 650 837
	42 781 156	26 456 894

#### Trade and other payables

	Jun 2017	Dec 2016
	USD	USD
Trade payables	7 890 593	9 931 942
Income received in advance	85 882	391 683
Indirect taxes	1 703 431	5 914 578
Leave pay accruals	1 955 275	1 821 971
Other accruals	6 429 764	4 938 253
	18 064 945	22 998 427

#### Earnings per Share

	Jun 2017	Jun 2016	Dec 2016
	USD	USD	USD
Reconciliation between earnings and headline earnings			
Basic earnings for the year	10 016 548	9 687 167	22 319 894
Deduct:			
Non-controlling interest	(194 316)	(317 469)	(1 124 144)
Attributable to owners of the parent	9 822 231	9 369 698	21 195 750
(Gain)/Loss on disposal of fixed assets	(2 327)	23 109	(230 161)
Impairment of plant and equipment	-	-	268 388
Tax effect on loss on disposal of fixed assets and impairments	558	(6 470)	(48 284)
Headline earnings for the year	9 820 463	9 386 337	21 185 693
Earnings per share (cents)	6.6	6.3	14.3
Diluted earnings per share (cents)	6.5	6.2	14.0
Headline earnings per share (cents)	6.6	6.3	14.3
Diluted headline earnings per share (cents)	6.5	6.2	14.0
Net asset value per share (cents)	106.2	89.5	98.7
Tangible net asset value per share (cents)	104.2	87.4	96.6
Dividends per share (cents)	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	148 694 258	148 265 491	148 265 491
Effect of dilutive potential ordinary shares - employee share options	2 593 519	2 676 268	3 003 793
Weighted average number of ordinary shares at the end of the year for the purpose of diluted basic earnings per share and diluted headline earnings per share	151 287 777	150 941 759	151 269 284

#### CASH GENERATED FROM OPERATIONS

	Jun 2017	Jun 2016
	USD	USD
Profit before taxation	11 520 807	12 711 469
Adjustments for:		
Depreciation and amortisation	3 768 516	3 109 987
Impairment	-	-
Share of profit from equity accounted investment	22 156	(176 233)
Translation effect of foreign operations	907 958	(452 183)
Share-based payment - equity settled	65 855	93 971

Share-based payment - liability	-	(509 936)
Loss on sale of assets	2 327	23 109
Interest received	(430 194)	(398 053)
Finance costs	1 017 267	1 276 002
Changes in working capital:		
Inventories	(2 406 057)	(7 045 149)
Trade and other receivables	2 154 104	(5 153 376)
Trade and other payables	(4 933 482)	912 113
	11 689 257	4 391 721

#### Capital Commitments

	Jun 2017	Dec 2016
	USD	USD
Capital expenditure authorised by the directors and contracted for within 12 months. Capital expenditure will be funded through cash generated from operations.	1 947 373	4 276 175

#### Segment Reporting

##### 13.1 Mining activity

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

	Jun 2017	Jun 2016	Dec 2016
	USD	USD	USD
Sales revenue by stage of mining activity			
Exploration	269 563	316 288	695 690
Capital	10 496 193	8 995 132	22 792 887
Production	49 751 468	44 497 345	94 614 406
	60 517 224	53 808 765	118 102 983
Gross profit by stage of mining activity			
Exploration	106 645	131 801	297 369
Capital	4 197 059	2 758 394	9 350 969
Production	18 491 663	18 920 617	33 295 116
	22 795 367	21 810 812	42 943 454

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.

##### 13.2 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 2017	Jun 2016	Dec 2016
	USD	USD	USD
Sales revenue by geographical market			
Africa	27 382 245	21 844 127	49 006 600
Central and North America	6 370 055	4 604 029	11 064 465
Other countries	-	-	-
South America	26 764 924	27 360 609	58 031 918
	60 517 224	53 808 765	118 102 983
Gross profit by geographical market			
Africa	13 002 342	10 593 781	21 467 899
Central and North America	1 207 002	1 139 852	2 011 437
Other countries	-	(6 835)	2 131 646
South America	8 586 023	10 084 014	17 332 472
	22 795 367	21 810 812	42 943 454

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

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 (Koo) 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
Jacques Pierre de Wet	Independent non-executive
Johan Louis Botha	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

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

Lizelle du Toit

Instinctif Partners

Telephone: +27 11 050 7506

Mobile: +27 82 465 1244

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](http://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.