

**Master Drilling Group Limited
Annual Financial Statements
for the year ended 31 December 2017**

Master Drilling Group Limited

(Registration number 2011/008265/06)

Annual Financial Statements for the year ended 31 December 2017

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 JP De Wet ST Ferguson FG Dixon - Alternate director
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	Grant Thornton Johannesburg Partnership Chartered Accountants (S.A.) Registered Auditors A South African member firm of Grant Thornton International
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

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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 2018 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 37, which have been prepared on the going concern basis and the directors' report on pages 7 to 9, were approved by the directors on 19 March 2018 and were signed on their behalf by:



Director



Director

Johannesburg

19 March 2018



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 set out on pages 10 to 37, which comprise the statement of financial position as at 31 December 2017, 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 2017, 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. We have determined that there are no key audit matters in respect of these separate financial statements to communicate in our report.

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 Integrated 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 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 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 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 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.



Grant Thornton

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 Grant Thornton has been the auditor of Master Drilling Company Limited for six years.

Grant Thornton

GRANT THORNTON

Registered Auditors

Practice Number: 903485E

J Barradas

Partner

Registered Auditor

Chartered Accountant (SA)

19 March 2018

@Grant Thornton
Wanderers Office Park
52 Corlett Drive
Illovo, 2196

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Annual Financial Statements for the year ended 31 December 2017

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 2017.

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

Authorised

Ordinary shares

2017	2016
Number of shares	
500 000 000	500 000 000

2 327 286 new shares were issued during the year for a consideration of R27 797 630.

Unissued ordinary shares

Ordinary shares

2017	2016
Number of shares	
349 407 223	351 734 509

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. Accordingly, 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.

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Directors' Report

4. Dividends

Dividend declared

The Board approved a dividend on 19 March 2018 of ZAR26,0 cents per share payable to all shareholders recorded in the Company's share register on 18 May 2018.

Dividend

Since listing in 2012, the company has achieved compound annual growth in profit after taxation of 7.5% in USD terms and delivered on the key strategic objectives set out in its listing prospectus. This, coupled with significant ongoing cash generation, enabled 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 declared a gross dividend of ZAR 26.0 cents per share on 19 March 2018 payable to all shareholders recorded in the Company's share register on 18 May 2018.

The dividend was paid from reserves and was subject to dividends withholding tax of 20% which results in a net dividend of ZAR 20.8 cents per share to shareholders subject to such dividend withholding tax. This dividend represents a six times earnings cover. Even though the level of cover for the dividend decreased, the dividend is still somewhat more conservative than the earnings cover at which our dividend policy is likely to settle over time..

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 15 May 2018
Trading ex dividend commences:	Wednesday 16 May 2018
Record date:	Friday 18 May 2018
Payment date:	Monday 21 May 2018

Shares may not be dematerialised or re-materialised between Wednesday, 16 May and Friday, 18 May 2018, 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.

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
JP De Wet
ST Ferguson
FG Dixon - Alternate director

There have been no changes to the directorate for the year under review.

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Directors' Report

6. Events after the reporting period

The directors are not aware of any 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

Grant Thornton Johannesburg Partnership continued in office as auditors for the company for 2017.

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 separate financial statements.

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Statement of Financial Position as at 31 December 2017

Figures in Rand

	Notes	2017	2016
Assets			
Non-Current Assets			
Investments in subsidiaries			
Deferred tax	3	734 647 758	734 258 040
	4	1 445 921	331 046
		736 093 679	734 589 086
Current Assets			
Loans to group companies	5	552 987 058	466 886 306
Trade and other receivables	6	917	128 576
Current tax receivable		788 202	788 202
Cash and cash equivalents	7	6 082 024	25 997
		559 858 201	467 829 081
Total Assets		1 295 951 880	1 202 418 167
Equity and Liabilities			
Equity			
Share capital			
Reserves	8	1 270 970 271	1 243 172 641
Retained income		(198 045 952)	(197 791 158)
		55 392 874	91 742 304
		1 128 317 193	1 137 123 787
Liabilities			
Current Liabilities			
Trade and other payables	10	921 762	655 826
Loans from group companies	5	166 712 925	64 638 554
		167 634 687	65 294 380
Total Equity and Liabilities		1 295 951 880	1 202 418 167

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Statement of Profit or Loss and Other Comprehensive Income

Figures in Rand	Notes	2017	2016
Revenue			
Other operating losses		4 151 250	4 050 000
Other operating expenses	13	-	(22 382)
Operating loss		(8 215 601)	(5 402 083)
Investment revenue	14	(4 064 351)	(1 374 465)
Finance costs	15	23 738 175	55 285 057
Profit before taxation	16	(12 058 482)	(7 394 047)
Taxation		7 615 342	46 516 545
Profit for the year	17	1 114 875	331 046
Other comprehensive income		8 730 217	46 847 591
Total comprehensive income for the year		8 730 217	46 847 591

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Statement of Changes in Equity

	Share capital	Share based payment reserve	Equity due to change in control of interests	Total reserves	Retained income	Total equity
Figures in Rand						
Balance at 01 January 2016	1 243 172 641	4 953 247	(202 744 405)	(197 791 158)	44 894 713	1 090 276 196
Profit for the year	-	-	-	-	46 847 591	46 847 591
Total comprehensive income for the year	-	-	-	-	46 847 591	46 847 591
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 31 December 2017	1 270 970 271	4 698 453	(202 744 405)	(198 045 952)	55 392 874	1 128 317 193
Note(s)	8		9			

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Statement of Cash Flows

Figures in Rand	Note(s)	2017	2016
Cash flows from operating activities			
Cash used in operations	18	(3 925 550)	(1 614 861)
Interest revenue		12 141 133	7 548 799
Dividend revenue		11 597 042	47 736 258
Finance costs		(12 058 482)	(7 394 047)
Tax paid	19	-	(965 239)
Net cash from operating activities		7 754 143	45 310 910
Cash flows from investing activities			
Acquisition of investments in subsidiaries		(389 718)	-
Loans advanced to group companies		(86 100 752)	(18 178 920)
Repayment of loans from group companies		-	(21 902 471)
Proceeds from loans from group companies		102 074 371	-
Net cash from investing activities		15 583 901	(40 081 391)
Cash flows from financing activities			
Proceeds on share issue		27 797 630	-
Repayment of share based payment liability		-	(10 406 448)
Dividends paid		(45 079 647)	-
Net cash from financing activities		(17 282 017)	(10 406 448)
Total cash movement for the year		6 056 027	(5 176 929)
Cash at the beginning of the year		25 997	5 202 926
Total cash at end of the year	7	6 082 024	25 997

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Accounting Policies

1. Presentation of annual financial statements

The annual financial statements have been prepared in accordance with International Financial Reporting Standards, and the Companies Act 71 of 2008. The annual financial statements have been prepared on the historical cost basis, except for the measurement of certain financial instruments at fair value, and incorporate the principal accounting policies set out below. They are presented in South African Rands.

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

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.

1.2 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.

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Accounting Policies

1.3 Financial Instruments

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.

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.

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Accounting Policies

1.3 Financial instruments (continued)

Loans to (from) group companies

These include loans 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 to group companies are classified as financial liabilities measured at amortised cost.

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.

1.4 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.

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Accounting Policies

1.4 Tax (continued)

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 and unused STC credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused STC credits 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.

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.

1.5 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.

1.6 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.

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Accounting Policies

1.6 Impairment of assets (continued)

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.

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.

1.7 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.

1.8 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.

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Accounting Policies

1.9 Revenue

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recognised that are recoverable.

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.

1.10 Borrowing costs

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

1.11 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.

1.12 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.

1.13 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.

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Accounting Policies

1.13 Share based payments (continued)

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.

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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:

Amendments to IAS 7: Disclosure initiative

The amendment requires entities to provide additional disclosures for changes in liabilities arising from financing activities. Specifically, entities are now required to provide disclosure of the following changes in liabilities arising from financing activities:

- changes from financing cash flows;
- changes arising from obtaining or losing control of subsidiaries or other businesses;
- the effect of changes in foreign exchanges;
- changes in fair values; and
- other changes.

The effective date of the amendment is for years beginning on or after 01 January 2017.

The company has adopted the amendment for the first time in the 2017 annual financial statements.

The impact of the amendment is not material.

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

In terms of IAS 12 Income Taxes, deferred tax assets are recognised only when it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. The following amendments have been made, which may have an impact on the company:

If tax law restricts the utilisation of losses to deductions against income of a specific type, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type.

Additional guidelines were prescribed for evaluating whether the company will have sufficient taxable profit in future periods. The company is required to compare the deductible temporary differences with future taxable profit that excludes tax deductions resulting from the reversal of those deductible temporary differences. This comparison shows the extent to which the future taxable profit is sufficient for the entity to deduct the amounts resulting from the reversal of those deductible temporary differences.

The amendment also provides that the estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.

The effective date of the amendment is for years beginning on or after 01 January 2017.

The company has adopted the amendment for the first time in the 2017 annual financial statements.

The impact of the amendment is not material.

2.2 Standards and interpretations not yet effective or relevant

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 2018 or later periods but are not relevant to its operations:

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Notes to the Annual Financial Statements

2. New Standards and Interpretations (continued)

IFRS 16 Leases

IFRS 16 will replace IAS 17 'Leases' and three related Interpretations. It completes the IASB's long-running project to overhaul lease accounting. Leases will be recorded in the statement of financial position in the form of a right-of-use asset and a lease liability.

Management is yet to fully assess the impact of the Standard and therefore is unable to provide quantified information. However, in order to determine the impact, the Company is in the process of:

- (a) performing a full review of all agreements to assess whether any additional contracts will become lease contracts under IFRS 16's new definition of a lease
- (b) deciding which transitional provision to adopt; either full retrospective application or partial retrospective application (which means comparatives do not need to be restated). The partial application method also provides optional relief from reassessing whether contracts in place are, or contain, a lease, as well as other reliefs. Deciding which of these practical expedients to adopt is important as they are one-off choices
- (c) assessing current disclosures for operating leases (note 14) as these are likely to form basis of the amounts to be capitalised as right-of-use assets
- (d) determining which optional accounting simplifications are available and whether to apply them
- (e) considering the IT system requirements and whether a new leasing system is needed. This is being considered in line with implementing IFRS 9 so the Company only have to undergo one set of system changes assessing the additional disclosures that will be required

This is effective for annual years beginning on or after 1 January 2019.

IFRS 9 Financial Instruments

The new Standard for financial instruments (IFRS 9) replaces IAS 39 'Financial Instruments: Recognition and Measurement'. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets.

IFRS 9 also contains new requirements on the application of hedge accounting. The new requirements look to align hedge accounting more closely with entities' risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness.

Management has identified the following areas that are expected to be most impacted by the application of IFRS 9:

- (a) the classification and measurement of the Company's financial assets. Management intends to hold most financial assets and collect the associated cash flows and is currently assessing the underlying effects of the cash flows to classify financial assets correctly. Management expects the majority of financial assets to continue to be accounted for at amortised cost;
- (b) the impairment of financial assets by applying the expected credit loss model. This will be applied to the Company's trade receivables and investments in debt-type assets but no material impact to the valuation is expected; and the measurement of equity investments at cost less impairment. All such investments will instead be measured at fair value with changes in fair value presented either in profit or loss or in other comprehensive income. To present, changes in other comprehensive income requires making an irrevocable designation on initial recognition or at the date of transition to the new Standard.

This is effective for annual years beginning on or after 1 January 2018.

Amendments to IAS 28: Investment in Associates and Joint Ventures

Annual Improvements 2014-2016 Cycle: Clarification that a venture capital organisation, or a mutual fund, unit trust and similar entities may elect, at initial recognition, to measure investments in an associate or joint venture at fair value through profit or loss separately for each associate or joint venture.

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2. New Standards and Interpretations (continued)

Management do not anticipate that this new standard will have an impact on the Company's annual financial statements as the Company is unlikely to be a venture capital organisation.

This is effective for annual years beginning on or after 1 January 2018.

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.

Management do not anticipate that the application of the amendments to this standard will have a significant impact on the Company's future annual financial statements as the Company does not have any cash-settled share-based payment arrangements or any withholding tax arrangements with tax authorities in relation to share-based payments

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

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3. Investments in subsidiaries

Name of company	% holding 2017	% holding 2016	Carrying amount 2017	Carrying amount 2016
Drilling Technical Services Proprietary Limited	74.00 %	74.00 %	2 444 058	2 444 058
MDG Shared Services Proprietary Limited	100.00 %	100.00 %	2 480 015	2 090 587
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, previously known as	100.00 %	74.00 %	1 000	1 000
Master Drilling South Africa Proprietary Limited				
Master Sinkers Proprietary Limited	100.00 %	- %	100	-
Master Drilling Proprietary Limited	100.00 %	- %	100	-
Master Drilling New Technology Holdings Proprietary Limited	90.00 %	- %	90	-
			734 647 758	734 258 040

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

Master Drilling Group Limited Investment in subsidiaries	% effective holding 2017	Status	Country	% effective holding 2016
- MDI Exco Limited	100.00 %	Operational	Malta	100.00 %
- Raisebore Rental Proprietary Limited, previously known as	100.00 %	Operational	RSA	74.00 %
Master Drilling South Africa Proprietary Limited				
- 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	100.00 %	Operational	RSA	100.00 %
- Master Sinkers Proprietary Limited	100.00 %	Operational	RSA	- %
- Master Drilling Proprietary Limited	100.00 %	Operational	RSA	- %
- Master Drilling New Technology Holdings Proprietary Limited	90.00 %	Investment	RSA	- %

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).

4. Deferred tax

Deferred tax asset

Temporary differences	425 174	8 530
Tax losses available for set off against future taxable income	1 020 747	322 516
Total deferred tax asset	1 445 921	331 046

Reconciliation of deferred tax asset

At beginning of year	331 046	-
Increases in tax losses available for set off against future taxable income	1 114 875	322 516
Taxable temporary differences	-	8 530
	1 445 921	331 046

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5. Loans to (from) group companies

Equity loan to subsidiary

Raisebore Rental Proprietary Limited, previously known as Master Drilling South Africa Proprietary Limited	266 405 584	266 405 584
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Fellow subsidiaries

Master Drilling Changzhou Co. Limited	202 667	-
Master Drilling Mexico SA	303 998	-
Master Drilling do Brasil Limiteda	274 163	-
Master Drilling Peru SAC	617 464	-
	<u>1 398 292</u>	-

Company with common directors

MDG Equity Holdings Proprietary Limited	56 557	-
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Subsidiaries

Drilling Technical Services Proprietary Limited	264 338 010	188 937 845
Raisebore Rental Proprietary Limited, previously known as Master Drilling South Africa Proprietary Limited	(162 616 354)	(40 023 933)
Master Drilling Exploration Proprietary Limited	8 739 480	(24 614 621)
MDG Shared Services Proprietary Limited	12 049 135	11 542 877
Master Drilling Proprietary Limited	(4 096 571)	-
	<u>118 413 700</u>	<u>135 842 168</u>

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

Current assets	552 987 058	466 886 306
Current liabilities	(166 712 925)	(64 638 554)
	<u>386 274 133</u>	<u>402 247 752</u>

6. Trade and other receivables

Value Added Taxation	917	128 576
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7. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	6 082 024	25 997
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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
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Issued

Ordinary no par value shares	1 270 970 271	1 243 172 641
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Figures in Rand	2017	2016
9. Equity due to change in control of interests		
Assets acquired through business combination	(202 744 405)	(202 744 405)
10. Trade and other payables		
Other payables	792 406	581 434
Trade payables	129 356	74 392
	921 762	655 826
11. Financial assets by category		
The accounting policies for financial instruments have been applied to the line items below:		
Financial assets at amortised cost		
Cash and cash equivalents	6 082 024	25 997
Loans to group companies	552 987 058	466 886 306
	559 069 082	466 912 303
12. Financial liabilities by category		
The accounting policies for financial instruments have been applied to the line items below:		
Financial liabilities at amortised cost		
Loans from group companies	166 712 925	64 638 554
Trade and other payables	875 792	655 826
	167 588 717	65 294 380
13. Other operating losses		
Foreign exchange loss		
Net foreign exchange loss	-	(22 382)
14. Operating loss		
Operating loss for the year is stated after accounting for the following:		
Employee costs	4 841 973	2 237 855
Operating lease charges		
Premises	73 946	68 273

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15. Investment revenue

Dividend revenue

Subsidiaries

11 597 042 47 736 258

Interest revenue

Bank

134 277 134 656

Loans to subsidiaries

12 006 856 7 414 143

Total interest revenue

12 141 133 7 548 799

23 738 175 55 285 057

16. Finance costs

Bank

136 93

Loans to group companies

12 058 346 7 356 548

Other interest

= 37 406

Total finance costs

12 058 482 7 394 047

17. Taxation

Major components of the tax income

Deferred

Originating and reversing temporary differences

(1 114 875) (331 046)

Reconciliation of the tax income

Reconciliation between accounting profit and tax income:

Accounting profit

7 615 342 46 516 545

Tax at the applicable tax rate of 28% (2016: 28%)

2 132 296 13 024 633

Tax effect of adjustments on taxable income

Dividends received

(3 247 171) (13 366 153)

Interest paid - South African Revenue Services

= 10 474

(1 114 875) (331 046)

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Figures in Rand	2017	2016
18. Cash used in operations		
Profit before taxation	7 615 342	46 516 545
Adjustments for:		
Loss on foreign exchange	-	22 382
Dividend revenue	(11 597 042)	(47 736 258)
Interest revenue	(12 141 133)	(7 548 799)
Finance costs	12 058 482	7 394 047
Movement in Share based payment reserve	(254 794)	-
Changes in working capital:		
Trade and other receivables	127 659	(90 268)
Trade and other payables	265 936	(172 510)
	(3 925 550)	(1 614 861)
19. Tax paid		
Balance at beginning of the year	788 202	(177 037)
Balance at end of the year	(788 202)	(788 202)
	-	(965 239)

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20. Related parties

Relationships

Subsidiaries of Master Drilling Group Limited

MDI Exco Ltd
Raisebore Rental (Pty) Ltd
Drilling Technical Services (Pty) Ltd
Master Drilling Exploration (Pty) Ltd
Master Drilling International Ltd
MDG Shared Services (Pty) Ltd
Master Sinkers (Pty) Ltd
Master Tunneling (Pty) Ltd
Master Drilling New Technologies Holdings (Pty) Ltd
Master Drilling (Pty) Ltd

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 (Pty) Ltd
Master Drilling Colombia S.A.S
Master Drilling Namibia (Pty) Ltd
Drillcorp Burkina Faso SA
Drillcorp Cote d'Ivoire SA
Drillcorp Botswana (Pty) Ltd
Master Drilling Guatemala SA
Master Drilling RDC Sprl
Master Drilling Malta Ltd
Jiangsu Master Mining Engineering Technology
Company Ltd
Master Drilling Jiangsu Company Ltd
Martwick Ltd
Drilling Technical Services SAC
DCP Properties SAC
Master Drilling Changzhou Co. Ltd
Orbit Insurance Company Ltd
Master Drilling Ecuador SA
Master Drilling USA LLC
MD Drilling Services Tanzania Ltd
Master Drilling Sierra Leone Ltd
Master Drilling India Private Ltd
Master Drilling Ghana Sprl

Subsidiaries of Master Drilling Malta Limited

Master Drilling Chile División Raise Borer SpA

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20. Related parties (continued)

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
Master Drilling Blind Shaft Boring Systems
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

Shareholder with significant influence

DC Pretorius

Directors

AA Deshmukh
AJ Van Deventer
BJ Jordaan
DC Pretorius
GR Sheppard
HR Van Der Merwe
JL Botha
JP De Wet
ST Ferguson
FG Dixon - Alternate director

Related party balances

Loan accounts - Owing (to) by group companies:

Drilling Technical Services Proprietary Limited	264 338 010	188 937 845
MDG Shared Services Proprietary Limited	12 049 135	11 542 877
Master Drilling Exploration Proprietary Limited	8 739 480	(24 614 621)
Raisebore Rental Proprietary Limited, previously known as Master Drilling South Africa Proprietary Limited	103 789 230	226 381 651
Master Drilling Proprietary Limited	(4 096 571)	-
MDG Equity Holdings Proprietary Limited	56 557	-
Master Drilling Changzhou Co. Limited	202 667	-
Master Drilling Mexico SA	303 998	-
Master Drilling do Brasil Limiteda	274 163	-
Master Drilling Peru SAC	617 464	-
	386 274 133	402 247 752

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2017 2016

20. Related parties (continued)

Related party transactions

Interest paid to (received from) related parties

Drilling Technical Services Proprietary Limited	(10 680 146)	(5 863 917)
MDG Shared Services Proprietary Limited	(990 083)	(1 550 227)
Raisebore Rental Proprietary Limited, previously known as Master Drilling South Africa Proprietary Limited	9 704 662	5 849 343
Master Drilling Exploration Proprietary Limited	2 253 183	1 507 205
Master Drilling Proprietary Limited	100 501	-
	388 117	(57 596)

Purchases from (sales to) related parties:

Barrange Proprietary Limited	-	64 116
Drilling Properties Proprietary Limited	-	4 157
Drilling Technical Services Proprietary Limited	(405 000)	(405 000)
MDG Shared Services Proprietary Limited	(405 000)	(405 000)
MDG Shared Services Proprietary Limited	365 546	529 294
Master Drilling Exploration Proprietary Limited	(1 620 000)	(1 620 000)
Raisebore Rental Proprietary Limited, previously known as Master Drilling South Africa Proprietary Limited	(1 316 250)	(1 620 000)
Raisebore Rental Proprietary Limited, previously known as Master Drilling South Africa Proprietary Limited	68 109	52 229
Master Drilling Proprietary Limited	(405 000)	-
Master Drilling Proprietary Limited	29 864	-
	(3 687 731)	(3 400 204)

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Figures in Rand

21. Directors' and prescribed officer's emoluments

Executive

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	Emoluments	Travel allowance	Bonus	Fringe benefits	Gains on exercise 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

2016

	Emoluments	Travel allowance	Bonus	Fringe benefits	Medical aid	Pension Fund	Total
AJ Van Deventer	2 844 220	240 000	3 816 229	84 444	126 120	-	7 111 013
BJ Jordaan	2 779 693	240 000	3 816 229	92 274	116 496	-	7 044 692
DC Pretorius	4 393 104	360 000	8 408 289	133 035	181 536	-	13 475 964
GR Sheppard	5 350 977	-	2 696 343	-	232 471	33 617	8 313 408
	15 367 994	840 000	18 737 090	309 753	656 623	33 617	35 945 077

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Non-executive

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

2016

	Directors' fees	Total
AA Deshmukh	478 941	478 941
HR Van Der Merwe	557 086	557 086
JL Botha	357 741	357 741
JP De Wet	354 199	354 199
ST Ferguson	1 245 598	1 245 598
	2 993 565	2 993 565

Alternate

2017

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

2016

	Emoluments	Travel allowance	Bonus	Fringe benefits	Pension and medical aid	Total
FG Dixon	1 546 740	204 000	488 876	25 574	285 044	2 550 234
C O'Neill	2 068 750	161 000	-	13 314	-	2 243 064
	3 615 490	365 000	488 876	38 888	285 044	4 793 298

Prescribed officers

2017

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

2016

	Emoluments	Travel allowance	Fringe benefits	Pension fund and medical aid	Total
PJ van Wyngaard	420 910	63 170	6 452	62 200	552 732

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22. Risk management

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 (excluding derivative financial liabilities) disclosed in note 5, 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%.

Financial risk management

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.

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.

Credit risk

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.

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23. Share based payments

As at 31 December 2017, the Company maintained the share based payment schemes for eligible employees and the Share Option Plan.

24.1 Share Option Plan

Under the Share Option Plan, share options of the parent are granted to eligible employees. 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 terms 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:

Expense arising from equity-settled share based payment transactions	3 871 233	3 750 713
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The following table illustrates the number and exercise prices (EP) of, and movements in, share options during the year:

	Number	EP
Outstanding at 1 January 2016	2 477 714	
Granted during the year	(500 000)	13.64
Outstanding at 31 December 2016	1 977 714	
Granted during the year	(835 000)	1.30
Outstanding at 31 December 2017	1 142 714	

The remaining contractual life for the share options outstanding as at 31 December 2017 was 1.92 years (2016 : 0.95).
The average fair value of the share options granted during the year was 1 209 ZAR cents (2016 : 444 ZAR cents).

The following table lists the inputs to the model used for the Share option Plan for 31 December 2017:

	2017	2016
Expected volatility	30 %	30 %
Risk-free interest rate	8 %	6 %
Expected life of share options	3 years	3 years
Weighted average share price	R 9.79	R 10.79
Model used	Black-Scholes	Black-Scholes

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

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24. Share Option Scheme

24.1 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.

24.2 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.

24.3 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.

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24. 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 2017, 835 000 share options were granted under the Share Option Scheme. Refer to note 23.