MASTER DRILLING

2013

INTEGRATED ANNUAL REPORT

TABLE OF CONTENTS

QUICK REFERENCE GUIDE

OUR VISION

To be the preferred global supplier of efficient and reliable, high-quality drilling services and technology in the mining and civil engineering sectors by being a "one-stop-shop" to meet all of our clients' drilling needs.

OUR MISSION

To remain at the forefront of technological advance through ongoing research and development and continuous interaction with our customers, contributing progressively to improved customer business performance, now and in the future. Our key business principles are quality, safety and integrity.

OUR ORGANISATIONAL CULTURE

Our organisational culture focuses on "Doing Things Right the First Time". We are committed to cultivating a culture of quality through ongoing employee training and development, responsible and direct communication with clients and continuous improvement in service quality.

SCOPE AND APPROACH OF OUR REPORT

In developing this report, Master Drilling has applied, to the fullest extent possible, the recommendations and requirements of the International Financial Reporting Standards ("IFRS"), the South African Companies Act, 2008 (Act No 71 of 2008), as amended (the "Companies Act"), the Listings Requirements of the JSE Limited ("JSE Listings Requirements") and the King Code on Governance for South Africa 2009 ("King III") and has taken cognisance, where possible, of the requirements of the International Integrated Reporting Council ("IIRC") guidelines.

This report is our primary means of communicating with our stakeholders and sets out the Group's strategy, governance, performance and prospects, in the context of our operations and the markets for our products. A number of online reports supplement the information in this report. The annual financial statements for Master Drilling Group Limited (Registration number 2011/008265/06), for the period ended 31 December 2013, have been audited by Grant Thornton, the Company's independent external auditors, whose unqualified audit report can be found on pages 45 to 46 of this document.

The financial statements have been prepared by the corporate reporting staff of Master Drilling, headed by Peet van Coller CA(SA), the Group's Senior Manager: Financial Accounting. This process was supervised by André Jean van Deventer CA(SA), the Group's Chief Financial Officer.

Unless otherwise stated:

- reference to "Group" and "Company" are used interchangeably in the narrative of this report;
- "statement of financial position" and "balance sheet" are used interchangeably in the narrative of this report;
- the "glossary of terms" explains the terminology used in this report. Refer to the supplemental report on the Company's website at www.masterdrilling.com;
- locations on maps are for indicative purposes only;
- all views and statements made in this report are those of the Directors and Management;
- US$, US dollars, $ and US cents refer to the lawful currency of the United States of America and is the presentational currency of the Group. The use of Rand, South African Rand, R and cents which refer to the lawful currency of South Africa are used; and
- references to "Company" shall include references to the companies or business which form part of the Group as presently constituted.

HIGHLIGHTS

- Revenue for the year ended 31 December up from **$99.7 million** in 2012 to **$119.7 million** in 2013.
- Profit attributable to equity shareholders up by 24.9% to **$15.1 million.**

ABOUT MASTER DRILLING GROUP LIMITED

Master Drilling is one of the world's leaders in the raiseboring market and provides specialised drilling services to major, mid-tier and junior mining and exploration companies, which focus on mining a range of different commodities.

Master Drilling also provides drilling services for civil engineering applications in a variety of emerging markets and the Group offers complete project management expertise in projects ranging from exploration-stage drilling through to production-stage drilling.

The Group has specialised in-house drilling equipment design, manufacturing, training and maintenance capabilities, which allow it to tailor solutions to meet the specific conditions and drilling requirements of its customers. The Group's raiseboring capability offers advantages over other conventional drilling methods including increased speed and safety.

OUR JOURNEY

1986 Master Drilling was established.

1992 Commenced drilling at the Shabanie mine in the Masvingo district, Zimbabwe.

1993 Commenced drilling at Barrick group's El Indio mine Chile.

1998 Commenced drilling at Milpo's El Porvenir mine in Pasco, Peru.

2000 Commenced drilling at AngloGold Ashanti's Cuiaba mine in Minas Gerais, Brazil.

2001 Acquired first Extra Extra Large Rig. (HG380) Commenced drilling at the KCM mine in Zambia.

2003 First 4.5 m diameter hole drilled, at the Amandelbult mine in Northam, South Africa.

2005 Commenced drilling at Peñoles Group's Tizapa mine in Mexico.

2006 Acquired Drillcorp Africa (Pty) Ltd (DCA), Named subsequently Master Drilling Exploration (Pty) Ltd

2011 Opened site office at Glencore's Kamoto copper mine in Kolwezi province, DRC.

2012 Through the reorganisation, Master Drilling Group was formed.

2013 Received International ISO14001 and OHSAS18001 certification. Drilling commenced at GoldCorp's Marlin mine (Guatemala)

HIGHLIGHTS

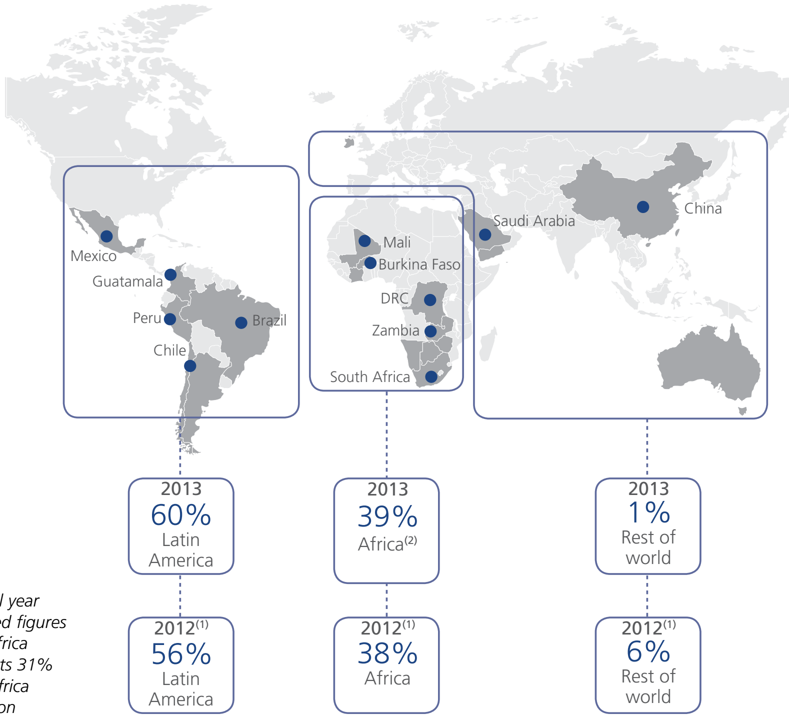
- Headline earnings per share of **10.3 US cents** (99.2 ZAR cents).
- Net asset value of **$106.1 million**.
- Signing of additional long-term contracts with major resource companies.
- Wide range of projects, from exploration-stage, drilling, to ventilation and access shaft construction.
- One of the most extensive fleets in the global market.
- Technically innovative raisebore, specialised and custom rigs.

PRINCIPAL ACTIVITIES AND GLOBAL FOOTPRINT

By year-end, the Group was actively operating 157 drilling rigs across Southern Africa, Latin America, West Africa and the Middle East. These rigs are owned or leased by Master Drilling, with a few operated through rentals from third parties. As the global mining industry focuses on a greater level of mechanisation, Master Drilling is pursuing organic growth opportunities in Mexico and Peru and expanding geographically in Colombia, and the DRC. Master Drilling is enhancing its position as a world-class supplier of technologically-advanced mine drilling operations, as well as value-added services. Refer to Corporate profile on page 22 for more information.

As at 31 December 2013, the Group owned or leased and operated 89 raisebore rigs, 68 exploration diamond core rigs and three other types of specialised drilling or drilling related equipment, one of the most extensive fleets in the global raiseboring and specialised drilling services market. The fleet contains rigs that are technically innovative and expressly manufactured and/or customised in-house for use in a wide range of drilling activities and specialised applications. This allows Master Drilling to bid for and undertake work on a wide spectrum of drilling projects, from exploration-stage drilling, to the construction of substantial ventilation and access shafts of a significant diameter.

REVENUE BY JURISDICTION



Note:
(1) 2012 full year unaudited figures
(2) South Africa represents 31% of the Africa jurisdiction

PRINCIPAL ACTIVITIES

PRINCIPAL ACTIVITIES

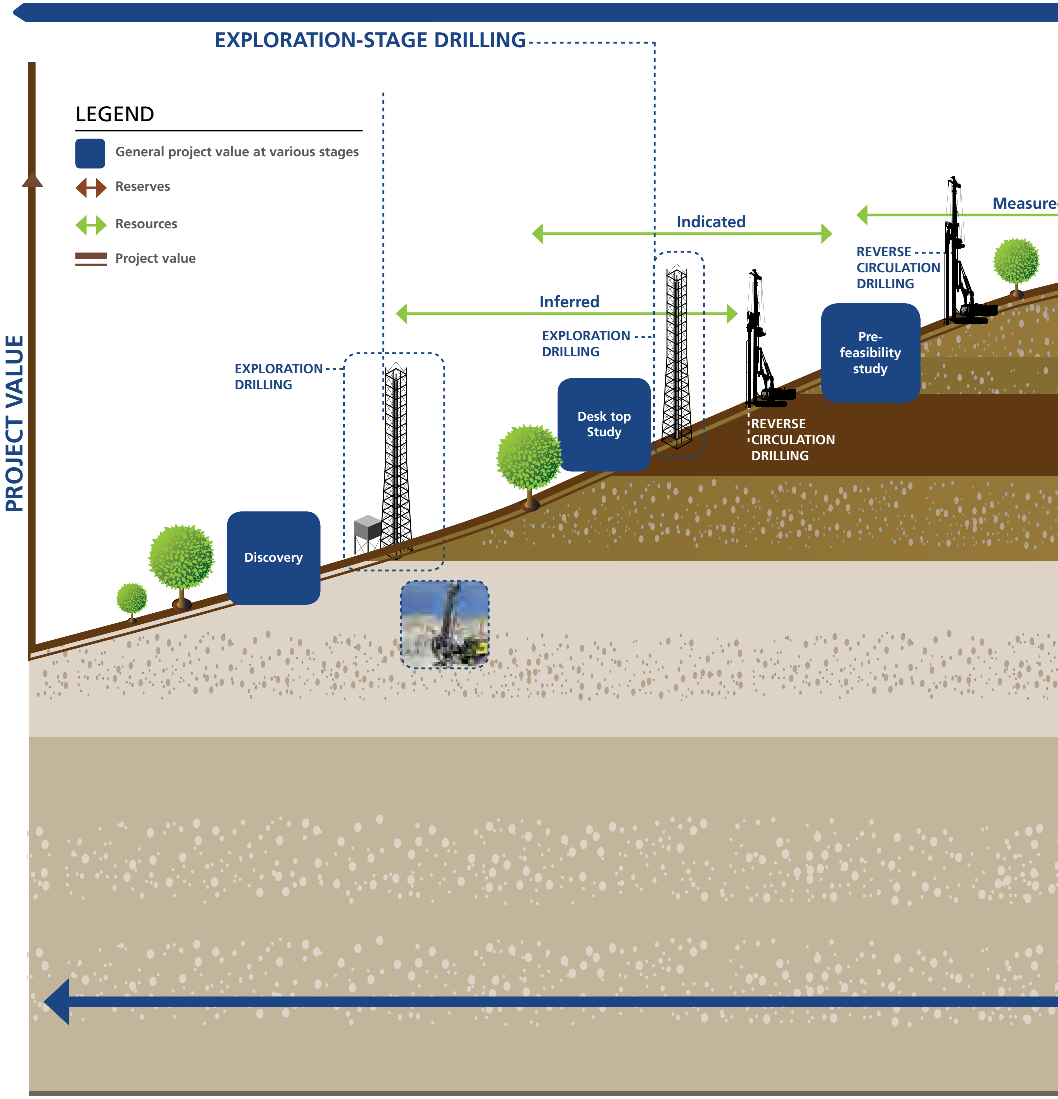
The Group conducts three principal drilling activities:

- *Exploration-stage drilling* (principally exploration diamond core and percussion drilling) focuses on the discovery and quantification of new mineral deposits;
- *Production-stage drilling* (principally raiseboring and blast-hole drilling) is conducted within active mining areas and encompasses surface and underground services; and
- *Capital project stage drilling* (principally raiseboring and blast-hole drilling) takes place once a potentially viable ore deposit or extension to an ore deposit has been identified and its resource quantified.

In addition, Drilling Technical Services (Pty) Ltd (DTS), the Group's technical division, undertakes design, engineering, manufacturing, customisation and maintenance support for the Group's drilling activities.

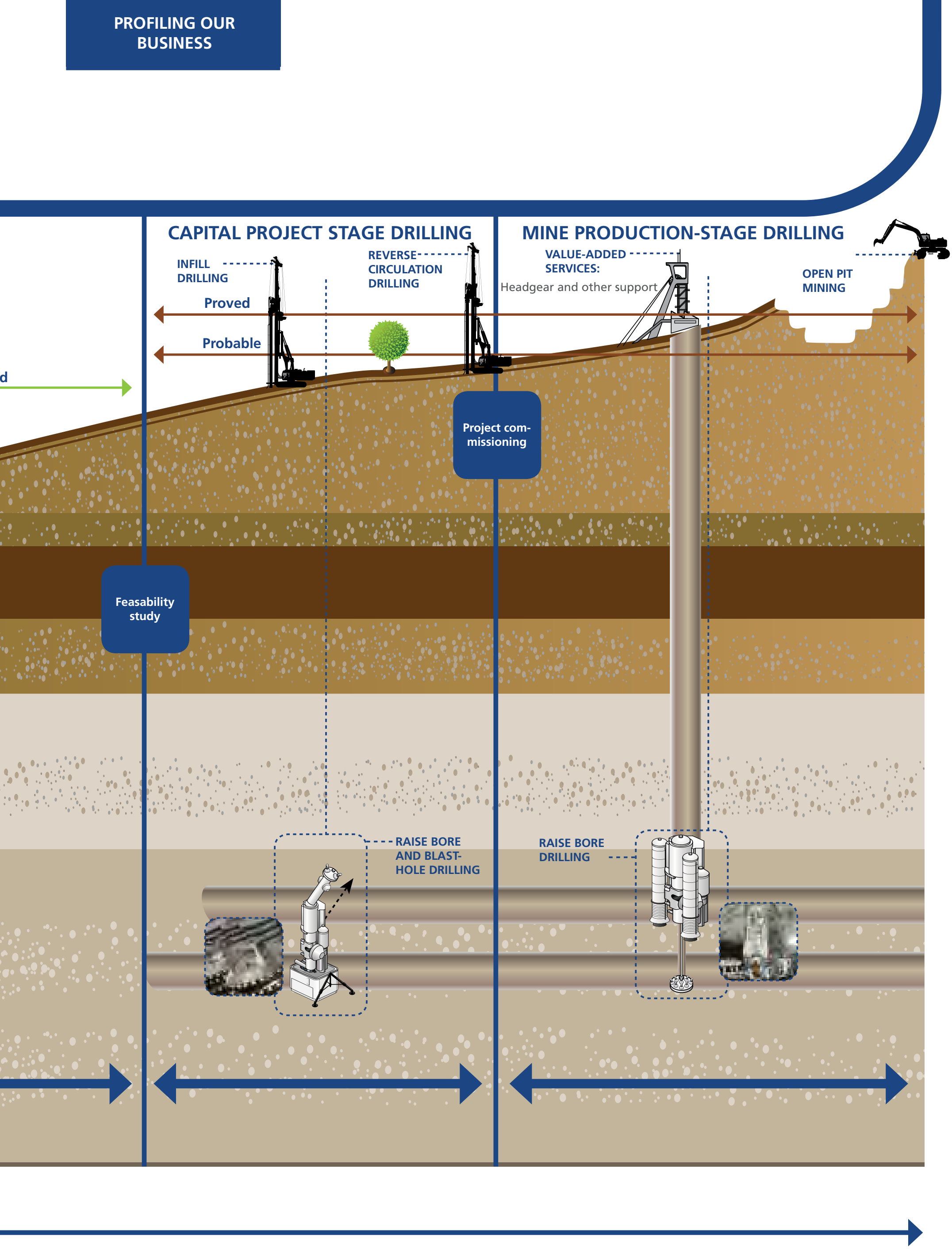
Master Drilling provides complete project management expertise in projects ranging from exploration-stage drilling through to production-stage drilling. The Group has specialised in-house drilling equipment design, manufacturing, training and maintenance capabilities, which allow it to tailor solutions to meet the specific conditions and drilling requirements of its customers. It also provides drilling services for civil engineering applications in a variety of emerging markets. The Group has the knowledge and experience to offer its clients a variety of drilling services, including surface and underground raiseboring, blind-hole drilling, underground and surface exploration core drilling, blast-hole and percussion drilling. The Group's raiseboring capability offers advantages over other conventional drilling methods including increased speed and safety.

For details of the Drilling Services Industry, refer to the supplemental information on the Company's website at **www.masterdrilling.com**.



CONFIDENCE

(A function of the amount of knowledge on a mineral resource/property and the degree of probability of it being brought to account)


CAPITAL PROJECT STAGE DRILLING
MINE PRODUCTION-STAGE DRILLING
INFILL DRILLING
REVERSE CIRCULATION DRILLING
VALUE-ADDED SERVICES:
Headgear and other support
OPEN PIT MINING
Proved
Probable
d
Project com-missioning
Feasability study
RAISE BORE AND BLAST-HOLE DRILLING
RAISE BORE DRILLING

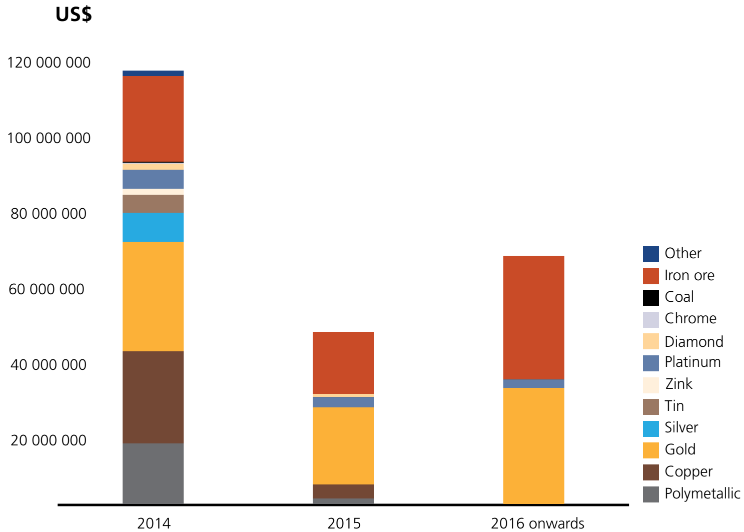
STRATEGY AND OBJECTIVES

Master Drilling's business strategy is to maintain and improve its current status as a leading, global specialised drilling services company and to deliver long-term, sustainable growth through the further development and expansion of its drilling services. It intends to achieve this by strengthening and consolidating its position in existing markets through focused organic growth and strategic acquisitions, expanding into new markets and enhancing operational efficiencies, while continuing its dedicated focus on quality and safety. As previously stated, the strategy is as follows, but is not restricted to:

- Expanding into new geographical territories;
- Expanding drilling service's offering;
- Continued focus on research and development;
- Enhancing in-house design, manufacturing, maintenance and procurement functions;
- Implementing an integrated management system;
- Enhancement of operational efficiencies; and
- Improving the logistical "pipeline", and ensuring efficiencies to ultimately contribute to the bottom line.

The Company's core competitive strengths are the foundation on which the forward-looking strategy document is based and include:

- A client base that comprises diversified international mining and exploration companies;
- A reputation established through the efficient delivery of services;
- Focusing on a "one-stop-shop/full automation" concept for large budget projects, with a current order book in excess of US$225 million (refer to page 9);



Order book per commodity

- Operational diversification both geographically and by commodity;
- Continuation of both specialised and normal rig fleet expansion;
- In-house experience requiring specialised skill sets;
- The enhancement of in-house design and manufacturing capabilities;
- Internationally certified ISO 14001, OHSAS 18001 and re-certification ISO 9001;
- A significant competitive edge by virtue of the specialised nature of the industry and the barrier thus created to potential new entrants; and
- A skilled, experienced and stable management team incentivised to expand and "globalise" the Master Drilling brand.

LETTER FROM THE CHAIRMAN OF THE BOARD

Dear Shareholder

The past year has been a period of significant transition for our Company as well as our nation. We pay tribute to former President Nelson Mandela, who passed away on 5 December 2013. His voice of reason and graceful compassion after his release from prison were the determining factors offering a pathway of stability and unity, to a nation on the brink of civil unrest. Iconic in stature, he will be sorely missed, not only for his wisdom, but for his unsurpassed presence that provided the world with an example of how a country may progress through dialogue, fairness and reconciliation. May we continue to build on his achievements to make our country a stronger and better place for its people.

It is with great pleasure that I report back to you on the significant progress made since our listing on the Johannesburg Stock Exchange in December 2012. Our CEO, Danie Pretorius, adeptly supported by his executive team and his employees has been resolute and focused on the business, despite the added responsibility of leading a listed company. The entire Board together with our capable Company Secretariat have ensured we take the necessary steps to comply with all relevant legislation, particularly the new Companies Act, King III and the JSE Listings Requirements. Indeed we have successfully completed the transition from a private enterprise to a publicly listed company. This is clearly reflected in the upward movement of our share price, the increased value of our order book and the Company's profitability.

During the course of the year the Board held a number of sessions to formalise a five-year strategic plan that will take Master Drilling into the foreseeable future. The plan seeks to ensure that sustainability and risk minimisation are essential going forward, with geographical and commodity diversification playing an important role in combating currency and commodity volatility. The executive team is continuously developing objectives to achieve this strategy and specific measures and targets will be set annually to ensure success.

Economic volatility has made the operating environment for mining challenging. Although pockets of positive growth appear evident on the horizon in the developed world, emerging markets remain subdued. Commodity prices such as iron ore, coal and copper have shown resilience to fluctuations, but the same cannot be said for metals such as gold and the platinum group basket. Under these circumstances it is essential that the political will between governments, labour and business be unified to promote confidence for investment.

From a macro perspective it would appear that the world economy is slowly "awakening" from the 2009 financial crisis. As Master Drilling continues its strategy of diversifying its jurisdictions, some areas will contribute more to the bottom-line than others. Latin America is just such a case where copper continues to hold its value, as well as the Kumba contract for iron ore, which is performing well. The majority of contracts awarded and undertaken are denominated in currencies other than SA Rand. The year ahead, with pockets of improved economic life emerging, appears favourable for the Company to continue generating strong cash flows as in the previous 12 months.

South Africa holds its general elections during 2014, which we are certain will lead the way to improved relations between business, the government and labour. Above all we trust these elections will be peaceful and will generate positive attitudes for all South Africans.

It has been decided by your Board of directors that no dividend will be payable in the current financial year. Earnings will be retained and utilised for organic growth and capital requirements.

I wish to thank our entire Board of directors, management and employees for their hard work, and tremendous effort that they have applied to operations over the past year. I am confident that Danie and his team will continue to forge ahead on a sustainable growth trajectory and we look forward to 2014 with optimism and quiet resolve.

Peter Ledger
Chairman

31 March 2014

LETTER FROM THE CHIEF EXECUTIVE OFFICER

Dear Shareholder

The world continues to evolve in both complexity and volatility. In South Africa, we celebrate 20 years of democracy in 2014, which is also an election year. It is crucial that all parties address the imbalances inherent in our social and economic framework to enable our wonderful country to move forward with confidence.

Asset classes across the spectrum have been subject to a re-rating, a result of the economic cycle that prevails. Commodity prices have also been affected and, in conjunction with the strong dollar and the element of "quantitative easing", will remain susceptible to change going forward. In terms of the many social and economic variables currently in play, the Company will focus on those factors within our control and which will contribute to a smoother operating and more profitable entity.

Since our capital raising exercise of 2012/2013 and successful listing on the JSE, Master Drilling has achieved the credibility and standing that has enabled us to tender for projects that may otherwise not have been accessible as a private company. It has been our "maiden" year as a listed public entity, fulfilling all expectations and laying the future groundwork.

This past year has been one of consolidation and fully integrating all operational units. It has also involved the implementation of all aspects of corporate governance and the establishment of relevant committees. These have all been achieved and embedded within our Corporate structure.

During 2013, our revenue increased 20.1% to US$119.7 million from last year's US$99.7 million. This generated profits of US$15.8 million compared to US$12.2 million in 2012. We have committed capital expenditure in 2013 to expand our current fleet and retain our automation programme. We are pleased to inform you that most of these units are now complete and will shortly become operational, the benefits of which will flow through during the course of 2014.

At year-end our order book stood at US$226.8 million mainly production orientated, while capital and exploration projects remain relatively subdued, reflecting the stage at which the market finds itself in the commodity cycle. Areas affected by cost cuts include an exploration project in Burkina Faso and two potential contracts in Mexico, which have been put on hold. However, we have acquired a number of new contracts, including a base-metal project in Ireland and a number of "spot" contracts in various parts of Africa. Our jurisdictions remain dominated by Latin America and Africa.

Operations in Brazil have stabilised after operating below par for the past two years. In Latin America, particularly in Guatemala, the Group established new operations in 2013.

Our first fully-automated machines were commissioned during the first half of 2013, one at Sasol Mining in South Africa and the other in Peru, and early indications are that productivity for the client will be greatly enhanced.

Our "one-stop-shop" partnership at Kumba and Anglo American is continuing to provide benefits for all concerned. The concept has proven to be a solid base on which to grow organically and we expect to expand this going forward.

The past year has reflected a 29.7% and 20.1% increase in profitability and revenue respectively. This is partly due to the sustained organic growth in Latin America, new contracts in Africa and the Group's focus on cost optimisation strategies. This is a direct result of training and the "one-stop-shop/full automation" concept. It remains critical that our cost of productivity fits within the budgetary constraints and the cost curve of the client. Increasing our margins is dependent on improving our own efficiencies.

Going forward, the focus will be on transforming operators into technicians via training programmes, and streamlining as well as improving the operational logistics. Both programmes have the ability to improve the bottom line. We are also focusing strongly on organic growth and will continue to roll out the "one-stop-shop full automation" concept. New innovations such as "orealising" grade control and expanding our auger/piling and reverse circulation drilling capability will provide further impetus to growth, which also includes new geographies, such as Asia. Information and data gathering such as the immediate capture of grade values and machine availability for projects, highlights the difference between winning and losing contracts, and we believe this provides us with a competitive edge.

We have planned further capital expenditure for 2014 of approximately US$20 million to be funded through our own internal resources. Gearing is currently below 25% and a combination of debt/operational cash flow is more than sufficient to fund the capital expenditure.

Latin America continues to be the driver of organic growth, while in Africa, and especially South Africa, we continue to roll out the "one-stop-shop/full automation" concept. Our focus is to expand drilling services, especially within the area of horizontal raiseboring. We strive for continual innovation within our own research and development department, while we also work closely with our key partners to ensure that we remain at the forefront of technological invention. Construction of the largest raiseboring machine in the country, standing at 11 metres will be commissioned middle 2014.

As part of our continuous focus on health, safety and the environment, the Group received ISO 14001 and OHSAS 18001 certification with re-certification on ISO 9001. The year ahead will be dominated by safety, training, improving logistics and efficiencies as well as adding value to our clients' operations. Our approach will continue to be conservative, fiscally prudent but also innovative and opportunistic where circumstances so warrant.

In conclusion, I would like to thank all employees and stakeholders for their dedication and loyalty to building the Master Drilling brand. We have a very experienced, skilled and effective team that will form the nucleus of continued success into the future. To shareholders, thank you for your support and our every effort will be to improve returns on your investment going forward. I am hopeful that 2014 will be a prosperous and successful year.

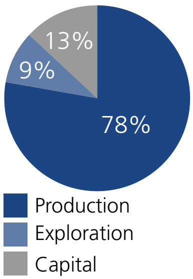
Daniël Coenraad Pretorius
Chief Executive Officer

31 March 2014

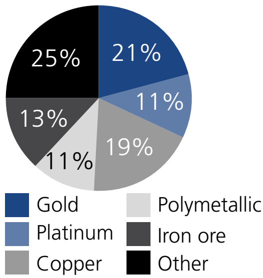
REVIEW OF PROJECTS

During 2013, operations undertaken by the Company, were spread across a few continents and many jurisdictions. As a percentage of total revenue the following table highlights contributions made by each area, each jurisdiction and the nature of the work undertaken such as Exploration, Production or Capital:

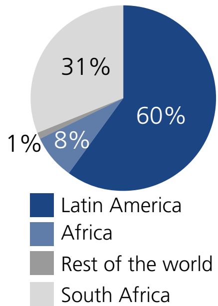
REVENUE BY DRILLING TYPE 2013



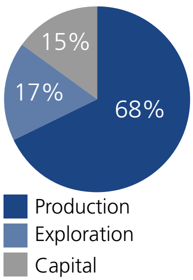
REVENUE BY COMMODITY 2013



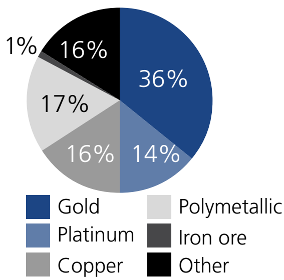
REVENUE BY JURISDICTION 2013



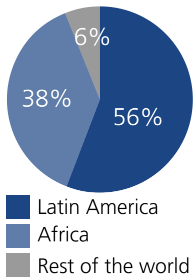
2012



2012



2012



In Southern Africa, surface core drilling was conducted in Lesotho and South Africa (northern areas of Limpopo, Brits, Rustenburg, Mooinooi and Barberton), while underground exploration drilling, which includes diamond, percussion and blast-hole drilling was completed in South Africa (Polokwane, Beaufort West, Black Rock, Northern Cape and Nelspruit).

Master Drilling was awarded its biggest contract to date, to provide Kumba Iron Ore with a "one-stop-shop" solution at its Kolomela mine, in the Northern Cape. The first of its kind for the Group, the contract includes exploration, percussion drilling and grade controls services. This contract forms part of one of the Company's 2013 strategic initiatives – to grow its revenue base by expanding its drilling services offering. Progress at Kolomela has been on budget and schedule, and we continue to deliver efficiencies to the client's satisfaction.

In Mali, the drilling of 1,400 metres of backfill holes and 1,200 metres of raiseboring commenced in June 2013. Work at the Kibali project, in the DRC, started during the latter part of 2013 and consists of cover drilling, water drilling and 7,000 metres of raiseboring and underground core drilling.

Current and continuous raiseboring and exploration drilling projects in South Africa are situated in Rustenburg (platinum mines), Sasol and Melmoth (iron ore mines), in the Northern Cape (diamond and iron ore mines), Carletonville (gold mines) as well as Ermelo and Bethal (coal mines).

The raiseboring project in the Northern Cape continues to progress well, with completion expected in 2015.

The raisebore projects in Chile are mostly situated at copper mines while in Peru we have 24 raisebore rigs that operate at mines producing silver, gold, copper, zinc and lead or at mines producing a combination of these metals. In Mexico there are eight operating rigs and Master Drilling has been awarded various contracts to drill 12,296 metres. The total of awarded contract metres in Brazil for 2013 is 5,634. The project in Saudi Arabia has been completed.

By 31 December 2013, the Group had committed orders totaling $226.8 million up to 2016 and onwards as an indication of the market's confidence in the Company.

BOARD OF DIRECTORS

Peter Ledger

Chairman, Independent Non-Executive Director

BSc (Mining Engineering), University of the Witwatersrand (Wits), 1972; Mine Manger's Certificate of Competency (South Africa)

Peter has over 40 years' extensive experience working with mining companies in Zimbabwe and South Africa in coal, chrome, diamonds, asbestos, gold and platinum. He spent 17 years with Lonmin South Africa (then Lonrho) and was the Managing Director of the South African operations from 2002 to March 2005. He was also an executive director of the London-listed holding company, Lonmin plc, from 2002 to March 2005.

Daniël (Danie) Pretorius

Executive Director, Chief Executive Officer and Founder

Government Engineers Certificate of Competency, 1983

Danie founded Master Drilling in 1986 and has served as its Managing Director since its incorporation. He is certified as a government engineer and is actively involved in special projects at Master Drilling such as directional drilling, low-angle drilling for block caving and drop raising, as well as the design and modification of Master Drilling's raisebore fleet. Prior to founding Master Drilling, Danie served as an engineer for six years between Western Deep Levels Gold Mine and Murray & Roberts RUC.

André van Deventer

Executive Director, Financial Director and Chief Financial Officer

Hons BAcc, University of Potchefstroom, 1998; Chartered Accountant (SA), SAICA 2000

André joined Master Drilling as a Financial Manager in 2001 and was appointed as Financial Director in 2002. Prior to joining Master Drilling, he served as an accountant at Gericke, Rademeyer & Newton Walker Chartered Accounts from 1995 to 1999 and then as Financial Manager at Beefmaster (Pty) Ltd from 1999 to 2001.

Roger Davey

Independent Non-Executive Director

Associateship, Camborne School of Metalliferous Mining, 1970; MSc in Mineral Production management, Imperial College – London University, 1979; MSc (Water Management), Bournemouth University, 1993; Chartered Engineer (CEng), European Engineer (Eur Ing); Member of the Institute of Materials, Minerals and Mining (IMMM)

Roger has extensive experience in the mining industry with over 35 years of wide-ranging operational experience at senior management and company-director level in various international corporations. This includes NM Rothschild & Sons Ltd, Minorco (AngloGold)/Minera Mincorp (Argentina), Greenwich Resources, Blue Circle Industries plc and Gold Fields Ltd.

Akhter Deshmukh

Independent Non-Executive Director

BCom, University of South Africa, 1999; MBL, University of South Africa, 2014; Member of the Institute of Accounting and Commerce (South Africa)

Akhter is an experienced professional who is currently the Chief Financial Officer of the Leswikeng/Phastima group of companies. Prior to this position, he held a senior financial position at Lipschitz Assin and Partners, an auditing firm in South Africa.

Jacques de Wet
Independent Non-Executive Director
BCom (Accounting) Hons, CA(SA), MCom (Financial Management)

Jacques is a chartered accountant with more than 16 years' experience in the general finance, corporate finance and project finance areas of the mining industry. He started his mining career at Gencor (later Billiton and then BHP Billiton) in the mid-1990s as the manager responsible for internal audit and risk management, gaining extensive experience in the operational functioning of various mining and smelting activities, as well as marketing, trading and treasury activities. Jacques has experience in a range of commodity sectors, including aluminium, coal, chrome, manganese, gold, uranium and platinum. He has served on a number of boards, including Shaft Sinkers, Hernic Ferro Chrome, Total Coal SA, Marula Platinum Mine and Eureka Gold Mine Zimbabwe.

Shane Ferguson
Non-Executive Director
BCom LLB, University of South Africa, 1986; LLB, University of South Africa, 1995

Shane is currently employed at TW Ferguson (Pty) Ltd and has engaged in legal, tax, business and corporate solutions for listed corporations and large to medium-sized private companies since 1994. He has provided legal advice to Master Drilling during most of that time. Prior to his employment at TW Ferguson (Pty) Ltd, Shane served as a staff member in the tax, legal and business unit at Arthur Anderson and Co and as a tax assessor at the South African Revenue Service.

Barend (Koos) Jordaan
Executive Director and Technical Director
BMEng, Pretoria Technikon 2000, BS in International Technology Management, University of Groningen, Netherlands, 2000, MBA, Bond University, Australia, 2002

Koos joined Master Drilling as an Engineering Manager in 2001 and was appointed Technical Director in 2002. He also currently serves as a director of Drilling Technical Services (Pty) Ltd. Prior to joining Master Drilling, Koos served as a technician at Orsmond Aviation in 1996 and then as a design and product engineer at Joy Mining Machinery from 1997 to 2001.

Gareth (Gary) Sheppard
Executive Director and Chief Operating Officer
BSc Eng (Mining), Wits University, 1997; MBA, Wits Business School, 2003; Mine Managers Certificate of Competency; Member, Instituto de Ingenieros de Minas del Peru

Gary joined Master Drilling in 1999. He was appointed as a director of Master Drilling Perú SAC and Master Drilling International Ltd in 2001. He joined the Board of Master Drilling Mexico SA de CV in 2005 and the Board of Master Drilling Australia (Pty) Ltd in 2011. Gary has a BSc Eng (Mining), Wits University, 1997; MBA, Wits Business School, 2003; and a Mine Manager's Certificate of Competency. Prior to joining Master Drilling, Gary was employed by AngloGold Ashanti (then Anglo American) as a Mining Engineer.

Izak Bredenkamp
Executive Director (Alternate director to GR Sheppard)
MBA; BCom Hons, CPIR

Izak, having consulted to them for a number of years, joined Master Drilling as the Group Human Resources Manager in February 2012 and was appointed an alternate director to Gareth Sheppard on 20 June 2013. Having worked in the financial services/banking and mining industries, Izak has extensive experience in Human Capital Management and Business Development.

RISK MANAGEMENT

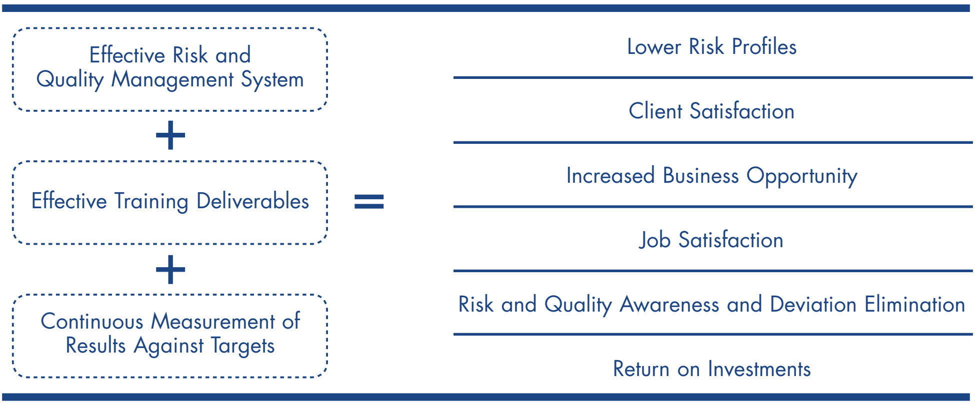
The Audit and Risk Committee is responsible for ensuring that risk is managed effectively through an ongoing process for identifying, evaluating and managing significant threats and opportunities to meet the Group's business objectives. A Group risk manager was appointed in 2013 and a risk methodology was developed. This is monitored by the Audit and Risk committee.

Risk management is a central part of the Group's strategic success. Risks associated with Group activities are systematically and methodically addressed so as to achieve sustained benefit. The risk management system is designed to increase the probability of success and reduce both the failure potential and uncertainty associated with achieving the Group's overall objectives.

Risk Management and Quality Assurance Plans are in place at the Company's operations with the objective of:

- controlling uncertainty and deviation from set standards;
- providing a proactive management tool to anticipate risks;
- providing a mechanism for managing these risks: through preventative actions; monitoring implementation of actions and/or corrective actions; lowering risk profiles;
- providing a continuous and interactive process which promotes: communication; flexibility; teamwork; information sharing; entrenching risk culture; and
- contribute towards the success of the Company.

Below is a schematic of the Risk Management and Quality Assurance Plan objectives:



Specific objectives of the risk management focus are based on the following:

Capital risk management: Master Drilling's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to 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 debt, which includes the borrowings (excluding derivative financial liabilities), cash and cash equivalents and equity as disclosed in the statement of financial position.

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

There are no externally-imposed capital requirements.

Financial risk management: Master Drilling's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk.

Master Drilling's financial risk management programme focuses on the unpredictability of financial markets and seeks to minimise potentially-adverse effects on Master Drilling's financial performance.

The principles for financial risk management are included in the Group's treasury policy and cover 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.

Interest rate risk management: As Master Drilling has no significant interest-bearing assets, other than interest bearing preference shares, its income and operating cash flows are substantially independent of changes in market interest rates.

Master Drilling's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose Master Drilling to fair value interest rate risk. During 2013, Master Drilling's borrowings at variable rate were denominated in US dollars, Euro, South African Rand, Brazilian Reals, Chilean Pesos, Mexican Pesos, CFA Franc BCEAO and Peruvian Sol.

Credit risk management: Credit risk is managed on a Group basis.

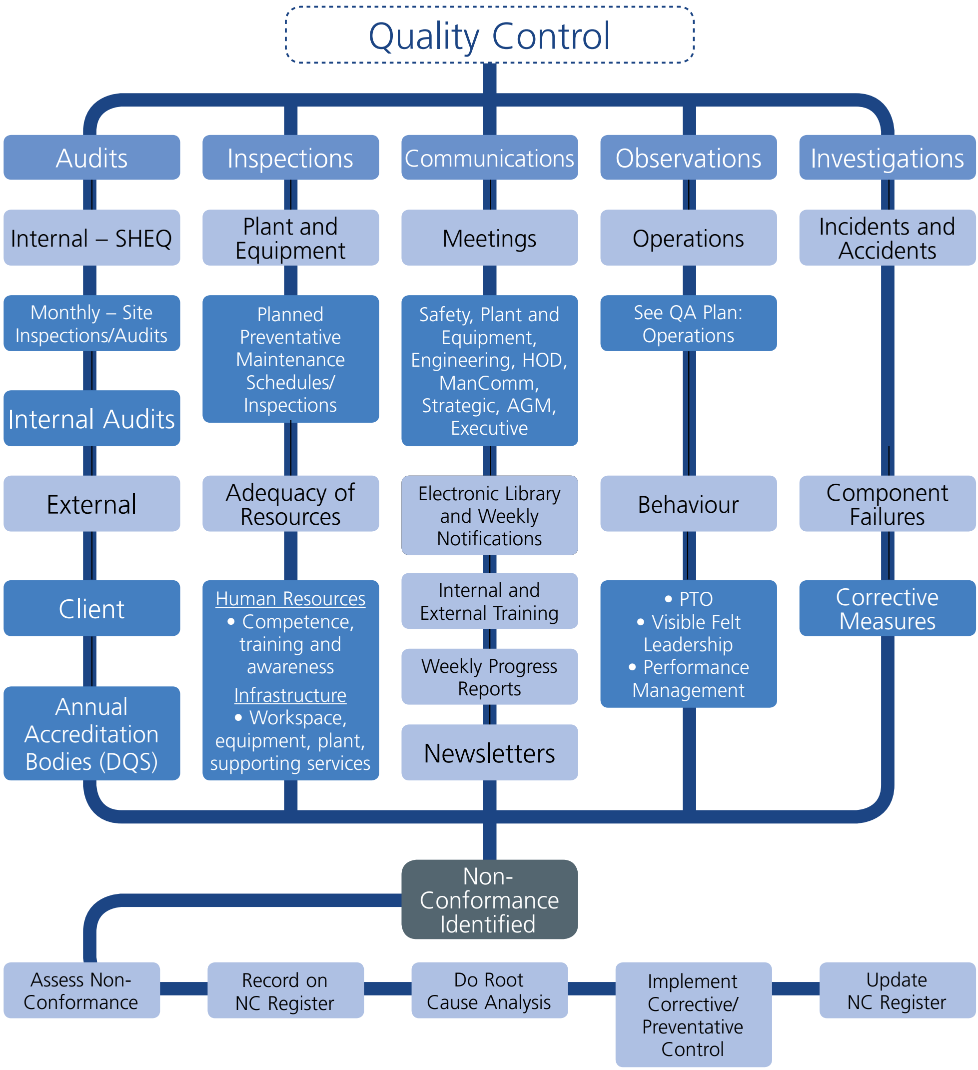
Credit risk consists mainly of cash deposits, cash equivalents, trade debtors, preference shares and related party loan receivables. Master Drilling only deposits cash with major banks and limits exposure to any one counterparty.

Trade receivables comprise of a widespread customer base. Management evaluates 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.

Foreign exchange risk management: Master Drilling operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar, Euro, South African Rand, Brazilian Reals, Chilean Pesos, Mexican Pesos, Peruvian Sol, CFA Franc BCEAO, Chinese Yuan Renminbi and Zambian Kwacha. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

RISK MANAGEMENT continued

Master Drilling reviews its foreign currency exposure, including commitments on an ongoing basis.



Quality assurance

Quality control and assurance are paramount to maintaining client satisfaction and thus securing our reputation. Master Drilling follows a rigorous quality-control process, with measurable objectives and targets linked to ISO 9001: 2008.

Risk factors

Master Drilling, the industry and the countries in which we operate, is subject to a number of known and perceived risks. Details of the risks that face Master Drilling are set out in a supplemental document entitled "Risk Factors", and can be found on the Company's website (**www.masterdrilling.com**).

CORPORATE GOVERNANCE

Master Drilling is committed to the principles of openness, integrity and accountability in its dealings with all stakeholders. The Board endorses the value and application of good corporate governance and standards as recommended by the King Code on Governance for South Africa 2009 ("King III") and the JSE Listings Requirements. While the Board is of the opinion that the Group complies in all respects with the principles embodied in King III and the additional requirements for corporate governance stipulated by the JSE, where specific principles have not been applied during the period under review, explanations for these are contained within the Integrated Report.

CORPORATE PROFILE

History

Master Drilling commenced operation in 1986. The Company, as it operates today, was formed through a reorganisation of its business. Nicaud Companies 124 (Pty) Ltd, an investment holding company, which was incorporated and registered in South Africa on 12 April 2011 as a private company, was converted to a public company and changed its name to Master Drilling Group Limited and is the vehicle through which the assets of the Group are held.

The Group manages operations in South Africa, through its South African subsidiary, Master Drilling South Africa (Pty) Ltd (MDSA) and Master Drilling Exploration (Pty) Ltd (MDX). International operations, including those in Chile, Peru, Brazil, Mexico, DRC, China, Guatemala and Zambia, are conducted through its Maltese subsidiary, Master Drilling International Limited (MDI). The Group maintains operating and engineering facilities in Santiago, Chile; Lima, Peru; Belo Horizonte, Brazil; Torreón, Mexico; Chingola, Zambia. Each of these is led by a resident country manager. Each country manager reports to a Chief Operating Officer, who in turn reports directly to the Chief Executive Officer.

There have been no material changes in the nature of the business of Master Drilling during the past five years.

Black Economic Empowerment

Mosima Drilling SA (Pty) Ltd: A 26% shareholding in Master Drilling South Africa (Pty) Ltd (MDSA) was issued to Mosima Drilling (Pty) Ltd (Mosima), a BEE-owned and controlled company, for a consideration of R89.6 million (approximately US$8.5 million). The main shareholder of Mosima is the MD HDSA Trust, a trust formed for the benefit of employees of MDSA, which holds 80% of the BEE stake. The balance of the shares in Mosima are held by the DCP BEE Foundation, a trust formed to provide welfare, humanitarian, educational and development assistance to disadvantaged communities or individuals. Mosima is entitled to nominate one director to the board of MDSA.

The foregoing BEE transactions has been funded by way of the issuance of preference shares by Mosima to MDSA. Each of the preference shares bears a coupon in the amount of 72% of the prevailing South African prime overdraft rate as published by First National Bank Limited and may be redeemed on the tenth anniversary of the date of issuance, or earlier if Mosima as the case may be, fails to remain empowered. Shares issued to Mosima cannot be transferred without the prior written consent of MDSA.

Epha Drilling SA (Pty) Ltd: During the year Master Drilling Exploration (Pty) Ltd (MDX) declared a dividend to Epha Drilling (Pty) Ltd in respect of the 135 Ordinary Shares which were repurchased from Epha Drilling (Pty) Ltd. These shares were issued to Mr OM Tsehla on the condition that future dividends will be sacrificed by Mr OM Tsehla until the value of the shares issued to him has been settled.

BOARD OF DIRECTORS

The strategic leadership of Master Drilling is the responsibility of a unitary Board comprising four executive and five non-executive Directors, of whom four are independent. The Board has established and delegated specific roles and responsibilities to a number of standing committees, including an Executive Committee, to assist it in the discharge of its duties and responsibilities. The terms of reference of each committee are approved by the Board and will be reviewed annually or as necessary. Details of the Board Committees and their composition are more fully disclosed below.

The Directors of the Company as at 31 December 2013 comprised:

Name	Position	Date appointed
RO Davey	Independent Non-Executive Director	26 November 2012
AA Deshmukh	Independent Non-Executive Director	26 November 2012
JP de Wet	Independent Non-Executive Director	26 November 2012
ST Ferguson	Non-Executive Director	1 September 2012
BJ Jordaan	Executive Director and Technical Director	17 July 2012
PJ Ledger	Chairman and Independent Non-Executive Director	26 November 2012
DC Pretorius	Executive Director and Chief Executive Officer	17 July 2012
GR Sheppard	Executive Director and Chief Operating Officer	26 November 2012
AJ van Deventer	Executive Director and Chief Financial Officer	12 April 2011
I Bredenkamp	Executive Director (Alternate to GR Sheppard)	20 June 2013

There has been no change to the composition of the Board since year-end to the date of this report. For a biography of each of the Directors, refer to pages 16 and 17 of this report.

Mr RO Davey will not be making himself available for re-election at the annual general meeting to be held on 24 July 2014.

During their deliberations, the Board considered the following:

Chief Financial Officer: The Audit and Risk Committee considered and expressed its satisfaction as to the appropriateness of the expertise and experience of the Chief Financial Officer. The Audit and Risk Committee concluded that Mr van Deventer, together with other members of the financial management team, had effectively and efficiently managed the Group's financial affairs during the period under review.

Non-executive director independence: Mr A Deshmukh has a 5% shareholding in Epha Drilling, the BEE partner that has a 16% interest in Master Drilling Exploration (Pty) Ltd, a subsidiary of the Company. Following meetings with Mr A Deshmukh, the Board has concluded that he conducts his dealings on an arm's length basis and should therefore be treated as independent.

CORPORATE GOVERNANCE continued

Company Secretary: The Board, at its meeting held on 14 March 2013, considered and satisfied itself as to the competence, qualifications and experience of Theophilus Timotheus de Wet and De Wets Incorporated whose business has, inter alia, included the provision of company secretarial services to listed companies for more than 25 years. Further, the Board is of the view that the Company Secretary will be able to provide the Board with the requisite support for its efficient functioning and discharge of its duties. In accordance with the recommendations of King III, the Company Secretary is not a director of Master Drilling and will maintain an arm's length relationship with the Company due to the fact that it is a firm run independently from Master Drilling. The directors and shareholders of De Wets Incorporated, as well as the individual person performing the role of Company Secretary to Master Drilling will be subjected to an annual evaluation by the Board.

The Board also considered the interactions between the Company Secretary and the Board during the past year, and is satisfied that there is an arm's length relationship between the Board and the Company Secretary.

COMMITTEES OF THE BOARD

The operation and effectiveness of the Board Committees as detailed below will be reported on in more detail.

Executive Committee

The Executive Committee is constituted at the discretion of the Chief Executive Officer and comprises Master Drilling's most-senior line and functional executives. The Executive Committee is tasked with the day-to-day management of the Company and for ensuring that the policies and processes approved by the Board are implemented and monitored. The primary objective of the Executive Committee is to enhance the Group's growth and sustainability beyond that encapsulated in the strategies, plans and budgets of subsidiary companies by driving and coordinating new initiatives, innovation, and intra-Group activities.

Audit and Risk Committee

The Audit and Risk Committee is made up of three independent non-executive Directors: Jacques de Wet (Chairman), Akhter Deshmukh and Roger Davey. Each member has the requisite knowledge and skills required to discharge his duties as a member of the Committee.

The Audit and Risk Committee is governed by a Charter which details the mandate of the Committee. The Charter was formally adopted by the Board in 2013.

Briefly, in terms of its Charter:

- the Audit and Risk Committee will meet at least twice a year and will convene on an ad hoc basis, as and when required;
- the Chief Financial Officer, Risk Manager, and the external auditors will attend all meetings of the Committee by invitation; and
- the Committee will report to the Board on its statutory duties as well as responsibilities assigned to it by the Board.

Purpose

To assist the Board of Directors in fulfilling its oversight responsibilities for:

1. ensuring a sound and effective governance structure;
2. identifying key risks, determining risk tolerance levels and risk appetite;
3. the Group's compliance with legal and regulatory requirements;
4. the integrity of the Group's financial statements;
5. ensuring integrated IT systems;
6. the independent auditor's qualifications and independence; and
7. the performance of the Group's internal audit function and external auditors.

Nominations Committee

The Nominations Committee consists of three non-executive Directors, two of whom (including the Chairman), are independent. The members of the Committee are: Peter Ledger (Chairman), Roger Davey and Shane Ferguson.

The role of the Committee as defined in its Charter is to:

- regularly review the structure, size and composition (including skills, knowledge and experience) required of the Board compared to its current position and make recommendations to the Board with regard to any changes;
- give full consideration to succession planning for Directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the Company and what skills and expertise are therefore needed on the Board in the future;
- be responsible for identifying and nominating for the approval of the Board candidates to fill board vacancies as and when they arise;
- before making an appointment, evaluate the balance of skills, knowledge and experience on the Board, and, in light of this evaluation prepare a description of the role and capabilities required for a particular appointment. In identifying suitable candidates the Committee shall:
  - use the services of external advisers to facilitate the search;
  - consider candidates from a wide range of backgrounds; and
  - consider candidates on merit and against objective criteria, taking care that appointees have enough time available to devote to the position;
- keep under review the leadership needs of the organisation, both executive and non-executive, with the view to ensuring the continued ability of the organisation to compete effectively in the marketplace;
- keep up to date and fully informed about strategic issues and commercial changes affecting the Company and the market in which it operates;
- review annually the time required from non-executive Directors. Performance evaluation should be used to assess whether the non-executive Directors are spending enough time to fulfill their duties; and
- ensure that on appointment to the Board, non-executive Directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside Board meetings.

The appointment of the members of the Board was made through a formal process.

CORPORATE GOVERNANCE continued

Remuneration Committee

The Remuneration Committee comprises of three non-executive Directors, two of whom (including the Chairman), are independent. The members of the Committee are: Akhter Deshmukh (Chairman), Jacques de Wet and Shane Ferguson.

The Committee, pursuant to its Charter, is responsible for ensuring the Group has and observes coherent remuneration policies and practices, which enable the Company to attract and retain executives, directors and employees who will create value for shareholders, generate sustained business performance and support Master Drilling's objectives, goals and values. The Committee is responsible for:

- the remuneration strategy for the executives having regard to the general pay environment and ensuring remuneration is set at the level necessary to retain high-performing executives; and
- reviewing general remuneration and recruitment policies and practices in relation to executives, Board and senior management and guidance in relation thereto for the Group (including provision of short- and long-term incentives schemes, bonuses and similar matters) and where appropriate, recommend for adoption by the Board.

The Committee met four times in 2013 where the following policies were recommended and adopted by the Board:

- A remuneration policy that sets out the guidelines for the remuneration of non-executive Directors. These principles are based on a study by PwC on the remuneration of non-executive Directors.
- The Committee also proposed, and the Board adopted, a short-term incentive scheme for the reward of directors and direct reports to the Chief Executive Officer for on-target performance as set out in the short-term incentive scheme.
- In addition, a long-term incentive scheme has been proposed and adopted. The main purpose of which will be to retain and attract talent to the business.

Social and Ethics Committee

The Social and Ethics Committee comprises three independent non-executive Directors. The members of the Committee are: Jacques de Wet (Chairman), Akhter Deshmukh and Roger Davey. In addition, the Group Human Resources Executive is also an invitee and assists in the execution of the mandate of the Committee. The role of the Committee is aligned with that prescribed in terms of Regulation 43 of the Companies Act, on behalf of all subsidiaries.

The Committee is responsible for monitoring the Group's activities with regard to relevant legislation, regulations or prevailing codes of best practices as it relates to:

- social and economic development;
- good corporate citizenship;
- the environment, health and public safety;
- consumer relationships, including the Company's advertising, public relations and compliance with consumer protections laws; and
- labour and employment.

The Committee reports through one of its members on the matters within its mandate to shareholders at the annual general meeting.

The Committee met twice during the year under review and has approved a number of policies relating to its function. The Committee has also given guidance to the South African operations in terms of social corporate responsibility and broad-based black economic empowerment. This assisted Master Drilling Exploration (Pty) Ltd (MDX) to obtain a level 4 BBBEE rating in 2013.

Attendance of Committee Members

Director	Board Meetings	Audit and Risk Committee	Nominations Committee	Remuneration Committee	Social and Ethics Committee
Number of meetings	**4**	**4**	**2**	**4**	**2**
DC Pretorius	4	n/a	n/a	n/a	n/a
AJ van Deventer	4	n/a	n/a	n/a	n/a
GR Sheppard	4	n/a	n/a	n/a	n/a
BJ Jordaan	4	n/a	n/a	n/a	n/a
ST Ferguson	4	n/a	2	4	n/a
RO Davey	2	1	0	n/a	1
JP de Wet	4	4	n/a	3	1
PJ Ledger	4	n/a	2	n/a	n/a
AA Deshmukh	4	4	n/a	4	2

KING III COMPLIANCE MATRIX

Master Drilling Group Limited applies the governance principles contained in King III and continues to further entrench and strengthen recommended practices in its governance structures, systems, processes and procedures.

For a complete list of all the principles and a detailed explanation of the application thereof please refer to **(www.masterdrilling.com).**

WHISTLE-BLOWING

During the period under review a whistle-blowing policy was developed for the SA operations. The policy has subsequently been translated into Spanish. A committee has been established to deal with and investigate any tip offs received via the whistle-blowing platform.

During 2014 this policy will be rolled out to the other countries.

SOUTH AFRICAN EMPLOYMENT EQUITY ACT OF 1998

In compliance with section 21 of the Employment Equity Act, 55 of 1998, the Company and its South African subsidiaries are obliged to file, with the Department of Labour, the employment equity statistics for their South African workforces. The Company's South African subsidiaries, Master Drilling South Africa (Pty) Ltd, Master Drilling Exploration (Pty) Ltd and Drilling Technical Services (Pty) Ltd, each filed reports with the Department of Labour covering the 2013 reporting period.

SUSTAINABILITY PERFORMANCE

EMPLOYMENT

At 31 December 2013, Master Drilling employed some 1,948 people across all its operations, broken down as follows:

Country	Senior management	General administrative and office	Operations, mechanical and field personnel	Total employees
South Africa	7	78	606	691
Zambia	3	10	75	88
Chile	5	22	266	293
Peru	4	32	466	502
Brazil	4	10	104	118
Mexico	4	12	166	182
DRC	4	3	45	52
Mali	1	1	10	12
China	1	7	–	8
Total	**33**	**175**	**1,738**	**1,946**

In the main, general administrative and office personnel and all operations, mechanical and field personnel are sourced, trained and developed from communities and regions of operation, while senior management are deployed from the Group's skilled talent pool, to augment local skills.

Master Drilling has fully-equipped training centres in Fochville (South Africa), and Lima (Peru) as well as Santiago (Chile). All operations, mechanical and field personnel are sent to one of these training centres where they receive intensive training from highly-skilled, hands-on lecturers on equipment operation, safety and health standards as well as on environmental issues specific to each region. Training is conducted over a three- to six-month period, depending on the complexity of the equipment to be used and the regional environment. Progress has been made in South Africa to have a national drillers qualification registered with the relevant certification body.

SAFETY AND HEALTH MANAGEMENT

The Group has adopted a general health and safety policy. In addition, for certain job sites, the Group's customers impose their own safety policies on the Group and its employees, in which case the Group complies with any higher applicable standard. Management believes that the Group has an excellent health and safety record.

During the 2013 period under review, the Group including its subsidiaries were certified OHSAS 18001: 2008 and ISO 14001:2007, with re-certification of ISO 9001:2008.

For details of the regulations that pertain to the Group, refer to the Company's website (www.masterdrilling.com) for the supplemental information entitled "Regulations – 2013".

SOCIAL INVESTMENT INITIATIVES

In 2008, Master Drilling implemented its social responsibility policy by investing in the communities surrounding its Fochville operations. A registered social worker was appointed and the Child and Family Therapy Centre opened at the Company's offices in Potchefstroom Street, Fochville. As a result of the work carried out at Child and Family Therapy Centre, a number of projects are being undertaken which include, but is not limited to the following:

- Therapeutic services for children and families: Therapeutic services are rendered to the community which focus on play therapy for children, family preservation and conflict resolution between family members.
- Safe House: Due to a lack of state-run facilities to provide safe care for children that had been statutorily removed from their homes, a place of safety was established to temporarily house and care for abused children, until a permanent placement could be arranged. Together with The Help-Net Fund, a non-profit organisation specialising in establishing and running safe care homes, Master Drilling provides funding needed to run the Safe House. The Safe House was opened in September 2009 and some 30 children have been accommodated and cared for since it was opened. The children receive the best care while at the Safe House, including play therapy and occupational therapy. The house parents provide a loving home, which enables the children to thrive despite having been exposed to different kinds of abuse.
- Holiday programmes: Boys chosen from various local orphanages in the community are taken to Barrange, a game farm in the Kalahari owned by the Chief Executive Officer. The boys enjoy anything from a long-weekend to a week of fun and laughter, with educational and recreational activities provided by the game rangers. In addition, the Company runs soccer camps for boys during school holidays.
- Outreach programmes to the community: The Company supports a number of different projects within the community, including supporting the homeless, participating in school projects, providing support to a crèche in Greenspark – one of the communities dominated by unemployment and poverty. The social worker also provides assistance at the town's old age home where she provides emotional support to the inhabitants, oversees group sessions, arranges various social activities and provides bereavement counseling and networking opportunities.
- Master Drilling also sponsors a local soccer team that mainly comprises employees of its South African subsidiaries.
- During 2013, MDG appointed the SAVF as a social service for the South African operations. Assistance and guidance has been provided to the community in terms of substance abuse and domestic violence. The SAVF has assisted destitute families and helped provide temporary shelter, employment and care of children.
- A number of the South American countries get assistance from a social worker and Peru has a full-time social worker. This person looks after the wellbeing of the employees who often have to work in remote locations away from their normal place of work.
- Christmas donations to the elderly: During the festive season, Master Drilling distributes food hampers to the elderly state pensioners in the area.

SUSTAINABILITY PERFORMANCE continued

ENVIRONMENTAL SUSTAINABILITY

The Group and its operations are subject to environmental laws and regulations. The Group's customers are principally responsible for obtaining the environmental permits necessary for drilling. Compliance with environmental laws and regulations has not required the Group to make substantial capital expenditure in the past, and the Group does not expect environmental compliance to necessitate it making significant capital expenditure in the foreseeable future.

The Group's policy is to comply with all applicable environmental standards and regulations. In addition, the Group strives to meet the higher of the local environmental standards and the relevant corresponding international standards, where any such international standards exist. To the best of our knowledge, the operations of the Group are currently in compliance with applicable environmental laws in all material respects.

To this end the Social and Ethics Committee has recommended, and the Board has approved, a SHEQ policy for MDG. In addition the Group has achieved ISO 14001:2007 certification that specifically deals with international standards on environmental factors.

For details of the regulations that pertain to the Group, refer to the website **(www.masterdrilling.com)** for the supplemental information entitled "Regulations – 2013".

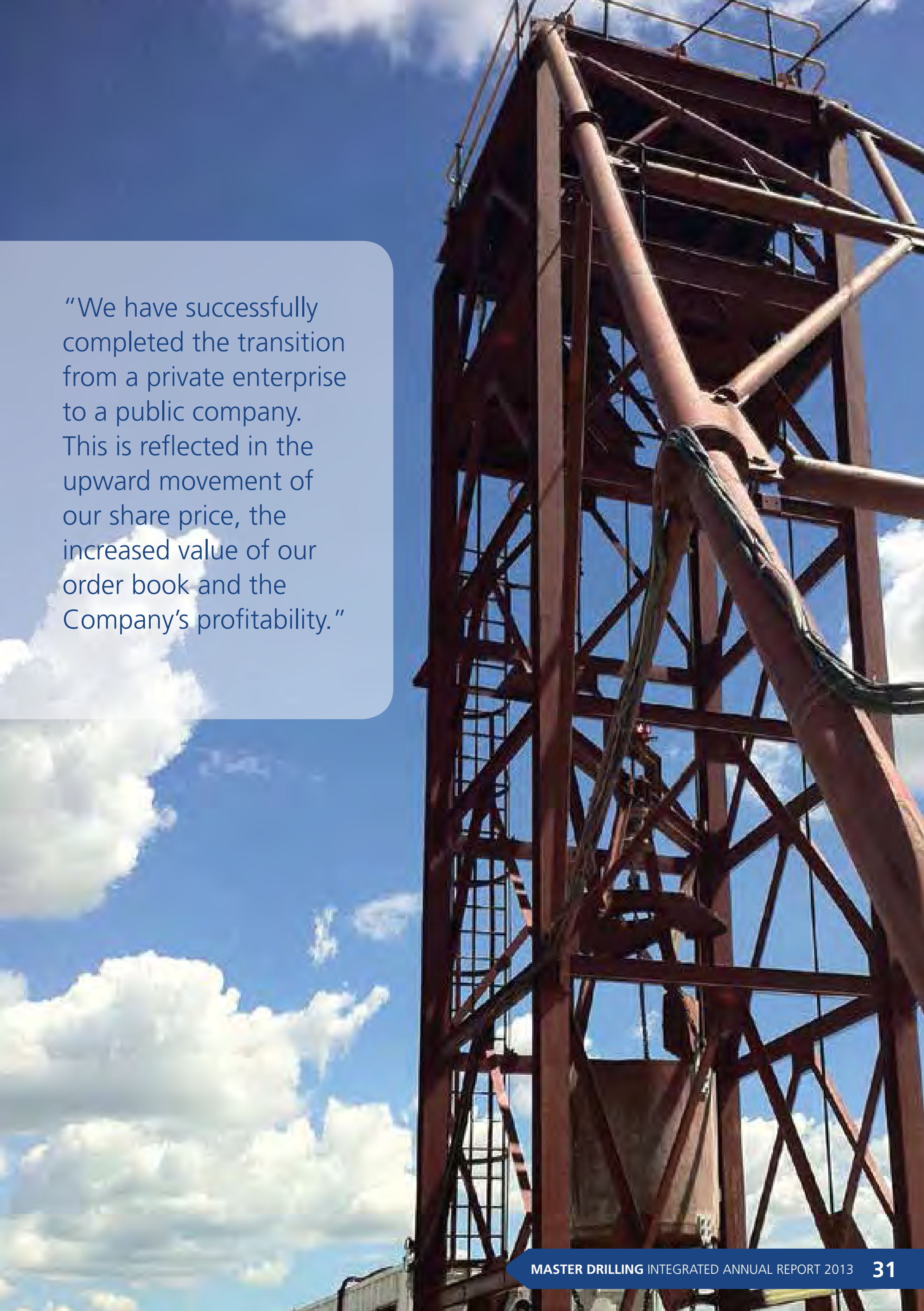
STAKEHOLDER ENGAGEMENT

Prior to the reorganisation in 2012/2013, stakeholder engagement was conducted on a company-by-company and region-by-region basis with the major stakeholders being the Company's clients, the communities in which the Company operates and its employees.

Master Drilling recognises that failure to implement consistent policies and procedures that guide effective engagement and that build successful and mutually-beneficial relationships with stakeholders could result in potential disruptions at our operations and could exacerbate challenges to our reputation. A sound strategy provides the Company with the tools for building social partnerships to secure the Company's social licence to operate and will position us as an operator of choice.

The Company acknowledges that our stakeholders are highly diverse, reflecting the diversity of the geographical regions in which we operate, the wide range of groups with whom we interact and the diversity of issues that have to be considered.

In formulating our stakeholder strategy we have understood that our stakeholders are those people and groups who are directly or indirectly affected by our business, those who may have an interest in our projects and operations and those with the ability to influence our business, both positively and negatively. Social partners are those stakeholders with whom we seek to build mutually-beneficial relationships. These engagement processes may be formal or informal.



"We have successfully completed the transition from a private enterprise to a public company. This is reflected in the upward movement of our share price, the increased value of our order book and the Company's profitability."

REMUNERATION REPORT

Prior to the reorganisation of Master Drilling into a single group of companies, the remuneration strategies and policies in place were specific to the underlying companies which reflected the dynamics of the market and context in which these subsidiaries operate.

REMUNERATION POLICY – SALIENT FEATURES

Master Drilling believes that all employees contribute to the success and progress of the Group; subscribes to a policy of paying employees fairly for the work they perform in accordance with laid down and agreed conditions and principles of service which are free from discrimination; and rewards this contribution accordingly, by providing performance-based bonuses or incentives. Some executives are given the responsibility to lead others and to take significant decisions about clients, assets, funders and our people. Their tasks require specific expertise, skills and experience and they are therefore held to a much higher standard of accountability. Accordingly, the executive remuneration policy is structured to take account of a guaranteed package (short-term and incentive-based in terms of objective performance criteria and long term in the form of share or phantom ownership). This structure also takes account of the objective to align the entrepreneurial ethos and long-term interests of senior managers, executives and senior executives with those of shareholders.

Remuneration is defined as payment in money or in kind or both, as is owing to a person in return for that person working for any other person. For the purposes of this policy, remuneration is defined as any cash paid to an employee plus benefits in return for the employee's services. Cash elements of remuneration include basic salary, annual bonus, overtime payments, sundry payments and other fixed allowances such as travel allowances.

Executive Directors are deemed employees and are remunerated pursuant to basic conditions of employment.

Non-Executive Directors and independent Non-Executive Directors will be remunerated in accordance with the Board and Committee Remuneration Policy.

Executive Directors

Executive Directors' remuneration is subject to the Company's Remuneration Policy, as approved from time to time. Salaries are based on a benchmarked average of the market and takes into consideration, qualifications, experience and performance. Fixed costs are kept as low as possible and the variable cost is used as the method to attract employees with incentives based on performance.

In addition, executive Directors and members of the executive teams (collectively "executives") participate in a Short Term Incentive plan scheme (STI), which, subject to management discretion, is calculated at varying percentages of net profit, or profit in excess of targets. This STI will be capped at a percentage of the executive's annual salary. The STI is continuously benchmarked against the market and changes may be proposed to ensure that it remains relevant.

Executive Directors and other key personnel participate in a long-term share incentive scheme aimed at attracting and retaining high-calibre employees. Awards granted in terms of the share incentive scheme are based on the Company attaining its stated objectives and are based on the individual's performance.

Executive Directors hold service contracts of employment, which contracts are separate from the relationship with the Company by virtue of his/her appointment as a Director, the former being regulated by the labour legislation while the latter is regulated by the Companies Act.

Executive Directors have undertaken to remain in office for a three (3) year period from the date of listing on the JSE, provided that they have applied the necessary skills and care as required for their position.

Executive Directors' remuneration is objectively measurable to performance criteria which are aligned with the objectives and strategy of the Company and in the best interests of the shareholders.

Executive Directors do not receive fees for their service as Directors of the Board, nor will they be paid a fee in respect of services rendered on any other board on which they serve as a representative of the Master Drilling Group.

Executive Directors may be permitted to sit on external boards, subject to the following:

- the appointment must be strategic for Master Drilling and/or to the benefit of the Director's development, but should not be to the detriment of their full-time position at Master Drilling;
- appointments to external boards must be referred to the Board for approval, subject to the recommendation of the Social and Ethics Committee; and
- fees earned from an external position would be retained by the Executive Director in recognition of the risks attached to board positions.

Currently none of the Executive Directors hold board appointments outside of the Master Drilling Group of companies.

Non-Executive Directors

Fees are subjected to an annual benchmarking exercise which will take into account the principle that persons should be remunerated in a manner and amounts which attract, retain and motivate the right calibre of person. Members within a committee shall be remunerated equally, apart from the Chairman of the said committee who will be remunerated at a higher rate.

Fees payable to Non-Executive Directors is made up of a base fee (50%) and an attendance fee (50%).

The fees payable to members of the Committees shall be a percentage of the fees payable to members of the Board, having regard to the time required for preparation and attendance of meetings.

REMUNERATION REPORT continued

Fees payable to Non-Executive Directors shall be made quarterly in arrears.

Non-Executive Directors are excluded from participating in the Company's share incentive scheme.

Independent Non-Executive Directors do not hold service contracts but are issued with letters of appointment, and pursuant to the Memorandum of Incorporation and the Board Charter, all Directors are subject to retirement from the Board and the Committees in terms of the rotation policy. Any Directors retiring from the Board by rotation may, if eligible, offer themselves for re-election.

General

In addition to the remuneration or fees paid to the Executive Directors and Non-Executive Directors respectively, the Company shall place and pay for liability insurance, the amount of which will be determined by management in consultation with the Audit and Risk Committee, taking into account the possible risks and liabilities attached to the position of Director from time to time.

Directors' remuneration

The total remuneration, benefits and fees paid to each of the Directors in respect of the period ended 31 December 2013 are as follows:

Director 2013 (US dollars)	Basic salary	Travel allowance	Bonus	Fringe benefits	Provident/ Pension fund contri-butions	Directors' fees	Consulting and legal fees	Gains on exercise of options	Total
Executive									
DC Pretorius	320,583	21,777	241,381	33,435	–	–	–	–	617,176
AJ van Deventer	190,368	23,825	193,538	16,012	–	–	–	–	423,743
GR Sheppard	310,784	3,210	152,509	–	58,233	–	–	–	524,736
BJ Jordaan	206,172	23,436	196,842	17,763	890	–	–	–	445,103
Sub-total	1,027,907	72,248	784,270	67,210	59,123	–	–	–	2,010,758
Non-Executive									
ST Ferguson	–	–	–	–	–	–	177,622	–	177,622
RO Davey	–	–	–	–	–	28,724	–	–	28,724
JP de Wet	–	–	–	–	–	26,029	–	–	26,029
PJ Ledger	–	–	–	–	–	46,665	–	–	46,665
AA Deshmukh	–	–	–	–	–	22,399	–	–	22,399
Sub-total	–	–	–	–	–	123,817	177,622	–	301,439
Total	1,027,907	72,248	784,270	67,210	59,123	123,817	177,622	–	2,312,197
2012 (US dollars)									
Executive									
DC Pretorius	19,875	–	–	3,420	–	–	–	–	23,295
AJ van Deventer	26,163	4,498	38,573	2,868	–	–	–	–	72,102
GR Sheppard	13,526	–	4,952	3,781	1,265	–	–	–	23,254
BJ Jordaan	36,523	3,931	44,481	2,850	216	–	–	–	88,001
Sub-total	95,817	8,429	88,006	12,919	1,481	–	–	–	206,652
Non-Executive									
ST Ferguson	–	–	–	–	–	–	89,290	–	89,290
RO Davey	–	–	–	–	–	–	–	–	–
JP de Wet	–	–	–	–	–	–	–	–	–
PJ Ledger	–	–	–	–	–	–	–	–	–
AA Deshmukh	–	–	–	–	–	3,105	–	–	3,105
Sub-total	–	–	–	–	–	3,105	89,290	–	92,395
Total	95,817	8,429	88,006	12,919	1,481	3,105	89,290	–	299,047

Prescribed officers: The Executive Directors are considered the only prescribed officers of the Group and the remuneration for the Executive Directors is included in the table above.

No monies have been paid or agreed to be paid, within the three years preceding the date of this Integrated Annual Report, to any director or to any company in which he is beneficially interested, directly or indirectly, or of which he is a director, or to any partnership, syndicate or other association of which he is a member, in cash or securities or otherwise, by any person either to induce him to become or to qualify him as a director.

REMUNERATION REPORT continued

Directors' service contracts and restraints of trade

Name	Position	Date of appointment as Director	Term of Office****	Notice period	Restraint
DC Pretorius	Executive Director and CEO	1986*	3 years	3 months	Restrained from engaging in any raisebore related activities for one year
AJ van Deventer	Executive Director and CFO	2002**	3 years	3 months	Restrained from engaging in any raisebore related activities for one year
GR Sheppard	Executive Director and Director for International Operations	2001***	3 years	3 months	Restrained from engaging in any raisebore related activities for one year
BJ Jordaan	Executive Director and Technical Director	2002**	3 years	3 months	Restrained from engaging in any raisebore related activities for one year
ST Ferguson	Non-Executive Director	2000**	3 years	3 months	Restrained from engaging in any raisebore related activities for one year
PJ Ledger	Independent Non-Executive Director	2012	3 years	3 months	
RO Davey	Independent Non-Executive Director	2012	3 years	3 months	
JP de Wet	Independent Non-Executive Director	2012	3 years	3 months	
AA Deshmukh	Independent Non-Executive Director	2012	3 years	3 months	

Notes

* *Prior to the Reorganisation was appointed to the Board of Directors of MDL and MDI.*

** *Prior to the Reorganisation was appointed to the Board of Directors of MDL.*

*** *Prior to the Reorganisation was appointed to the Board of Directors of MDI.*

**** *Effective from 1 October 2012.*

MASTER DRILLING INCENTIVE SCHEME

Master Drilling operates a share incentive scheme (the Incentive Scheme or Plan), the salient features of which are set-out below:

General

The Company adopted the Plan on 15 November 2012. The Plan will be administered by the Company's Compliance Officer under the direction of the Remuneration Committee (the RemCo) of the Board. The Plan will allow the grant of options to acquire fully paid ordinary shares to eligible employees. An eligible employee is any employee (including any executive director) of any member of the Group, but shall 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 shall be 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.

Form of option

The Plan will allow for the grant of options "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 will allow for the grant of Options with an exercise price determined by the RemCo at the date of grant, being 85% of the market value of a share on that date. Options will be granted for no consideration and will be non-transferable, except to the optionholder's heirs or executors on death.

Plan limits

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 satisfied 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.

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 optionholder will not usually exceed 200% of his/her base salary per financial year of the Company.

Vesting and exercise

Options will 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.

REMUNERATION REPORT continued

Cessation of employment or office

In the event that an option holder ceases to be an employee or officer of the Company or a Group company, their 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.

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).

Variation of share capital

In the event of any sub-division or consolidation, 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.

Voting and dividend rights

Option holders will have no right to voting or dividends until the acquisition of the shares following exercise of the Option.

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 option holders).

Options granted in terms of the Incentive Scheme

In terms of the Share Option Plan, 2,000,000 options were granted to eligible employees during 2013. Refer to Note 31.

Pursuant to the JSE Listings Requirements, recycling of options that have vested and for which Master Drilling shares have been issued is not permitted. The table below reflects the total number of Options that are unissued in terms of the Share Option Scheme at 31 December 2013.

Details	**Options**
Total number of Options attributable to the Share Option Scheme	**5,000,000**
Less:	
Total number of options granted 29 November 2013	**(2 000 000)**
Total number of options exercised during 2013	**–**
Total Options unissued at 31 December 2013	**3,000,000**

DIRECTORS' RESPONSIBILITIES AND APPROVAL

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

The Group's annual financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The financial statements have been prepared by the corporate reporting staff of Master Drilling, headed by Peet van Coller CA(SA), the Group's Senior Manager: Financial Accounting. This process was supervised by André Jean van Deventer CA(SA), the Group's Chief Financial Officer.

The Directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Group 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 Group and all employees are required to maintain the highest ethical standards in ensuring the Group's business is conducted in a manner that in all reasonable circumstances is above reproach. While operating risk cannot be fully eliminated, the Group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

Based on the information and explanations given by management the Directors are of the opinion that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the Group's 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 Group's cash flow forecast for the year to 31 December 2014 and, in the light of this review and the current financial position, they are satisfied that the Group has access to adequate resources to continue in operational existence for the foreseeable future.

The Board of Directors are responsible for the financial affairs of the Group.

The external auditors are responsible for independently reviewing and reporting on the Group's annual financial statements. In accordance with section 29(1)(e)(ii) of the Companies Act, the annual financial statements for Master Drilling, registration number 2011/008265/06, for the year ended 31 December 2013, have been audited by Grant Thornton, the Group's independent external auditors, whose unqualified audit report can be found on pages 45 to 46 of this document.

The annual financial statements set out on pages 54 to 99, which have been prepared on the going concern basis, were approved by the Board on 31 March 2014 and were signed on its behalf by:

Daniël Coenraad Pretorius
Director

Johannesburg
31 March 2014

André Jean van Deventer
Director

Johannesburg

SECRETARY'S CERTIFICATE

In my capacity as Company Secretary, I hereby certify that in terms of section 88(2)(e) of the Companies Act, that for the year ended 31 December 2013, the Company has lodged with the Companies and Intellectual Property Commission, all such returns and notices as are required of a public company in terms of the Act, and that all such returns and notices are true, correct and up-to-date.

Theophilus Timotheus de Wet
Company Secretary

Partner: De Wets Incorporated

Fochville
31 March 2014

AUDIT AND RISK COMMITTEE REPORT

This report is provided by the Audit and Risk Committee appointed in respect of the 2013 financial period of Master Drilling Group Limited in compliance with the Companies Act of South Africa, No 71 of 2008, as amended. The audit committee oversees matters for all of the South African subsidiaries within the Master Drilling Group, as permitted by section 94(2)(a) of the Companies Act.

The Committee's operation is guided by a detailed charter, a copy of which can be found on the Company's website (www.masterdrilling.com) which is informed by the Companies Act and King III and approved by the Board.

MEMBERSHIP

The Committee comprises of the following independent Non-executive Directors, JP de Wet (Chairman), RO Davey and AA Deshmukh. The Chairman of the Committee is an independent non-executive and has the requisite skills and experience for this role. SF Ferguson acts as an alternate Director to RO Davey.

The Audit and Risk Committee has executed its duties and responsibilities during the period in accordance with its charter as they relate to the Group's accounting, internal auditing, internal control and financial reporting practices.

During the period under review:

In respect of the external auditor and the external audit, the Committee amongst other matters:

- nominated Grant Thornton as the external auditor for the financial period ended 31 December 2014;
- ensured that the appointment of the external auditor complied with all applicable legal and regulatory requirements for the appointment of an auditor. The Committee confirms that the auditor is accredited by the JSE;
- approved the external audit engagement letter, the plan and the budgeted audit fees payable to the external auditor for 2013;
- obtained an annual written statement from the auditor that its independence was not impaired;
- determined the nature and extent of all non-audit services provided by the external auditor and approved the applicable non-audit services undertaken in terms of the Audit Charter;
- considered whether any Reportable Irregularities were identified and reported by the external auditors in terms of the Auditing Profession Act, 2005, and determined that there were none; and
- nominated the external auditor for both the holding and subsidiary companies.

In respect of the financial statements, the Committee amongst other matters:

- confirmed the going concern as the basis of preparation of the annual financial statements;
- examined and reviewed the annual financial statements, as well as all financial information disclosed to the public prior to submission and approval by the Board;
- ensured that the annual financial statements fairly present the financial position of the Group as at the end of the period and the results of operations and cash flows for the financial period;
- considered the appropriateness of the accounting policies adopted and changes thereto;
- reviewed the external auditor's audit report;
- reviewed the representation letter relating to the Group annual financial statements which was signed by management; and
- considered any problems identified and reviewed any significant legal and tax matters that could have a material impact on the annual financial statements.

In respect of internal control and internal audit, the Committee amongst other matters:

- appointed an internal auditor with the necessary international presence to ensure effective service delivery to the Audit Committee; and
- reviewed internal audit reports and deliberated on the audit findings of the internal auditor as part of the internal audit work programme.

In respect of risk management and information technology, the Committee, insofar as relevant to its functions:

- approved a Group-wide risk assessment and management process;
- reviewed the Group's operational, financial and information technology risk register that was prepared as part of the risk self assessment process. The most important residual risk elements identified in terms of likelihood and impact on the Company was discussed in detail and reported to the Board of Directors for consideration and review; and
- considered and reviewed the updated authority framework in line with the new management structure.

In respect of legal and regulatory requirements to the extent that it may have an impact on the annual financial statements the Committee:

- reviewed with management legal matters that could have a material effect on the Group; and
- considered reports provided by management and the external auditor regarding compliance with legal and regulatory requirements.

In respect of the coordination of assurance activities, the Committee reviewed the plans and work outputs of the external auditors and concluded that the assurance activities are adequate to address all significant financial risks facing the business.

In addition, the Audit and Risk Committee:

- considered the expertise, resources and experience of the finance function and concluded that these were appropriate; and
- considered the appropriateness of the experience and expertise of the Chief Financial Officer and concluded that these were appropriate.

INDEPENDENCE OF THE EXTERNAL AUDITOR

The Audit and Risk Committee is satisfied that Grant Thornton is independent of the Group after taking the following factors into account:

- representations made by Grant Thornton to the Audit and Risk Committee;
- the auditor does not, except as external auditor or in rendering permitted non-audit services, receive any remuneration or other benefit from the Company;
- the auditor's independence was not impaired by any consultancy, advisory or other work undertaken by the auditor;
- the auditor's independence was not prejudiced as a result of any previous appointment as auditor; and
- the criteria specified for independence by the Independent Regulatory Board for Auditors and international regulatory bodies.

AUDIT AND RISK COMMITTEE REPORT continued

ANNUAL FINANCIAL STATEMENTS

Following the review by the Audit and Risk Committee of the annual financial statements of the Master Drilling Group Limited for the period ended 31 December 2013, the Committee is of the view that in all material respects they comply with the relevant provisions of the Companies Act of South Africa, No 71 of 2008 as amended, IFRS and fairly present the consolidated and separate financial position at that date and the results of operations and cash flows for the year ended. The Committee has satisfied itself of the integrity of the remainder of the Integrated Report.

Having achieved its objectives, the Committee has recommended the annual financial statements for the year ended 31 December 2013 for approval to the Board. The Board has subsequently approved the annual financial statements, which will be open for discussion at the forthcoming annual general meeting.

On behalf of the Audit and Risk Committee.

J P de Wet
Chairman of the Audit and Risk Committee

Johannesburg
31 March 2014

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Master Drilling Group Limited

We have audited the consolidated financial statements of Master Drilling Group Limited set out on pages 54 to 99, which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The Company's Directors are responsible for the preparation and fair presentation of these consolidated 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 consolidated and separate financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Master Drilling Group Limited as at 31 December 2013, and its consolidated financial performance and consolidated cash flows for the period then ended in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa.

INDEPENDENT AUDITOR'S REPORT continued

Other reports required by the Companies Act

As part of our audit of the consolidated financial statements for the period ended 31 December 2013, we have read the Directors' Report, Audit and Risk Committees' Report and Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Other matter

Without qualifying our opinion, we draw attention the fact that supplementary information set out on pages 100 – 101 does not form part of the annual financial statements and is presented as additional information. We have not audited this information and accordingly we do not express an opinion on it.

Grant Thornton

Grant Thornton
Chartered Accountants (SA)
Registered Auditors

C Pretorius
Partner
Chartered Accountant (SA)
Registered Auditor

42 Wierda Road West
Wierda Valley
2196
31 March 2014

DIRECTORS' REPORT

NATURE OF BUSINESS

Master Drilling Group Limited is an investment holding company, whose subsidiary companies provide specialised drilling services to major, mid-tier and junior mining and exploration companies as well as providing services for civil engineering applications in a variety of emerging markets.

SHAREHOLDERS HOLDING 5% OR MORE OF MASTER DRILLING'S ISSUED SHARE CAPITAL

As at 31 December 2013	%
DC Pretorius	52.9
Coronation Fund Managers	17.8
Investec Fund Managers	9.4

Share capital

Authorised

500,000,000 ordinary shares of no par value.

There was no movement in the issued and unissued share capital for the financial year.

Unissued ordinary shares

	Number of shares	
	2013	2012
At 1 January	**351,734,509**	1,000
Authorised during the year	**–**	500,000,000
Issued during the year	**–**	148,264,491
At 31 December	**351,734,509**	351,734,509

There have been no changes to the unissued ordinary share capital of the Company since year end to the date of this report.

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 respects 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 Listings Requirements.

DIRECTORS' REPORT continued

In terms of the JSE Listings Requirements and as permitted by the Memorandum of Incorporation of the Company, the shareholders of the Company have authorised the Directors to issue shares held under their control for cash, subject to certain restrictions as set out below:

1. This authority shall be limited to a maximum number of 7,513,275 shares (being 5% of the issued ordinary shares in the share capital of the Company);
2. This authority shall only be valid until the next annual general meeting of the Company but shall not extend beyond 15 months;
   2.1 an announcement, in compliance with section 11.22 of the Listings Requirements of the JSE Limited, shall be published after any issue representing, on a cumulative basis within the period contemplated as in paragraph 2 above, 5% (7,513,275) of the number of ordinary shares in issue prior to the issue concerned excluding treasury shares;
   2.2 in the event of a sub-division or consolidation of issue shares during the period contemplated as per paragraph 2 above, this authority must be adjusted accordingly to represent the same allocation ratio;
3. In determining the price at which an issue of ordinary shares for cash shall be made in terms of this authority, the maximum discount permitted shall be 10% of the weighted average traded price of the ordinary shares on the JSE Limited over the 30 business days prior to the date that the price of the issue is agreed between the Company and the party subscribing for the securities; and
   3.1 any issue of ordinary shares under this authority shall be made only to a public shareholder, as defined in the Listings Requirements of the JSE Limited;
4. Any equity securities issued under the authority during the period contemplated in paragraph 2 above, must be deducted from such number in 3 above.

There were no repurchases of shares during the period under review.

DIRECTORS' INTERESTS IN SHARES

The interests of Directors in the ordinary share capital of the Company at 31 December 2013, which in aggregate exceeds 3% of the issued ordinary share capital is made up as follows:

At 31 December	Total % holding of issued capital	**Beneficial Direct 2013**	**Beneficial Indirect 2013**	Beneficial Direct 2012	Beneficial Indirect 2012
Executive					
DC Pretorius	52.9	**900**	**78,461,078**	900	76,745,875
AJ van Deventer	2.7	**1,727,648**	**2,228,336**	1,727,648	1,554,541
GR Sheppard	2.7	**–**	**3,955,884**	–	3,282,089
BJ Jordaan	2.7	**1,781,861**	**2,228,336**	1,781,861	1,554,541
Total executive		**3,510,409**	**86,873,634**	3,510,409	81,137,046
Non-executive					
AA Deshmukh	–	**–**	**–**	–	1,373,543
Total Non-executive	–	**–**	**–**	–	1,373,543
Total executive	61.0	**3,510,409**	**86,873,634**	3,510,409	84,510,589

Rounding of % may result in computational discrepancies.

At 31 December 2013, the Directors of the Company held direct and indirect interests in 61.0% of the Company's issued ordinary share capital. There has been no change to the Directors' shareholding since year-end to date of this report. Refer to Note 19.1 of this report.

Details of services contracts of directors

In accordance with section 30(4)(e) of the Companies Act, the salient features of the service contracts of the Directors have been disclosed under the Remuneration section on page 36.

DIVIDENDS

Dividend declared

No dividends were declared or paid by Master Drilling Group Limited since the Company's incorporation.

Dividend policy

The Board expects that during the Group's growth phase, its cash resources will be used primarily for investment in the development of the Group's assets. In addition, it is the current intention of the Company to declare and to pay dividends after each six-month reporting period following this growth phase, maintaining a dividend cover ratio of between four to five times annual headline earnings.

However, there can be no assurance that a dividend will be paid in respect of the financial period, and the declaration and payment by the Company of any dividends will depend on the results of the Group's operations, its financial position, anticipated cash requirements, prospects, profits available for distribution, and other factors deemed to be relevant at the time.

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

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

BORROWING POWERS

The borrowing powers of the Directors of the Company and its subsidiaries have not been exceeded during the past three years and may only be varied by amending the relevant provisions of the Memorandum of Incorporation of the particular company. Such amendment must be effected in accordance with sections 16(1) and 16(4) of the Companies Act and would require a special resolution.

The Directors of Master Drilling Do Brasil Ltda are restricted from borrowing any amount equal or above US$300,000 without the approval of its majority shareholder, MDI. Other than this restriction, there are no exchange controls or other restrictions on the borrowing powers of the Company or any of its other subsidiaries.

DIRECTORS' REPORT continued

LEGAL PROCEEDINGS

There are no governmental, legal or arbitration proceedings, including any proceedings that are pending or threatened, of which Master Drilling is aware, that may have or have had in the recent past, being at least the previous 12 months, a material effect on the Group's financial position.

The Company is not party to any restrictive funding arrangements.

MATERIAL CHANGE

The financial and trading position of Master Drilling Group Limited has not materially changed for the financial year.

APPOINTMENTS TO THE BOARD

The following Board appointments, positions held and the date on which the appointment was made are detailed in the table below:

Name	Position	Date appointed
I Bredenkamp	Alternate executive Director to GR Sheppard	20 June 2013
ST Ferguson	Alternate Director to RO Davey	20 June 2013

ADOPTION OF A NEW MEMORANDUM OF INCORPORATION

Shareholders approved the adoption of a new Memorandum of Incorporation on 5 October 2012 in terms of the Companies Act.

SUBSIDIARIES

The subsidiaries of Master Drilling are disclosed in Note 29 of this document. Further details can be found in a supplement document entitled "Subsidiary Companies" on the Company's website (www masterdrilling.com).

EVENTS SUBSEQUENT TO YEAR-END

The Directors are not aware of any significant events after the reporting date that will have a material effect on the Group's results or financial position as presented in these annual financial statements.

MATERIAL RESOLUTIONS

No material special resolutions were passed during the year under review, except those passed at the annual general meeting held on 25 July 2013. Copies of all material resolutions taken by the subsidiaries during the year under review may be obtained from the office of the Company Secretary.

Find below material ordinary resolution passed during the year under review

Type and nature of resolution	Date Taken	Effective Date
Revised budget for 2013		
1. The Board formally approved the revised budget for 2013.	14 March 2013	14 March 2013
Authorised capital expenditure		
1. The Capital Expenditure Budget for 2013 for the amount of USD38 million is approved by the Board.	14 March 2013	14 March 2013
Annual financial statements year ended 31 December 2012		
1. The Board accepted and approved the financial information contained in the Annual Financial Statements (AFS) year ended 31 December 2012.	25 March 2013	25 March 2013
2. The Board was satisfied that the financial information contained in the AFS had been considered by the Audit and Risk Committee, and that the Audit and Risk Committee had both reviewed and approved same.		
(Passed by means of a Round Robin Resolution)		
Appointment alternate directors		
1. The Board considered and agreed the appointment of Mr Izak Bredenkamp as alternate director to Mr Gareth Robert Sheppard.	20 June 2013	20 June 2013
2. The Board considered and agreed that Mr Shane Trevor Ferguson act as alternate director/member to Mr Roger Owen Davey in respect of the Audit & Risk Committee and Social and Ethics Committee.		
Integrated report 2012		
1. The Board accepted and approved the financial information contained in the Master Drilling Group Limited Integrated Report 2012.	24 June 2013	24 June 2013

Type and nature of resolution	Date Taken	Effective Date
Capital Funding		
1. The Board approved the application to ABSA Bank Limited for the Capital requirements (Approximately R80 million) in respect of the *Kolomela Project*.	20 June 2013	20 June 2013
Financial information in interim results 30 June 2013		
1. The Board formally approved the financial information contained in the Master Drilling Group Limited interim results 30th June 2013 as accepted by it on the 19 August 2013.	27 November 2013	19 August 2013
(Passed at a Board of Directors meeting).		
Master Drilling Exploration (Pty) Ltd (MDX) & O.M. Tsehla Drilling Contractor Agreement (BEE)		
1. The Sale of Assets Agreement (the "Agreement") between MDX and O.M. Tsehla Drilling Contractor (Pty) Ltd signed by most parties on the 28 August 2013 be approved.	27 November 2013	28 August 2013
2. All necessary steps and actions to effect the above be approved and any steps and actions that may already have been taken by any of the Directors of MDX in this respect be ratified.		
Subscription of Shares Agreement (the "agreement") between Master Drilling Group Limited (MDGL/Company) & Master Drilling International Limited (MDI).		
1. That the Company enter into the Subscription of Shares Agreement (the "Agreement") with MDI.	30 August 2013	30 August 2013
Pursuant to the Remuneration Committee Meeting held at the Company's offices on 26 November 2013 whereby the following was approved:	27 November 2013	27 November 2013
1.1 The Final Short Term Incentive policy (STI) The Remuneration Committee approved the STI Policy document.		
1.2 The Final Long Term Incentive policy (LTI) The Remuneration Committee approved the LTI Policy document.		
Approval of the Grant Options (Share Option Policy).		
That the following Executive Directors would be issued with 500,000 grant options each at a discount of 15% (fifteen percent) with effect from the 1 December 2015: • Daniel Coenraad Pretorius; • Andre Jean Van Deventer; • Gareth Robert Sheppard; and • Barend Jacobus Jordaan.		

Type and nature of resolution	Date Taken	Effective Date
Subscription of Shares Agreement (the "agreement") between Master Drilling Group Limited (MDGL/Company) & MDI Exco Limited.		
1. That the Company enter into the Subscription of Shares Agreement (the "Agreement") with MDI Exco Limited.	30 August 2013	30 August 2013
Master Drilling Burkina Faso Winding Down Operations		
1. The Board formally approved wind down operations in Burkina Faso, in a manner that shall not preclude the Group from transacting in Burkina Faso in the future.	27 November 2013	27 November 2013

ANNUAL GENERAL MEETING

Notice of the second annual general meeting of Master Drilling Group Limited will be held at Sasfin Bank Limited, 29 Scott Street, Waverley, Johannesburg, 2090 on Thursday, 24 July 2014 at 09:30 which are included in, and form part of this document, have been distributed to shareholders in accordance with the Companies Act.

At the annual general meeting, shareholders will be asked to approve a number of resolutions including, but not limited to:

- the adoption of the annual financial statements;
- the re-appointment of the external auditors;
- the re-election of all directors appointed by the Board during 2013;
- the appointment of members of the Audit and Risk Committee;
- granting authority to directors to allot and issue ordinary shares;
- granting authority to directors to issue shares for cash;
- allow the Company to acquire its own shares;
- Non-Executive Directors' fees;
- adopt the Company's Remuneration Report, as a non-binding advisory vote; and
- granting directors authority to provide financial assistance.

STATEMENT OF FINANCIAL POSITION

FOR THE MASTER DRILLING GROUP AS AT 31 DECEMBER 2013

	Note(s)	**2013 US$**	2012 US$
Assets			
Non-current assets			
Property, plant and equipment	3	86,393,649	61,630,120
Goodwill	32	2,612,584	–
Deferred tax asset	6	498,850	126,053
Financial assets	5	12,460,252	7,141,359
		101,965,335	68,897,532
Current assets			
Inventories	7	16,395,945	11,980,996
Related party loans	22	62,540	1,863,712
Trade and other receivables	8	27,429,963	25,301,346
Cash and cash equivalents	9	16,566,842	50,068,162
		60,455,290	89,214,216
Total assets		162,420,625	158,111,748
Equity and liabilities			
Equity			
Share capital	10	146,607,965	146,639,163
Reserves		(71,097,579)	(58,550,828)
Retained income		16,357,165	1,229,770
		91,867,551	89,318,105
Non-controlling interest		14,250,534	7,156,122
Total equity		106,118,085	96,474,227
Liabilities			
Non-current liabilities			
Long-term interest-bearing borrowings	11	9,328,366	3,719,518
Finance lease obligations	12	6,291,285	2,290,571
Share based payment liability	31	358,800	–
Deferred tax liability	6	5,037,242	4,968,985
		21,015,693	10,979,074
Current liabilities			
Current portion of interest-bearing borrowings	11	4,017,602	3,252,379
Finance lease obligations	12	4,084,681	2,230,579
Related party loans	22	1,594,879	13,976,840
Current tax payable		4,584,452	4,955,916
Trade and other payables	13	21,003,624	25,747,848
Bank overdraft	9	1,609	494,885
		35,286,847	50,658,447
Total liabilities		56,302,540	61,637,521
Total equity and liabilities		162,420,625	158,111,748

STATEMENT OF COMPREHENSIVE INCOME

FOR THE MASTER DRILLING GROUP FOR THE YEAR ENDED 31 DECEMBER 2013

	Note(s)	**2013 US$**	2012[1] US$
Revenue		119,688,645	10,822,978
Cost of sales		(79,930,462)	(7,251,698)
Gross profit		39,758,183	3,571,280
Other operating income		891,774	388,271
Other operating expenses		(18,106,951)	(2,057,700)
Operating profit	15	22,543,006	1,901,851
Investment revenue	16	1,473,911	163,246
Finance costs	17	(1,926,791)	(317,507)
Profit before taxation		22,090,126	1,747,590
Taxation	18	(6,294,382)	(451,179)
Profit for the year/period		15,795,744	1,296,411
Other comprehensive income that will be subsequently be classified to profit/loss:			
Exchange differences on translating foreign operations		(13,968,323)	(290,435)
Tax effect on exchange differences on translating foreign operations		1,405,361	3,620
Other comprehensive loss for the year/period net of taxation		(12,562,962)	(286,815)
Total comprehensive income		3,232,782	1,009,596
Profit attributable to:		15,795,744	1,296,411
Owners of the parent		15,127,395	1,229,770
Non-controlling interest		668,349	66,641
Total comprehensive income attributable to:		3,232,782	1,009,596
Owners of the parent		2,564,433	942,955
Non-controlling interest		668,349	66,641
Earnings per share (USD cents)	20		
Basic and diluted earnings per share		10.2	9.4
Headline and diluted headline earnings per share		10.3	8.9
Earnings per share (ZAR cents)			
Basic earnings per share		98.4	82.1
Headline earnings per share		99.2	77.3

Note:

[1] The international entities results are included into the 2012 statement of comprehensive income (SOCI) for a period of 17 days. The South African entities, results are included into the SOCI for a period of three months. Further to this, the Company acquired assets from Master Drilling (Pty) Ltd on 1 November 2012, and the results for these assets are included into the SOCI for a period of two months.

STATEMENT OF CHANGES IN EQUITY

FOR THE MASTER DRILLING GROUP FOR THE YEAR ENDED 31 DECEMBER 2013

	Share capital US$	Equity due to change in control of interests US$	Foreign currency translation reserve US$	Share-based payments reserve US$	Total reserves US$	Retained income US$	Attributable to owners of the parent US$	Non-controlling interest US$	Total shareholders' equity US$
Shares issued	146,639,163	–	–	–	–	–	146,639,163	–	146,639,163
Equity due to change in control of interests	–	(58,264,013)	–	–	(58,264,013)	–	(58,264,013)	–	(58,264,013)
Total comprehensive income for the period	–	–	(286,815)	–	(286,815)	1,229,770	942,955	66,641	1,009,596
Shares issued to BEE partners	–	–	–	–	–	–	–	7,089,481	7,089,481
Total changes	146,639,163	(58,264,013)	(286,815)	–	(58,550,828)	1,229,770	89,318,105	7,156,122	96,474,227
Balance at 31 December 2012	146,639,163	(58,264,013)	(286,815)	–	(58,550,828)	1,229,770	89,318,105	7,156,122	96,474,227
Listing cost	**(31,198)**	**–**	**–**	**–**	**–**	**–**	**(31,198)**	**–**	**(31,198)**
Shares-based payments	**–**	**–**	**–**	**16,211**	**16,211**	**–**	**16,211**	**–**	**16,211**
Shares issued to BEE partners	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**6,533,860**	**6,533,860**
Dividends declared to BEE partners	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(107,797)**	**(107,797)**
Total comprehensive income for the year	**–**	**–**	**(12,562,962)**	**–**	**(12,562,962)**	**15,127,395**	**2,564,433**	**668,349**	**3,232,782**
Total changes	**(31,198)**	**–**	**(12,562,962)**	**16,211**	**(12,546,751)**	**15,127,395**	**2,549,446**	**7,094,412**	**9,643,858**
Balance at 31 December 2013	**146,607,965**	**(58,264,013)**	**(12,849,777)**	**16,211**	**(71,097,579)**	**16,357,165**	**91,867,551**	**14,250,534**	**106,118,085**
Note(s)	**10**	**4**		**31**					

STATEMENT OF CASH FLOWS

FOR THE MASTER DRILLING GROUP FOR THE YEAR ENDED 31 DECEMBER 2013

	Note(s)	2013 US$	2012 US$
Cash flows from operating activities			
Cash generated from operations	21.1	**22,675,817**	9,562,012
Investment income		**1,473,911**	163,246
Finance costs		**(1,926,791)**	(317,507)
Tax paid	21.2	**(6,632,226)**	(478,549)
Net cash from operating activities		**15,590,711**	8,929,202
Cash flows from investing activities			
Purchase of property, plant and equipment		**(30,586,920)**	(2,955,224)
Sale of property, plant and equipment		**235,890**	1,219,656
Financial assets movement		**–**	374,241
Net cash inflow on acquisition of subsidiaries	21.3	**278,521**	1,799,596
Net cash from investing activities		**(30,072,509)**	438,269
Cash flows from financing activities			
Proceeds of financial liabilities		**6,374,071**	401,899
Net movement financial leases		**(2,230,579)**	(852,626)
Related party loans		**(13,601,683)**	3,755,819
Proceeds from issue of ordinary shares		**–**	36,995,480
Cost relating to issue of ordinary shares		**(31,198)**	–
Net cash from financing activities		**(9,489,389)**	40,300,572
Total cash movement for the year		**(23,971,187)**	49,668,043
Cash at the beginning of the year		**49,573,277**	–
Effect of exchange rate movement on cash balances		**(9,036,857)**	(94,766)
Total cash at the end of the year	9	**16,565,233**	49,573,277

Certain amounts relating to the statement of cash flows for the previous period have been reclassified for improved disclosure.

ACCOUNTING POLICIES

1. PRESENTATION OF FINANCIAL INFORMATION

The Group Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards, the SAICA Financial reporting guides as issued by the Accounting Practices Committee and Financial Reporting Practice as issued the Financial Reporting Standards Council, the requirements of the Companies Act and the JSE Listings Requirements. The annual financial statements have been prepared on the historical cost basis, except for certain financial instruments at fair value or amortised cost, and incorporate the principal accounting policies set out below. They are presented in US dollars.

The significant accounting policies are consistent in all material respects with those applied in the previous year. A number of new and revised standards are effective for the annual financial year beginning 1 January 2013. These included:
IFRS 10 Consolidated Financial Statements
IFRS 11 Joint Arrangements
IFRS 12 Disclosure of interests in Other Entities
Consequential Amendments to IAS 27 'Separate Financial Statement' and IAS 28 'Investments in Associates and Joint Ventures'
IFRS 13 Fair Value Measurement

Management has reviewed the above mentioned new standards and has concluded that these have had no material effects on the periods covered by these financial statements.

1.1 Consolidation

Basis of consolidation

The Group Annual Financial Statements incorporates all entities which are controlled by the Group.

(a) At inception the Group Annual Financial Statements had been accounted for under the pooling of interest method as acquisition of entities under common control is excluded from IFRS 3. The entities had been accounted for at historical carrying values for the period presented.

Adjustments are made when necessary to the financial statements of subsidiaries to bring their accounting policies in line with those of the Group.

All intra-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 Company'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.

Transactions which result in changes in ownership levels, where the Company has control of the subsidiary, both before and after the transaction, are regarded as equity transactions and are recognised directly in the statement of changes in equity.

The difference between the fair value of consideration paid or received and the movement in non-controlling interest for such transactions is recognised in equity attributable to the owners of the parent.

Where a subsidiary is disposed of and a non-controlling shareholding is retained, the remaining investment is measured to fair value with the adjustment to fair value recognised in profit or loss as part of the gain or loss on disposal of the controlling interest.

1.2 Business combinations

The Group applies the acquisition method in accounting for business combinations.
The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in profit of loss immediately.

1.3 Significant judgements and sources of estimation uncertainty

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

(a) Trade receivables and loans and receivables

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

(b) Inventories

Management estimates the net realisable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realisation of these inventories may be effected by future technology or other market-driven changes that may reduce future selling prices.

(c) 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 year in which such determination is made.

The Group 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 Group 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 Group to realise the net deferred tax assets recorded at the end of the reporting year could be impacted.

(d) Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the utility of certain assets.

1.4 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see note 32) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit *pro rata* based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent years.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

1.5 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 Company; 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 subsequent accumulated impairment losses.

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.

Assets 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 Company 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.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life	Depreciation method
Buildings	20 years	Straight line
Drilling Rigs (included under Plant and Machinery)		
– Raisebore	20 years	Straight line
– Blindhole	20 years	Straight line
– Dropraise	20 years	Straight line
– Blasting	15,000 machine hours	Units of production
– Slim Drilling Rigs (Surface)	10 years	Straight line
– Slim Drilling Rigs (Underground)	3 years	Straight line
Other drilling equipment (included under Plant and Machinery)		
– Drill rods	15,000 metres	Units of production
– Slim Drilling surface rods	6,500 metres	Units of production
– Drum rods	15,000 metres	Units of production
– Reamers and reamer wings	2,000 metres	Units of production
– Fins	1,000 metres	Units of production
– Stem bars	800 metres	Units of production
– Pilot and reaming stabilisers	800 metres	Units of production
– Cross overs	600 metres	Units of production
– Bitsubs	600 metres	Units of production
– Raise beams	5 years	Straight line
– Locomotives	5 years	Straight line
– Tool and rod cars	5 years	Straight line
– Water pumps	5 years	Straight line
Furniture and fixtures	5 – 10 years	Straight line
Vehicles		Straight line
– Light duty vehicles	5 years	Straight line
– Heavy duty vehicles	10 years	Straight line
IT equipment	5 years	Straight line
Computer software	3 – 10 years	Straight line

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Cost to repair or maintain property and equipment are expensed as incurred.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset. Depreciation is recognised on a straight-line basis or units of production method as appropriate, to write down the cost less estimated residual values of the property, plant and equipment.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

ACCOUNTING POLICIES continued

1.6 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Chief operating decision-maker (CEO) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

1.7 Financial instruments

(a) Classification

The Group classifies financial assets and financial liabilities into the following categories:

- loans and receivables;
- financial liabilities measured at amortised cost;
- financial assets at fair value through profit and loss.

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.

(b) Initial recognition and measurement

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

The Group 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.

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

(c) 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 year.

Dividend income is recognised in profit or loss as part of other income when the Group's right to receive payment is established.

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

(d) Impairment of financial assets

At each reporting date the Group assesses all financial assets, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the Group, 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.

Reversals of impairment losses are recognised in profit or loss.

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.

(e) Loans to/(from) related parties

These include loans to and from related parties and are recognised initially at fair value plus direct transaction costs.

Loans to related parties are classified as loans and receivables.

Loans from related parties are classified as financial liabilities measured at amortised cost.

(f) Loans to employees

These financial assets are classified as loans and receivables.

(g) Trade and other receivables

Trade receivables are measured at initial recognition at fair value including transaction costs, 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 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.

(h) Trade and other payables

Trade payables are initially measured at fair value including transaction costs, and are subsequently measured at amortised cost, using the effective interest rate method. Trade and other payables are classified as financial liabilities.

(i) 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. Cash and cash equivalents are classified as loans and receivables.

ACCOUNTING POLICIES continued

(j) Bank overdrafts and borrowings

Bank overdrafts and borrowings are initially measured at fair value including transaction costs, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

Bank overdraft and borrowings are classified as financial liabilities at amortised cost.

1.8 Tax

(a) Current tax assets and liabilities

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

Current tax liabilities (assets) for the current and prior years 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 year.

(b) Deferred tax assets and liabilities

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year 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 year.

(c) Tax expenses

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the year, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different year, 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 year, to other comprehensive income.

1.9 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.

(a) Finance leases

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each year during the lease term so as to produce a constant periodic rate of return on the remaining balance of the liability.

(b) Operating leases

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 liability. This liability is not discounted.

Any contingent rents are expensed in the year in which they are incurred.

1.10 Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

When inventories are utilised, the carrying amount of those inventories are recognised as an expense in the year in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the year the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the year in which the reversal occurs.

1.11 Impairment of goodwill and property, plant and equipment

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management monitors goodwill.

ACCOUNTING POLICIES continued

Cash-generating units to which goodwill has been allocated (determined by the Group's management as equivalent to its operating segments) are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating units carrying amount exceeds it recoverable amount, which is the higher of fair value less costs of disposal and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged *pro rata* to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

1.12 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.

1.13 Employee benefits

(a) 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 as an expense in the year 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.

(b) Defined contribution plans

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

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

1.14 Contingencies

Contingent assets are recognised when it is virtually certain there will be an inflow of future economic benefits. Contingent liabilities are recognised when it is probable that there will be outflow of economic resources.

1.15 Revenue

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the end of the reporting year. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group;
- the stage of completion of the transaction at the end of the reporting year can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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.

Service revenue is recognised by reference to the stage of completion of the transaction at the end of the reporting year. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Contract revenue comprises:

- the initial amount of revenue agreed in the contract; and
- variations in contract work, claims and incentive payments:
  - to the extent that it is probable that they will result in revenue; and
  - they are capable of being reliably measured.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for services provided in the normal course of business, net of trade discounts and volume rebates, and value added tax.

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.

Service fees included in the price of the product are recognised as revenue over the year during which the service is performed.

ACCOUNTING POLICIES continued

1.16 Cost of sales

The related cost of providing services recognised as revenue in the current year is included in cost of sales.

Contract costs comprise:

- costs that relate directly to the specific contract;
- costs that are attributable to contract activity in general and can be allocated to the contract; and
- such other costs as are specifically chargeable to the customer under the terms of the contract.

1.17 Translation on foreign currencies

(a) Foreign currency translation

A foreign currency transaction is translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate).

At the end of the reporting year:

- 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 year or in previous financial statements are recognised in profit or loss in the year in which they arise.

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

(b) Foreign operations

The results and financial position of a foreign operation are translated into the functional currency using the following procedures:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each item of profit or loss are translated at exchange rates at the dates of the transactions; and
- all resulting exchange differences are recognised in other comprehensive income and accumulated as a separate component of equity.

Exchange differences arising on a monetary item that forms part of a net investment in a foreign operation are recognised initially to other comprehensive income and accumulated in the translation reserve. They are recognised in profit or loss as a reclassification adjustment through to other comprehensive income on disposal of net investment.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation.

The cash flows of a foreign subsidiary are translated at the exchange rates between the functional currency and the foreign currency at the dates of the cash flows.

1.18 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.

1.19 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any temporary investment of those borrowings; and
- weighted average of the borrowing costs applicable to the entity on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs begins when:

- expenditures for the asset have occurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are in progress.

Capitalisation is suspended during extended years in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

All other borrowing costs are recognised as an expense in the year in which they are incurred.

1.20 Share-based payments

Eligible employees of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments.

(a) Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model. That cost is recognised, together with a corresponding increase in other capital reserves in equity, over the year in which the performance and/or service conditions are fulfilled in employee benefits expense.

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting year has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

The statement of profit or loss expense or credit for a year represents the movement in cumulative expense recognised as at the beginning and end of that year and is recognised in employee benefits expense. No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the expense had the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

(b) *Cash-settled transactions*

The cost of cash-settled transactions is measured initially at fair value at the grant date using a Black-Scholes Option Pricing Model. This fair value is expensed over the year until the vesting date with recognition of a corresponding liability. The liability is re-measured to fair value at each reporting date up to, and including the settlement date, with changes in fair value recognised in employee benefits expense.

2. STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN ADOPTED EARLY BY THE GROUP

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been early adopted by the Group. Management anticipates that all of the relevant pronouncements will be adopted in the Group’s accounting policies for the first year beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Group’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 Group’s financial statements.

2.1 IFRS 2 Share-based Payments

Amendments added the definition of performance conditions and service conditions and amended the definitions of vesting conditions and market conditions.

The standard is effective for annual years beginning or after 1 July 2014.

2.2 IFRS 3 Business Combinations

Amendments to the measurement requirements for all contingent consideration assets and liabilities including those accounted for under IFRS 9.

Amendments to the scope paragraph for the formation of a joint arrangement.

The standard is effective for annual years beginning or after 1 July 2014.

2.3 IFRS 8 Operating Segments

Amendments to some disclosure requirements regarding the judgements made by management in applying the aggregation criteria, as well as those to certain reconciliations.

The standard is effective for annual years beginning or after 1 July 2014.

2.4 IFRS 9 Financial Instruments

The IASB aims to replace IAS 39 ’Financial Instruments: Recognition and Measurement‘ (IAS 39) in its entirety with IFRS 9. To date, the chapters dealing with recognition, classification, measurement, derecognition of financial assets and liabilities and hedge accounting have been issued. These chapters are effective for annual years beginning on or after 1 January 2018. Chapters dealing with impairment methodology are still being developed. Further, in November 2011, the IASB tentatively decided to consider making limited modifications to IFRS 9’s financial asset classification model to address application issues. The Group’s management have yet to assess the impact of this new standard on the Group’s consolidated financial statements. Management does not expect to implement IFRS 9 until it has been completed and its overall impact can be assessed.

ACCOUNTING POLICIES continued

2.5 IFRS 13 Fair Value Measurement

Amendments to clarify the measurement requirements for those short-term receivables and payables. This is effective for annual years beginning or after 1 July 2014.

Amendments to clarify that the portfolio exception applies to all contracts within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9. This is effective for annual years beginning or after 1 July 2014.

2.6 IAS 24 Related Party Disclosure

Clarification of the definition of a related party. This is effective for annual years beginning or after 1 July 2014.

2.7 IAS 36 Impairment Assets

The amendment to IAS 36 clarifies the required disclosures of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. This is effective for annual years beginning or after 1 January 2014.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3. PROPERTY, PLANT AND EQUIPMENT

	Figures in US$ 2013		
	Cost	**Accumulated depreciation**	**Carrying value**
Buildings	**232,071**	**(50,174)**	**181,897**
Plant and machinery	**80,720,902**	**(22,000,482)**	**62,592,261**
Assets under construction	**11,846,158**	**(10,320)**	**11,835,838**
Furniture and fittings	**1,255,679**	**(384,471)**	**871,208**
Motor vehicles	**3,487,337**	**(1,291,984)**	**2,195,353**
Office equipment	**123,602**	**(55,688)**	**67,914**
IT equipment	**545,392**	**(328,083)**	**217,309**
Finance lease: Plant and equipment	**13,615,803**	**(1,993,620)**	**7,750,342**
Computer software	**870,797**	**(189,270)**	**681,527**
Total	**112,697,741**	**(26,304,092)**	**86,393,649**

	Figures in US$ 2012		
	Cost	Accumulated depreciation	Carrying value
Buildings	278,915	(113,799)	165,116
Plant and machinery	70,224,365	(15,641,371)	54,582,994
Assets under construction	77,878	(11,870)	66,008
Furniture and fittings	1,363,606	(549,885)	813,721
Motor vehicles	2,282,787	(1,359,752)	923,035
Office equipment	144,518	(53,361)	91,157
IT equipment	665,901	(494,251)	171,650
Finance lease: Plant and equipment	6,266,801	(1,482,891)	4,783,910
Computer software	212,220	(179,691)	32,529
Total	81,516,991	(19,886,871)	61,630,120

3.1 Reconciliation of property, plant and equipment

2013	Opening balance US$	Assets acquired through business combination US$	Additions US$	Exchange difference on consolidation of International subsidiaries US$	Reclassifications and transfer to inventory US$	Disposals US$	Depreciation US$[1]	Total US$
Buildings	165,116	–	46,103	(8,371)	–	(2,202)	(18,749)	181,897
Plant and machinery	54,582,994	56,421	16,309,347	(5,924,785)	(995,895)	–	(5,307,662)	58,720,420
Assets under construction	66,008	–	11,781,939	(6,864)	(5,245)	–	–	11,835,838
Furniture and fittings	813,721	11,121	101,959	(17,952)	17,564	(1,422)	(53,783)	871,208
Motor vehicles	923,035	69,296	1,676,702	(76,884)	–	(42,213)	(354,583)	2,195,353
Office equipment	91,157	–	918	(6,758)	(3,866)	–	(13,537)	67,914
IT equipment	171,650	49,328	96,093	(11,869)	(310)	(8,689)	(78,894)	217,309
Finance lease: Plant and equipment	4,783,910	–	8,085,395	(399,782)	–	–	(847,340)	11,622,183
Computer software	32,529	107,187	573,859	(1,634)	(5,437)	–	(24,977)	681,527
Balance as at 31 December 2013	**61,630,120**	**293,353**	**38,672,315**	**(6,454,899)**	**(993,189)**	**(54,526)**	**(6,699,525)**	**86,393,649**

2012	Assets acquired through business combination US$	Additions US$	Exchange difference on consolidation of international subsidiaries US$	Reclassifications US$	Disposals US$	Depreciation US$	Total US$
Buildings	160,666	8,746	85	–	–	(4,381)	165,116
Plant and machinery	53,346,188	2,945,576	(190,922)	–	(1,119,046)	(398,802)	54,582,994
Assets under construction	65,478	–	751	–	–	(221)	66,008
Furniture and fittings	817,797	–	1,009	448	–	(5,533)	813,721
Motor vehicles	956,113	–	3,291	–	–	(36,369)	923,035
Office equipment	91,000	–	829	–	–	(672)	91,157
IT equipment	177,255	902	(175)	(448)	(402)	(5,482)	171,650
Finance lease: Plant and equipment	4,820,774	–	(13,539)	–	–	(23,325)	4,783,910
Computer software	33,877	–	69	–	–	(1,417)	32,529
Balance as at 31 December 2012	60,469,148	2,955,224	(198,602)	–	(1,119,448)	(476,202)	61,630,120

[1] Impairment of plant and machinery amounting to US$358,750 is included in plant and machinery depreciation.

Plant and Machinery under Finance leases amount to a net carrying value of US$6,750,342 (2012: US$4,783,910) and assets pledged as security amount to US$1,000,000 (2012: $0).

A register containing the information required by Regulation 25(3) of the Companies Act Regulations, 2011, is available for inspection at the registered office of the Company.

4. EQUITY DUE TO CHANGE IN CONTROL OF INTERESTS

	2013 US$	2012 US$
Foreign entities acquired through business combination	**9,594,855**	9,594,855
South African entities acquired through business combination	**21,506,359**	21,506,359
South African assets acquired through business combination	**27,162,799**	27,162,799
Total	**58,264,013**	58,264,013

5. FINANCIAL ASSETS

	2013 US$	2012 US$
BEE Partner: Epha Drilling SA (Pty) Ltd preference shares	3,744,668	7,040,094
BEE Partner: Mosima Drilling SA (Pty) Ltd preference shares	8,715,584	101,265
Variable rate cumulative redeemable preference shares. The variable rate is 72% of the prevailing South African prime overdraft rate as published by First National Bank. Preference shares are redeemable at the earlier of 10 years from date of issue (2012) or at the election of the holder when the BEE Company ceases to be wholly owned by black persons.		
	12,460,252	7,141,359

The esitimated fair value of the Preference shares are catergorised within Level 3 of the fair value heirachy. The fair value estimate has been determined by using a price/earning multiple. The US$ 12,460,252 is estimated as follows:

- Applying a multiple of eight on the Epha Drilling SA (Pty) Ltd portion in the estimated sustainable profit after tax of Master Drilling Exploration (Pty) Ltd.
- Applying a multiple of ten on the Mosima Drilling SA (Pty) Ltd portion in the estimated sustainable profit after tax of Drilling Technical Services (Pty) Ltd and Master Drilling South Africa (Pty) Ltd.

The price/earnings multiples have been determined using the Group's marketing information at the reporting date. The most significant input is the price/earnings multiple used in the estimation.

6. DEFERRED TAX ASSETS AND LIABILITIES

	2013 US$	2012 US$
Property, plant and equipment	5,147,576	5,209,201
Prepayments	30,141	37,466
Income received in advance	–	21,122
Allowance for doubtful debts	(57,329)	(22,448)
Finance leases	691,965	–
Accrual for leave pay	(417,293)	(276,356)
Assessed loss	(498,850)	(126,053)
Shared-based payment scheme liability	(103,832)	–
Unrealised foreign exchange liability loss	(253,986)	–
Deferred tax	4,538,392	4,842,932
Reconciliation of deferred tax		
Reported as at 1 January	4,842,932	–
Deferred tax (asset) liability acquired through business combination	(219,531)	4,623,936
Exchange differences on translation of foreign operations	(800,917)	–
Property, plant and equipment	809,914	537,029
Prepayments	(1,790)	26,404
Income received in advance	(16,792)	8,260
Allowance for doubtful debts	(43,175)	(22,448)
Finance leases	691,965	–
Accrual for leave pay	(172,804)	(209,038)
Assessed loss	(189,211)	(121,211)
Share-based payment scheme liability	(108,213)	–
Unrealised foreign exchange loss	(253,986)	–
	4,538,392	4,842,932

All deferred tax assets (including tax loses and other tax credits) have been recognised in the statement of financial position.

7. INVENTORIES

	2013 US$	2012 US$
Consumables	12,844,811	9,925,373
Work in progress	3,985,092	2,616,679
	16,829,903	12,542,052
Allowance for obsolete inventory	(433,958)	(561,056)
	16,395,945	11,980,996

8. TRADE AND OTHER RECEIVABLES

	2013 US$	2012 US$
Trade receivables	22,440,470	18,836,808
Loans to employees	218,522	816,003
Prepayments	1,775,222	2,625,741
Deposits	299,277	264,594
Turnover tax	448,270	93,392
Sundry	2,248,202	2,664,808
	27,429,963	25,301,346
Trade and other receivables pledged as security		
Trade and other receivables of South African and Peruvian subsidiaries have been ceded to First National Bank in South Africa and Banco de Credito del Peru, respectively, as security for overdraft facilities.		
Trade and other receivables past due but not impaired		
The ageing of amounts past due but not impaired is as follows:		
– Outstanding on normal cycle terms	18,335,074	13,340,590
– 1 month past due	2,368,731	3,184,354
– 2 months past due	958,179	317,389
– 3 months past due	2,450,854	2,404,950
Allowance for doubtful debts	(1,672,368)	(410,475)
	22,440,470	18,836,808
The maximum exposure to credit risk at the reporting date is the carrying value of trade debtors mentioned above. The Company does not hold any collateral as security.		
The movement in allowance for doubtful debts is presented below		
Balance 1 January	410,475	–
Acquired through business combination	–	410,475
Amounts written off	(7,696)	–
Allowance for doubtful debts	1,269,589	–
	1,672,368	410,475
The carrying amount in US dollars of trade and other receivables are denominated in the following currencies:		
US Dollar	8,268,389	7,180,644
South African Rand	6,717,504	5,050,641
Brazilian Real	1,417,016	2,122,049
Mexican Peso	451,188	573,848
Chilean Peso	7,542,534	7,619,658
Peruvian Sol	761,350	1,162,244
CFA Franc BCEAO	512,422	–
Chinese Yuan Renminbi	607,518	–
Guatemalan Quetzal	145,898	–
Zambian Kwacha	1,006,144	1,592,262
	27,429,963	25,301,346

9. CASH AND CASH EQUIVALENTS

	2013 US$	2012 US$
Cash and cash equivalents consist of:		
– Cash on hand	**124,632**	97,512
– Bank balances	**10,530,536**	48,273,886
– Short-term deposits	**5,911,674**	1,696,764
– Bank overdraft	**(1,609)**	(494,885)
	16,565,233	49,573,277
Current assets	**16,566,842**	50,068,162
Current liabilities	**(1,609)**	(494,885)
	16,565,233	49,573,277

The Peruvian and South African trade receivables have been ceded in favour of the overdraft facilities in the respective countries.

10. SHARE CAPITAL

	Number of shares	2013 US$	Number of shares	2012 US$
Authorised				
Ordinary shares	500,000,000		500,000,000	
Reconciliation of number of shares issued:				
Reported as at 1 January	148,265,491	146,639,163	1,000	118
Issued				
Shares issued to acquire Master Drilling Exploration (Pty) Ltd – 12 October 2012			17,834,445	18,928,067
Shares issued on listing – 20 December 2012			44,900,000	41,564,269
Shares issued to acquire Drilling Technical Services (Pty) Ltd – 12 October 2012			271,562	288,214
Shares issued to acquire qualifying net assets of Master Drilling (Pty) Ltd – 1 November 2012			27,338,688	29,015,117
Shares issued to acquire MDI EXCO Limited – 14 December 2012			8,687,970	9,220,723
Shares issued to acquire Master Drilling International Limited – 14 December 2012			49,231,826	52,191,562
	–	–	148,264,491	151,207,952
Listing cost[(1)]		(31,198)	–	(4,568,907)
	148,265,491	146,607,965	148,265,491	146,639,163

The unissued shares are under the control of the Directors.

[(1)]This cost relates to the Listing in 2012.

11. INTEREST-BEARING BORROWINGS

	2013 US$	2012 US$
Held at amortised cost		
Secured		
Investec Bank Limited	410,081	817,483
The loan is denominated in South African ZAR and secured by a bond on assets of the major shareholder. The loan bears interest at a variable rate of 7% and instalments are payable monthly amounting to US$23,921.		
Industrial Development Corporation	1,817,898	3,828,514
The loan is denominated in South African ZAR and secured by plant and machinery pledged as collateral. The loan bears interest at a fixed rate of 6.00% and is repayable in monthly instalments amounting to US$90,476 plus interest.		
Kibali Goldmines SPRL	7,658,501	–
The loan is denominated in US$, secured by plant and machinery pledged as collateral, bears no interest and is repayable over the drilling contract year, of which approximately four years are left.		
Banco BCI	187,588	565,118
The loan is denominated in Chilean Peso, is secured by plant and machinery, bears interest at 10.2% and is repayable in monthly instalments of US$11,216.		
	10,074,068	5,211,115

	2013 US$	2012 US$
Unsecured		
Banco de Chile	88,520	280,045
The loan is denominated in Chilean Pesos, is unsecured, bears interest at 7.92% per annum and is repayable in monthly instalments of US$15,017.		
Itaú Bank	–	537,384
The loan is denominated in Brazilian Reals, is unsecured, bears interest at 28.8% and is repayable in monthly instalments amounting to US$8,801.		
Calmar Investment Trust	1,048,592	943,353
The loan is denominated in EUROs, is unsecured, bears interest at a fixed rate of 5% per annum and has no fixed terms of repayment.		
EcoBank : EBF AGENCE KOULOUBA	598,512	–
The loan is denominated in CFA Franc BCEAO, is unsecured, bears interest at a fixed rate of 10% and is repayable in monthly instalments amounting to US$39,418.		
Societe des Mines de Loulo S.A	1,536,276	–
The loan is denominated in US$, is unsecured, bears no interest and is repayable over the drilling contract year, of which approximately two years are left.		
	3,271,900	1,760,782
Total non-current liabilities	13,345,968	6,971,897
Non-current liabilities		
At amortised cost	9,328,366	3,719,518
Current liabilities		
At amortised cost	4,017,602	3,252,379
	13,345,968	6,971,897

12. FINANCE LEASE OBLIGATIONS

	2013 US$	2012 US$
Minimum lease payments due		
– within one year	4,084,681	2,230,579
– in second to fifth year	6,291,285	2,290,571
Present value of minimum lease payments	10,375,966	4,521,150

Interest is payable at rates between zero and 2% above the current bank lending rate applicable in the respective countries. The settlement dates are between one and five years. The loans are secured by a pledge over certain fixed assets of the Group.

13. TRADE AND OTHER PAYABLES

	2013 US$	2012 US$
Trade payables	9,887,950	16,145,312
Income received in advance	324,724	3,278,200
VAT	3,797,584	1,633,978
Leave pay accruals	2,359,543	1,347,708
Other accruals	4,633,823	2,791,170
Debtors' factoring	–	551,480
	21,003,624	25,747,848

14. CAPITAL COMMITMENTS

	2013 US$	2012 US$
Capital expenditure authorised by the Directors and contracted for within 12 months	6,436,251	14,334,832

15. OPERATING PROFIT

	2013 US$	2012 US$
Operating profit for the year is stated after accounting for the following:		
– Profit on sale of property, plant and equipment	181,364	100,208
– Impairment loss of property, plant and equipment	(358,750)	–
– Loss on exchange differences	(2,117,672)	(106,890)
– Depreciation on property, plant and equipment	(6,340,775)	(476,202)
– Employee costs	(41,729,970)	(3,510,618)
– Auditor's remuneration	(233,878)	(8,498)

16. INVESTMENT REVENUE

	2013 US$	2012 US$
Total dividends received		
– Unlisted	459,273	16,758
Total interest received		
– Bank	1,014,595	106,756
– Other	43	39,732
	1,473,911	163,246

17. FINANCE COSTS

	2013 US$	2012 US$
Finance liabilities	271,425	51,120
Finance leases	793,087	58,764
Bank	478,276	166,573
Other	384,003	41,050
	1,926,791	317,507

18. TAXATION

	2013 US$	2012 US$
Current		
Normal taxation	5,578,474	226,524
– Current taxation	5,578,474	373,628
– Prior year tax over provided	–	(147,104)
Deferred taxation: Temporary difference	715,908	224,655
	6,294,382	451,179
Reconciliation of the tax expense		
Accounting profit	22,090,126	1,747,590
Tax at the applicable tax rate	5,779,215	453,810
Prior year tax over provided	–	(147,104)
Permanent differences	253,803	144,473
Timing differences	(454,544)	(224,655)
Taxation	5,578,474	226,524

	2013 US$	2012 US$
Current taxation charge per entity		
Master Drilling Group Limited	438,406	107,315
Master Drilling Exploration (Pty) Ltd	365,719	19,874
Kala SA	937,336	22,828
Master Drilling Peru SAC	2,506,714	16,113
Master Drilling do Brasil Ltda	286,278	167,233
Master Drilling Mexico SA	150,122	40,171
Drillcorp Burkina Faso SA	–	94
Master Drilling Malta Limited	100,001	–
Master Drilling Guatemala	100,930	–
Master Drilling South Africa (Pty) Ltd	49,021	–
Master Drilling RDC sprl	643,947	–
	5,578,474	373,628

19. DIRECTORS' REMUNERATION

Director 2013 (US dollars)	Basic salary	Travel allowance	Bonus	Fringe benefits	Provident/ Pension fund contri-butions	Directors' fees	Consulting and legal fees	Gains on exercise of options	Total
Executive									
DC Pretorius	320,583	21,777	241,381	33,435	–	–	–	–	617,176
AJ van Deventer	190,368	23,825	193,538	16,012	–	–	–	–	423,743
GR Sheppard	310,784	3,210	152,509	–	58,233	–	–	–	524,736
BJ Jordaan	206,172	23,436	196,842	17,763	890	–	–	–	445,103
Sub-total	1,027,907	72,248	784,270	67,210	59,123	–	–	–	2,010,758
Non-Executive									
ST Ferguson	–	–	–	–	–	–	177,622	–	177,622
RO Davey	–	–	–	–	–	28,724	–	–	28,724
JP de Wet	–	–	–	–	–	26,029	–	–	26,029
PJ Ledger	–	–	–	–	–	46,665	–	–	46,665
AA Deshmukh	–	–	–	–	–	22,399	–	–	22,399
Sub-total	–	–	–	–	–	123,817	177,622	–	301,439
Total	1,027,907	72,248	784,270	67,210	59,123	123,817	177,622	–	2,312,197
2012 (US dollars)									
Executive									
DC Pretorius	19,875	–	–	3,420	–	–	–	–	23,295
AJ van Deventer	26,163	4,498	38,573	2,868	–	–	–	–	72,102
GR Sheppard	13,526	–	4,952	3,781	1,265	–	–	–	23,254
BJ Jordaan	36,523	3,931	44,481	2,850	216	–	–	–	88,001
Sub-total	95,817	8,429	88,006	12,919	1,481	–	–	–	206,625
Non-Executive									
ST Ferguson	–	–	–	–	–	–	89,290	–	89,290
RO Davey	–	–	–	–	–	–	–	–	–
JP de Wet	–	–	–	–	–	–	–	–	–
PJ Ledger	–	–	–	–	–	–	–	–	–
AA Deshmukh	–	–	–	–	–	3,105	–	–	3,105
Sub-total	–	–	–	–	–	3,105	89,290	–	92,395
Total	95,817	8,429	88,006	12,919	1,481	3,105	89,290	–	299,047

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

19.1 Directors' interests

	2013			
	Number of shares: Direct beneficial	**Number of shares: Indirect beneficial**	**Total**	**% of issued ordinary share capital**
Executive				
DC Pretorius	**900**	**78,461,078**	**78,461,978**	**52.92**
AJ van Deventer	**1,727,648**	**2,228,336**	**3,955,984**	**2.67**
GR Sheppard	**–**	**3,955,884**	**3,955,884**	**2.67**
BJ Jordaan	**1,781,861**	**2,228,336**	**4,010,197**	**2.70**
Total Executive	**3,510,409**	**86,873,634**	**90,384,043**	**60.96**
Non-Executive				
ST Ferguson	**–**	**–**	**–**	**–**
RO Davey	**–**	**–**	**–**	**–**
JP de Wet	**–**	**–**	**–**	**–**
PJ Ledger	**–**	**–**	**–**	**–**
AA Deshmukh	**–**	**–**	**–**	**–**
Total	**3,510,409**	**86,873,634**	**90,384,043**	**60.96**

	2012			
	Number of shares: Direct beneficial	Number of shares: Indirect beneficial	Total	% of issued ordinary share capital
Executive				
DC Pretorius	900	76,745,875	76,746,775	51.76
AJ van Deventer	1,727,648	1,554,541	3,282,189	2.21
GR Sheppard	–	3,282,089	3,282,089	2.21
BJ Jordaan	1,781,861	1,554,541	3,336,402	2.25
Total Executive	3,510,409	83,137,046	86,647,455	58.43
Non-Executive				
ST Ferguson	–	–	–	–
RO Davey	–	–	–	–
JP de Wet	–	–	–	–
PJ Ledger	–	–	–	–
AA Deshmukh	–	1,373,543	1,373,543	0.93
Total	3,510,409	84,510,589	88,020,998	59.37

There has been no change to the Directors' shareholding since year end to the date of this report.

20. EARNINGS PER SHARE

	At effective date 2013 US$	At effective date 2012 US$
Reconciliation between earnings and headline earnings		
Basic earnings for the year	15,795,744	1,296,411
Deduct:		
Non-controlling interest	(668,349)	(66,641)
Attributable to owners of the parent	15,127,395	1,229,770
Gain on disposal of fixed assets	(181,364)	(100,208)
Impairment of property, plant and equipment	358,750	–
Tax effect on gain on disposal of fixed assets and impairments	(45,761)	28,058
Headline earnings for the year	15,259,020	1,157,620
Earnings per share (US cents)	10.2	9.4
Diluted earnings per share (US cents)	10.2	9.4
Headline earnings per share (US cents)	10.3	8.9
Diluted headline earnings per share (US cents)	10.3	8.9
Net asset value per share (US cents)	71.6	738.7
Tangible net asset value per share (US cents)	69.8	738.7
Dividends per share (US cents)	–	–
Weighted average number of ordinary shares		
Issued ordinary shares at the beginning of the year	148,265,491	1,000
Effect of shares issued (Purchase of assets)	–	4,494,031
Effect of shares issued (RSA restructuring)	–	4,514,100
Effect of shares issued (International restructuring)	–	2,697,634
Effect of shares issued (Listing)	–	1,353,151
Weighted average number of ordinary shares at the end of the year/period for the purpose of basic earnings per share and headline earnings per share	148,265,491	13,059,916
Effect of dilutive potential ordinary shares – other	180,822	–
Weighted average number of ordinary shares at the end of the year/period for the purpose of diluted basic earnings per share and diluted headline earnings per share	148,446,313	13,059,916

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

21. CASH GENERATED FROM OPERATIONS

	2013 US$	2012 US$
21.1 Cash generated from operations		
Profit before taxation	22,090,126	1,747,590
Adjustments for:		
– Depreciation and amortisation	6,340,775	476,202
– Impairment	358,750	–
– Translation effect of foreign operations	3,839,491	–
– Share-based payment equity	16,211	–
– Share-based payment liability	358,800	–
– Profit on sale of assets	(181,364)	(100,208)
– Investment income	(1,473,911)	(163,246)
– Finance costs	1,926,791	317,507
Changes in working capital:		
– Inventories	(3,421,760)	911,402
– Trade and other receivables	(2,073,773)	326,727
– Trade and other payables	(5,104,319)	6,046,038
	22,675,817	9,562,012
21.2 Tax paid		
Reported as at 1 January	4,955,916	–
Current tax liability acquired through business combination	77,844	5,202,282
Current tax for the year recognised in profit and loss	5,578,474	373,628
Exchange difference on consolidation of foreign subsidiaries	604,444	5,659
Prior year tax over provided	–	(147,104)
Balance at the end of the year	(4,584,452)	(4,955,916)
	6,632,226	478,549

	2013 US$	2012 US$
21.3 Net cash flow on business combinations		
The fair value of assets and liabilities assumed at date of acquisition was:		
Assets		
Property, plant and equipment	293,353	38,815,496
Investments, loans and inter-company loans	(3,020,894)	5,228,581
Deferred taxation assets	219,531	–
Financial asset	–	2,834,230
Cash on hand	279,764	1,995,339
Liabilities		
Non-current interest-bearing loans and borrowings	–	(3,246,956)
Deferred taxation liability	–	(1,852,152)
Current tax payable	(77,844)	(3,835,807)
Short-term loans	–	(4,527,635)
Bank overdraft	(1,232)	(195,742)
Net working capital	(305,251)	21,134,909
Existing non-controlling interests	–	–
Total assets and liabilities acquired	(2,612,573)	56,350,263
Less: Non-controlling interests' portion of assets and liabilities acquired	–	–
Group's share of total assets and liabilities acquired	(2,612,573)	56,350,263
Exchange difference on consolidation of foreign subsidiaries	–	(6,553)
Equity due to change in control of interests at acquisition	–	28,496,700
Goodwill at acquisition	2,612,584	–
Total consideration	11	84,840,410
Purchase price settled with issue of shares	–	(84,840,410)
Cash and cash equivalents on hand at acquisition	(278,532)	(1,799,596)
Net cash inflow on acquisition of subsidiaries	(278,521)	(1,799,596)

During the year, the Group acquired MDG Shared Services (Pty) Ltd and Jiangsu Master Mining Engineering Technology Company Limited. The acquisitions were settled in cash and by pardoning the loan claim respectively. The goodwill has been allocated to the raise boring cash-generating unit. Refer to note 32 for further information.

The revenue and profit/loss of these subsidiaries have not had a material effect on the Group revenue and profit due to the fact that these subsidiaries mainly deliver service to other entities within the Group. The revenue and profit is therefore eliminated on consolidation.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

22. RELATED PARTY LOANS TO/(OWING TO)

	2013 US$	2012 US$
1997 DP Investment Trust	–	120,000
AMI Trust	(1,173,517)	(6,391,622)
Basfour 276 (Pty) Ltd	1,619	(91)
DP Global Investment Trust	1,430	1,430
Drillcorp Ivory Coast	–	35,933
Epha Drilling SA (Pty) Ltd	81	–
Jiangsu Master Mining Engineering Technology Company Limited	–	1,067,610
Leswikeng Minerals and Energy (Pty) Ltd	–	(453,571)
Master Drill Exploracoes E Sondagens LTDA	–	(762,523)
Master Drilling (Pty) Ltd	(412,215)	(6,195,743)
Master Drilling Argentina	–	7,978
Master Drilling Australia (Pty) Ltd	–	1,487
Master Drilling Columbia S.A.S	–	13,944
Master Drilling India	3,535	3,535
Martwick Ltd	–	(173,290)
Master Drilling Malta Limited	–	5,000
Master Drilling RDC sprl	–	212,374
MD & Admin Overheads (Pty) Ltd	–	338,308
MDI Employees Trust	4,256	4,256
Mosima Drilling SA (Pty) Ltd	–	238
Orbit Insurance Company Ltd	47,481	47,481
The Page Trust	4,138	4,138
Drilling Properties (Pty) Ltd	(1,437)	–
Erf 1044 Fochville (Pty) Ltd	(7,710)	–
	(1,532,339)	(12,113,128)
Related party loans to	62,540	1,863,712
Related party loans owing to	1,594,879	13,976,840
	(1,523,339)	(12,113,128)

All of the above loans are with companies where the major shareholder and Director Mr DC Pretorius has control.

All of the loans are unsecured, interest free and have no fixed terms of repayment.

23. RISK MANAGEMENT

23.1 Capital risk management

The Group's objectives when managing capital are to safeguard the Group'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 Group consists of debt, which includes the borrowing disclosed in notes 11 and 12, cash and cash equivalents disclosed in note 9 and equity as disclosed in the statement of financial position.

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

There are no externally-imposed capital requirements.

23.2 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potentially adverse effects on the Group's financial performance. The principles for financial management are included in the Group's treasury policy and cover 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.

23.3 Interest rate risk

As the Group has no significant interest-bearing assets, other than interest bearing preference shares the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During 2013 the Group's borrowings at variable rate were denominated in the US Dollars, Euro, South African Rand, Brazilian Reals, Chilean Pesos, Mexican Pesos, CFA Franc BCEAO and Peruvian Sol. It should be noted that interest bearing borrowings only comprises 14% of equity and is therefore deemed low risk.

23.4 Credit risk

Credit risk is managed on a Group basis as well as on a individual company basis.

Credit risk consists mainly of cash deposits, cash equivalents, trade debtors, related party loans and preference shares. The Group only deposits cash with major banks with high quality credit-standing and limits exposure to any one counterparty.

Trade receivables comprise a widespread customer base of which the majority consists of large international mining companies. Management evaluates 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 in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored.

23.5 Liquidity risk

Management manages cashflow on a group-basis through an on-going review of future commitments and credit facilities. Cashflow forecasts are prepared and borrowing facilities are monitored for compliance with internal balance sheet ratio targets.

23.6 Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the South African Rand, Chilean Pesos, Peruvian Sol. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. Management is of the view that only the South African Rand poses a significant foreign exchange risk given its volatility against the US Dollar.

The Group reviews its foreign currency exposure, including commitments on an ongoing basis, and has adopted a formal treasury policy to monitor and manage the foreign exchange risk.

24. FINANCIAL ASSETS BY CATEGORY

The carrying amounts of the financial assets in each category are as follows:

2013	Loans and receivables	Fair value through profit or loss	Total
Cash and cash equivalents	**16,566,842**	**–**	**16,566,842**
Financial assets	**–**	**12,460,252**	**12,460,252**
Loans to related parties	**62,540**	**–**	**62,540**
Trade and other receivables (excluding prepayments)	**25,654,741**	**–**	**25,654,741**
	42,284,123	**12,460,252**	**54,744375**

2012	Loans and receivables	Fair value through profit or loss	Total
Cash and cash equivalents	50,068,162	–	50,068,162
Financial assets	–	7,141,359	7,141,359
Loans to related parties	1,863,712	–	1,863,712
Trade and other receivables (excluding prepayments)	22,675,605	–	22,675,605
	74,607,479	7,141,359	81,748,838

25. FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the financial liabilities in each category are as follows:

Financial Liabilities at amortised cost	**2013**	2012
Financial lease obligations	**10,375,966**	4,521,150
Interest-bearing borrowings	**13,345,968**	6,971,897
Loans to related parties	**1,594,879**	13,976,840
Bank overdraft	**1,609**	494,885
Trade and other payables (excluding VAT and leave pay accruals)	**14,846,497**	22,766,162
	40,164,919	48,730,934

26. SHARE OPTION SCHEME

26.1 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.

26.2 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, being 85% of the market value of a share on that date. Options are granted for no consideration and are non-transferable, except to the optionholder's heirs or executors on death.

26.3 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 optionholder 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 or 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

Optionholders have no right to voting or dividends until the acquisition of the shares following exercise of the Option.

(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 2013, 2,000,000 share options were granted under the Share Option Scheme. Refer to note 31.2.

27. SEGMENT REPORTING

27.1 Mining activity

The following table shows the distribution of the Company's combined revenue by mining activity, regardless of where the services were delivered:

	2013 **US$**	2012 US$
Revenue by stage of mining activity		
Exploration	**11,319,902**	3,701,683
Capital	**15,514,004**	1,184,265
Production	**92,854,739**	5,937,030
	119,688,645	10,822,978
Gross profit by stage of mining activity		
Exploration	**2,569,014**	853,455
Capital	**3,627,474**	499,853
Production	**33,561,695**	2,217,972
	39,758,183	3,571,280

The CEO manages the activities of the Company 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 Company can be used at multiple stages and therefore cannot be presented per activity.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS continued

27.2 Geographical segments

Although the Company's major operating divisions are managed on a world-wide basis, they operate in four principal geographical areas.

	2013 US$	2012 US$
Revenue by geographical market		
Africa	9,335,834	6,990,754
Latin America	71,947,011	3,581,160
Other countries	768,249	251,064
South Africa	37,637,551	–
	119,688,645	10,822,978
Gross profit by geographical market		
Africa	3,593,258	2,207,253
Latin America	27,008,402	1,188,210
Other countries	491,783	175,817
South Africa	8,664,740	–
	39,758,183	3,571,280
Total assets by geographical market		
Africa	12,033,976	78,355,414
Latin America	77,405,547	37,326,677
Other countries	2,816,115	42,303,604
South Africa	70,164,987	–
	162,420,625	157,985,695
Total liabilities by geographical market		
Africa	12,903,816	35,877,282
Latin America	21,626,032	23,716,780
Other countries	902,620	1,917,406
South Africa	20,870,072	–
	56,302,540	61,511,468

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

28. CONTINGENCY

	2013 US$	2012 US$
Payment bonds issued to customers	50,496	62,500
Advance payment bonds issued to customers	952,762	1,179,245
Retention bonds issued to customers	296,464	492,407
Performance bonds issued to customers	138,564	478,199
	1,438,286	2,212,351

The bonds are issued to customers and underwritten by Lombard Insurance.

29. INVESTMENT IN SUBSIDIARIES

	% effective holding 2013	Status	Country	% effective holding 2012
29.1 Master Drilling Group Limited investment in subsidiaries				
– MDI Exco Ltd	100.00	Operational	Malta	100.00
– Master Drilling South Africa (Pty) Ltd	74.00	Operational	RSA	74.00
– Drilling Technical Services (Pty) Ltd	74.00	Operational	RSA	74.00
– Master Drilling Exploration (Pty) Ltd	74.00	Operational	RSA	74.00
– Master Drilling International Limited	100.00	Operational	Malta	100.00
– MDG Shared Services (Pty) Ltd	100.00	Operational	RSA	–
29.2 Master Drilling International Limited investment in subsidiaries				
– Kala SA	100.00	Operational	Chile	100.00
– Master Drilling Peru SAC	100.00	Operational	Peru	100.00
– Master Drilling do Brasil Ltda	100.00	Operational	Brazil	100.00
– Master Drilling Mexico SA	100.00	Operational	Mexico	100.00
– Master Drilling Zambia Limited	100.00	Operational	Zambia	100.00
– Master Drilling Australia (Pty) Ltd	100.00	Dormant	Australia	100.00
– Master Drilling Colombia S.A.S	100.00	Dormant	Colombia	100.00
– Master Drilling Namibia (Pty) Ltd	100.00	Dormant	Namibia	100.00
– Drillcorp Burkina Faso SA	80.00	Dormant(1)	Burkina Faso	80.00
– Drillcorp Côte d'Ivoire SA	80.00	Dormant	Côte d'Ivoire	80.00
– Drillcorp Botswana (Pty) Ltd	90.00	Dormant	Botswana	90.00
– Master Drilling Guatemala	98.00	Operational	Guatemala	–
– Master Drilling RDC sprl	100.00	Operational	DRC	–
– Master Drilling Malta Limited	99.98	Operational	Malta	–
– Jiangsu Master Mining Engineering Technology Company Limited	100.00	Operational	China	–
– Martwick Limited	100.00	Operational	Ireland	–

(1) *This entity was operational in the prior period.*

30. RELATED PARTIES

30.1 Relationships

Subsidiaries	Refer to note 29
Shareholders with significant influence	**AMI Trust** (Indirectly held by DC Pretorius) **Master Drilling (Pty) Ltd** (Indirectly held by DC Pretorius, AJ van Deventer, GR Sheppard, BJ Jordaan
Companies controlled by Directors	Refer to note 22

30.2 Related party balances

Related party loan balances	Refer to note 22

31. SHARE-BASED PAYMENTS

As at 31 December 2013, the Company maintained the share based payment schemes for eligible employees, the Long-term Incentive Scheme and the Share Option Plan.

31.1 Long-Term Incentive Scheme

The long-term incentive is granted to eligible employees. The incentive comprises the issue of either shares in the Company, phantom shares based on the Company shares or cash settlement. Vesting is dependant on the performance conditions which include annual compound growth in profit after tax as well as the annual compound growth in the share price of Master Drilling Group Limited. The incentive for eligible Directors' is capped on target performance package.

The Share Option Plan discount would be set off against the long term incentive scheme amount vested.

The eligible director must remain in service of Master Drilling Group Limited until terminal date, 31 December 2015.

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

	2013 US$	2012 US$
Expense arising from cash-settled share-based payment transactions	390,527	–

31.2 Share Option Plan

Under the Share Option Plan, share options of the parent are granted to eligible employees. The exercise price of the share options is 15% less than the market price of the underlying shares on the grant date. The share options vest on the third anniversary of the grant date.

The fair value of the share options is estimated at the grant date using the Black-Scholes Option Pricing Model, taking into account the terms and conditions upon which the share options were granted.

The contractual 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 employee services received during the year is as follows:

	2013 US$	2012 US$
Expense arising from equity-settled share-based payment transactions	17,644	–

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

	2013 Number	2013 WAEP
Unissued Outstanding at 1 January	5,000,000	
Granted 29 November 2013	(2,000,000)	R10.49
Unissued Outstanding at 31 December	3,000,000	

The remaining contractual life for the share options outstanding as at 31 December 2013 was 2.92 years. The fair value of the options granted during the year was 282.00 ZAR cents.

	2013 Number
The following table list the inputs to the model used for the Share Option Plan for 31 December:	
Expected volatility	20%
Risk-free interest rate	3%
Expected life of share options	3 years
Weighted average share price	R10.49
Model used	Black-Scholes

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

32. GOODWILL

	2013 USD	2012 USD
Amounts recognised from business combinations		
– Raisebore cash generating unit	2,612,584	–

Impairment testing

For the purpose of annual impairment testing, goodwill is allocated to the Raisebore operating segment which is expected to benefit from the synergies of the business combination in which the goodwill arises.

The recoverable amount was determined based on value-in-use calculation covering a 5 year forecast, followed by an extrapolation of expected cash flows for the remaining useful lives using the growth rates determined by management. The present value of the expected cash flows of the segment is determined by applying a suitable discount rate.

	Growth Rate 2013	Discount rate 2013
Raisebore cash generating unit	3%	10%

Growth rate

The growth rate reflect the long-term average growth rates for the Raisebore cash generating unit.

Discount rate

The discount rate reflect appropriate adjustments relating to market risk and specific risk factors.

Cash flow assumptions

Management's key assumptions include better purchasing benefits based on past experience. Cash flow projections reflect current purchasing benefits being realised.

SUPPLEMENTARY FINANCIAL INFORMATION continued

1. STATEMENT OF COMPREHENSIVE INCOME

Comparative figures

The 2012 full year figures have been included for comparative purposes only because the group was only formed during the second half of 2012.

	Note(s)	**Full year US$ Audited 2013**	Full year US$ Unaudited 2012
Revenue		119,688,645	99,656,608
Cost of sales		(79,930,462)	(70,219,566)
Gross profit		39,758,183	29,437,042
Other operating income		891,774	6,012,935
Other operating expenses		(18,106,951)	(18,198,969)
Operating profit	15	22,543,006	17,251,008
Investment revenue	16	1,473,911	400,319
Finance costs	17	(1,926,791)	(1,934,540)
Profit before taxation		22,090,126	15,716,787
Taxation	18	(6,294,382)	(3,538,609)
Profit for the year		15,795,744	12,178,178
Other comprehensive income that will be subsequently be classified to profit/loss:			
Exchange differences on translating foreign operations		(12,562,962)	206,951
Other comprehensive (loss)/income for the year net of taxation		(12,562,962)	206,951
Total comprehensive income		3,232,789	12,385,129
Profit attributable to:		**15,795,744**	12,178,178
Owners of the parent		15,127,395	11,900,259
Non-controlling interest:		668,349	277,919
Total comprehensive income attributable to:		3,232,782	12,385,129
Owners of the parent		2,564,433	12,107,210
Non-controlling interest		668,349	277,919
Earnings per share (US cents)	20		
Basic earnings per share		**10.2**	11.4
Headline earnings per share		**10.3**	11.0
Earnings per share (ZAR cents)			
Basic earnings per share		**98.4**	93.3
Headline earnings per share		**99.2**	90.3

2. EARNINGS PER SHARE

	Full year 2013 Audited US$	Full year 2012 Unaudited US$
Reconciliation between earnings and headline earnings		
Basic earnings for the year	**15,795,744**	12,178,178
Deduct:		
Non-controlling interest	**(668,349)**	(277,919)
Attributable to owners of the parent	**15,127,395**	11,900,259
Gain on disposal of fixed assets and impairments	**(181,364)**	(528,696)
Impairment of property, plant and equipment	**358,750**	–
Tax effect on disposal of fixed assets and impairments	**(45,761)**	145,497
Headline earnings for the year	**15,259,020**	11,517,060
Basic earnings per share (US cents)	**10.2**	11.4
Diluted earnings per share (US cents)	**10.2**	11.4
Headline earnings per share (US cents)	**10.3**	11.0
Diluted headline earnings per share (US cents)	**10.3**	11.0
Net asset value per share (US cents)	**71.6**	92.1
Tangible net asset value per share (US cents)	**69.8**	92.1
Dividends per share (US cents)	**–**	–
Weighted average number of ordinary shares		
Issued ordinary shares at the beginning of the year	**148,265,491**	1,000
Effect of shares issued (Purchase of assets)	**–**	27,338,688
Effect of shares issued (RSA restructuring)	**–**	18,106,007
Effect of shares issued (International restructuring)	**–**	57,919,796
Effect of shares issued (Listing)	**–**	1,353,151
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	**148,265,491**	104,718,642
Effect of dilutive potential ordinary shares – other	**180,822**	–
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	**148,446,313**	104,718,642

3. ANALYSIS OF SHAREHOLDING

AS AT 31 DECEMBER 2013

	Number of shareholders	% of total shareholders	Number of shares	% of shares in issue
Size of holdings				
1 – 100	176	38.3	32,105	0.0
101 – 1,000	91	19.8	339,693	0.2
1,001 – 50,000	73	15.9	2,009,147	1.4
50,001 – 100,000	24	5.2	1,663,851	1.1
100,001 – 500,000	65	14.1	15,221,850	10.3
500,001 – 1,000,000	11	2.4	7,209,737	4.9
1,000,000+	20	4.3	121,789,108	82.1
Total	460	100.0	148,265,491	100.0
Shareholder type				
Public shareholders	449	97.6	56,875,910	38.4
Non-public shareholders				
– Directors' indirect holdings	4	0.9	86,873,634	58.6
– Directors' direct holdings	3	0.7	3,510,409	2.4
– Other	4	0.9	1,005,538	0.7
	460	100.0	148,265,491	100.0
According to the share register of the Company, the following shareholders, other than Directors, are registered as holding in excess of 5% of the issued share capital of the Company:				
– Coronation Fund Managers			26,412,739	17.8
– Investec Fund Managers			13,943,675	9.4
			40,356,414	27.2

The above list does not necessarily reflect the beneficial shareholders.

Stock exchange information as at 31 December

The information provided below covers the year 20 December 2012 to 31 December 2013, being the year for which the Company was listed on the JSE:

JSE share code: MDI

Rand per share:		2013	2012
Market price (ZAR cents)	– high	**1,100**	925
	– low	**775**	825
	– year-end	**982**	890
Shares traded	– '000	**20,068**	56,528

Rounding of % may result in computational discrepancies.

NOTICE OF ANNUAL GENERAL MEETING

Notice of the second Annual General Meeting of Master Drilling Group Limited will be held at Sasfin Bank Limited, 29 Scott Street, Waverley, Johannesburg, 2090 on Thursday, 24 July 2014 at 09:30 which are included in, and form part of this document, have been distributed to shareholders in accordance with the Companies Act.

At the Annual General Meeting, shareholders will be asked to approve a number of resolutions including, but not limited to:

- the adoption of the annual financial statements;
- the re-appointment of the external auditors;
- the re-election of all Directors appointed by the Board during 2013;
- the appointment of members of the Audit and Risk committee;
- granting authority to Directors to allot and issue ordinary shares;
- granting authority to Directors to issue shares for cash;
- allow the Company to acquire its own shares;
- Non-Executive Directors' fees;
- adopt the Company's Remuneration Report, as a non-binding advisory vote; and
- granting Directors authority to provide financial assistance.

Note: Mr RO Davey will not be making himself available for re-election at the annual general meeting, to be held on 24 July 2014. Mr RO Davey due to his offshore domicillum creating difficulties in securing his regular attendance at Board and sub-committee meetings, Mr RO Davey has thus accepted a position of Director in one of the Company's offshore subsidiaries.

The Company's nominations committee shall identify and nominate for approval of the Board, a suitable candidtae to fill Mr RO Davey's vacancy.

ADMINISTRATION

SHAREHOLDERS' DIARY

Financial year end		31 December
Annual reports 2013	Published on or about	31 March 2014
Annual General Meeting	09:30	24 July 2014
Interim report 2014	Published on or about	30 September 2014

Annual general meeting

Shareholders who have dematerialised their shares in the Company (other than those shareholders whose shareholding is recorded in their own name in the sub-register maintained by their CSDP) and who wish to attend the annual general meeting to be held on Thursday, 24 July 2014 in person, will need to request their CSDP or broker to provide them with the necessary authority in terms of the custody agreement entered into between them and the CSDP or broker.

Voting rights

The South African Companies Act, 71 of 2008 (as amended) provides that if voting is by a show of hands, any person present and entitled to exercise voting rights has one vote, irrespective of the number of voting rights that person would otherwise be entitled to. If voting is taken by way of a poll, any shareholder who is present at the meeting, whether in person or by duly appointed proxy, shall have one vote for every share held.

NOTICE OF ANNUAL GENERAL MEETING continued

Change of details

Shareholders are reminded that the onus is on them to keep the Company, through the share registrars, apprised of any change in postal address and personal particulars. Similarly, shareholders who have elected to receive dividend payments electronically (EFT) should ensure that the banking details which the share registrars and/or CSDPs have on file are correct.

Annual reports

Should you wish to receive printed copies of the Master Drilling Integrated Annual Report 2013, please request same by completing the form on the Company website at www.masterdrilling.com or from companysecretary@masterdrilling.com.

LETTER FROM THE CHAIRMAN

Dear Shareholder

It gives me great pleasure to invite you to attend the Second Annual General Meeting of shareholders of Master Drilling Group Limited ("Master Drilling") since its listing, to be held on Thursday, 24 July 2014 at 09:30.

So as to provide you with a holistic view of Master Drilling, this Notice of Meeting forms part of, and should be read in conjunction with the Integrated Annual Report 2013 which has been produced in line with the recommendations of the King Report on Governance for South Africa 2009 ("King III"), the Companies Act, 2008 (Act 71 of 2008), as amended ("Companies Act") and the Listings Requirements of the JSE Limited.

The financial statements included in the Integrated Annual Report 2013 presents a comprehensive review of the year, has been prepared in accordance with the International Financial Reporting Standards ("IFRS").

This Notice of Annual General Meeting sets out the resolutions to be proposed, and includes explanatory notes and guidance notes for shareholders who wish to attend the meeting, vote by proxy or participate electronically.

Report of the independent auditors, Grant Thornton, the Company's independent external auditors, have audited the financial statements for the 2013 financial year which comprise the statements of financial position, the income statements, the statements of comprehensive income, statements of cash flows and statements of changes in equity and notes to the financial statements. The unmodified audit report is available for inspection at the Company's registered office.

If you are a certificated or "own name" registered dematerialised shareholder and you not able to attend the Annual General Meeting in person, you are able to exercise your right as a shareholder to vote on the resolutions to be proposed at the meeting as well as to take part in the governance of the Company by completing, signing and retuning the enclosed form of proxy to the share registrars at the address included in the corporate information reflected on page 121 of this document by no later than 09:30 on 22 July 2014. If you are a dematerialised shareholder other than "own name" registered, please refer to procedure to follow on page 106 of this Annual Report.

We take cognisance of the fact that some stakeholders may still prefer to receive copies of our reports either posted to them or in electronic form, and as such, stakeholders are requested to contact Companysecretary@masterdrilling.com or complete the request form which can be found on the Company's website under the tab "contact us" at www.masterdrilling.com should they wish to receive a hard copy.

The Directors and I look forward to seeing as many of our shareholders as possible at the Annual General Meeting, and thank you for your continued support.

PJ Ledger
Chairman

31 March 2014

NOTICE OF ANNUAL GENERAL MEETING continued

CONTENTS

NOTICE OF ANNUAL GENERAL MEETING

Form of Proxy

This Notice of Annual General Meeting has been approved by the Board of Directors of Master Drilling and was signed on their behalf by Mr PJ Ledger, Chairman, on 31 March 2014.

Notice of annual general meeting

This document is important and requires your immediate attention.

Registered and corporate office

4 Bosman Street, Fochville, Gauteng, South Africa.
(PO Box 902, Fochville 2515, South Africa)

IMPORTANT INFORMATION REGARDING ATTENDANCE AT THE ANNUAL GENERAL MEETING

Identification

In terms of section 63(1) of the Companies Act, before any person may attend or participate in the Annual General Meeting, that person must present reasonably satisfactory identification and the person presiding at the Annual General Meeting must be reasonably satisfied that the right of the person to participate and vote at the Annual General Meeting, either as a shareholder, or as a proxy for a shareholder has been reasonably verified. Forms of identification include the presentation of a valid identity document, driver's licence or passport.

Record dates, voting and proxies

The Board of Directors of the Company ("Board") have determined, in accordance with sections 59(1)(a) and (b) of the Companies Act, that:

- the record date for the purposes of receiving notice of the Annual General Meeting shall be the close of business on Thursday, 20 March 2014; and
- the record date for the purposes of participating in and voting at the annual general meeting (being the date on which a shareholder must be registered in the Company's register of shareholders in order to participate in and vote at the Annual General Meeting) shall be the close of business on Friday, 18 July 2014 ("Record Date").
- the last day to trade for purposes of participating in and voting at the Annual General Meeting shall be the close of business on Friday, 11 July 2014.

A. IF YOU HAVE DEMATERIALISED YOUR SHARES WITHOUT "OWN NAME" REGISTRATION

- Voting at the Annual General Meeting
  - If you have not been contacted by your CSDP or broker, it would be advisable for you to contact your CSDP/broker and furnish them with your voting instructions.
  - If your CSDP/broker does not obtain voting instructions from you, they will be obliged to vote in accordance with the instructions contained in the agreement concluded between you and your CSDP/broker.
  - You must NOT complete the attached form of proxy.

Attendance and representation at the Annual General Meeting

In accordance with the mandate between you and your CSDP/broker, you must advise your CSDP/broker if you wish to attend the Annual General Meeting in person, or if you wish to send a proxy to represent you at the annual general meeting. Your CSDP/broker will issue the necessary letter of representation to you or your proxy to attend the Annual General Meeting.

B. IF YOU HAVE NOT DEMATERIALISED YOUR SHARES OR HAVE DEMATERIALISED YOUR SHARES WITH "OWN NAME" REGISTRATION:

Voting, attendance and representation at the Annual General Meeting

- You may attend, speak and vote at the Annual General Meeting in person.
- Alternatively, you may appoint one or more proxies to represent you at the Annual General Meeting by completing the attached form of proxy in accordance with the instructions it contains. A proxy need not be a shareholder of the Company. It is requested that the form be lodged with or posted to the share registrars to be received no later than 09:30 on Tuesday, 22 July 2014.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the second Annual General Meeting of shareholders of Master Drilling Group Limited since the Company's listing on the Johannesburg Stock Exchange ("JSE") will be held at Sasfin Bank, 29 Scott Street, Waverley, Johannesburg, 2090 on Thursday, 24 July 2014 at 09:30, to consider and, if deemed fit, pass, with or without modification, the following ordinary and special resolutions:

ORDINARY BUSINESS:

1. ORDINARY RESOLUTION NUMBER 1

Presentation and adoption of annual financial statements

"Resolved as an ordinary resolution that the consolidated audited annual financial statements of the Company and its subsidiaries, together with the auditor's, Audit and Risk Committee's and Directors' reports for the year ended 31 December 2013, be and are hereby received and adopted."

The reason for proposing ordinary resolution number 1 is to receive and adopt the consolidated annual financial statements of the Company and its subsidiaries for the financial year ended 31 December 2013 as contained in this report.

2. ORDINARY RESOLUTION NUMBER 2

Re-appointment of Grant Thornton as auditors of the Company and that C Pretorius be appointed as the designated registered auditor to hold office until the conclusion of the next Annual General Meeting of the Company.

"Resolved as an ordinary resolution that Grant Thornton be and are hereby appointed as the auditors of the Company and that C Pretorius be and is hereby appointed as the designated registered auditor, to hold office from the conclusion of the Annual General Meeting at which this resolution is passed until the conclusion of the next Annual General Meeting of the Company."

The reason for proposing ordinary resolution number 2 is to reappoint Grant Thornton as the independent auditor and C Pretorius as the designated registered auditor, who retires as the independent auditor and designated registered auditor respectively of the Company at the conclusion of this Annual General Meeting, until the conclusion of the next Annual General Meeting of the Company.

NOTICE OF ANNUAL GENERAL MEETING continued

3. ORDINARY RESOLUTION NUMBER 3

Re-election of Mr PJ Ledger as a Director and as Chairman

Resolved as an ordinary resolution that Mr PJ Ledger, who was appointed by the Board and retires in terms of the Memorandum of Incorporation of the Company and is eligible and available for election, be and is hereby elected as a Director and Chairman of the Company."

The reason for proposing ordinary resolution number 3 is that Mr PJ Ledger retires by rotation as a director at the Annual General Meeting and offers himself for re-election.

Mr PJ Ledger's brief *curriculum vitae* is disclosed on page 16 of this report.

4. ORDINARY RESOLUTION NUMBER 4

Re-election of Mr ST Ferguson as a Director

"Resolved as an ordinary resolution that Mr ST Ferguson, who was appointed by the Board and retires in terms of the Memorandum of Incorporation of the Company and is eligible and available for election, be and is hereby elected as a Director of the Company."

The reason for proposing ordinary resolution number 4 is that Mr ST Ferguson retires by rotation as a director at the Annual General Meeting and offers himself for re-election.

Mr ST Ferguson's brief *curriculum vitae* is disclosed on page 17 of this report.

5. ORDINARY RESOLUTION NUMBER 5

5.1 Re-appointment of Mr JP de Wet as a member and Chairman of the Audit and Risk Committee of the Company

"Resolved as an ordinary resolution that Mr JP de Wet be and is hereby re-appointed as a member and Chairman of the Audit and Risk Committee, from the conclusion of the annual general meeting at which this resolution is passed until the conclusion of the next Annual General Meeting of the Company."

The reason for proposing ordinary resolution number 5.1 is to appoint members of the Audit and Risk Committee ("Audit Committee") in accordance with the guidelines of King lll and the requirements of the Companies Act. In terms of the aforementioned requirements, the Audit Committee should be comprised of a minimum of three members, all of whom must be independent Non-Executive Directors of the Company and membership of the Audit Committee may not include the Chairman of the Board.

A brief *curriculum vitae* of Mr JP de Wet is disclosed on page 17 of this report.

5.2 Re-appointment of Mr AA Deshmukh as a member of the Audit and Risk Committee of the Company

"Resolved as an ordinary resolution that Mr AA Deshmukh be and is hereby re-appointed as a member of the Audit and Risk Committee, from the conclusion of the annual general meeting at which this resolution is passed until the conclusion of the next annual general meeting of the Company."

The reason for proposing ordinary resolution number 5.2 is to appoint members of the Audit and Risk Committee ("Audit Committee") in accordance with the guidelines of King lll and the requirements of the Companies Act. In terms of the aforementioned requirements, the Audit Committee should be comprised of a minimum of three members, all of whom must be independent Non-Executive Directors of the Company and membership of the Audit Committee may not include the Chairman of the Board.

A brief *curriculum vitae* of Mr AA Deshmukh is disclosed on page 16 of this report.

6. SPECIAL BUSINESS

Ordinary resolution number 6

General authority to Directors to allot and issue ordinary shares

"Resolved as an ordinary resolution that, subject to the provisions of the Companies Act and the JSE Listings Requirements from time to time, the Directors of the Company be and are hereby, as a general authority and approval, authorised to allot and issue, for such purposes and on such terms as they may, in their discretion determine, ordinary shares of no par value each in the authorised but unissued share capital of the Company, up to a maximum of 5% of the number of ordinary shares of no par value each in issue from time to time."

The reason for proposing ordinary resolution number 6 is to seek a general authority and approval for the Directors to allot and issue ordinary shares, up to a maximum of 5% of the ordinary shares of the Company in issue from time to time, in order to enable the Company to take advantage of business opportunities which might arise in the future. Pursuant to the Memorandum of Incorporation, this general authority shall be valid only until the next Annual General Meeting of the Company, at which time, it may be submitted for renewal.

7. ORDINARY RESOLUTION NUMBER 7

General authority to Directors to issue for cash, in respect of those ordinary shares which the Directors are authorised to allot and issue in terms of ordinary resolution number 6

"Resolved as an ordinary resolution that, subject to ordinary resolution number 6 being passed, the Directors of the Company be and are hereby authorised, in accordance with the Listings Requirements of the JSE Limited to allot and issue for cash, on such terms and conditions as they may deem fit, all or any of the ordinary shares of no par value each ("ordinary shares") in the authorised but unissued share capital of the Company which they shall have been authorised to allot and issue in terms of ordinary resolution number 6, subject to the following conditions:

7.1 this authority shall be limited to a maximum number of 7,513,275 shares (being 5% of the issued ordinary shares in the share capital of the Company as at the date of the notice convening this Annual General Meeting at which this ordinary resolution number 7 is to be proposed, being 24 July 2014);

7.2 this authority shall only be valid until the next annual general meeting of the Company but shall not extend beyond 15 months;

7.2.1 an announcement, in compliance with section 11.22 of the Listings Requirements of the JSE Limited, shall be published after any issue representing, on a cumulative basis within the year contemplated in paragraph 7.2 above, 5% (7,513,275) of the number of ordinary shares in issue prior to the issue concerned excluding treasury shares;

7.2.2 in the event of a sub-division or consolidation of issue shares during the year contemplated in paragraph 7.2 above, this authority must be adjusted accordingly to represent the same allocation ratio;

7.3 in determining the price at which an issue of ordinary shares for cash shall be made in terms of this authority, the maximum discount permitted shall be 10% of the weighted average traded price of the ordinary shares on the JSE Limited over the 30 business days prior to the date that the price of the issue is agreed between the Company and the party subscribing for the securities; and

7.3.1 any issue of ordinary shares under this authority shall be made only to a public shareholder as defined in the Listings Requirements of the JSE Limited."

Any equity securities issued under the authority during the year contemplated in paragraph 7.2 above, must be deducted from such number in paragraph 7.3 above.

The reason for proposing ordinary resolution number 7 is that the Directors consider it advantageous to have the authority to issue ordinary shares for cash in order to enable the Company to take advantage of any business opportunity which might arise in the future.

It should be noted that this authority relates only to those ordinary shares which the Directors are authorised to allot and issue in terms of ordinary resolution number 6 and is not intended to (nor does it) grant the Directors authority to issue ordinary shares over and above, and in addition to, the ordinary shares which the Directors are authorised to allot and issue in terms of ordinary resolution number 6.

In terms of the JSE Listings Requirements, a 75% majority of the votes cast by shareholders present in person or represented by proxy at the Annual General Meeting is required for the approval of ordinary resolution number 7.

8. ORDINARY RESOLUTION NUMBER 8.

Advisory endorsement of the Master Drilling remuneration policy

"To endorse, through a non-binding advisory vote, the remuneration policy of the Company as set out on page 32 of this document, (excluding the remuneration of Non-Executive Directors for their services as Directors and members of the Board or statutory committees) in terms of the King Report on Governance for South Africa 2009."

The Group remuneration policy is set out on page 32 of this document, of which this notice forms part.

9. SPECIAL RESOLUTION NUMBER 1

Acquisition of the Company's own shares

"Resolved, pursuant to the Company's Memorandum of Incorporation, that the acquisition by the Company or by any of the Company's subsidiaries from time to time, of ordinary shares issued by the Company, in accordance with the Companies Act and the JSE Listings Requirements, is hereby authorised by way of a general approval, provided that:

- any such acquisition of shares shall be effected through the order book operated by the JSE Limited trading system or on the open market of any other stock exchange on which the shares are or may be listed, subject to the approval of the JSE Limited and of the relevant other stock exchange, as necessary, in either event without any prior understanding or arrangement between the Company and the counterparty;
- this approval shall be valid only until the next Annual General Meeting of the Company, or for 15 months from the date of passing of this resolution, whichever year is shorter;
- shares issued by the Company may not be acquired at a price greater than 10% above the weighted average market price of the Company's shares for the five business days immediately preceding the date of the acquisition being effected;
- the Company only appoints one agent to effect any acquisitions on its behalf;
- the Board of the Company has resolved to authorise the acquisition and that the Company and its subsidiaries shall satisfy the solvency and liquidity test immediately after the acquisition and that since the test was done there have been no material changes to the financial position of the Group;
- the Company may not, in any one financial year, acquire in excess of 5% of the Company's issued ordinary share capital as at the date of passing of this resolution;
- an announcement containing details of such acquisitions shall be published as soon as the Company and/or the subsidiaries, collectively, shall have acquired ordinary shares issued by the Company constituting, on a cumulative basis, not less than 3% of the number of ordinary shares in the Company in issue as at the date of this approval; and an announcement containing details of such acquisitions will be published in respect of each subsequent acquisition by either the Company and/or by the subsidiaries, collectively, of ordinary shares issued by the Company, constituting, on a cumulative basis, not less than 3% of the number of ordinary shares in the Company in issue as at the date of this approval;
- the acquisition of shares by the Company or its subsidiaries may not be effected during a prohibited year, as defined in the JSE Listings Requirements, unless a repurchase programme is in place where the dates and quantities of securities to be traded during the relevant year are fixed and full details of the programme have been disclosed in an announcement over SENS prior to the commencement of the prohibited year;

- the Company's subsidiaries shall not be entitled to acquire ordinary shares issued by the Company if the acquisition of shares will result in them holding, on a cumulative basis, more than 10% of the number of ordinary shares in issue in the Company; and
- the shares acquired by the Company's subsidiaries shall not carry with them any voting rights."

The reason for this special resolution is to grant a general authority for the acquisition of the Company's ordinary shares by the Company, or by a subsidiary or subsidiaries of the Company.

The effect of special resolution number 1, if passed and becoming effective shall be to authorise the Company or any of its subsidiaries to acquire ordinary shares issued by the Company on the JSE Limited or any other stock exchange on which the Company's shares are or may be listed.

The Directors of Master Drilling believe that the Company should retain the flexibility to take action if future acquisitions of its shares were considered desirable and in the best interests of the Company and its shareholders.

The Directors shall ensure at the time of the Company's commencement of any acquisitions of its own shares, after considering the effect of acquisitions, up to the maximum limit, of the Company's issued ordinary shares, that they are of the opinion that if such acquisitions were implemented:

- the Company and the Group would be able in the ordinary course of business to pay its debts for a year of 12 months after the repurchase;
- the assets of the Company and the Group would be in excess of the liabilities of the Company and the Group for a year of 12 months after the repurchase. For this purpose, the assets and liabilities would be recognised and measured in accordance with the accounting policies used in the latest audited group Annual Financial Statements;
- the ordinary capital and reserves of the Company and the Group would be adequate for ordinary business purposes for a year of 12 months after the date of the notice issued in respect of the Annual General Meeting, and the working capital of the Company and the Group would be adequate in the ordinary course of business for a year of 12 months after the date of the repurchase.

The Company will ensure that its sponsor provides the necessary sponsor letter on the adequacy of the working capital in terms of the JSE Listings Requirements prior to the commencement of any acquisitions of the Company's shares on the open market.

In terms of Section 11.26 of the JSE Listings Requirements, the following information is disclosed in this document:

- Directors and management – page 23 of this document;
- Major shareholders – page 47 of this document;
- Material change statement – page 50 of this document;
- Directors' interest in securities – page 86 of this document;
- Share capital of the Company – page 79 of this document.

10. SPECIAL RESOLUTION NUMBER 2

Non-Executive Directors' fees

"Resolved as a special resolution, that in terms of section 66(9) of the Companies Act, that the Company be authorised to pay fees to its Directors for their services as directors and for serving on committees of the Board, with effect from 1 January 2014, as detailed below:

	2014 ZAR	2013 ZAR
Board Chairman	**504,000**	450,000
Board Member	**159,040**	142,000
Audit and Risk Committee Chairman	**63,840**	57,000
Audit and Risk Committee Member	**24,640**	22,000
Remuneration and Nomination Committee Chairman	**47,040**	42,000
Remuneration and Nomination Committee Member	**35,840**	32,000
Social and Ethics Committee Chairman	**22,400**	20,000
Social and Ethics Committee Member	**11,200**	10,000

The fees payable in terms of special resolution number 2 will be in proportion to the year during which the office of the Director, Chairman or member of the committees of the Board, as the case may be, has been held during the year."

The reason for proposing special resolution number 2 and the effect of this special resolution, if passed and becoming effective, is to reward Non-Executive Directors for their services as Directors and as members of the committees of the Board in line with best practice.

11. SPECIAL RESOLUTION NUMBER 3

Financial assistance in terms of sections 44 and 45 of the Companies Act.

"Resolved as a special resolution, to the extent required by the Companies Act that the shareholders be and hereby approve of Master Drilling providing, at any time and from time to time during the year of 2 (two) years, commencing on the date of this special resolution, if passed and becoming effective, any direct or indirect financial assistance as contemplated in such section of the Companies Act to any 1 (one) or more related or inter-related companies or corporations of Master Drilling, provided that:

- (i) the recipient or recipients of such financial assistance, (ii) the form, nature and extent of such financial assistance, and (iii) the terms and conditions under which such financial assistance is provided, are determined by the Board from time to time;
- the Board may not authorise Master Drilling to provide any financial assistance pursuant to this special resolution unless the Board meets all those requirements of section 45 of the Companies Act which it is required to meet in order to authorise Master Drilling to provide such financial assistance; and
- such financial assistance to a recipient thereof is, in the opinion of the Board, required for the purpose of (i) meeting all or any of such recipient's operating expenses (including capital expenditure), and/or (ii) funding the growth, expansion, reorganisation or restructuring of the businesses or operations of such recipient, and/or (iii) funding such recipient for any other purpose which in the opinion of the Board is directly or indirectly in the interest of Master Drilling."

The reason for proposing special resolution 3 and the effect of this special resolution, if passed and becoming effective, is to allow Master Drilling to grant direct or indirect financial assistance to any Company of corporation forming part of the Group, including in the form of loans or the guaranteeing of their debts. This authority will be in place for a year of two years from the date of adoption of this special resolution number 3.

Litigation

The Company is not party to any legal or arbitration proceedings that are pending or threatened, of which it is aware, that may have or have had in the recent past, being at least the previous 12 months, a material effect on the Group's financial position. For the risk factors, refer to the supplemental information available on the Company's website www.masterdrilling.com.

The Directors whose names appear on pages 16 to 17 of this document collectively and individually accept full responsibility for the accuracy of the information given in this notice and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading and that all reasonable enquiries to ascertain such facts have been made and that this notice contains all information required by law and the Listings Requirements of the JSE Limited.

By order of the board

Theophilus (Theo) de Wet
Company Secretary

De Wets Incorporated
(Registration number 2000/003792/21)
6 Dwars Street
Krugersdorp, 1739
South Africa

(PO Box 158, Krugersdorp, 1740, South Africa)

31 March 2014

REGISTERED AND CORPORATE OFFICE

4 Bosman Street
PO Box 902
Fochville, 2515
South Africa

IMPORTANT NOTES ABOUT THE ANNUAL GENERAL MEETING:

Date

Thursday, 24 July 2014.

Venue

Sasfin Bank, 29 Scott Street, Waverley, Johannesburg, 2090.

Timing

The Annual General Meeting will start promptly at 09:30 (South African time).

Refreshments

Refreshments will be served after the meeting.

Admission

Shareholders and others attending the Annual General Meeting are asked to register at the registration desk at the venue. Shareholders and proxies are required to provide proof of identity – see "IDENTIFICATION" on page 106 of this notice of meeting.

Security

Secure parking is provided at the venue. Mobile telephones should be switched off during the Annual General Meeting.

Enquiries and questions

Shareholders who intend to ask questions related to the business of the annual general meeting or on related matters are asked to furnish their name, address and question(s) at the registration desk. Personnel will be available to provide any advice and assistance required.

Queries about the Annual General Meeting

If you have any queries about the Annual General Meeting, please telephone any of the contact names listed on page 121 to 122.

Share registrars

Computershare Investor Services Proprietary Limited
Ground Floor, 70 Marshall Street, Johannesburg, 2001
(PO Box 61051, Marshalltown, 2107)
South Africa
www.masterdrilling.com

NOTES

FORM OF PROXY

MASTER DRILLING GROUP LIMITED

(Incorporated in the Republic of South Africa)
(Registration number: 2011/008265/06)
Share code on the JSE Limited: "MDI"
ISIN: ZAE000171948
("Master Drilling" or "the Company")

FORM OF PROXY FOR MASTER DRILLING SHAREHOLDERS

Only for use by certificated shareholders or dematerialised shareholders of Master Drilling Group Limited who have selected "own name" registration.

For use by Master Drilling shareholders at the Annual General Meeting of shareholders to be held at Sasfin Bank, 29 Scott Street, Waverley, on Thursday, 24 July 2014 at 09:30 and at any adjournment of that meeting.

If you have dematerialised your shares with a Central Securities Depository Participant ("CSD Participant") or broker and have not selected "own name" registration, you must arrange with your CSD Participant or broker to provide you with the necessary letter of representation to attend the General Meeting or you must instruct them as to how you wish to vote in this regard. This must be done in terms of the agreement entered into between you and the CSD Participant or broker.

I/We (Names in full in BLOCK LETTERS) ______________________________

of (address): ______________________________

being the holder/s of [   ] shares in issued ordinary share capital of Master Drilling hereby appoint:

1. ______________________ of ______________________ or failing him/her,

2. ______________________ of ______________________ or failing him/her,

3. the Chairman of the Annual General Meeting,

as my/our proxy to attend, speak and vote on a show of hands or on a poll for me/us and on my/our behalf at the Annual General Meeting of Master Drilling shareholders to be held for the purpose of considering, and if deemed fit, passing, with or without modification, the resolutions to be proposed thereat and at any adjournment thereof, and to vote for and/or against the resolutions and/or abstain from voting in respect of the Master Drilling ordinary shares registered in my/our name in accordance with the following instructions (see notes):

FORM OF PROXY continued

Please indicate with an "X" in the appropriate spaces how votes are to be cast	For	Against	Abstain
Ordinary Resolution Number 1 Presentation and adoption of annual financial statements			
Ordinary Resolution Number 2 Re-appointment of Grant Thornton as auditors and C Pretorius as audit partner			
Ordinary Resolution Number 3 Re-election of Mr PJ Ledger as a Director and as Chairman			
Ordinary Resolution Number 4 Re-election of Mr ST Ferguson as a Director			
Ordinary Resolution Number 5.1 Re-appointment of Mr JP de Wet as a member and Chairman of the Audit and Risk Committee of the Company			
Ordinary Resolution Number 5.2 Re-appointment of Mr AA Dashmukh as a member of the Audit and Risk Committee of the Company			
Ordinary Resolution Number 6 General authority to Directors to allot and issue ordinary shares			
Ordinary Resolution Number 7 General authority to Directors to issue for cash, those ordinary shares placed under the control of the Directors in terms of ordinary resolution number 6			
Ordinary Resolution Number 8 **Advisory endorsement** Endorsement of the Master Drilling remuneration policy			
Special Resolution Number 1 Acquisition of Company's own shares			
Special Resolution Number 2 Non-executive directors' fees			
Special Resolution Number 3 Approval to grant financial assistance in terms of sections 44 and 45 of the Companies Act			

Signed at on 2014

Name of shareholder/joint holders

Signature/s

Assisted by me (if applicable)

Full name/s of signatory/ies if signing in a representative capacity:

(In block letters and authority to be attached – see note 12 on page 119)

ince

NOTES TO FORM OF PROXY

1. Every shareholder present in person or represented by proxy and entitled to vote at the Annual General Meeting of the Company shall, on a show of hands, have only one vote, irrespective of the number of shares such shareholder holds. In the event of a poll, the total number of votes exercised and abstained by the shareholder or his/her proxy shall be counted, provided that such votes shall not exceed the total of the votes exercisable by the shareholder or the proxy.
2. A signatory to this form of proxy may insert the name of a proxy or the name of an alternate proxy of the signatory's choice in the blank spaces provided, with or without deleting "the chairman of the of the Annual General Meeting", but such deletion must be signed in full by the signatory. Any insertion or deletion not complying with the foregoing will be deemed not to have been validly effected. The person present at the Annual General Meeting, whose name appears first on the list of names overleaf, shall be the validly appointed proxy for the shareholder at the Annual General Meeting.
3. A shareholder's instructions to the proxy must be indicated in the appropriate spaces provided. A shareholder or the proxy is not obliged to use all the votes exercisable by the shareholder or by the proxy, or to cast all those votes in the same way, but the total of votes cast, and in respect of whereof abstention is directed, may not exceed the total of the votes exercisable by the shareholder or the proxy. Failure to comply with the above or to provide voting instructions or the giving of contradictory instructions will be deemed to authorise the proxy, if he is the chairman of the Annual General Meeting, to vote in favour of all resolutions at the Annual General Meeting in respect of all the shareholder's votes exercisable at the Annual General Meeting or if he/she is not the chairman of the Annual General Meeting, to vote or abstain from voting at the Annual General Meeting as he/she deems fit in respect of all the shareholder's votes exercisable at the Annual General Meeting.
4. A proxy may not delegate his/her authority to act on behalf of the shareholder, to another person.
5. A vote given in terms of an instrument of proxy shall be valid in relation to the Annual General Meeting notwithstanding the death, insanity or other legal disability of the person granting it, or the revocation of the proxy, or the transfer of the share in respect of which the proxy is given, unless notice as to any of the aforementioned matters shall have been received by the share registrars not less than twenty-four hours before the commencement of the Annual General Meeting, or at any adjournment thereof.
6. Any alteration or correction made to this form of proxy must be signed in full and not initialled by the signatory.
7. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the share registrars of the Company.
8. A minor must be assisted by his/her guardian and the relevant documentary evidence establishing his/her legal capacity must be attached to this form of proxy unless previously recorded by the share registrars of the Company.
9. When there are joint holders of shares, any one holder may sign the form of proxy.
10. The completion and lodging of this form of proxy will not preclude the shareholder who grants the proxy from attending the Annual General Meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof should such shareholder with to do so.
11. The chairman of the Annual General Meeting may reject or accept any form of proxy which is completed and/or received otherwise than in accordance with these notes, provided that he is satisfied as to the manner in which the shareholder concerned wishes to vote.
12. The appointment of a proxy or proxies:
    - 12.1 is suspended at any time and to the extent that the shareholder chooses to act directly and in person in the exercise of any rights as a shareholder;
    - 12.2 is revocable in which case a shareholder may revoke the proxy appointment by:
        - 12.2.1 cancelling it in writing or making a later inconsistent appointment of a proxy; and
        - 12.2.2 delivering a copy of the revocation instrument to the proxy and to the Company.
13. Forms of proxy must be lodged with or posted to the share registrars, Computershare Investor Services (Pty) Ltd, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107) to be received by no later than 09:30 on 22 July 2014.

FORWARD LOOKING STATEMENTS

This Integrated Report includes statements that are, or may be deemed to be, "forward-looking statements". Any statements about Master Drilling's expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as "will", "will likely result," "are expected to," "will continue," "believe," "is anticipated," "estimated," "intends," "expects," "plans," "seek," "projection" and "outlook". They appear in a number of places throughout this document and include, but are not limited to, statements regarding the Company's intentions, beliefs or current expectations concerning, among other things, the Group's results of operations, financial position, liquidity, prospects, growth, strategies and expectations. These statements involve estimates, assumptions and uncertainties that could cause actual results to differ materially from those expressed in them. All forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this document. Key factors that have a direct bearing on Master Drilling's results of operations include the general economic and business conditions; competition in the industry in which Master Drilling operates; industry trends and changes in demand for services in the drilling industry; Master Drilling's ability to attract and retain skilled personnel and employees; Master Drilling's ability to introduce new business lines, identify and acquire new facilities and integrate future acquisitions; the impact of new laws, regulations and standards (and the interpretation and application thereof) in the environment, tax and health and safety; changes in business strategy, political and economic uncertainty; and the risks resulting from currency fluctuations. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements are not guarantees of future performance and the development of the markets and the industry, in which Master Drilling operates, may differ materially from those described in, or suggested by, the forward-looking statements contained in this document. Because a variety of factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made in this document by Master Drilling or on Master Drilling's behalf, undue reliance should not be placed on any of these forward-looking statements. Applicants should specifically consider the factors identified in this document, which could cause results to differ, before making an investment decision. Any forward-looking statement in this document reflects the Company's current view with respect to future events and is subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Group's operations and growth strategy. Subject to the Listings Requirements, Master Drilling undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. New factors will emerge in the future, and it is not possible for Master Drilling to predict such factors. In addition, Master Drilling cannot assess the effect of each factor on Master Drilling's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those described in any forward-looking statements.

CORPORATE INFORMATION

MASTER DRILLING GROUP LIMITED

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

REGISTERED AND CORPORATE OFFICE

4 Bosman Street
PO Box 902
Fochville, 2515
South Africa

DIRECTORS

Executive

Daniël (Danie) Coenraad Pretorius	Chief Executive Officer and founder
André Jean van Deventer	Financial Director and Chief Financial Officer
Barend Jacobus (Koos) Jordaan	Technical Director
Gareth (Gary) Robert Sheppard #	Chief Operating Officer

Non-Executive

Peter John Ledger	Chairman and Independent Non-Executive
Roger Owen Davey *	Independent Non-Executive
Akhter Alli Deshmukh	Independent Non-Executive
Jacques Pierre de Wet	Independent Non-Executive
Shane Trevor Ferguson	Non-Executive
** British*	*# Resident in Peru*

Company Secretary

Theophilus (Theo) Timotheus de Wet
De Wets Incorporated
(Registration number: 2000/003792/21)
6 Dwars Street
Krugersdorp, 1739
South Africa
(PO Box 158, Krugersdorp, 1740)
South Africa

JSE SPONSOR

Sasfin Capital, a division of Sasfin Bank Limited
29 Scott Street
Waverley
Johannesburg, 2090
(PO Box 95104, Grant Park, 2051)
South Africa

CORPORATE INFORMATION continued

INDEPENDENT AUDITORS

Grant Thornton
South African member of Grant Thornton International Limited
137 Daisy Street
corner Grayston Drive
Sandown, 2196
South Africa

SHARE TRANSFER SECRETARIES

Computershare Investor Services (Pty) Limited
(Registration number: 2004/003647/07)
Ground Floor, 70 Marshall Street
Johannesburg, 2001
(PO Box 61051, Marshalltown, 2107)
South Africa

INVESTOR RELATIONS CONTACTS

Edith Leeson
Russel and Associates
Telephone: +27 11 880 3924
Facsimile: +27 11 880 3788
Mobile: +27 79 527 6882
E-mail: edith@rair.co.za

General e-mail enquiries

info@masterdrilling.com

Master Drilling website

www.masterdrilling.com

Company Secretarial E-mail

Companysecretary@masterdrilling.com

Master Drilling posts information that is important to investors on the main page of its website at www.masterdrilling.com and under the "investors" tab on the main page. The information is updated regularly and investors should visit the website to obtain important information about Master Drilling.

www.masterdrilling.com