



MASTER DRILLING

MASTER DRILLING
GROUP LIMITED
INTEGRATED
REPORT **2017**



CONTENTS

1

- flap Our strategy statement
- flap Our performance against our strategy
- ifc About this report
 - 1 What we do
 - 1 Salient features
 - 2 Our timeline
- 4 Chairman and Chief Executive Officer's review
 - 14 Who we are
 - 16 Our global footprint
 - 18 Our investment case
 - 20 Our group structure
 - 21 Our strategy
 - 28 Material matters
 - 32 Risk management
 - 36 Our business model
- 38 Stakeholder management

2

- 44 How we work
- 46 Human resources ("HR")
- 49 Information technology ("IT")
 - 51 Health and safety
- 52 Chief Financial Officer's review
 - 56 Our operations

3

- 66 Corporate social investment
- 68 Our Board of Directors
 - 70 Our governance
 - 76 Our remuneration

4

- 86 Annual financial statements

5

- 108 Notice of Annual General Meeting
- 116 Definitions and glossary
 - 119 Form of proxy
- 120 Notes to the form of proxy
 - ibc Corporate information

Navigation tools



Page reference



Website



ABOUT THIS REPORT

This report is the primary report of Master Drilling Group Limited (“MDG”) to its stakeholders, and it outlines the activities, relationships, interactions and performance of the Company during the period 1 January 2017 to 31 December 2017. The aim of the report is to provide all stakeholders with a balanced and integrated insight into the ability of MDG to create value in the short, medium and long term.

While the scope and boundaries of the report remain unchanged from those of the prior year, material issues have been defined and are reported on with reference to the six capitals – financial, manufactured, intellectual, human, social and relationship, and natural – as outlined in the International Reporting Council (“IIRC”) framework. The report was also prepared having regard to the aspirations and ideals expressed in the principles and their underlying disclosures, as described in the King IV Report on Corporate Governance (“King IV”).

REPORTING BOUNDARY

This report includes the performance of our operations across all the areas in which we operate. It focuses on the material matters that were identified in line with best practice, as outlined on pages 28 to 31. We define material matters for reporting purposes as those issues that substantially affect our ability to create and sustain value over the short, medium and long term – periods of one year, two to three years, and three to five years and beyond, respectively. (For more about materiality, see *Material matters* on page 28.)

All monetary amounts reflected in the report are expressed in United States Dollars (“USD”) or South African Rand (“ZAR”) unless otherwise stated. The results and financial position of our operations in foreign countries are translated into the presentation currency USD, using the average exchange rate over the reporting period for income statement purposes and at the closing rate at year-end for financial position items.

Since our first integrated report, no significant changes have been made to the scope, boundaries or measurement methods applied in this report and the rest of our reporting suite.

There are no restatements to comparatives.

FORWARD-LOOKING STATEMENTS

Certain forward-looking statements are made in the report, particularly with regard to the impact of global commodities markets, as well as global and domestic economic conditions on the Company’s strategy, performance and operations. These forward-looking statements thus involve both known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by such forward-looking statements.

MDG undertakes no obligation to update publicly or release any revisions to these forward-looking statements to reflect events or circumstances after the date of this document, or to reflect the occurrence of anticipated events. The forward-looking statements have not been reviewed or reported on by the auditors.

INTEGRATED REPORTING

In this report, we have provided a complete picture of strategy, governance and performance – and how they link together. This will help shareholders to make better informed decisions about where to allocate their capital and, in turn, help to attract value investors.

DIRECTORS’ STATEMENT OF RESPONSIBILITY

The Board of Directors (“the Board”), assisted by the Audit Committee, is responsible for overseeing the integrity of this integrated report, and acknowledges its responsibility for ensuring its integrity. The Board has applied its collective mind in the preparation and presentation of this report, and believes it is a fair representation of the performance of the Group and its material matters. The Board accordingly approved this integrated report on 19 April 2018.



HENNIE VAN DER MERWE
Chairman



DANIE PRETORIUS
Chief Executive Officer



OUR STRATEGY STATEMENT

We challenge the status quo to provide our clients with specialised, adaptive and integrated drilling solutions.

OUR PERFORMANCE AGAINST OUR STRATEGY



SUSTAINABLE GROWTH

We grow our business in a sustainable way, by using what we do well and diversifying into new geographies, sectors and clients



OPTIMISATION AND INCREASED PROFITABILITY

We optimise our business by finding ways to be more effective and efficient in what we do, on a daily basis, in all our areas of operation



TECHNOLOGY OPTIMISATION AND DEVELOPMENT

We are flexible and provide specialised services to suit our clients' requirements, applying technology development as a competitive advantage to improve business performance



PEOPLE CAPACITY AND DEVELOPMENT

The foundation of our strategy is the people who make it happen; our success depends on how our skills and expertise support our goals














For more on strategy and performance see under *Strategy, Chairman and Chief Executive Officer's report*, and *Chief Financial Officer's review* on pages 21, 4 and 52, respectively.

WHAT WE DO

Master Drilling provides specialised drilling services to blue-chip major and mid-tier companies in the mining, civil engineering ("civils"), infrastructure and hydroelectric energy sectors, across a number of commodities. We are the world-leader in the raise bore drilling services industry.

SALIENT FEATURES

	DIVIDEND OF ZAR26,0 cents PER SHARE DECLARED	COMMITTED ORDER BOOK OF USD124.7 million	REVENUE IN USD UP 2.8%  FROM USD118.1 MILLION TO USD121.4 MILLION
	HEADLINE EARNINGS PER SHARE IN USD DOWN BY 18.9%  FROM USD14.3 CENTS TO USD11.6 CENTS	PROFIT FOR THE YEAR IN USD DOWN BY 21.5%  FROM USD22.3 MILLION TO USD17.5 MILLION	UTILISATION DOWN 4,0%  FROM 73% TO 69%
	FLEET AUTOMATION PROCESS 100% on track	RESEARCH AND DEVELOPMENT SPEND INCREASED FROM USD1.0 MILLION TO USD1.5 million 	ORDER PLACED FOR MOBILE TUNNEL BORER TOWARDS THE END OF 2017
	REVENUE PER HEAD UP FROM USD56 266 TO USD61 543 	LTIFR IMPROVED FROM 2,78 TO 2,31 	LABOUR COST AS % OF TOTAL COST INCREASED FROM 45% TO 48%

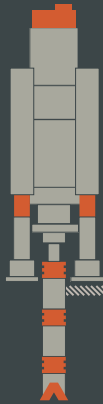

SUSTAINABLE GROWTH





OPTIMISATION AND INCREASED PROFITABILITY


TECHNOLOGY OPTIMISATION AND DEVELOPMENT








PEOPLE CAPACITY AND DEVELOPMENT

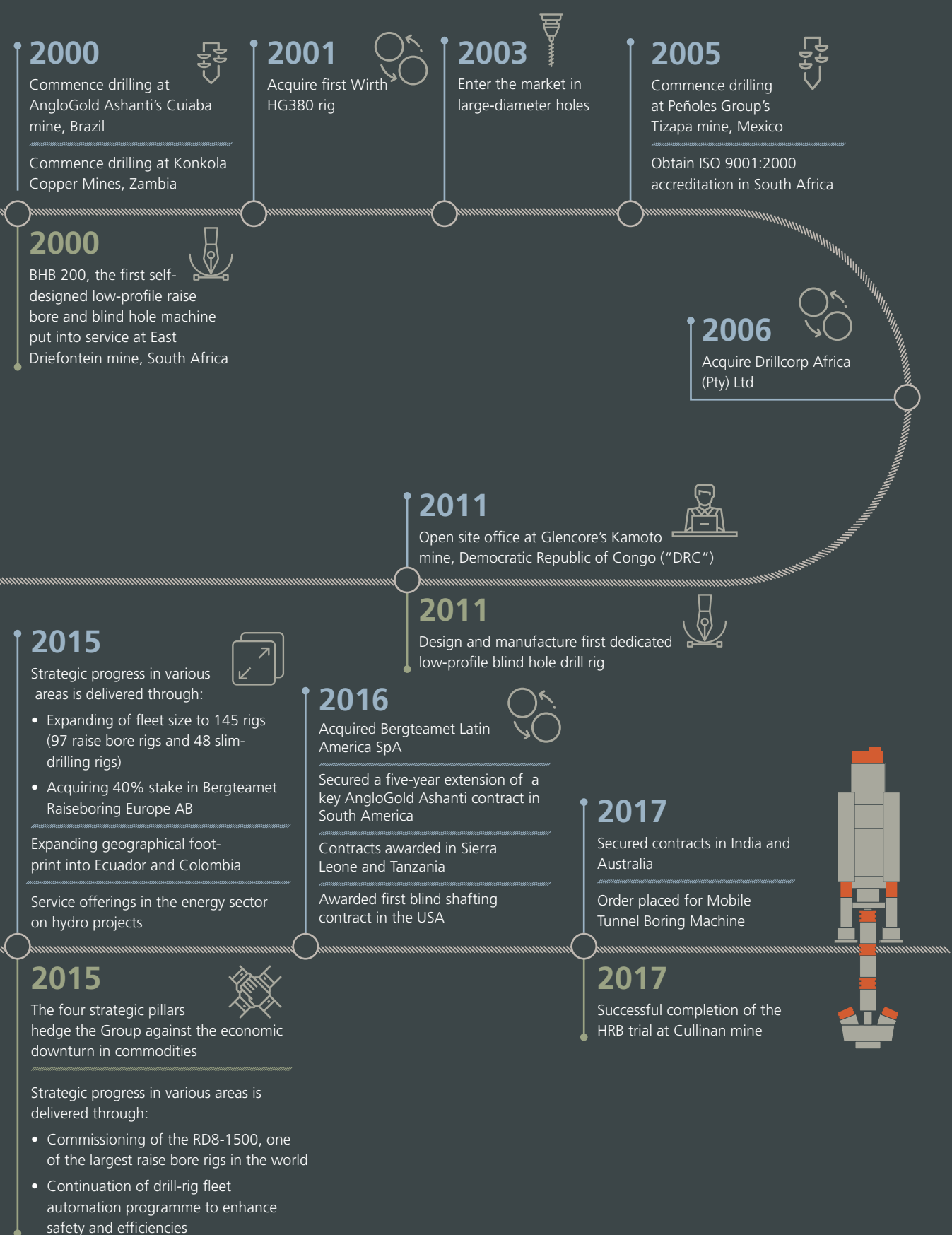
OUR TIMELINE



<p>1988 </p> <p>Design and manufacture RD1000 for Premium Diamond mine, South Africa</p>	<p>1992 </p> <p>Commence drilling at the Shabanie mine, Zimbabwe</p>	<p>1993 </p> <p>Commence drilling at Barric Group's El Indio mine, Chile</p>	<p>1998 </p> <p>Commence drilling at Milpo's El Porvenir mine, Peru</p>
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We are the global industry leaders in raise boring and also offer services such as boxhole boring, diamond drilling, percussion drilling, grade control, and blast-hole drilling.

<p>2012 </p> <p>List on the Johannesburg Stock Exchange ("JSE")</p> <p>Master Drilling Group Ltd formed through reorganisation</p>	<p>2013 </p> <p>Awarded exploration drilling contract at Kolomela</p> <p>Expand global footprint to Mali and Guatemala by offering raise boring services</p>	<p>2014 </p> <p>Contract awarded at Palabora Mining for two ventilation shafts, each 6,1m diameter, and over 1,2km deep</p>
<p>2012 </p> <p>Achieve world record in directional drilling at Lonmin mine with the most accurate pilot hole at depth of 1,07km and a diameter vent shaft of 5,5m diameter</p>	<p>2013 </p> <p>First automated machine goes live at Sasol, South Africa</p> <p>Peru's first automated machine goes live in May</p>	<p>2014 </p> <p>Increase in upgrading to automation control raise bore rigs</p> <p>Design and manufacture the RD8, a new raise bore rig drill capable of drilling 8,5m in diameter over 1,5km deep</p> <p>Complete Rowland shaft</p>



2000

Commence drilling at AngloGold Ashanti's Cuiaba mine, Brazil

Commence drilling at Konkola Copper Mines, Zambia



2001

Acquire first Wirth HG380 rig



2003

Enter the market in large-diameter holes



2005

Commence drilling at Peñoles Group's Tizapa mine, Mexico

Obtain ISO 9001:2000 accreditation in South Africa



2000

BHB 200, the first self-designed low-profile raise bore and blind hole machine put into service at East Driefontein mine, South Africa



2006

Acquire Drillcorp Africa (Pty) Ltd



2011

Open site office at Glencore's Kamoto mine, Democratic Republic of Congo ("DRC")



2011

Design and manufacture first dedicated low-profile blind hole drill rig



2015

Strategic progress in various areas is delivered through:

- Expanding of fleet size to 145 rigs (97 raise bore rigs and 48 slim-drilling rigs)
- Acquiring 40% stake in Bergteamet Raiseboring Europe AB

Expanding geographical footprint into Ecuador and Colombia

Service offerings in the energy sector on hydro projects



2016

Acquired Bergteamet Latin America SpA

Secured a five-year extension of a key AngloGold Ashanti contract in South America

Contracts awarded in Sierra Leone and Tanzania

Awarded first blind shafting contract in the USA



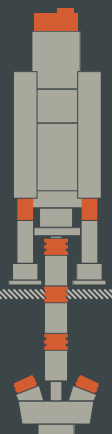
2017

Secured contracts in India and Australia

Order placed for Mobile Tunnel Boring Machine

2017

Successful completion of the HRB trial at Cullinan mine



2015

The four strategic pillars hedge the Group against the economic downturn in commodities

Strategic progress in various areas is delivered through:

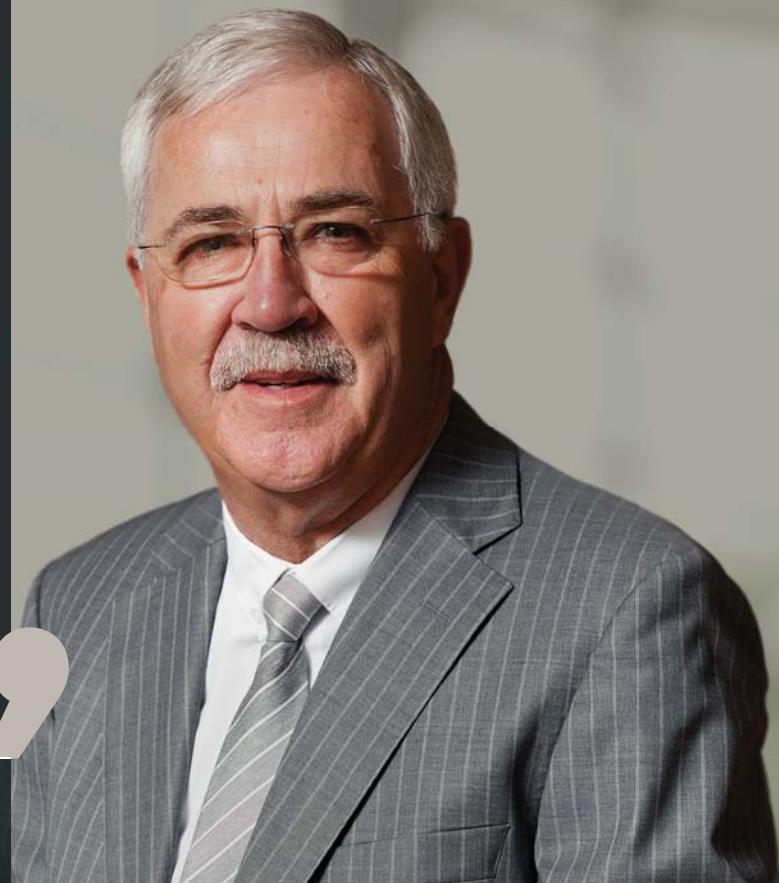
- Commissioning of the RD8-1500, one of the largest raise bore rigs in the world
- Continuation of drill-rig fleet automation programme to enhance safety and efficiencies



CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S REVIEW

2017 began with a definite recovery in commodities, both in the precious metals markets of gold, silver and palladium, and those of the base- and polymetals such as copper and zinc. At MDG, however, the lagging effect of the trends are only having an impact after 12 to 24 months.

DANIE PRETORIUS
Chief Executive Officer



BASIC EARNINGS PER SHARE ("EPS")

USD down by **19.6%**

ZAR down by **27,1%**



HEADLINE EARNINGS PER SHARE ("HEPS")

USD down by **18.9%**

ZAR down by **26,5%**

As at 31 December our pipeline totalled USD228 102 620 while the committed order book amounted to USD124 717 119 and beyond.



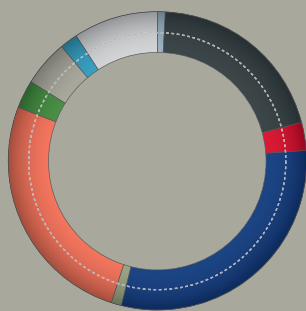
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Our goal remains to provide a service that will enable mining to move towards explosive-less operations, to an ever greater degree. Innovative tailor made drilling solutions to achieve this include, amongst others, horizontal raise boring, mobile tunnel boring and blind shaft boring.

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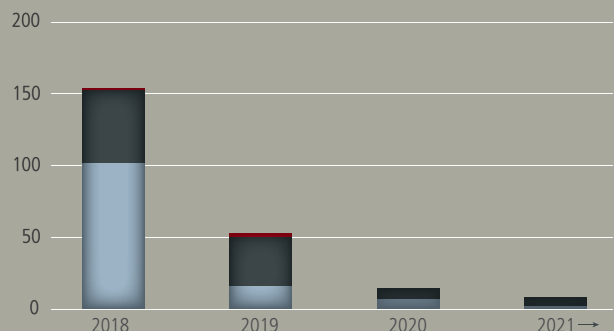
HENNIE VAN DER MERWE
Chairman

COMMITTED ORDERS



Chrome	1%
Copper	20%
Diamonds	3%
Gold	30%
Platinum	1%
Polymetallic	26%
Silver	3%
Zinc	5%
Other	2%
Iron	9%

**PIPELINE
(USD MILLION)**



Awarded
Awaiting adjudication
Enquiry received/possible lead

OVERVIEW

2017 began with a definite recovery in commodities, both in the precious metals markets of gold, silver and palladium, and those of the base- and polymetals. At MDG, however, the lagging effect of the trends is only having an impact after 12 to 24 months. This is a consequence of our dependency on our clients' agility and capacity in responding to the increased demand. This applies particularly in respect of our exposure to zinc in Peru and copper in Chile.

The weaker USD has been a factor influencing the profitability of most of our clients who are exposed to emerging currencies.

As a result of the weaker USD, where most of our exposure lies, and the 12 to 24 months lag we experience in translating upward commodity trends into revenue, we continued to experience a rather flat year in the underground mining space which remains our predominant area of operations. Nonetheless, we remain well-positioned to take advantage of the upturn in the commodities cycle as recognition of the advantages to the client of our technology and expertise gains traction.

It is important to note that while in the above market conditions our fleet utilisation was adequate, at around 70%, our XXL machines were utilised only 40% due to clients' requirements being postponed to 2018 and beyond. That was unplanned, and had an impact on both the revenue and the profitability of the business. We fully anticipate that as commodity prices pick up, thereby justifying larger investment by miners in larger projects, our machine utilisation will improve.

Vertical raise boring, MDG's main activity, constitutes only 5% to 8% of total services in the in the mining industry, while conventional horizontal development constitutes approximately 80% of the mining industry's services. We commenced working with Seli, an Italian company who design tunnel boring machines ("TBMs") for the civils industry. They are assisting us in constructing a mobile tunnel borer to be used specifically in the horizontal development of mines. The machine was ordered during the last quarter of 2017 with the aim of commissioning it in the last quarter of 2018 in Africa and then rolling it out worldwide.

We have also commissioned Seli to wrap up the final design for the shaft borer we have been targeting for some time. The slurry head of this machine, which is the component which represents the most risk, will be completed during the latter part of 2018 or early in 2019.

OUR OPERATING ENVIRONMENT AND OUTLOOK

With the positive signs seen in the market not yet reflecting in positively affecting our business, there has been something of a decline in business and revenue between the prior period and 2017, and we see this trend continuing for us from South Africa to the north of the continent for most of 2018. While we have seen some smaller mining operations being put back into operation, we have not yet seen any larger projects being initiated. Exceptions are projects in southern DRC, which may generate business for MDG in the latter part of 2019. The improvement in activity on the African continent is predominantly in open-cast mining while our business is dependent on underground projects.

From an MDG perspective we therefore do not anticipate much change during 2018. Given the 12 to 24 month lag to which we are subjected, we envisage seeing a more positive impact on activity within MDG only during the last quarter of 2018 and, more likely, into 2019.

Worldwide, zinc and lead producers are showing greatly increased activity. Cobalt and copper have seen increased interest, and copper has already shown upward movement, particularly in Chile and Peru, with mining capex being directed towards it. MDG has experienced an increase in interest and enquiries, with an orders building from 2018 that is beginning to stabilise the decline in orders that we saw during the period under review.

STRATEGY

Our goal remains to provide a service that will enable explosive-less mining. Innovative tailor made drilling solutions to achieve this include, amongst others, horizontal raise boring, mobile tunnel boring and blind shaft boring. Another is shaft boring. If we can accomplish these, then together with the raise boring services, that we already deliver successfully, we will supply most of the services required to develop and expand mines within a non-blasting environment. There is a great interest from mining companies being unable to control labour, energy prices and exchange rates to follow this approach. We see the kind of disruptive technology we develop and supply as a major source of improvement on the part of our clients, not only in productivity, but in the cost of capital. There is a time factor here which will see the net present value ("NPV") of projects improving dramatically due to the decreased time required to bring a mine into production.

In addition to this, the clear cost-cutting imperative under which clients have been examining their operations and methodologies fits well with our strategy of simplifying operating methods, machinery and our approach to deliver greater and cheaper productivity. We foresee a continued benefit from the added value that we provide in this way, as these forces take hold.



MINING SECTOR DIVERSIFICATION

Founded on our strategic pillars of **sustainable growth, optimisation, increased profitability and people capacity and development**, mining sector diversification has centred on the more important production phase. In this way we have a reduced exposure to the volatility that is inherent in exploration. The provision of services in capital and exploration phases has facilitated the development of a wide variety of drilling solutions.

COMMODITY DIVERSIFICATION

Tied as it is to geographic diversification, diversity in commodities helps provide flexibility as well as a shield against market fluctuations.

BUSINESS SECTOR DIVERSIFICATION

Remains a strategic focus in minimising risk and widening our presence. Through involvement in hydroelectric energy projects and other projects in the civil and construction sectors, we also strive to be a part of the growing field of renewable energy.



EXPANSION

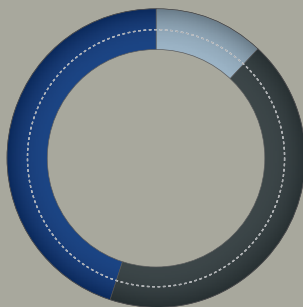
During the year under review we implemented another key element of our strategic commitment to geographic diversification, and broadened our global presence with the introduction of machines, into both India and Australia. These two countries, with their large economies, will form base hubs for potential future expansion. (For more on strategy and expansion see under *Our strategy* and *Our operations* on pages 21 and 56 respectively.)

SAFETY AS STRATEGY

We also continued our significant focus on safety, both in the culture we are striving to embed, and in the related quality systems we employ to ensure it. While zero harm remains our goal we were very gratified to see our lost time injury frequency rate ("LTIFR") improve from 2,78 in the previous year to 2,31. We remain confident that our strategic initiatives will help us continue this downward trend towards the achievement of our zero harm target. (For more on safety see under *Health and safety* on page 51.)

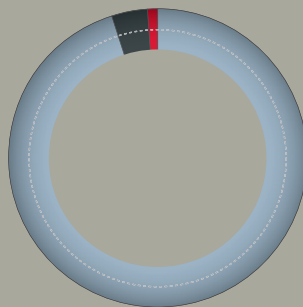
The following charts reflect MDG's combined revenue for 2017

REVENUE BY GEOGRAPHICAL AREA 2017



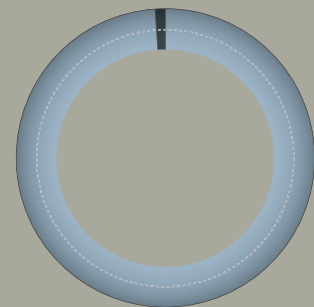
Central and North America	12%
South America	43%
Other countries	0%
Africa	45%

REVENUE BY MINING ACTIVITY 2017



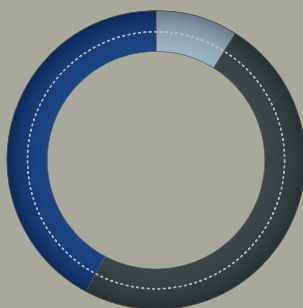
Production	95%
Capital	4%
Exploration	1%

REVENUE BY BUSINESS SECTOR 2017



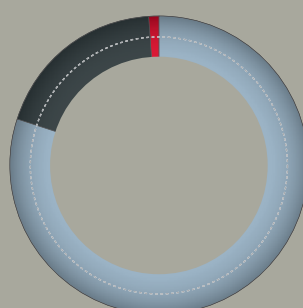
Mining sector	99%
Hydroelectricity	1%
Civil and construction	0%

REVENUE BY GEOGRAPHICAL AREA 2016



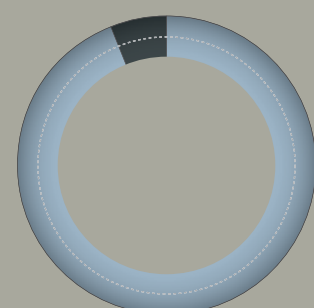
Central and North America	9%
South America	49%
Other countries	0%
Africa	42%

REVENUE BY MINING ACTIVITY 2016



Production	80%
Capital	19%
Exploration	1%

REVENUE BY BUSINESS SECTOR 2016

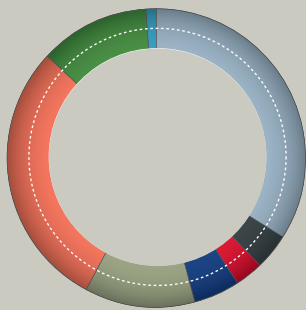


Mining sector	94%
Hydroelectricity	6%
Civil and construction	0%

DIVERSIFICATION IN PRACTICE

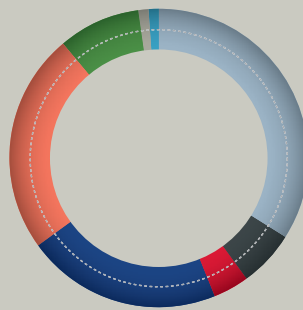
Once again, during the year under review, the bulk of our work was in the mining sector. This will continue in the short to medium term, especially with the noticeable upturn in the commodities cycle, although we continue to view dependence on a single sector as a potential risk. Moreover, as a company whose core skills are in technology and innovation, we continue to seek ways to realise our significant capacities and skills in those and other areas. This means continuing to seek geographical and sector-based growth and expansion.

REVENUE BY COMMODITY
2017



Gold	34%
Platinum	4%
Coal	3%
Diamonds	5%
Silver/lead/zinc	12%
Copper	29%
Iron ore	12%
Manganese	0%
Other commodities	1%

REVENUE BY COMMODITY
2016



Gold	34%
Platinum	6%
Coal	0%
Diamonds	4%
Silver/lead/zinc	21%
Copper	24%
Iron ore	9%
Manganese	1%
Other commodities	1%



Our long-term goal is to minimise the impact of any external market forces, be they in specific currencies, industries or commodities. Our target of at least 30% exposure to sectors other than the mining industry remains. We continue to target services and sectors such as infrastructure and energy, including hydroelectric energy projects. (For more on diversification, see under *Our strategy* on page 21, and under *Chief Financial Officer's review* on page 52.)

Our vertically integrated business model continues to enable the optimisation of such opportunities as well as the diversification we pursue, and enables us to classify the revenue we generate accordingly. (For more, see under *Our business model*, on page 36.)

LATIN AMERICA

In Latin America, our new management structures have taken effect, and we are confident that we will see the benefits of continued financial and operational efficiency improvements in the coming year. With the prices of copper, lead and zinc recovering the future looks promising.

Our Chilean business was influenced by the rescheduling and reduction in capital. More competitors entered the market, putting pressure on the pricing models.

While Peru had long-term contracts in place which over time put pressure on pricing, most of those contracts will come to an end during 2018. The contracts will then be re-priced and it is hoped that this will improve our profitability. (For more on Latin America, see under *Our operations* on page 56.)

NORTH AMERICA

We are actively pursuing promising leads in the North American market, having appointed a person to manage the marketing in that region. With this bolstering of our business development area, we hope to increase our presence in this region.

Although our reverse circulation blind shaft drilling project has experienced some technical difficulties, it has proven that the technology is viable in extremely challenging geological environments. Based on the enquiries received from potential clients who attended a site visit earlier in the year, we believe that the market looks very promising. (For more on North America, see under *Our operations* on page 56.)

AFRICA

The Kibali project in the DRC is winding down in line with the project schedule. While this project has for some time constituted a large portion of our income

from Africa, the increased gold activity in West Africa will have a positive impact on revenue. (For more on Africa, see under *Our operations* on page 56.)

SCANDINAVIA

Performance by our Bergteamet acquisition remains flat. Bergteamet's future however is looking promising, and we have recently exercised our option to take up the balance of shares in the company.

We will continue to pursue our strategic goals of further geological and service diversification in the region during 2018.

PROFITABILITY

Our profitability for 2017 is down from the prior period, as a result of changes in:

- **Logistics** – The transporting of equipment into new territories during the year reflected a noticeable increase between 2016 and 2017. The logistics increase was a result of the following projects being established from South Africa:
 - USA
 - Mali
 - Sierra Leone
 - A portion of the expansion into India and Australia.




While some revenue was generated from these initiatives during 2017, we expect to see larger contributions from 2018.

- **Labour** – The strategic decision to reinforce our mid-management in the Group to ensure that we could sustain growth in the business has resulted in an increased cost in 2017.
- **Forex** – Movement in the emerging currencies resulted in increased costs which are beyond the control of the Group.
- **Tax** –As a result of normalisation, 2017 saw a rise in the tax rate from approximately 12% during the prior period to 18%, amounting to a difference of around USD2.2 million.

MATERIAL MATTERS

As we increasingly realise our strategy of geographic diversification, logistics, will assume even greater importance even though it is not a new material matter to us.

Another matter that has become material to our business is the fact that miners have chosen to expand current ore bodies as opposed to starting new mines in which a completely new infrastructure has to be established. This means smaller and shorter-term contracts for our business. (For more on materiality, see under *Material matters* on  page 28.)

THE BENEFITS OF ADDING VALUE

We are pleased to note that our reputation as a Group – part of whose innovative and service DNA is to make a value contribution to our clients by assisting in cutting timelines and production costs – continues to be reinforced. Strategically, our ability and willingness to both create and add value supports our sustainability through cycles, making our services an attractive option through downturns, when minimising costs are a significant aspect of our clients' approach, offering them the real potential to perform at a higher level of efficiency.

The ability of raise boring to open up new mining areas in underground mines as well as in open pits that eventually go underground, will have a profound effect on the project's NPV and bring more projects to fruition. This is due to the far shorter timeline associated with boring projects. The same principle applies with our blind shaft boring machine for the establishment of new mines.

INNOVATION

Innovation is a key element in the intellectual capital we create. It is a major input in our business model and is central to the roll-out of our operations. The following are four examples of our

significant success in this aspect of our business.

- A game-changing concept, in the view of management, is the Blind Shaft Boring System ("BSBS"). The design of this system was initiated in 2015 and is scheduled for commissioning in 2019. The leading edge of this machine bores a 3,3m to 3,5m hole which is then reamed or enlarged at the back to between 6,5m and 8,5m. It is unique in that it is a hard-rock boring machine that drills from the top down, and is an excellent example of the high-impact, high-tech side of drilling on which we focus.
- A second important concept is the Horizontal Rock Borer ("HRB") which proved its effectiveness at the Cullinan Petra Diamonds mine. As a horizontal borer, it drills a hole with access on both sides – a horizontal application of our vertical raise boring technology. The hole is then reamed back, providing a significant cost- and labour-saving benefit, especially for block cave mines, and it does so with a technique that conventional wisdom previously held could not be accomplished.
- We designed the Remote Operated Shaft Support ("ROSS") and Remote Operated Shaft Inspection ("ROSI") machines for a project at Palabora Mining Company. These machines support the hole as it is being drilled,



and are in effect remotely controlled robots that limit the exposure of people to a potentially unsafe environment.

- At Kolomela we maintained a stable operation rendering a wide range of drilling services. Value adding services like implementation of surface manager and ROCMA were added. We also launched MDmobile pushing in time information from the drill rigs.

SKILLS DEVELOPMENT

The retention of expertise and the development of skills remain key priorities for the Group. The recommendations of the skills gap analysis concluded at the end of 2016 were implemented during the year under review, an investment that was necessary to support our growth strategy. Training facilities have been improved and upgraded during the year under review, and we introduced additional skills to reinforce middle management level. (For more on skills and training see *Human resources* and *Corporate social investment* on [pages 46 and 66](#) respectively.)

OPPORTUNITY

We see the growing need for the mining industry to approach its activities differently through "disruptive innovation", which is a trend that perfectly suits MDG and its strategy, and we see our medium to long term prospects greatly enhanced by this move and our ability to respond to it.

European law has changed in the last year with regard to Metro tunnels which now will be required to be connected with connection cross-cuts. To comply with the new legislation, these now have to be in place at specified closer intervals for reasons of both safety and security. With TBM drilling not suited to this type of horizontal boring, we have initiated a project to design the machinery for this very particular job. We have engaged Seli to assist us in this development. (For more on our technology, see under *Our operations* on [page 56](#).)

SUSTAINABILITY

We have been part of a panel of drilling contractors in drilling for water in the drought-ravaged Western Cape Province

of South Africa, rendering services including water exploration drilling, production water holes and aquifer testing. Testing work on horizontal boreholes to a depth of 350m in the side of the mountain was also done.

We have also been engaged in researching the accessing of water elsewhere, and have quantified approaches that include collection, drilling and treating of waste water. In this regard we have seen significant interest from mining companies who are anxious to recover the waste water from their plants. We are certainly seeing our activities and capacities as enabling the Group to be part of the drive to a greener future.

In South Africa we provide a number of drilling functions which we see as services which can be added to our operations internationally. Accomplishing this is a way of ensuring continued growth, particularly in South America, where clients are more comfortable dealing with a single supplier who can deliver all the services they require. We have advanced our plans to the extent where we will be able to bolt on these services in two South American countries during 2018.

We see the USA and Canada as territories that offer growth opportunity.

GOVERNANCE PRINCIPLES

During the year under review we have not merely "referenced" King IV into earlier King III reports. We have looked very thoroughly at this new governance framework, with diligent and regular discussion having taken place in order to conscientiously apply the principles of the new report, and ensure that we do so methodically and systematically so as to ensure compliance.

In this, and in our entire approach to governance, we acknowledge the efforts and contributions of the members of the Board and its committees who perform their duties with care, assiduousness and expertise. At Board level we view all we do in the execution of our duties in the light of adding value for the time that we and the Group invest.

Both the Board itself and management view the Board as an entity with a very real leadership role – and never simply as a rubber stamp for management decisions. We maintain a robust process within both the Board and our Board committees, and if there are differing views on any topic, full and open discussion invariably results in consensus on constructive conclusions.

In order to ensure that fully informed perspectives are maintained, the Board committees are composed of a majority of independent non-executive directors, with the Audit Committee composed entirely of independent non-executive directors. In a process that is both interactive and proactive, the Board will occasionally refer matters back to Board committees if it is not entirely satisfied with what has been presented.


DELEGATION

While Board functions are delegated to Board committees, our formal structure demands their reports be submitted to the Board, which retains ultimate responsibility. As part of our commitment to adding value, we have split our audit and risk responsibilities so that they are dealt with in two separate committees. We continue to find that this efficiently facilitates clarity of discussion and work on risk assessments without the distraction of dealing with financial reporting, which continues to be the subject of its own dedicated Audit Committee.

DIVERSITY

We recognise the benefits of a diverse Board, and view increasing diversity at Board level as an essential element in securing a wide range of perspectives. A diverse Board is able to include and make good use of differences in the skills, regional and industry experience, background, race, gender and other attributes of directors.

While our desired diversity on this basis has not yet been achieved, we have adopted a policy to ensure that diversity in line with our commitment to this principle will be reflected in our composition in due course, and as practically possible, and on which we will be reporting, in compliance with King IV. All Board appointments are made on merit, in the context of the skills, experience, independence and knowledge which the

Board as a whole requires in order to be effective. (For more on the Board, committees, compliance and governance, see *Our governance* on  page 70.)

DIVIDEND

Since listing in 2012, the Company has achieved compound annual growth in profit after taxation of 7.5% in USD terms and delivered on the key strategic objectives set out in its listing prospectus. This, coupled with significant ongoing cash generation, enables the Company to strike a balance between continued investment in capital projects to support the Company's further growth and enhancing returns to shareholders through the payment of appropriate dividends. Thus, the Board has declared a gross dividend of ZAR26,0 cents per share on 19 March 2018 payable to all shareholders recorded in the Company's share register on 18 May 2018.

The dividend is payable from distributable reserves and is subject to dividend withholding tax of 20% which results in a net dividend of ZAR20,8 cents per share to shareholders subject to such dividend withholding tax. This dividend represents a six times earnings cover. Even though the level of cover for the dividend decreased, the dividend is still somewhat more conservative than the earnings cover at which our dividend policy is likely to settle over time.

CHANGES TO THE BOARD

Jacques Pierre de Wet and Johan Louis Botha have notified the Board that they will retire at the Company's Annual General Meeting ("AGM") to be held on Thursday, 7th June 2018.

Jacques was a member of the Board since 2012, and further served as member of the Company's Social, Ethics and Sustainability Committee, Remuneration Committee, Risk Committee and Nominations Committee. He also chaired the Company's Audit Committee.

Johan was a member of the Board since 2015, and further served as a member of the Company's Audit Committee. He also chaired the Company's Risk Committee and Social, Ethics and Sustainability Committee.

The Board wishes to thank Jacques and Johan for their valuable contribution to the Company during their tenure as members of the Board and its committees.

The Board will propose the election of successors in the place of the retiring directors to shareholders at the Company's AGM.

APPRECIATION

We would like to thank our Board members, whose input during the past year has continued to be above and beyond mere duty and whose involvement and participation make such valuable contributions to all aspects of our business.

We also thank our clients for continuing to be such willing partners with us and for maintaining their confidence in our innovative approach, proposals and technology.

Finally, to all our employees who have worked so hard to help us maximise results, which despite the lag involved in deriving benefit from the beginning of the upturn in the commodities cycle, are above expectation, and which reflect our ongoing ability to create value for our shareholders – thank you for your commitment and passion. It is our people who make us the company we are, and it is your continuing spirit, capacity and dedication that reinforce our position as the global leader in our industry.



HENNIE VAN DER MERWE
Chairman



DANIE PRETORIUS
Chief Executive Officer



WHO WE ARE

A WORLD LEADER IN SPECIALISED DRILLING SOLUTIONS

As the world's largest raise boring business, we provide raise boring and exploration drilling services which support our clients' unique needs, founded on our in-house expertise in drilling equipment design, manufacturing, training and maintenance capabilities.

Our clients comprise blue-chip major and mid-tier companies in the mining, civils and construction, and hydro-energy sectors. Established in South Africa in 1986, the Company was listed on the Johannesburg Stock Exchange in December 2012.

Our international operations span the world. On the African continent, and in addition to South Africa, we maintain operations in the DRC, Zambia, Mali, Tanzania and Sierra Leone. In Latin America we maintain operations in Brazil, Chile, Colombia, Ecuador, Mexico and Peru as well as having recently extended our operations in the USA, and have mobilised machines in India and Australia. We also retain an office and warehouse facility in China where specialised capital equipment is produced and procured.

Group engineering manufacturing and support are provided from South Africa and China, servicing several international locations. After the end of the financial year, the Group exercised its option to acquire the remainder of 60% shares in Bergteamet Raiseboring Europe AB.

ADDING VALUE

We are able to maintain efficient and effective control over the value chain because of the vertical integration business model that we have utilised since the inception of our business.

We place a high value on the agility we achieve through the principle of renting and/or operating and not selling the machines which we design and build in house. This principle, together with that of the simplicity of design and mobility to which we adhere, enables the cost-effectiveness of the services we provide to our clients.

With the ever-growing consciousness of, and the need for, safety expressed by our clients as well as the volatility of the commodities markets and labour issues to which our mining clients are subject, our meticulous focus on risk management is another element of compliance that brings significant value to what we do. (For more on risk see under *Risk management* on [page 32](#).)

In addition to our diligent pursuit of maximising safety, we add value to our service through:



SPEED

We can accomplish our automated drilling operations, which allows us to complete jobs often in less than half the time required by conventional methods of drilling and blasting.



EFFICIENCY

Our proprietary technology facilitates remote operation and monitoring, reduced manning costs, safer holes and tunnels, and real-time sample grading.



ACCURACY

We are able to locate productive ore bodies and meet our clients' analysis requirements with far more precision than is obtainable with conventional methods.



OUR VALUES AND BEHAVIOURS

R RESPECT

We create an inclusive and diverse workplace where we respect the views and feelings of those around us and consider the impact of our words and actions.

Behaviours

- We treat those we encounter with courtesy, dignity and consideration
- We acknowledge and appreciate the distinctive talents, viewpoints and contributions of others

A ACCOUNTABILITY

We accept responsibility for our actions and we make and support business decisions through experience and good judgement.

Behaviours

- We value the ability of our staff and organisation to honour our commitments to peers, co-workers, supervisors and clients
- We actively engage in discussions and commit to decisions once they are made

I INNOVATION

We challenge the status quo and proactively seek out new, different, or more effective methods to improve performance and service delivery.

Behaviours

- We create an environment that encourages and supports new ideas, innovation and problem solving
- We openly support and recognise those who are creative and innovative in their ideas

S SAFETY

We are conscious of the safety and well-being of those around us and share a personal and professional commitment to protecting the safety and health of our employees, our contractors, our clients and the communities in which we operate.

Behaviours

- We believe in the safe, compliant and reliable delivery of our operations
- We believe that all injuries are preventable and that achieving a healthy and safe environment starts with “me”

E EFFICIENCY

We utilise tools, technology and resources to maximise efficiency and effectiveness and deliver services on time and on budget.

Behaviours

- We perform tasks in ways that maximise available resources and minimise waste
- We are consistent in our executions and focus on activities that create value



HIGH SERVICE LEVELS

We are able to offer complete packages because of the flexibility, simplicity and mobility of our equipment, and our capacity to customise designs that match the individual needs of our clients.



PIONEERING INNOVATION

Our continual search for labour-saving, state-of-the-art designs and capacities allows us to meet unique challenges such as those encountered in horizontal boring.



ECONOMIES OF SCALE

We are able to offer cost-effective solutions as a consequence of our both owning and operating the largest fleet of raise bore rigs globally.

OUR GLOBAL FOOTPRINT

Master Drilling is a global business, with the major part of our revenue currently derived from South Africa and South America.

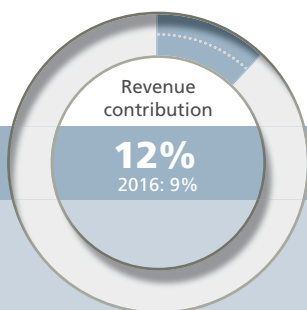
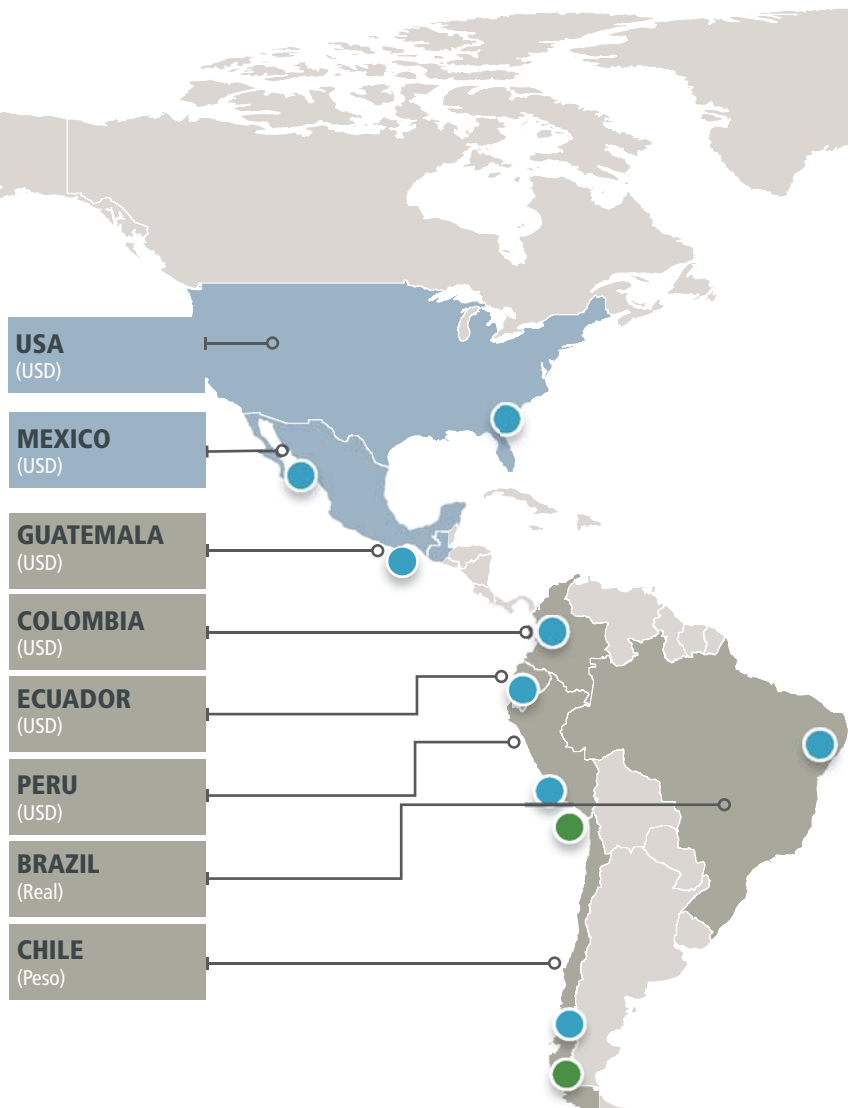
Geographic diversification forms an important part of our strategy as it broadens our growth potential and reduces our overall risk.



Worldwide
1 973
total employees

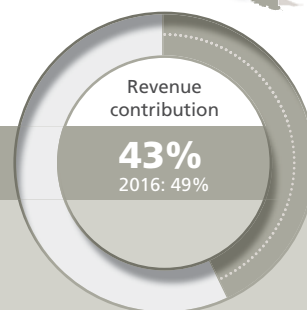
OUR OPERATIONAL PRESENCE

- Design
- Manufacture
- Maintain
- Train
- Operate



CENTRAL AND NORTH AMERICA

Commodities: Polymetallic, gold, copper, silver
Hydroelectric
Civils and construction



SOUTH AMERICA

Commodities: Polymetallic, gold, copper, silver
Hydroelectric
Civils and construction



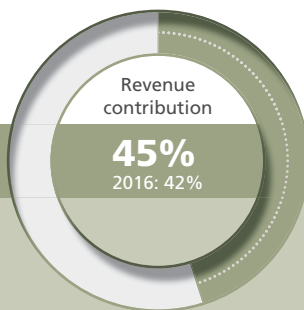
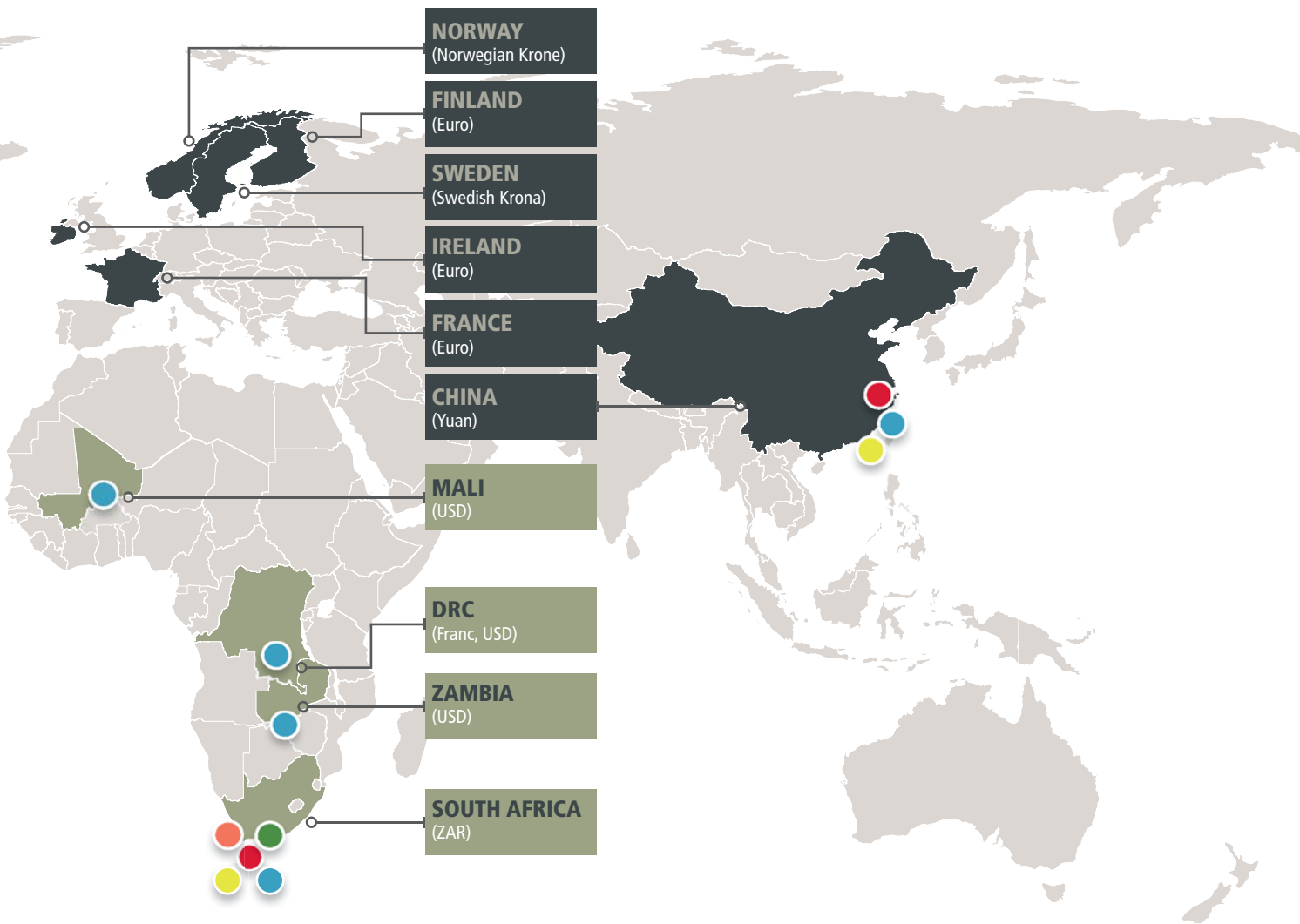
Total machines

9



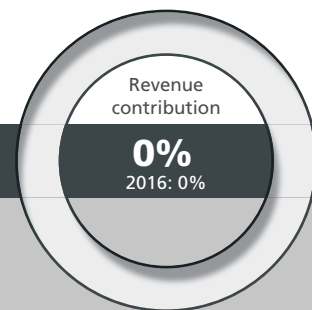
Total machines

76



AFRICA

Commodities: Gold, platinum, copper, diamonds, iron ore, coal



OTHER COUNTRIES

Commodities: Lead, chrome, zinc, polymetallic, gold, iron ore
Hydroelectric
Civils and construction



Total machines

22



Total machines

18*

* Includes Bergteamet locations and machines.

OUR INVESTMENT CASE

We are a global supplier of technologically advanced drilling operations, delivering value-added services. Our results reflect the merit of our diversification and organic growth strategies.



FINANCIAL VALUE INDICATORS

- Net cash generation increased to USD32.8 million
- Increase in shareholder spread from 1 300 to over 1 700
- Gearing ratio net of cash improved to 2.4%
- 7.5% compound annual growth in PAT from 2012 to 2017
- Net asset value increased from US98.7 cents last year to US107.6 cents per share
- USD HEPS decreased from 14.3 to 11.6
- Management continuously drives efficiency and cost control to protect business cash



SPECIALISED MARKET

- High barriers to entry
- Largest raise bore drill rig fleet in the world
- One-stop service offering
- Customised design for specific requirements
- Value-added support services
- A low capital cost base means we can build machines at much lower costs
- Patented intellectual property which has led to an efficiency edge over the opposition



DIVERSIFICATION

- Drilling services diversified across a range of aspects, including countries, business sectors, activities, commodities and clients
- A proven ability to move our fleet between geographies to maximise revenue
- Our vertically integrated business model facilitates revenue diversification
- Our costs are in local currencies, our revenue in hard currencies
- We offer a ZAR hedge to investors





WELL-ESTABLISHED CLIENT BASE

- A diversified client base mainly comprising blue-chip major and mid-tier mining houses
- As a preferred supplier to most of the world's largest mining houses, we have a reduced risk of failure in securing or renewing contracts



TECHNOLOGY

- Our work on patented technology over the last 18 months is now coming to fruition
- Our technologies have the capacity to change the way companies operate underground
- When the mining industry is under pressure from low commodity prices and rising costs, innovations boosting productivity and lower costs will be in demand
- Sophisticated information technology underpins all our strategic initiatives. (For more about our technology, see under *Technology* on [page 49](#))



EXPERIENCE AND COMMITMENT

- Our executive management team has a combined total of 101 years' experience, and holds approximately 60% of the shares

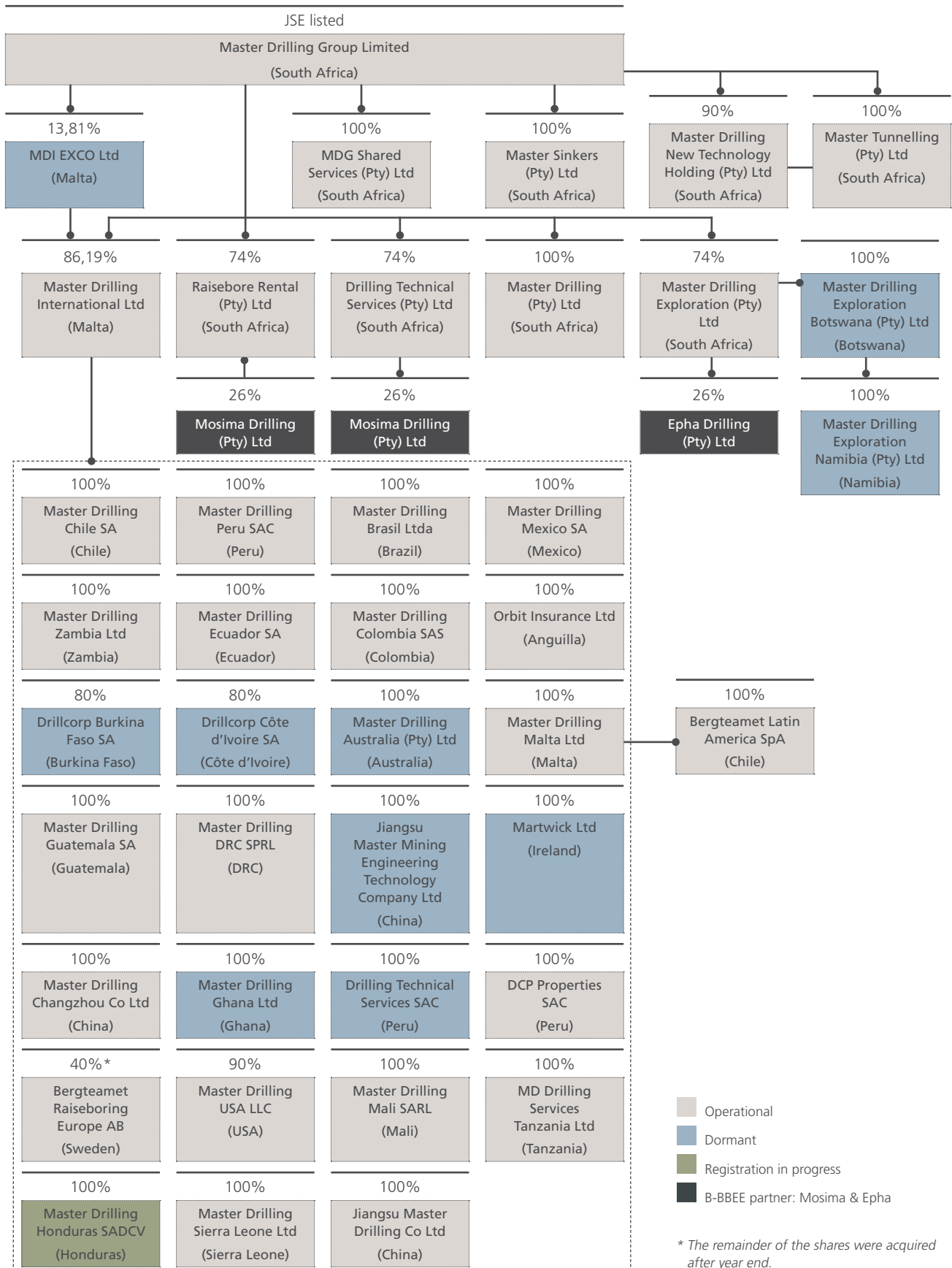


STRONG MARKET OPPORTUNITIES

- There is a prevalent recognition by mining companies that they need to produce more tonnes at quicker production rates, with fewer people and greater efficiencies
- In Latin America, where we have a strong and growing presence, a large proportion of underground mines already use trackless mining methods to extract minerals. This indicates that mechanisation is already well-entrenched within the industry – a fact that presents us with opportunities as the market understands the benefits of this technique
- Declining mineral content and the need to preserve the environment are causing large mining companies to turn away from open-cast to underground mining. Large deposits currently extracted through open-cast mining have better reserves at greater depths. Block caving is a mining method that allows for the bulk mining of large, relatively lower grade ore bodies, and it is increasingly being used at a number of deposits worldwide. Our work with Petra Diamonds mine in applying our technology for horizontal boring in block cave mining has the potential to lead to significant opportunities in this field




OUR GROUP STRUCTURE



OUR STRATEGY

OUR STRATEGY STATEMENT

We challenge the status quo to provide our clients with specialised, adaptive and integrated drilling solutions.



As we do every year on an ongoing basis, during the year under review we continued to examine the focused definition of our strategic objectives, initiatives and processes. In December 2017 we examined the detail of our strategic pillars in a review attended by management from all our geographic regions. The thrust of this strategy session was to find ways of optimising the communication and the practical application of our strategy.

OUR STRATEGIC PILLARS

We understand that the success and sustainable growth of our Company depend on a clear, defined and executable strategy.

Our fundamental aim is to maintain this growth in order to create value, and we have accordingly developed a strategy which enables us to deliver that value to our shareholders. Our commitment to diversification across geographies and industries, and our technologically advanced offerings and clients, are built on four pillars:



SUSTAINABLE GROWTH



OPTIMISATION AND
INCREASED PROFITABILITY



TECHNOLOGY OPTIMISATION
AND DEVELOPMENT



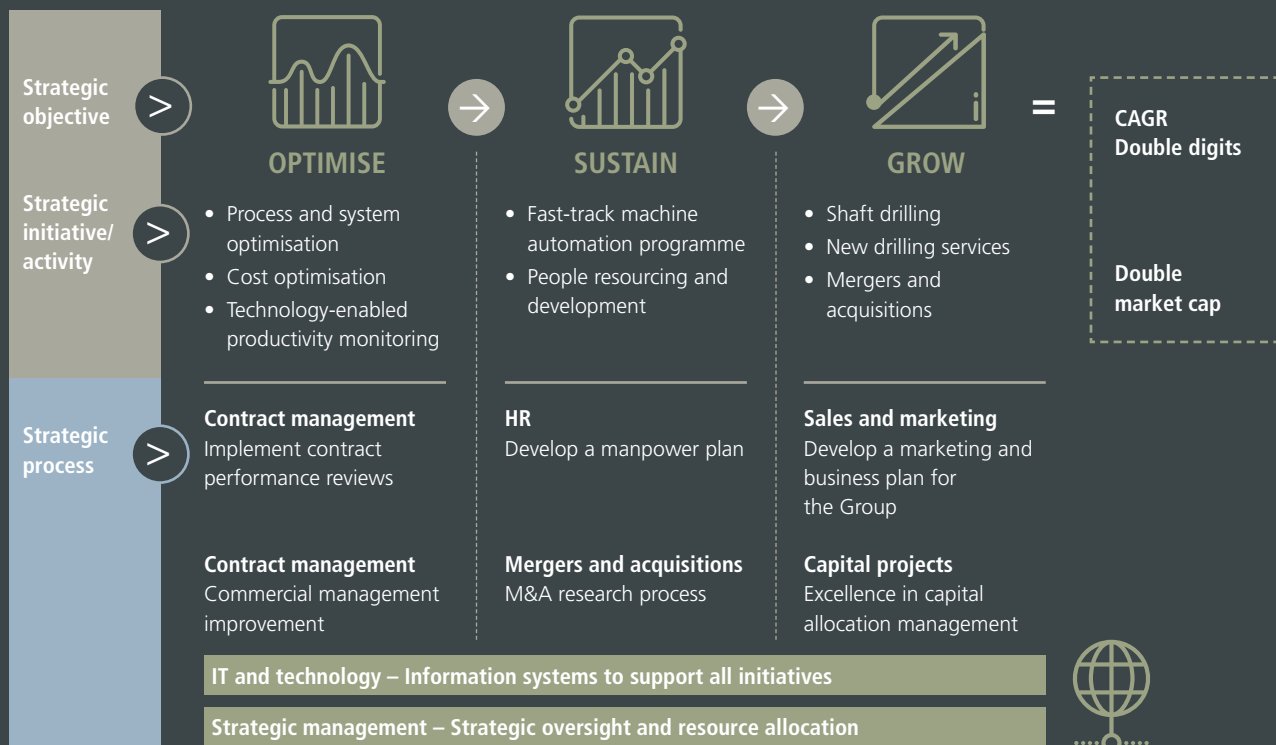
PEOPLE CAPACITY
AND DEVELOPMENT

In order to ensure the successful execution of this strategy, we have continued with our rigorous process of measurement through key performance indicators (“KPIs”) against which progress is continuously monitored. These KPIs provide a basis for our strategic focus, and enable us to establish operational dashboards in order to facilitate internal reporting and enhance operational efficiency. It is our practice to set timelines for the divisional implementation of the strategy to ensure its effective adoption and implementation at a business, functional and geographic level.



COMMUNICATING OUR STRATEGY

During the year under review, recognising that each of our regions requires a particular strategic focus, we began developing specific strategic emphases accordingly, and have communicated our conclusions effectively – an initiative that by integration into Group strategy within our different regions is adding value to each of our regional businesses.



OUR STRATEGIC IMPERATIVES

In implementing our strategy in the pursuit of growth and value-creation, we embrace an analytic model that includes three strategic imperatives, and evaluates our actions in terms of the inputs of objectives, initiatives and processes:

- **Optimise**
- **Sustain**
- **Grow**

OPTIMISATION

During the year under review our optimisation focus has been on operational efficiencies, using technology such as remote drilling as the basis of our efforts. We understand that for expansion to take place we need to focus on building our infrastructure, and our strategic project teams have been working on building the foundation and structure of the business going forward. We have taken great strides in this direction during the year, both in IT and in the technology that sets us apart from our competitors. Our goal is to be able to position ourselves as being able to provide the entire underground infrastructure for a complete mining operation.

SUSTAINABILITY

We have continued to maintain our steadfast strategic commitment to diversification in geographies, industry and currencies.

GROWTH

We have invested much effort on growth during the year under review, with a focus on mergers and acquisitions (“M&A”) and research. We have acted on the need to explore new regions such as Canada and the US, and in some African countries where we have seen projects initiated, as well as in an exciting new expansion into India and Australia. Seventy percent of our strategic work has gone into developing new areas – with marketing increased in recognition of the upturn in the commodities cycle, which we envisage as becoming much more apparent during the first half of 2018.

STRATEGIC GOALS AND ASSOCIATED KPIs FOR THE YEAR UNDER REVIEW

As a global leader in our industry we hold 43% of the raise bore fleet worldwide. While this positions us well in the commodity sector, we understand that it is geographic and currency diversification that will enable us to continue creating value.

We have further defined our strategic goals with associated KPIs for the period under review as follows:

Strategic goals	KPIs
<ul style="list-style-type: none"> • Market capitalisation of R4 billion 	<ul style="list-style-type: none"> • ZAR1,9 billion
<ul style="list-style-type: none"> • Two new geographies per year 	<ul style="list-style-type: none"> • Australia and India
<ul style="list-style-type: none"> • Further diversification into Energy and Civils 	<ul style="list-style-type: none"> • 0% – Civils construction* • 1% – Hydro • Limited energy and civils work awarded
<ul style="list-style-type: none"> • Double digit compound profit growth rate in USD terms 	<ul style="list-style-type: none"> • 7,5% on 2017 Actuals**
<ul style="list-style-type: none"> • Skilled people to support growth targets 	<ul style="list-style-type: none"> • On track with gap analysis and skills assessments

* Revenue for 2017.

** 2012 as base.

OUR STRATEGY / CONTINUED

During the year under review, we monitored the implementation of our strategic initiatives, categorised in terms of our strategic pillars, against desired outcomes, and with ongoing assessments of status and timing and associated KPIs, as we indicate in the tables below.



SUSTAINABLE GROWTH

We grow the business in a sustainable way, by using what we do well and diversifying into new geographies, sectors and clients

Strategic initiative	Outcome	Status and timing	KPIs
Develop marketing and business development plan for the Group	Develop sustainable pipeline of work to support growth targets	<ul style="list-style-type: none"> Horizontal raise boring and blind shaft boring systems 	<ul style="list-style-type: none"> Each country marketing plan Hours face-time <p>Lag</p> <ul style="list-style-type: none"> Order book value Pipeline value Compounded annual growth rate ("CAGR") revenue Fleet utilisation Sector diversification
Capital allocation and excellence in management	Minimum return on capital ("ROC") for Group of 15%	<ul style="list-style-type: none"> Progress made on working capital management Currently measured per country. Management plans in place to address this Annual capital budgets approved and managed accordingly <p>Systems and process</p> <ul style="list-style-type: none"> Dynamics AX – Asset management module and business process development 	<ul style="list-style-type: none"> Approved annual budgets <p>Lag</p> <ul style="list-style-type: none"> Working capital days ROC Return on capital employed ("ROCE") Asset return ratio
Mergers and acquisitions ("M&A")	Ongoing monitoring for M&A opportunities	Management is continuously seeking M&A opportunities	



GOALS IN 2018

Expand footprints in North America and India





OPTIMISATION AND INCREASED PROFITABILITY

We optimise our business by finding ways to be more effective and efficient in what we do, on a daily basis, in all our areas of operation

Strategic initiative	Outcome	Status and timing	KPIs
Develop cost optimisation review	Improve gross profit ("GP") by 1% annually	<ul style="list-style-type: none"> Identify procurement opportunities Identify cost drivers <p>Process and systems</p> <ul style="list-style-type: none"> Dynamics AX roll-out to all territories Procurement process project – Standardise and improve (business process and Dynamics AX) Budgeting process for Group under review 	<ul style="list-style-type: none"> First optimisation plan Average personnel per rig <p>Lag</p> <ul style="list-style-type: none"> GP % Overhead cost versus revenue Earnings before interest, tax and amortisation ("EBITDA")
Implement contract performance reviews	Identify and turn around poor-performing operations and contracts	<ul style="list-style-type: none"> Chile under internal review since January 2017 Significant improvement in business performance of Brazil project War room weekly review of contract performance <p>Systems and process</p> <ul style="list-style-type: none"> Strategic and business KPI measurement and reporting 	<ul style="list-style-type: none"> A number of underperforming operations persists <p>Lag</p> <ul style="list-style-type: none"> Number of underperforming projects turned around



GOALS IN 2018

Improve efficient operations through Group-wide communications of practical on-site lessons learnt



OUR STRATEGY / CONTINUED



TECHNOLOGY OPTIMISATION AND DEVELOPMENT

We are flexible and provide specialised services to suit our clients' requirements, applying technology development as a competitive advantage to improve business performance

Strategic initiative	Outcome	Status and timing	KPIs
BSBS	Replace conventional shaft-sinking methods	<ul style="list-style-type: none"> Detail engineering completed Estimated costing: R450 million Procurement Possible projects to test concept Industrial Development Corporation ("IDC") funding secured 	<ul style="list-style-type: none"> Funding secured Research and development ("R&D") costs spend <p>Lag</p> <ul style="list-style-type: none"> Revenue from BSBS
Developing new drilling services	Development of new applications to sustain and grow the business	<ul style="list-style-type: none"> Horizontal Drilling Project: Phase A – length 180m x 4,5m completed Mobile miner tunnelling Gripper Slot machines Low profile raise bore machine Dewatering rotary machines 	<ul style="list-style-type: none"> R&D capital spend <p>Lag</p> <ul style="list-style-type: none"> % of revenue ROC services
Technology-enabled productivity monitoring (raise boring)	<ul style="list-style-type: none"> Centralised facility to gather and monitor operational data with the goal of improving overall utilisation, efficiency and safety performance 	<p>Operational excellence project in progress:</p> <ul style="list-style-type: none"> Production time increase Penetration Hands free War room meetings: <ul style="list-style-type: none"> Weekly review of high-impact projects Six Sigma contract delay projects Mobile app implementation <p>Systems and process</p> <ul style="list-style-type: none"> MD Online and dashboard completed and implemented Mobile app development and implementation 	<ul style="list-style-type: none"> Operational data capture for all machines <p>Lag</p> <ul style="list-style-type: none"> Machine utilisation Group LTIFR
Technology-enabled productivity monitoring exploration business			
Fast-track raise bore machine automation programme	Automated RB machines available with auxiliary equipment as per Group requirement	<ul style="list-style-type: none"> Machines identified for automation in 2017 Programme on track in 2017 	<ul style="list-style-type: none"> % total machines automated <p>Lag</p> <ul style="list-style-type: none"> Availability of automated machines Failure cost of automated machines
Information systems to support all initiatives	Information systems to support all strategic initiatives and special projects, continues to see improvement in projects and risk mitigation strategies	<ul style="list-style-type: none"> IT Steering Committee in place Formal project management methodology implemented in management of IT projects IT resources increased IT governance and risk management framework developed Service providers engaged and contracted to assist in IT projects 	<ul style="list-style-type: none"> IT Steering Committee in place <p>Lag</p> <ul style="list-style-type: none"> % strategic initiatives where IT projects are registered



GOALS IN 2018

Deployment of Mobile Tunnel Borer



PEOPLE CAPACITY AND DEVELOPMENT

The foundation of our strategy is the people who make it happen; our success depends on how our skills and expertise support our goals

Strategic initiative	Outcome	Status and timing	KPIs
Develop employee skills and manpower plan	Skilled and trained employees at all levels in the organisation	<ul style="list-style-type: none"> Group-wide organogram agreed and signed off Skills gap analysis conducted for South Africa and South America Training plans drafted Recruitment and selection plan in place for South Africa and South America – work in progress Systems and process Dynamics AX – human resources module development – in progress Internal training assessment of requirements. New process to be developed Learning Management System undergoing investigation and testing 	<ul style="list-style-type: none"> Agreed Group organogram % critical positions vacant for more than three months <p>Lag</p> <ul style="list-style-type: none"> % compliance with skills development plan Labour cost to revenue Revenue per head
Commercial management improvement	<ul style="list-style-type: none"> Group-wide processes implemented and resourced – compliance by all countries Optimise contract pricing to risk 	<ul style="list-style-type: none"> Function resourced in Africa and new resource appointed in Peru Contract reviews to be done <p>Systems and process</p> <ul style="list-style-type: none"> Standard Group tender conditions in development Standard pricing model in development 	<ul style="list-style-type: none"> Approved matrix aligned <p>Lag</p> <ul style="list-style-type: none"> Number of contracts compliant with terms % contracts outside of standard terms



GOALS IN 2018

Further strengthening training capacity with effective resources



During the year under review, in a clear strategic implementation shift, we have linked specific strategic performance to every employee's remuneration and the way in which they are evaluated. Performance is now being gauged on the extent to which strategy is being executed.

When the industry was in its downturn cycle, cost was the primary concern. Subsequently, with the upturn now taking place, a drive has developed towards automation and integrated, holistic solutions. This development is ideally suited to our vertically integrated business model and our strategic imperative of diversification of technologies.



MATERIAL MATTERS

“

The risks identified at management level by our risk department and which are presented at a governance level to the Risk Committee give rise to a definition and classification of the material matters that have a bearing on our business and which substantively affect our ability to create value for our stakeholders over the short, medium and long term.

”

In our approach to identifying these matters we take into consideration not only the expectations of our stakeholders, but our external environment, and any other identified risks and opportunities that may affect our ability to execute our strategy.

DETERMINING OUR MATERIAL MATTERS

During 2017, we were guided in our process of determining our material matters by the principles of the IIRC Framework, and we reviewed our material matters during the year under review within the same terms of reference.

In conducting this review we took into consideration:

- Our understanding of the external environment in which we operate (For more on our operating environment, see under *Our operations* on [page 56](#))
- A review of our engagement with stakeholders in order to determine their expectations (For more on stakeholders, see under *Stakeholder management* on [page 38](#))

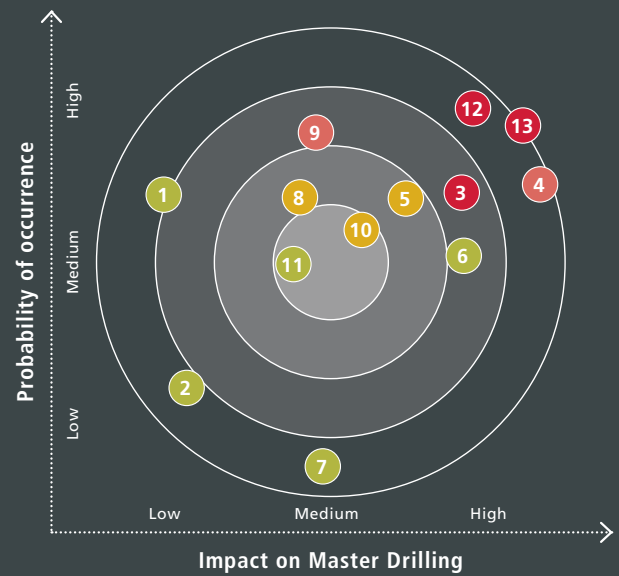
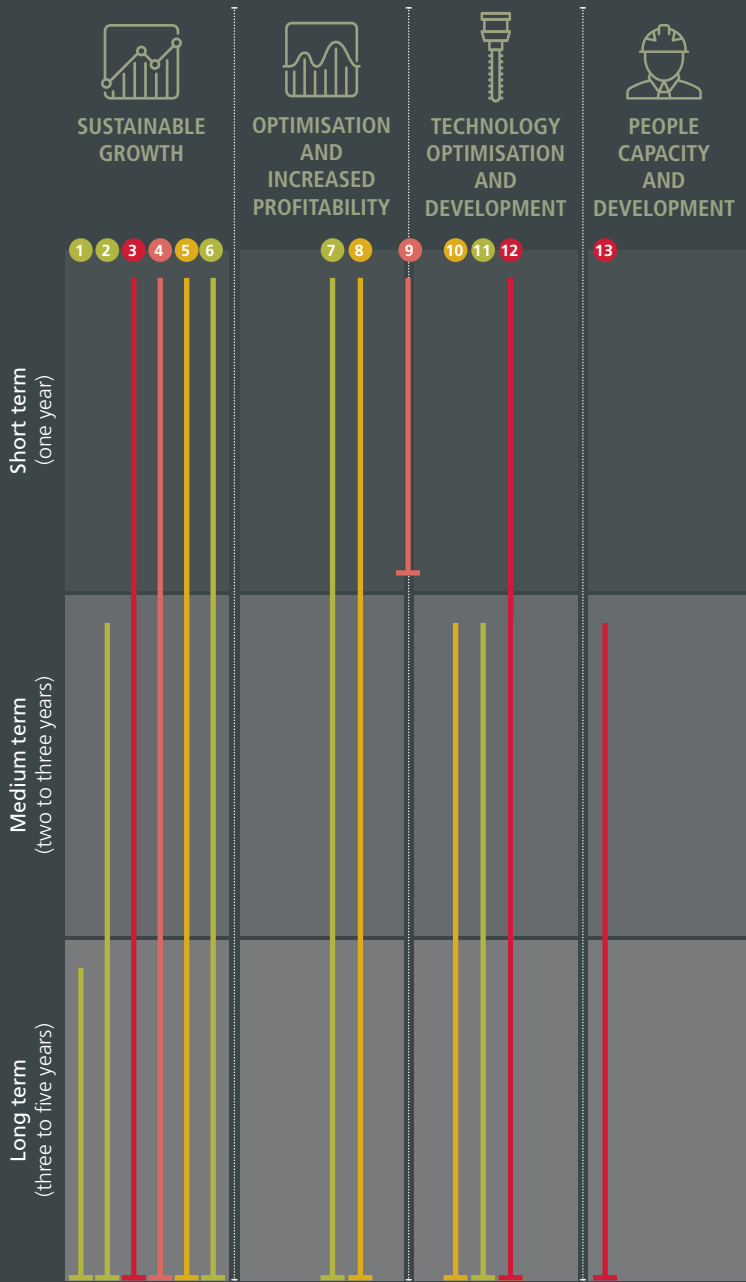
- Our risks and opportunities as they are managed within our business operations (For more on risk, see under *Risk management* on [page 32](#))

For the purposes of this determination of relative materiality we also assessed the severity of the impact that any given material matter has on our business and the probability of its occurrence, and examined whether its effect would be perceptible over the short, medium, or long term.

Having followed this procedure, it was apparent to us that there had been no significant changes in those matters which are material to value-creation in our business since the previous financial year. It was therefore decided that there was no need to alter our previous determination of the appropriate strategic responses necessary to adequately address the matters we had identified.



MATERIAL MATTERS HEAT MAP



The heat map indicates high to low prioritisation of material matters based on an assessment of the probability of a risk occurring or an opportunity realising and the impact it would have on the business.



- 1 Funding
- 2 Contract execution
- 3 Global mining and commodity cycles
- 4 Unwanted health- and safety-related events
- 5 Contract quality management

- 6 Client dependency
- 7 Fleet return optimisation
- 8 Cost escalation beyond budget
- 9 Reliance on strategic (equipment) component suppliers
- 10 Delivering on technology expectations










- 11 Fleet design and assembly process
- 12 Information technology, data analytics and end-user knowledge
- 13 Management and technical skills to support growth

MATERIAL MATTERS / CONTINUED

CLASSIFYING OUR MATERIAL MATTERS

Material matter	Context – Opportunities for impact	Strategic pillar
1 Funding	<ul style="list-style-type: none"> The ability to fund future growth is a key component of our growth plans. Since listing our reputation has been enhanced with our growing maturity giving us a stronger presence in the market and making funders more favourably disposed toward us 	
2 Contract execution	<ul style="list-style-type: none"> If contracts are not executed to agreed quality standards we could be at risk of reputational damage because of equipment failure due to inappropriate maintenance that results in compromised safety We maintain quality management systems to ensure that contracts are executed in line with the agreed processes, and that operational risk management processes are embedded throughout the Group Senior management receives weekly feedback on the operational monitoring of all contracts. We have identified contract execution as a strategic initiative and have appointed a Group quantity surveyor In addition, our IT structure has been set up to communicate lessons learnt and to establish Group best practice 	
3 Global mining and commodity cycles	<ul style="list-style-type: none"> With commodity cycles able to negatively impact our business, we have deliberately increased our exposure to more stable, longer-term capital projects and production-stage drilling opportunities from which we derive most of our income. Our high level of geographic diversification assists in absorbing commodity swings We also aim to diversify our commodity portfolio and have a well-diversified revenue stream in various commodities. There are global opportunities in specific commodities, which our management team investigates on a regular basis Our drill rigs are highly mobile, allowing us to move where demand is, profiting from the commodity market without any real commodity spot price risk While Bergteamet, based in Sweden, currently operates mainly in the mining sector, the Group's geographic position will facilitate entry into the hydroelectric and civil and construction sectors of Europe and Scandinavia, further driving overall diversification 	
4 Unwanted health- and safety-related events	<ul style="list-style-type: none"> Mining is labour-intensive, and thus exposes our employees and those of our clients to a range of potential health and safety hazards. Our non-blast drill environments mitigate this risk however, and our health and safety programme has been devised to minimise incidents and ensure the safety of employees 	
5 Contract quality management	<ul style="list-style-type: none"> Contracts jointly negotiated with our clients help us to manage operational deliverables as part of our standard commercial contracting process. These contracts reflect the industry in which we operate as well as inherent market and geographic issues. We also ensure that certain critical clauses, such as force majeure, are included in the contracts to manage the commercial risks We are confident that the quality of our contracts is of a high standard and we review them regularly to ensure their relevance in current market conditions As with contract execution, we have identified contract management as a strategic initiative and are working to ensure transfer of knowledge management, underpinned by information technology, in this area 	
6 Client dependency	<ul style="list-style-type: none"> Depending too heavily on one client constitutes a risk to our revenue stream, and our aim is to balance our client spread more effectively. We target clients on the bottom end of the cost curve, believing that their businesses are more sustainable than those at the higher end 	



Material matter	Context – Opportunities for impact	Strategic pillar
7 Fleet return optimisation	<ul style="list-style-type: none"> Our fleet of drill rigs is our manufactured capital. It is critical that we use the fleet optimally to maximise value creation for stakeholders The fact that we own all of our drill rigs enables us to use spare rig capacity to increase revenue or redeploy to projects with higher returns. Effective portfolio planning, forecasting and continued project reviews assist us in maintaining utilisation and margins at targeted levels 	
8 Cost escalation beyond budget	<ul style="list-style-type: none"> Our focus on automation and remote drilling will have an increasing and positive impact on operational efficiency going forward. This in turn will assist in managing the escalation of costs, with escalation clauses also included in contracts In the case of cost and revenue currency mismatches at a country-specific level, there is a natural hedge at Group level 	 
9 Reliance on strategic equipment component suppliers	<ul style="list-style-type: none"> Our assembly process relies on strategic suppliers situated in China for the delivery to our specifications of cost-effective, high-quality equipment components. We can source other suppliers worldwide, but not without compromising on cost and time We continue developing new suppliers to reduce this reliance and a dedicated office in China monitors all aspects of the equipment component supply chain management process In line with our concerted focus on cost containment, we are assessing all elements of our supply chain to see where we can reduce costs without compromising on quality 	 
10 Delivering on technology expectations	<ul style="list-style-type: none"> As a recognised market leader in the raise bore drilling industry, our client expectations are that we deliver technology innovations to reduce costs, increase efficiency and enhance employee safety. Our in-house research division ensures we deliver differentiated services within the mining industry Supporting our people, who constitute both our human and intellectual capital, in exploring various aspects of innovation not only helps to drive a culture of innovation, but is also an important retention strategy 	
11 Fleet design and assembly process	<ul style="list-style-type: none"> We are reliant on our in-house design and assembly process to deliver additional rigs to address changing demands and ultimately support growth There is a risk that fleet planning and forecasting might not be fully integrated within the business strategy and would therefore not be able to react timeously to a changing market. To mitigate this risk, the forward assembly process plans take account of day-to-day maintenance volumes and future demand to support client requirements Our ability to design our own drills and rigs in-house, source and manufacture components (mostly through our Chinese subsidiary) and assemble the finished rigs, allows us to constantly grow and improve our fleet without competitors having access to our engineering intellectual property (“IP”) – a key competitive advantage 	
12 Information technology, data analytics and end-user knowledge	<ul style="list-style-type: none"> The inability of a business to fully utilise its information system and the data it yields can lead to missed opportunities for driving production efficiencies and capitalising on cost savings We have established an IT Steering Committee to ensure that systems are in place for optimal extraction, analysis and interpretation of data 	 
13 Management and technical skills to support growth	<ul style="list-style-type: none"> The lack of management and business skills, project management expertise and skilled labour in the drilling industry could restrict the ability for future growth. Shortage of skilled labour could possibly inhibit our rate of expansion To support and drive future growth, we have increased training and development to maintain and deliver the specialised skills we require We have, among other initiatives, established a <i>Management in Training (“MIT”)</i> programme. We operate training centres in South Africa, Peru, Mexico and Chile and provide learnerships and internships in the engineering and operational divisions 	

RISK MANAGEMENT



We align our risk-management process with the ISO 31000 risk standard, a global standard which governs the principles and generic guidelines concerning this important area of business, and we implement its framework across all our Group business operations.



The way we manage risk is central to our strategic success and is an integral part of our governance framework. The Board delegates its responsibility for risk management oversight to the Risk Committee, as reflected in the charter of the Risk Committee. In turn, it is the responsibility of the risk department and management for the identification and description of our risks, and the implementation of the risk management policy and processes throughout the Group. (For more on risk see under *Our governance* on [page 70](#).)

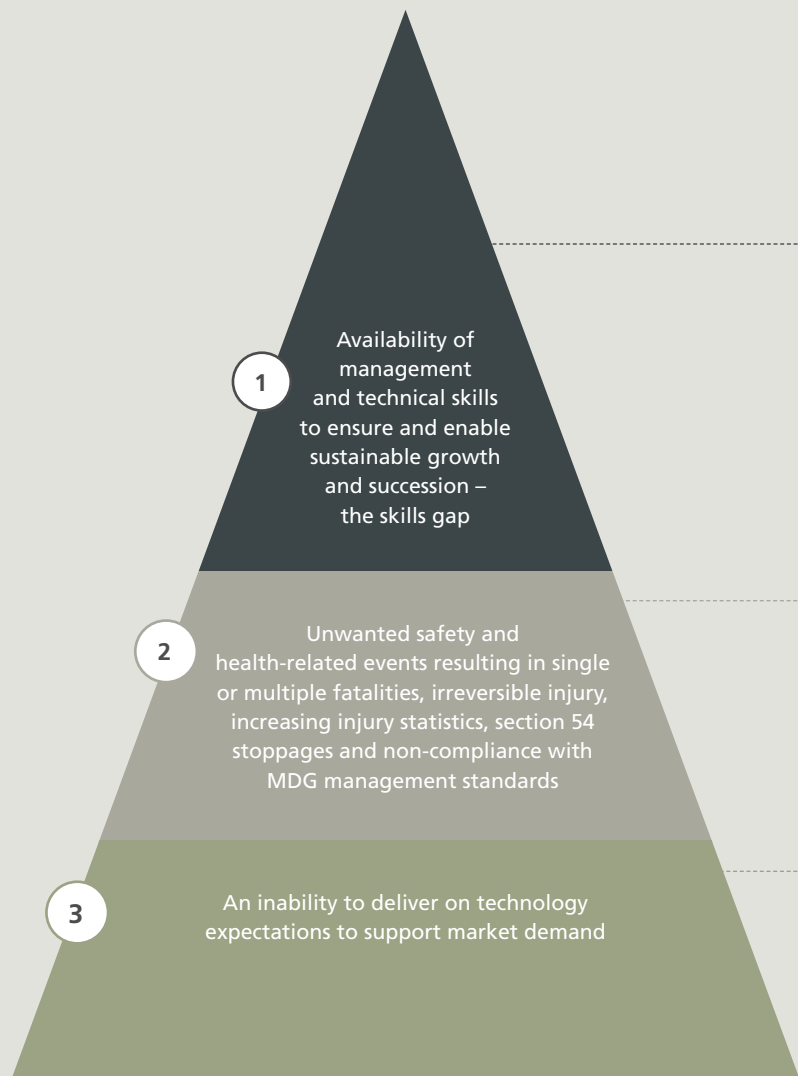
RISK MANAGEMENT PROCESS

At a management level, the risks identified are maintained by the risk department in a risk register which then forms the basis for plans devised to mitigate them through the use of key risk indicators which assist us in their monitoring.

At a governance level, at quarterly meetings the Risk Committee reviews the identified risks as well as management's responses to them. These risks are then used as input when it comes to determining our material matters. (For more on materiality see under *Material matters* on [page 28](#).)

OUR TOP THREE RISKS

We have added a further component to our methodology of identifying risks, by identifying the top three risks to which we are exposed, and categorising them in terms of (among other indicators) appetite, tolerance, and the metric by which we assess them.



On the basis of our risk register, and the assessments contained in it, we have established a dashboard which maps, among other controls, the relative nature of each risk, with regard to whether it is an inherent, residual or target risk.

TOP THREE RISKS

1 AVAILABILITY OF MANAGEMENT AND TECHNICAL SKILLS

Key control	Risk appetite
Recruitment: Manpower planning and recruitment process and skills development	<ul style="list-style-type: none"> All key resources identified, Key performance areas ("KPA") established and appointed Low number of staff turnover resulting in preservation of skill and IP
Skills development: Gap analysis per individual per position	<ul style="list-style-type: none"> Skills gap identified and development plans in place for all key positions

2 UNWANTED SAFETY- AND HEALTH-RELATED EVENTS

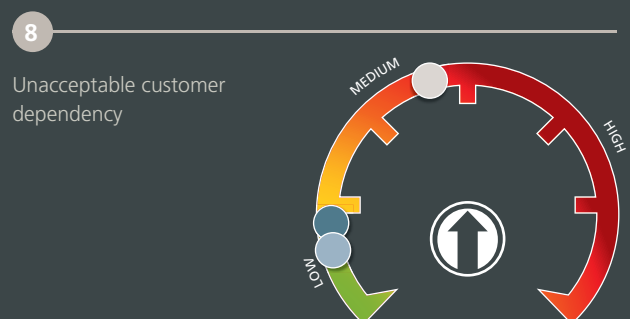
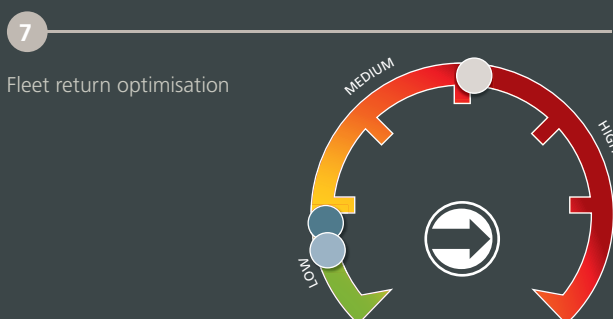
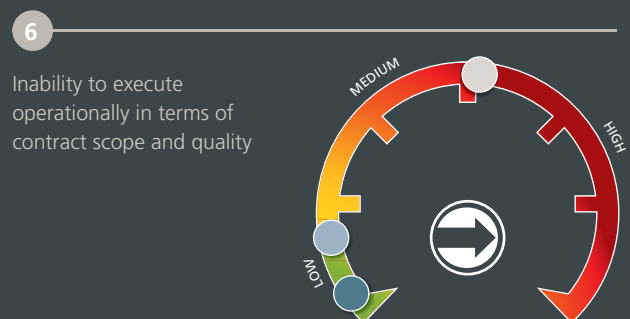
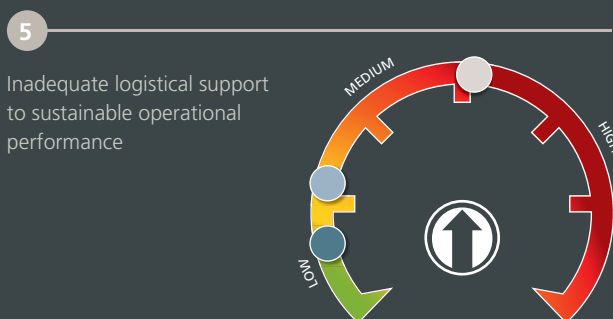
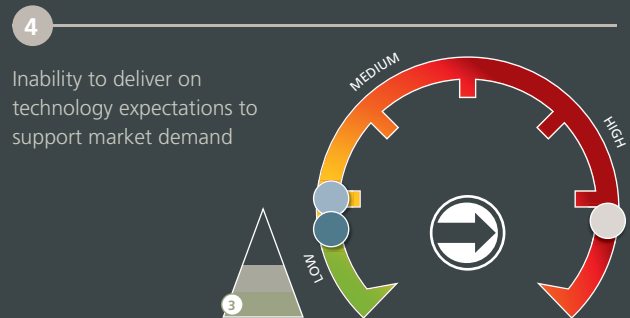
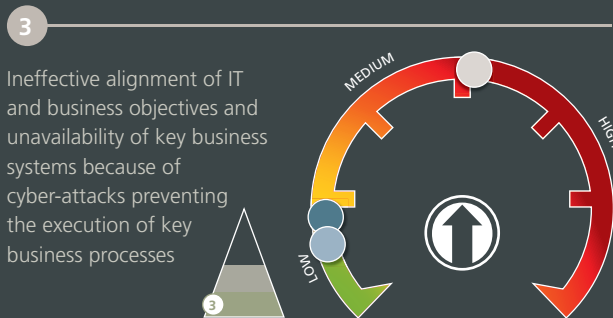
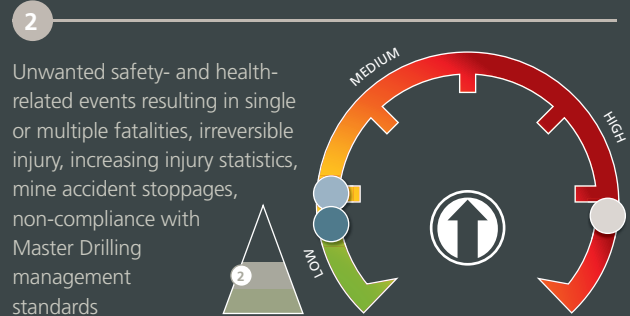
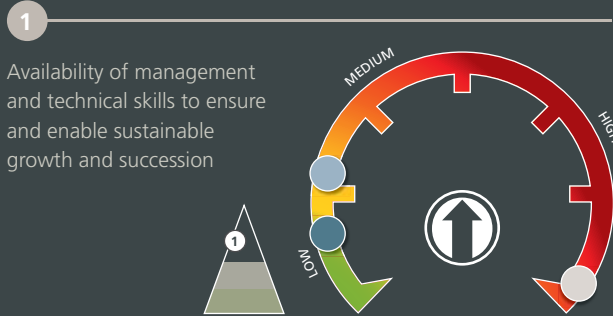
Key control	Risk appetite
Alignment of organisation in robust and well-documented safety strategy	<ul style="list-style-type: none"> Safety strategy communicated and all contracts and countries aligned in terms of requirements Zero tolerance on loss of life or significant irreversible injury

3 INEFFECTIVE ALIGNMENT OF IT AND BUSINESS OBJECTIVES

Key control	Risk appetite
Governance and development through Group IT Steering Committee represented by all pillars of the organisation Monthly IT meetings with management	<ul style="list-style-type: none"> Process: High availability of systems which support its critical business functions Service delivery: All critical and high-risk resolved with same business hours Ongoing development: Strategic, risk and continuous improvement projects – on time, on budget

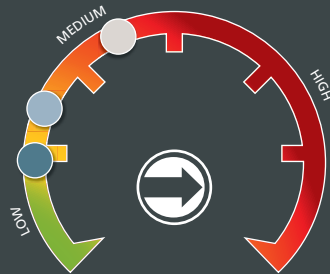


OUR RISK DASHBOARD



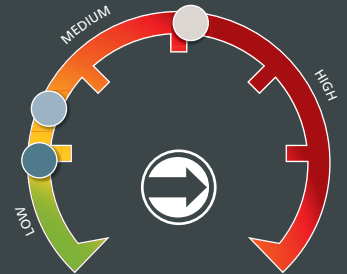
9

Inadequate quality control of the manufacturing process



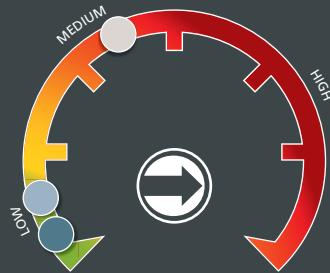
10

Inadequate quality management process to ensure sustainable business and continuous improvement



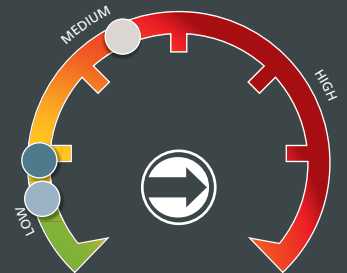
11

Industrial action by organised labour



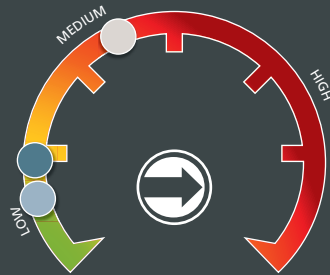
12

Global mining and commodity cycles



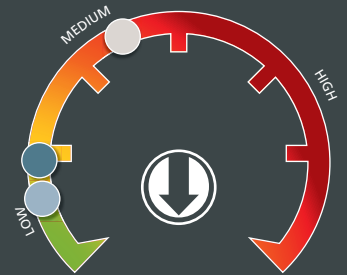
13

Cost escalations beyond budget



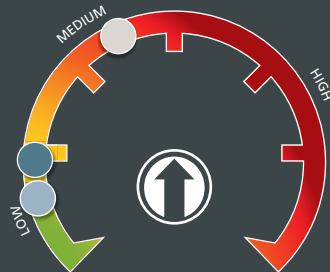
14

Reliance on strategic equipment component suppliers



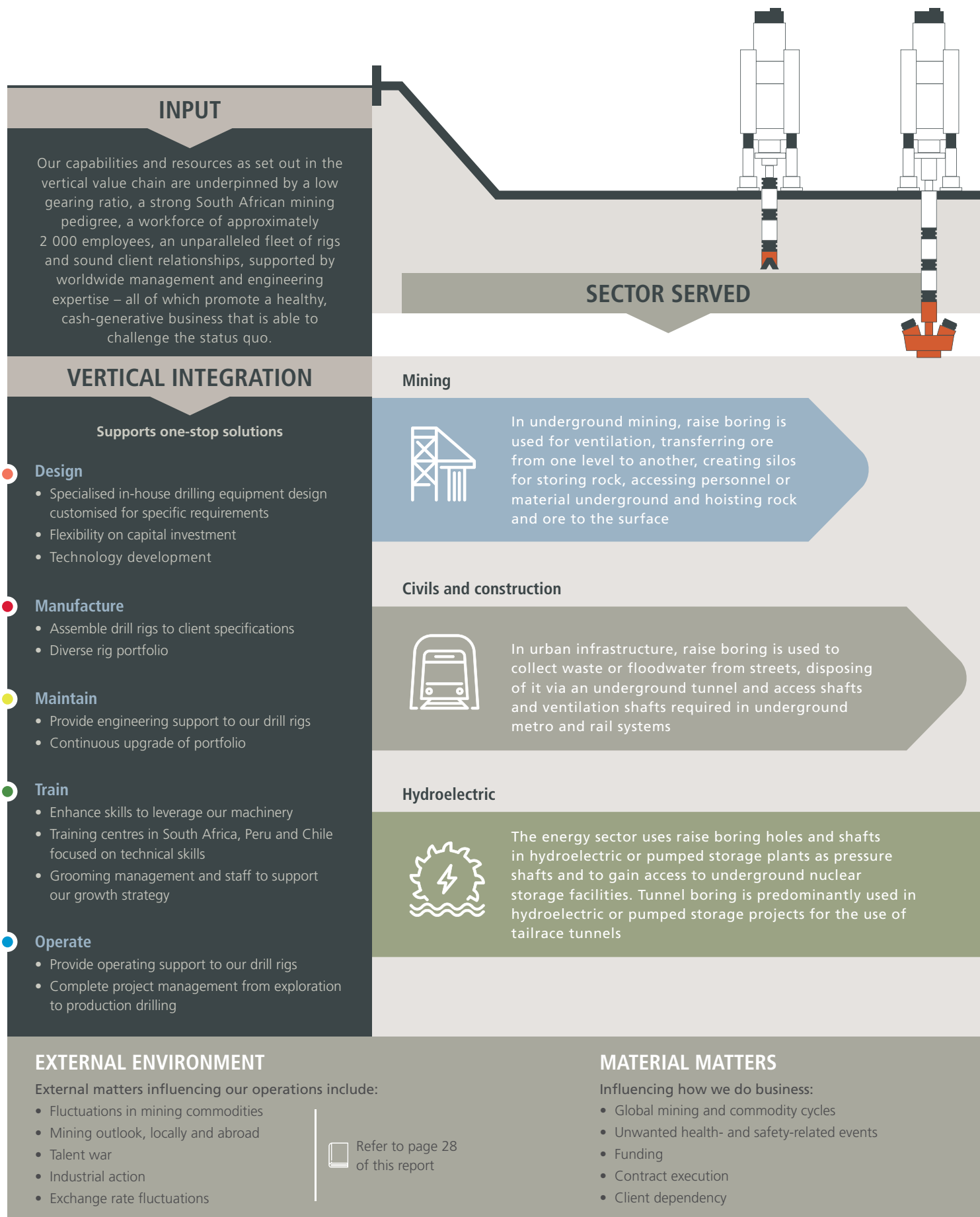
15

Effectiveness of current commercial management process

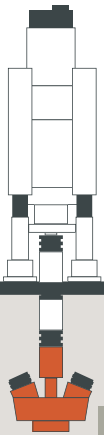


- Target risk
- Residual risk
- Inherent risk
- ↓ Decrease in inherent risk exposure
- No change in inherent risk exposure
- ↑ Increase in inherent risk exposure

OUR BUSINESS MODEL



Our vertically integrated business model supports one-stop solutions in design and assembly of rigs, training and engineering support and, ultimately, diverse drilling applications in a diversity of geographical locations.



OUTCOMES

What we achieve links directly to our strategic objectives of doubling market capitalisation, realising 20% in CAGR, expansion to two geographies or sectors per year and people development to support the 20% growth

STRATEGIC STATEMENT

We challenge the status quo to provide our clients with specialised, adaptive one-stop-service drilling solutions

STRATEGIC PILLARS



SUSTAINABLE GROWTH



OPTIMISATION AND INCREASED PROFITABILITY



TECHNOLOGY OPTIMISATION AND DEVELOPMENT



PEOPLE CAPACITY AND DEVELOPMENT

OUTPUT

Our products and services to the various sectors we serve

Rock boring

Rock boring applications offered by Master Drilling include:

- Horizontal raise boring
- Box hole boring
- Slot hole drilling
- Tunnel boring
- Blind hole boring
- Reef boring
- Raise boring (our primary service offering)


Slim drilling

Slim drilling includes a number of different drilling applications, such as:

- Blast hole drilling
- Dewatering
- Core drilling
- Percussion drilling
- Reverse circulation drilling
- Mud and air rotary drilling


Support services

Directional drilling, stage shaft support, remote operated shaft support, piling scan mobile, analysing of ore and core yard management.

 <http://masterdrilling.com/our-business-and-global-footprint.html>

- Contract quality management
- Fleet return optimisation
- Cost escalation beyond budget
- Reliance on strategic equipment component suppliers

- Fleet design and assembly process
- Delivering on technology expectations
- Availability of management and technical skills
- Information technology, data analytics and end-user knowledge

 Refer to page 28 of this report

STAKEHOLDER MANAGEMENT

Our business operations and objectives affect, or are affected by, various stakeholders. Their interest may be direct or indirect, with our key stakeholders being those who can influence our ability to create value.

Due to their influence and the impact that they have on the Group, our key stakeholders are our clients, our employees, our shareholders and those who are otherwise invested in the Group. More broadly, our lenders and financiers, various trade unions, the media, our suppliers and government and regulatory bodies all have an impact on the way we operate, and on the outcomes of our operations.

We are very conscious of the fact that while we undertake operations as contractors to our clients, when we are active on the sites on which we work, we are also impacted by, and have an impact on, the communities in which our clients' operations are situated. Many of these indirect stakeholders are affected by what we do, and in some instances we are also affected by their interests. As a result, we include them in our programme of stakeholder engagement.

REGULAR REVIEW

The issues and expectations of all our stakeholders are considered regularly at senior management and Board meetings, and the Board is satisfied that the approach taken by management is adequate for current operations, with an even more formalised programme envisaged as we expand and grow.

CONSIDERED ACTION

We take care in identifying our stakeholders, and in defining the way in which we engage them. We make every effort to be cognisant of the key issues that affect them and ourselves, and the manner in which we respond to them.

The following table presents an outline of the profiles of our stakeholders, our engagement process with them, and our actions or responses, as determined and undertaken during 2017.

STAKEHOLDER ENGAGEMENT



CLIENTS (CURRENT, NEW AND POTENTIAL CLIENTS AND TARGETED SECTORS)



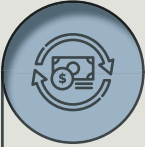
Current engagement process and surveys

- Quarterly client satisfaction surveys
- Telephonic and written communication with senior management
- Formal site meetings
- Mining Indaba and trade shows – HRB model displayed at the Mining Indaba and presentation presented
- Technical meetings
- Business development meetings
- Conferences – MDG to participate as sponsor and speaker at the Rapid Underground Mine & Civil Access conference hosted by SAIMM – also involved with arrangements of the conference
- Site visit to our facilities and operations on sites
- South American clients visited our HRB at Cullinan mine in SA during December 2016



Action or response

- Transparent interaction and clear communication based on mutual respect
- Senior management receives weekly feedback on the monitoring of all contracts
- Our high levels of technology translate into a competitive advantage for our clients
- The marketing department is tasked with delivering new business and managing existing clients
- We have established a client relationship management programme
- Active cost management is an integral part of contract management and contract execution
- Honest opinions
- Senior involvement in queries



SHAREHOLDERS AND INVESTMENT COMMUNITY



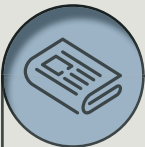
Current engagement process and surveys

- Management daily, by executive meetings and day-to-day involvement in business
- One-on-one CEO and CFO meetings
- Reporting into governance structure
- JSE and retail investors: integrated report
- Interim and year-end investor presentations – Results presentation 22 March 2017 at JSE
- Investor forums
- Roadshows – Cape Town 23 to 25 March and Johannesburg 27 and 28 March
- Analyst meetings
- Stock Exchange News Service (“SENS”) announcements
- Investor site visit to our operations – Cullinan HRB site visit on 6 October 2016, next visit planned at Sibanya – gripper machine



Action or response

- To achieve our CAGR target, we are continually reinvesting in the business and using our cash resources for investment in asset development
- Our strong Board has industry-wide experience
- We adhere to the principles of King III
- We are transparent about the fact that shareholders should not expect dividends while we are investing in our business capacity during the Group’s initial growth phase



MEDIA



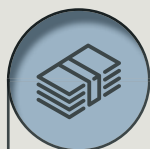
Current engagement process and surveys

- We engage with journalists from all forms of media, including print, online publications and sites, broadcasting. In terms of print and online media, we gain exposure in industry-related trade publications, mining magazines and newspapers by means of editorial content
- Quarterly publications
 - Financial results
- Mining-related gatherings
 - Meetings and interviews at our offices
- Press releases – HRB press release during Mining Indaba to create awareness
- Media site visit at authorised operational sites – Sake Rapport and Reuters attended site visit at Cullinan on 2 February 2017
- Media monitoring – 55 editorial publications published during February 2017.
- One-on-one meetings to be scheduled with main media throughout the year 2017 – Focused on financial media



Action or response

- We engage proactively, informally and transparently with all forms of media to satisfy most requests
- We request to receive article drafts before publication date and interview questions before interviews



LENDERS AND FINANCIERS



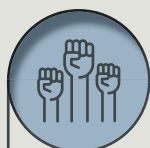
Current engagement process and surveys

- CFO meetings
- Regular reviews with management
- Banks contacted monthly via management statements
- Covenant reviews



Action or response

- We provide detailed financial reports and operate to a strong cash flow and debt coverage ratio. We also hold significant assets



TRADE UNIONS



Current engagement process and surveys

- Official letters
- Annual wage negotiations
- Quarterly meetings
- In South Africa, we have a recognition agreement with the United Association of South Africa ("UASA") and hold frequent meetings with the Association of Mineworkers and Contractors Union's ("AMCU") officials

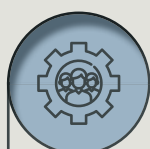
APPROXIMATE UNIONISATION:

- South Africa: 100% (UASA majority of 67,9%)
- Brazil: 100%
- Chile: 35%
- Mexico: 100%
- Peru: 38%
- Zambia: 75%



Action or response

- Fair remuneration, benchmarked to industry standards, was incorporated into the annual wage agreements
- Agreements and interactions are reviewed by an independent labour lawyer



SUPPLIERS



Current engagement process and surveys

- Regional procurement office for specific equipment
- Regular interactions with suppliers via meetings, visits and email
- Engineering trainees work with suppliers to understand the value chain
- Audits
- Monthly discussions on supplier variations



Action or response

- We have a team dedicated to dealing with supplier accounts
- We continue developing new suppliers to reduce our reliance on any particular supplier
- A dedicated office in China monitors all aspects of the equipment component supply chain management process
- We use a Data Vault programme to manage change control
- We are implementing more modules of Dynamix AX



GOVERNMENT AND REGULATORY BODIES



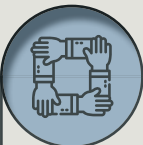
Current engagement process and surveys

- We engage with tax, labour, environmental and mining authorities. We also engage with the JSE and regional and central banks. Engagement takes place at our regional head offices and operation sites
- Regulatory returns
- Direct communication from permanent offices
- Quality of education
- B-BBEE expectations
- Indirect communication through our clients
- Visits by the authorities
- Labour laws
- Tax paid



Action or response

- We ensure we meet all compliance requirements through timeous filings and the hand-over of complete, transparent supporting documentation
- We engage on an ongoing basis in order to maintain and establish mutually respectful relationships



COMMUNITIES



Current engagement process and surveys

- We mostly engage with those communities situated within our clients' areas of operation. Engagement takes place at their sites, under their operating authority
- Aligned with our clients
- Ad hoc as circumstances dictate



Action or response

- Our engagement with communities is aligned with the companies who employ our services in our operational areas
- Corporate social investment is run by local operations, rather than at a Group level
- Provide Jobs to community
- Community investment
- Sponsorship of community events/projects





OUR STRATEGY IN ACTION

SUSTAINABLE GROWTH



What we said we would do in 2017

Secure an initial contract in North America to establish footprint



What we achieved in 2017

- 1** Exciting new machine with dual capability of blind shaft boring and raise bore drilling was shipped to the USA during the reporting period. The North American market is anticipated to remain strong based on enquiries received as well as the anticipated spend on infrastructure development
- 2** Deployed a large raise boring machine to India with a contract value of USD6 million
- 3** First Australian contract where Master Drilling shall supply the raise bore machine and technical support whilst the client takes care of the operations



Our commitments and targets for 2018

Expand footprints in North America and India



For more sustainable growth see under *Our strategy* on [page 21](#).

We grow the business in a sustainable way, by using what we do well and diversifying into new geographies, sectors and clients.

INDIA PROJECT

First machine shipped and mobilised in India as part of our geographical expansion

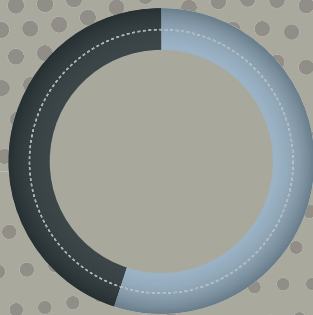


RC MACHINE PILOT PROJECT IN USA

Capable of blind shaft boring and raise bore drilling

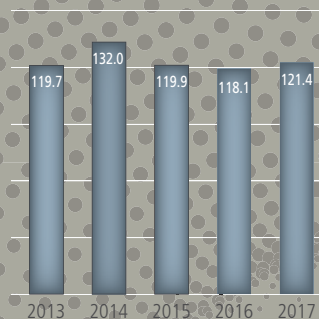


TOTAL PIPELINE



○ Committed orders 55%
● Other 45%

REVENUE PER YEAR (USD'million)



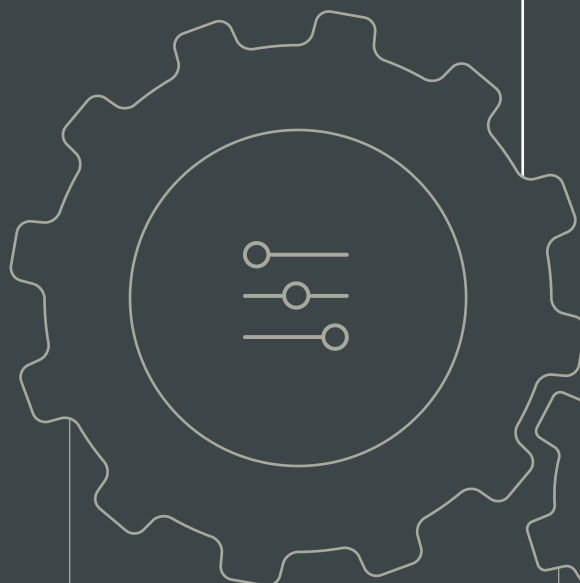
Dividend of
ZAR26,0 cents
 per share declared

Stable order book of
USD124.7 million

HOW WE WORK

HOW WE DO IT

How we do,
what we do



OPERATE

Providing operational support and complete project management for all our drill rigs



TRAIN

Enhance and develop skills to leverage our machinery



MAINTAIN

Providing engineering support for drill rigs; continuously upgrading our portfolio



DESIGN

Conceptualising, developing and delivering the equipment you need, from start to finish

WHY WE ARE DIFFERENT



SPEED

Our automated drilling operations, compared to conventional methods of drilling and blasting, allow us to complete jobs and complete operations in record time.



ACCURACY

We have good aim. Efficiency in locating productive ore bodies and meeting our analysis requirements is what we are about.



EFFICIENCY

We enhance our clients' productivity through remote operation and monitoring, reducing manning costs, ensuring safety and real-time sample grading.



FLEXIBILITY

The flexibility, simplicity and mobility of our equipment, as well as the customised designs that match the individual needs of our clients.



MANUFACTURE

Assembling and establishing a diverse portfolio of custom drill rigs

OUR APPROACH TO CLIENTS AND SUPPLIERS

R

RESPECT

We value our customers, providing only the best expert advice and tailored solutions for all client requirements, welcoming varying viewpoints and contributions.

A

ACCOUNTABILITY

We accept responsibility for our actions, and support decisions through experience and good judgement – we are committed to the decisions we make.

I

INNOVATION

We challenge the status quo and proactively seek out new, different or more effective methods in order to improve performance and service delivery.

S

SAFETY

We believe in the safe, compliant and reliable delivery of our operations.

E

EFFICIENCY

We utilise tools, technology and resources to maximise efficiency and effectiveness; delivering on time and on budget.



INNOVATION

Arising from our continual search for cost-saving, state-of-the-art designs and capacities that have allowed us to meet unique challenges.



SCALE

Economies of scale resulting from owning and operating the largest fleet of drill rigs in the world.

HOW WE WORK / CONTINUED

HUMAN RESOURCES ("HR")

As at December 2017 our total workforce complement stood at 1 973. The following charts describe various aspects and targets with regard to our human capital, reflected in labour strength, unionised members, labour turnover and salary increases.

Labour strength

	MDX	DTS	MD	MDSS	Chile	Brazil	Mexico	Peru	Zambia	DRC	China	Mali	Tan- Zania	Sierra Leone	Total
December	144	136	235	79	254	153	237	530	66	83	23	33	–	–	1 973

	MDX	DTS	RR	MDSS	Chile	Brazil	Mexico	Peru	Zambia	DRC	China	Mali	Tan- Zania	Sierra Leone	Total
Skilled	80	89	71	58	83	38	65	62	31	17	18	11	–	–	623
Semi-skilled	35	34	35	19	77	44	80	152	6	15	5	1	–	–	503
Unskilled	29	13	129	2	94	71	92	316	29	51	0	21	–	–	847
	144	136	235	79	254	153	237	530	66	83	23	33	–	–	1 973

Unionised employees

Country	Number of unionised employees
MDX	161
DTS	136
RR	235
MDSS	75
Chile	196
Brazil	0
Mexico	101
Peru	214
Zambia	30
China	21

Labour turnover

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Skilled	24	21	23	11	33	24	25	27	25	14	22	17
Semi-skilled	20	10	23	12	17	16	28	28	9	6	16	20
Unskilled	39	32	40	19	29	33	34	22	36	33	34	35
Total	83	63	86	42	79	73	87	77	70	53	72	72

Total labour turnover 2017

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Turnover	83	63	86	42	79	73	87	77	70	53	72	72
Labour strength	2 099	2 127	2 082	2 096	2 095	2 099	2 114	2 102	2 070	2 083	2 044	1 973
Percentage	3,95	2,96	4,13	2,00	3,77	3,48	4,12	3,66	3,38	2,54	3,52	3,65
Target	2,5	2,5	2,5	2,5	2,5	2,5	2,5	2,5	2,5	2,5	2,5	2,5

Skilled labour turnover 2017

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Skilled	24	21	23	11	33	24	25	27	25	14	22	17
Labour strength	2 099	2 127	2 082	2 096	2 095	2 099	2 114	2 102	2 070	2 083	2 044	1 973
Percentage	1,14	0,99	1,10	0,52	1,58	1,14	1,18	1,28	1,21	0,67	1,08	0,86
Target	0,5	0,5	0,5	0,5	0,5	0,5	0,5	0,5	0,5	0,5	0,5	0,5

Semi-skilled labour turnover 2017

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Semi-skilled	20	10	23	12	17	16	28	28	9	6	16	20
Labour strength	2 099	2 127	2 082	2 096	2 095	2 099	2 114	2 102	2 070	2 083	2 044	1 973
Percentage	0,95	0,47	1,10	0,57	0,81	0,76	1,32	1,33	0,43	0,29	0,78	1,01
Target	2	2	2	2	2	2	2	2	2	2	2	2

Unskilled labour turnover 2017

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Turnover	39	32	40	19	29	33	34	22	36	33	34	35
Labour strength	2 099	2 127	2 082	2 096	2 095	2 099	2 114	2 102	2 070	2 083	2 044	1 973
Percentage	1,86	1,50	1,92	0,91	1,38	1,57	1,61	1,05	1,74	1,58	1,66	1,77
Target	3,6	3,6	3,6	3,6	3,6	3,6	3,6	3,6	3,6	3,6	3,6	3,6

Salary increases

Country	Last wage increase %	Salary increase senior managers %	Salary increase executives %	Salary increase employees %
South Africa	6,50	6,50	6,50	6,50
Zambia	7,50	7,50	7,50	7,50
China	3,22	3,22	3,22	3,22
Peru	4,00	4,00	4,00	4,00
Mexico	7,00	7,26	7,26	7,26
Chile	3,60	4,00	4,00	2,60
Brazil	5,00	5,00	5,00	5,00



During the year under review we focused on targeted interventions for management and on technical training in general.



TRAINING INITIATIVES LAUNCHED 2017

ACCREDITATION APPLICATION – MINING QUALIFICATIONS AUTHORITY (“MQA”)

- Training department applied to the MQA for accreditation, pending outcome

ON-BOARDING PROGRAMME

- Learner and capability assessment guides drafted for each pillar of the business, together with presentations

RAISE BORE CAPABILITY QUESTIONNAIRES

- Amend low-level (operator) questionnaires
- Compile applicable videos
- Compile and approve high-level operational questionnaires (Engineering)
- Compile and approve high-level operational questionnaires (Operational)
- Align learning material and questions

GAP ANALYSIS AND PROMOTABILITY

- Initiated for MD and rolled out to South America (in progress)

GENERIC MANAGEMENT SITE-TRAINING

- Training conducted on-site towards national qualification
- Modules 1 and 2 rolled out to South America

TEAM AUDITS

- Conducted per department utilising the Thomas International psychometric assessments. Roll out to South America in 2019

TALENT FEED PROJECTS

- Technicon engineering students intake for work-integrated learning. Talent absorbed subsequent to practical training completion
- In-service training for trade apprentices. Talent absorbed as multi-skilled labour for operations

INFORMATION TECHNOLOGY (“IT”)

IT is a fundamental pillar of our business, enabling the integration of the many systems we require, from Research and Development (“R&D”), through administration of our businesses, to requisitioning, tendering and logistics.

During the year under review we undertook a number of initiatives and secured a number of achievements:

- **Integration of information management systems and the IT department**

These two areas were successfully combined to report to the General Manager (“GM”) of the IT department, with change management of any documentation within the Group managed under a single umbrella.

- **Improved project management (“IT projects”)**

At the start of the year under review, we took the management of all IT projects begun in 2016 a step further, with the appointment of an IT project manager who drives the projects, and enhanced the connection to business through improved communication, user engagement, project delivery, and weekly and monthly meeting reporting.

- **Enhanced security – Multifactor Authentication (“MFA”)**

We implemented the MFA for all our users, which prevents any user-name and password being used by people outside of the system, which can now detect an unknown device and request verification via SMS or a dedicated app.

- **Implementation of a learner management system**

This system is now integrated with Sharepoint, our collaboration portal. This enables users to do online courses, specifically on IT systems. On completion of the course, a user will be awarded a certificate, on the basis of which the IT department will grant permissions or access to a system if such access is required. The system can now also be used for referencing through the utilisation of e-learning modules, thereby obviating the need for looking up material in a manual.

- **Electronic requisitions (purchase and stores)**

We implemented a capability for the requisitioning stores for all of Africa, eliminating the need for manual paperwork. All requests can now be made electronically according to an approval matrix which is then assigned to the person responsible for dealing with the request. This constituted a significant step towards our goal of paperless and smarter working.

- **Implemented Dynamics AX in four legal entities**

Dynamics AX is our Microsoft Enterprise Resource Planning (“ERP”) system, and the four entities in which it is now newly implemented are Sierra Leone, Tanzania, Master Drilling Proprietary Limited and the Master Drilling Training Centre.

- **Incident management in AX (Africa)**

Incidents can now be directly linked to the HR system and projects. This means that if there is an incident it can be immediately picked up by HR, or if there is a safety certificate that is issued or expired, not only HR, but quality-control personnel can see it. This is now fully integrated and is no longer a stand-alone management system.

- **Establishment of the PowerBI business intelligence platform**

PowerBI is a business intelligence program for executives. We made our balanced scorecards and dashboards available on this system to enable executives to access them for quick viewing. While we do maintain another BI platform, PowerPivot, it is more of an employee self-service platform, while PowerBI was introduced during 2017 in order to accommodate executive KPIs.

- **HR, recruitment and on-boarding implemented in Dynamics AX**

This was an initiative to enable record-keeping for future reference, of all applications, applicants and CVs.

HOW WE WORK / CONTINUED

The structure of assurance, service delivery and changed management services within MDG is illustrated in the chart below.



(For more on IT within operations, see under *Our operations* on [page 60](#).)

IT focus for the coming year

There are five areas of focus for IT for 2018:

- Optimising and improving efficiency
- Integrating, consolidating and measuring information
- Trend analysis of information acquired through the above process in order to provide better insight into the organisation, and better convert data into usable information to enable sound business decisions
- Improvement of project initiation and engagement to ensure that users are ready to use any systems that may be delivered – in other words to facilitate changes in behaviour required for new IT steps
- Change management – developing ways to improve the manner in which change is introduced and managed

GROUP SAFETY STRATEGY

In pursuing our goal of zero harm, we base our approach on four key strategic principles:

- **Hands free** – Eliminating manual activities and ensuring that the risk is contained by means of engineering and administrative controls in order to eliminate the primary cause of injuries within the Group
- **Governance** – Comprehensive compliance with the various standards relating to safety, health, environment and quality (SHEQ)
- **Risk assessment** – Identifying and controlling of all workplace hazards according to the hierarchy of controls
- **Incident investigation** – Ensuring 100% no-repeats of any injury in the workplace through preventative and corrective actions

HEALTH AND SAFETY

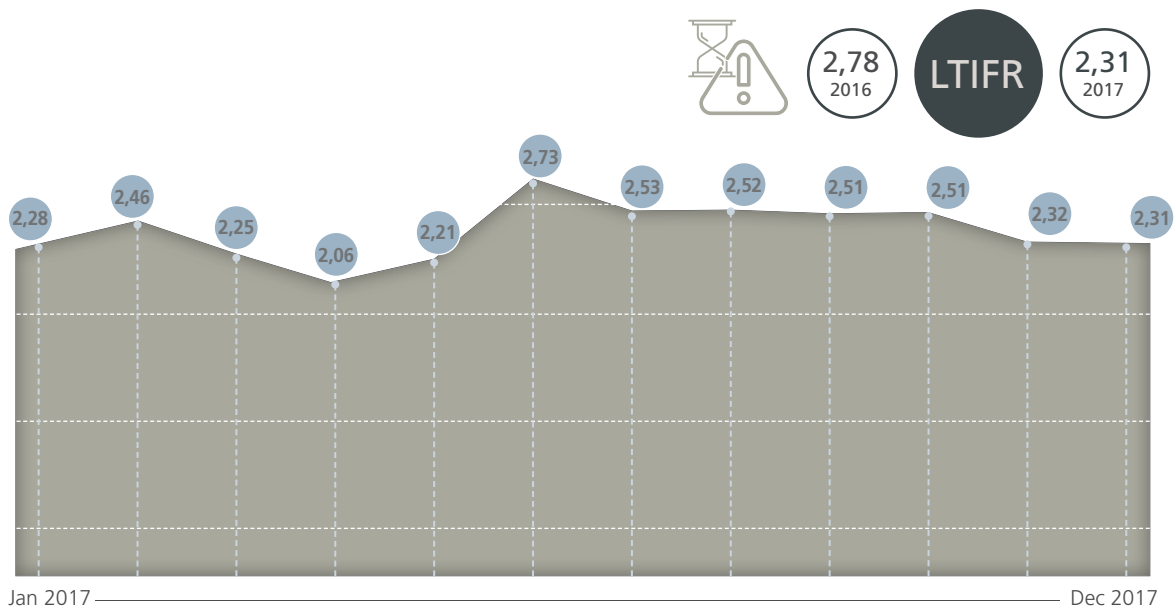
Undesirable events that result in single or multiple fatalities, irreversible injury, increasing injury statistics, mine safety stoppages, and non-compliance with MDG management standards, are always a risk in a business such as ours. We also face pressure from clients who, in exceptional cases where standards are not adhered to, or there is a serious outcome, will even insist on dismissal. It is a fact that when we bid for tenders, safety heads the list of requirements.

During the year under review we continued to pay particular attention to this aspect of our business, and were engaged in a continuing and significant drive to bring down the level of potential incidents, and to increase awareness and informed safety compliance among our employees. This has borne fruit, in that our employees and operational teams generally function at a high level of safety and comply with all safety policies, procedures and legislation.

It needs to be emphasised that we have zero tolerance to eliminate undesirable employee behaviour. We are gratified to note that our LTIFR reflected improvement from 2,78 in the previous year to 2,31 during the year under review. Nevertheless, we remain steadfast in our aim of achieving a figure of zero, with no serious harm whatsoever coming to any member of our workforce.

Comparative lost-time injury frequency rate year-on-year

The graph below indicates the LTIFR based on 1 000 000 hours.



Total number of employees (MDG)*
2 056



Total number of LTIs for 2017
6



Annual man-hours per stats (MDG)
5 304 759



Total number of all injuries for 2017
26

* Equivalent number of employees during the year.

CHIEF FINANCIAL OFFICER'S REVIEW

The mining sector remained under pressure for most of the year, and this, together with prevailing operational and economic issues, made the 2017 financial year one in which we had to work within economically flat conditions in order to generate revenue.

ANDRÉ VAN DEVENTER
Chief Financial Officer



CAGR

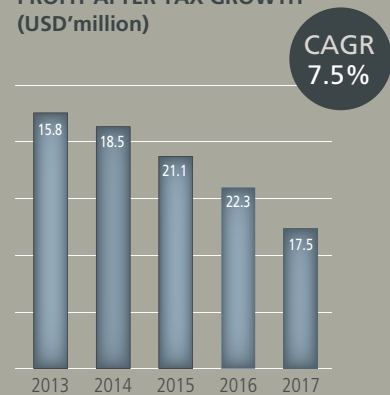
HEPS (USDc)




HEPS (ZARc)



PROFIT AFTER TAX GROWTH (USD'million)



This review should be read in conjunction with the summarised consolidated annual financial statements starting on  page 86.

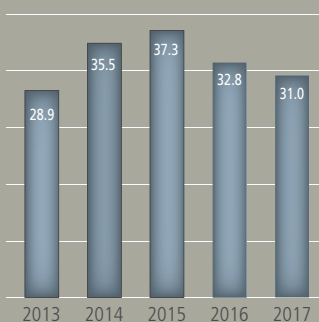
Master Drilling's annual financial statements are available online at  www.masterdrilling.com

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Despite our utilisation rates remaining down, and the difficult operating conditions persisting in the industry well into the second half of the year, enough gradual improvement in our operating environment became apparent towards the end of 2017 to enable us to deliver a satisfactory performance.

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EBITDA
(USD'million)



CAGR
9.0%

EVALUATION OF THE EXPERTISE AND EXPERIENCE OF THE FINANCIAL DIRECTOR AND THE FINANCE FUNCTION

The Audit Committee is satisfied that the Financial Director has the appropriate expertise and experience to execute his designated functions. The expertise, experience and adequacy of the resources making up the finance function were also considered and the committee is satisfied that these are appropriate.

Revenue increased by 2.8% to USD121.4 million and operating profit decreased by 1.9% to USD25.3 million. The increase in revenue was due to two machines being added to the fleet, and the weakening of the emerging currencies having a positive effect on the revenue line.

Additional costs related to the launch of the new projects in India and Australia were incurred towards the end of 2017. These new projects resulted in an increase in working capital as additional inventory was required.

USD earnings per share ("EPS") decreased 19.6% to 11.5 cents, and ZAR EPS decreased 27,1% to 153,1 cents. USD headline earnings per share ("HEPS") were down by 18.9% to 11.7 cents, and ZAR HEPS were down by 26,5% to 154,4 cents.

CHIEF FINANCIAL OFFICER'S REVIEW / CONTINUED

TAXATION

During the year under review with the loss-making entities having previously utilised deferred tax assets, we now had normalised taxation in most of the geographies in which we operate, to the extent of an average tax rate of 22,7%.

CASH GENERATED FROM OPERATIONS

Net cash generation saw an increase to USD32.8 million, and although still not achieving the targets that management had in place, is moving in the right direction.

Working capital remained fairly flat year-on-year, with minimal movement especially in inventory and receivables. We will however continue to manage working capital actively as market conditions improve.

Cash resources continue to be managed stringently to cater for emerging opportunities that require specific design, planning and investment. This resulted in a healthy cash resource balance that positions the Company well for future growth – this cash

will be utilised to pay for the balance of the Bergteamet Europe acquisition, as well as further expansion.

Debt increased from USD31.0 million to USD44.0 million and the gearing ratio, including cash, improved from 6.4% to 2.4% in the current year. This is despite an additional drawdown of USD20 million from ABSA during the year.

UTILISATION

While our utilisation rates on our raise bore rigs showed a marginal decrease, from 73% in the previous year to 69%, there was an increase in our slim drilling rigs' utilisation, increasing from 55% to 77%. The Group's X-Large and XX-Large machines were utilised at only around 40% throughout the 2017 financial year.

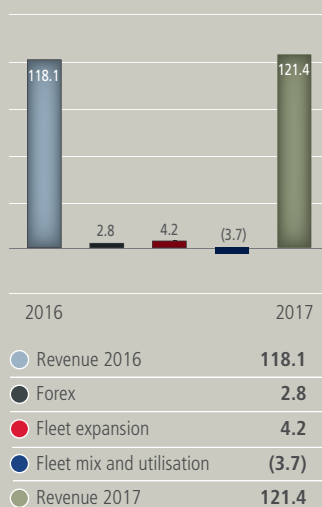
With our raise bore utilisation some 6% below target, our revenue per rig, at USD110 937, is substantially down from our target of USD120 000. We have every reason to believe, on the basis of committed orders, that the second half 2018 will show a marked improvement.

AVERAGE REVENUE PER OPERATING RIG ("ARPOR") SUMMARY PER ANNUM

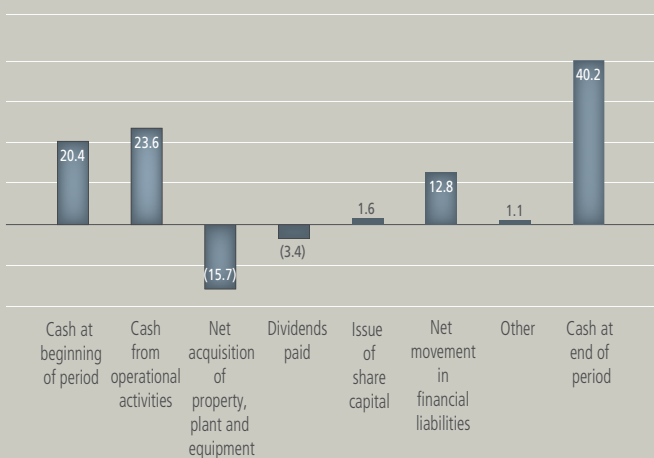
	2017	2016	2015	2014	2013	2012
Total raise bore rigs	107	105	98	94	88	88
Utilisation (%)	69	73	70	75	77	71
ARPOR* (USD)	110 937	111 040	120 819	118 215	117 047	108 847
Total slim rigs	34	33	48	45	74	64
Utilisation (%)	77	55	35	54	54	51
ARPOR* (USD)	63 597	74 280	96 761	58 525	50 740	34 293

* Average revenue per operating rig per month.

REVENUE WATERFALL (USD'000)



CASH FLOW WATERFALL (USD'000)



FUNDING

Our gearing ratio continues to come down. We obtained a second facility from ABSA Capital during the year under review with a draw-down of USD20 million, with an additional USD20 million to be available during 2018. Our gearing ratio still stands below our target of 30%, and at around 2% if cash is included, it remains very low, in keeping with our financial conservatism in this respect. Our interest-bearing debt stands at USD40 million, an increase from USD31 million in 2016.

REVENUE GROWTH

While we targeted 10% growth in revenue in Dollar terms, we achieved just below 3%, due to the lower utilisation of our rigs. The biggest contributor to us not achieving our target has been the fact that the largest earning potential rigs were only utilised 40% during the year.

CAPITAL INVESTMENT/ EXPANSION

Our capital investment and expansion activities during the year under review were concentrated in our reverse circulation machine deployed in the USA, and the investment in our new tunnel boring and blind shaft machines. (For more on our rigs, see *Our operations* on page 58.) With these projects absorbing most of the cash for the next two years, our capital expenditure continues to be in the realm of technology. In line with our strategy of diversification, this trend will continue into the medium and long term.

CONTRACTS

As in the prior year, a number of short-term contracts were awarded during the year under review. This resulted in an increase in the amount of equipment being moved around between clients. The preponderance of shorter-term contracts as opposed to those of longer duration was due to clients continuing to be under pressure in the global economic markets, and consequently reluctant to commit to significant capital expenditure. Nonetheless, in looking at the revenue split between exploration, production and capital, the norm has been around 95% allocated to production.

MARGINS

Costs incurred in emerging currencies amounted to approximately 75% while revenue in emerging currencies amounted to approximately 50%. This had an adverse effect on our margins in 2017.

HUMAN CAPITAL

The need to build up the middle management required through our rapid growth over the last few years placed an additional strain on margins. This increase relates more to the overheads line resulting in a slight decrease in operating profit with an additional USD51.0 million spent on labour compared with the previous financial year. This spend on human capital is however considered an investment for the long term.

SUSTAINABILITY

Training is of the utmost importance as we desire to upskill our labour force given our drive to design and operate highly technological machinery. Our current labour force is sufficient to accommodate our drive to increase the utilisation of our fleet.

In South Africa we maintain our excellent relationships with the unions, and the principle we work on is that as we add machines we spread the existing workforce between them, thus avoiding headcount reductions, at the same time enabling us to sustain an acceptable labour cost.

OUTLOOK

We view 2017 as having been a challenging year for the business. Nonetheless, with the upward trend in commodity prices, and the increasing demand for our rigs and services, the outlook appears positive.



ANDRÉ VAN DEVENTER
Chief Financial Officer



OUR OPERATIONS



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MDG is a global company with its roots in South Africa, where we retain a number of loyal clients; and international operations across countries in Africa, including the DRC, Zambia, Mali, Tanzania and Sierra Leone, to South America.

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OVERVIEW

During the year under review we added two raise bore machines, which contributed 3,5% towards the Company's revenue growth. Our fleet now comprises 107 raise bore machines and 34 slim drilling rigs.

In South America, which as a region generates 43% of our revenue, our operations are run by our businesses in Brazil, Chile, Colombia, Ecuador, Mexico and Peru. It is through the success of these businesses that we have come to own 70% of the raise bore drilling market in South and Central America, a significant part of our manufactured, financial and natural capitals. We also maintain training centres in Peru, Chile and South Africa.

OUR OPERATING MODEL

Our operating model, part of our intellectual capital, is founded on both our overall business model of vertical integration and our ability to provide tailored services of the five aspects of equipment requisitioning and operation, which we characterise as **Design, Manufacture, Maintain, Train** and **Operate**.

How	Means that we
 <p>DESIGN</p>	<ul style="list-style-type: none"> • Conceptualise our drilling equipment to meet our clients' specific requirements • Benefit from flexible capital investment • Develop proprietary technology
 <p>MANUFACTURE</p>	<ul style="list-style-type: none"> • Assemble custom drill rigs according to clients' specifications • Establish a diverse rig portfolio
 <p>MAINTAIN</p>	<ul style="list-style-type: none"> • Provide engineering support for our drill rigs • Continuously upgrade our portfolio
 <p>TRAIN</p>	<ul style="list-style-type: none"> • Enhance skills to leverage our machinery • Operate training centres in South Africa, Peru and Chile which focus on the development of technical skills • Groom management and staff to support our growth strategy
 <p>OPERATE</p>	<ul style="list-style-type: none"> • Provide operational support for all our drill rigs • Offer complete project management from exploration through to production drilling

OUR OPERATIONS / CONTINUED

EQUIPMENT, SERVICE AND METHODOLOGY

A variety of applications exist for our primary service offering of raise boring, and each one is designed to suit a different aspect of our clients' specific requirements. We match the equipment that we supply and operate to the conditions and nature of the projects we contract to undertake, with our capacities in this regard constituting the essence of our manufactured, intellectual and human capitals.

Product or service	What we provide
ROCK BORING	
Raise boring	Our raise boring fleet of 102 rigs is the largest in the world. The machines are fast and operate efficiently in hard rock, and our RD8 rig can drill up to a depth of one kilometer. These qualities mean substantial benefits for our clients because raise boring normally equates to 20% to 30% of the rate or cost of conventional shaft-sinking
Horizontal raise boring	HRB is pioneering technology. Its continuous excavating cycle produces a stronger structure than conventional drilling and blasting, and is cost-effective and more reliable than other systems
Box hole boring	This mode of drilling is conducted underground from the bottom upward to create access. It is safer, faster, and provides a lower-cost alternative to Alimak excavation
Tunnel boring	Our automated technology enables us to excavate tunnels with a smooth circular cross-section in a continuous process that, because it is non-explosive, is quicker, safer, and more cost-effective to implement
Blind shaft boring system	This system will be used for access and ventilation shafts. It will cause no damage to side walls, and there are fewer breaks, which reduces the amount of lining material required. Once this system is used, start-up time will be reduced, adding value to mining activities
SLIM DRILLING	
Core drilling	Core drilling provides extensive scope, from shallow holes to holes that are up to 5km deep. It is less invasive, and is used in difficult or remote areas. It delivers a high standard of geology reporting
Percussion drilling	This method is mobile, and delivers fast production rates. The system is deployed using fleet-crawler-based units, and it operates using reverse circulation and mud rotary drilling
Grade control	Our grade control drilling system constitutes a first in Africa. Our rigs are part of a highly specialised fleet with remote operation capability. XRF scan as you drill service can also be provided
Mud rotary drilling	We have three rotary-drive rigs that provide the most accurate means of directional drilling
Air rotary drilling	This system is used to create large-diameter blast holes in surface or open-cast mining. It is a low-cost solution that provides an increased rate of penetration
SUPPORT SERVICES	
Directional drilling	We have a wide spectrum of skills globally in this offering. The system drills a straight shaft, for which there are many applications, and our complete systems can be used to create vertical and angular holes
Stage shaft support	This is another of our services in which we have a wide spectrum of skills globally. The straight shafts it produces have many applications, and as with our directional drilling capability, we provide complete systems for both vertical and angular holes
Remote-operated shaft support	This is a remote-controlled device which uses an application of shot- or wet-crete. It is intended for either underground or surface use
Piling	We can provide circular or secant pile walls at low cost in a fast process that requires less labour. This offering has shaft, pre-sink and piling applications
Orealizer	This unique machine is a pioneering x-ray-technology scanner which continuously samples mineralogy, and is ideal for grade control
Scan mobile	This technique uses XRF technology for mineral exploration, and provides fast analysis, as well as access to, and consistency of, information
Core yard management	With this service we provide quality management and turnkey service

INNOVATION, EFFICIENCY, COST-EFFECTIVENESS

Our mobile tunnel boring system is specifically designed for the mining sector. It is common to use the tunnel boring method for civils and energy projects, where it is well established and well proven. The novelty of the mobile tunnel borer relates to its ability to be efficiently used in mines, which requires flexibility, mobility and modular construction.

The machine and our service are suited for the excavation of a variety of tunnels including access tunnels to underground ore bodies, such as declines, portals, haulages, inclines, ramps, ring roads and connecting tunnels. Most of these tunnels are used during the development and pre-production stages of mine construction or mining, and are normally larger and longer with permanent services installed.

It is for this reason that we use the 5,5m diameter configuration together with the bunker unit to allow for seamless production while trucks are switched to load and provide material handling through inclines, turns and breakaways to the point of discharge, eliminating secondary material handling.

The smaller and shorter 4,5m diameter configuration is used for the reef drives and contact tunnels that are frequently used on sub level caving, block caving and steep- or shallow-dipping narrow-vein mining. Our logistical and material handling services facilitate and expedite the fast relocation of the Mobile Tunnel Borer to excavate tunnels in the production phase of mining.



SPECIFICATIONS



4,5m DIA configuration
Total length: 23 meters
Weight: 240 metric tons



5,5m DIA configuration
Total length: 31 meters
Weight: 300 metric tons

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The year under review has seen a focus on formalising processes to maximise our own design outputs as well as to facilitate collaboration outside of our own internal resources. To this end we have consolidated our formal engineering administration support structure to function as an added means of shared resources. This department is an effective tool to enable the focused development of technology, as day-to-day administration is removed from the concerns of the engineers developing new technology.

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ELECTRONIC REQUISITIONS


During the year under review we launched various process enhancement projects with the aim of improving productivity and control. One of these projects was the re-engineering of all procurement and inventory management processes, with the first phase of implementation underway. The purpose of Phase 1 is to implement electronic purchase requisitions and electronic stores requisitions for all South African and African entities within the Master Drilling Group of Companies.

In the very near future, electronic purchase requisitions will be completed by any requester requiring items or services to be procured from a vendor. Electronic stores requisitions will be completed by a requester requiring stock from a warehouse, with access to this functionality within Microsoft Dynamics AX provided to a limited number of people per department.

We envisage these new electronic requisition processes significantly improving the way in which employees obtain products and services.

IT AND OPERATIONS

Over and above the normal business systems for such areas as procurement, planning, inventory-holding and asset control, our IT also enables us to develop tools to better manage the quality of our operations.

With the resourcing of administration within the business, operators can have access to a palette of real-time tools to enable quick and effective communication between people and functions. This capacity is also an enabler of remote control and automation, as it forms the foundation of a new way of working, and we continue to grow our capabilities through the development of technical business systems. (For more on IT, see under *Information technology* on  page 49.)

While such a function would typically be outsourced, it has now been established as an in-house capability, at a fraction of the cost, and with the ultimate goal of a custom-designed programme for control

solutions. This process has made great strides during the year under review, and we will be focusing on selected major projects for full implementation in this regard during 2018.

We envisage our global operations benefiting from this real-time information for management. This will also help reduce the number of people required to implement operations, and thereby streamline not only our efficiencies, but the cost-effectiveness of our offerings to clients. One of the sites where there have been great advances in our technical information systems is at Kolomela.

EXPANDING OUR SERVICES

Service development and application has also taken place in the area of product development. In 2016 we initiated our horizontal raise boring project at Cullinan. Since then, on a strategic level, we have looked at diversifying our services and markets. There is today far more horizontal work being done compared with vertical boring, and this has led us to a strategic decision to take advantage of this kind of tunnelling work in the mining industry. In the civils industry there is a requirement for tunnel boring equipment.

Through our resources, we researched what is available in the market, the possibility of working with certain original equipment manufacturers ("OEMs"), and whether there are other ideas and concepts in the market that need to be explored. We agreed that we needed to expand our activities into tunnelling, and position ourselves in the industry accordingly.

This led us to developing a machine that would be suitable for rapid access to ore bodies, that could operate on declines, and then establish a production footprint through contact tunnels. We investigated the ways in which we could configure such a machine, and we examined the conceptual risks, and measured those against what was available in the market, and whether we could work with the companies active in that area. In doing this we looked at the option of buying such a machine and simply operating it as a contractor. Many of the applications for our operations involve hard rock, and some of the tools being developed are not suitable for this kind of environment.

We saw that we needed to source certain skills in order to realise this strategic concept and fill the need in the market that we identified.

We therefore placed an order with the Italian firm Seli during the third quarter of 2017 for the detailed design and manufacturing of such a machine. It is a novel concept which included taking out international patents, and with the concept and the machine launched at the Mining Indaba in February 2018.

It was on the basis of this concept that we established our contracting subsidiary Master Tunnelling, which is specifically structured to be used for contracting this new equipment. With a focus on the mining industry, and following the same vertically integrated model as with the raise boring, this business will flexibly contract mechanised tunnelling to various clients, starting in 2018.

The benefit is that with our technology and methodology clients are able to reach the ore body not only quicker, but in far greater safety than they would otherwise have been able to achieve.

SHAFT SINKING

During the year under review a development agreement was concluded with the IDC, based on a service we conceptualised for shaft sinking. This includes the establishment of a company called Master Sinkers for mechanised shaft sinking. The service we envisage is founded on the same principles of speed and safety of access that we follow strategically in all our operations and R&D. There is also patented IP involved in this initiative, and there will be four phases in the process of bringing the service to the market. This approach has been devised to cover the conceptual risk, with Phase 1, being the detailed design and construction of the pilot-shaft head of the system, having been implemented during 2017.

We estimate that it will take another two years to realise all four phases for the provision of the system, with the remaining phases based on current technology configured in a different way.



Knowing that we can deliver all these kinds of services to the mining industry, we are confident that they can equally efficiently be utilised in the civils sector.



The aim is not only to provide speed, efficiency and meaningfully lower costs, but to drastically reduce the danger inherent in current methods of shaft sinking. The solution we will provide, while capital intensive, is able to accommodate the most daunting of physical requirements in depth and diameter with a crew of less than 40 people.

REALISING STRATEGY IN THE MID TO LONG TERM

During the year under review, we submitted four tenders for civils tunnelling. We anticipate growth in both business and revenue, with civils tunnelling able to attract high-value contracts. The scale of our operations will accordingly be much larger. With single projects capable of generating much higher revenues, and the ratio of personnel to turnover thus very different, these single large contracts offer the opportunity for greater profitability and growth.

We are also continually working to increase the efficiency and flexibility of our existing business through the automation and autonomous control technologies that set us apart from our competitors. We continue to improve on our offer to clients of a more comprehensive service and to provide the turnkey solutions that our clients are increasingly requiring. Our technical and engineering capability is therefore central to our position as industry leaders. Our vision as a contracting company to invest in these types of services certainly constitutes a significant point of difference in the industry.

The staffing, management, and systems required to support the large scale on which we operate have seen important organisational changes taking place on an ongoing basis within the Company. This has been particularly true on the technical side during the year under review.

It is these developments as a solution business rather than simply a drilling business that have enabled our mobilisation into India and Australia.

APPLYING SIMPLICITY TO GROWING COMPLEXITY

We are investing significant effort in systemising what we do so that it is less person-based, and more reliant on systems. During 2017 we have carefully chosen those elements that will make a large and sustainable difference in the business. We have therefore, for example, decided to discontinue our gripper system, which after trialling appeared to require reconceptualisation. In this way we are focusing our resources with a view to maximising the effectiveness of our growth. We regard this as a reflection of the more mature operational organisation that we have become.

DRILLING TECHNICAL SERVICES (“DTS”) OFFICE

This department is engaged in systematising our technological and operational capacities, and consists of four components:

- Project Office – incorporating R&D
- Mechanical Support Office
- Control and Instrumentation Office – electronic, engineering and programming and field instrumentation
- Drawing Office – supporting all the functions

DTS is also looking at embedding electrical knowhow, civils and structural skills, and hydraulic and mining skills.

Through our focus on the organisational and systematic implementation of our core capacities, we are developing the Company as a niche supplier of engineering, procurement and construction management (“EPCM”) skills. It is this, together with our specialist knowledge in our areas of focus, that can deliver the kind of holistic solutions increasingly being demanded by our clients.



LATIN AMERICA

The year under review was a difficult year with markets continuing in the 12 to 24 month lag behind the uptick in commodity prices. Towards the end of the year there were significant enquiries, however, allowing us to make positive projections for the coming year, with utilisations predicted as improving for 2018.



LATIN AMERICA

Overview

The year was predominantly flat under the influence of the ongoing lag behind commodity prices, which caused cutbacks in spending, and clients not themselves adhering to determined timelines, a phenomenon which has a negative impact on our efficiency.

There were some projects in Chile that were not renewed on termination. Brazil experienced a good period compared with previous years. Peru was relatively flat, while in Mexico we only managed to secure a few contracts after a very slow start. In Mexico and Peru, however, we were contracted to line our raise bore holes with shotcrete to prevent collapse. These new projects increased the life of the work we had previously completed.

Latin America – Highlights

Brazil

- Master Drilling Brazil (“MDB”) successfully completed three complicated projects in Jacobina, Crixas and Turmalinas. At Jacobina we completed the re-opening and reaming of a 330m partially reamed hole originally drilled by another company. At Crixas we successfully completed the longest pilot hole, at 556m, ever drilled in Brazil. In Turmalinas a 195m hole was successfully piloted and reamed within a very short space of time.

Mexico

- The first crawler to be used in Mexico was commissioned to improve the mobility of our 61RD machine at Chihuahua. The duration of mobilisation was reduced to only one day between stations, ensuring operational efficiency.
- Our 41 RB (“raise borer”) machine was modified in our workshop in Mexico in order to execute the dewatering with reverse circulation of holes in a mine in Durango with very high conditions of humidity.
- Our staff in Mexico implemented a new inspection of components using a thermographic camera. With this improvement we were able to identify specific failures and track

the components exceeding the set parameters.

- Grupo Minas awarded Master Drilling Mexico with a certificate of recognition of our years without any LTI accidents.

UNITED STATES AND CANADA

Blind bore technology allows mining operations to continue without interruption and mine development schedules are substantially compressed, producing a direct cost advantage for mine owners. In addition, no personnel ever need enter the shaft or be exposed to rock falls during cutter changes. Our technology thus provides inherently safe operations in unstable ground conditions. Our safety record on this project amounts to over 2 300 hours worked without a recordable lost-time incident.

The project has successfully advanced a 5,33m borehole and the setting and cementing of a 4,27m liner has completed collaring activities. The first of three piloting activities has been completed and the reaming assembly set in preparation for advancement through the first 76 meters of unconsolidated formation.

With this development of our own dual-wall reverse-circulation drill pipe, designed and manufactured by MDG, the Group is able to move into the conventional sink marketplace for shafts exceeding 7 meters in diameter. We have already received a considerable amount of interest in the global marketplace with numerous site visits scheduled in Peru, Canada, Mexico and by the US Department of Energy.

We believe that we have proven with this effective blind boring technology that even in challenging geological conditions we can deliver what clients require from the service. We see it as opening the way for the large-diameter blind shaft drilling machine that is being developed in South Africa.

Added services

In Peru and Mexico we established a marketing arm for drilling industry-related



UNITED STATES AND CANADA

A milestone was reached by the Group as our first blind bore reverse circulation shaft project was commissioned in North America. In successfully achieving this, we completed the design and modification of our RD-7 raise bore rig to accommodate a reverse circulation (“RC”) drilling programme. These modifications provide specific advantages for the mechanised excavation of challenging and unstable ground conditions.



products, using our current procurement and manufacturing facilities which we envisage as adding to our bottom line. In Mexico many mines own their own raise boring machines, which require spares and parts, and we are now in a position to sell that equipment to them. In Peru we acquired the South American distribution for a well-known brand of drill steel and accessories for underground use. This has produced some contracts that have added to our business in the region. Because the material comes through our stores and systems, the only costs incurred have been in the addition of a sales manager and a control person on site, whose service is invoiced for. In addition we are looking into acquiring the sole rights to the distribution of certain rigs as part of this added business opportunity.

Fleet changes

Aside from the blind shaft drilling rig that we commissioned in the US, a small rig, owned by MDG, was brought in from Africa to augment our fleet in Latin America, and another was bought from Anglo American. Four new rigs came into the fleet in 2017, and two of these were deployed in Chile. Subsequently one was sent to Brazil.

THE AMERICAS

Outlook and prospects

We are looking at exploration drilling – a market niche where we would work with clients and utilise cutting-edge drill rigs. The aim for 2018 is to use our expertise and technology to provide improved service levels, using either a type of M&A or by entering the market through the purchase of rigs. The strategic concept is to take our geological experience and capability and offer it as a single contractor, together with our existing services in new geographic sectors.

We have been examining the opportunities of the water sector in Brazil and in areas of the US, either in exploration to find this precious resource, or to provide ways of disposing of it in existing operations where it hampers operations. We envisage that this initiative, begun in 2017, will bear fruit in 2018.

In the USA and Canada a number of proposals were submitted, with a great deal of interest expressed in both raise boring and blind boring. The new mobile miner for boring tunnels that we are currently developing has also elicited a great deal of interest.

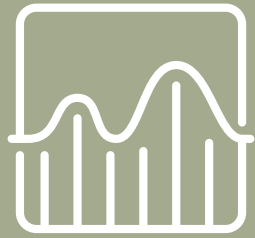
We see great potential in Canada, where there is an active underground mining sector, in which more raise bore holes are opened than in the US. However, when it comes to economies of scale in both mining and civils, the US is a far larger market for infrastructure, and we believe that we will be seeing significant work from that region.

EXPANSION INTO NEW GEOGRAPHIES

During the year under review, and consistent with our strategy of geographical diversification, we expanded our operations into India, where we are supporting a zinc mine, and Australia, in support of a gold project.

As part of the initial USD6 million Indian contract, a large raise bore machine was deployed to a Vedanta Group Hindustan zinc mine, while in Australia one of our large raise bore machines is contracted to a specialist underground mining contracting company.

We will continue to explore new geographies and further diversify our contracting approach in order to maximise our machine utilisation rates and further broaden our global footprint.



OUR STRATEGY IN ACTION

OPTIMISATION AND INCREASED PROFITABILITY



What we said we would do in 2017

Improve efficient operations through Group-wide communications of practical on-site lessons learnt



What we achieved in 2017

- 1** Continuous improvement and discipline in cost and working capital management in all regions
- 2** Roll out communication of practical on-site lessons learnt throughout the Group. The focus of this program is to share operations efficiencies and new innovations to all regions



Our commitments and targets for 2018

Improve efficient operations through Group-wide communications of practical on-site lessons learnt



For more on optimisation and increased profitability see under *Our strategy* on [page 21](#).

We optimise our business by finding ways to be more effective and efficient in what we do, on a daily basis, in all our areas of operation.

RD8 PROJECT

Stakeholders attending a launch event at our headquarters



MOBILE TUNNEL BORER LAUNCH

Delegates attending the MTB Launch at Invest in Africa Mining Indaba



Headline Earnings in USD down by
18.9% to 11.6 cents

Utilisation down by
4% to 69%

CORPORATE SOCIAL INVESTMENT

As a supplier of services and equipment to our clients, our presence on project sites is framed contractually, and is therefore in most cases temporary. This means that the sites themselves are generally established, maintained and administered by our clients. And this means, in turn, that the impact on the communities among which we find ourselves working is primarily determined by the wider scope of our clients' operations.

In addition, we are obligated to comply with our clients' approach and requirements, although this compliance may often be of only a secondary nature, such as a mine's request to employ as much local labour as possible.

Nevertheless, we are very conscious of the responsibilities we have as a company towards the people among whom and with whom we work.

SKILLS DEVELOPMENT

Where our operations are situated in rural, agriculturally based communities, we understand that in meeting employment requirements with community members, skills have to be taught. There are sites and regions where this is also demanded by legislation, such as in Peru, where all industry employees are required to be in training for one month a year.

LOCAL ECONOMIES

We make every effort to re-employ previously trained personnel, and to support local vendors and suppliers. This can mean making use of locally procured transport or using local hotels and restaurants to feed our crews. In these services areas, in rural Andean communities we bring in our own social workers from time to time to assist with hygiene awareness and practice, something which benefits both the community and our business.

As a global public company we are required to request invoices for labour or services. This practice of requiring invoices from suppliers has the effect of introducing formal economic participation to people who would otherwise be excluded from it. This always results in a positive effect on both the individual suppliers and their national fiscus.

INITIATIVES AND SUPPORT FOR PROJECTS

The table below outlines our commitments and activities in support of various socio-economic initiatives and projects.

Initiatives	Contribution	Amount	Area
Help-Net Fund – Safe House in Fochville: this includes the salaries for the relief parents, fuel, groceries, rental vehicle, insurance, security, home rental, social services, medical expenses, clothes etc.	The contribution is made on a monthly basis	ZAR522 800,80 per annum	Fochville and surrounding area
Greenspark Primary School	The contribution is made on a monthly basis	ZAR48 000 per annum	Greenspark
Laerskool Losberg	The contribution is made on a monthly basis	ZAR60 000 per annum	Fochville
Reenboog Kleuterskool – Greenspark	The contribution is made on a monthly basis	ZAR12 000 per annum	Greenspark
West Pack – School stationery	Once-off contribution	ZAR4 346,30	Fochville
Palisade fencing at new school in Khutsong	Once-off contribution	ZAR15 000	Khutsong
Leadership and Development Programme – Prefects at Greenspark Primary	Once-off contribution	ZAR3 720	Greenspark
Uniforms and stationery for Grade Rs at Reenboog Kleuterskool	Once-off contribution	ZAR8 423,50	Greenspark
Anglo American – Kolomela mine – Sports development	Once-off contribution	100 T-shirts	Postmasburg
Enterprise development – MDX	Once-off contribution	ZAR277 669	Pending roll-out
Supplier development	Once-off contribution	ZAR555 338	Fochville and surrounding area
Socio – economic development	Monthly contribution	ZAR277 669	Postmasburg

TAKING THE COMMUNITY TO HEART

In particular, in South Africa a number of projects were administered under the auspices of the Group Work Programme for younger people as well as the elderly and the community at large, run by the Suid-Afrikaanse Vrouefederasie (“SAVF”) in Fochville. These projects included topics such as grieving, bullying, life skills, parenting, abuse of the elderly and leadership. In addition, there were events such as Mandela Day, Nurses’ Day and Valentine’s Day, as well as bingo, line dancing, a nursery school concert, and a Mr and Miss Rainbow modelling contest.

In June 2017, Master Drilling Exploration partnered with Iris Exclusive Jewellery to train 20 unemployed women and youth in Postmasburg, Northern Cape, in recognition of the dire need for skills and jobs.

Iris Exclusive Jewellery is an organisation founded by Ms Keitumetse Iris Khosana in 2014. Based in Vanderbijlpark, the company partners with medium- to large-size companies for the funding required to impart the skill of making bead jewellery. The key objective of the

“
We make every effort to re-employ previously trained personnel, and to support local vendors and suppliers.
”

initiative is to create jobs and alleviate poverty in rural areas where the funding companies are based.

In Mexico a health campaign was initiated in the MD Mexico office:

- In October 2017 safety talks devoted to health issues were held at a workshop in which information was provided on the importance of vaccines, blood pressure, diabetes and dengue, a disease that affects the local community.
- A physical activation programme was also initiated, when after the safety talks, all the workshop employees performed an exercise routine.
- On 18 and 19 October, staff from the Mexican Social Security Institute (“IMSS”) visited the MDM facilities to conduct a general review of the workers, during which they checked blood pressure, weight and height, and also administered vaccines.

MDM is an active member of the Comunidad Lagunera de Mejora Continua, a regional continuous improvement exchange, and through that body our HR department shared our best HR practices with other regional industrial companies.



OUR BOARD OF DIRECTORS

**NON-EXECUTIVE
DIRECTORS**

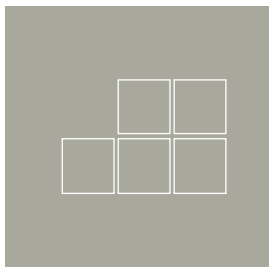


**EXECUTIVE
DIRECTORS**



ALTERNATE DIRECTOR

OUR BOARD OF DIRECTORS



JOHAN BOTHA*

Independent

Appointed November 2015
NDip Metalliferous Mining

Committees: Audit, Risk, Social, Ethics and Sustainability

Positions held elsewhere: Non-executive director Mwana Africa Limited

Retirement date: 7 June 2018

HENNIE VAN DER MERWE

Independent Chairman

Appointed July 2014
BA Law, LLB, LLM Tax

Committees: Corporate Governance, Nominations and Risk

Positions held elsewhere: CEO Trencor Limited (JSE listed), Director Bell Equipment Limited (JSE listed), Director Textainer Group Holdings Limited (NYSE listed)

JACQUES DE WET*

Independent

Appointed November 2012
CA(SA)

Committees: Audit, Nominations, Remuneration, Risk, Social, Ethics and Sustainability

Positions held elsewhere: Head of Business Development, Corporate Finance and Strategy at Thebe Investment Corporation

Retirement date: 7 June 2018

AKHTER DESHMUKH

Independent

Appointed November 2012
BCom, MBL

Committees: Audit, Remuneration, Corporate Governance and Social, Ethics and Sustainability

Positions held elsewhere: Director and CFO Lephatsi Investments Proprietary Limited

SHANE FERGUSON

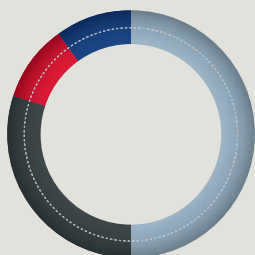
Non-independent

Appointed September 2012
BCom, LLB

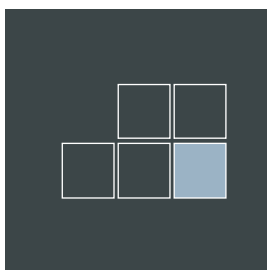
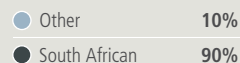
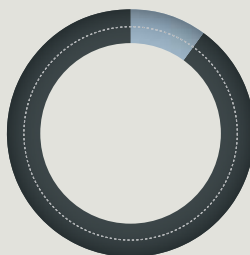
Committees: Audit, Nominations, Remuneration, Corporate Governance, Risk, Social, Ethics and Sustainability

Positions held elsewhere: Director ST Ferguson Proprietary Limited (Tax Consultant and Legal Advisor to Master Drilling)

YEARS OF TENURE



NATIONALITY



DANIE PRETORIUS

Chief Executive Officer

Appointed July 2012
Government Engineers Certificate of Competency

Master Drilling Founder 1986

ANDRÉ VAN DEVENTER

Chief Financial Officer

Appointed April 2011
CA(SA)

Joined Master Drilling 2001

KOOS JORDAAN

Technical Director

Appointed July 2012
BEng, MBA, BS in International Technology Management

Joined Master Drilling 2001

GARY SHEPPARD

Chief Operating Officer – Americas

Appointed November 2012
BSc Eng, MBA

Joined Master Drilling 1999

EDDIE DIXON

Chief Operating Officer – Exploration

Appointed September 2015
MDip (Civil Eng), MBA

Joined Master Drilling 2007

* Successors to the retiring directors

ANDRIES BRINK

In-depth financial and business acumen and solid expertise within strategy and risk management oversight. Strong knowledge of executive performance assessment policies, succession planning, transformation strategies and addressing corporate governance.

OCTAVIA MATLOA

An astute executive and leader. Gaining a wealth of invaluable knowledge and experience through exposure in the private and public sector in industries such as accounting, auditing, consulting, mining, transport, financial services, health and nutrition as well as training and development.

OUR GOVERNANCE

In terms of the governance principles outlined in King IV, the Board has prepared an integrated report which is intended for all our stakeholders, but targeted primarily at informing providers of financial capital about all key aspects of our business and the ways in which we create value. Our aim is to continuously improve the quality and reliability of the data presented, and we have accordingly revisited our strategy and material matters and are developing a combined assurance model.

ASSURANCE

As part of the risk management process, we have adopted a combined assurance model approach to manage the level and extent of assurance obtained. We strive for assurance on all key aspects of our business on an integrated basis. We focus on materiality of risks and opportunities and on processes in terms of governance, structures and systems.

We are committed to adopting best practice for quality, health and safety processes through the implementation of a number of relevant ISO standards. Quality control and assurance is managed by adhering to ISO 9001:2008, the standard that sets out the criteria for a quality management system. We have obtained this assurance through an independent audit carried out by DQS GmbH.

Our reporting systems and procedures have identified key risk and performance areas and require that these be reported to management and the Board on a regular basis.

Assurance certification is available on our website at www.masterdrilling.com

The summarised consolidated annual financial statements in this report are extracted from the full statutory annual financial statements available on our website. These were prepared in accordance with IFRS, the Companies Act and the JSE Listings Requirements. The consolidated annual financial statements were independently audited by Grant Thornton.

For the unqualified audit opinions please refer to www.masterdrilling.com

GOVERNANCE APPROACH

We are committed to the principles of openness, integrity and accountability in our dealings with stakeholders. The Group endorses the value of good corporate governance, standards and principles as recommended by King IV and we apply King IV to support and strengthen our governance processes and to provide stakeholders with the necessary assurances in this regard.

Our application of King IV is detailed in the King IV assessment, which is available online at www.masterdrilling.com

BOARD OF DIRECTORS

The Master Drilling Board is a unitary Board comprised of nine directors – four independent non-executive directors, one non-independent non-executive director and four executive

directors. The roles of Chairman and Chief Executive Officer are separate and clearly defined and the Chairman of the Board is an independent non-executive director. The executive and alternate executive directors attend all Board meetings.

COMPANY SECRETARY

The Board appointed Mr Andrew Colin Beaven as Company Secretary to Master Drilling, with effect from 1 December 2015. Having considered the skills, experience and expertise of Mr Beaven, as well as his independence and his arm's length relationship with the Board and the Group, the Board is satisfied that Mr Beaven has the necessary competence and objectivity to provide independent guidance and support at the highest level of decision making and is thus suitably qualified to act in this role.

EXECUTIVE SUMMARY

Key governance initiatives and outcomes

A number of initiatives to enhance our governance were continued during 2017. All committees conducted duties in accordance with formal work plans as approved and supervised by the Board, which continued to ensure their attending to the correct areas and matters.

The application of the King IV principles guides our effective governance. We do not apply the following principle: External assurance of sustainability reporting.

Our King IV checklist is available on our website at www.masterdrilling.com

Our environmental, health and safety reporting is externally and independently assured. This information is also audited internally and is subject to our management controls before being reported.

The internal audit conducted by KPMG Services Proprietary Limited during the financial year confirmed no material breakdown in governance, management control, systems of internal control or the risk management processes. The internal auditors shared the view of executive management that following the rapid expansion of the business, certain systems and processes require further improvement. The implementation of all improvement opportunities identified during the internal audit process will be overseen by management and the Audit Committee.

The Audit Committee reviewed sections 3, 8, 13, 15 and 22 and schedule 8 of the JSE Listings Requirements and confirm that based on the amended requirements for the JSE-accreditation of



BOARD OF DIRECTORS

Independent non-executive directors

Hennie van der Merwe (*Chairman*)
Johan Botha
Akhter Deshmukh
Jacques de Wet
Shane Ferguson (*Non-independent*)

Executive directors

Danie Pretorius (*Chief Executive Officer*)
André van Deventer (*Chief Financial Officer*)
Koos Jordaan
Gary Sheppard

Alternate director

Eddie Dixon

Auditors, effective 15 October 2017, we were satisfied that:

- the audit firm has met all the criteria stipulated in the requirements, including that the audit regulator has completed a firm-wide independent quality control (ISQC 1) inspection on the audit firm during its previous inspection cycle;
- the auditors have provided to the audit committee, the required IRBA inspection decision letters, findings report and the proposed remedial action to address the findings, both at the audit firm and the individual auditor levels; and
- both the audit firm and the individual auditor understand their roles and have the competence, expertise, experience and skills required to discharge their specific audit and financial reporting responsibilities.

Governance framework

The diagram alongside depicts the governance framework adopted by the Board.

The framework is an integral component of the combined assurance approach we are adopting. Six Board committees – the Audit, Remuneration, Risk, Nominations, Corporate Governance and Social, Ethics and Sustainability committees – assist the Board in managing specific responsibilities delegated to them. The Audit and the Social, Ethics and Sustainability committees have additional statutory responsibilities derived from the Companies Act.

Executive directors are under the leadership of the Chief Executive Officer and derive their authority from the Board. The executive directors, who are responsible for the day-to-day operations of the Group, represent all the geographic areas in which we operate and meet on a more regular basis than the Board.

This governance structure ensures a balanced distribution of authority among directors.

New directors, who are appointed formally with assistance from the Nominations Committee, participate in a formal induction programme.



BOARD COMMITTEES

Audit Committee

The Audit Committee is responsible for the integrity of financial controls and financial statements, integrated reporting and statutory duties.

*Jacques de Wet (Chairman),
Johan Botha, Akhter Deshmukh
and Shane Ferguson*

Risk Committee

The Risk Committee is responsible for risk and compliance management.

*Johan Botha (Chairman),
Shane Ferguson, Jacques de Wet,
Eddie Dixon and
Hennie van der Merwe*

Nominations Committee

The Nominations Committee is responsible for appointment of directors, succession planning for Board and senior management and Board effectiveness.

*Hennie van der Merwe (Chairman),
Jacques de Wet and Shane Ferguson*

Remuneration Committee

The Remuneration Committee is responsible for remuneration strategy, policies and practices to attract and retain executives, directors and employees.

*Akhter Deshmukh (Chairman),
Jacques de Wet and Shane Ferguson*

Social, Ethics and Sustainability Committee

The Social, Ethics and Sustainability Committee is responsible for transformation, stakeholder engagement, health, safety and environmental programmes and other statutory duties as prescribed in Regulation 43 of the Companies Act.

*Johan Botha (Chairman),
Jacques de Wet, Akhter Deshmukh,
and Shane Ferguson*

Corporate Governance Committee

The Corporate Governance Committee is responsible for evaluating, managing and monitoring the Group's compliance with corporate governance requirements and best practice.

*Hennie van der Merwe (Chairman),
Akhter Deshmukh and Shane Ferguson*



EXECUTIVE DIRECTORS

The executive directors are responsible for day-to-day management of the Group, including policies and procedures approved by the Board.

Assurance

Internal audit
Risk management
External audit
ISO certifications

Laws/regulations/codes

JSE Listings Requirements
Companies Act
King IV
Employment Equity Act of South Africa
Labour law
Local legislation where Group has operations

Group policies and guidelines

Board charter
Delegation of authority
Health and safety policy
Whistle-blowing
Employee ethics
Conflict of interest
Anti-bribery
Anti-corruption
Supply chain code of conduct
Risk and opportunity policy
Annual salary increments policy
Conflict of interest policy
Nepotism policy
Diversity policy
Community and commitment policy
Integrated assurance policy

OUR GOVERNANCE / CONTINUED

The terms of reference for all Board committees and the Board charter are approved by the Board and reviewed on a regular basis.

The detailed terms of reference for each committee are available on our website at www.masterdrilling.com

Combined assurance

Master Drilling is in the process of developing and implementing a combined assurance model as part of our governance framework. We see the Executive Committee and underlying management, process and system controls as the first line of defence within the combined assurance model. Corporate office and our risk management department perform key functions to provide a second line of assurance providers for the Board. Our external audit, internal audit and the external evaluation of ISO certifications fulfil the third line of defence.

We have plotted our combined assurance elements against our business pillars as indicated in the organogram below. We are able to identify gaps and institute greater levels of internal and external control where needed.

While our model is still evolving, we already have a robust assurance model in place for inventory and procurement, sales and debtors, fixed assets, payroll and remuneration.

Compliance

We comply with a number of regulations, codes and statutes. A compliance function has been established at Group level, including a Group legal compliance policy with reporting

structures. Adherence to non-binding rules, codes and standards is considered and, where deemed practicable, is implemented as appropriate. Reports on compliance with these regulations are tabled at the Risk Committee meetings. All Board committee charters have been approved and a Corporate Governance Committee has been established.

Ethics

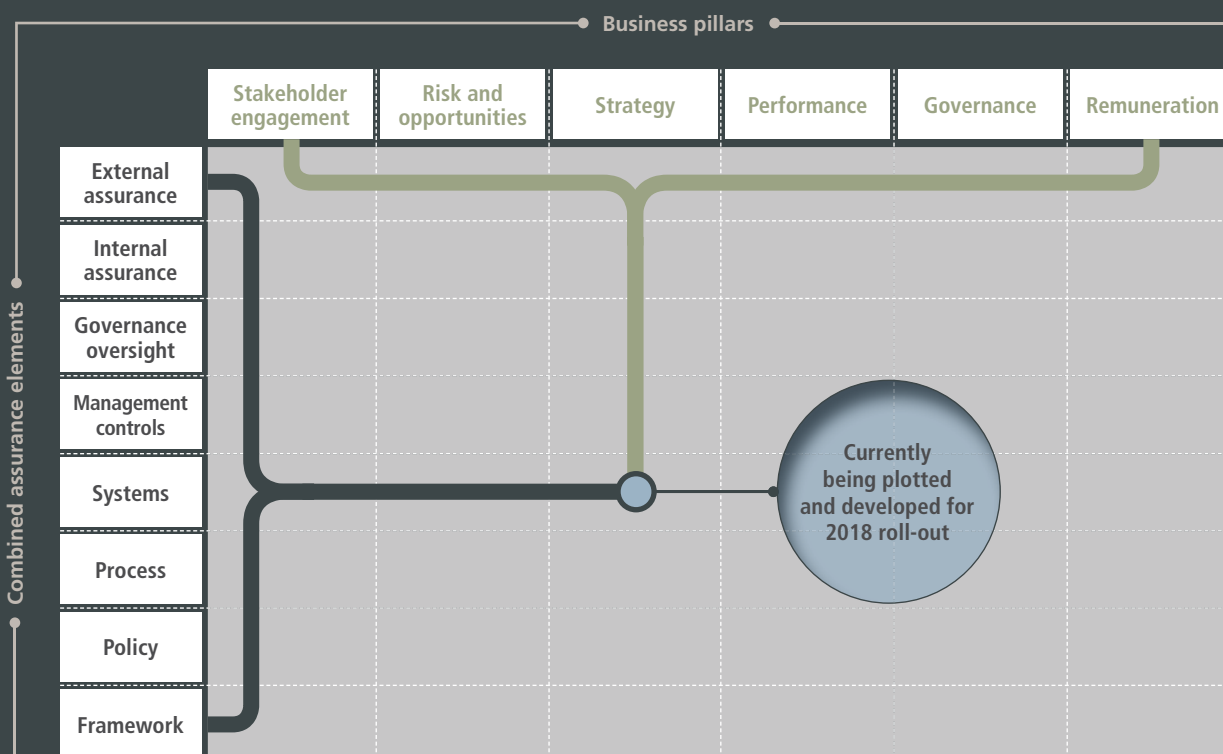
Our Board charter and code of conduct set the ethical foundation for how we operate. To provide employees with further direction and guidance, various policies have been developed for conflicts of interest, gifts and hospitality, anti-bribery and anti-corruption. The employee ethics and code of conduct policy and the conflict of interest policy are communicated to all employees.

Diversity

The Board and the Nominations Committee have considered the JSE LR regarding diversity of gender and race at Board level, and have approved a formal diversity policy.

Going forward, the Social, Ethics and Sustainability Committee will deal with the implementation of the diversity policy and reporting against it, with the Nominations Committee dealing with any nominations for proposed appointments stemming from the policy.

The Board will thus identify and nominate potential additional diversity candidates during 2018, and will commence with director and/or alternate director appointments from 2018 onwards.



Activities

The activities carried out by each committee in supporting and enhancing the governance framework are explained in the table below. Where there have been significant focus areas in 2017 that enhance the application of King IV and other governance matters, these are also provided.

Governing body	Value added	2017 focus
The Board	<ul style="list-style-type: none"> Approved the longer-term strategy as well as a one-year operating plan Approved the interim and year-end financial results Monitored the financial and operational performance and found it satisfactory Approved the integrated report Resolved to pay a dividend Discussed and approved the budget for the next financial year Ensured a Board committee structure to oversee all aspects of our activities Monitored the activities of all Board committees and received their report-backs Assessed and approved the qualifications, independence and experience of the independent Group Company Secretary Approved executive directors' remuneration and recommended non-executive directors' remuneration for shareholder approval 	<ul style="list-style-type: none"> To ensure these remain appropriate, and to monitor performance against them To monitor management's actions in order to ensure that all manpower, funding and operational resources are in place to enable expected performance and growth To monitor, through report-backs from the Board committees and management, actual performance against operational, financial and corporate governance targets To ensure informative and timeous reporting to shareholders and the investing public To ensure that an appropriate realistic long-term strategy – a key driver in business decisions – is in place and to ensure that compliance with the strategy is monitored on a regular basis To ensure that the industry and business risks faced are monitored and addressed by management To ensure that report-backs are submitted to the Board regularly to enable it to carry out its monitoring function To monitor the development, structuring and changing of individual committee charters and work plans for the transition to King IV
The Audit Committee	<ul style="list-style-type: none"> Reviewed interim and year-end financial results and recommended them to the Board Recommended the external auditors for the next financial year to the Board for appointment by way of a shareholder vote Reviewed the scope of work and fees for the year-end audit as well non-audit services Was satisfied with the competence, qualifications and experience of the Chief Financial Officer and finance team Reviewed and approved our combined assurance framework Recommended to the Board the appointment of KPMG to perform an internal audit function and agreed on an internal audit plan Reviewed and recommended the integrated report to the Board Was satisfied with the performance of the internal audit function and external audit 	<ul style="list-style-type: none"> To monitor the implementation of the integrated enterprise resource planning system to all geographies within which the Group operates, including the financial and management accounting modules To monitor the independence of the external auditors and the cooperation between them and the internal auditors To monitor finance department and staff training to ensure that it supports the efficient delivery of financial information To oversee the implementation of a comprehensive integrated assurance strategy and framework The further integration of the internal audit plan with the combined assurance process To monitor management's process in ensuring statutory compliance to the respective local authorities in which the individual subsidiaries within the Group operate The further streamlining of the integrated reporting process to ensure effective reporting on all aspects of the Group affecting future strategy
The Corporate Governance Committee	<ul style="list-style-type: none"> The committee was appointed as per the Board-approved resolution Managing and monitoring compliance with corporate governance requirements and best practice Committed to the principles of openness, integrity and accountability in our dealings with stakeholders 	<ul style="list-style-type: none"> To complete an assessment of compliance with the King IV principles and make the assessment available on our website at www.masterdrilling.com To ensure that sufficient attention will be given by management to successfully accomplish the transition to King IV To ensure continued compliance with required legislation and the JSE Listings Requirements To ensure that the Corporate Governance Committee reports on compliance to the Board on a regular basis

OUR GOVERNANCE / CONTINUED

Governing body	Value added	2017 focus
The Nominations Committee ("Nomco")	<ul style="list-style-type: none"> • Considered the committee's effectiveness as well as the composition of the Board, and recommended changes • Was satisfied with the classification of non-executive directors and the Company Secretary as independent • Recommended a Board diversity policy to the Board 	<ul style="list-style-type: none"> • To review the structure and composition of Board committees in order to ensure optimal functioning • To monitor the annual self-evaluation process, with the Chairman and CEO separately evaluated by other Board members • To ensure a correct competency mix and adequate independence is maintained, and that appropriate changes are made to achieve strategic goals • To ensure that the diversity policy proposed is effected and successfully implemented • To review the make-up of the Board in order to ensure a correct competency mix and adequate independence • To finalise and implement the succession plan for key management within the Group
The Remuneration Committee ("Remco")	<ul style="list-style-type: none"> • Considered criteria by which the performance of executive directors in discharging their responsibilities can be measured • Liaised with the Nominations Committee concerning succession plans for the executive directors • Reviewed the remuneration policies and practices of the Group • Developed for implementation an effective remuneration policy aligned with strategy 	<ul style="list-style-type: none"> • A succession plan of the executive directors and senior management has been developed and is constantly reviewed and updated regularly • Continuous reviews of the KPAs and balanced scorecards of the executive directors and ensuring performance agreements are in place • The bonus policy for the Group was finalised and implemented for the 2017 year • The travel abroad policy was fine-tuned and implemented for South African employees • Continuously recommending criteria necessary to measure the performance of directors in discharging their functions and responsibilities in so far as these criteria are relevant to determining performance-based incentives • Initiated and agreed upon the terms of the incentive policy for 2017
The Risk Committee	<ul style="list-style-type: none"> • Approved a risk management plan • Reviewed Group risks and mitigation plans • Monitored the controls and residual risk profile of the significant Group risks against agreed tolerance levels • Reviewed compliance with the major areas of legislation that affect the Group 	<ul style="list-style-type: none"> • To further refine the risk registers to include more regular risk scanning of the business environment, in particular that pertaining to the mining sector • To consider the appointment of key personnel and the defining of regional responsibilities • To evaluate the geographic expansion of the business in order to spread the risk of dependence on a particular region
The Social, Ethics and Sustainability Committee ("SES")	<ul style="list-style-type: none"> • Considered the employment equity plan • Reviewed the B-BBEE rating and planned for maintaining the rating for 2017 • Performed the functions of the committee for all South African subsidiaries of Master Drilling 	<ul style="list-style-type: none"> • To formulate a transformation programme • To ensure the continued refinement of the health, safety and environmental programmes, including the ongoing focus and attention required to improve performance, with good progress made • The stakeholder engagement plan has been formulated and is currently being implemented • To ensure greater community engagement in the areas within which the Group operates

Meeting attendance

The Chief Executive Officer and executive directors are not members of any Board committees. The Chief Executive Officer may attend committee meetings by invitation and when required by committee members. The Chief Financial Officer attends Audit Committee meetings by invitation to answer questions on financial aspects of the Group. The Head of Internal Audit and the external auditors attend the Audit Committee meetings. The Chief Executive Officer, Group Risk Manager, Chief Financial Officer and Company Secretary attend Risk Committee meetings.

The reconstitution of the various committees resulted in some directors only attending one of the usually scheduled four meetings per committee. Please note that the Nominations and Corporate Governance committees only have two scheduled meetings per annum.

Attendance at meetings is indicated in the table below.

AGM	20 July 2017				
	Hennie van der Merwe Johan Botha Akhter Deshmukh				
Board	16 March 2017	29 June 2017	7 September 2017	20 November 2017	
	Hennie van der Merwe Shane Ferguson Jacques de Wet Akhter Deshmukh Johan Botha	Hennie van der Merwe Shane Ferguson Jacques de Wet Akhter Deshmukh Johan Botha	Hennie van der Merwe Jacques de Wet Akhter Deshmukh Johan Botha	Hennie van der Merwe Shane Ferguson Jacques de Wet Akhter Deshmukh Johan Botha	
Audit Committee	6 March 2017	16 March 2017 (Special)	13 June 2017	24 August 2017	15 November 2017
	Jacques de Wet Shane Ferguson Akhter Deshmukh Johan Botha	Jacques de Wet Shane Ferguson Akhter Deshmukh Johan Botha	Jacques de Wet Shane Ferguson Akhter Deshmukh Johan Botha	Jacques de Wet Shane Ferguson Akhter Deshmukh Johan Botha	Jacques de Wet Shane Ferguson Akhter Deshmukh Johan Botha
Risk Committee	6 March 2017	24 August 2017	15 November 2017		
	Jacques de Wet Shane Ferguson Hennie van der Merwe Johan Botha Eddie Dixon	Jacques de Wet Shane Ferguson Johan Botha Eddie Dixon	Shane Ferguson Hennie van der Merwe Johan Botha Eddie Dixon		
SES Committee	6 March 2017	13 June 2017	13 August 2017	15 November 2017	
	Johan Botha Shane Ferguson Jacques de Wet Akhter Deshmukh	Johan Botha Shane Ferguson Jacques de Wet Akhter Deshmukh	Johan Botha Shane Ferguson Jacques de Wet Akhter Deshmukh	Johan Botha Shane Ferguson Jacques de Wet Akhter Deshmukh	
Remco	16 March 2017	8 June 2017	28 September 2017	6 November 2017	
	Akhter Deshmukh Shane Ferguson	Akhter Deshmukh Jacques de Wet Shane Ferguson	Akhter Deshmukh Jacques de Wet Shane Ferguson	Akhter Deshmukh Jacques de Wet Shane Ferguson	
Nomco	16 March 2017	20 November 2017			
	Hennie van der Merwe Shane Ferguson Jacques de Wet	Hennie van der Merwe Jacques de Wet			
Corporate Governance	16 March 2017	20 November 2017			
	Hennie van der Merwe Shane Ferguson Akhter Deshmukh	Hennie van der Merwe Shane Ferguson Akhter Deshmukh			

OUR REMUNERATION



BACKGROUND

We pay our employees fairly for the work they perform in accordance with agreed conditions and principles of service that are free from discrimination. We believe that all our employees contribute to our success and we reward their contribution by providing performance-based bonuses or incentives.



KEY AREAS OF FOCUS

Our holistic approach to reward is balanced across the following elements:



A GUARANTEED PACKAGE



VARIABLE PAY IN THE FORM OF SHORT- AND LONG-TERM INCENTIVES



PERFORMANCE MANAGEMENT



INDIVIDUAL GROWTH AND DEVELOPMENT



A STIMULATING WORK ENVIRONMENT

Within its agreed terms of reference the Remuneration Committee (“Remco”) is responsible for determining our policy regarding the individual remuneration packages for each executive director in consensus with the Board. Where appropriate, Remco also makes recommendations in relation to the remuneration of senior management. In addition, Remco liaises with the Board about the preparation of the Board’s integrated report to shareholders on the Group’s policy regarding the remuneration of executive directors and in particular the directors’ remuneration report, as required by the Companies Act, the JSE Listings Requirements and the Memorandum of Incorporation.

Remco’s terms of reference are available online at www.masterdrilling.com. Given their diverse experience, the three non-executive directors who make up the committee are able to offer a balanced view and the necessary expertise in relation to the Group’s remuneration issues. While no external remuneration consultants were used, Remco had reference to market data from external sources.

Remuneration consist of:

Fixed

Remuneration component	Executives	Senior management	Middle and junior management	Bargaining wage employees	Non-executives
Basic salary	Increase based on: <ul style="list-style-type: none"> • Inflation • Individual performance, qualifications and experience • Continuously benchmarked (PwC remuneration survey used as guideline document for directors) • Aligned with the objectives and strategy of the Group and in shareholders’ best interests • Salary increases were 6,1% for executives and between 6% and 8% for senior management and the remaining staff. Increases were calculated based on the most recent PwC Salary Survey 			Increase based on: <ul style="list-style-type: none"> • Wage negotiations • Last wage increase as negotiated was 6,7% for South Africa companies 	<ul style="list-style-type: none"> • Subjected to annual benchmarking • Based on the principle of attracting, retaining and motivating the right calibre of person • Chairpersons receive higher rates • Fees comprise a base fee (50%) and an attendance fee (50%)
Benefits	<ul style="list-style-type: none"> • Retirement fund contribution • Medical aid • Reimbursable travel claims – we reimburse Company-related travel at 100% of cost or at agreed policy rates • Fixed allowance for uniforms • Protective clothing provided free of charge 				<ul style="list-style-type: none"> • Reimbursable travel claims
Insurance	<ul style="list-style-type: none"> • Liability insurance • Possible risks and liabilities attached to the position are taken into account 	N/A	N/A	N/A	<ul style="list-style-type: none"> • Indemnity from Company supported by Directors and Officers Liability Insurance • Amount of insurance cover determined by the Board • Possible risks and liabilities attached to the position are taken into account
Circumstantial pay	<ul style="list-style-type: none"> • Retention of specific skill sets • Unique to specific position 				N/A

POLICY AND COMPLIANCE

Our remuneration policy and implementation report are tabled annually for a separate non-binding advisory vote by shareholders at the AGM. Remco is satisfied that the remuneration policy and implementation report are complied with and that there have been no deviations. Our remuneration policy is available online at www.masterdrilling.com.

Our remuneration policy also records the measures which the Board is committed to take in the event that either the remuneration policy or the implementation report, or both, have been voted against by 25% or more of the voting rights exercised.

In addition, these measures provide for taking steps in good faith and with reasonable effort towards:

- An engagement process to ascertain the reasons for any dissenting votes; and
- Appropriately addressing legitimate and reasonable objections and concerns raised, including, if necessary, the amending of the remuneration policy, or clarifying or adjusting our remuneration governance and/or processes.

OUR REMUNERATION / CONTINUED

Variable

Remuneration component	Executives	Senior management	Middle and junior management	Bargaining wage employees
Short-term incentive ("STI") scheme	<ul style="list-style-type: none"> Discretionary Calculated at varying percentages of headline earnings, or profit in excess of targets Capped at a percentage of annual salary Continuously benchmarked against the market Linked to achieving headline earnings that creates shareholder value STI payments will only be made when the minimum profit target has been achieved No STI payments were made during 2017 as the financial targets were not achieved 	<ul style="list-style-type: none"> Incentive bonuses based on the achievement of production targets. (For a description of these incentive schemes, see page 79) Companies operating in South American countries are required to make a payment of 8% to 10% of profit before tax to employees 		N/A
Long-term incentive ("LTI") scheme	<ul style="list-style-type: none"> In the form of shares or cash Takes account of the objective of aligning long-term interests of executives with those of shareholders Aimed at attracting and retaining high-calibre employees Based on the Group attaining return on capital employed over the LTI cycle 	B-BBEE share option plan open to B-BBEE candidates in this employee band within South Africa		N/A
Overtime pay	Overtime is paid in line with policy derived from local labour law			

Short-term incentive scheme

Role	On-target % of annual salary	% capping of annual salary
Chief Executive Officer	75%	75%
Executive directors	50%	50%
Senior management	25%	25%

We sought external input to revise our STIs within the Group. Just after year-end, the following three STI schemes were distributed for comment and approval by the Board as the new STI structure. The policies are discretionary and dependent on the relative country legislation. They relate to:

- STI for Shared Services staff and other staff not covered by present STI;
- Special performance incentive; and
- Linking performance to remuneration.

STI for Shared Services

The STI drives behaviour as it is based on business performance and is focused on the strategic objectives which the Group needs to achieve, as well as on the attainment and improvements of targets. The 2018 business budget as presented to the Board will be the basis for determining achievement of targets, categorised as Tier 1 and Tier 2, for the period 1 January 2018 to 31 December 2018. Participation in Tier 2 is subject to achieving 100% of Tier 1 targets unless stated otherwise in the rules.

No STI payments were made during 2017 as the financial targets were not achieved.

Special performance reward ("SPR")

The purpose of the SPR scheme is to ensure that the total remuneration package of qualifying employees is market-related by introducing an additional variable component that is solely dependent on individual performance. It is envisaged that this will contribute to the retention of employees who qualify for participation in this scheme. The SPR is an annual payment that is paid in addition to other variable incentives and is applicable to permanent employees in A to E role positions, Paterson grades D3 and above.

Qualifying employees are required, together with their direct supervisors, to devise one or more strategic SPR objectives to be achieved in each financial year. All SPR objectives will be recorded in a separate contract that must comply with the following requirements:

- Must be approved by a manager at least two levels higher than the employee;
- Must be evaluated and rated during the performance management process;
- Must be measurable; and
- May take less than 12 months to achieve, but must be realistically achievable during the year or part thereof if they have been contracted for less than a full year, for example in the case of appointments, promotions or transfers during the year.

Linking performance to remuneration

An employee may receive an increase over and above the inflationary increase up to the level of the relevant position. This increase is based on the average performance-rating score of the performance rating of the last two quarters preceding the month in which the increase will become effective.

Performance rating	Percentage of the increase over and above inflation
1 – Poor	0%
2 – Below average	0%
3 – Average	0%
4 – Well above average	50% of the inflationary percentage
5 – Excellent	75% of the inflationary percentage

Share option scheme

Any eligible employee selected at Remco's discretion shall be eligible to receive grants under the share option scheme. In making this selection, Remco shall take into account the contribution of the eligible employee's* division to the Group as well as his/her individual performance. The latter shall be measured in the context of the applicable internal performance appraisal process, among other factors.

**An eligible employee is any employee (including any executive director) of any member of the Group or subsidiary, but shall not include any non-executive director, any member of Remco or any trustee of an employee benefit trust.*

The maximum number of shares in respect of which options can be granted to any one option-holder is 500 000 shares in a three-

year cycle. Subject to this, the maximum value of shares subject to an option to be awarded to an option-holder will not usually exceed 200% of their base salary per financial year.

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 10th anniversary of the date of grant.

Details	Options
Total number of share options attributable to the share option scheme	5 000 000
Less:	
Total number of share options granted on 29 November 2014	(2 000 000)
Total number of share options granted on 19 May 2014	(327 286)
Total number of share options granted on 21 August 2015	(80 000)
Total number of share options granted on 19 October 2015	(80 000)
Total number of share options granted on 20 October 2015	(35 000)
Total number of share options exercised during 2015	–
Total number of share options granted on 4 January 2016	(250 000)
Total number of share options granted on 27 January 2016	(250 000)
Total share options unissued at 31 December 2016	1 977 714
Total number of share options granted on 1 October 2017	(835 000)
Total share options unissued at 31 December 2017	1 142 714

More detail on how our share incentive scheme is structured can be found in the annual financial statements available online at www.masterdrilling.com

B-BBEE share scheme

As part of a reorganisation process, B-BBEE participation was incorporated into the Group's three principal operating subsidiaries in South Africa.

A 26% shareholding in each of Raisebore Rental (Pty) Ltd ("RR"), previously known as Master Drilling South Africa (Pty) Ltd ("MDSA") and Drilling Technical Services ("DTS") was issued to Mosima Drilling (Pty) Ltd ("Mosima"), a B-BBEE-owned and controlled company, for consideration of ZAR89,6 million and ZAR859 000 respectively. The main shareholder of Mosima is the RR Historically Disadvantaged South Africans ("HDSA") Trust, which was formed for the benefit of employees of RR financial, strategic and personal objectives and holds 80% of the B-BBEE stake. The balance of the shares in Mosima are held by the DCP B-BBEE Foundation, a trust established to provide welfare, humanitarian, educational and development assistance to disadvantaged communities or individuals.

OUR REMUNERATION / CONTINUED

Mosima is entitled to nominate one director to the boards of RR and DTS (currently Akhter Alli Deshmukh for both RR and DTS).

During 2017, the transaction between Raisebore Rental (Pty) Ltd and Mosima Drilling (Pty) Ltd was dissolved as the business requirements of Raisebore Rental (Pty) Ltd changed. This will result in Mosima (Pty) Ltd not receiving the economic benefits the transaction it was initially expected to achieve. The transaction was dissolved at fair value and all adjustments related to this transaction have been accounted for in the Group's financial statements. Refer to [page 86](#).

A 26% shareholding in Master Drilling Exploration ("MDX") was issued to Epha Drilling (Pty) Ltd ("Epha"), a B-BBEE-owned and controlled company, for a consideration of ZAR61,7 million. The main shareholder of Epha is the Drillcorp B-BBEE Trust, a trust formed for the benefit of employees, which holds 60% of the B-BBEE stake. The DCP B-BBEE Foundation, a trust formed to provide welfare, humanitarian, educational and development assistance to disadvantaged communities, holds 20% of the shares in Epha.

The remaining 20% of the shares in Epha are held by the following individuals in equal proportions:

- Shadreck Moralikobo Motlounge, a senior MDX employee;
- Petrus Ngwenya, a senior MDX employee;
- Akhter Alli Deshmukh, CFO of Lephatsi Investments (Pty) Ltd; and
- Estate late Ronnie Mamoepa, Head of Communications: Office of the Deputy President.

Epha is entitled to nominate one director to the MDX Board, (currently Akhter Alli Deshmukh).

Proposed B-BBEE vendor finance

Each of the foregoing B-BBEE transactions was funded by way of the issuance of preference shares by Mosima or Epha, as the case may be, to MDSA, DTS and MDX. Each of the preference shares bears a coupon in the amount of 72% of the prime interest rate and may be redeemed on the 10th anniversary of the date of issuance, or earlier if Mosima or Epha, as the case may be, fails to remain empowered. Shares issued to Mosima and Epha cannot be transferred without prior written consent of RR, DTS or MDX, as the case may be.

Analysis of shareholding

Size of holdings	Number of shareholders	% of total shareholders	Number of shares	% of shares in issue
1 – 1 000	832	47,1	295 592	0,2
1 001 – 10 000	716	40,6	2 493 678	1,6
10 001 – 100 000	130	7,4	3 575 747	2,4
100 001 – 1 000 000	70	4,0	27 374 022	18,2
1 000 000+	17	0,9	116 853 738	77,6
Total	1 765	100,0	150 592 777	100,0
Shareholder type				
Public shareholders	1 756	99,1	63 015 267	40,9
Non-public shareholders				
Directors' indirect holdings	6	0,6	84 567 101	57,4
Directors' direct holdings	3	0,3	3 010 409	1,7
Total	1 765	100,0	150 592 777	100,0

According to the share register of the Company the following fund managers other than directors are registered as holding in excess of 5% of the issued share capital of the Company:

	Number of shares	% of shares in issue
Kagiso Asset Management	18 117 370	12,0
Abax Investments	10 430 863	6,9
Coronation Fund Management	9 718 489	6,5
Total	38 266 722	25,4

According to the share register of the Company the following beneficial shareholders other than directors are registered as holding in excess of 5% of the issued share capital of the Company:

	Number of shares	% of shares in issue
Barrange (Pty) Ltd	43 691 650	29,0
MDG Equity Holdings (Pty) Ltd	38 954 436	25,9
Nedbank	7 662 822	5,1
Total	90 308 908	60,0

Stock exchange information as at 31 December

	2017	2016
JSE share code: MDI		
Market price (ZAR cents) – high	1 835	1 615
– low	1 260	1 102
– closing	1 260	1 500
Shares traded	19 238 466	20 710 864

Emoluments

The remuneration of the executive and non-executive directors for the year ended 31 December 2017 is shown in the table below. All figures are indicated in USD.

Directors' remuneration

USD	Basic salary	Travel allowance	Bonus	Fringe benefits	Provident/pension fund contributions	Director's fees	Consulting and legal fees	Gains on exercise of options	Total
2017									
Executive directors									
Danie Pretorius	396 178	27 048	279 419	24 681	–	–	–	303 538	1 030 863
André van Deventer	293 384	18 032	110 755	16 901	–	–	–	302 075	741 146
Gary Sheppard	390 477	–	117 970	–	–	–	–	302 075	810 522
Koos Jordaan	251 678	18 032	110 755	17 275	–	–	–	302 075	699 814
Sub-total	1 331 717	63 112	618 899	58 857	–	–	–	1 209 763	3 282 348
Non-executive directors									
Hennie van der Merwe	–	–	–	–	–	50 004	–	–	50 004
Johan Botha	–	–	–	–	–	27 751	–	–	27 751
Shane Ferguson	–	–	–	–	–	–	115 863	–	115 863
Jacques de Wet	–	–	–	–	–	28 209	–	–	28 209
Akhter Deshmukh	–	–	–	–	–	38 028	–	–	38 028
Sub-total	–	–	–	–	–	143 992	115 863	–	259 855
Alternate director									
Eddie Dixon	128 409	15 327	102 869	26 295	–	–	–	–	272 901
Sub-total	128 409	15 327	102 869	26 295	–	–	–	–	272 901
Prescribed officer									
Roelof Swanepoel	133 460	10 819	–	8 776	–	–	–	–	153 055
Sub-total	133 460	10 819	–	8 776	–	–	–	–	153 055
Total	1 593 586	93 928	721 768	93 927	–	143 992	115 863	1 209 763	3 968 158

A prescribed officer is defined as having general executive control over and management of a significant portion of the Group or regularly participates therein to a material degree, and is not a director of the Group.

OUR REMUNERATION / CONTINUED

Directors' remuneration continued

The remuneration of the executive and non-executive directors for the year ended 31 December 2016 is shown in the table below. All figures are indicated in USD.

USD	Basic salary	Travel allowance	Bonus	Fringe benefits	Provident/pension fund contributions	Director's fees	Consulting and legal fees	Gains on exercise of options	Total
2016									
Executive directors									
Danie Pretorius	299 083	24 509	572 436	21 416	–	–	–	–	917 444
André van Deventer	193 635	16 339	259 809	14 335	–	–	–	–	484 118
Gary Sheppard	369 436	–	186 198	16 046	2 321	–	–	–	574 001
Koos Jordaan	189 242	16 339	259 809	14 213	–	–	–	–	479 603
Sub-total	1 051 394	57 187	1 278 252	66 010	2 321	–	–	–	2 455 165
Non-executive directors									
Hennie van der Merwe	–	–	–	–	–	37 926	–	–	37 926
Johan Botha	–	–	–	–	–	24 355	–	–	24 355
Shane Ferguson	–	–	–	–	–	24 114	60 686	–	84 800
Jacques de Wet	–	–	–	–	–	24 114	–	–	24 114
Akhter Deshmukh	–	–	–	–	–	32 606	–	–	32 606
Sub-total	–	–	–	–	–	143 115	60 686	–	203 801
Alternate director									
Chris O'Neill	140 841	10 961	–	906	–	–	–	–	152 708
Eddie Dixon	105 302	13 888	33 283	8 362	12 785	–	–	–	173 620
Sub-total	246 143	24 849	33 283	9 268	12 785	–	–	–	326 328
Prescribed officer									
Pieter van Wyngaard	28 656	4 301	–	1 515	3 159	–	–	–	37 630
Sub-total	28 656	4 301	–	1 515	3 159	–	–	–	37 630
Total	1 326 192	86 337	1 311 535	76 793	18 266	143 115	60 686	–	3 022 924



Directors' interest

	Number of shares		Total	Percentage of issued ordinary share capital
	Direct beneficial	Indirect beneficial		
2017				
Executive directors				
Danie Pretorius	500 900	78 630 565	79 131 465	52,55
André van Deventer	727 648	1 752 316	2 479 964	1,65
Gary Sheppard		2 955 884	2 955 884	1,96
Koos Jordaan	1 781 861	1 228 336	3 010 197	2,00
Non-executive directors				
Hennie van der Merwe	–	–	–	–
Shane Ferguson	–	–	–	–
Jacques de Wet	–	–	–	–
Akhter Deshmukh	–	–	–	–
Johan Botha	–	–	–	–
Total	3 010 409	84 567 101	87 577 510	58,16
2016				
Executive directors				
Danie Pretorius	900	78 630 565	78 631 465	53,03
André van Deventer	727 648	2 252 316	2 979 964	2,01
Gary Sheppard	–	2 955 884	2 955 884	1,99
Koos Jordaan	1 781 861	1 228 336	3 010 197	2,03
Non-executive directors				
Hennie van der Merwe	–	–	–	–
Shane Ferguson	–	–	–	–
Jacques de Wet	–	–	–	–
Akhter Deshmukh	–	–	–	–
Johan Botha	–	–	–	–
Total	2 510 409	85 067 101	87 577 510	59,07





OUR STRATEGY IN ACTION

TECHNOLOGY OPTIMISATION AND DEVELOPMENT



What we said we would do in 2017

Finalise testing of BSBS 1st phase



What we achieved in 2017

1 The concept phase of our Mobile Tunnel Borer commenced in September 2017. This allows for continuous mining with no blasting as part of the process, that significantly enhancing mining efficiencies. This project will promote substantial future growth

2 Partial funding for the first phase of our Blind Shaft Boring System ("BSBS") development was secured from the Industrial Development Corporation of South Africa Limited ("IDC")



Our commitments and targets for 2018

Deployment of Mobile Tunnel Borer



For more information on technology optimisation and development see under *Our strategy* on [page 21](#).

We are flexible and provide specialised services to suit our clients' requirements, applying technology development as a competitive advantage to improve business performance.

MOBILE TUNNEL BORER PROJECT

We are particularly proud of the launch of our MTB. This disruptive technology allows continuous mining and requires no blasting, significantly enhancing mining efficiencies



HORIZONTAL ROCK BORER PROJECT

The pilot project at the Cullinan Mine of Petra Diamond Mines was successful and involved boring and excavating a 180 meter horizontal tunnel with 4.5 meter diameter through the kimberlite ore, i.e. diamond deposits



Fleet automation process
100% on track

Research and development spend increased from USD1.0 million to
USD1.5 million

Order placed for MTB
towards the end of 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December

	<i>Notes</i>	2017 USD	2016 USD
ASSETS			
Non-current assets			
Property, plant and equipment	3	119 075 667	105 316 594
Intangible assets	4	3 083 427	3 043 042
Financial assets	5	3 098 527	10 068 354
Deferred tax asset		2 010 263	1 733 825
Investment in associate	6	6 022 115	6 023 825
		133 289 984	126 185 640
Current assets			
Inventories		23 894 609	24 437 264
Related-party loans		102 641	70 486
Trade and other receivables	7	38 171 737	39 014 664
Cash and cash equivalents		40 211 629	21 690 039
		102 400 616	85 212 453
Non-current assets held for sale	8	1 255 128	1 209 520
		103 655 744	86 421 973
Total assets		236 945 728	212 607 613
EQUITY AND LIABILITIES			
Equity			
Share capital		148 703 721	146 607 965
Reserves		(83 855 527)	(91 010 256)
Retained income		88 221 320	74 427 478
		153 069 514	130 025 187
Non-controlling interest		8 255 315	16 291 360
		161 324 829	146 316 547
LIABILITIES			
Non-current liabilities			
Interest-bearing borrowings		36 263 625	17 806 057
Finance lease obligations		1 682 765	1 950 891
Deferred tax liability		9 189 125	9 266 022
		47 135 516	29 022 970
Current liabilities			
Interest-bearing borrowings		4 659 387	8 650 837
Finance lease obligations		1 444 820	2 579 699
Related-party loans		195 483	160 622
Current tax payable		2 098 947	1 561 045
Trade and other payables	9	20 086 747	22 998 427
Cash and cash equivalents		–	1 317 466
		28 485 384	37 268 096
Total liabilities		75 620 899	66 291 066
Total equity and liabilities		236 945 728	212 607 613

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December

	Notes	2017 USD	2016 USD
Revenue		121 424 109	118 102 983
Cost of sales		(76 794 271)	(75 159 529)
Gross profit		44 629 838	42 943 454
Other operating income		3 674 987	4 645 115
Other operating expenses		(23 378 396)	(21 743 714)
Operating profit		24 926 429	25 844 855
Investment revenue		510 325	808 845
Finance costs		(2 850 878)	(1 940 479)
Share of profit from equity accounted investment		(1 710)	556 085
Profit before taxation		22 584 166	25 269 306
Taxation	10	(5 134 100)	(2 949 412)
Profit for the year		17 450 066	22 319 894
Other comprehensive income that will subsequently be classifiable to profit and loss:			
Exchange differences on translating foreign operations		7 362 724	6 618 019
Other comprehensive income/(loss) for the year net of taxation		7 362 724	6 618 019
Total comprehensive income		24 812 790	28 937 913
Profit attributable to:			
Owners of the parent		17 202 923	21 195 750
Non-controlling interest		247 143	1 124 144
Total comprehensive income attributable to:		24 853 175	28 937 913
Owners of the parent		24 606 032	27 813 769
Non-controlling interest		247 143	1 124 144
Earnings per share (USD)			
Basic earnings per share (cents)	11	11.5	14.3
Diluted earnings per share (USD)			
Diluted basic earnings per share (cents)	11	11.4	14.0
Earnings per share (ZAR)			
Basic earnings per share (cents)		153,1	210,0
Diluted earnings per share (ZAR)			
Diluted basic earnings per share (cents)		151,7	205,6

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December

	Share capital USD	Equity due to change in control of interests USD	Foreign currency translation reserve USD
Balance as at 31 December 2015	146 607 965	(58 264 013)	(39 992 078)
Share-based payments	–	–	–
Dividends declared by subsidiaries	–	–	–
Total comprehensive income for the year	–	–	6 618 019
Total changes	–	–	6 618 019
Balance as at 31 December 2016	146 607 965	(58 264 013)	(33 374 059)
Share-based payments	–	–	–
Issue of ordinary shares	2 095 756	–	–
Dividends declared by subsidiaries	–	–	–
Dividends to shareholders	–	–	–
Derecognition of non-controlling interest	–	–	–
Total comprehensive income for the year	–	–	7 403 109
Total changes	2 095 756	–	7 403 109
Balance as at 31 December 2017	148 703 721	(58 264 013)	(25 970 950)

Share-based payments reserve USD	Total reserves USD	Retained income USD	Attributable to owners of the parent USD	Non-controlling interest USD	Total shareholders' equity USD
372 467	(97 883 624)	53 231 728	101 956 069	16 309 067	118 265 136
255 349	255 349	–	255 349	–	255 349
–	–	–	–	(1 141 851)	(1 141 851)
–	6 618 019	21 195 750	27 813 769	1 124 144	28 937 913
255 349	6 873 368	21 195 750	28 069 118	(17 707)	28 051 411
627 816	(91 010 256)	74 427 478	130 025 187	16 291 360	146 316 547
290 858	290 858	–	290 858	–	290 858
(539 238)	(539 238)	–	1 556 518	–	1 556 518
–	–	–	–	(306 140)	(306 140)
–	–	(3 409 081)	(3 409 081)	–	(3 409 081)
–	–	–	–	(7 977 048)	(7 977 048)
–	7 403 109	17 202 923	24 606 032	247 143	24 853 175
(248 380)	7 154 729	13 793 842	23 044 327	(8 036 045)	15 008 281
379 436	(83 855 527)	88 221 320	153 069 514	8 255 315	161 324 829

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December

	<i>Notes</i>	2017 USD	2016 USD
Cash flows from operating activities			
Cash generated from operations	12.1	32 843 989	26 551 147
Interest income		510 325	808 845
Finance costs		(2 850 878)	(1 940 479)
Tax paid		(5 497 412)	(5 840 274)
Net cash from operating activities		25 006 024	19 579 239
Cash flows from investing activities			
Purchase of property, plant and equipment		(15 833 126)	(16 364 467)
Sale of property, plant and equipment		170 560	1 060 693
Financial assets movement		398 460	303 556
Acquisition of subsidiary	12.2	–	(3 894 451)
Net cash from investing activities		(15 264 106)	(18 894 669)
Cash flows from financing activities			
Proceeds of financial liabilities		20 000 000	8 678 685
Repayment of financial liabilities		(6 574 430)	(9 736 013)
Proceeds from financial leases		554 741	1 524 268
Repayment of financial leases		(2 382 326)	(2 891 833)
Related-party loan movement		2 706	84 574
Issue of share capital		1 556 518	–
Dividends paid to shareholders		(3 409 081)	–
Dividends paid to BEE partners		(306 140)	(1 141 851)
Net cash from financing activities		9 441 988	(3 482 170)
Total cash movement for the period		19 183 906	(2 797 600)
Cash at the beginning of the period		20 372 573	22 496 770
Effect of exchange rate movement on cash balances		655 150	673 403
Total cash at the end of the period		40 211 629	20 372 573

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December

1. ACCOUNTING POLICIES

Basis of presentation

The abridged audited financial results have been prepared in accordance with IAS 34: Interim Financial Reporting, International Financial Reporting Standards, the SAICA reporting guides as issued by the Accounting Standards Board and the requirements of the South African Companies Act (Act No 71 of 2008), as amended and the Listings Requirements of the JSE Limited. The audited consolidated annual financial statements have been prepared on the historical cost basis, except certain financial instruments at fair value, and incorporate the principal accounting policies set out below. They are presented in United States Dollar ("USD").

The significant accounting policies are consistent in all material respects with those applied in the previous year, except for the adoption of new standards and amendments which became effective in the current year.

The audited consolidated financial statements for Master Drilling Group Limited for the period ended 31 December 2017 have been audited by Grant Thornton, who expressed an unmodified audit opinion thereon. A copy of the auditor's report on the audited consolidated financial statements is available on www.masterdrilling.com. These abridged audited consolidated financial results were derived from the consolidated annual financial statements.

The consolidated annual financial statements for Master Drilling Group Limited (Registration number 2011/008265/06), for the period ended 31 December 2017, have been audited by Grant Thornton, the Company's independent external auditors, whose unqualified audit report can be found on pages 8 to 11 of the audited consolidated annual financial statements 2017, which are available on www.masterdrilling.com.

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

The auditor's report does not necessarily report on all of the information contained in these abridged audited consolidated financial results. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement they should obtain a copy of the auditor's report together with the accompanying financial information from the issuer's registered office.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

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

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 transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Control is considered to exist if all of the factors below are satisfied:

- The investor has power over the investee, i.e. the investor has existing rights that give it the ability to direct the relevant activities;
- The investor has exposure, or rights to variable returns from its involvement with the investee; and
- The investor has the ability to use its power over the investee to affect the amount of the investors returns.

The Group assesses its control of an investee at the time of its initial investment and again if changes in facts and circumstances affect one or more of the control factors listed above. In assessing whether the Group has control over an investee, consideration is given to many factors including shareholding, voting rights and their impact on the Group's ability to direct the management, operations and returns of the investee; contractual obligations; minority shareholder rights and whether these are protective or substantive in nature; and the financial position of the investee.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS

/ CONTINUED

for the year ended 31 December

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Property, plant and equipment

Property, plant and equipment are initially measured at cost and subsequently at cost less any accumulated depreciation and accumulated impairment losses.

Patents are acquired by the Group and have an infinite useful life. Patents are carried at cost less accumulated impairment losses. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

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

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

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

Investment in associate

The results, assets and liabilities are incorporated in these consolidated annual financial statements using the equity method of accounting. An investment in associate is initially recognised in the consolidated statement of financial position at cost and adjusted for thereafter to recognise the Group's share of the profit or loss in associate and other comprehensive income of the associate.

When a Group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated annual financial statements only to the extent of interest in the associate that is not related to the Group.

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary environment in which the entity operates, i.e. "functional currency". The consolidated annual financial statements are presented in USD (the "presentation currency"). Management believes that USD is more useful to the users of the consolidated financial statements, as this currency most reliably reflects the global business performance of the Group as a whole.

Going concern

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

Issued capital

There was no movement in authorised ordinary shares while 2 327 286 ordinary shares were issued during the financial year.

Operating segments

Changes were made to the operating segments from those disclosed at 31 December 2016. The changes will enable the chief decision maker, under the direct supervision of the resident boards, to improve the assessment of the performances and make better informed decisions on the allocation of resources to the different operating segments. The comparative reporting periods were adjusted accordingly as the information was available. See note 14 for more details.

Changes to the Board

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

Changes to financial statements

There have been no changes between the financial year end and the approval of the financial statements.

Annual General Meeting

The Annual General Meeting of Master Drilling Group Limited will be held at Grant Thornton, Wanderers Office Park, 52 Corlett Drive, Johannesburg, on Thursday, 7 June 2018 at 09:00.

Subsequent events

The Board approved a maiden dividend on 20 March 2017 of ZAR 30 cents per ordinary share payable to all shareholders recorded in the register on 19 May 2017. The dividend declared is not reflected in the financial statements for the year ended 31 December 2016.

After 31 December 2017 financial year, the Group exercised its option to acquire the remainder of the 60% shares in Bergteamet Raiseboring Europe AB to increase its current shareholding to 100%. The purchase of the remainder of the shares amounted to SEK69 825 000.

3. PROPERTY, PLANT AND EQUIPMENT

	Cost USD	Accumulated depreciation and impairment losses USD	Carrying value USD
2017			
Land and buildings	4 267 124	(124 152)	4 142 972
Plant and machinery	140 270 031	(39 146 361)	101 123 670
Assets under construction	392 338	(2 567)	389 771
Furniture and fittings	1 461 158	(382 136)	1 079 022
Motor vehicles	3 434 946	(1 699 685)	1 735 261
IT equipment	743 646	(444 396)	299 250
Finance lease: Plant and equipment	13 414 269	4 560 949)	8 853 320
Computer software	2 591 229	(1 378 429)	1 212 800
Patents	239 601	–	239 601
Total	166 814 244	(47 738 575)	119 075 667
2016			
Land and buildings	4 003 516	(80 517)	3 922 999
Plant and machinery	108 189 065	(31 481 087)	76 707 978
Assets under construction	2 398 153	(2 566)	2 395 587
Furniture and fittings	1 403 341	(339 278)	1 064 063
Motor vehicles	3 158 777	(1 354 858)	1 803 919
IT equipment	887 221	(376 563)	510 658
Finance lease: Plant and equipment	22 349 043	(4 909 530)	17 439 513
Computer software	2 187 833	(945 456)	1 242 377
Patents	229 500	–	229 500
Total	144 806 449	(39 489 855)	105 316 594

Borrowing cost

Included in the cost of land and buildings are capitalised borrowing costs related to the acquisition of land to the amount of 2017: USD64 625 (2016: USD138 978) calculated at a capitalisation rate of 5,9%.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS

/ CONTINUED

for the year ended 31 December

3. PROPERTY, PLANT AND EQUIPMENT CONTINUED

3.1 Reconciliation of property, plant and equipment

	Opening balance USD	Additions USD	Exchange difference on consolidation of foreign subsidiaries USD
2017			
Land and buildings	3 922 999	71 550	186 510
Plant and machinery	76 707 978	13 364 454	4 194 304
Assets under construction	2 395 587	1 719 392	5 548
Furniture and fittings	1 064 063	41 214	7 049
Motor vehicles	1 803 919	358 472	25 915
IT equipment	510 658	101 639	11 017
Finance lease: Plant and equipment	17 439 513	147 415	977 162
Computer software	1 242 377	18 889	48 265
Patents	229 500	10 101	–
	105 316 594	15 833 126	5 455 770
2016			
Land and buildings	3 572 664	297 042	90 182
Plant and machinery	58 950 433	12 271 956	2 743 043
Assets under construction	5 505 621	695 298	9 148
Furniture and fittings	797 036	291 614	106 480
Motor vehicles	1 683 547	509 263	(24 152)
IT equipment	249 540	187 740	10 805
Finance lease: Plant and equipment	17 481 071	1 524 268	856 607
Computer software	1 063 054	587 286	76 512
Patents	229 500	–	–
	89 532 466	16 364 467	3 868 625

Security

Moveable assets to the value of ZAR1,2 billion (USD96.9 million at closing spot rate) of the South African subsidiaries have been bonded to ABSA Capital as security for an interest-bearing loan.

Impairment

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

	Assets acquired through business combination USD	Reclassifi- cations and transfers to/from inventory USD	Disposals USD	Depreciation USD	Impairment of fixed assets USD	Total USD
	-	-	-	(38 087)	-	4 142 972
	-	11 384 687	(150 381)	(4 191 694)	(185 678)	101 123 670
	-	(3 730 756)	-	-	-	389 771
	-	3 316	(2 089)	(34 531)	-	1 079 022
	-	(14 971)	(75 197)	(362 877)	-	1 735 261
	-	(175 477)	(9 895)	(138 692)	-	299 250
	-	(8 692 643)	-	(1 018 127)	-	8 853 320
	-	175 793	(180)	(272 344)	-	1 212 800
	-	-	-	-	-	239 601
	-	(1 050 051)	(237 742)	(6 056 352)	(185 678)	119 075 667
	-	-	-	(36 889)	-	3 922 999
4 840 001	3 417 381	(711 201)	(4 535 247)	(268 388)		76 707 978
-	(3 814 480)	-	-	-	-	2 395 587
8 046	-	(68 967)	(70 146)	-	-	1 064 063
72 350	152 798	(47 477)	(542 410)	-	-	1 803 919
2 694	172 983	(2 887)	(110 217)	-	-	510 658
42 925	(1 317 090)	-	(1 148 268)	-	-	17 439 513
-	-	-	(484 475)	-	-	1 242 377
-	-	-	-	-	-	229 500
4 966 016	(1 388 408)	(830 532)	(6 927 652)	(268 388)		105 316 594

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS

/ CONTINUED

for the year ended 31 December

3. PROPERTY, PLANT AND EQUIPMENT CONTINUED

3.2 Change in estimate

Drill rods were previously depreciated using an estimated useful life of 30 000 drilling meters, which was done based on management's best estimate of the expectancy of the drill rod's useful life. The Group conducted a drill rod evaluation review and it was established that some of the rods still had reasonable useful life left when the 30 000 drilling meters were reached. Therefore the current method does not reflect a reasonable useful life of the rods.

It was concluded that the useful life of the rods should rather be estimated using the actual measurement of rods rather than the straight-line method.

4. INTANGIBLE ASSETS

	2017 USD	2016 USD
Goodwill recognised from value chain business combinations	2 612 584	2 612 584
Goodwill recognised from raise bore business combinations	470 843	430 458
Goodwill recognised from business combinations	3 083 427	3 043 042

5. SUBSIDIARY

Subsidiary	Master Drilling Exploration (Pty) Ltd	Raisebore Rental (Pty) Ltd*	Drilling Technical Services (Pty) Ltd	Total
BEE Partner	Epha Drilling (Pty) Ltd	Mosima Drilling (Pty) Ltd	Mosima Drilling (Pty) Ltd	Total
2017				
Opening balance	2 617 462	7 368 303	82 589	10 068 354
Exchange rate differences on translation	286 905	742 385	9 053	1 038 343
Preference dividends receivable capitalised	209 324	–	401	209 725
Buy-back of financial assets	–	(7 977 048)	–	(7 977 048)
Preference dividend received	(107 222)	(133 640)	–	(240 862)
Closing balance	3 006 469	–	92 043	3 098 512
2016				
Opening balance	2 576 714	6 514 829	67 741	9 159 284
Exchange rate differences on translation	337 896	865 848	8 883	1 212 627
Preference dividends receivable capitalised	212 257	525 130	5 965	743 352
Preference dividends received	(509 405)	(537 504)	–	(1 046 909)
Closing balance	2 617 462	7 368 303	82 589	10 068 354

* Previously known as Master Drilling South Africa (Pty) Ltd.

5. SUBSIDIARY CONTINUED

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 or at the election of the holder when the BEE company ceases to be wholly owned by black persons.

The carrying amounts of the investments are considered a reasonable approximation for the fair value.

During 2017, the transaction between Raisebore Rental Proprietary Limited (previously known as Master Drilling South Africa Proprietary Limited) and Mosima Drilling Proprietary Limited was dissolved as the business requirements of Raisebore Rental Proprietary Limited changed. This will result in Mosima Proprietary Limited not receiving the economic benefits from the transaction it was initially expected to achieve. The transaction was dissolved at fair value and all adjustments related to this transaction have been accounted for in the Group's financial statements.

6. INVESTMENT IN ASSOCIATE

On 1 December 2015, the Group purchased a 40% equity interest in Bergteamet Raiseboring Europe AB ("Bergteamet") for USD5 333 165 (SEK46 555 000). Bergteamet's operations located within Sweden, Norway, Finland and Ireland are very similar to that of the Group and will provide the Group with a strategic footprint into the European market.

The Group does not have control of Bergteamet via the call option it has for the remainder of the shares in Bergteamet. The call option does not give rise to the substantive control of Bergteamet until such time as the Group exercises the call option which expires 31 March 2019 or the put option which expired on 31 May 2017. The put option gives the option to put the current 40% owned by the Group back to the sellers at the original purchase price thus effectively cancelling the transaction. Management considered the valuation of the call and put option. At year-end the mark to market valuation did not present a material impact on the initial value of the call option.

The financial year-end of Bergteamet is 31 August. This was the reporting date established when that company was incorporated, and a change of reporting date is not permitted. For the purpose of applying the equity method of accounting, the financial information of Bergteamet has been used. Appropriate adjustments were made for fair value adjustments at acquisition, 1 December 2015, differences in accounting policies and effects of significant transactions up to 31 December 2017.

The table below summarises and also reconciles the statement of comprehensive income's financial information as at 31 December.

	2017 USD	2016 USD
Revenue	9 873 828	16 011 794
Profit from continuing operations	(4 275)	1 390 213
Total comprehensive income	(4 275)	1 390 213
Group's share of total comprehensive income	(1 710)	556 085
Dividends received from associate	104 207	–
The table summarises and also reconciles the statement of financial position's financial information as at 31 December to the carrying amount of the Group's interest in Bergteamet.		
Non-current assets	9 962 208	8 765 242
Current assets	6 456 978	7 986 687
Non-current liabilities	4 581 086	(5 134 029)
Current liabilities	3 614 112	(3 246 175)
Net assets	8 223 988	8 371 725
Group's share of net assets	3 289 595	3 348 690
Goodwill	2 734 230	2 119 050
Share of profit from equity accounted investment	(1 710)	556 085
Investment in Bergteamet	6 022 115	6 023 825

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS

/ CONTINUED

for the year ended 31 December

7. TRADE AND OTHER RECEIVABLES

	2017 USD	2016 USD
Trade receivables – Normal	27 333 869	26 789 516
Trade receivables – Retention	5 021 356	3 098 167
Loans to employees	40 636	81 097
Pre-payments	1 054 572	1 372 357
Deposits	82 219	46 890
Indirect taxes	1 691 851	1 426 352
Sundry	2 967 234	6 200 285
	38 191 737	39 014 664
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	18 330 132	10 981 269
1 month past due	6 029 069	6 702 871
2 months past due	3 084 459	5 591 572
3 months and over past due	5 413 060	6 748 090
Allowance for doubtful debts	(501 495)	(136 119)
Normal and retention trade receivables	32 355 225	29 887 683
<i>Trade receivables of South African subsidiaries have been ceded to ABSA Capital as security for interest-bearing loan.</i>		
The movement in allowance for doubtful debts is presented below		
Balance 1 January	136 119	636 799
Exchange differences on translation of foreign operations	6 698	58 431
Amounts written off	–	–
Allowance for doubtful debts (reversed)/provided for	358 678	(559 111)
	501 495	136 119
The carrying amounts in USD of trade and other receivables are denominated in the following currencies:		
United States Dollar (“USD”)	18 223 187	17 591 574
South African Rands (“ZAR”)	6 162 910	7 119 116
Brazilian Reals (“BRL”)	2 943 824	4 455 101
Mexican Peso (“MXN”)	594 427	373 151
Chilean Peso (“CLP”)	7 558 388	7 360 884
Peruvian Nuevo Sol (“PEN”)	630 645	1 289 943
CFA Franc BCEAO (“XOF”)	712 913	–
Chinese Yuan Renminbi (“CNY”)	339 833	440 543
Guatemalan Quetzal (“GTQ”)	3 175	–
Zambian Kwacha (“ZMW”)	351 527	–
Colombian Peso (“COP”)	594 787	217 247
Indian Rupee (“INR”)	43 673	–
Austalian Dollar (“AUD”)	32 448	–
Euro (“EUR”)	–	167 105
	38 191 737	39 014 664

8. NON-CURRENT ASSETS HELD FOR SALE

In September 2016, management committed to a plan to sell the land and building owned in Peru. Master Drilling Peru uses the land and buildings to house its administrative and workshop facilities. Management's plan is to develop another piece of land owned in Peru into offices and workshop facilities.

In the previous financial year's annual financial statements, it was indicated that management expected to finalise the sales transaction during May 2017. Since the release of the previous year's financial statements, the interested buyer at the time decided against finalising the transaction as a better opportunity presented itself that satisfied their requirements. Management still has the intention to sell and is actively marketing the land and buildings. Negotiations to sell the land and buildings are at an advanced stage with a new interested buyer. The sale is expected to be finalised towards the end of the second quarter in 2018.

The movement in the amount disclosed as non-current asset held for sale relates to foreign exchange differences as the property's value is denominated in PEN.

No impairment losses were recognised in profit and loss as the fair value less costs to sell exceeds the carrying amount.

As at 31 December, the assets held for sale were comprised of the following:

	2017 USD	2016 USD
Land and buildings	1 255 128	1 209 520
Assets held for sale	1 255 128	1 209 520

9. TRADE AND OTHER PAYABLES

	2017 USD	2016 USD
Trade payables	7 956 216	9 931 942
Income received in advance	–	391 683
Indirect taxes	6 654 506	5 914 578
Leave pay accruals	2 070 242	1 821 971
Other accruals	3 405 783	4 938 253
	20 086 747	22 998 427

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS

/ CONTINUED

for the year ended 31 December

10. TAXATION

	2017 USD	2016 USD
Current		
Normal taxation	6 040 830	2 293 305
Current taxation	5 231 760	3 936 680
Prior year tax over provided	809 070	(1 643 375)
Deferred taxation: Temporary differences	(906 730)	656 107
	5 134 100	2 949 412
Reconciliation of the tax expense		
Accounting profit	22 584 166	25 269 306
Tax at the applicable tax rate	5 502 316	4 592 417
Prior year tax over provided	809 070	(1 643 375)
Exempt income	(4 371 627)	(2 336 512)
Non-deductible expenses	2 724 372	571 321
Deferred taxation: Change in tax rate	78 771	187 408
Assessed loss not recognised	741 163	1 729 360
Assessed loss from prior year	(349 965)	(151 207)
Taxation per statement of comprehensive income	5 134 100	2 949 412
The total unrecognised assessed loss at 31 December 2017 is USD2 544 768 (2016: USD4 029 099).		
Normal taxation charge/(refund) per entity within the Group		
DCP Properties	15 129	–
Master Drilling Exploration Proprietary Limited	409 833	609 730
Master Drilling Chile SA	275 577	318 739
Master Drilling Peru SAC	1 394 792	–
Master Drilling do Brasil Limitada	479 007	–
Master Drilling Mexico SA	–	–
Master Drilling Malta Limited	1 554 235	1 894 395
Master Drilling Guatemala SA	–	195 253
Jiangsu Master Mining Engineering Technology Company Limited	–	30 126
Master Drilling DRC sprl	389 921	(677 929)
Master Drilling Colombia SAS	80 900	503 304
Master Drilling Zambia Limited	1 232 820	(256 579)
Master Drilling International Limited	2 988	(655 736)
Master Drilling Changzhou Co Ltd	–	213 921
Master Drilling Ecuador SA	–	103 670
Master Drilling USA LLC	–	14 411
Drilling Technical Services SAC	2 567	–
Martwick Limited	18	–
Master Drilling Mali	163 884	–
MD Drilling Services Tanzania SARL	39 159	–
	6 040 830	2 293 305

Conservative provisions for taxation in some jurisdictions in previous years as well as raising of deferred tax assets on historically loss making entities returning to profitability have led to a decrease in taxation expense in the previous year. The impact on taxation as a result of potential future dividends is impractical to calculate as at 31 December.

The change in tax rate relates to Chile where the tax rate changed from 24,00% to 25,50%.

11. EARNINGS PER SHARE

	2017 USD	2016 USD
Reconciliation between earnings and headline earnings		
Basic earnings for the year	17 450 066	22 319 894
<i>Deduct:</i>		
Non-controlling interest	(247 143)	(1 124 144)
Attributable to owners of the parent	17 202 923	21 195 750
(Gain)loss on disposal of fixed assets	67 183	(230 161)
Impairment of plant and equipment	185 678	268 388
Tax effect on loss on disposal of fixed assets and impairments	(70 801)	(48 284)
Headline earnings for the year	17 384 983	21 185 693
Earnings per share (cents)	11.5	14.3
Diluted earnings per share (cents)	11.4	14.0
Headline earnings per share (cents)	11.6	14.3
Diluted headline earnings per share (cents)	11.5	14.0
Net asset value per share (cents)	107.6	98.7
Tangible net asset value per share (cents)	105.6	96.6
Dividends per share (cents)	30.0	–
Weighted average number of ordinary shares at the end of the year for the purpose of basic earnings per share and headline earnings per share	149 894 366	148 265 491
Effect of dilutive potential ordinary shares – employee share options	1 603 877	3 003 793
Weighted average number of ordinary shares at the end of the year for the purpose of diluted basic earnings per share and diluted headline earnings per share	151 498 243	151 269 284

12. CASH GENERATED FROM OPERATIONS

12.1 Cash generated from operations

	2017 USD	2016 USD
Profit before taxation	22 584 166	25 269 306
Adjustments for:		
Depreciation and amortisation	6 056 352	6 927 652
Impairment	845 891	268 388
Share of profit from equity accounted investment	1 710	(556 085)
Translation effect of foreign operations	2 203 374	1 134 652
Share-based payment – equity settled	290 858	255 349
Share-based payment – liability	–	(706 681)
(Gain)loss on sale of assets	67 183	(230 161)
Interest received	(510 325)	(808 845)
Finance costs	2 850 878	1 940 479
Changes in working capital:		
Inventories	542 655	(3 529 733)
Trade and other receivables	822 925	(7 479 267)
Trade and other payables	(2 911 680)	4 066 093
	32 843 989	26 551 147

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS

/ CONTINUED

for the year ended 31 December

12. CASH GENERATED FROM OPERATIONS CONTINUED

12.2 Net cash flow on business combinations

In January 2016, the Group acquired 100% of the equity instruments of Bergteamet Latin America SpA, a Chilean-based business, thereby obtaining control. The acquisition was made to further expand the Group's presence within Chile.

The acquisition of Bergteamet Latin America SpA was settled in cash amounting to USD4 000 000. The purchase agreement included an amount of USD432 285 still payable. As part of the acquisition, the Group acquired the liability of employee termination costs. The employees were terminated as part of the previous shareholder requiring the re-assigning of these employees to other operations within its group. Upon settling the termination costs, the remainder of the consideration payable will be settled.

The assets and liabilities of Bergteamet Latin America were considered to be stated at fair value after a proper analysis was performed. This acquisition transaction resulted in goodwill of USD430 548 which is primarily related to the expected future profitability.

	2017 USD	2016 USD
The fair value of assets and liabilities assumed at date of acquisition was:		
Assets		
Property, plant and equipment	–	4 966 016
Net working capital	–	(964 189)
Trade and other receivables	–	962 575
Cash and cash equivalents	–	105 549
Inventory	–	1 332 552
Trade and other payables	–	(3 364 865)
Total assets and liabilities acquired	–	4 001 827
Group's share of total assets and liabilities acquired	–	4 001 827
Goodwill at acquisition	–	430 458
Total consideration	–	4 432 285
Cash and cash equivalents on hand at acquisition	–	(105 549)
Consideration still payable	–	(432 285)
Net cash outflow on acquisition of subsidiaries	–	3 894 451
Profit after tax since acquisition date included in the consolidated results for the year	–	1 769 112
Turnover since acquisition date included in the consolidated results for the year	–	3 750 069
Group profit after tax since acquisition date included in the results for the year	–	22 319 894
Group turnover since acquisition date included in the results for the year	–	118 102 983

13. CAPITAL COMMITMENTS

	2017 USD	2016 USD
Capital expenditure authorised by the directors and contracted for within 12 months.		
Capital expenditure will be funded through cash generated from operations.	4 579 527	4 276 175

14. SEGMENT REPORTING

14.1 Mining activity

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

	2017 USD	2016 USD
Sales revenue by stage of mining activity		
Exploration	973 412	695 690
Capital	4 339 904	22 792 887
Production	116 110 793	94 614 406
	121 424 109	118 102 983
Gross profit by stage of mining activity		
Exploration	383 107	297 369
Capital	830 043	9 350 969
Production	43 416 688	33 295 116
	44 629 838	42 943 454

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

14.2 Geographical segments

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

	2017 USD	2016 USD
Sales revenue by geographical market		
Africa	54 737 735	49 006 600
Central and North America	14 619 849	11 064 465
Other countries	–	–
South America	52 066 525	58 031 918
	121 424 109	118 102 983
Gross profit by geographical market		
Africa	24 880 016	21 467 899
Central and North America	4 547 869	2 011 437
Other countries	–	2 131 646
South America	15 201 953	17 332 472
	44 629 838	42 943 454

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

A customer in the African region, operating in the capital and production segments, accounts for 14% (2016: African region 9%) of the Group's revenue.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS

/ CONTINUED

for the year ended 31 December

14. SEGMENT REPORTING CONTINUED

14.2 Geographical segments continued

	2017 USD	2016 USD
Depreciation by geographical market		
Africa	2 813 563	3 594 065
Central and North America	465 299	374 197
Other countries	42 009	43 727
South America	2 735 481	2 915 663
	6 056 352	6 927 652
Investment revenue by geographical market		
Africa	261 559	764 121
Central and North America	749	1 207
Other countries	168 101	3 169
South America	79 916	40 348
	510 325	808 845
Finance cost by geographical market		
Africa	1 834 711	1 103 886
Central and North America	209 404	167 597
Other countries	204 635	233 814
South America	602 128	435 182
	2 850 878	1 940 479
Taxation by geographical market		
Africa	1 334 731	762 444
Central and North America	312 205	(146 543)
Other countries	2 203 622	1 709 223
South America	1 283 542	624 288
	5 134 100	2 949 412
Total assets by geographical market		
Africa	95 020 536	88 457 389
Central and North America	24 975 860	24 418 504
Other countries*	25 208 838	17 392 080
South America**	91 740 494	82 339 638
Total assets as per statement of financial position	236 945 728	212 607 611
Total liabilities by geographical market		
Africa	34 438 606	37 032 675
Central and North America	8 457 641	18 306 283
Other countries	6 535 299	1 082 223
South America	26 189 353	9 869 885
Total liabilities as per statement of financial position	75 620 899	66 291 066

* Assets in other countries includes the investment in associate.

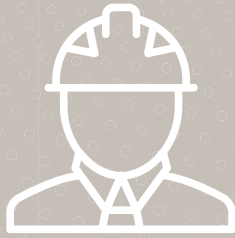
** Assets in South America includes the non-current asset held for sale. See Note 8.

15. BUSINESS COMBINATION

After 31 December 2017 financial year, the Group exercised its option to acquire the remainder of the 60% shares in Bergteamet Raiseboring Europe AB to increase its current shareholding to 100%. The purchase of the remainder of the shares amounted to SEK69 825 000 (USD8 532 621 – closing spot rate).

Due to the recent nature of the acquisition the initial accounting for the acquisition has not been finalised as it is impractical in the limited time frame to do so. Management is still in the process of determining all identifiable assets and liabilities, therefore, initial accounting for the business combination is incomplete and will be finalised during the next financial period.

Refer to note 6 for more information on the Group's investment in associate as at 31 December 2017.



OUR STRATEGY IN ACTION

PEOPLE CAPACITY AND DEVELOPMENT



What we said we would do in 2017

Strengthening of senior and mid management in key countries to accommodate future growth



What we achieved in 2017

- 1** During 2017 appointments to key management positions were made in South America and North America to further develop these businesses
- 2** A training rig and simulator were installed at head office in South Africa to train drill rig operators in a realistic operational setting



Our commitments and targets for 2018

Further strengthening training capacity with effective resources



For more information on people capacity and development see under *Our Strategy* on [page 21](#).

The foundation of our strategy is the people who make it happen; our success depends on how our skills and expertise support our goals.

TRAINING CENTRE

We have a training centre located at our headquarters where employees receive appropriate theoretical training before being exposed to their day-to-day duties

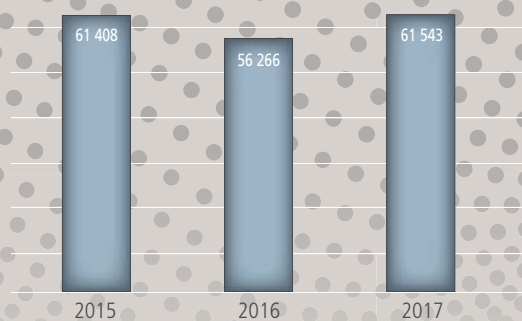


TRAINING RIG

We have a training rig at our Training Centre where employees received on-the-job training before being allocated to projects



REVENUE PER HEAD



Revenue per head up to
USD61 543

LTI improved to
2,31

NOTICE OF ANNUAL GENERAL MEETING

Master Drilling Group Limited

(Incorporated in the Republic of South Africa)

Registration number: 2011/008265/06

JSE share code: MDI: ISIN: ZAE000171948

("Master Drilling" or "the Company")



Notice is hereby given that the sixth Annual General Meeting of Master Drilling will be held (subject to any adjournment, postponement or cancellation thereof) at the Grant Thornton offices, Wanderers Office Park, 52 Corlett Drive, Illovo, Johannesburg on Thursday, 7 June 2018 at 09:00 to consider and, if deemed fit, pass, with or without modification, the resolutions as set out in this notice.

FORM OF NOTICE AND PROXY

This Form of Notice and Proxy have been approved by the Board of Directors of Master Drilling ("the Board" or "the Directors") and signed on its behalf by Mr HR van der Merwe, Chairman, on 19 April 2018.

REGISTERED AND CORPORATE OFFICE

4 Bosman Street, Fochville, Gauteng, South Africa.

(PO Box 902, Fochville 2515, South Africa)

Agenda and Index of proposed resolutions for shareholder approval at the meeting:

- The consideration of the annual financial statements for the period ended 31 December 2017;
- The appointment of the external auditors;
- The election of certain directors and re-election of certain of those retiring by rotation;
- The election/re-appointment of members of the Audit Committee;
- The granting of authority to directors to allot and issue ordinary shares;
- The granting of authority to directors to issue shares for cash;
- The granting of authority to the Company to acquire its own shares;
- The approval of directors' fees;
- The approval of the Company's remuneration policy;
- The approval of the report on the implementation of the Company's remuneration policy;
- The granting of authority to the directors to commit the Company to providing financial assistance; and
- To transact such other business as may be transacted at an annual general meeting of shareholders.

ADMINISTRATION: SHAREHOLDERS' DIARY

Financial year-end		31 December 2017
Annual results 2017	Published on or about	20 March 2018
Record date for final dividend		18 May 2018
Payment date of final dividend		21 May 2018
Integrated Annual Report 2017	Published on or about	25 April 2018
Annual General Meeting 2018	09:00	7 June 2018
Interim results 2018	Published on or about	28 August 2018

IMPORTANT INFORMATION REGARDING ATTENDING THE ANNUAL GENERAL MEETING

Attending the 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 and vote at the Annual General Meeting to be held on Thursday, 7 June 2018 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) (“the Companies Act”), provides that any shareholder present at the meeting, whether in person or by duly appointed proxy, and entitled to exercise voting rights has (a) if voting is by a show of hands, one vote, irrespective of the number of voting rights that shareholder would otherwise be entitled to; and (b) should voting be taken by way of a poll, one vote for every share held.

Change of details

Shareholders are reminded that the onus is on them to keep the Company apprised, through the share registrars, 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 Report 2017, please request same by completing the form on the Company website at  www.masterdrilling.com or from companysecretary@masterdrilling.com.

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. Acceptable forms of identification include the presentation of a valid identity document, driver's licence or passport.

Record dates, voting and proxies

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

- 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, 1 June 2018 (“voting 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 Tuesday, 29 May 2018; and
- the date by which forms of proxy for the Annual General Meeting are requested to be lodged is, for administrative purposes, 09:30 on Tuesday, 5 June 2018. Any forms of proxy not lodged by this date must be handed to the Chairman of the Annual General Meeting immediately prior to the commencement of the meeting. The Chairman may reject or accept any form of proxy which is completed and/or received otherwise than in accordance with the proxy notes, provided that he is satisfied as to the manner in which the shareholder concerned wishes to vote.

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. Forms of proxy must be lodged with or posted to the share registrars to be received within the allowable time periods prescribed by law.

NOTICE OF ANNUAL GENERAL MEETING / CONTINUED

C. Electronic participation

In compliance with the provisions of the Companies Act, Master Drilling intends to offer shareholders reasonable access, through electronic facilities, to participate in the Annual General Meeting by means of a conference call facility. Shareholders will be able to listen to the proceedings and raise questions should they wish to do so and are invited to indicate their intention to make use of this facility by making application, in writing (including details as to how the shareholder or representative can be contacted) to the share registrars at the address set out in this Notice of Annual General Meeting. The application is to be received by the share registrars at least 10 business days prior to the date of the Annual General Meeting, i.e. by Thursday, 24 May 2018. The share registrars will, by way of email, provide information enabling participation to those shareholders who have made application. Voting will not be possible via the electronic facility and shareholders wishing to exercise their voting rights at the Annual General Meeting are required to be represented at the meeting either in person, by proxy or by letter of representation as provided for in the Notice of Annual General Meeting.

ORDINARY BUSINESS

1. Ordinary resolution number 1: Presentation of annual financial statements



"To consider the consolidated audited annual financial statements of the Company, together with the auditor's, Audit and Social, Ethics and Sustainability committees' and Directors' reports for the year ended 31 December 2017."

2. Ordinary resolution number 2: Appointment of auditors

"Resolved that Grant Thornton are hereby appointed as the auditors of the Company, 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. It was noted that J Barradas will serve as the designated registered auditor."

3. Ordinary resolution number 3: Re-election of Mr Hendrik (Hennie) Roux van der Merwe as Non-Executive Director

"Resolved that Mr HR van der Merwe, who retires by rotation at this Annual General Meeting and who is eligible and available for re-election, is hereby re-elected as a Non-Executive Director of the Company".

Mr Van der Merwe's curriculum vitae appears on  page 69 of the Integrated Report 2017, available on  www.masterdrilling.com

4. Ordinary resolution number 4: Election of Mr Andries Willem Brink as Non-Executive Director

"Resolved that Mr AW Brink, being eligible and available for election, is hereby elected as a Non-Executive Director of the Company".

Mr Brink's curriculum vitae appears on  page 69 of the Integrated Report 2017, available on  www.masterdrilling.com

5. Ordinary resolution number 5: Election of Ms Octavia Matshidiso Matloa as Non-Executive Director

"Resolved that Ms OM Matloa, being eligible and available for election, is hereby elected as a Non-Executive Director of the Company".

Ms Matloa's curriculum vitae appears on  page 69 of the Integrated Report 2017, available on  www.masterdrilling.com

6. Ordinary resolution number 6: Election/re-appointment of members of the Audit Committee

6.1 Election of Mr Andries Willem Brink as a member of the Audit Committee

"Subject to the passing of ordinary resolution number 4, resolved that Mr AW Brink is hereby elected as a member of the Audit 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."

Mr Brink's curriculum vitae appears on  page 69 of the Integrated Report 2017, available on  www.masterdrilling.com

6.2 Election of Ms Octavia Matshidiso Matloa as a member of the Audit Committee

"Subject to the passing of ordinary resolution number 5, resolved that Ms OM Matloa is hereby elected as a member of the Audit 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."

Ms Matloa's curriculum vitae appears on  page 69 of the Integrated Report 2017, available on  www.masterdrilling.com

6.3 Re-appointment of Mr Shane Trevor Ferguson as a member of the Audit Committee

"Resolved that Mr ST Ferguson is hereby re-appointed as a member of the Audit 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."

Mr Ferguson's curriculum vitae appears on  page 69 of Integrated Report 2017, available on  www.masterdrilling.com

6.4 Re-appointment of Mr Akhter Alli Deshmukh as a member of the Audit Committee

"Resolved that Mr AA Deshmukh is hereby re-appointed as a member of the Audit 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."

Mr Deshmukh's curriculum vitae appears on  page 69 of Integrated Report 2017, available on  www.masterdrilling.com

7. ORDINARY RESOLUTION NUMBER 7: GENERAL AUTHORITY TO DIRECTORS TO ALLOT AND ISSUE ORDINARY SHARES

"Resolved that, subject to the provisions of the Companies Act and the JSE Listings Requirements from time to time, the directors of the Company are, 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."

Ordinary resolution number 7 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.

8. ORDINARY RESOLUTION NUMBER 8: 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 7

"Resolved that, subject to ordinary resolution number 7 being passed, the directors are 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 7, subject to the following conditions:

- 8.1 This authority shall be limited to a maximum number of 7 529 639 shares (being 5% of the issued ordinary shares in the share capital of the Company, excluding treasury shares, as at the date of the notice convening the Annual General Meeting at which this ordinary resolution number 8 is to be proposed, being 7 June 2018);
- 8.2 This authority shall only be valid until the next annual general meeting of the Company but shall not extend beyond 15 months;
- 8.3 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 8.2 above, 5% (7 529 639) of the number of ordinary shares in issue prior to the issue concerned excluding treasury shares;
- 8.4 In the event of a sub-division or consolidation of issued shares during the period contemplated in paragraph 8.2 above, this authority must be adjusted accordingly to represent the same allocation ratio;
- 8.5 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
- 8.6 Any issue of ordinary shares under this authority shall be made only to public shareholders as defined in the Listings Requirements of the JSE Limited."



Any equity securities already issued under the authority during the period contemplated in paragraph 8.2 above, must be deducted from such number in paragraph 8.1 above.

The purpose of ordinary resolution number 8 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 issue in terms of ordinary resolution number 7 and is not intended to (nor does it) grant the directors authority to issue ordinary shares over and above the ordinary shares which the directors are authorised to issue in terms of ordinary resolution number 7.

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 8.

9. ORDINARY RESOLUTION NUMBER 9: APPROVAL OF THE MASTER DRILLING REMUNERATION POLICY

"To consider and approve the remuneration policy as contained in the Remuneration report of the Company as set out on  page 76 of the Integrated Report 2017, available on  www.masterdrilling.com, (excluding the remuneration of directors for their services as directors and members of the Board and Board committees) in terms of the King Report on Governance for South Africa 2016 ("King IV")."

Shareholders are reminded that in terms of King IV, the passing of this ordinary resolution is by way of a non-binding vote. Should 25% or more of the votes cast vote against this ordinary resolution, Master Drilling undertakes to engage with shareholders as to the reasons therefor.

NOTICE OF ANNUAL GENERAL MEETING / CONTINUED

10. ORDINARY RESOLUTION NUMBER 10: REPORT ON IMPLEMENTATION OF THE REMUNERATION POLICY

"To consider and approve the implementation of the remuneration policy, details of which are set out in the Remuneration report of the Company as set out on page 76 of the Integrated Report 2017, available on www.masterdrilling.com, (excluding the remuneration of directors for their services as directors and members of the Board and Board committees) in terms of the King Report on Governance for South Africa 2016 ("King IV")."

Shareholders are reminded that in terms of King IV, the passing of this ordinary resolution is by way of a non-binding vote. Should 25% or more of the votes cast vote against this ordinary resolution, Master Drilling undertakes to engage with shareholders as to the reasons therefor.

SPECIAL BUSINESS

11. 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 applicable, 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 period 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 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 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 period, 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 period are fixed and full details of the programme have been submitted in writing to the JSE prior to the commencement of the prohibited period;
- 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 purpose and effect of 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 should the directors deem that to be in the best interest of the Company and its shareholders.

The directors 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 period 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 period 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; and
- the ordinary capital and reserves of the Company and the Group would be adequate for ordinary business purposes for a period 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 period of 12 months after the date of the repurchase.

Prior to executing an acquisition of the Company's own shares under this authority granted in terms of special resolution number 1, the directors will submit to the JSE the required confirmation of the adequacy of working capital.

In terms of section 11.26 of the JSE Listings Requirements, the following information is disclosed in the Integrated Report 2017, available on www.masterdrilling.com:

- Directors and management – pages 68 and 69;
- Major shareholders – pages 80 and 81;
- Material change statement – page 114;
- Directors' interest in securities – page 83; and
- Share capital of the Company – page 80.

12. SPECIAL RESOLUTION NUMBER 2: DIRECTORS' FEES

"Resolved as special resolution number 2, in terms of section 66(9) of the Companies Act, that the remuneration, as set out in the table below, to be paid to non-executive directors for their service as directors of the Company (with effect from 1 July 2018), as recommended by the Remuneration Committee and the Board to the shareholders at the Annual General Meeting, is hereby approved, as well as payment of such value added tax as may be attributable to non-executive directors fees payable by the Company."

	2018 ZAR	2017 ZAR
Board Chairman	859 007*	810 384
Board member	411 568*	388 272

* The directors' fees comprise a fixed annual portion and a portion based on attendances at Board and committee meetings. The estimate for the 2018 financial year is predicated on the assumption of full Board and committee attendances by the directors for the ensuing year.

The fees payable in terms of special resolution number 2 will be in accordance with the agreed fees between the Company and the directors for both Board and committee attendance during the ensuing year.

The purpose and effect of special resolution number 2 is to reward non-executive directors for their services as directors, in line with best practice.

13. SPECIAL RESOLUTION NUMBER 3: FINANCIAL ASSISTANCE IN TERMS OF SECTIONS 44 AND 45 OF THE COMPANIES ACT

"Resolved, to the extent required by the Companies Act, that the shareholders hereby approve of Master Drilling providing, at any time and from time to time during the period 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 sections 44 and 45 of the Companies Act to any 1 (one) or more related or inter-related companies or corporations of Master Drilling, provided that:

- the recipient or recipients of such financial assistance;
- the form, nature and extent of such financial assistance; and
- 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; and such financial assistance to a recipient thereof is, in the opinion of the Board, required for the purpose of:

- meeting all or any of such recipient's operating expenses (including capital expenditure); and/or
- funding the growth, expansion, reorganisation or restructuring of the businesses or operations of such recipient; and/or
- 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 purpose and effect of special resolution number 3, if passed and becoming effective, is to allow Master Drilling to grant direct or indirect financial assistance to any company or corporation forming part of the Group, including in the form of loans or the guaranteeing of their debts and/or obligations.

NOTICE OF ANNUAL GENERAL MEETING / CONTINUED

RESPONSIBILITY

The directors whose names appear on  page 68 and 69 of the Integrated Report 2017, available on  www.masterdrilling.com, 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.

NO MATERIAL CHANGES

Other than the facts and developments reported on in the integrated annual report, there have been no material changes in the financial or trading position of the Company and its subsidiaries since the date of signature of the audit report and the date of this notice.

By order of the Board



HENNIE VAN DER MERWE

Chairman of the Board

19 April 2018

REGISTERED AND CORPORATE OFFICE

4 Bosman Street
PO Box 902
Fochville, 2515
South Africa

IMPORTANT NOTES ABOUT THE ANNUAL GENERAL MEETING

Date

Thursday, 7 June 2018.

Venue

Grant Thornton offices, Wanderers Office Park, 52 Corlett Drive, Illovo, Johannesburg.

Starting time

09:00 (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*” of this Notice of Annual General Meeting.

Security and mobile phones

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

Enquiries and questions

Shareholders who have the right and 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  www.masterdrilling.com.

Transfer secretaries

Computershare Investor Services Proprietary Limited

Rosebank Towers, 15 Biermann Avenue
Rosebank, Johannesburg, 2196
(PO Box 61051, Marshalltown, 2107)
South Africa

 www.masterdrilling.com

DEFINITIONS AND GLOSSARY

OPERATIONAL DEFINITIONS

Air rotary drilling	Air rotary drilling is most commonly used for the application of large-diameter blast holes in the surface or open-cast mining industry and is similar to the blast hole application of percussion drilling. This type of drilling is often used in weak ground when a raise boring rig is used to establish a pilot hole for paste, utility holes or a raise bored shaft.
Blind hole boring	Blind hole boring or enlargement is used for the construction of access or ventilation shafts for the mining industry, in various forms. In the urban infrastructure industry, this form of boring is used for access and ventilation shafts ranging from metro tunnels to underground storage areas such as parking garages. In the energy sector it is used for surge, ventilation, access and pressure shafts.
Box hole drilling	<p>Most box holes are drilled in underground mining applications where bottom access is available in a production section. The holes are drilled from the bottom up to intersect with the ore body. When mining activity reaches this hole, it may be used as a transfer pass for dropping material from the reef/ore horizon downwards where it can be collected and transported; or as a ventilation shaft to the mining location.</p> <p>In some cases, the shaft is equipped with a chute to hold a certain volume of material, similar to a small silo. In other cases, it is used for transfer passes into an existing ore pass or where construction of material handling infrastructure is already in place and explosives cannot be used to create an excavation. In addition, it is used for trough passes in block cave mines.</p>
Core drilling	<p>Core drilling is used in surface and underground mining for delineation of an ore body and resource definition and valuation. Cover drilling is used in tunnel infrastructure to ensure that no methane pockets of air are mined into and for water-bearing areas that could potentially flood the underground infrastructure. In addition, core drilling is used for the geotechnical evaluation of the nature, material properties and type of rock for the purposes of designing a certain size shaft, tunnel or stopping panel to be used for the calculation of the type and amount of rock support required.</p> <p>In many cases core drilling is used for resource definition, which enables engineers to see the exact position in relation to an access tunnel of a certain geological feature of interest in the construction of infrastructure or in mining. On the surface, it is similar, depending on the stage of exploration of grid holes for resource estimation and information purposes. This is optimised to a finer grid as mining operations start and finer detail is required.</p> <p>In the construction or urban infrastructure industries, core drilling is mainly used for geotechnical information in the design of foundations for bridges, buildings, tunnels, etc.</p> <p>In the energy industry, core drilling is used for the collecting of core in gas, oil, coal or uranium carrying geology. The sample is stored and tested in a laboratory to understand the yield of energy that could be extracted from this type of geology and the nature of the structure.</p>
Mud rotary drilling	Mud rotary drilling is used in the mining industry for the drilling of utility, paste, de-watering and other infrastructure holes. In urban infrastructure it is used predominantly for water wells and horizontal directional drilling, while the most common use in the energy sector is the drilling of coalbed methane, shale gas, gas, oil and geothermal holes. Mud rotary drilling is also commonly used for the directional drilling of horizontal wells.
Percussion drilling	<p>Percussion drilling is a mobile type of drilling with fast production rates. The drilling assembly down the hole comprises a button bit fitted to a precipitating hammer with drill rods to the drill rig.</p> <p>Percussion drilling is commonly used to establish a fast hole in the ground. When used for sampling geology, it is referred to as Reverse Air Blast or RAB drilling. The most common use for this type of drilling is for the drilling of de-watering holes on open-cast mines, water wells for domestic use, blast holes for the injection of explosives during mining, utility holes used for cables and production wells for oil and gas. In many cases these types of holes are also established for diamond tailing, which refers to the establishment of a fast hole by percussion drilling to a particular depth of no geological importance and then to diamond tail the hole with core drilling.</p>
Piling	We predominantly use piling for the construction of circular secant pile walls to establish a barrel from surface through unconsolidated ground socketed into fresh rock.
Piloting	Some drilling methods require pre-drilling operations to ensure hole accuracy and stability, or to enable the subsequent process. The pilot process is usually executed using percussion or mud rotary drilling methods.
Reaming	Reaming is the process of enlarging an existing hole. This can be done by re-drilling a pilot hole using a large cutter, hammer, bit or reaming shell. In the raise boring application, the pilot hole can be enlarged by drawing a large-diameter reamer head from the bottom of the hole upwards.

OPERATIONAL DEFINITIONS CONTINUED

Reef boring	Reef boring is used where vein ore bodies are narrow. The equipment is moved underground and positioned in such a way that it can drill a hole on the reef horizon, whether down dip, up dip or on strike. Small single pass holes are drilled and, if required, enlarged, by reaming.
Reverse circulation drilling	Reverse circulation drilling is a cost-effective way for resource definition and very effective for grade control drilling to determine the accurate composition of the ore body that will be mined just before blasting.
Semi-skilled	C-lower and B-upper level employees, e.g. artisan aids, operators and assistants.
Skilled	Using the Paterson grading model, skilled employees are classified as upper level employees from C4 level, e.g. managers, skilled artisans, foremen, administrators and qualified artisans.
Slot hole boring	<p>Slot hole boring is similar to traditional raise and box hole boring. The raise boring configuration can be adapted so that a pilot hole is drilled downward and then reamed from the top down, instead of from the bottom up, depending on the mining method required.</p> <p>Slot hole boring systems are faster moving than the other conventional boring methods as the length of boring is shorter and normally a number of holes are required. There is no sequence to the holes and a suite of equipment can easily move between levels, lodes or east/west sections of a mine, between holes.</p>
Trackless mining	Mobile equipment not using mining tracks, i.e. the mobile unit uses its own wheels or method of movement.
Tunnel boring	<p>Tunnel boring is used to excavate tunnels with a circular cross-section through a variety of soil and rock strata, varying from hard rock to sand.</p> <p>This method is used for the construction of metro, utility (waste water pipes, communication, etc.), fresh/waste water collection/removal, railway tunnels in the transport and urban infrastructure industries.</p> <p>In the mining industry, it is used for the construction of access tunnels to ore bodies in either a decline-type ramp or horizontal haulage format. There are various other applications where it is effective for the opening up of blocks of ground and increasing the mine's footprint, such as finger raises.</p> <p>For energy-type projects, tunnel boring is predominantly used in hydroelectric or pumped storage projects for the use of tailrace tunnels. It is also used for nuclear waste storage facility construction.</p>
Unskilled	Wage workers, e.g. raise bore assistants, general workers and cleaners.

FINANCIAL TERMS AND DEFINITIONS

ARPOR	Average revenue per operating rig
Asset turnover ratio	$\frac{\text{Revenue}}{\text{(Average cost of property, plant and equipment)}}$
CAGR	Compound annual growth rate
EBITDA	Earnings before interest, tax, depreciation and amortisation
HEPS	Headline earnings per share
GP	Gross profit
PAT	Profit after tax
ROCE	$\text{Return on capital employed} = \frac{\text{Earnings before interest and tax}}{\text{(Total assets – current liabilities)}}$
ROE	$\text{Return on equity} = \frac{\text{Profit after tax}}{\text{Total equity}}$

DEFINITIONS AND GLOSSARY / CONTINUED

GLOSSARY

AMCU	Association of Mineworkers and Contractors Union
B-BBEE	Broad-based black economic empowerment
BSBS	Blind shaft boring system
CTC	Cost-to-company
DRC	Democratic Republic of Congo
DTS	Drilling Technical Services
EPCM	Procurement and construction management
Epha	Drilling Proprietary Limited, a B-BBEE owned and controlled company with a 26% shareholding in MDX
ERP	Enterprise Resource Planning
HDSA	Historically disadvantaged South African
HRB	Horizontal raise boring
IAS	International Auditing Standards
IDC	Industrial Development Corporation
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IP	Intellectual property
ISO	International Organisation for Standardisation
ISO 14001	ISO Environmental Management
ISO 9001	ISO Quality Management System
JSE	Johannesburg Stock Exchange
King IV	King Report on Corporate Governance for South Africa, 2016
KPI	Key performance indicator
Latin America and Colombia	Includes Mexico, Guatemala, Chile, Peru, Argentina and Brazil
LTI	Long-term incentive scheme
LTIFR	Lost-time injury frequency rate
M&A	Mergers and acquisitions
MD	Master Drilling
MDSS	Master Drilling Shared Services
MDX	Master Drilling Exploration Proprietary Limited
MFA	Multifactor Authentication
MIT	Management in Training
Mosima	Mosima Drilling Proprietary Limited, a B-BBEE owned and controlled company with a 26% shareholding in each of RR and DTS
OHSAS	Occupational Health and Safety Advisory Services
OHSAS 18001	Occupational Health and Safety Management Systems, South Africa
Other countries	Includes Ireland, Malta, China and Saudi Arabia
PSS	Product Service Support
PwC	PricewaterhouseCoopers Inc.
R&D	Research and development
Remco	Remuneration Committee
Rest of Africa	Includes Mali, Burkina Faso, the Democratic Republic of Congo, Zambia, Botswana and Zimbabwe
ROI	Return on investment
ROSI	Remote operated shaft inspection
ROSS	Remote operational shaft support
RR	Raisebore Rental
SPR	Special performance reward
STI	Short-term incentive scheme
UASA	United Association of South Africa

FORM OF PROXY

Master Drilling Group Limited

(Incorporated in the Republic of South Africa)

Registration number: 2011/008265/06

JSE share code: MDI: ISIN: ZAE000171948

("Master Drilling" or "the Company")



FORM OF PROXY FOR MASTER DRILLING SHAREHOLDERS

Only for use by certificated shareholders or those dematerialised shareholders of the Company who have selected "own name" registration.

For use by Master Drilling shareholders at the Annual General Meeting of shareholders to be held at the Grant Thornton offices, Wanderers Office Park, 52 Corlett Drive, Illovo, Johannesburg, on Thursday, 7 June 2018 at 09:00 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):

Please indicate with an "X" in the appropriate spaces how votes are to be cast	For	Against	Abstain
Ordinary resolution number 1 Consideration of the annual financial statements for the period ended 31 December 2017			
Ordinary resolution number 2 Appointment of Grant Thornton as external auditors and noting J Barradas as audit partner			
Ordinary resolution number 3 Re-election of Mr HR van der Merwe as a Non-Executive Director			
Ordinary resolution number 4 Election of Mr AW Brink as a Non-Executive Director			
Ordinary resolution number 5 Election of Ms OM Matloa as a Non-Executive Director			
Ordinary resolution number 6.1 Election of Mr AW Brink as a member of the Audit Committee of the Company			
Ordinary resolution number 6.2 Election of Ms OM Matloa as a member of the Audit Committee of the Company			
Ordinary resolution number 6.3 Appointment of Mr ST Ferguson as a member of the Audit Committee of the Company			
Ordinary resolution number 6.4 Appointment of Mr AA Deshmukh as a member of the Audit Committee of the Company			
Ordinary resolution number 7 General authority to directors to allot and issue ordinary shares			
Ordinary resolution number 8 General authority to directors to issue for cash, those ordinary shares placed under the control of the directors in terms of ordinary resolution number 7			
Ordinary resolution number 9 Approval of the Master Drilling remuneration policy			
Ordinary resolution number 10 Approval of implementation report on the Master Drilling remuneration policy			
Special resolution number 1 Acquisition of Company's own shares			
Special resolution number 2 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 _____ 2018

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 7 on page 120)

NOTES TO THE 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/or abstained on 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 and 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 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 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 written notice as to any of the aforementioned matters shall have been received by the share registrars prior to 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 merely 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 wish 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 Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank, Johannesburg, 2196 (PO Box 61051, Marshalltown, 2107) and are requested to be lodged timeously so as to be received, for administrative purposes, by 09:30 on Tuesday, 5 June 2018. Any forms of proxy not lodged by this date must be handed to the Chairman of the Annual General Meeting immediately prior to the commencement of the meeting. The Chairman may reject or accept any form of proxy which is completed and/or received otherwise than in accordance with the proxy notes, provided that he is satisfied as to the manner in which the shareholder concerned wishes to vote.

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 office and business address

4 Bosman Street, Fochville, 2515, South Africa
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
Eddie Dixon	Chief Operating Officer (Alternate Director)

* Resident in Peru

Non-executive

Hendrik (Hennie) Roux van der Merwe	Chairman and Independent Non-Executive
Johan Louis Botha	Independent Non-Executive
Akhter Alli Deshmukh	Independent Non-Executive
Jacques Pierre de Wet	Independent Non-Executive
Shane Trevor Ferguson	Non-Executive

COMPANY SECRETARY

Andrew Colin Beaven
6 Dwars Street, Krugersdorp, 1739, South Africa
PO Box 158, Krugersdorp, 1740, South Africa
companysecretary@masterdrilling.com

INDEPENDENT REGISTERED AUDITORS

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

JSE SPONSOR

Investec Bank Limited
Telephone: +27 11 286 8163
Fax: +27 11 291 1202
Switchboard: +27 11 286 7000
100 Grayston Drive, Sandton, 2196

INVESTOR RELATIONS CONTACTS

Lizelle du Toit
Instinctif Partners
Telephone: +27 11 050 7506
Mobile: +27 82 465 1244
E-mail: MasterDrilling@instinctif.com

TRANSFER SECRETARIES

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

General e-mail queries

info@masterdrilling.com

Master Drilling website

www.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

