



GLOBAL LEADERS IN DRILLING SOLUTIONS

2018 | MASTER DRILLING GROUP LIMITED
INTEGRATED REPORT



ABOUT MASTER DRILLING

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 entities 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 globe. On the African continent, in addition to South Africa, we maintain operations in the DRC, Ghana, Mali, Sierra Leone, Tanzania and Zambia. In South America, we operate in Brazil, Chile, Colombia, Ecuador, Guatemala, Mexico and Peru. We recently extended our operations into the USA and Canada, and have mobilised machines in India and Australia. We also maintain 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 of our other international clients. Having previously acquired 40% of Bergteamet Raiseboring Europe AB, the Group exercised its option to acquire the remaining 60% of the shares in early 2018. This Scandinavian-based operator will strengthen our base in North-, Central- and Eastern Europe.

HOW WE DO, WHAT WE DO



OPERATE

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



TRAIN

Enhance and develop skills to leverage our machinery and specialised manpower



MAINTAIN

Provide engineering support for drill rigs; continuously upgrading our portfolio



DESIGN

Conceptualise, develop and deliver the equipment our clients need, from start to finish



MANUFACTURE

Assemble, establish and maintain a diverse portfolio of custom-made drill rigs

OUR PRODUCTS AND SERVICES

ROCK BORING

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

SLIM DRILLING

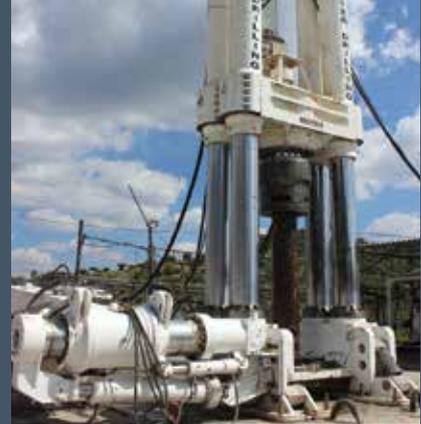
- Blast hole drilling
- Dewatering
- Core drilling
- Percussion drilling
- Reverse circulation drilling
- Mud and air rotary drilling

SUPPORT SERVICES

- Directional drilling
- Stage shaft support
- Remote-operated shaft support
- Piling/scan mobile
- Analysing ore
- Core yard management



ABOUT MASTER DRILLING FLAP
ABOUT THIS INTEGRATED REPORT FLAP



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ABOUT THIS INTEGRATED REPORT

INTEGRATED REPORTING

This Integrated Report is the primary report of Master Drilling Group Limited and its subsidiaries (Master Drilling or the Group) to its stakeholders, and it outlines the activities, relationships, interactions and performance of the Group during the year ended 31 December 2018. The aim of the report is to provide all stakeholders with a balanced and integrated insight into the ability of Master Drilling to use the capitals at its disposal to create value in the short, medium and long term.

This Integrated Report was prepared having regard to the following frameworks:

- The International Reporting Council (IIRC) framework (<IR> Framework)
- King IV Report on Corporate Governance for South Africa, 2016 (King IV)
- The South African Companies Act (Act No 71 of 2008) (Companies Act)
- International Financial Reporting Standards (IFRS)
- JSE Listings Requirements.

In this report, we provide a comprehensive review of our operational and financial performance in relation to our previously stated plans,

the needs of our stakeholders, our governance, material issues, risks and opportunities and how these factors influence our strategic objectives and future plans.

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 30 to 34. 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 30).

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 USD as our presentation currency, using the average exchange rate over the reporting period for income statement purposes and the closing exchange rate at year-end for financial position items.



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NAVIGATION TOOLS



This icon accompanies a reference to a page elsewhere in this Integrated Report



This icon points to information that can be found on our website www.masterdrilling.com

Since our first Integrated Report, no significant changes have been made to the scope, boundary or measurement methods applied in this report and the rest of our reporting suite. The directors are not aware of any instances of information being unavailable or specific legal prohibitions to disclosure. 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 Group'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 future results, performance or achievements to be materially different from the results, performance or achievements expressed or implied by such forward-looking statements.

The Group 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 auditor and no warranty is given with regards to their accuracy, fairness or completeness. It should therefore not be relied upon as investing advice.

DIRECTORS' STATEMENT OF RESPONSIBILITY

The Board of Directors (the Board), assisted by the Audit Committee, is responsible for overseeing the preparation and publication of this Integrated Report, and acknowledges its responsibility for ensuring its integrity. The Board has applied its collective mind to the preparation and presentation of this report, and concluded that it was prepared in terms of the <IR> Framework. The Board accordingly approved this Integrated Report for publication on 17 April 2019.

HENNIE VAN DER MERWE
Chairman

DANIE PRETORIUS
Chief Executive Officer

MASTER DRILLING AND ITS STRATEGY

Master Drilling is a global group. We provide specialised drilling solutions to blue-chip major and mid-tier entities in the mining, civil engineering (civils), infrastructure and hydro-energy sectors, in various geographies and across a number of commodities.

Master Drilling is the world-leader in the raise bore drilling services industry. We also offer services such as boxhole boring, diamond drilling, percussion drilling, grade control and blast-hole drilling.

STRATEGY STATEMENT

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

Our vision is to strengthen our position as the undisputed world leader in raise bore drilling with unparalleled technology and methods.

2018 PERFORMANCE IN A NUTSHELL

SUSTAINABLE GROWTH



DIVIDEND
DECLARED
OF

ZAR26,0 cents

(2017: ZAR26,0 cents)

OPTIMISATION AND INCREASED PROFITABILITY



HEADLINE EARNINGS
PER SHARE IN USD
DECREASED BY

7.8%

TO USD10.7 cents
(2017: USD11.6 cents)

TECHNOLOGY OPTIMISATION AND DEVELOPMENT



FLEET
AUTOMATION
PROCESS

100% on track

PEOPLE CAPACITY AND DEVELOPMENT



REVENUE
PER HEAD
INCREASED TO

USD64 134

(2017: USD61 543)

COMMITTED
ORDER BOOK
OF

USD206.3 million

(2017: USD124.7 million)

PROFIT FOR
THE YEAR

USD17.5 million

(2017: USD17.5 million)

RESEARCH AND
DEVELOPMENT SPEND
AMOUNTED TO

USD0.6 million

(2017: USD1.5 million)

LOST TIME INJURY
FREQUENCY RATE (LTIFR)
IMPROVED TO

2.06

(2017: 2.31)

REVENUE IN USD
INCREASED BY

14.2%

TO USD138.7 million

(2017: USD121.4 million)

UTILISATION
DECREASED BY

8%

TO 61%

(2017: 69%)

AVERAGE REVENUE PER
OPERATING RIG IN USD
INCREASED BY

9.6%

TO USD121 531

(2017: USD110 937)

LABOUR COST AS %
OF TOTAL COST
DECREASED TO

44%

(2017: 48%)

Our strategy is outlined in more detail on  page 18.

For more information on our performance in line with the strategy, see the section
Performance and Outlook on  page 45.

ADDING VALUE

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

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

With the ever-growing consciousness of, and the need to ensure safety in the workplace, as well as the volatility of the commodities markets and labour issues to which our mining clients are exposed, our meticulous focus on risk management is another element of compliance that brings significant value to what we do. (For more on risk refer to *Risk management* on  page 35.)

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 allow us to complete jobs often in less than half the time required by conventional methods of drilling and blasting.



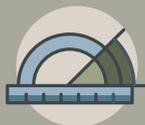
EFFICIENCY

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



ACCURACY

We can locate productive ore bodies and meet our clients' analysis requirements with far greater precision than is obtainable with conventional sampling methods.



HIGH SERVICE LEVELS

We can 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 can offer cost-effective solutions as a consequence of us owning and operating the largest fleet of raise bore rigs globally.

OUR VALUES AND BEHAVIOURS

In our quest to create value, we apply our core values with diligence. These are:

VALUES



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.



ACCOUNTABILITY

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



INNOVATION

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



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.



EFFICIENCY

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

BEHAVIOURS

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

- 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

- 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

- 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"

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

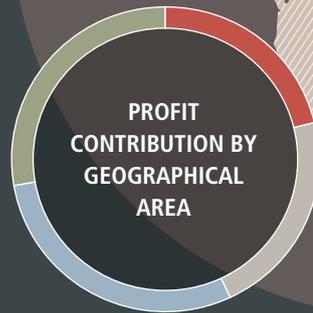
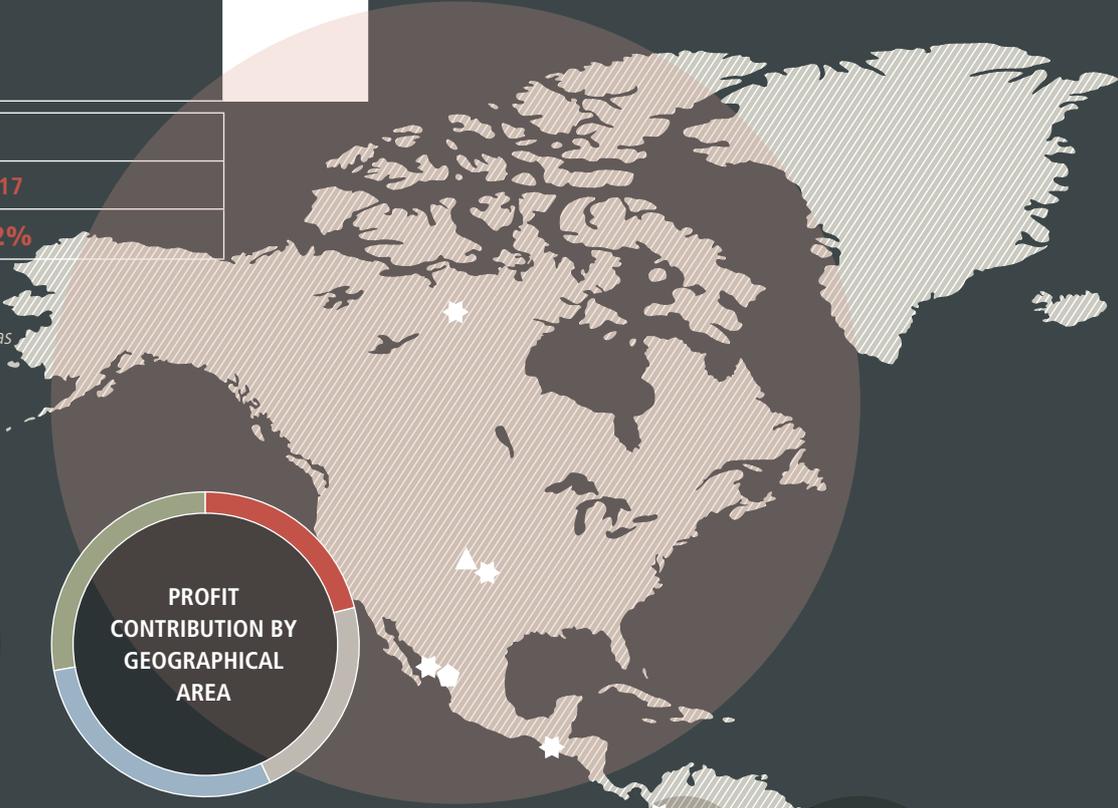
OUR GLOBAL FOOTPRINT

Master Drilling is a global business, with the major part of our revenue currently derived from South America and South Africa. Geographic diversification forms an important part of our strategy as it broadens our growth potential and reduces our overall risk.

CENTRAL AND NORTH AMERICA	Canada, Mexico, USA	TOTAL MACHINES 23*
Commodities: Copper, Gold, Nickel, Polymetallic, Silver Hydro-energy Civils and construction		

REVENUE CONTRIBUTION	
2018	2017
12%	12%

* At year-end, the Group had deployed 13 raise boring rigs in Mexico, one in the USA and one in Canada. It also has three shotcrete rigs in Mexico.



SOUTH AMERICA	Brazil, Chile, Colombia, Ecuador, Guatemala, Peru	TOTAL MACHINES 67
Commodities: Copper, Gold, Polymetallic, Silver Hydro-energy Civils and construction		

REVENUE CONTRIBUTION	
2018	2017
42%	43%



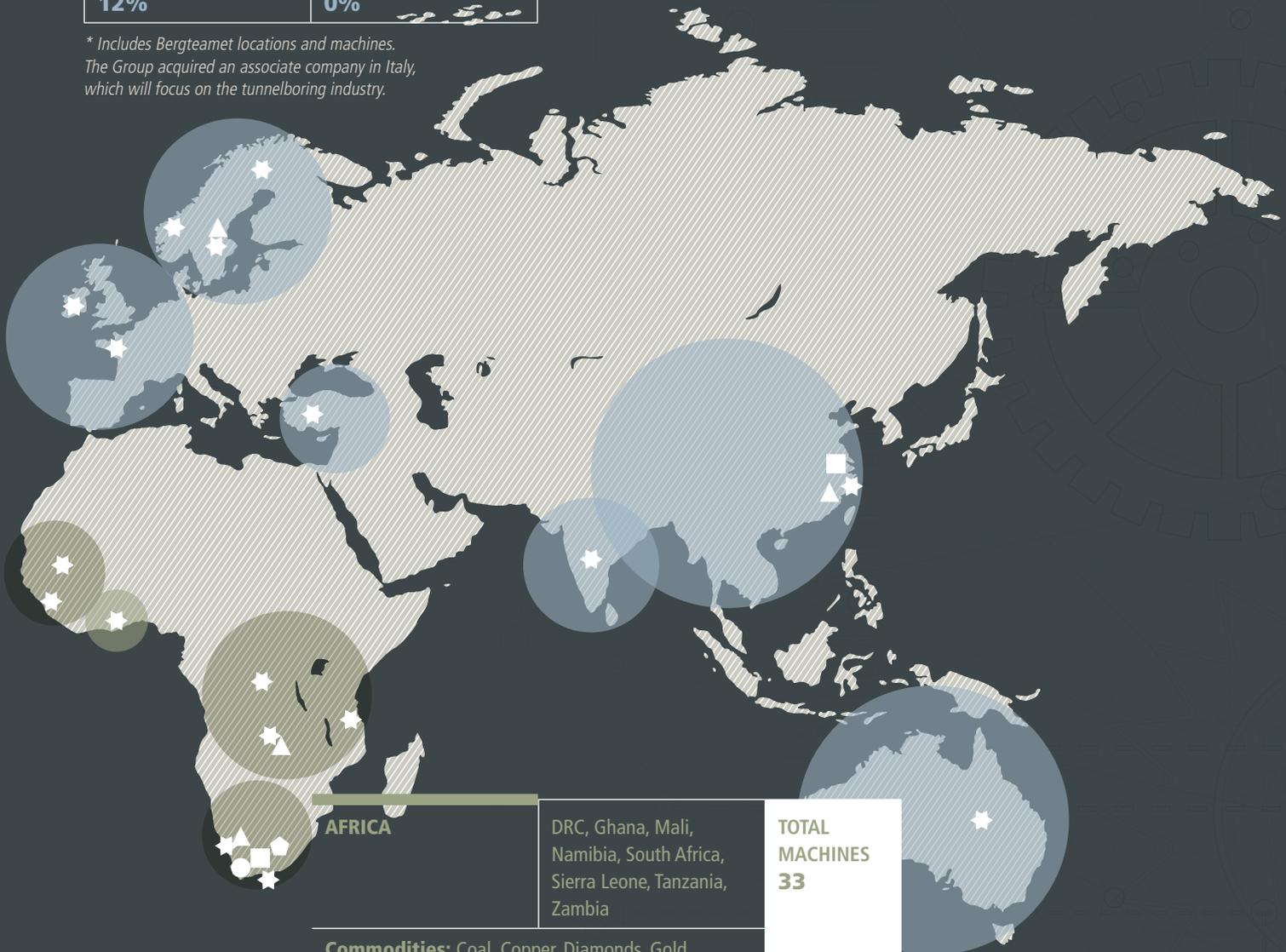
OTHER COUNTRIES	Australia, China, Finland, France, India, Ireland, Norway, Sweden, Turkey	TOTAL MACHINES 26*
Commodities: Chrome, Gold, Iron Ore, Lead, Polymetallic, Zinc		
Hydro-energy		
Civils and construction		

OUR OPERATIONAL PRESENCE

- ☆ Operate
- ◡ Train
- △ Maintain
- Design
- Manufacture

REVENUE CONTRIBUTION	
2018	2017
12%	0%

* Includes Bergteamet locations and machines.
The Group acquired an associate company in Italy, which will focus on the tunnelboring industry.



AFRICA	DRC, Ghana, Mali, Namibia, South Africa, Sierra Leone, Tanzania, Zambia	TOTAL MACHINES 33
Commodities: Coal, Copper, Diamonds, Gold, Iron Ore, Platinum		
REVENUE CONTRIBUTION		SLIM DRILLING RIGS 30
2018	2017	
34%	45%	

THE VALUE OF MASTER DRILLING AND OUR PRODUCTS AND SERVICES

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 decreased to USD25.8 million
- Increase in shareholder spread from 1 765 to 1 801
- Gearing ratio net of cash improved to 16.2%
- 6.2% compound annual growth in profit after tax from 2012 to 2018
- Net asset value increased from US107.6 cents to US109.0 cents per share
- USD earnings per share decreased by 3.5% from 11.5 cents to 11.1 cents per share
- 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



WELL-ESTABLISHED CLIENT BASE

- A diversified client base mainly comprising blue-chip major and mid-tier mining companies
- 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



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
- Diversification provides a hedge against any weakness in the ZAR currency



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 *Information technology* on  page 56)



EXPERIENCE AND COMMITMENT

- Our executive management team has a combined total of 105 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

ROCK BORING

RAISE BORING

Our raise boring fleet of 149 raise boring rigs is the largest in the world. The machines are fast and operate efficiently in hard rock, and our RD8 and HG rigs can drill up to a depth of 1.5km. 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.



APPLICATION

MINING SECTOR

Drill shafts for ventilation, transferring ore, rock storing silos and hoisting to the surface.

CIVIL SECTOR

Tunnels route waste water underground for disposal and access rail system shafts.

ENERGY SECTOR

Hydro-electric or pump storage plants for pressure shafts and access nuclear storage facilities.

BENEFITS

- No explosives required – a lower cost alternative in certain applications and scale compared to conventional methods
- A fast and efficient way of excavating rock
- Stronger – stable circular excavation is completed with no damage to the sides of the hole or shaft

HORIZONTAL RAISE BORING (HRB)

HRB is pioneering technology. Its continuous excavating cycle produces a stronger structure than conventional drilling and blasting. It is cost-effective and more reliable than other systems.



APPLICATION

MINING SECTOR

Used where a horizontal excavation is required and a chamber is available at both ends.

CIVIL SECTOR

Excavating tunnels through mountains to connect parallel metro and rail tunnels.

ENERGY SECTOR

For nuclear storage tunnels or short tail races in hydro-energy plants.

BENEFITS

- Lower support requirements due to stable circular excavation
- Improved production advance rates as a result of continuous excavating cycle
- Compact equipment design contributes to greater mobility. More cost-effective and reliable when compared to an MTB system

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.



APPLICATION

Drilling holes from the bottom up to the intersection of the ore body and used as a transfer pass for dropping material from the reef/ore horizon downwards; which is collected and transported or used as a ventilation shaft.

BENEFITS

- Drilled upwards, no typical holing point is required
- Personnel are not required to enter the excavation; enhancing safety
- Safer, faster and a lower cost alternative to Alimak excavation
- Drill rods feature a unique non-rotating stabiliser design

SLOT BORING

Slot boring holes tend to be smaller in diameter than box hole and raise boring, as the rigs can start drilling without any civil preparation at the base of the machine. If a slot is drilled and completed, the machine will move to the next slot position without delay. Slots are typically between 0.6m and 2.4m in diameter and 35m in length.



APPLICATION

Slots are used as free-breaking faces for holes that are drilled and blasted to produce ore or reef in underground mining. Holes can be vertical, inclined or drilled up or down from a tunnel or specific position.

BENEFITS

- A quicker and cheaper method of creating free braking faces
- Does not require blasting or explosives
- No civil pads are required
- Promotes equipment mobility: It is moved by means of a remote crawler frame or a wheel loader. As such, the drilling of larger slots is possible, yet remaining mobile and efficient

REEF BORING

Reef boring is related to narrow vein ore bodies, where equipment is moved underground and positioned in such a way that holes can be drilled on the reef horizon. Small single pass holes are drilled and, if required, enlarged by reaming which can then be backfilled, if required.



APPLICATION

Utilised at great depths where reef extraction is challenging, and a large complement of personnel and large equipment cannot be accommodated. It is also suited for the extraction of mineral rich pillars.

BENEFITS

- Reef is drilled out in a continuous, non-explosive process
- Fewer machine operators are required
- Dry reef transportation reduces reef loss and dilution
- Eliminates water loss, enhancing process efficiency

(MOBILE) 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.



APPLICATION

MINING SECTOR

Access tunnels to ore bodies in decline-type ramp or horizontal haulage format.

CIVIL SECTOR

Used for metro utility waste water pipes, communication etc, and railway infrastructure.

ENERGY SECTOR

Hydro-energy or pump storage projects for the use of tailrace tunnels.

BENEFITS

- Allows for simultaneous cutting, loading, meshing and bolting
- Allows for mobility and steering in all directions during excavation
- Capable of transportation in vertical shafts (fits into standard cage dimensions and low areas with 2m height restriction)
- 30m turning radius and can do 12 degrees incline and decline. Hence can be used for access declines and inclines.
- No blasting required; much improved advanced rate compared to conventional horizontal excavation

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.



APPLICATION

MINING SECTOR

Shaft boring is used for construction of access or ventilation shafts for the mining industry.

CIVIL SECTOR

In urban infrastructure used for access and ventilation shafts to metro tunnels and parking.

ENERGY SECTOR

In the energy sector it is used for surge, ventilation, access and pressure shafts.

BENEFITS

- No explosives required
- Ensures for a continuous production process
- Fewer personnel required to work in shaft during construction
- A safer, faster, more flexible method of accessing underground ore bodies
- Advances up to 6m per day, whilst simultaneously supporting the shaft; improving mine production and logistics
- Allows for simultaneous mine level break-away development

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.



APPLICATION

Mainly used in both surface and underground drilling for defining and delineating ore bodies. Used to drill cover holes for determining groundwater in underground mining.

BENEFITS

- Non-invasive
- Effective in difficult or remote areas

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.



APPLICATION

Used for the drilling of:

- De-watering holes on open cast mines
- Utility holes used for cables
- Blast holes for the injection of explosives
- Production-wells for oil and gas
- Water-wells for domestic use
- Also imperative in diamond tailing

BENEFITS

- Mobile, delivering fast production rates
- Pre-splitting machines allow for true single person operation

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.



APPLICATION

RC drilling allows for the extraction of geological information in the initial stages of exploration as well as the confirmation of ore body characteristics in open cast mines prior to blasting and loading.

BENEFITS

- Operator fully protected in cabin
- Allows for automated rod handling and the automated line-up and positioning of the rig
- Operational data can be transferred to server for reporting purposes
- A range of safety feature, including high wall detection and the optimisation of cone splitters
- Cost-effective method

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.



APPLICATION

Used to apply large diameter blast holes in the surface or opencast mining industry and is similar to the blast hole application of percussion drilling. Used for aircore drilling in poorly consolidated geologies such as old tailings.

BENEFITS

- Low-cost solution with increased rate of penetration, extended bit life and high production
- Low personnel complement
- Establishes a large diameter and relatively short blast holes from a large flat bench
- Provides cost-effective way of drilling tailing and other unconsolidated formations

MUD ROTARY DRILLING

We have three rotary-drive rigs that provide the most accurate means of directional drilling.



APPLICATION

Used for the drilling of utility, paste, de-watering and other infrastructure holes. Used for borehole development in the oil and gas industry.

BENEFITS

- Holes can be drilled in geology with water ingress and can be used as the most accurate form of directional drilling at depth
- Effective for difficult ground conditions

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.

**APPLICATION****MINING SECTOR**

Where accurate shafts are required: hoisting shafts in mining and the drilling of batch plant holes in order to deliver material to underground operations.

ENERGY SECTOR

In the energy industry it is commonly used in hydro-energy projects to ensure straight excavations.

BENEFITS

- Ensure that a straight hole is drilled
- Results in less pipe wear during installations

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.

**APPLICATION**

The stage system is used in shafts, promoting access to and ventilation in mines.

BENEFITS

- Can be utilised in existing shafts
- Allows for personnel accessibility

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.

**APPLICATION**

- Supporting shafts drilled in highly fractured geology
- Where oxidisation of the strata is to be kept to a minimum
- Where shaft/hole longevity is to be guaranteed

BENEFITS

- Remotely operated, no people in the shaft during operations
- Where required, can be applied before the shaft walls are exposed to the outside atmosphere, limiting oxidisation
- High flow rates are possible that ensures thick application, fast (Machine dependant)
- Increased geological stability when application is completed

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.

**APPLICATION****MINING SECTOR**

In mining, and in the context of the application used for Master Drilling, the method replaces a shaft pre-sink.

CIVIL SECTOR

In general civil construction, the use of piling equipment for the purpose of foundations is very common.

BENEFITS

- Fast
- Low- cost
- Requires less labour
- Provides high-quality structure

GEO INTELLIGENCE

We provide geo intelligence services by means of strategic partnerships and alliances.

**APPLICATION**

- Geological exploration planning and management
- Geological, geotechnical and geohydrological logging
- Geological sampling and lab analysis
- Geological resource modelling report compilations and database management
- Environmental monitoring and management

BENEFITS

- Mine added, belt analyser and grade control services
- Geohydrological services
- Grouting and ground stabilisation services
- Turnkey grade control solutions
- Environmental monitoring and management

OREALYZER

This unique machine is a pioneering x-ray-technology scanner which continuously samples mineralogy and is ideal for grade control.

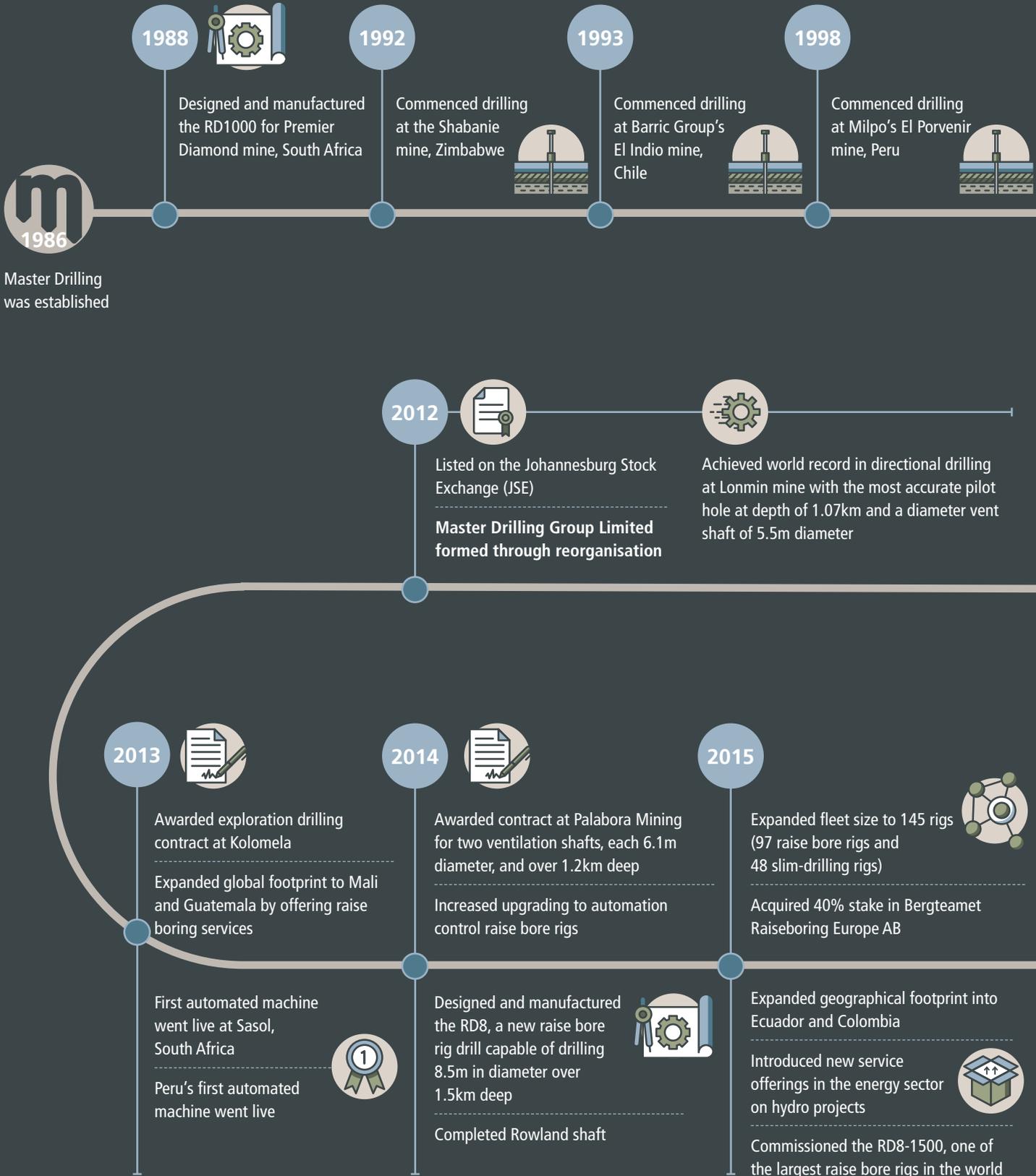
SCAN MOBILE

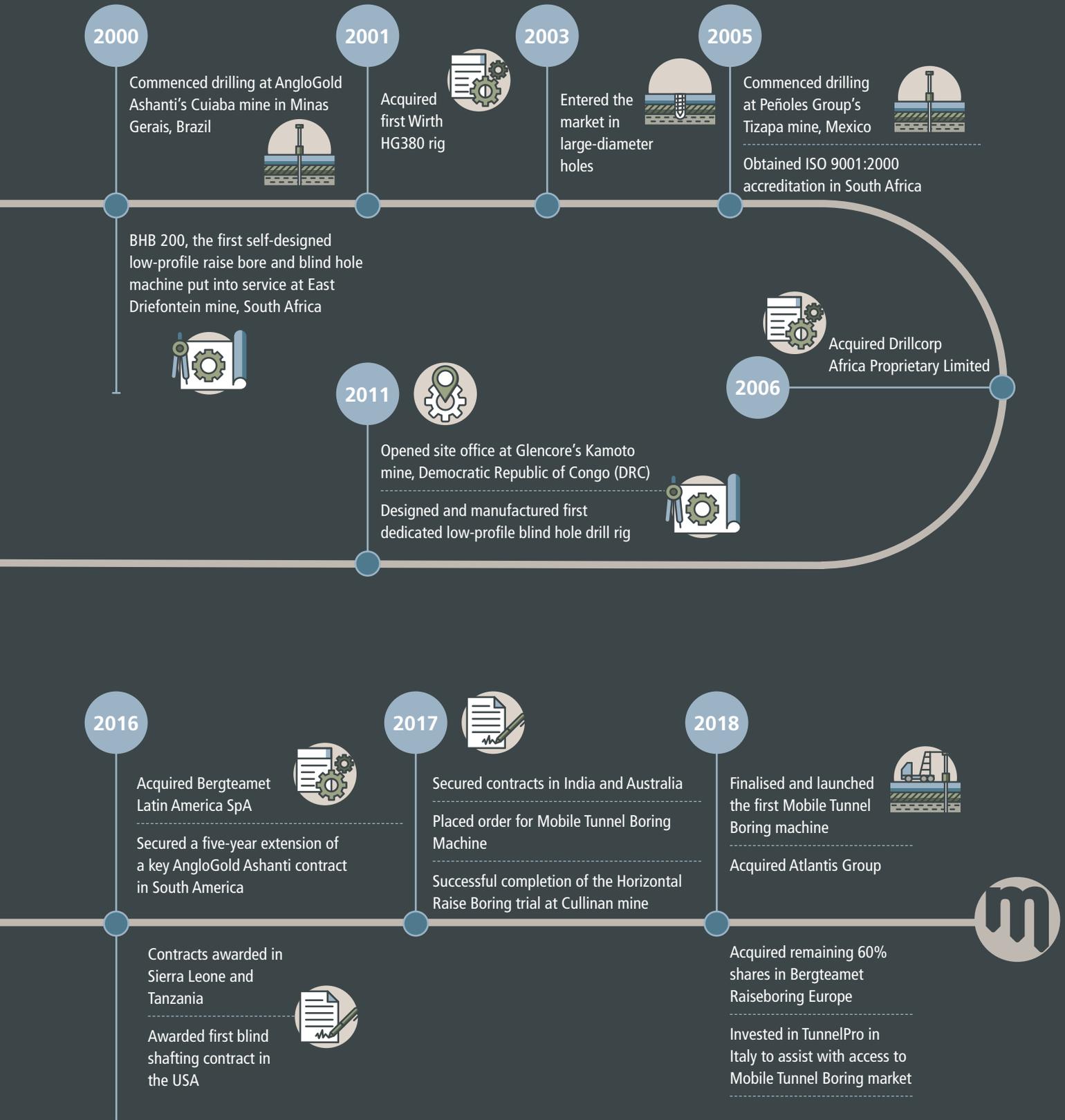
This technique uses XRF technology for mineral exploration and provides fast analysis, as well as access to, and consistency of, information.

CORE YARD MANAGEMENT

With this service we provide quality management and a turnkey service.

OUR TIMELINE





CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S REVIEW

Master Drilling delivered a satisfactory performance:

OPERATING PROFIT

DECREASED BY **5.2%** TO
USD23.6 million

(2017: USD24.9 million)

CAPITAL EXPENDITURE OF
USD16.9 million
WAS FUNDED

(2017: USD15.8 million)

CASH GENERATED BY
OPERATING ACTIVITIES

DECREASED BY **28.8%** TO
USD18.8 million

(2017: USD25 million)

FOCUS ON WORKING
CAPITAL MANAGEMENT
BEARING FRUIT

HEALTHY PIPELINE OF
USD578.6 million

(2017: USD228.1 million)

ADDED GEOGRAPHIES
CANADA, GHANA, ITALY
AND TURKEY

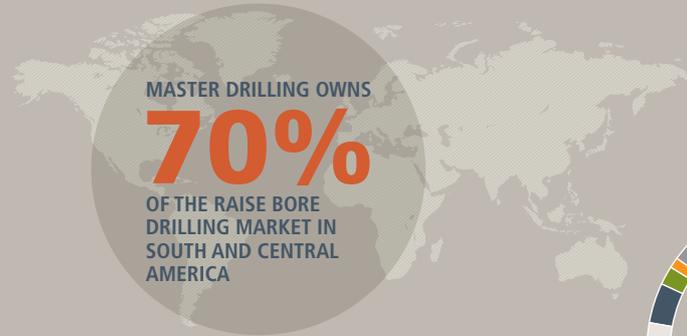
DANIE PRETORIUS
Chief Executive Officer

"One of the key pillars of Master Drilling's strategy is technological innovation. Being able to provide clients with advanced and effective drilling solutions and services across geographies and sectors sets us apart from our competitors."

HENNIE VAN DER MERWE
Independent Chairman

"Since listing in 2012, the Company has achieved compound annual growth and delivered on the key strategic objectives set out in its listing prospectus. Thus, the Board has declared a gross dividend of ZAR26,0 cents per share on 25 March 2019."





PIPELINE
(USD MILLION)



149

RAISE BORE MACHINES

30

SLIM DRILLING RIGS



Commodity	Percentage	Commodity	Percentage
Chrome	1%	Nickel	11%
Coal	1%	Null	1%
Copper	15%	Platinum	8%
Diamonds	2%	Polymetallic	15%
Gold	17%	Salt	4%
Hydro-energy	1%	Silver	2%
Infrastructure	1%	Water	1%
Iron ore	5%	Zinc	15%

OUR OPERATING ENVIRONMENT

Over the past year, the macroeconomic operating environment proved to be more difficult than initially anticipated, both globally and domestically. Notwithstanding this, we remained steadfast in the pursuit and implementation of our strategy, laying the foundation for future growth through the continued development of new, ground-breaking technologies, the expansion of our global footprint and by nurturing our client and business relationships.

During the second half of 2018, economic conditions were unequivocally weaker in many parts of the world in which we operate, both in developed economies, where the slowdown was broad-based, and in emerging markets, such as India and Turkey. Notwithstanding this, there were notable improvements in some regions, such as South America, where growth rebounded in Brazil and Mexico.

Commodity price movements were mixed. Geo-political pressures led to higher energy prices, while the economic slowdown, the imposition of broad-based import tariffs and the intensification of trade wars led to a downturn in most metal prices. In particular, tariffs on China – which has been driving commodity demand over the past two decades – together with the country’s changing structural growth dynamic, risk placing even more pressure on industrial commodity prices in coming years.

OUR PERFORMANCE IN 2018

The variety of external risks that impact on our business highlight the importance of a strategy that seeks to mitigate these and stabilise operations through diversification across regions and services, and the development of innovative technologies that help the world adapt to change.

We made progress in all these areas in 2018 by:

- Unveiling and subsequently launching the Mobile Tunnel Borer;
- Exercising the option to fully acquire Bergteamet Raiseboring Europe AB (Bergteamet) in order to expand our operations in European markets;
- Acquiring the businesses of the Atlantis Group, thus augmenting our skills pool and global footprint in India, Brazil and Zambia; and
- Launching TunnelPro Srl (TunnelPro), a joint venture with Ghella SpA (Ghella), to acquire SELI Technologies (SELI), a leading manufacturer of tunnel boring machines.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER’S REVIEW continued

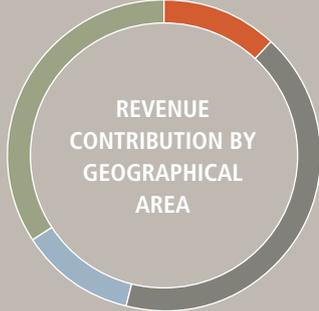


SOUTH AMERICA

For more detail on our performance in South America, see  page 49.

CONTRIBUTION TO REVENUE INCREASED BY 11.5% TO USD58.0 million
(2017: USD52.0 million)

The following charts reflect MDG’s combined revenue for 2018:



REVENUE CONTRIBUTION BY GEOGRAPHICAL AREA



REVENUE CONTRIBUTION BY MINING ACTIVITY

	2018	2017		2018	2017
 Central and North America	12%	12%	 Production	82%	95%
 South America	42%	43%	 Capital	16%	4%
 Other countries	12%	0%	 Exploration	2%	1%
 Africa	34%	45%			



CENTRAL AND NORTH AMERICA

For more detail on our activities in Central and North America, see  page 50.

CONTRIBUTION TO REVENUE INCREASED BY 19.2% TO USD17.4 million
(2017: USD14.6 million)

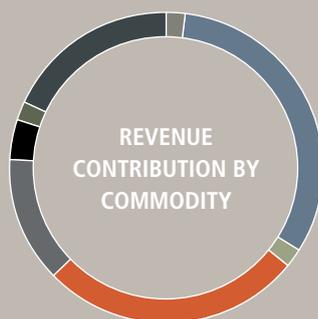
The technological innovation under way globally seeks to generate efficiency and productivity gains and improve global supply chains to enhance the way in which we live and work. It is disruptive and evolves unbelievably fast. Master Drilling has taken cognisance of this and therefore focuses on delivering solutions that primarily reduce costs and increase safety. We also try to achieve viability of projects that were previously considered marginal. The future of our industry is increasingly about man and machine. We are well-positioned to deliver on this.

Being able to provide clients with advanced and effective drilling solutions and services across geographies and sectors sets us apart from our competitors. In February 2018, we announced the launch of the Mobile Tunnel Borer, which allows for continuous mining without blasting. The machine was unveiled and commissioned in September 2018 and will now be rolled out worldwide. This will help us obtain a bigger share of the conventional horizontal drilling market, which constitutes approximately 80% of the mining industry’s horizontal excavation, rather than vertical raise boring; which was traditionally our main activity and making up only 5% to 8% of total services in the mining industry. Progress also continues on Blind Shaft Boring technology, which is expected to be launched early in 2019.

Our results were negatively affected by poor performance of our operations in Mexico and Peru. The biggest setback was the fatality suffered in Brazil.



	2018	2017
Mining sector	99%	99%
Hydro-energy	1%	1%
Civil and construction	0%	0%



	2018	2017
Chrome	2%	0%
Coal	0%	3%
Copper	32%	29%
Diamonds	2%	5%
Gold	27%	34%
Iron ore	13%	12%
Manganese	0%	0%
Other commodities	4%	1%
Platinum	2%	4%
Silver/lead/zinc	18%	12%



AFRICA

For more detail on our performance in Africa, see  page 91.

CONTRIBUTION TO REVENUE
DECREASED BY **14.1%** TO
USD47.0 million
(2017: USD54.7 million)

DIVIDEND

Since listing in 2012, the Company has achieved compound annual growth 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 25 March 2019, payable to shareholders recorded in the Company's share register on 17 May 2019. This dividend represents a 5.5 times earnings cover.

The dividend is payable from distributable reserves and is subject to dividend withholding tax of 20%. A net dividend of ZAR20,8 cents per share will be payable to shareholders subject to dividend withholding tax.



OTHER COUNTRIES

For more detail on our performance in Scandinavia, see  page 117.

CONTRIBUTION TO REVENUE
INCREASED BY **100%** TO
USD16.1 million
(2017: USDnil)

New geographical areas added: India, Australia and Scandinavia.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S REVIEW continued

STRATEGY UPDATE

Refer to  page 18 for a detailed description of our strategy, based on the strategic pillars of:

- Sustainable growth;
- Optimisation and increased profitability;
- Technology optimisation and development; and
- People capacity and development.

We continue our quest to provide a solution that will enable explosive-less mining, thereby reducing the industry's dependence on labour, fluctuating energy prices and unstable exchange rates and, above all, assisting clients in bringing mines into production far sooner.

The ever-increasing cost-consciousness of our clients fits well with our strategy of simplifying operating methods, machinery

and our approach to deliver greater and cheaper productivity.

Our long-term goal is to minimise the impact of any external market forces, be it in specific currencies, industries or commodities. Our vertically integrated business model continues to enable the optimisation of such opportunities as well as the diversification we pursue. (See *How we create value* on  page 26.)

In delivering on our strategy, we focused on the following:

- **Mining sector diversification:** We continue to reduce our exposure to the inherent volatility in exploration. By providing services in both the capital and exploration phases of mining, we have been able to develop a wide variety of drilling solutions;
- **Commodity diversification:** Commodity diversification and the resultant geographic diversification help provide flexibility as well as a shield against market fluctuations;
- **Business sector diversification:** We continue our efforts to reduce our dependency on the mining industry, with a target to generate at least 30% of our business from other sectors. The mobile tunnel boring machine will assist in this quest, especially in the civils and construction sector;
- **Expansion:** Our focus on geographical expansion is bearing significant benefits, with increased tendering and commissioning in the Canadian market, particularly in the zinc, gold and copper mining sectors. This was complemented by a significant increase in activity in Australia; and
- **Safety:** Whilst the fatality in Brazil is extremely disappointing, our focus on safety has allowed us to reduce our LTIFR from 2.31 in the previous year to 2.06.



Operations in the new Peruvian Workshop

OUTLOOK AND FUTURE FOCUS

As at 31 December 2018, our pipeline totalled USD578 615 878 while the committed order book totalled USD203 624 114 for 2019 and beyond.

During the coming years, we will focus on:

SUSTAINABLE GROWTH



We will bed down the joint venture and our business structure, whilst commissioning new drills and developing the new shaft drill.

In the long term, we will explore the tunnel business opportunities further.

OPTIMISATION AND INCREASED PROFITABILITY



We will concentrate our marketing efforts on projects with improved utilisation of our drill fleet, especially the larger machines.

This will lead to greater automation in future.

TECHNOLOGY OPTIMISATION AND DEVELOPMENT



We are re-evaluating our business practices and engagement in order to improve commercial management.

We will further aid automation and ultimately reduce the number of people on site.

PEOPLE CAPACITY AND DEVELOPMENT



We are currently recruiting the right skills internationally to enhance our global efforts.

Our focus on upskilling will gradually reduce our exposure at the rock face.

CHANGES TO THE BOARD

At the Company's Annual General Meeting (AGM) held on 7 June 2018, Jacques Pierre de Wet and Johan Louis Botha retired. Jacques was a member of the Board since 2012 and Johan was a member since 2015. The Board wishes to thank both of them for their valuable contribution to the Company during their tenure as members of the Board and its committees.

At the same meeting, Andries Willem Brink and Octavia Matshidiso Matloa were appointed as independent non-executive directors, with Andries's appointment effective from 1 July 2018. We welcome them to the Board.

APPRECIATION

We would like to thank all our stakeholders, in particular our clients, employees and Board members, whose support and input are valuable contributions to the future value creation in our business.

HENNIE VAN DER MERWE

Chairman

DANIE PRETORIUS

Chief Executive Officer

17 April 2019

OUR STRATEGY

OUR STRATEGY STATEMENT

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

OUR STRATEGIC PILLARS

We understand that Master Drilling's success and sustainable growth depend on a clearly, defined and executable strategy.

Our fundamental aim is to maintain sustainable growth in order to create lasting value. We have developed a strategy which enables us to deliver that value to our stakeholders. Our commitment to diversification across geographies and industries, underpinned by technologically advanced offerings for clients, are built on four pillars:

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 areas of our operations

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

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 are aligned to our strategic objectives and we have established operational dashboards in order to facilitate internal reporting and enhance operational efficiency.

COMMUNICATING OUR STRATEGY

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

STRATEGIC OBJECTIVE	OPTIMISE 	SUSTAIN 	GROW 
Strategic initiative/ activity	Process and system optimisation Cost optimisation Technology-enabled productivity monitoring	Fast-track machine automation programme Talent attraction, retention and development	Shaft drilling New drilling services Mergers and acquisitions
Strategic process	Contract management Implement contract performance reviews Commercial management Commercial management improvement	HR Develop a manpower plan Mergers and acquisitions Research process	Sales and marketing Develop a marketing and business plan for the Group Capital projects Excellence in capital allocation management
IT and technology – Information systems to support all initiatives			
Strategic management – Strategic oversight and resource allocation			

OUR STRATEGY continued

OUR STRATEGIC IMPERATIVES

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

OPTIMISE



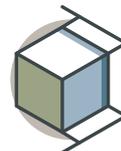
During the year under review, our optimisation focus has been on operational efficiencies, using technology such as remote drilling as the basis of our efforts. We understand that, for expansion to take place, we need to focus on building our infrastructure. Our strategic project teams have been working on strengthening 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.

SUSTAIN



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

GROW



We have focused on initiatives to grow the business. During the year under review, we have conducted and concluded certain mergers and acquisitions. We explored new regions such as Canada and the USA and certain African countries. New projects initiated, including an exciting new expansion into India and Australia. Most 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 may become more apparent during the first half of 2019.

STRATEGIC GOALS AND ASSOCIATED KPIs FOR THE YEAR UNDER REVIEW

As a global leader in our industry we hold 42% of the worldwide raise bore fleet. 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
Market capitalisation of ZAR4 billion by the end of 2020	ZAR1,5 billion
Two new geographies per year	Canada, Ghana, Italy and Turkey
Further diversification into Energy and Civils	0% – Civils construction* 1% – Hydro Limited energy and civils work awarded
Double digit compound profit growth rate in USD terms	6.2% on 2018 actuals**
Skilled people to support growth targets	On track with gap analysis and skills assessments

* Revenue for 2018

** 2012 as base

During the year under review, we monitored the implementation of our strategic initiatives, as categorised in terms of our strategic pillars, against desired outcomes. We also make ongoing assessments of status and timing and associated KPIs. This is indicated in the tables below.



SUSTAINABLE GROWTH

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

STRATEGIC INITIATIVE	OUTCOME	STATUS	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 Building block such as CRM system 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 (ROCE) 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 Return on equity (ROE) Return on capital employed (ROCE) Asset return ratio
Mergers and acquisitions	Ongoing monitoring for mergers and acquisitions opportunities	Management is continuously seeking mergers and acquisitions opportunities	<ul style="list-style-type: none"> Mergers and acquisitions concluded



GOALS IN 2019

Expand footprints in Australia, India and North America.

OUR STRATEGY continued



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 areas of our operations

STRATEGIC INITIATIVE	OUTCOME	STATUS	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"> Significant improvement in business performance of Brazil project War room weekly review of contract performance 	<ul style="list-style-type: none"> A number of under-performing operations persist <p>Lag</p> <ul style="list-style-type: none"> Number of under-performing projects turned around



GOALS IN 2019

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





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	KPIs
Blind shaft boring system	Replace conventional shaft-sinking methods	<ul style="list-style-type: none"> Detail engineering completed Estimated costing: ZAR450 million Procurement Possible projects to test concept Industrial Development Corporation (IDC) funding secured Phase 1 testing will be conducted during 2019 	<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"> MTB 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)	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 	<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		<p>Systems and process</p> <ul style="list-style-type: none"> MD Online and dashboard completed and implemented Mobile app development and implementation 	

OUR STRATEGY continued



TECHNOLOGY OPTIMISATION AND DEVELOPMENT continued

STRATEGIC INITIATIVE	OUTCOME	STATUS	KPIs
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 are 100% on track Programme 	<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"> Digital Innovation area established 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 IT projects are registered



GOALS IN 2019

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	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 2019

Further strengthening training capacity with effective resources.

During the previous year, we 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.

HOW WE CREATE VALUE

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. The model utilises all the capitals at our disposal to deliver positive outcomes for our stakeholders.

INPUTS USED TO CREATE VALUE



Our capabilities and resources as set out in the vertical value chain are underpinned by a low gearing ratio, a strong South African mining pedigree, a workforce of 2 163 employees, an unparalleled fleet of rigs and sound client relationships, supported by worldwide management and engineering expertise – all of which promote a healthy, cash-generative business that is able to challenge the status quo.



FINANCIAL CAPITAL

The capital from shareholders and lenders and the reserves generated from operations are used to invest and generate future earnings rewarding shareholders, employees and governments.



MANUFACTURED CAPITAL

Master Drilling's significant expertise is backed up by a formidable fleet of 149 raise bore and 30 slim drilling rigs.

BUSINESS ACTIVITIES HOW VALUE IS CREATED



Our activities are fully **VERTICALLY INTEGRATED**, facilitating one-stop solutions through encompassing:

- **Operate**
- **Train**
- **Maintain**
- **Design**
- **Manufacture**

See  the section *About Master Drilling* on the front flap for a description of these activities.

The capital is used to finance acquisitions, our ongoing operations and the development and expansion of fleet of drilling rigs.

It serves the following **SECTORS**:

- **Mining**
In underground mining, raise boring is used for ventilation, transferring ore from one level to another, creating silos for storing rock, accessing personnel or material underground and hoisting rock and ore to the surface.
- **Civils and construction**
In urban infrastructure, raise boring is used to collect waste or floodwater from streets, disposing of it via an underground tunnel and access shafts and ventilation shafts required in underground metro and rail systems.
- **Hydro-energy**
The energy sector uses raise boring holes and shafts in hydro-energy or pumped storage plants as pressure shafts and to gain access to underground nuclear storage facilities. Tunnel boring is predominantly used in hydro-energy or pumped storage projects for the use of tailrace tunnels.

MATERIAL MATTERS AFFECTING VALUE CREATION	OUTPUTS VALUE CREATED	OUTCOMES VALUE SHARED
<p>We have determined and assessed these material matters in great detail in order to arrive at our tried and constantly tested strategy, which is based on four STRATEGIC PILLARS:</p> <ul style="list-style-type: none"> • Sustainable growth • Optimisation and increased profitability • Technology optimisation and development • People capacity and development 	<p>External influences on our operations include:</p> <ul style="list-style-type: none"> • Fluctuations in mining commodities • Mining outlook, locally and abroad • Talent war • Industrial action • Exchange rate fluctuations <p>See  page 13 for more information about our operating environment.</p>	<p>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.</p>
<ul style="list-style-type: none"> • Funding • Contract execution • Global mining and commodity prices • Client dependency • Cost escalation beyond budget 	<p>MARKET CAPITALISATION ZAR1,5 billion (2017: ZAR1,9 billion)</p> <p>DIVIDEND PAID USD3.1 million (2017: USD3.7 million)</p> <p>CASH RESERVES USD33.3 million (2017: USD40.2 million)</p>	<p>Shareholders Capital share price and dividend growth</p> <p>Lenders and financiers A steady return</p>
<ul style="list-style-type: none"> • Contract quality management • Fleet return optimisation • Reliance on strategic equipment component suppliers • Fleet design and assembly process 	<p>REVENUE GENERATED USD138.7 million (2017: USD121.4 million)</p> <p>PROFIT FOR THE YEAR USD17.5 million (2017: USD17.5 million)</p> <p>INVESTMENTS IN PROPERTY, PLANT AND EQUIPMENT USD16.9 million (2017: USD15.8 million)</p> <p>BOOK VALUE OF PLANT AND MACHINERY USD121.9 million (2017: USD101.1 million)</p>	<p>Clients and suppliers Mutually beneficial long-term relationships</p> <p>Government and regulatory bodies Paying all taxes timeously and abiding by all applicable laws and legislation</p>

HOW WE CREATE VALUE continued

INPUTS USED TO CREATE VALUE	BUSINESS ACTIVITIES HOW VALUE IS CREATED
 <p>INTELLECTUAL CAPITAL We have developed significant expertise over multiple sectors and geographies to become global leaders in our field, fuelled by the desire of constant improvement through innovation.</p>	<p>We establish sound business codes and practices in managing corporate governance, risk, opportunities, safety and the environment.</p>
 <p>HUMAN CAPITAL Our people have specialised knowledge, skills and experience, which is applied to ensure that sound, sustainable use is made of our assets, in line with our strategy.</p>	<p>We aim to attract, develop and retain the best people by creating a culture of excellence. We provide a safe environment for our people to work in.</p>
 <p>SOCIAL AND RELATIONSHIP CAPITAL We forge and maintain strong relationships with communities in keeping with our desire to be a good corporate citizen.</p>	<p>By actively engaging stakeholders through dialogue and acting on material issues raised, we continue to strengthen our relationships.</p>
 <p>NATURAL CAPITAL We are conscious of limiting any detrimental effect our operations may have on the environment, whether as a result of diesel burning, electricity generation, waste or land disturbance.</p>	<p>Master Drilling policies and procedures in place. Environmental Management Programme aligned to our client's project plans.</p>

For a more detailed discussion on how we have addressed the material matters, refer to  page 30.
 Refer to the section Performance and Outlook on  page 45 for more information on our outputs for the year.

CAPITAL TRADE-OFFS

We allocate capital and resources efficiently in targeting the desired outcomes. It requires making certain trade-offs, which are outlined below:

<p>1. CAPITAL EXPENDITURE</p>	<p>2. PEOPLE, CAPACITY AND CAPABILITY</p>
 <p>Enhancing our manufacturing capital through capacity and efficiency increases requires investment of financial capital in the short term, which will show future returns.</p>	 <p>We rely on our people for our success. Therefore, we invest in the development of employees and in improved systems to meet future needs. This significantly enhances human capital.</p>

MATERIAL MATTERS AFFECTING VALUE CREATION	OUTPUTS VALUE CREATED	OUTCOMES VALUE SHARED
<ul style="list-style-type: none"> Delivering on technology expectations Information technology, data analytics and end-user 	GOODWILL RECOGNISED FROM BUSINESS COMBINATIONS USD3.2 million (2017: USD3.1 million)	All stakeholders Ongoing improvement of methods and machinery.
<ul style="list-style-type: none"> Unwanted health- and safety-related events Availability of management and technical skills 	PERSONNEL EXPENSES USD54.1 million (2017: USD51.0 million) LOST TIME INJURIES 12 (2017: 6)	Employees and trade unions We continue to develop our people and their skills.
	CORPORATE SOCIAL INVESTMENT USD3.0 million (2017: USD3.1 million) See  page 64 for more information on our corporate social investment	Communities Master Drilling is contributing to multiple economies.
	Environmental compliance measures with client's project plans	The environment Doing no harm.

3. INNOVATION



The focus on optimisation, requires significant investment. Apart from future financial capital growth, the growing experience of our staff enhances intellectual capital.

4. REGULATORY ENVIRONMENT



Regulatory demands have led to ever-increasing costs of compliance, both in terms of people and systems. However, we are doing so whilst also investing in our human and intellectual capital. Our good compliance record further enhances our social capital.

MATERIAL MATTERS

The risks identified at management level and assessed by the Board’s Risk Committee expose those material matters that could substantively affect our ability to create value for our stakeholders over the short, medium and long term.

REVIEWING OUR MATERIAL MATTERS

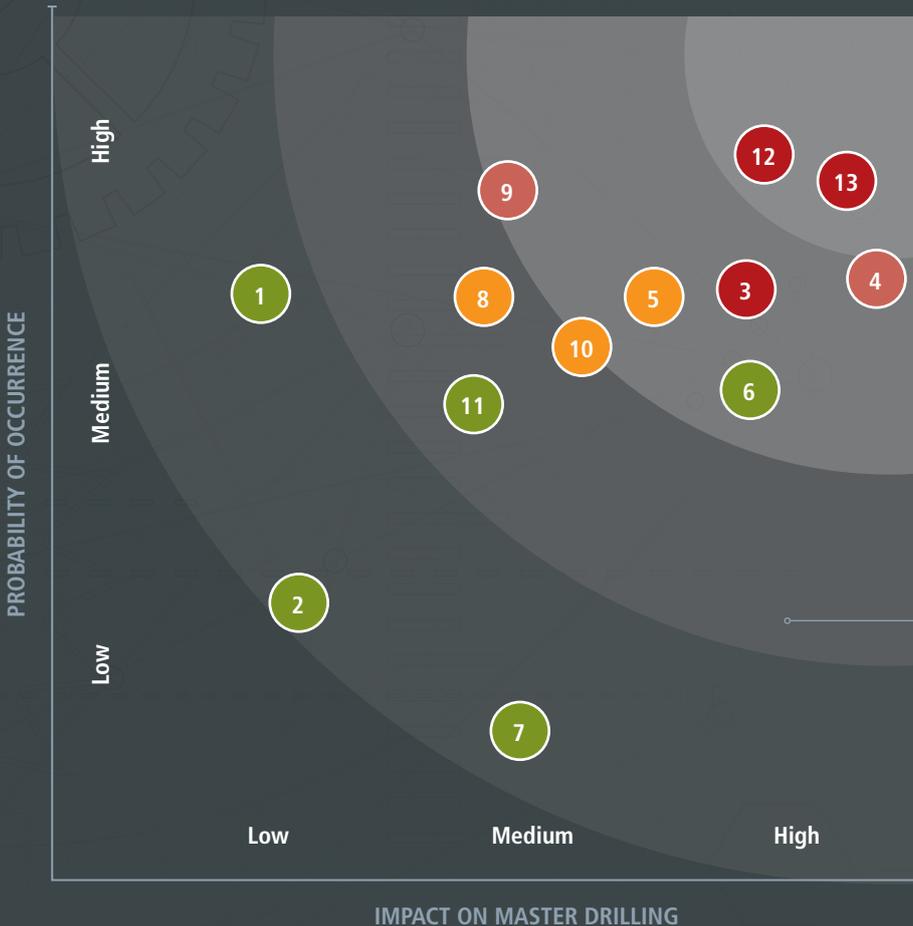
We reviewed our previously identified material matters during the year, taking into consideration:

<p>Our understanding of the external environment in which we operate (For more on our operating environment, refer to  page 13)</p>	<p>A review of our engagement with stakeholders in order to determine their expectations (For more on stakeholders, refer to <i>Meeting stakeholder expectations</i> on  page 37)</p>	<p>Our risks and opportunities as they are managed within our business operations (For more on risk, refer to <i>Risk management</i> on  page 35)</p>
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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 materialise over the short, medium or long term.

There had been no significant changes in those matters which are material to value-creation in our business since the previous financial year. There was therefore 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 an inherent risk occurring or an opportunity realising and the impact it would have on the business.



MATERIAL MATTER	CAPITAL AFFECTED	SHORT TERM (1 year)	MEDIUM TERM (2 – 3 years)	LONG TERM (3 – 5 years)	STRATEGIC PILLAR
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					

GUIDE



FINANCIAL CAPITAL



MANUFACTURED CAPITAL



INTELLECTUAL CAPITAL



HUMAN CAPITAL



SUSTAINABLE GROWTH



OPTIMISATION AND INCREASED PROFITABILITY



TECHNOLOGY OPTIMISATION AND DEVELOPMENT



PEOPLE CAPACITY AND DEVELOPMENT

MATERIAL MATTERS continued

MORE ON OUR MATERIAL MATTERS

MATERIAL MATTER	CONTEXT – OPPORTUNITIES FOR IMPACT
<p>1 Funding</p>	<ul style="list-style-type: none"> The ability to fund future growth is a key component of our growth plans. Since listing on the JSE, 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
<p>2 Contract execution</p>	<ul style="list-style-type: none"> If contracts are not executed to agreed quality standards, the risk of reputational damage increases because of equipment failure due to inappropriate maintenance that compromises 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
<p>3 Global mining and commodity prices</p>	<ul style="list-style-type: none"> With commodity prices 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 hydro-energy and civil and construction sectors of Europe and Scandinavia, further driving overall diversification
<p>4 Unwanted health- and safety-related events</p>	<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 methods mitigate this risk and our health and safety programme has been devised to minimise incidents and ensure the safety of employees
<p>5 Contract quality management</p>	<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 our terms 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

MATERIAL MATTER	CONTEXT – OPPORTUNITIES FOR IMPACT
<p>6 Client dependency</p>	<ul style="list-style-type: none"> Depending too heavily on one client, commodity or sector constitutes a risk to our revenue stream. We balance our client spread towards those we believe to have sustainable business models
<p>7 Fleet return optimisation</p>	<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
<p>8 Cost escalation beyond budget</p>	<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
<p>9 Reliance on strategic equipment component suppliers</p>	<ul style="list-style-type: none"> Our assembly process relies on strategic suppliers situated in China for the delivery to 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 relationships with 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
<p>10 Delivering on technology expectations</p>	<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
<p>11 Fleet design and assembly process</p>	<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

MATERIAL MATTERS continued

MATERIAL MATTER

12 Information technology, data analytics and end-user knowledge

13 Management and technical skills to support growth

CONTEXT – OPPORTUNITIES FOR IMPACT

- 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
- 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 Management in Training (MIT) programme. We operate training centres in South Africa, Peru, Mexico and Chile, offering learnerships and internships in the engineering and operational divisions

RD5 raise bore machine operating at a site in Mexico



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 of the Board, 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 refer to the *Risk Committee Report* on  page 89.)

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 refer to *Material matters* on  page 30.

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, mitigation, tolerance and the metric by which we assess them.

	KEY CONTROL	RISK APPETITE AND MITIGATION
1 AVAILABILITY OF MANAGEMENT AND TECHNICAL SKILLS to ensure and enable sustainable growth and succession – the skills gap	Recruitment: Manpower planning and recruitment process and skills development Skills development: Gap analysis per individual per position	<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 gap identified and development plans in place for all key positions
2 UNWANTED SAFETY AND HEALTH-RELATED EVENTS resulting in single or multiple fatalities, irreversible injury, increasing injury statistics, section 54 stoppages and non-compliance with the Group's management standards	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 and the inability to support market demand	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

MATERIAL MATTERS continued

OUR RISK DASHBOARD



		TARGET RISK	RESIDUAL RISK	INHERENT RISK	CHANGE IN INHERENT RISK EXPOSURE
1	Availability of management and technical skills to ensure and enable sustainable growth and succession				➔
2	Unwanted safety- and health-related events resulting in single or multiple fatalities, irreversible injury, increasing injury statistics, mine accident stoppages, non-compliance with Master Drilling management standards				➔
3	Ineffective alignment of IT and business objectives and unavailability of key business systems because of cyber-attacks preventing the execution of key business processes				➔
4	Inability to deliver on technology expectations to support market demand				➔
5	Inadequate logistical support to sustainable operational performance				⬆
6	Inability to execute operationally in terms of contract scope and quality				➔
7	Fleet return optimisation				⬆
8	Unacceptable client dependency				⬇
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 prices				➔
13	Cost escalations beyond budget				⬆
14	Reliance on strategic equipment component suppliers				⬇
15	Effectiveness of current commercial management process				➔

⬆ INCREASE IN INHERENT RISK EXPOSURE

➔ NO CHANGE IN INHERENT RISK EXPOSURE

⬇ DECREASE IN INHERENT RISK EXPOSURE

MEETING STAKEHOLDER EXPECTATIONS

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, employees, 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 also impacted by, and have an impact on, the communities in which our clients' operations are situated. Many of these

stakeholders are affected by what we do and, in some instances, we are also affected by their interests. As a result, they are part of our stakeholder engagement programme.

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 as well as 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 previous years.



CLIENTS

(current, new and potential clients and targeted sectors)

CURRENT ENGAGEMENT PROCESS AND SURVEYS

How we engage

- 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 – Participate as sponsor and speaker at the Rapid Underground Mine and Civil Access conference hosted by SAIMM – also involved with arrangements of the conference
- Site visit to our facilities and operations on sites

NEEDS

What they require from us

- Safe operations
- Efficient operations
- Compliance with clients' drilling plans and standards
- Effective project management and reporting
- Availability and reliability of rigs and equipment
- Qualified and trained crew

ACTION OR RESPONSE

How we act and respond

- 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
- Improved account management
- Active cost management is an integral part of contract management and contract execution
- Honest opinions
- Senior involvement in queries



EMPLOYEES

NEEDS

What they require from us

- Safe working environment
- Attractive compensation and benefits package (for employee and family)
- Career advancement
- Training and development
- Recognition and reward
- Employee and family well-being

MEETING STAKEHOLDER EXPECTATIONS continued



SHAREHOLDERS AND INVESTMENT COMMUNITY

CURRENT ENGAGEMENT PROCESS AND SURVEYS

How we engage

- 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
- Investor forums
- Roadshows
- Analyst meetings
- Stock Exchange News Service (SENS) announcements
- Investor site visits to our operations



MEDIA

CURRENT ENGAGEMENT PROCESS AND SURVEYS

How we engage

- 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
- Mining-related gatherings
- Financial results
- Meetings and interviews at our offices
- Press releases – HRB press release during Mining Indaba to create awareness
- Media site visits at authorised operational sites
- Media monitoring
- One-on-one meetings scheduled with main media throughout the year

NEEDS

What they require from us

- Corporate governance
- Compliance with laws, regulations and company policies and procedures
- Financial efficiency and profit optimisation
- Sustainable business growth
- Risk management
- Safe and efficient operations

ACTION OR RESPONSE

How we act and respond

- 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 IV

ACTION OR RESPONSE

How we act and respond

- 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
- We have a media monitoring programme and are able to identify relevant industry, competitor and market-related media articles
- We have a social media presence and ensure that we track followers and comments from participants on social media



LENDERS AND FINANCIERS

CURRENT ENGAGEMENT PROCESS AND SURVEYS

How we engage

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



TRADE UNIONS

APPROXIMATE UNIONISATION

CURRENT ENGAGEMENT PROCESS AND SURVEYS

How we engage

- South Africa: 100% (UASA majority of 67.9%)
- Brazil: 100%
- Chile: 35%
- Mexico: 100%
- Peru: 38%
- Zambia: 75%



COMMUNITIES

CURRENT ENGAGEMENT PROCESS AND SURVEYS

How we engage

- 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

NEEDS

What they require from us

- Long-term business planning and budgeting
- Liquidity and going concern
- Strong financial performance (return on investment and cost optimisations)
- Compliance with loan covenants
- Risk management

ACTION OR RESPONSE

How we act and respond

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

NEEDS

What they require from us

- Official letters
- Formal correspondence and engagement
- 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

ACTION OR RESPONSE

How we act and respond

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

NEEDS

What they require from us

- Provide jobs and opportunities for citizens
- Contribute to the development of the local communities
- Environmentally friendly company
- Socially responsible employer

ACTION OR RESPONSE

How we act and respond

- Our engagement with communities is aligned with the clients 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

MEETING STAKEHOLDER EXPECTATIONS continued



SUPPLIERS

CURRENT ENGAGEMENT PROCESS AND SURVEYS

How we engage

- 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

NEEDS

What they require from us

- Timely-coordination for purchase requests
- On-time payment
- Transparent and clear tendering practices
- Long-term relationship
- On-time deliveries

ACTION OR RESPONSE

How we act and respond

- 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

How we engage

- 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 operational 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

NEEDS

What they require from us

- Compliance with laws and regulations
- Contributing to national priorities and related sector initiatives, e.g. SDIR programme
- Support community development

ACTION OR RESPONSE

How we act and respond

- 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
- We are seen as thought leader with regards to innovative technology-driven drilling solutions in the industry

OUR STRATEGY IN ACTION



SUSTAINABLE GROWTH

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

<p>WHAT WE SAID WE WOULD DO IN 2018</p>	<p>Secure an initial contract in North America to establish footprint</p>
<p>WHAT WE ACHIEVED IN 2018</p>	<ul style="list-style-type: none"> • The North American market is anticipated to remain strong based on enquiries received as well as the anticipated spend on infrastructure development • Deployed a large raise boring machine to India with a contract value of USD6 million as part of our geographical expansion • First Australian contract where Master Drilling shall supply the raise bore machine and technical support whilst the client takes care of the operations <p>RC MACHINE PILOT PROJECT IN USA</p> <ul style="list-style-type: none"> • Capable of blind shaft boring and raise bore drilling <p>CANADA</p> <p>Started first project and mobilised an additional rig for a long-term project with a major mining house. At year-end, three projects had been awarded</p>
<p>OUR COMMITMENTS AND TARGETS FOR 2019</p>	<p>Expand footprints in Australia, India and North America</p>
	<p>TOTAL PIPELINE USD578.6 million (2017: USD228.1 million)</p> <hr/> <p>REVENUE PER YEAR USD138.7 million (2017: USD121.4 million)</p> <hr/> <p>DIVIDEND OF ZAR26,0 cents (2017: ZAR26,0 cents)</p> <hr/> <p>STABLE ORDER BOOK OF USD203.6 million (2017: USD124.7million)</p>

OUR STRATEGY IN ACTION continued



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

WHAT WE SAID WE WOULD DO IN 2018

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

WHAT WE ACHIEVED IN 2018

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

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

OUR COMMITMENTS AND TARGETS FOR 2019

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

HEADLINE EARNINGS
IN USD DECREASED BY
7.8% TO 10.7 cents

(2017: 11.6 cents)

UTILISATION
DECREASED BY
8% TO 61%

(2017: 69%)



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

<p>WHAT WE SAID WE WOULD DO IN 2018</p>	<p>Finalise testing of BSBS first phase</p>
<p>WHAT WE ACHIEVED IN 2018</p>	<p>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)</p> <p>MOBILE TUNNEL BORER PROJECT</p> <p>We are particularly proud of the launch of our MTB. The concept phase of our Mobile Tunnel Borer commenced in September 2017. This disruptive technology allows continuous mining and requires no blasting, significantly enhancing mining efficiencies. This project will promote substantial future growth</p> <p>HORIZONTAL ROCK BORER PROJECT</p> <p>The pilot project at the Cullinan Mine of Petra Diamonds 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</p>
<p>OUR COMMITMENTS AND TARGETS FOR 2019</p>	<p>Deployment of Mobile Tunnel Borer</p>
	<p>FLEET AUTOMATION PROCESS 100% ON TRACK</p> <hr/> <p>RESEARCH AND DEVELOPMENT SPEND USD0.6 million</p> <hr/> <p>MTB FINALISED AND LAUNCHED IN 2018</p>

OUR STRATEGY IN ACTION continued



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

WHAT WE SAID WE WOULD DO IN 2018

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

WHAT WE ACHIEVED IN 2018

During 2018 appointments to key management positions were made in South America and North America to further develop these businesses. Succession planning initiatives are also considered

A training rig and simulator were installed at head office in South Africa to train drill rig operators in a realistic operational setting

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 receive on-the-job training before being allocated to projects

OUR COMMITMENTS AND TARGETS FOR 2019

- Further strengthening the training capacity with appropriate resources
- Redeploy senior management to operations requiring intervention

REVENUE PER HEAD
INCREASED TO
USD64 134 million

(2017: USD61 543 million)

LTIFR
IMPROVED TO
2.06

(2017: 2.31)

For more information on *Our strategic pillars* refer to  page 18.

TOTAL
STAFF
339

2018

12%

REVENUE CONTRIBUTION

Our activities in Central and North America are progressing well. During 2018, we mobilised five machines and shipped two more to various project sites in Mexico for work to commence in 2019. We also secured several contracts in Canada. Operations on one of these projects got under way in November, after we mobilised one machine and, by the end of 2019, we expect to have initiated a total of four projects. We are also seeking to expand our product line through a new partnership targeting water drilling in the USA.

Overall, activity in Central and North America remains strong, evident from additional enquiries and a pipeline of projects.

CENTRAL AND
NORTH AMERICA

Canada, Mexico, USA

TOTAL
MACHINES
23*

Commodities: Copper, Gold, Nickel, Polymetallic, Silver

2018

2017

GROSS PROFIT

USD4.7 million

USD4.5 million

TOTAL ASSETS

USD44.0 million

USD25.0 million

TOTAL LIABILITIES

USD23.7 million

USD8.5 million

* At year-end, the Group had deployed 13 raise boring rigs in Mexico, one in the USA and one in Canada. It also has three shotcrete rigs in Mexico.

PERFORMANCE AND OUTLOOK

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OPERATE

Canada
Mexico
USA



TRAIN

Mexico



MAINTAIN

USA



DESIGN

—

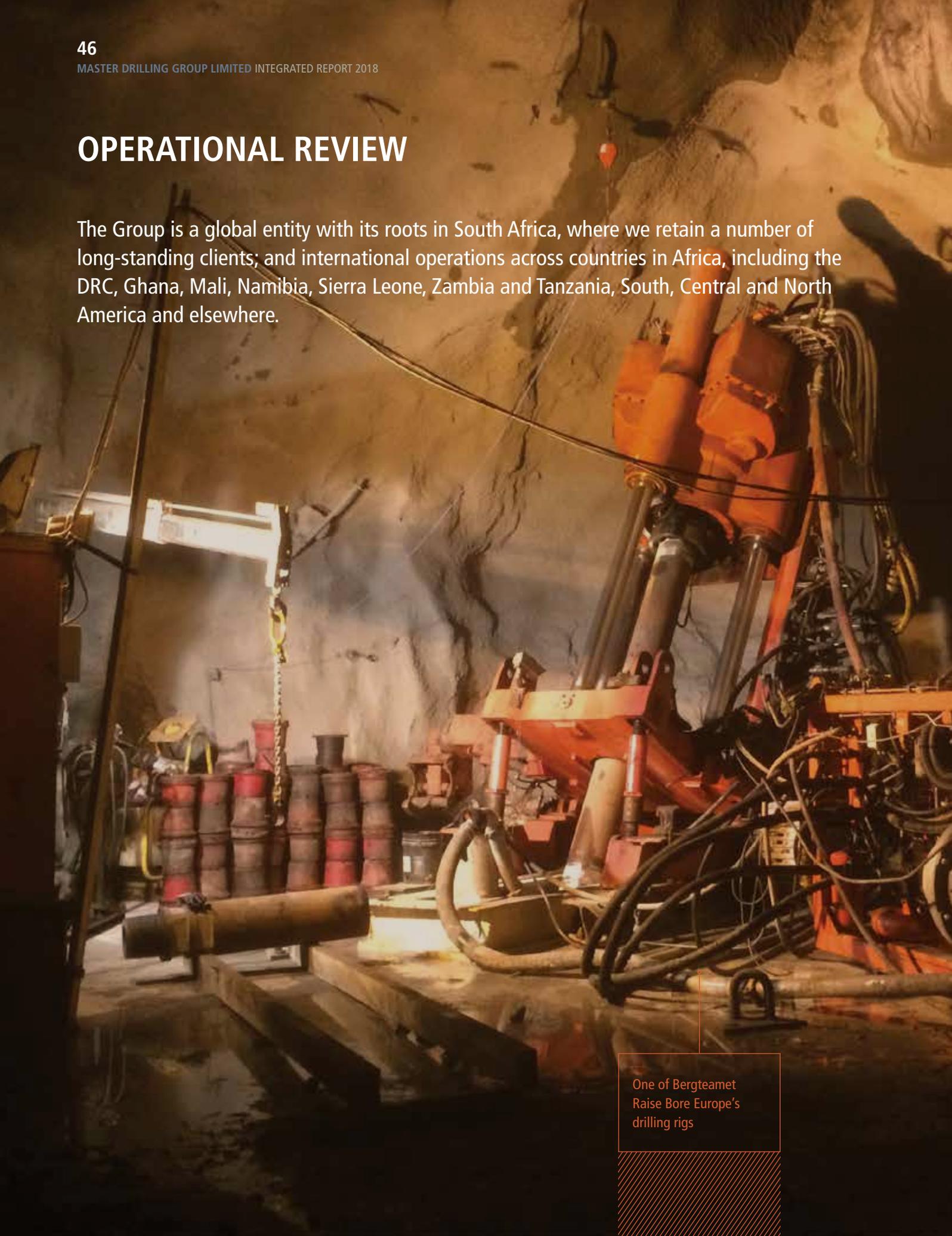


MANUFACTURE

—

OPERATIONAL REVIEW

The Group is a global entity with its roots in South Africa, where we retain a number of long-standing clients; and international operations across countries in Africa, including the DRC, Ghana, Mali, Namibia, Sierra Leone, Zambia and Tanzania, South, Central and North America and elsewhere.



One of Bergteamet
Raise Bore Europe's
drilling rigs

OVERVIEW

Five raise bore machines were added to our fleet, contributing 1.8% growth in revenue while the acquisition of Bergteamet and Atlantis contributed to growth in revenue of 9.5%. The fleet now consists of 149 raise bore and 30 slim drilling rigs. The rate of new rigs coming on stream will settle with a focus on larger units, which typically generate higher income. No new slim rigs are in the pipeline at this point.

In South America, which as a region generates 42% 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 Mexico, 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
OPERATE 	<ul style="list-style-type: none"> • Provide operational support for all our drill rigs • Offer complete project management from exploration through to production drilling
TRAIN 	<ul style="list-style-type: none"> • Enhance skills to leverage our machinery • Operate training centres in Chile, Mexico, Peru and South Africa which focus on the development of technical skills • Groom management and staff to support our growth strategy
MAINTAIN 	<ul style="list-style-type: none"> • Provide engineering support for our drill rigs • Continuously upgrade our portfolio
MANUFACTURE 	<ul style="list-style-type: none"> • Assemble custom drill rigs according to clients' specifications • Establish a diverse rig portfolio
DESIGN 	<ul style="list-style-type: none"> • Conceptualise our drilling equipment to meet our clients' specific requirements • Benefit from flexible capital investment • Develop proprietary technology

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.

For more on products and services, refer to  pages 7 to 9.

OPERATIONAL REVIEW continued

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.

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.

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 department 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, refer to *Information technology* on  page 56.)

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 2019.

We envisage our global operations benefitting 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.

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.

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.



Final inspection on machine after a rod change before the raise boring cycle can continue

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. We 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. The concept and the machine were launched at the Mining Indaba in February 2018. It was shipped to South Africa at the end of 2018 and is due to start operating in the first half of 2019.

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 started flexibly contracting mechanised tunnelling to various clients 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 previous year 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 in previous years.

We estimate that it will take another two to three 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.

The aim is not only to provide speed, efficiency and meaningfully lower costs, but also 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.

OPERATIONAL REVIEW continued



CENTRAL AND NORTH AMERICA

Overview

Our activities in Central and North America are progressing well. During 2018, we mobilised five machines and shipped two more to various project sites in Mexico for work to commence in 2019. We also secured several contracts in Canada. Operations on one of these projects got under way in November, after we mobilised one machine and, by the end of 2019, we expect to have initiated a total of four projects. We are also seeking to expand our product line through a new partnership targeting water drilling in the USA.

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 mergers and acquisitions 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.

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 USA. However, when it comes to economies of scale in both mining and civils, the USA is a far larger market for infrastructure, and we believe that we will be seeing significant work from that region.

Overall, activity in Central and North America remains strong, evident from additional enquiries and a pipeline of projects.



SOUTH 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.

Highlights

Brazil

Work in Brazil has been progressing well on the long-term contracts that are currently under way, with nine machines deployed in the country. This is on the back of strong operational records being achieved. Owing to this, as well as an improvement in the economic environment, the outlook for Brazil remains positive.

We have been examining the opportunities of the water sector in Brazil and in areas of the USA, 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 the future.

Peru

Cost pressures also slowed progress in Peru, where the rigidity of labour laws continues to impact on overhead costs, margins and overall profitability.

These difficulties were encountered throughout 2018 and remain part of the operating landscape in the country.

Chile

Our primary client in Chile, CODELCO (a state-owned entity) moved ahead with the roll-out of its planned capital expenditure, which enabled the projects previously placed on hold to resume last year. However, we encountered increasing cost pressures that impacted our margins negatively as well as delays on debtor payments. These are being addressed by in-country managers in this and other regions.

Colombia and Ecuador

Meanwhile, we are gearing up for new hydro-energy sector projects in both Colombia and Ecuador, where we will be deploying equipment in 2019, which will extend our sector diversification into the region.



AFRICA

Although activity in Africa remains subdued and the operating environment difficult, as it is domestically, a number of projects are set to get under way which will enable us to maintain our footprint on the continent. For instance, we were recently awarded a break-through contract in Ghana.

In both the DRC and Zambia operations continue to be scaled down and, although we expect the region to increasingly account for less revenue in the coming year, we continuously remain open to new opportunities on the continent.

Such opportunities could also arise domestically in coming years, now that we have turned the corner on the Mining Charter, following its revision in September 2018. The progress in clarifying the regulatory and policy environment, together with the need to modernise the sector through increased mechanisation could lead to a revival of the mining industry in South Africa, but this will require

concerted effort by government, business, labour and investors.

In the interim, we continue to work on local projects. Our slim drilling project at the Kolomela iron ore mine in the Northern Cape is set to continue for another year, following the extension of our contract. During 2018, we were awarded another contract by Anglo American, for its Sishen iron ore mine. We continue to make progress towards effectively rolling out our innovative new technology in the form of the Mobile Tunnel Borer and will begin a pilot project on South African soil with a view to potentially securing an extended contract on this machine.

Master Drilling will continue to support its loyal domestic clients although growth will likely remain subdued.

We remain committed to expansion into appropriate African countries.



OTHER COUNTRIES

Scandinavia

The completion of the acquisition of Bergteamet Raiseboring in 2018 cemented our presence in Scandinavia, which serves as a gateway to projects throughout Europe. Bergteamet is highly specialised in raise boring, conducts operations throughout the world and services a mix of clients in mining, hydro-energy and infrastructure projects. As a result of the acquisition, the Group completed projects in France, Spain and Turkey during 2018.

Our foray into this region continues. We are currently investigating opportunities to expand our service offering both in Scandinavia and the rest of Europe.

India

India's economy showed signs of slowing during the second half of 2018, but this had no impact on our existing project commitments in the country. Work for Vedanta Limited, a diversified natural

resources company listed on the London Stock Exchange, continued.

Through the acquisition of the businesses of the Atlantis Group, a South African headquartered, multinational mining contracting company, Master Drilling's presence in India deepened as we assumed responsibility for the company's existing contracts and operations. Consequently, we have a total of seven operational machines on this project.

Australia

In Australia, a large raise bore machine has been contracted out to Byrncut, an internationally renowned specialist underground mining contractor, on a polymetallic project. The rental contract, the first such agreement which sees Master Drilling supply the machine without manpower, will run for an initial period of one year.

OPERATIONAL REVIEW continued

REALISING STRATEGY IN THE MEDIUM TO LONG TERM

We anticipate growth in the area of civils tunnelling, where we are 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 Group. 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.

We are investing significant effort in systemising what we do so that it is less person-based, and more reliant on systems. During 2018, we have carefully chosen those elements that will make a large and sustainable difference in the business. 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 Group 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.

ADDED SERVICES

In South America, we established a marketing arm for drilling industry-related 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

The Group expanded its raise boring fleet with the acquisitions of Bergteamet Raiseboring Europe AB (Bergteamet) and the Atlantis Group. We see this as a strategic expansion into new geographies given Bergteamet's extensive operations in European markets and the Atlantis Group's skills pool and global footprint in India, Brazil and Zambia.

EXPANSION INTO NEW GEOGRAPHIES

During the year under review, and consistent with our strategy of geographical diversification, we expanded our operations into Canada with the mobilisation of a machine. We are hoping to extend this into the USA.

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.

FINANCIAL REVIEW

This review should be read in conjunction with the condensed consolidated annual financial statements starting on  page 91. Master Drilling's annual financial statements are available online at  www.masterdrilling.com

ANDRÉ VAN DEVENTER
Chief Financial Officer

"Cash resources continue to be managed stringently to cater for emerging opportunities that require specific design, planning and investment."



RESULTS OF OPERATIONS

Refer to the consolidated statement of profit or loss and other comprehensive income on  page 93.

REVENUE

Turnover for the year reflects an increase of 14% over the previous year to USD138.7 million. The increase is largely acquisitive.

UTILISATION

Our utilisation rates on our raise bore rigs showed a decrease, from 69% in the previous year to 61%. There was also a decrease in our slim drilling rigs' utilisation, decreasing from 77% to 68%. The Group's X-Large and XX-Large machines were utilised at 44% (2017: 40%) for the year.

Revenue per rig, at USD121 531, exceeded our target of USD120 000.

PROFITABILITY

The gross profit percentage, at 34.1%, is down on 2017 (36.8%) as a result of the increased cost of transporting equipment into new territories in order to pursue new opportunities and diversification as well as increased costs due to fluctuations in the emerging currencies affecting our operations.

Cost-consciousness ensured a smaller effect on net profit percentage, which was at 12.6%, compared to 14.4% in the previous year.

Costs incurred in emerging currencies amounted to approximately 67% (2017: 75%) while revenue in emerging currencies amounted to approximately 49% (2017: 50%). This had an adverse effect on our margins in 2018.

The need to expand the middle management required through our rapid growth over the last few years placed an additional strain on margins through increased overheads.

TAXATION

The average tax rate of 18.7% (2017: 22.7%) is lower, as most deferred taxation balances are being depleted. This had the effect of increasing the taxation charge for the year by 22% to USD6.2 million.

FINANCIAL REVIEW continued

AVERAGE REVENUE PER OPERATING RIG (ARPOR) SUMMARY PER ANNUM

	2018	2017	2016	2015	2014	2013
Total raise bore rigs	149	107	105	98	94	88
Utilisation (%)	61	69	73	70	75	77
ARPOR (USD)	121 531	110 937	111 040	120 819	118 215	117 047
Total slim rigs	30	34	33	48	45	74
Utilisation (%)	68	77	55	35	54	54
ARPOR (USD)	70 430	63 597	74 280	96 761	58 525	50 740

FINANCIAL POSITION

Refer to the consolidated statement of financial position on  page 92.

Capital expenditure of USD16.9 million included USD10.2 million spent on the Mobile Tunnel Boring machine.

Working capital management came under pressure towards the year-end due to additional debtors from new clients obtained from the two business combinations acquired. This resulted in trade receivables increasing from USD32.4 million to USD38.0 million and inventories increasing from USD23.9 million to USD25.8 million. This was partly offset by an increase in payables of USD20.1 million to USD26.5 million.

The gearing ratio, including cash, increased from 2.4% to 16.2% in the current year. This is despite the third drawdown of USD20 million from Absa during the year. Our gearing ratio still stands below our target of 30% including cash and remains very low, in keeping with our financial conservatism in this respect. Our interest-bearing debt stands at USD60.4 million, an increase from USD44.0 million in 2017.

CASH GENERATION

Refer to the consolidated statement of cash flows on  page 96.

Cash of USD18.8 million was generated by operations, a decrease from USD25.0 million in the previous year.

Working capital management requires attention as market conditions improve.

Cash resources continue to be managed stringently to cater for emerging opportunities that require specific design, planning and investment. The Group still carries a healthy cash resource balance of USD33.7 million, albeit down 16% on the previous year-end.

OUTLOOK

The Group has the resources to fund our growth plans and we believe that, with commodity prices trending upwards, there will be an ever-increasing demand for our rigs and services.



ANDRÉ VAN DEVENTER
Chief Financial Officer

17 April 2019

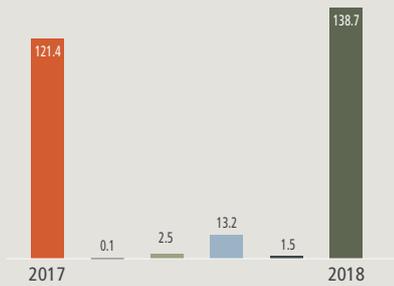
GEARING RATIO

INCREASED TO **16.2%**
(2017: 2.4%)

CASH GENERATED BY OPERATIONS

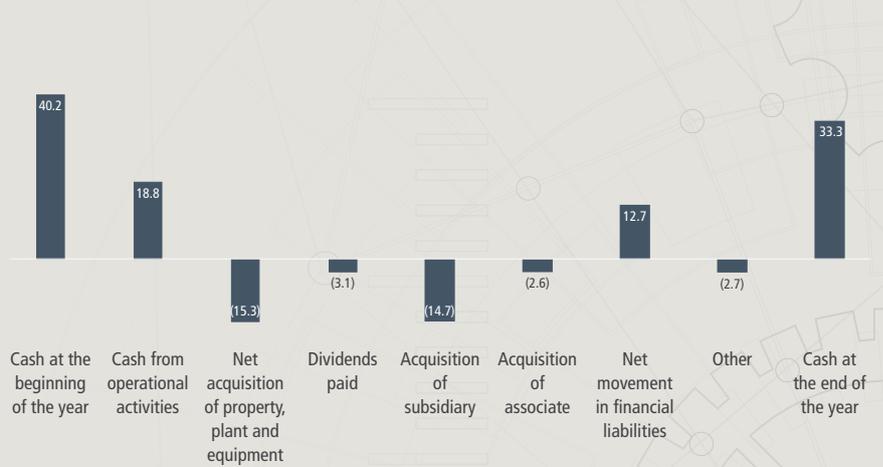
DECREASED FROM USD32.8 MILLION TO **USD25.8 million**

REVENUE WATERFALL
(USD'000)



Revenue 2017	121.4
Foreign exchange	0.1
Fleet expansion	2.5
Acquisition	13.2
Fleet mix and utilisation	1.5
Revenue 2018	138.7

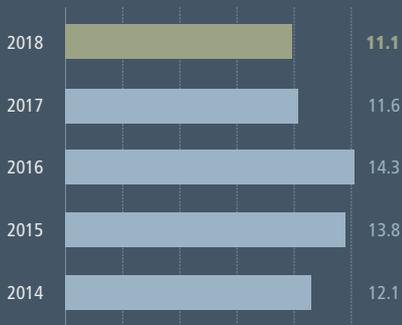
CASH FLOW WATERFALL
(USD'000)



Cash at the beginning of the year	40.2
Cash from operational activities	18.8
Net acquisition of property, plant and equipment	(15.3)
Dividends paid	(3.1)
Acquisition of subsidiary	(14.7)
Acquisition of associate	(2.6)
Net movement in financial liabilities	12.7
Other	(2.7)
Cash at the end of the year	33.3

CAGR

HEPS
(USDc)



HEPS
(ZARc)



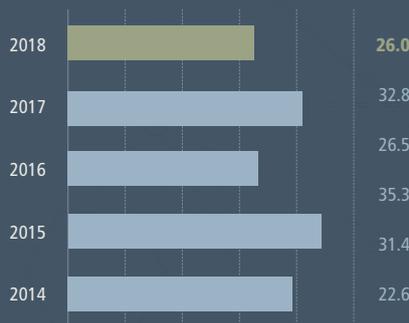
PROFIT AFTER TAX
(USD'million)



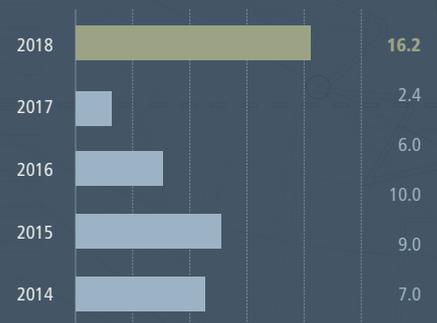
EBITDA
(USD'million)



CASH GENERATED BY OPERATIONS
(USD'million)



GEARING RATIO
(%)



INFORMATION TECHNOLOGY

Information technology (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 head 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**

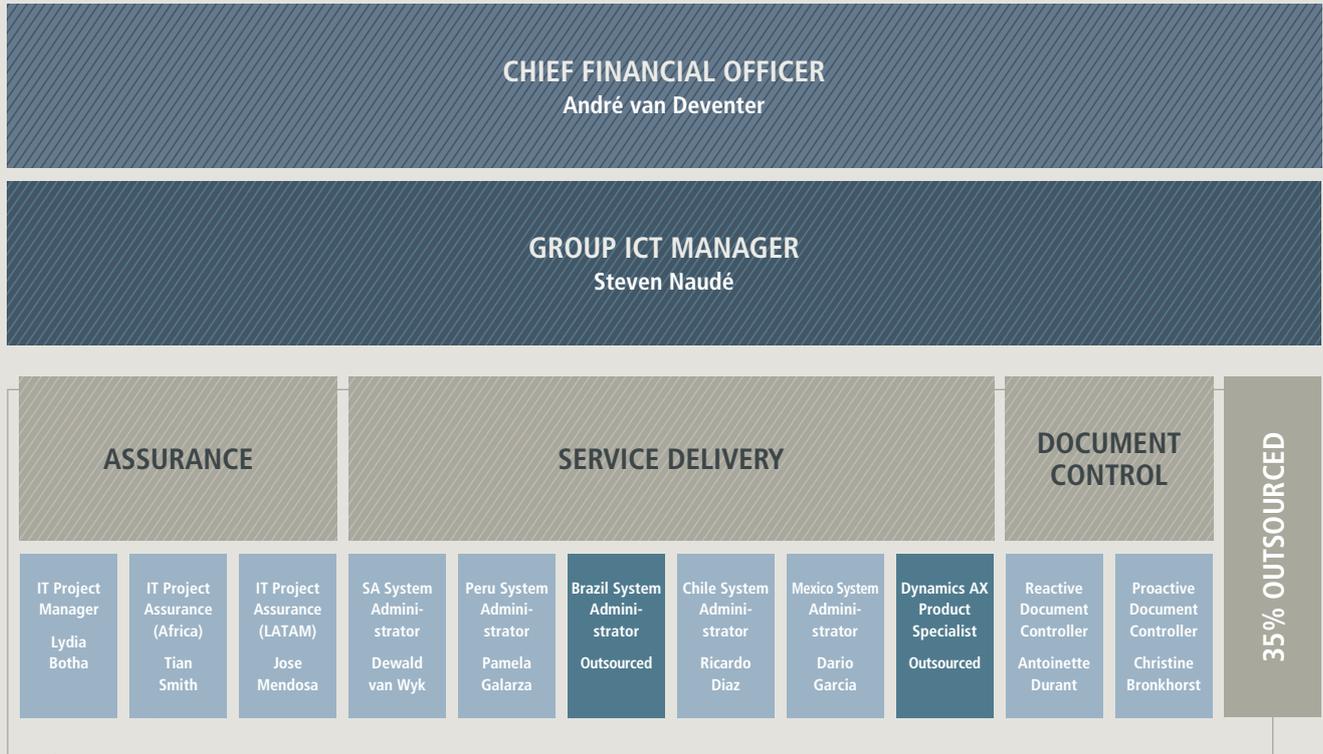
Dynamics AX is our Microsoft Enterprise Resource Planning (ERP) system. The four entities in which it is now newly implemented are Sierra Leone, Tanzania, Master Drilling Proprietary Limited and the Master Drilling Training Centre.
- **Incident management in AX (Africa)**

Incidents can now be directly linked to the HR system and projects. This means that, if there is an incident, it can immediately be 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 programme for executives. We made our balanced scorecards and dashboards available on this system to enable executives to access them for quick viewing. Whilst we do maintain another BI platform, PowerPivot, it is more of an employee self-service platform. 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.

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



For more on IT within operations, refer to Operational review on page 48.

IT FOCUS FOR THE COMING YEAR

There are five areas of focus for IT for 2019:



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 – 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

HUMAN RESOURCES

As at December 2018, our total workforce complement stood at 2 163. 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	RR	MDT	MDSS	Chile	Brazil	Mexico	Peru	Zambia	DRC	Ghana	China	Mali	India	Sierra Leone	Total
Skilled	81	28	61	43	3	35	96	35	104	70	68	9	6	17	5	38	4	703
Semi-skilled	59	10	37	19	1	11	97	80	65	255	47	5	1	6	4	7	0	704
Unskilled	26	1	96	13	2	4	95	92	170	185	5	17	9	0	6	28	7	756
Total	166	39	194	75	6	50	288	207	339	510	120	31	16	23	15	73	11	2 163

UNIONISED EMPLOYEES

COUNTRY	NUMBER OF UNIONISED EMPLOYEES
MDX	166
DTS	39
MD	194
RR	75
MDT	6
MDSS	50
Chile	174
Brazil	100
Mexico	179
Peru	215
Zambia	33
China	3

LABOUR TURNOVER 2018

MONTH	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Skilled	7	20	73	7	15	18	23	12	15	23	18	13
Semi-skilled	11	12	18	5	8	7	14	8	11	20	10	13
Unskilled	33	18	39	11	16	10	24	15	11	35	24	17
Total	51	50	130	23	39	35	61	35	37	78	52	43
Total												
Turnover	51	50	130	23	39	35	61	35	37	78	52	43
Labour strength	2 016	1 988	1 981	2 003	2 053	2 073	2 066	2 056	2 267	2 274	2 232	2 163
Percentage	2.53	2.52	6.56	1.15	1.90	1.69	2.95	1.70	1.63	3.43	2.33	1.99
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												
Skilled	7	20	73	7	15	18	23	12	15	23	18	13
Labour strength	2 016	1 988	1 981	2 003	2 053	2 073	2 066	2 056	2 267	2 274	2 232	2 163
Percentage	0.35	1.01	3.69	0.35	0.73	0.87	1.11	0.58	0.66	1.01	0.81	0.60
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												
Semi-skilled	11	12	18	5	8	7	14	8	11	20	10	13
Labour strength	2 016	1 988	1 981	2 003	2 053	2 073	2 066	2 056	2 267	2 274	2 232	2 163
Percentage	0.55	0.60	0.91	0.25	0.39	0.34	0.68	0.39	0.49	0.88	0.45	0.60
Target	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Unskilled												
Unskilled	33	18	39	11	16	10	24	15	11	35	24	17
Labour strength	2 016	1 988	1 981	2 003	2 053	2 073	2 066	2 056	2 267	2 274	2 232	2 163
Percentage	1.64	0.91	1.97	0.55	0.78	0.48	1.16	0.73	0.49	1.54	1.08	0.79
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	4.1	4.1	5.0	4.1
Zambia	8.0	8.0	8.0	8.0
China	4.0	2.0	5.0	6.0
Peru	2.4	2.2	2.3	2.5
Mexico	5.0	5.0		5.0
Chile	3.8	3.8	3.8	4.8
Brazil	4.0	4.0	4.0	4.0

HUMAN RESOURCES continued



TRAINING INITIATIVES IN 2018

MQA accreditation

- The MQA conducted a preliminary audit on the MD Training Services documentation and approved them (some required minor changes which were done).
- The MQA needs to conduct a site visit in order to make a recommendation concerning the accreditation status.
- MD Training Services is now a separate business entity and has also obtained ISO certification (another prerequisite for MQA accreditation).
- MD Training Services also has B-BBEE level 1 status.
- A plan for the development of relevant training material and roll-out of the training programmes that MD Training Services will ultimately be accredited for was developed and set in motion.

On-boarding programme

- The programme was rolled out in South Africa and consists of theory followed by visits to the HOD's of the various departments as deemed necessary.
- Roll-out to the rest of the Master Drilling entities is planned for 2019.
- Planning was conducted to capture the HOD's on camera early in 2019 while leading a discussion relevant to their department based on the content of the presentations.
- The recording will serve as another means of transferring important information to the relevant employees.

Raise bore training material

- Entry level and advanced Raise Bore theoretical assessments and answer guides were approved and implemented in South Africa.
- Learner guides and presentations were also approved and implemented in South Africa.

- The afore-mentioned documents have been translated into Spanish and Portuguese and submitted to Spanish and Portuguese speaking SMEs to ensure that the training content is still technically sound following the translation process. The translation was necessary to enable the roll-out of the training material to other countries as well. The training material and associated assessment documents will be rolled out to the other Master Drilling entities during 2019.
- Lower and advanced level Engineering theoretical assessments and answer guides were also approved and implemented in South Africa during the year.
- Reviewing of the training videos has been ongoing.
- Master Drilling has been involved in the development of Raise Bore qualifications which will ultimately be used throughout the industry once approved and registered.
- Once the blind bore wagon wheel and associated documentation has been finalised and approved, the training material will be developed and implemented.
- A pilot programme for the mechanical and electrical modules, facilitated by SMEs, will be scheduled in 2019 upon approval of the material.
- Following the pilot programme and possible alterations to the programme the training material will be rolled out to all the Master Drilling entities, starting with an initial programme for identified South American artisans that will be held in South Africa during 2019.

Tunnel bore

- Training material for the MTB will be developed and pending approval, will be implemented in 2019.
- The Tunnel Bore operators must be found competent.

Engineering

- A programme covering electrical, hydraulic and mechanical aspects relevant to Master Drilling machines was compiled to improve the competency of artisans in the field.
- The programme is aimed at artisans e.g. Millwrights who already have experience in these specialised areas.

SHEQ

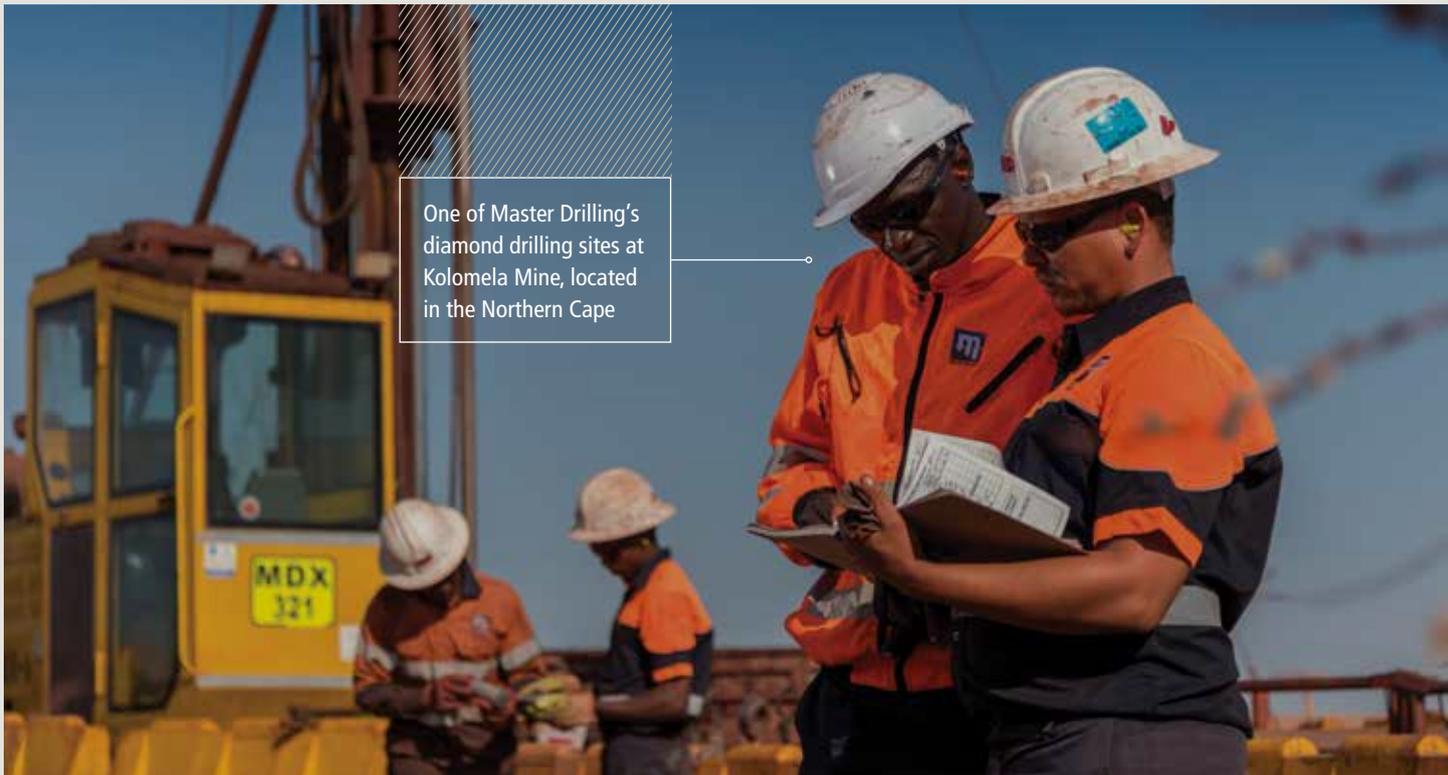
- Safety induction/refresher theoretical assessments and answer guides were reviewed.
- Two existing general safety programmes (introductory and advanced) have been reviewed.
- A legal liability programme has been compiled and is available for implementation.

Quality assurance

- Quality assurance on training conducted by other providers or in countries other than South Africa remained a challenge throughout 2018.
- Renewed efforts will be made during 2019 to ensure that training conducted meets set standards by way of post training follow-ups and moderation of training conducted, evaluation of training material and facilitators used by external providers and continuous feedback from stakeholders.
- Gap analysis will also be used to ensure that existing shortcomings are attended to.

Multi-skilling training

- Multi-skilling of identified incumbents will be pursued with the assistance of Operational and Engineering management to meet set targets for 2019.



One of Master Drilling's diamond drilling sites at Kolomela Mine, located in the Northern Cape

Learning management system (LMS)

- The need for a learning management system (LMS) to make training material accessible to areas where training staff might not be present, reduce the amount of time spent in a training facility and simplify the way learning of employees are managed in terms of availability of reports and issuing of certificates have been identified.
- Moreover, accessibility to learning will reduce the risk of employees not being competent and being a paperless exercise will also reduce printing costs.
- Several learning management systems were evaluated during 2018, but due to financial constraints none of these could be implemented.
- Following a number of discussions with the IT and Industrial Engineering departments a decision was made to use the full extent of the existing LMS 365 system.
- A business case is being prepared to justify assistance from the IT department to implement the LMS system during 2019.

Commercial training

- A programme was compiled to assist Contract Managers to understand and manage contracts more effectively and efficiently.
- The programme will be launched during 2019 once the content has been approved.

Generic management/supervisory training

- Programme modules 1 to 7 concluded in December 2018 and candidates will receive their qualification in due course.
- Modules 1 and 2 were translated to Spanish and Portuguese and rolled-out to South America in 2018. It is premeditated that Modules 3 and 4 will be translated and rolled-out during 2019.

Gap analysis

- Skills Gap Analysis were implemented for Operations and Engineering departments. Remaining departments' will be concluded early 2019.
- Roll-out to South America was proposed and is on-going.

Team audits

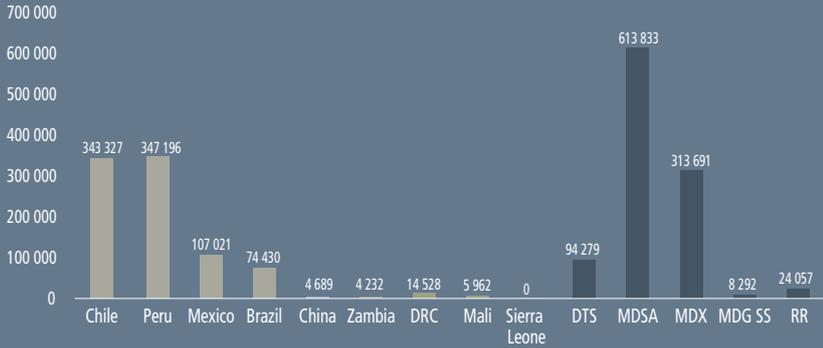
- Utilising the Thomas International psychometric assessments, team profiling audits were conducted for various departments, valuing strengths and diversity to achieve maximum team performance.
- Roll-out to South America's management teams were conducted during 2018 with positive feedback and results.

Talent feed

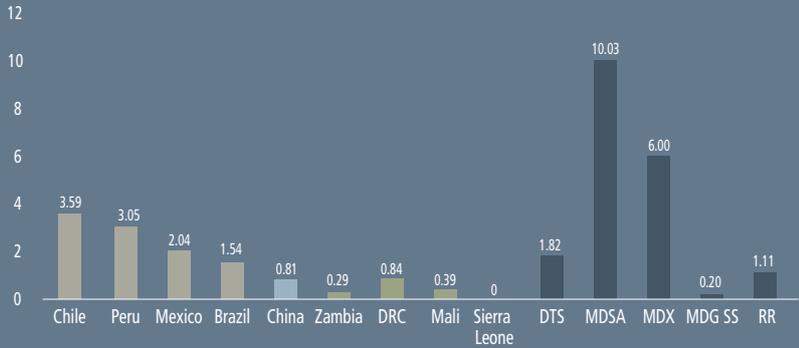
- Continuous intake of Engineering students for work integrated learning and subsequent internships and absorption into operations.
- Electrician apprentices' intake for practical exposure as per trade requirements and subsequent absorption into operations as multi-skilled labour.

HUMAN RESOURCES continued

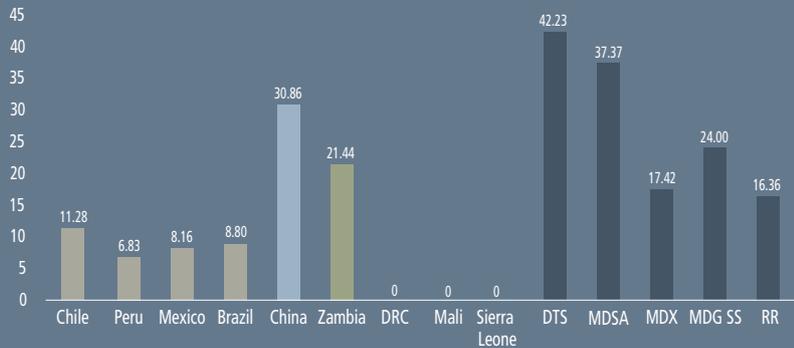
TOTAL TRAINING SPEND (USD'000)



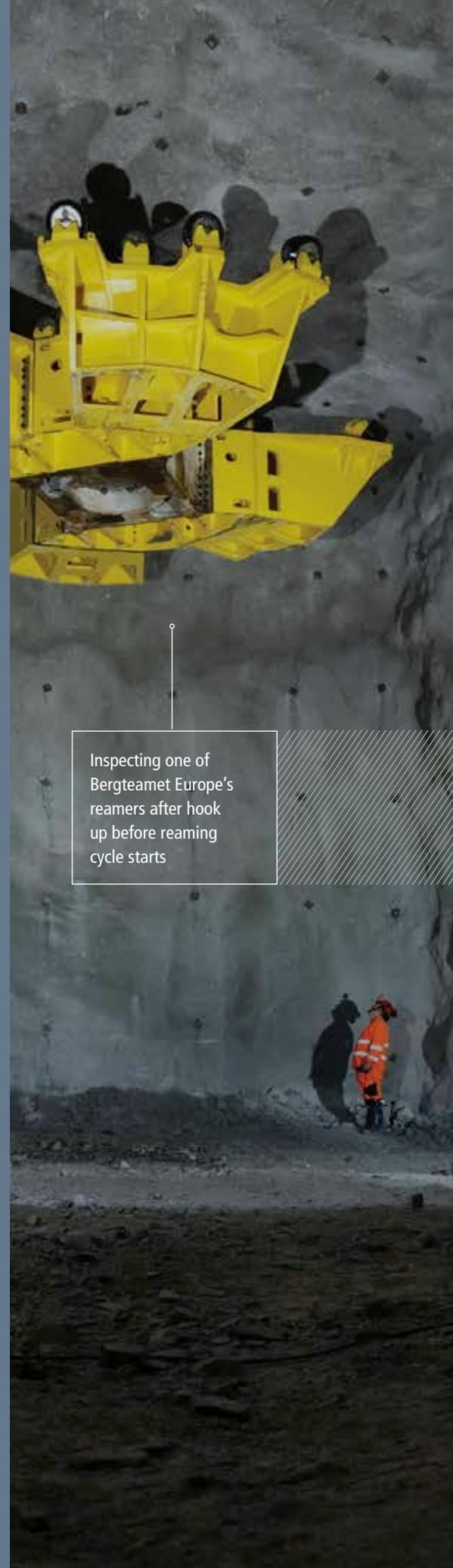
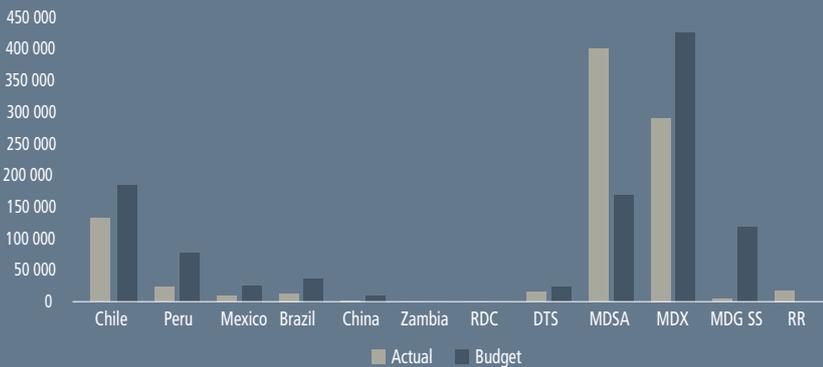
TRAINING SPEND AS % OF PAYROLL (%)



AVERAGE MAN HOUR PER EMPLOYEE (%)



TRAINING COSTS (USD)



Inspecting one of Bergteamet Europe's reamers after hook up before reaming cycle starts

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 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 the Group’s 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 undesirable employee behaviour. We are gratified to note that our LTIFR reflected improvement from 2.31 in the previous year to 2.06 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.



TOTAL NUMBER OF EMPLOYEES (GROUP-WIDE)
2 163 (2017: 1 973)



ANNUAL MAN-HOURS PER STATS (GROUP-WIDE)
5 820 843 (2017: 5 304 759)



TOTAL NUMBER OF LTIs
12 (2017: 6)

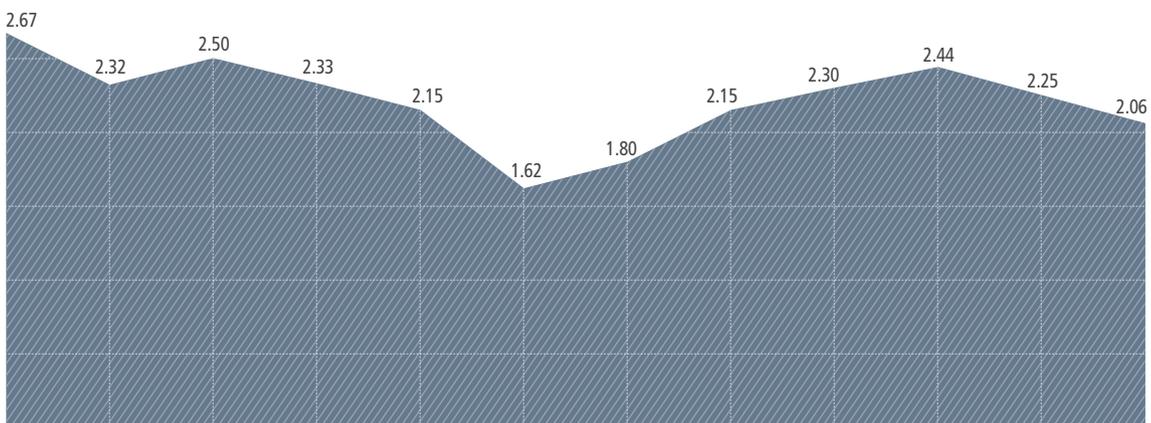


TOTAL NUMBER OF INJURIES
57 (2017: 26)

** Equivalent number of employees during the year.*

COMPARATIVE LOST-TIME INJURY FREQUENCY RATE BY MONTH

The graph below indicates the LTIFR by month, based on 1 000 000 hours:



2.31
2017

LTIFR
2.06
2018

Jan 2018 ————— Dec 2018

CORPORATE SOCIAL INVESTMENT



Bergteamet employee overlooking the area surrounding a site in Europe

As a provider 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 service 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.

THE COMMUNITY TO HEART

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.

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 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:

- 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 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.

Master Drilling Mexico 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.

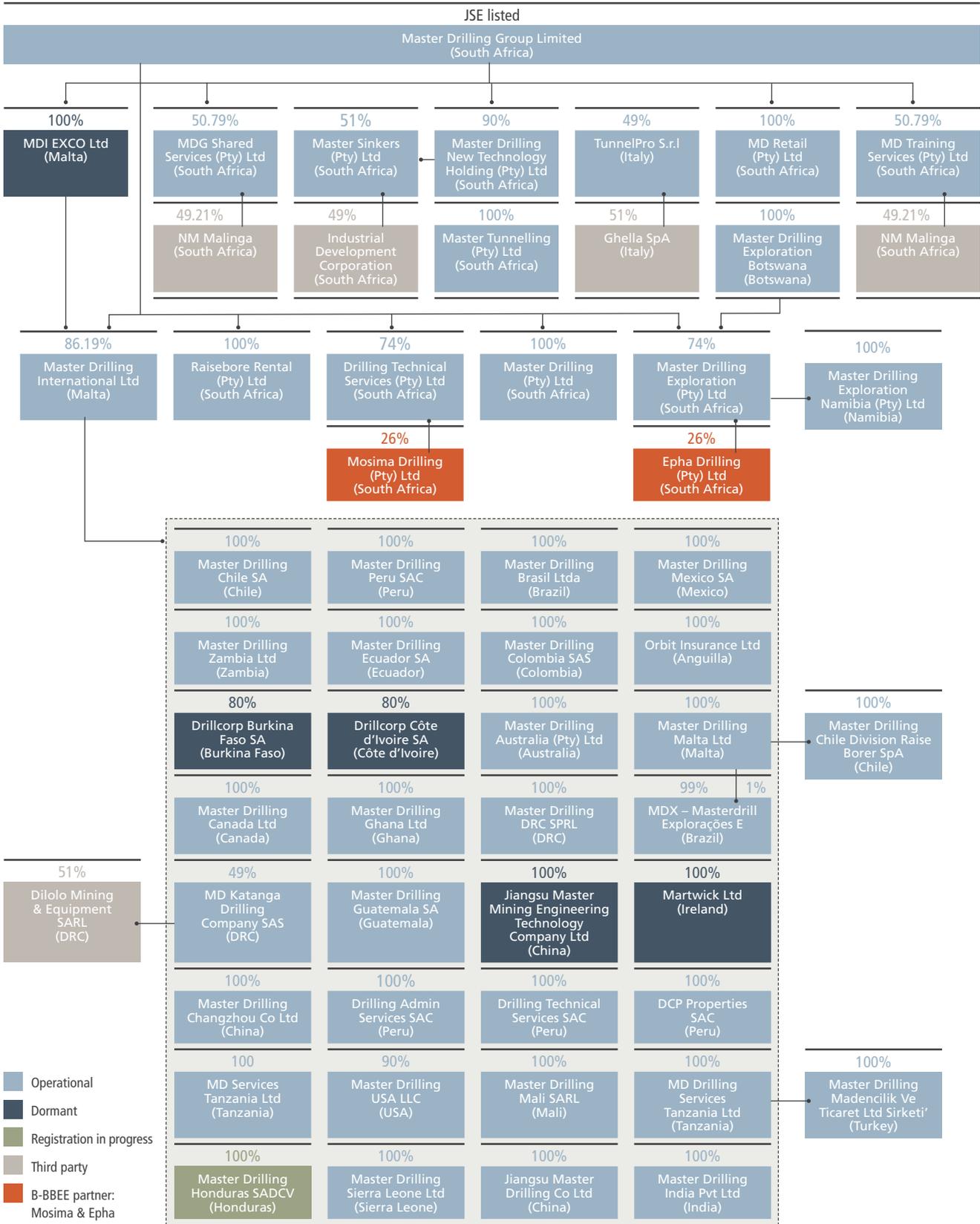
INITIATIVES AND SUPPORT FOR PROJECTS

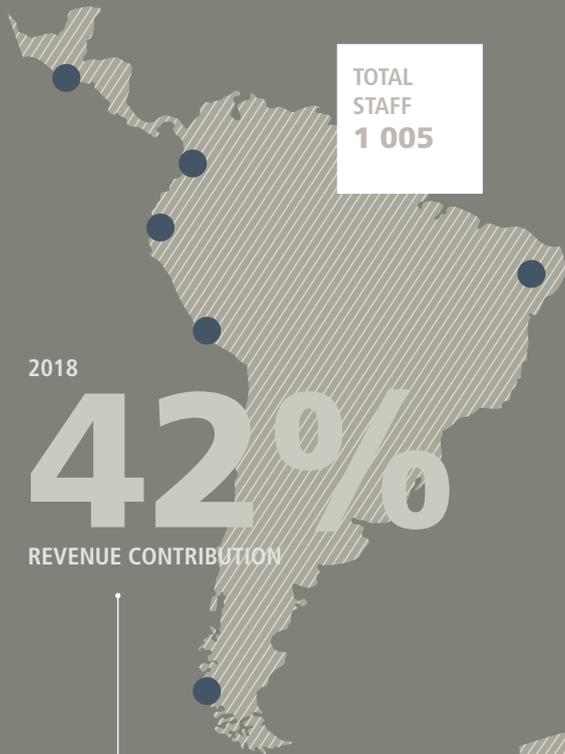
The table below outlines our commitments and activities in support of various socio-economic initiatives and projects.

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 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
Reënboog 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 Reënboog 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

GROUP STRUCTURE

The shareholding in Raisebore Rental Changed – with the share buyback and redemption of preference shares by Mosima Drilling.





TOTAL STAFF
1 005

2018
42%
REVENUE CONTRIBUTION

SOUTH AMERICA	Brazil, Chile, Colombia, Ecuador, Guatemala, Peru	TOTAL MACHINES 67
Commodities: Copper, Gold, Polymetallic, Silver		

2018	2017
GROSS PROFIT	
USD16.3 million	USD15.2 million
TOTAL ASSETS	
USD93.5 million	USD91.7 million
TOTAL LIABILITIES	
USD27.4 million	USD26.2 million

Our primary client in Chile, CODELCO (a state-owned entity) moved ahead with the roll-out of its planned capital expenditure, which enabled the projects previously placed on hold to resume last year. However, we encountered increasing cost pressures that impacted our margins negatively as well as delays on debtor payments. These are being addressed by in-country managers in this and other regions.

Cost pressures slowed progress in Peru, where the rigidity of labour laws continues to impact on overhead costs, margins and overall profitability. These difficulties were encountered throughout 2018 and remain part of the operating landscape in the country.

Meanwhile, we are gearing up for new hydro-energy sector projects in both Colombia and Ecuador, where we will be deploying equipment in 2019, which will extend our sector diversification into the region.



GOVERNANCE AND SUSTAINABILITY

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OPERATE

Brazil
Chile
Colombia
Ecuador
Guatemala
Peru



TRAIN

Chile
Peru



MAINTAIN

Chile
Peru



DESIGN

–



MANUFACTURE

–

GOVERNANCE OVERVIEW

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 sustainable value. Our aim is to continuously improve the quality and reliability of the data presented. 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 condensed 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 BDO South Africa Incorporated.

For the unqualified audit opinions 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. We apply King IV to support and strengthen our governance processes and to provide stakeholders with the necessary assurances in this regard.

The Board subscribes to the principles of King IV and is committed to ensuring that the Group applies good corporate governance throughout its operations, taking into account the six capitals (financial, manufactured, human, intellectual, natural and social and relationship) within the triple context (economy, society and environment).

Our application of King IV is detailed in the King IV Checklist, 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 Board meetings.

COMPANY SECRETARY

The Board appointed Andrew Colin Beaven as Company Secretary to Master Drilling, with effect from 1 December 2015. Having considered his skills, experience and expertise, as well as his independence and his arm's length relationship with the Board and the Group, the Board is satisfied that he 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 Governance framework

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

The framework is an integral component of our combined assurance approach. 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 in terms of 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

BOARD OF DIRECTORS

Non-executive directors

Hennie van der Merwe (*Chairman*), Andries Brink, Akhter Deshmukh, Octavia Matloa (all independent) and Shane Ferguson (*non-independent*)

Board committees



AUDIT COMMITTEE

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

Andries Brink (*Chairman*)
Octavia Matloa
Akhter Deshmukh
Shane Ferguson



RISK COMMITTEE

The Risk Committee is responsible for risk and compliance management.

Andries Brink (*Chairman*)
Shane Ferguson
Octavia Matloa
Eddie Dixon
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*)
Andries Brink
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*)
Andries Brink
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.

Andries Brink (*Chairman*)
Octavia Matloa
Akhter Deshmukh
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
Shane Ferguson

Executive directors

Danie Pretorius (*Chief Executive Officer*), André van Deventer (*Chief Financial Officer*), Koos Jordaan (*executive director*) and Gary Sheppard (*Chief Operating Officer – South American Region*)

Alternate director

Eddie Dixon (*Chief Operating Officer – Exploration Services*)

The executive directors are responsible for the day-to-day management of the Group, including the implementation of 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

GOVERNANCE OVERVIEW continued

day-to-day management of the Group's operations, are representative of all the geographic areas in which we operate and they meet regularly.

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

Newly appointed directors undergo a formal induction programme.

The terms of reference for all Board committees and the Board charter are approved by the Board and reviewed on a regular basis. The Board is satisfied that all the committees have fulfilled their responsibilities for the year in accordance with their terms of reference.

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

Key governance initiatives and outcomes

A number of initiatives to enhance our governance were continued during 2018. 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 appropriate areas and matters.

The application of the King IV principles guides our effective governance. We currently 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 PricewaterhouseCoopers during the

financial year confirmed no material breakdown in governance, management control, systems of internal control or the risk management processes. The internal auditor 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 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 successfully completed a firm-wide independent quality control (ISQC 1) inspection on the audit firm during its previous inspection cycle;
- The auditor has provided the Audit Committee with 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 engagement partner understand their roles and have the competence, expertise, experience and skills required to discharge their specific audit and financial reporting responsibilities.

The Audit Committee met with the external auditor on 18 October 2018 in order to consider their suitability for appointment of the current audit firm and the designated engagement partner, as contemplated in terms of paragraph 22.15 (h) of the JSE Listings Requirements. The committee considered the information in the document prepared and presented by the external auditor for this purpose.

In light of the above, the committee was satisfied to recommend to shareholders the reappointment of the external auditor and engagement partner to act as independent auditor of the Company until its next Annual General Meeting.

Combined assurance

Master Drilling is in the process of developing and implementing a combined assurance model as part of its 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. We are therefore able to identify gaps and institute greater levels of internal and external control where needed.

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

Master Drilling's risk governance architecture has been realigned to facilitate integrated assurance through applying a combined assurance approach to risk management.

That entailed the following changes to the existing structure:

- The introduction of the Combined Assurance Forum to coordinate risk and assurance activities and to improve group-wide oversight;
- The formation of a separate and distinct risk committee for purposes of improved monitoring of acquisitions, and special projects; and

- The formation of a separate and distinct operational (South African) risk committee, also for purposes of improved monitoring.

The following changes were made to reporting processes:

- Regional risk committees and assurance providers report into the Combined Assurance Forum; and
- The Combined Assurance Forum coordinates, scrutinises and collates risk assurance reports for governing body committee consumption.

The committee noted the three lines of combined assurance defence as:

- The governing body (Board) and its committees, which provide an oversight function;
- Regional General Managers, project managers and subject matter experts, who provide a first line of defence;
- Regional risk committees, which provide the second line of defence; and

- Internal and external auditors, regulators and verification agencies, who provide the third line of defence.

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. We are currently compiling a regulations register which will assist in our compliance matrix.

Ethics

Our Board charter and code of conduct set the ethical foundation for how we operate. To provide employees with further direction

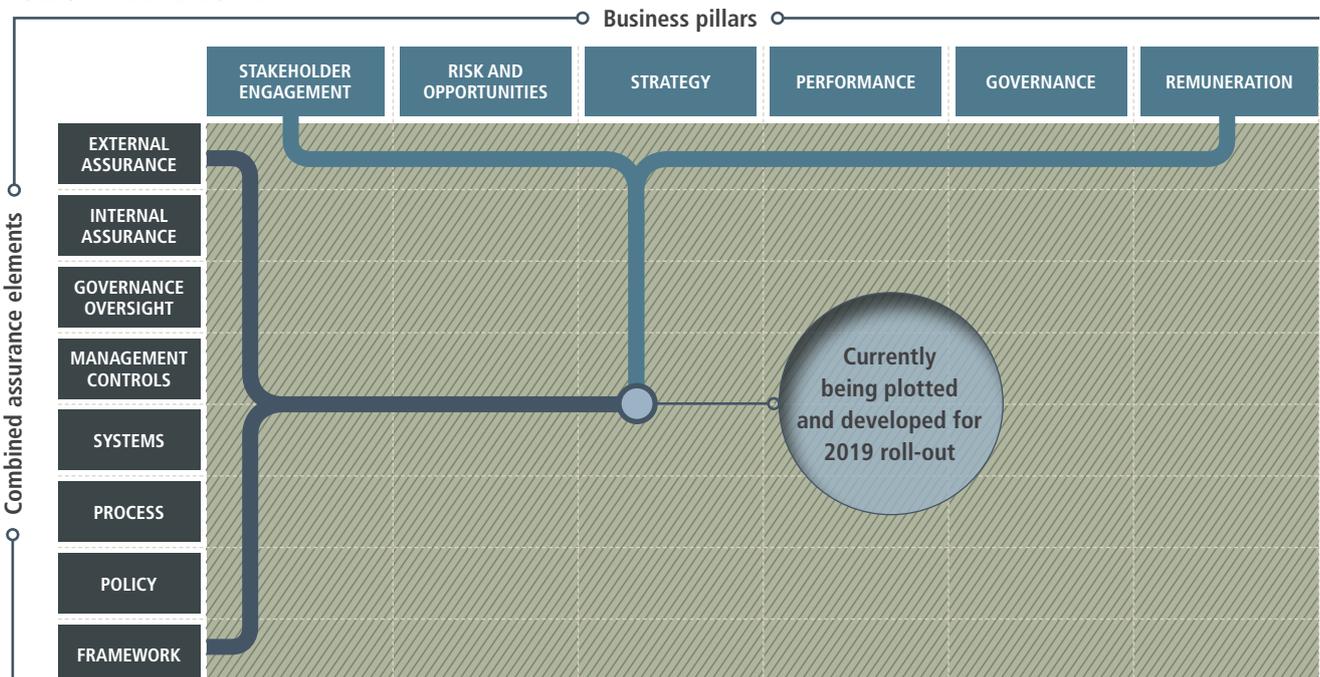
and guidance, various policies have been developed for conflicts of interest, gifts and hospitality, anti-bribery and anti-corruption. The employee ethics and code of conduct policy and the conflict of interest policy are communicated to all employees.

Diversity

The Social, Ethics and Sustainability Committee deals with the implementation of the Board-approved diversity policy and diversity plan and reporting against it. The Nominations Committee handles any nominations for proposed appointments stemming from the policy.

Modest targets of 20% over a two-year period, to cover both gender and race, were set. This will be pursued further during the course of 2019.

POLICY FRAMEWORK



GOVERNANCE OVERVIEW continued

BOARD ACTIVITIES

The activities of the Board are listed in the table below. The activities carried out by each committee in supporting and enhancing the governance framework are explained in their reports.



Reamer breaking through top soil after successful diagonal reaming cycle

VALUE-ADDING ACTIVITIES IN 2018



- 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

FOCUS FOR 2019

- To ensure that the strategic initiatives 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 timely 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 adherence to King IV

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 auditor 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 annual meetings per committee. Please note that the Nominations Committee and Corporate Governance Committee only have two scheduled meetings per annum.

Attendance at Board meetings and the Annual General Meeting is indicated in the table below.

BOARD MEMBERS	15 MARCH 2018	7 JUNE 2018	27 AUGUST 2018	25 OCTOBER 2018	AGM 7 JUNE 2018
Non-executive directors					
Hennie van der Merwe (<i>Chairman</i>)	√	√	√	√	√
Johan Botha*	A	√	n/a	n/a	√
Andries Brink**	n/a	√	√	√	n/a
Akhter Deshmukh	√	√	√	√	√
Jacques de Wet*	√	√	n/a	n/a	√
Shane Ferguson	√	√	√	√	√
Octavia Matloa**	n/a	√	√	√	n/a
Executive directors					
Danie Pretorius	√	√	√	√	√
André van Deventer	√	√	√	√	√
Koos Jordaan	√	√	√	√	√
Gary Sheppard	A	A	A	A	A
Alternate director					
Eddie Dixon	√	√	A	√	√

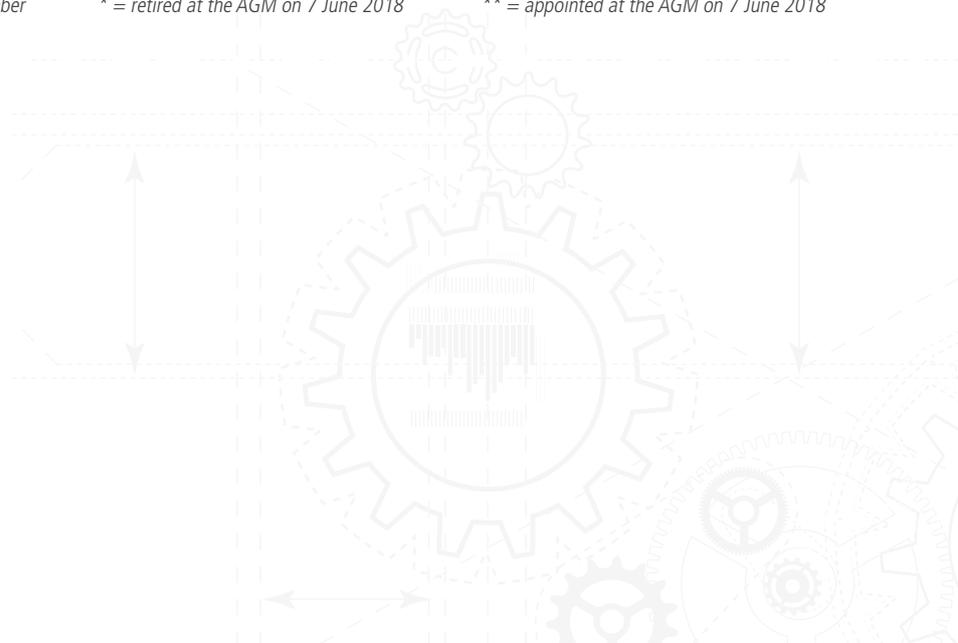
√ = attended

A = apology

n/a = not a member

* = retired at the AGM on 7 June 2018

** = appointed at the AGM on 7 June 2018



BOARD OF DIRECTORS

NON-EXECUTIVE DIRECTORS



HENNIE VAN DER MERWE
Independent Chairman

BA Law, LLB, LLM Tax

Appointed July 2014

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)



ANDRIES BRINK
Independent

CA(SA)

Appointed June 2018 (effective 1 July 2018)

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

Positions held elsewhere: Director of York Timbers Limited (JSE Listed), BPW Proprietary Limited and DUTOIT Beherend Eiendoms Beperk



AKHTER DESHMUKH
Independent

BCom, MBL

Appointed November 2012

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

Positions held elsewhere: Director and CFO Lephatsi Investments Proprietary Limited



SHANE FERGUSON
Non-independent

BCom, LLB

Appointed September 2012

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)



OCTAVIA MATLOA
Independent

CA(SA)

Appointed June 2018

Committees: Audit, Risk and Social, Ethics and Sustainability

Positions held elsewhere: Group CEO Mukundi Mining Resources



The following two non-executive directors retired during the year, effective 7 June 2018:

JOHAN BOTHA
Independent



NDip Metalliferous Mining

Appointed November 2015

Committees: Audit, Risk, Social, Ethics and Sustainability

Retirement date: 7 June 2018



Other 10%
South African 90%

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.

JACQUES DE WET
Independent



CA(SA)

Appointed November 2012

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

Retirement date: 7 June 2018

Government Engineers Certificate of Competency
Appointed July 2012
Master Drilling Founder 1986

CA(SA)

Appointed April 2011

Joined Master Drilling 2001

BEng, MBA, BS in International Technology Management

Appointed July 2012

Joined Master Drilling 2001

BSc Eng, MBA

Appointed November 2012

Joined Master Drilling 1999

ALTERNATE DIRECTOR

MDip (Civil Eng), MBA

Appointed September 2015

Joined Master Drilling 2007

EXECUTIVE DIRECTORS



DANIE PRETORIUS
Chief Executive Officer



ANDRÉ VAN DEVENTER
Chief Financial Officer



KOOS JORDAAN
Executive Director



GARY SHEPPARD
Chief Operating Officer – Americas



EDDIE DIXON
Chief Operating Officer – Exploration

AUDIT COMMITTEE REPORT

We are pleased to present our report for the year ended 31 December 2018:

MANDATE OF THE COMMITTEE

The Audit Committee is responsible for the integrity of financial controls and financial statements, integrated reporting and statutory duties. It has adopted the formal terms of reference delegated to it by the Board of Directors. The committee's mandate complies with the JSE Listings Requirements and King IV guidelines.



ACTIVITIES DURING THE YEAR AND PRIORITIES FOR THE YEAR AHEAD

VALUE-ADDING ACTIVITIES IN 2018

- Reviewed the committee's charter in the context of King IV
- Confirmed that the Group had established appropriate financial reporting procedures and that they were operating according to plan
- Considered the Group's solvency and liquidity positions
- Satisfied itself that the adoption of the going concern basis in preparing the consolidated annual financial statements was appropriate
- Reviewed interim and year-end financial results and recommended for approval to the Board
- Reviewed and ensured the independence of the external auditor firm as well as the engagement partner
- Recommended the appointment of the external auditor for the next financial year to the Board and shareholders
- 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
- Reviewed and considered IT governance in the Group
- Recommended the appointment of the internal auditor to the Board and agreed on an internal audit plan
- Reviewed and recommended the Integrated Report for approval to the Board
- Was satisfied with the performance of the internal audit function and external audit

FOCUS FOR 2019

- 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 auditor and the relationship between the internal and external auditors
- To monitor the 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 reamer head of the Horizontal Raise Bore rig – The pilot project at Petra Diamonds' Cullinan mine involved boring and excavating a 180m horizontal tunnel with a 4.5m diameter through the kimberlite ore.



MEMBERSHIP AND ATTENDANCE AT MEETINGS

The committee's members attended the following meetings:

MEMBERS	8 MARCH 2018	31 MAY 2018	16 AUGUST 2018	18 OCTOBER 2018
Jacques de Wet (<i>Chairman</i>)*	√	√	n/a	n/a
Andries Brink (<i>Chairman</i>)**	n/a	n/a	√	√
Johan Botha*	√	A	n/a	n/a
Akhter Deshmukh	√	√	√	√
Shane Ferguson	√	√	√	√
Octavia Matloa**	n/a	n/a	√	√

√ = attended

* = retired at the AGM on 7 June 2018

A = apology

n/a = not a member

** = appointed at the AGM on 7 June 2018

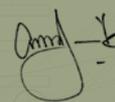
INTERNAL CONTROLS

The effectiveness of internal controls was reviewed principally through a process of management self-assessment. Nothing has come to the attention of the Audit Committee, or to the attention of the external or internal auditors, to indicate that any material breakdown in the functioning of the internal controls and systems occurred during the period under review. Management and the committee concluded that the internal controls relevant to financial reporting are appropriate.

Based on the information provided to the committee by management, and considering the reports from the internal and external auditors, the committee is satisfied that the annual consolidated financial statements comply, in all material respects, with IFRS and the <IR> Framework.

CONCLUSION

The committee is satisfied that it has fulfilled its responsibilities in terms of its charter.



ANDRIES BRINK

Chairman of the Audit Committee

17 April 2019

EVALUATION OF ANNUAL FINANCIAL STATEMENTS IN ACCORDANCE WITH THE FRAMEWORK

The Audit Committee has assessed the functionality of the finance function as well as the external auditor who participate in preparing and reviewing the annual financial statements respectively. The committee has reviewed and discussed queries relating to the audited annual financial statements to be included in the Integrated Report with the external auditor and the Chief Financial Officer.

CORPORATE GOVERNANCE COMMITTEE REPORT

We are pleased to present our report for the year ended 31 December 2018:

MANDATE OF THE COMMITTEE

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



ACTIVITIES DURING THE YEAR AND PRIORITIES FOR THE YEAR AHEAD

VALUE-ADDING ACTIVITIES IN 2018

- The committee was appointed as per the Board-approved resolution
- Reviewed the committee's charter in the context of King IV
- Managed and monitored compliance with corporate governance requirements and best practice
- Committed to the principles of openness, integrity and accountability in our dealings with stakeholders

FOCUS FOR 2019

- To revisit an assessment of compliance with the King IV principles and make the assessment available on our website at www.masterdrilling.com
- 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

MEMBERSHIP AND ATTENDANCE AT MEETINGS

The committee's members attended the following meetings:

MEMBERS	15 MARCH 2018	25 OCTOBER 2018
Hennie van der Merwe (<i>Chairman</i>)	√	√
Akhter Deshmukh	√	√
Shane Ferguson	√	A

√ = attended A = apology

CONCLUSION

The committee is satisfied that it has fulfilled its responsibilities in terms of its charter.

HENNIE VAN DER MERWE

Chairman of the Corporate Governance Committee

17 April 2019

Smooth finish derived from raise boring technique

NOMINATIONS COMMITTEE REPORT

We are pleased to present our report for the year ended 31 December 2018:

MANDATE OF THE COMMITTEE

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



ACTIVITIES DURING THE YEAR AND PRIORITIES FOR THE YEAR AHEAD

VALUE-ADDING ACTIVITIES IN 2018

- Reviewed the committee's charter in the context of King IV
- 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

FOCUS FOR 2019

- 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 Chief Executive Officer separately evaluated by other Board members
- To ensure a correct competency mix, that adequate independence is maintained and that appropriate changes are made to achieve strategic goals
- To ensure that the adopted diversity policy is implemented
- To review the make-up of the Board in order to ensure a correct competency mix and adequate independence

MEMBERSHIP AND ATTENDANCE AT MEETINGS

The committee's members attended the following meetings:

MEMBERS	15 MARCH 2018	25 OCTOBER 2018
Hennie van der Merwe (<i>Chairman</i>)	√	√
Jacques de Wet*	√	n/a
Shane Ferguson	√	A
Andries Brink**	n/a	A

√ = attended

* = retired at the AGM on 7 June 2018

A = apology

** = appointed at the AGM on 7 June 2018

n/a = not a member

CONCLUSION

The committee is satisfied that it has fulfilled its responsibilities in terms of its charter.

HENNIE VAN DER MERWE
Chairman of the Nominations Committee

17 April 2019

REMUNERATION COMMITTEE REPORT

We are pleased to present our report for the year ended 31 December 2018:

MANDATE OF THE COMMITTEE

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



ACTIVITIES DURING THE YEAR AND PRIORITIES FOR THE YEAR AHEAD

VALUE-ADDING ACTIVITIES IN 2018

- Reviewed the committee's charter in the context of King IV
- 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
- Business plans for Master Drilling entities have been approved, structures aligned to plan approved and director remuneration adjusted
- The balanced scorecard review for directors' performance in 2018 has been completed and agreements aligned to business plans for 2019 have been concluded



FOCUS FOR 2019

- The succession plans for the Chief Executive Officer and the Chief Operating Officer will receive specific attention
- The succession plans of the other executive directors and senior management will be reviewed and updated
- Salary anomalies are being identified. The principle of equal work for equal pay will be applied
- Remuneration structures are being developed for new geographical areas such as the USA and Canada

MEMBERSHIP AND ATTENDANCE AT MEETINGS

The committee's members attended the following meetings:

MEMBERS	6 MARCH 2018	31 MAY 2018	2 AUGUST 2018	17 OCTOBER 2018
Akhter Deshmukh (<i>Chairman</i>)	√	√	√	√
Jacques de Wet*	√	A	n/a	n/a
Shane Ferguson	√	√	√	√
Andries Brink**	n/a	n/a	A	√

√ = attended A = apology n/a = not a member * = retired at the AGM on 7 June 2018 ** = appointed at the AGM on 7 June 2018

CONCLUSION

The committee is satisfied that it has fulfilled its responsibilities in terms of its charter.

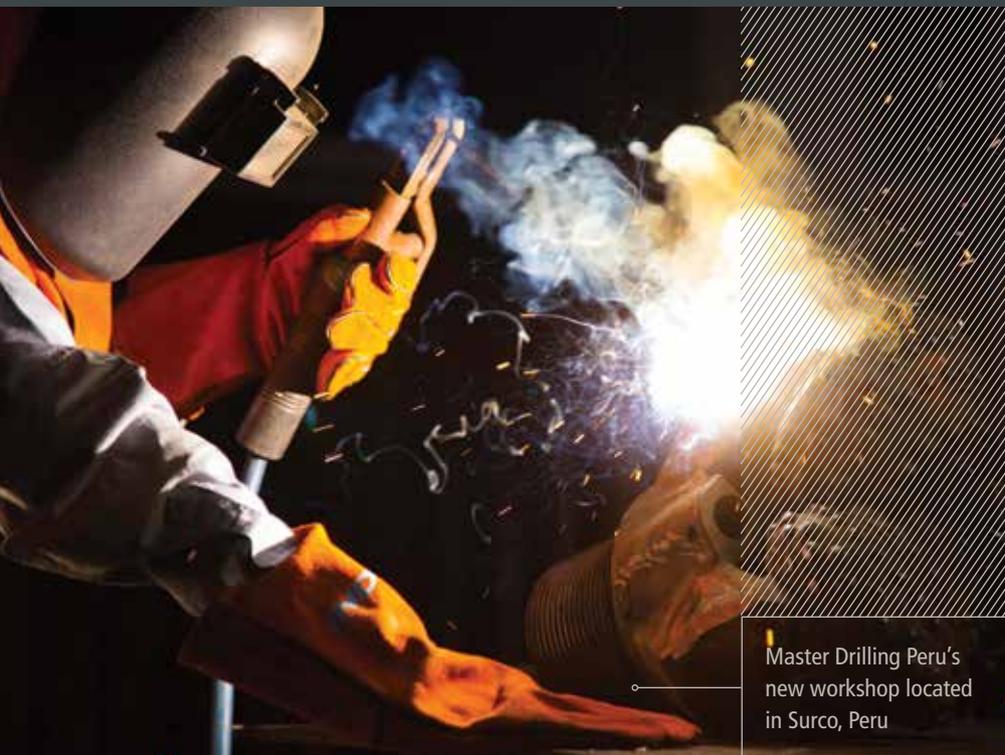
AKHTER DESHMUKH

Chairman of the Remuneration Committee

17 April 2019

REMUNERATION REPORT

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.



Master Drilling Peru's new workshop located in Surco, Peru

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. Whilst no external remuneration consultants were used, Remco had reference to market data from external sources.

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.

REMUNERATION REPORT continued

Remuneration consists of:

FIXED

REMUNERATION COMPONENT	EXECUTIVES	SENIOR MANAGEMENT	MIDDLE AND JUNIOR MANAGEMENT	BARGAINING WAGE EMPLOYEES	NON-EXECUTIVE DIRECTORS
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 4.1% 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

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 create shareholder value STI payments will only be made when the minimum profit target has been achieved As minimum profit target was achieved, STIs for executives were approved by RemCo for the 2018 financial results 	<ul style="list-style-type: none"> Incentive bonuses based on the achievement of production targets 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. The executives' three-year LTI cycle ended on 31 December 2018. The executives achieved the targets and RemCo approved the executives' LTI's 	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

REMUNERATION REPORT continued

During the previous reporting year, we sought external input to revise our STIs within the Group. 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 2019 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 2019 to

31 December 2019. Participation in Tier 2 is subject to achieving 100% of Tier 1 targets unless stated otherwise in the rules.

As minimum profit target was achieved, STIs for executives were approved by RemCo for the 2018 financial results.

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.



One of Bergteamet's drilling sites between the mountains in Europe

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
<i>Less:</i>	
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 as at 31 December 2016	1 977 714
Total number of share options granted on 1 October 2017	(835 000)
Total share options unissued as at 31 December 2017	1 142 714
Total share options unissued as at 31 December 2018*	1 142 714

** No new share options were issued during the year.*

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

REMUNERATION REPORT continued

EMOLUMENTS

The remuneration of the executive and non-executive directors for the year ended 31 December 2018 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 CONTRI- BUTIONS	DIRECTOR'S FEES	CONSULTING AND LEGAL FEES	GAINS ON EXERCISE OF OPTIONS	TOTAL
2018									
Executive directors									
Danie Pretorius	399 919	–	188 007	19 239	–	–	–	–	607 165
Andre van Deventer	291 887	–	133 529	12 932	–	–	–	–	438 348
Gary Sheppard	373 520	–	–	14 422	–	–	–	–	387 942
Koos Jordaan	298 462	–	–	13 623	–	–	–	–	312 085
Sub-total	1 363 788	–	321 536	60 216	–	–	–	–	1 745 540
Non-executive directors									
Hennie van der Merwe	–	–	–	–	–	63 239	–	–	63 239
Johan Botha	–	–	–	–	–	–	–	–	–
Shane Ferguson	–	–	–	–	–	30 220	95 316	–	125 536
Octavia Matloa	–	–	–	–	–	17 602	–	–	17 602
Andries Brink	–	–	–	–	–	17 579	–	–	17 579
Jacques de Wet	–	–	–	–	–	–	–	–	–
Akhter Deshmukh	–	–	–	–	–	40 642	–	–	40 642
Sub-total	–	–	–	–	–	169 362	95 316	–	264 598
Alternate director									
Eddie Dixon	177 880	–	58 920	28 368	–	–	–	–	265 168
Sub-total	177 880	–	58 920	28 368	–	–	–	–	265 168
Prescribed Officer									
Roelof Swanepoel	207 220	–	56 605	1 580	–	–	–	–	271 944
Sub-total	207 220	–	56 605	1 580	–	–	–	–	271 944
Total	1 748 888	–	437 061	90 164	–	169 362	95 316	–	2 547 250

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.

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.

USD	BASIC SALARY	TRAVEL ALLOWANCE	BONUS	FRINGE BENEFITS	PROVIDENT/ PENSION FUND CONTRI- BUTIONS	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	1 030 864
Andre van Deventer	293 384	18 032	110 755	16 901	–	–	–	302 075	741 147
Gary Sheppard	390 477	–	117 970	–	–	–	–	302 075	810 522
Koos Jordaan	251 678	18 032	110 755	17 275	–	–	–	302 075	699 815
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	–	–	–	–	272 900
Sub-total	128 409	15 327	102 869	26 295	–	–	–	–	272 900
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	89 258	721 768	93 928	–	143 992	115 863	1 209 763	3 968 158

REMUNERATION REPORT continued

Directors' interest

	NUMBER OF SHARES			PERCENTAGE OF ISSUED ORDINARY SHARE CAPITAL
	DIRECT BENEFICIAL	INDIRECT BENEFICIAL	TOTAL	
2018				
Executive directors				
Danie Pretorius	500 900	78 636 565	79 137 465	52.55
Andre van Deventer	727 648	1 944 136	2 671 784	1.77
Gary Sheppard	–	2 955 884	2 955 884	1.96
Koos Jordaan	1 781 861	1 228 336	3 010 197	2.00
Total	3 010 409	84 764 921	87 775 330	58.29
Non-executive directors				
Hennie van der Merwe	–	–	–	–
Shane Ferguson	–	–	–	–
Jacques de Wet	–	–	–	–
Akhter Deshmukh	–	–	–	–
Andries Brink	–	–	–	–
Octavia Matloa	–	–	–	–
Johan Botha	–	–	–	–
Total	3 010 409	84 764 921	87 775 330	58.29
2017				
Executive directors				
Danie Pretorius	500 900	78 630 565	79 131 465	52.55
Andre 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
Total	3 010 409	84 567 101	87 577 510	58.16
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

There were no changes between the end of the financial year and the date of approval of the consolidated annual financial statements.

RISK COMMITTEE REPORT

We are pleased to present our report for the year ended 31 December 2018:

MANDATE OF THE COMMITTEE

The Risk Committee is responsible for risk and compliance management.



ACTIVITIES DURING THE YEAR AND PRIORITIES FOR THE YEAR AHEAD

VALUE-ADDING ACTIVITIES IN 2018

- Reviewed the committee's charter in the context of King IV
- 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
- Noted the appointment of the Group Risk Manager

FOCUS FOR 2019

- Completion of the risk management/governance framework
- To further refine the risk architecture 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

MEMBERSHIP AND ATTENDANCE AT MEETINGS

The committee's members attended the following meetings:

	8 MARCH 2018	31 MAY 2018	27 AUGUST 2018	18 OCTOBER 2018
MEMBERS				
Johan Botha (<i>Chairman</i>)*	√	A	n/a	n/a
Andries Brink (<i>Chairman</i>)**	n/a	n/a	√	√
Jacques de Wet	√	√	n/a	n/a
Eddie Dixon	√	√	√	A
Shane Ferguson	A	√	√	√
Octavia Matloa	n/a	n/a	√	√
Hennie van der Merwe	√	A	√	√

√ = attended

* = retired at the AGM on 7 June 2018

A = apology

n/a = not a member

** = appointed at the AGM on 7 June 2018

Raise bore drilling cutters

CONCLUSION

The committee is satisfied that it has fulfilled its responsibilities in terms of its charter.

ANDRIES BRINK
Chairman of the Risk Committee

17 April 2019

SOCIAL, ETHICS AND SUSTAINABILITY COMMITTEE REPORT

We are pleased to present our report for the year ended 31 December 2018:

MANDATE OF THE 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.



ACTIVITIES DURING THE YEAR AND PRIORITIES FOR THE YEAR AHEAD

VALUE-ADDING ACTIVITIES IN 2018

- Reviewed the committee's charter in the context of King IV
- Considered the employment equity plan
- Reviewed the B-BBEE rating and planned for maintaining the rating for 2019
- Performed the functions of the committee for all South African subsidiaries of Master Drilling
- The appointment of the dedicated resource to manage the process

FOCUS FOR 2019

- 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

MEMBERSHIP AND ATTENDANCE AT MEETINGS

The committee's members attended the following meetings:

MEMBERS	8 MARCH 2018	31 MAY 2018	2 AUGUST 2018	17 OCTOBER 2018
Johan Botha (<i>Chairman</i>)	√	A	n/a	n/a
Andries Brink (<i>Chairman</i>)*	n/a	n/a	A	√
Akhter Deshmukh	√	√	√	√
Jacques de Wet	√	A	n/a	n/a
Shane Ferguson	√	√	√	√
Octavia Matloa	n/a	n/a	√	√

√ = attended A = apology n/a = not a member * = appointed at the AGM on 7 June 2018

CONCLUSION

The committee is satisfied that it has fulfilled its responsibilities in terms of its charter.

ANDRIES BRINK

Chairman of the Social, Ethics and Sustainability Committee

17 April 2019

TOTAL
STAFF
723

2018

34%

REVENUE CONTRIBUTION

Headquarters
in South Africa

Although activity in Africa remains subdued, a number of projects are ready to commence, which will enable us to maintain our footprint on the continent. We were recently awarded a contract in Ghana.

Both the DRC and Zambia operations continue to be scaled down, however we remain open to new opportunities on the continent.

New opportunities could also arise domestically with the revised Mining Charter. The progress in clarifying the regulatory and policy environment, together with the need to modernise the sector through increased mechanisation could lead to a revival of the mining industry in South Africa.

Our slim drilling project contract at the Kolomela iron ore mine in the Northern Cape has been extended for another year. During 2018, we were awarded another contract by Anglo American, for its Sishen iron ore mine. We continue to make progress towards effectively rolling out our innovative new technology in the form of the Mobile Tunnel Borer and will begin a pilot project on South African soil with a view to potentially securing an extended contract on this machine.

AFRICA

DRC, Ghana, Mali,
Namibia, South Africa,
Sierra Leone, Tanzania,
Zambia

TOTAL
MACHINES
33

Commodities: Coal, copper, diamonds, gold, iron ore, platinum

2018	2017	SLIM DRILLING RIGS 30
GROSS PROFIT		
USD16.6 million	USD24.9 million	
TOTAL ASSETS		
USD76.4 million	USD95.0 million	
TOTAL LIABILITIES		
USD32.7 million	USD34.4 million	

CONDENSED ANNUAL FINANCIAL STATEMENTS

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OPERATE

DRC
Ghana
Mali
Namibia
South Africa
Sierra Leone
Tanzania
Zambia



TRAIN

South Africa



MAINTAIN

South Africa
Zambia



DESIGN

South Africa



MANUFACTURE

South Africa

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December

	Notes	2018 USD	2017 USD
ASSETS			
Non-current assets			
Property, plant and equipment	3	146 215 603	119 075 667
Goodwill	4	3 175 092	3 083 427
Financial assets		2 734 277	3 098 512
Deferred tax asset		2 994 311	2 010 263
Investment in associate	5	2 605 117	6 022 115
		157 724 400	133 289 984
Current assets			
Inventories		25 787 869	23 894 609
Related-party loans		101 831	102 641
Trade and other receivables	6	48 179 847	38 191 737
Derivative financial instrument		53 958	–
Cash and cash equivalents		33 725 131	40 211 629
		107 848 636	102 400 616
Non-current assets held for sale	7	808 928	1 255 128
		108 657 564	103 655 744
Total assets		266 381 964	236 945 728
EQUITY AND LIABILITIES			
Equity			
Share capital		148 703 721	148 703 721
Reserves		(95 498 376)	(83 855 527)
Retained income		101 837 302	88 221 320
		155 042 647	153 069 514
Non-controlling interest		9 002 330	8 255 315
		164 044 977	161 324 829
LIABILITIES			
Non-current liabilities			
Interest-bearing borrowings		50 643 799	36 263 625
Finance lease obligations		1 203 072	1 682 765
Deferred tax liability		9 434 322	9 189 125
		61 281 193	47 135 515
Current liabilities			
Interest-bearing borrowings		7 121 698	4 659 387
Finance lease obligations		1 273 282	1 444 820
Related-party loans		174 720	195 483
Current tax payable		3 385 537	2 098 947
Trade and other payables	8	28 690 020	20 086 747
Cash and cash equivalents		410 537	–
		41 055 794	28 485 384
Total liabilities		102 336 987	75 620 899
Total equity and liabilities		266 381 964	236 945 728

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December

	Notes	2018 USD	2017 USD
Revenue		138 721 765	121 424 109
Cost of sales		(95 155 229)	(76 794 271)
Gross profit		43 566 536	44 629 838
Other operating income		5 909 368	3 674 987
Other operating expenses		(25 827 367)	(23 378 396)
Operating profit		23 648 537	24 926 429
Investment revenue		736 169	510 325
Finance costs		(2 858 491)	(2 850 878)
Share of loss from equity accounted investment		(26 948)	(1 710)
Profit before taxation		21 499 267	22 584 166
Taxation	9	(4 027 469)	(5 134 100)
Profit for the year		17 471 798	17 450 066
Other comprehensive income that will subsequently be classifiable to profit and loss:			
Exchange differences on translating foreign operations		(11 979 325)	7 403 109
Other comprehensive income for the year net of taxation		(11 979 325)	7 403 109
Total comprehensive income		5 492 473	24 853 175
Profit attributable to:		17 471 798	17 450 066
Owners of the parent		16 774 334	17 202 923
Non-controlling interest		697 464	247 143
Total comprehensive income attributable to:		5 492 473	24 853 175
Owners of the parent		4 795 009	24 606 032
Non-controlling interest		697 464	247 143
Earnings per share (USD)	10		
Basic earnings per share (cents)		11.1	11.5
Diluted earnings per share (USD)	10		
Diluted basic earnings per share (cents)		11.0	11.4
Earnings per share (ZAR)			
Basic earnings per share (cents)		147,1	153,1
Diluted earnings per share (ZAR)			
Diluted basic earnings per share (cents)		145,7	151,7

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 2016	146 607 965	(58 264 013)	(33 374 059)
Share-based payments	–	–	–
Issue of ordinary shares	1 556 518	–	–
Issue of ordinary shares for share-based payment reserve	539 238	–	–
Dividends declared by subsidiaries	–	–	–
Dividends to shareholders	–	–	–
Derecognition of non-controlling interest	–	–	–
Total comprehensive income for the year	–	–	7 403 109
Total changes for the year	2 095 756	–	7 403 109
Balance as at 31 December 2017	148 703 721	(58 264 013)	(25 970 950)
Adjustment from the adoption of IFRS 9	–	–	–
Contribution for non-controlling partner	–	–	–
Share-based payments	–	–	–
Dividends declared by subsidiaries	–	–	–
Dividends to shareholders	–	–	–
Total comprehensive income for the year	–	–	(11 979 325)
Total changes for the year	–	–	(11 979 325)
Balance as at 31 December 2018	148 703 721	(58 264 013)	(37 950 275)

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
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
–	–	–	1 556 518	–	1 556 518
(539 238)	(539 238)	–	–	–	–
–	–	–	–	(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
–	–	(80 221)	(80 221)	–	(80 221)
–	–	–	–	185 145	185 145
336 476	336 476	–	336 476	–	336 476
–	–	–	–	(135 594)	(135 594)
–	–	(3 078 131)	(3 078 131)	–	(3 078 131)
–	(11 979 325)	16 774 334	4 795 009	697 464	5 492 473
336 476	(11 642 849)	13 615 982	1 973 133	747 015	2 720 148
715 912	(95 498 376)	101 837 302	155 042 647	9 002 330	164 044 977

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December

	Notes	2018 USD	2017 USD
Cash flows from operating activities			
Cash generated from operations	11.1	25 801 932	32 843 989
Dividends received		444 540	510 325
Interest received		291 629	–
Finance costs		(2 858 491)	(2 850 878)
Tax paid		(4 854 787)	(5 497 412)
Net cash inflow from operating activities		18 824 823	25 006 024
Cash flows from investing activities			
Purchase of property, plant and equipment		(16 920 012)	(15 833 126)
Sale of property, plant and equipment		917 538	170 560
Financial assets proceeds		362 937	398 460
Acquisition of associate	5.2	(2 605 117)	–
Acquisition of subsidiaries	11.2	(14 689 135)	–
Net cash outflow from investing activities		(32 933 789)	(15 264 106)
Cash flows from financing activities			
Proceeds from financial liabilities		20 000 000	20 000 000
Repayment of financial liabilities		(6 419 549)	(6 574 430)
Proceeds from financial leases		597 942	554 741
Repayment of financial leases		(1 249 172)	(2 382 326)
Related-party loan (repayment)/proceeds		(19 953)	2 706
Issue of share capital		–	1 556 518
Dividends paid to shareholders		(3 078 131)	(3 409 081)
Dividends paid to B-BBEE partners		(135 594)	(306 140)
Net cash inflow from financing activities		9 695 543	9 441 988
Total cash (outflow)/inflow for the year		(3 920 341)	19 183 906
Cash at the beginning of the period		40 211 629	20 372 573
Effect of exchange rate movement on cash balances		(2 976 694)	655 150
Total cash at the end of the year		33 314 594	40 211 629

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 for certain financial instruments valued at fair value, and incorporate the principal accounting policies set out below. The results 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 year ended 31 December 2018 have been audited by BDO South Africa Incorporated, 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 condensed audited consolidated financial results were derived from the audited 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 2018, have been audited by BDO South Africa Incorporated, the Company's independent external auditor, whose unqualified audit report can be found on  pages 6 to 10 of the consolidated annual financial statements 2018, 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 Financial Manager. 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 condensed 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.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 December

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

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

At inception, the consolidated 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 were 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 investor's 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.

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 indefinite useful life as the Group's plan and ability is to renew and maintain the patent indefinitely. It is expected that the patent will generate revenue for the Group for an unlimited period of time. Patents are carried at cost less accumulated impairment losses. Patents are assessed annually for possible impairment.

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

An asset under construction will be reclassified to the relevant asset category as soon as it is available for use. Assets under construction are not depreciated.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted, if appropriate.

Investment in associate

The results, assets and liabilities are incorporated in the 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.

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 consideration of financial information to support management's assessment of the going concern and the assumptions used, the Board is satisfied with the use of the going concern basis in the preparation of the annual financial statements.

Issued capital

There was no movement in authorised ordinary or issued share capital during the financial year.

Operating segments

There were no changes made to the reporting segments during the current financial year.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 December

2. SIGNIFICANT ACCOUNTING POLICIES continued

Changes to the Board

The following changes to the Board and the dates thereof are detailed in the table below:

Name	Position	Change	Date
Jacques Pierre de Wet	Non-executive Director	Retired	7 June 2018
Johan Louis Botha	Non-executive Director	Retired	7 June 2018
Andries Willem Brink	Non-executive Director	Appointed	7 June 2018*
Octavia Matshidiso Matloa	Non-executive Director	Appointed	7 June 2018

* Effective 1 July 2018.

Annual General Meeting

The Annual General Meeting of Master Drilling Group Limited will be held at BDO South Africa Incorporated, Wanderers Office Park, 52 Corlett Drive, Johannesburg, on Thursday, 6 June 2019 at 09h00.

Subsequent events

The Board approved a dividend on 25 March 2019 of ZAR26,0 cents per ordinary share, payable to shareholders recorded in the register on 17 May 2019. The dividend declared is not reflected in the financial statements for the year ended 31 December 2018.

3. PROPERTY, PLANT AND EQUIPMENT

	Cost USD	Accumulated depreciation and impairment losses USD	Carrying value USD
2018			
Land and buildings	4 249 534	(1 041 678)	3 207 856
Plant and machinery	171 927 007	(50 028 352)	121 898 655
Assets under construction	10 590 920	(2 396)	10 588 524
Furniture and fittings	1 437 999	(711 798)	726 201
Motor vehicles	4 194 501	(2 519 707)	1 674 794
IT equipment	716 754	(448 086)	268 668
Finance lease: Plant and equipment	7 876 916	(1 197 278)	6 679 638
Computer software	2 398 727	(1 467 061)	931 666
Patents	239 601	–	239 601
Total	203 631 959	(57 416 356)	146 215 603
2017			
Land and buildings	4 267 124	(124 152)	4 142 972
Plant and machinery	142 393 202	(41 269 532)	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	168 937 513	(49 861 846)	119 075 667

Borrowing cost

Included in the cost of property, plant and equipment are capitalised borrowing costs related to the acquisition of land in the amount of USD491 544 (2017: USD64 625) 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
2018			
Land and buildings	4 142 972	168 124	(241 592)
Plant and machinery	101 123 670	9 180 218	(6 015 418)
Assets under construction	389 771	7 134 385	(24 816)
Furniture and fittings	1 079 022	17 415	11 068
Motor vehicles	1 735 261	224 011	(52 188)
IT equipment	299 250	121 591	(15 393)
Finance lease: Plant and equipment	8 853 320	38 267	(1 040 338)
Computer software	1 212 800	36 001	(69 954)
Patents	239 601	–	–
	119 075 667	16 920 012	(7 448 631)
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

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

The Exploration department in our African segment recognised an impairment loss of USDnil (2017: USD185 678).

Assets acquired through business combination USD	Reclassifications and transfers (to)/from inventory/ assets held for sale USD	Disposals USD	Depreciation USD	Impairment of fixed assets USD	Total USD
–	(808 928)	–	(52 720)	–	3 207 856
22 035 018	695 473	(38 301)	(5 082 005)	–	121 898 655
–	3 089 184	–	–	–	10 588 524
587	(3 866)	(1 267)	(376 758)	–	726 201
12 519	351 736	(119 366)	(477 178)	–	1 674 795
–	–	(55 097)	(81 683)	–	268 668
2 667 952	(2 532 740)	(432 576)	(874 248)	–	6 679 637
13 870	–	(75)	(260 976)	–	931 666
–	–	–	–	–	239 601
24 729 946	790 859	(646 682)	(7 205 568)	–	146 215 603
–	–	–	(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

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 December

4. INTANGIBLE ASSETS

	2018 USD	2017 USD
Goodwill recognised from value chain business combinations	2 612 584	2 612 584
Goodwill recognised from raise bore business combinations	562 508	470 843
Goodwill recognised from business combinations	3 175 092	3 083 427

The change in goodwill from the previous financial year arose from the acquisition of Bergteamet Raiseboring Europe AB and Atlantis Group. Refer to note 11.2 for more details.

5. INVESTMENT IN ASSOCIATE

	2018 USD	2017 USD
Investment in associate – Bergteamet Raiseboring Europe AB (refer to note 5.1)	–	6 022 115
Investment in associate – TunnelPro S.r.l (refer to note 5.2)	2 605 117	–
Total	2 605 117	6 022 115

5.1 Investment in associate – Bergteamet Raiseboring Europe AB

On 1 December 2015, the Group purchased a 40% equity interest in Bergteamet Raiseboring Europe AB (Bergteamet) for SEK46 555 000 (USD5 333 165). 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.

On 1 March 2018, the Group exercised its option to acquire the remainder of the 60% shares in Bergteamet Raiseboring Europe AB to increase its shareholding to 100%. The purchase consideration of the remainder of the shares amounted to SEK69 825 000 (USD8 509 222). The Group now accounts for the investment as a subsidiary. Refer to Note 11.2 for more details.

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

	2018 USD	2017 USD
Revenue	–	9 873 828
Loss from continuing operations	–	(4 275)
Total comprehensive income	–	(4 275)
Group's share of total comprehensive loss	–	(1 710)
Dividends received from associate	–	104 207

5. INVESTMENT IN ASSOCIATE continued

5.1 Investment in associate – Bergteamet Raiseboring Europe AB continued

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.

	2018 USD	2017 USD
Non-current assets	–	9 962 208
Current assets	–	6 456 978
Non-current liabilities	–	(4 581 086)
Current liabilities	–	(3 614 112)
Net assets	–	8 223 988
Group's share of net assets	–	3 289 595
Goodwill	–	2 734 230
Share of loss from equity accounted investment	–	(1 710)
Investment in associate	–	6 022 115

5.2 Investment in associate – TunnelPro S.r.l

On 25 January 2018, the Group entered into a shareholder agreement with Ghella SpA to establish a new associate named TunnelPro S.r.l in Italy. The Group owns 49% of the shareholder rights in TunnelPro S.r.l. The purchase consideration relating to the Group's share amount to EUR2 107 000 (USD2 412 963). The investment will provide the Group with a strategic footprint in the European as well as Tunnel boring market. The effective date of the agreement is 23 October 2018. Consideration payable at year-end amounts to EUR784 000 (USD897 837).

The Group does not control TunnelPro S.r.l and have elected the equity accounting method for the investment in associate.

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

	2018 USD	2017 USD
Revenue	288 214	–
Loss from continuing operations	(54 997)	–
Total comprehensive income	(54 997)	–
Group's share of total comprehensive loss	(26 949)	–
Dividends received from associate	–	–

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 December

5. INVESTMENT IN ASSOCIATE continued**5.2 Investment in associate – TunnelPro S.r.l** continued

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:

	2018 USD	2017 USD
Non-current assets	232 397	–
Current assets	8 604 168	–
Non-current liabilities	–	–
Current liabilities	(6 419 176)	–
Net assets	2 417 389	–
Group's share of net assets	1 184 521	–
Goodwill	1 447 545	–
Share of loss from equity accounted investment	(26 949)	–
Investment in associate	2 605 117	–

6. TRADE AND OTHER RECEIVABLES

	2018 USD	2017 USD
Trade receivables – Normal	32 511 631	27 333 869
Trade receivables – Retention	5 449 738	5 021 356
Loans to employees	119 777	40 636
Prepayments	693 501	1 054 572
Deposits	827 369	82 219
Indirect taxes	3 304 990	1 691 851
Sundry	5 272 841	2 967 234
Total trade and other receivables	48 179 847	38 191 737
Trade and other receivables past due but not impaired		
The ageing of amounts past due but not impaired is as follows:		
Outstanding on normal cycle terms	18 590 455	18 330 132
> 1 month past due	9 269 296	6 029 069
> 2 months past due	3 978 446	3 084 459
> 3 months and over past due	7 249 989	5 413 060
Allowance for doubtful debts	(1 126 817)	(501 495)
Normal and retention trade receivables	37 961 369	32 355 225
<i>Trade receivables of South African subsidiaries have been ceded to ABSA Capital as security for an interest-bearing loan. Retention receivables are collectable within a period of 12 months.</i>		
The movement in allowance for doubtful debts is presented below		
Balance at the beginning of the year	501 495	136 119
Adjustment from the adoption of IFRS 9	80 221	–
Exchange differences on translation of foreign operations	(57 625)	6 698
Amounts written off	–	–
Allowance for doubtful debts provided for	602 726	358 678
Allowance for doubtful debts at the end of the year	1 126 817	501 495

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 December

6. TRADE AND OTHER RECEIVABLES continued

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

	2018 USD	2017 USD
United States Dollar (USD)	20 419 586	18 223 187
South African Rand (ZAR)	8 703 918	6 162 910
Brazilian Real (BRL)	3 091 482	2 943 824
Mexican Peso (MXN)	91 500	594 427
Chilean Peso (CLP)	7 705 700	7 558 388
Peruvian Nuevo Sol (PEN)	975 082	630 645
CFA Franc BCEAO (XOF)	3 339	712 913
Chinese Yuan Renminbi (CNY)	224 476	339 833
Guatemalan Quetzal (GTQ)	6 906	3 175
Zambian Kwacha (ZMW)	1 063 825	351 527
Colombian Peso (COP)	102 019	594 787
Euro (EUR)	512 078	–
Swedish Krona (SEK)	1 070 442	–
Australian Dollar (AUD)	41 828	32 448
Canadian Dollar (CAD)	289 801	–
Indian Rupee (INR)	3 877 865	43 673
Total trade and other receivables	48 179 847	38 191 737

7. NON-CURRENT ASSETS HELD FOR SALE

	2018 USD	2017 USD
Non-current assets held for sale – Peru (refer to note 8.1)	–	1 255 128
Non-current assets held for sale – Chile (refer to note 8.2)	808 928	–
Total non-current assets held for sale	808 928	1 255 128

7. NON-CURRENT ASSETS HELD FOR SALE continued

7.1 Non-current assets held for sale – Peru

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

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

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

	2018 USD	2017 USD
Land and buildings	–	1 255 128
Assets held for sale – Peru	–	1 255 128

7.2 Non-current assets held for sale – Chile

In October 2018, management committed to a plan to sell the property owned in Chile. Efforts to sell the property have started and a sale is expected to be finalised towards the end of the first quarter of 2019.

Management's intention to sell is driven by the need for a bigger facility to cater for the expansion of the Chilean business, which resulted in the need for more workshop space to successfully service and maintain the increased plant and machinery.

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:

	2018 USD	2017 USD
Land and buildings	808 928	–
Assets held for sale – Chile	808 928	–

8. TRADE AND OTHER PAYABLES

	2018 USD	2017 USD
Trade payables	7 423 846	7 956 216
Income received in advance	822 402	–
Indirect taxes	3 914 138	6 654 506
Leave pay accruals	1 983 405	2 070 242
Onerous contracts	1 714 836	–
Business combination consideration payable	1 420 684	–
Investment in associate consideration payable	897 837	–
Employee-related	2 971 288	–
Other accruals	7 541 584	3 405 783
Total trade and other payables	28 690 020	20 086 747

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 December

9. TAXATION

	2018 USD	2017 USD
Current		
Normal taxation	5 524 399	6 040 830
– Current taxation	6 994 758	5 231 760
– (Over)/under provision	(1 470 359)	809 070
Deferred taxation: Temporary differences	(1 496 930)	(906 730)
Total taxation	4 027 469	5 134 100
Reconciliation of the tax expense		
Accounting profit	21 499 267	22 584 166
Tax at the applicable tax rate	6 789 872	5 502 316
(Over)/under provision	(1 470 359)	809 070
Exempt income	(3 439 294)	(4 371 627)
Non-deductible expenses	2 081 109	2 724 372
Deferred taxation: Change in tax rate	158 810	78 771
Assessed loss not recognised	420 765	741 163
Assessed loss previously not recognised	(513 434)	(349 965)
Taxation per statement of profit or loss and other comprehensive income	4 027 469	5 134 100
The total unrecognised assessed loss at 31 December 2018 is USD3 265 658 (2017: USD2 544 768).		
Normal taxation charge/(refund) per entity within the Group		
DCP Properties	–	15 129
Master Drilling Exploration Proprietary Limited	1 055 555	409 833
Master Drilling Chile SA	146 827	275 577
Master Drilling Peru SAC	701 891	1 394 792
Master Drilling do Brasil Limitada	491 941	479 007
Master Drilling Mexico SA	174 013	–
Master Drilling Malta Limited	2 648 814	1 554 235
Master Drilling Guatemala SA	3 492	–
Master Drilling Training Services Proprietary Limited	1 875	–
Master Drilling DRC sprl	–	389 921
Master Drilling Colombia SAS	76 273	80 900
Master Drilling Zambia Limited	(208 044)	1 232 820
Master Drilling International Limited	(741 531)	2 988
Master Drilling Mali SARL	45 464	163 884
Master Drilling Changzhou Co Limited	64 934	–
Bergteamet Latin America SpA	347 153	–
Bergteamet Raiseboring Europe AB	221 945	–
Master Drilling Madencilik Ve Ticaret Limited Sirketi	65 212	–
Master Drilling India	299 173	–
Drilling Admin Services SAC	94 831	–
Drilling Technical Services	243 117	2 567
Martwick Limited	(18)	18
Master Drilling Proprietary Limited	(169 360)	–
MD Drilling Services Tanzania SARL	(39 158)	39 159
Total normal taxation	5 524 399	6 040 830

The impact on taxation as a result of potential future dividends is impractical to calculate as at 31 December.

10. EARNINGS PER SHARE

	2018	2017
	USD	USD
Reconciliation between earnings and headline earnings		
Basic earnings for the year	17 471 798	17 450 066
<i>Deduct:</i>		
Non-controlling interest	(697 464)	(247 143)
Attributable to owners of the parent	16 774 334	17 202 923
Loss/(gain) on disposal of fixed assets	(949 084)	67 183
Impairment of plant and equipment	–	185 678
Tax effect on loss on disposal of fixed assets and impairments	296 687	(70 801)
Headline earnings for the year	16 121 937	17 384 983
Earnings per share (cents)	11.1	11.5
Diluted earnings per share (cents)	11.0	11.4
Headline earnings per share (cents)	10.7	11.6
Diluted headline earnings per share (cents)	10.6	11.5
Net asset value per share (cents)	109.0	107.6
Tangible net asset value per share (cents)	106.9	105.6
Dividends per share (ZAR cents)	26,0	30,0
Weighted average number of ordinary shares at the end of the year for the purpose of basic earnings per share and headline earnings per share	150 592 777	149 894 366
Effect of dilutive potential ordinary shares – employee share options	1 530 000	1 603 877
Weighted average number of ordinary shares at the end of the year for the purpose of diluted basic earnings per share and diluted headline earnings per share	152 122 777	151 498 243

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 December

11. CASH FLOWS

11.1 Cash generated from operations

	2018 USD	2017 USD
Profit before taxation	21 499 267	22 584 166
Adjustments for:		
Depreciation and amortisation	7 205 568	6 056 352
Impairment	–	845 891
Share of loss from equity accounted investment	26 948	1 710
Translation effect of foreign operations	519 249	2 203 374
Share-based payment – equity-settled	336 476	290 858
(Gain)/loss on disposal of fixed assets	(949 084)	67 183
Dividends received	(444 540)	(321 583)
Interest received	(291 629)	(188 742)
Finance costs	2 858 491	2 850 878
Changes in working capital:		
Inventories	1 715 417	542 655
Trade and other receivables	(6 888 418)	822 927
Trade and other payables	751 614	(2 911 680)
	26 339 359	32 843 989

11.2 Net cash flow on acquisition of subsidiaries

	2018 USD	2017 USD
Acquisition of Bergteamet Raiseboring Europe AB (refer to note 11.2.1)	9 335 904	–
Acquisition of Atlantis Group (refer to note 11.2.2)	5 353 231	–
Acquisition of subsidiaries	14 689 135	–

11. CASH FLOWS continued**11.2 Net cash flow on acquisition of subsidiaries** continued**11.2.1 Acquisition of Bergteamet Raiseboring Europe AB**

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

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

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

	2018 USD	2017 USD
The fair value of assets and liabilities assumed at date of acquisition was:		
Assets		
Property, plant and equipment	17 099 264	–
Current tax receivable	165 517	–
Non-current interest-bearing loans and borrowings	(3 447 179)	–
Deferred taxation liability	(407 032)	–
Net working capital		–
Trade and other receivables	3 233 870	–
Inventory	3 608 677	–
Trade and other payables	(5 005 518)	–
Cash and other equivalents	(826 682)	–
Total assets and liabilities acquired	14 420 917	–
Group's share of total assets and liabilities acquired	14 420 917	–
Goodwill at acquisition	92 489	–
Total consideration	14 513 406	–
Cash and cash equivalents on hand at acquisition	826 682	–
Fair value of 40% interest held prior to acquisition	(6 004 184)	–
Net cash outflow on acquisition of Bergteamet Raiseboring Europe AB	9 335 904	–
Turnover since acquisition date included in the consolidated results for the year	10 634 299	–
Profit after tax since acquisition date included in the consolidated results for the year	1 360 458	–
Group turnover since acquisition date included in the consolidated results for the year	111 663 770	–
Group profit after tax since acquisition date included in the consolidated results for the year	16 390 524	–

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 December

11. CASH FLOWS continued

11.2 Net cash flow on acquisition of subsidiaries continued

11.2.2 Acquisition of Atlantis Group

On 3 September 2018, the Group acquired all the business assets and liabilities of the Atlantis Group. The purchase consideration for the entire Atlantis Group amounted to ZAR99 500 000 (USD6 773 914).

The Atlantis Group's operations are located in South Africa, Zambia, India and Brazil and all of the business assets and liabilities acquired have been accounted for in the respective segments the assets and liabilities relate to. Refer to note 13.2 for more details on the segments.

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

The fair value of assets and liabilities assumed at date of acquisition was:

	2018 USD	2017 USD
Assets		
Property, plant and equipment	7 808 635	–
Net working capital		
Trade and other payables	(1 058 548)	–
Total assets and liabilities acquired	6 750 087	–
Group's share of total assets and liabilities acquired	6 750 087	–
Goodwill at acquisition	23 828	–
Total consideration	6 773 915	–
Consideration still payable	(1 420 684)	–
Net cash outflow on acquisition of Atlantis Group	5 353 231	–
Turnover since acquisition date included in the consolidated results for the year	2 550 769	–
Profit after tax since acquisition date included in the consolidated results for the year	530 666	–
Group turnover since acquisition date included in the consolidated results for the year	35 471 813	–
Group profit after tax since acquisition date included in the consolidated results for the year	5 221 277	–

12. CAPITAL COMMITMENTS

	2018 USD	2017 USD
Capital expenditure authorised by the directors and contracted for within 12 months. Capital expenditure will be funded through cash generated from operations.	1 189 801	4 579 527

13. SEGMENT REPORTING

13.1 Mining activity

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

	2018 USD	2017 USD
Sales revenue by stage of mining activity		
Exploration	3 762 574	973 412
Capital	21 849 982	4 339 904
Production	113 109 208	116 110 793
Total revenue	138 721 765	121 424 109
Gross profit by stage of mining activity		
Exploration	1 561 718	383 107
Capital	7 943 321	830 043
Production	34 061 497	43 416 688
Total gross profit	43 566 536	44 629 838

The chief operating decision-maker of the Group is the Chief Executive Officer. Information reported to the Group's chief operating decision-maker for purposes of resource allocation and assessment of segment performance is focused on geographical areas. Each reportable segment derives its revenues from the sale of goods and related services. The accounting policies of the reportable segments are the same as the Group's accounting policies.

13.2 Geographical segments

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

	2018 USD	2017 USD
Sales revenue by geographical market		
Africa	47 011 105	54 737 735
South America	58 077 754	52 066 525
Central and North America	17 437 769	14 619 849
Other countries	16 195 137	–
Total revenue	138 721 765	121 424 109
Gross profit by geographical market		
Africa	16 641 344	24 880 016
South America	16 264 148	15 201 953
Central and North America	4 739 601	4 547 869
Other countries	5 921 443	–
Total gross profit	43 566 536	44 629 838

The gross profit percentages vary based on drilling ground conditions, competition in the markets and the mix of in-country and foreign cost. One client in the African region, operating in the capital and production segments, accounts for 6% (2017: African region 14%) of the Group's revenue.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS continued

for the year ended 31 December

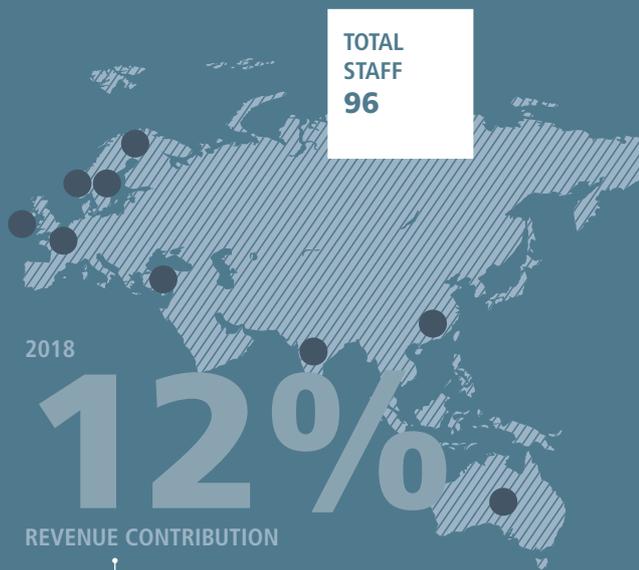
13. SEGMENT REPORTING continued

13.2 Geographical segments continued

	2018 USD	2017 USD
Depreciation by geographical market		
Africa	3 374 462	2 813 563
South America	1 911 696	2 735 481
Central and North America	706 619	465 299
Other countries	1 212 791	42 009
Total depreciation	7 205 568	6 056 352
Investment revenue by geographical market		
Africa	301 152	261 559
South America	182 605	79 916
Central and North America	4 038	749
Other countries	248 373	168 101
Total investment revenue	736 169	510 325
Finance cost by geographical market		
Africa	1 250 988	1 834 711
South America	661 715	602 128
Central and North America	575 583	209 404
Other countries	370 205	204 635
Total finance costs	2 858 491	2 850 878
Taxation by geographical market		
Africa	868 065	1 334 731
South America	1 496 701	1 283 542
Central and North America	98 665	312 205
Other countries	1 564 038	2 203 622
Total taxation	4 027 469	5 134 100
Total assets by geographical market		
Africa*	78 419 639	95 020 536
South America**	93 457 169	91 740 494
Central and North America	43 961 799	24 975 860
Other countries	50 543 357	25 208 838
Total assets as per statement of financial position	266 381 964	236 945 728
Total liabilities by geographical market		
Africa	34 698 362	34 438 606
South America	27 386 452	26 189 353
Central and North America	23 690 201	8 457 641
Other countries	16 561 972	6 535 299
Total liabilities as per statement of financial position	102 336 987	75 620 899

* Assets in Africa include the investment in associate. See note 5.

** Assets in South America include the non-current asset held for sale. See note 7.



TOTAL STAFF
96

2018

12%

REVENUE CONTRIBUTION

SCANDINAVIA

The acquisition of Bergteamet Raiseboring in 2018 cemented our presence in Scandinavia. Bergteamet is highly specialised in raise boring, conducting operations throughout the world and services a mix of clients. As a result of the acquisition, the Group completed projects in France, Spain and Turkey during 2018.

We are currently investigating opportunities to expand our service offering both in Scandinavia and the rest of Europe.

INDIA

India's economy showed signs of slowing during the second half of 2018, but this had no impact on our existing project commitments in the country. Work for Vedanta Limited, a diversified natural resources company listed on the London Stock Exchange, continued.

Through the acquisition of the businesses of the Atlantis Group, a South African headquartered, multi-national mining contracting company, Master Drilling's presence in India deepened as we assumed responsibility for the company's existing contracts and operations.

AUSTRALIA

In Australia, a large raise bore machine has been contracted out to Byrncut, an internationally renowned specialist underground mining contractor. The rental contract will run for an initial period of one year.

OTHER COUNTRIES	Australia, China, Finland, France, India, Ireland, Norway, Sweden, Turkey	TOTAL MACHINES 26*
Commodities: Chrome, Gold, Iron Ore, Lead, Polymetallic, Zinc		
2018	2017	
GROSS PROFIT		
USD5.9 million	USDnil million	
TOTAL ASSETS		
USD50.5 million	USD25.2 million	
TOTAL LIABILITIES		
USD16.6 million	USD6.5 million	

* Includes Bergteamet locations and machines. The Group acquired an associate company in Italy, which will focus on the tunnel boring industry.



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OPERATE

- Australia
- China
- Finland
- France
- India
- Ireland
- Norway
- Sweden
- Turkey



TRAIN

—



MAINTAIN

- China
- Sweden



DESIGN

—



MANUFACTURE

- China

ANALYSIS OF SHAREHOLDING

as at 31 December

	Number of shareholders	% of total shareholders	Number of shares	% of shares in issue
SIZE OF HOLDINGS				
1 – 1 000	892	49.5	302 156	0.2
1 001 – 10 000	689	38.3	2 402 992	1.6
10 001 – 100 000	141	7.8	4 248 272	2.8
100 001 – 1 000 000	60	3.3	22 967 566	15.3
1 000 000+	19	1.1	120 671 791	80.1
Total	1 801	100.0	150 592 777	100.0
SHAREHOLDER TYPE				
Public shareholders	1 788	99.3	62 817 447	41.7
Non-public shareholders				
Directors' indirect holdings	10	0.6	84 764 921	56.3
Directors' direct holdings	3	0.2	3 010 409	2.0
Total	1 801	99.3	62 817 447	41.7

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	16 204 735	10.8
Abax Investments	9 816 206	6.5
Investec Asset Management	9 017 452	6.0
Coronation Fund Managers	8 515 141	5.7
Total	43 553 534	28.9

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 Proprietary Limited	43 696 650	29.0
MDG Equity Holdings Proprietary Limited	38 954 436	25.9
Investec	9 034 396	6.0
Nedbank Group	7 967 608	5.3
Total	99 653 090	66.2

SHARE PERFORMANCE

Stock exchange information as at 31 December

	2018	2017
JSE share code: MDI		
Market price (ZAR cents) – high	1 500	1 835
– low	873	1 260
– closing	1 017	1 260
Shares traded for the year	11 158 485	19 238 466

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 seventh Annual General Meeting of Master Drilling will be held (subject to any adjournment, postponement or cancellation thereof) at the BDO South Africa Incorporated offices, Wanderers Office Park, 52 Corlett Drive, Illovo, Johannesburg on Thursday, 6 June 2019 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 17 April 2019.

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 2018;
- The appointment of the external auditor;
- The re-election of directors retiring by rotation;
- The 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;
- Non-binding vote on the approval of the Company's remuneration policy;
- Non-binding vote on 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 2018
Annual results 2018	Published on or about	26 March 2019
Record date for final dividend		17 May 2019
Payment date of final dividend		20 May 2019
Integrated Report 2018	Published on or about	17 April 2019
Annual General Meeting 2019	09:00	6 June 2019
Interim results 2019	Published on or about	3 September 2019

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, 6 June 2019 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 (Act No 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.

NOTICE OF ANNUAL GENERAL MEETING continued

Annual reports

Should you wish to receive printed copies of the Master Drilling Integrated Report 2018, please complete a request by means of the form on the Company website at  www.masterdrilling.com or by email 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, 31 May 2019 (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, 28 May 2019; and
- The date by which forms of proxy for the Annual General Meeting are requested to be lodged is, for administrative purposes, 09:00 on Tuesday, 4 June 2019. 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.

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, 23 May 2019. 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 2018."

2. Ordinary resolution number 2: Appointment of auditor

“Resolved that BDO South Africa Incorporated are hereby appointed as the auditor 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.”

3. Ordinary resolution number 3: Re-election of Mr Shane Trevor Ferguson as non-executive director

“Resolved that Mr ST Ferguson, 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 Ferguson’s curriculum vitae appears on  page 74 of the Integrated Report 2018, available on  www.masterdrilling.com

4. Ordinary resolution number 4: Election/re-appointment of members of the Audit Committee

4.1 Re-appointment of Mr Andries Willem Brink as a member of the Audit Committee

“Resolved that Mr AW Brink 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 Brink’s curriculum vitae appears on  page 74 of the Integrated Report 2018, available on  www.masterdrilling.com

4.2 Re-appointment of Ms Octavia Matshidiso Matloa as a member of the Audit Committee

“Resolved that Ms OM Matloa 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.”

Ms Matloa’s curriculum vitae appears on  page 74 of the Integrated Report 2018, available on  www.masterdrilling.com

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

“Subject to the passing of ordinary resolution number 3, 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 74 of Integrated Report 2018, available on  www.masterdrilling.com

4.4 Re-appointment of Mr Akhter Ali 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 74 of Integrated Report 2018, available on  www.masterdrilling.com

5. Ordinary resolution number 5: 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 5 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.

6. Ordinary resolution number 6: 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 5

“Resolved that, subject to ordinary resolution number 5 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 5, subject to the following conditions:

- 6.1 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 6 is to be proposed, being Thursday, 6 June 2019);

NOTICE OF ANNUAL GENERAL MEETING continued

6.2 This authority shall only be valid until the next Annual General Meeting of the Company but shall not extend beyond 15 months;

6.3 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 6.2 above, 5% (7 529 639) of the number of ordinary shares in issue prior to the issue concerned excluding treasury shares;

6.4 In the event of a sub-division or consolidation of issued shares during the period contemplated in paragraph 6.2 above, this authority must be adjusted accordingly to represent the same allocation ratio;

6.5 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

6.6 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 6.2 above, must be deducted from such number in paragraph 6.1 above.

The purpose of ordinary resolution number 6 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 5 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 5.

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 6.

7. Ordinary resolution number 7: 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 81 of the Integrated Report 2018, 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.

8. Ordinary resolution number 8: 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 81 of the Integrated Report 2018, 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

9. Special resolution number 1: Acquisition of the Company's own shares

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

- Any such acquisition of shares shall be effected through the order book operated by the JSE Limited trading system or on the open market of any other stock exchange on which the shares are or may be listed, subject to the approval of the JSE Limited and of the relevant other stock exchange, as 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 consolidated 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 2018, available on www.masterdrilling.com:

- Directors and management –  pages 74 and 75;
- Major shareholders –  page 118;
- Material change statement –  page 124;
- Directors' interest in securities –  page 88; and
- Share capital of the Company –  page 99.

10. 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 2019), 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."

NOTICE OF ANNUAL GENERAL MEETING continued

	2019 ZAR	2018 ZAR
Board Chairman	910 547*	859 007
Board member	436 262*	411 568

* 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.

11. 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);
- 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.

RESPONSIBILITY

The directors whose names appear on pages 74 and 75 of the Integrated Report 2018, 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 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

17 April 2019

REGISTERED AND CORPORATE OFFICE

4 Bosman Street
PO Box 902
Fochville, 2515
South Africa

IMPORTANT NOTES ABOUT THE ANNUAL GENERAL MEETING

Date

Thursday, 6 June 2019.

Venue

BDO South Africa Incorporated 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* on  page 120.

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 stoping 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 collecting 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 hole in the ground quickly. 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 tale 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 and operators.
Skilled	Using the Paterson grading model, skilled employees are classified as upper level employees from C4 level, e.g. managers, skilled artisans, foremen and administrators.
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 hydro-energy 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	LTIFR	Lost-time injury frequency rate
B-BBEE	Broad-based black economic empowerment	M&A	Mergers and acquisitions
BSBS	Blind shaft boring system	MD	Master Drilling
CTC	Cost-to-company	MDSS	Master Drilling Shared Services
DRC	Democratic Republic of Congo	MDX	Master Drilling Exploration Proprietary Limited
DTS	Drilling Technical Services	MFA	Multifactor Authentication
EPCM	Procurement and construction management	MIT	Management in Training
Epha	Drilling Proprietary Limited, a B-BBEE-owned and controlled company with a 26% shareholding in MDX	Mosima	Mosima Drilling Proprietary Limited, a B-BBEE-owned and controlled company with a 26% shareholding in each of RR and DTS
ERP	Enterprise Resource Planning	OHSAS	Occupational Health and Safety Advisory Services
HDSA	Historically disadvantaged South African	OHSAS 18001	Occupational Health and Safety Management Systems, South Africa
HRB	Horizontal raise boring	Other countries	Includes Ireland, Malta, China and Saudi Arabia
IAS	International Accounting Standards	PSS	Product Service Support
IDC	Industrial Development Corporation	PwC	PricewaterhouseCoopers Inc.
IFRS	International Financial Reporting Standards	R&D	Research and development
IIRC	International Integrated Reporting Council	Remco	Remuneration Committee
IP	Intellectual property	Rest of Africa	Includes Mali, Burkina Faso, the Democratic Republic of Congo, Zambia, Botswana and Zimbabwe
ISO	International Organisation for Standardisation	ROI	Return on investment
ISO 14001	ISO Environmental Management	ROSI	Remote-operated shaft inspection
ISO 9001	ISO Quality Management System	ROSS	Remote operational shaft support
JSE	Johannesburg Stock Exchange	RR	Raisebore Rental
King IV	King Report on Corporate Governance for South Africa, 2016	SPR	Special performance reward
KPI	Key performance indicator	STI	Short-term incentive scheme
Latin America and Colombia	Includes Mexico, Guatemala, Chile, Peru, Argentina and Brazil	UASA	United Association of South Africa
LTI	Long-term incentive scheme		

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 BDO offices, Wanderers Office Park, 52 Corlett Drive, Illovo, Johannesburg, on Thursday, 6 June 2019 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 2018			
Ordinary resolution number 2: Appointment of BDO South Africa Incorporated as external auditor			
Ordinary resolution number 3: Re-election of Mr ST Ferguson as a non-executive director			
Ordinary resolution number 4.1: Re-appointment of Mr AW Brink as a member of the Audit Committee of the Company			
Ordinary resolution number 4.2: Re-appointment of Ms OM Matloa as a member of the Audit Committee of the Company			
Ordinary resolution number 4.3: Re-appointment of Mr ST Ferguson as a member of the Audit Committee of the Company			
Ordinary resolution number 4.4: Re-appointment of Mr AA Deshmukh as a member of the Audit Committee of the Company			
Ordinary resolution number 5: General authority to directors to allot and issue ordinary shares			
Ordinary resolution number 6: General authority to directors to issue for cash, those ordinary shares placed under the control of the directors in terms of ordinary resolution number 5			
Ordinary resolution number 7: Approval of the Master Drilling remuneration policy			
Ordinary resolution number 8: 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 _____ 2019

Name of shareholder/joint holders _____

Signature/s _____

Assisted by me (if applicable) _____

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

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 09:00 on Tuesday, 4 June 2019. 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	<i>Chief Executive Officer and founder</i>
André Jean van Deventer	<i>Financial Director and Chief Financial Officer</i>
Barend Jacobus (Koos) Jordaan	<i>Executive Director</i>
Gareth (Gary) Robert Sheppard*	<i>Chief Operating Officer</i>
Fred George (Eddie) Dixon	<i>Chief Operating Officer (Alternate director)</i>

* Resident in Peru

Non-executive

Hendrik (Hennie) Roux van der Merwe	<i>Chairman and independent non-executive</i>
Andries Willem Brink	<i>Independent non-executive</i>
Akhter Alli Deshmukh	<i>Independent non-executive</i>
Shane Trevor Ferguson	<i>Non-executive</i>
Octavia Matshidiso Matloa	<i>Independent non-executive</i>

COMPANY SECRETARY

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

INDEPENDENT REGISTERED AUDITOR

BDO South Africa Incorporated
South African member of the BDO Group
52 Corlett Drive, Illovo, 2196

JSE SPONSOR

Investec Bank Limited
(Registration number: 1969/004763/06)
100 Grayston Drive, Sandton, 2196
Telephone: +27 11 286 8163
Fax: +27 11 291 1202
Switchboard: +27 11 286 7000

INVESTOR RELATIONS CONTACTS

Monica Ambrosi
Instinctif Partners
Telephone: +27 11 050 7506
Mobile: +27 82 659 9226
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.

