



MASTER DRILLING GROUP LIMITED
Integrated Report
2016

// performance against our strategy



Sustainable growth

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



Optimisation and increased profitability


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



Technology optimisation and development


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


Maiden dividend of
ZAR30 cents
per share declared


Headline earnings per share in USD up
3,6% 
from USD13.8 cents to USD14.3 cents


Fleet automation process
100% on track

Stable order book of
USD196.6 million

Profit for the year in USD up
5,7% 
from USD21.1 million to USD22.3 million

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

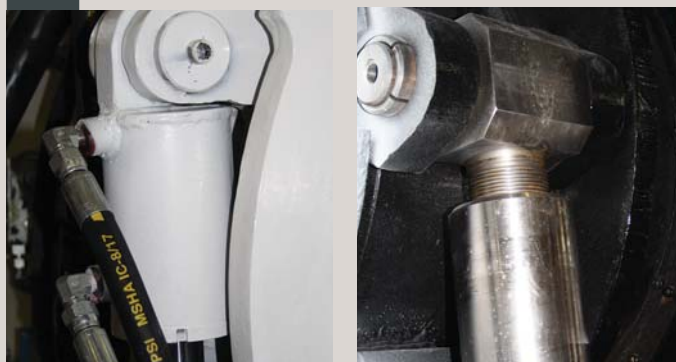
Revenue in USD down
1,5% 
from USD119.9 million to USD118.1 million

Utilisation up by
3,0% 
from 70% to 73%

Horizontal Raise Boring ("HRB") was introduced at a pilot test site with great success

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// about this report

This report, the primary report of Master Drilling Group ("the Group") or ("MDG")/Master Drilling to its stakeholders, outlines the activities, relationships, interactions and performance of the Group within its operating context from 1 January 2016 to 31 December 2016. The aim of the report is to provide all stakeholders having an interest in the Group activities, with an integrated insight into the ability of MDG to create value in the short, medium and long term.

Whilst the scope of the report remains unchanged from the prior year, the material matters have been identified and reported upon with reference to the six capitals – financial, manufactured, intellectual, human, social and relationship, and natural – as outlined in the International Reporting Council ("IRC") framework. The report also addresses our achievement of the aspirations and ideals expressed in the principles described in the King III Code on Corporate Governance ("King III").

Reporting boundaries

This report covers the financial year 1 January 2016 to 31 December 2016 and 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 48 to 51](#). We define material matters for reporting purposes as those aspects 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 respectively. (To read more about materiality, please see *Material Matters* on [page 48](#).)

All monetary amounts reflected in the report are expressed in USA Dollars ("USD") unless otherwise stated. The results and financial position of our operations in foreign countries are translated into our presentation currency, namely USD, using the average exchange rate over the year for income statement purposes and the closing rate at year-end for financial position items.

Reporting comparability

Since our first integrated report, no significant changes have been made to the scope, boundary and measurement methods applied in this report and the rest of our reporting suite. There are no restatements to comparatives unless otherwise stated. We have set timelines for the divisional implementation of our business strategies to ensure effective adoption at a functional and country level. (To read more about strategy, please see *Our Strategy* on [page 36](#).)

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 involve both known and as yet unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by such forward-looking statements.

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

Integrated reporting

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

Directors' statement of responsibility

The Board of Directors ("the Board"), assisted by the Audit Committee, is responsible for overseeing the integrity of this integrated report, and acknowledges its responsibility for ensuring its integrity. The Board has applied its collective mind in the presentation and preparation of this report, and believes it is a fair representation of the performance of the Group and of its material matters. The Board accordingly approved this integrated report on 14 June 2017.



Hennie van der Merwe
Chairman




Danie Pretorius
Chief Executive Officer


// our strategy statement



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

Revenue per head
down from 
USD61 408 to
USD56 266

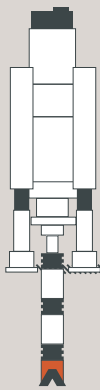
LTIFR down
from 4.68 to 
2.78

Labour cost as %
of total cost flat at
45%

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

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

// our timeline



- 1986** Master Drilling established in Fochville, South Africa
- 1988** Design and manufacture RD1000
- 1992** Commence drilling at the Shabanie mine, Zimbabwe
- 1993** Commence drilling at Barric El Indio mine, Chile
- 1998** Commence drilling at Milpo's El Porvenir mine, Peru

30 years of innovative achievements

- 2007** New cutter design implemented and stope drill monorail purpose-built for specific client needs
- 2008** Auto spanner designed
- 2009** Gripper machine designed
- 2010** Largest diameter hole drilled – 7,3m
- 2011** Open site office at Glencore's Kamoto mine, Democratic Republic of Congo ("DRC")
- 2011** Design and manufacture first dedicated low-profile blind hole drill rig
- 2012** List on the Johannesburg Stock Exchange ("JSE")
Master Drilling Group formed through reorganisation
- 2012** Achieved a world record in directional drilling at Lonmin Mine with the most accurate pilot hole at a depth of 1,07km
- 2013** Awarded exploration drilling contract at Kolomela
Expand global footprint to Mali and Guatemala by offering raise boring services
- 2013** First automated machine goes live at Sasol, South Africa
Peru's first automated machine goes live in May

2000

Commence drilling at Konkola Copper Mines, Zambia

Commence drilling at AngloGold Ashanti's Cuiaba mine, Brazil



2001

Acquire the Wirth HG380 rig – at this point in time, the largest raise bore machine ever

First stope long-hole drilling contract commences



2002

Acquire first box-hole drill rigs



2000

The first in-house-designed low-profile raise/blind bore, the BHB 200, put into service at East Driefontein mine, South Africa



2003

Enter the large-diameter holes market



2006

Acquire Drillcorp Africa (Pty) Ltd, now known as Master Drilling Exploration (Pty) Ltd



2005

Commence drilling at Tizapa mine, Mexico

Obtain ISO 9001:2000 accreditation in South Africa



2006

Drill Europe's deepest 4 diameter hole with HG380 rig



2005

World record for fastest completion of 4,5 diameter hole with the HG380 rig – 692 meters bored in 90 days



2004

Design and build first remote-operated shotcrete application machine



2014

Commence drilling at Kibali DRC and Modi

Contract awarded at Palabora Mining for two ventilation shafts, each 6,1m diameter, and over 1,2km deep



2015

Expand geographical footprint into Ecuador and Colombia

Service offerings in the energy sector on hydroelectric projects

Continued expansion of fleet

Acquire 40% stake in Bergteamet Raiseboring Europe AB



2016

Acquire Bergteamet Latin America SpA

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

Contracts awarded in Sierra Leone and Tanzania

First blind shafting contract awarded in USA



2014

Increase in upgrading to automation-control raise bore rigs

Design and manufacture the RD8 raise bore rig capable of drilling an 8,5m diameter hole over 1,5km deep



2015

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

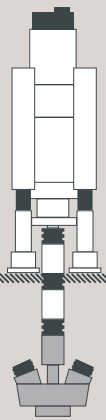
Commissioning of the RD8-1500, one of the largest raise bore rigs in the world

Continuation of the drill rig fleet automation programme to enhance safety and efficiencies



2016

Started the first horizontal raise bore trial project at Petra Diamonds mine at Cullinan, South Africa



// chairman and chief executive officer's review



Entering 2016 in the midst of depressed commodities markets and softer economic growth domestically, paired with escalating cost pressures in the mining sector, we understood at Master Drilling that we would be facing challenges that would need to be met with strategic, technological and operational resilience.

Master Drilling is well positioned to take advantage not only of a cyclical upswing in the mining sector, but also of our committed strategic move to expand our service/product offering into other industries as well as into additional geographical areas.

Hennie van der Merwe
Chairman

Overview

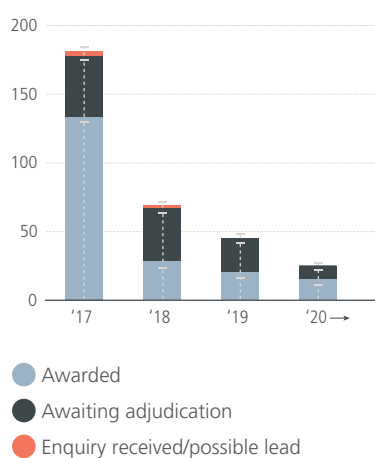
As a result of these challenges and the negative economic environment at the start of the year, we saw a decrease in our USD revenue of 2%. However, our basic earnings per share ("EPS") were up by 22% in ZAR terms, as were our headline earnings – by 19% in South African Rand ("ZAR") and 4% in USD terms. Profit in USD was up by 6%, and we were delighted that the Group's strong performance, including cash generated from operations, enabled us to declare a maiden dividend. If you add to these positives a stable order book and strong pipeline, we believe that Master Drilling is well positioned to take advantage not only of a cyclical upswing for the good in the mining sector, but also of our committed strategic move to expand our service/product offering into other industries as well as into additional geographical areas.

On the client side, as a consequence of low commodity prices for their products, the mining companies (who together are significant consumers of our services and capabilities) have been reluctant to initiate new projects or commence those under contract, whilst they exerted pressure on pricing and payment – all outcomes that affect our operational capital, income and margins.

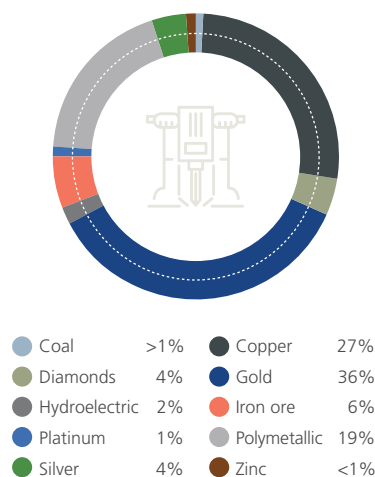
Fortunately, in the second half of the year the commodities markets began to show promise of emerging from the protracted low position in their respective cycles where they had found themselves for some time. This trend was discernible in our business in the reviving of project inceptions, contracts and enquiries about proposed initiatives. There are two tangible indicators of this: our order book, which stands at just on USD200 million – a certain reflection of clients' more positive views currently – and our pipeline of just over USD300 million, reflecting probably the best position we have been in to date. In terms of these two measures, we are well placed.

As at 31 December our pipeline totalled USD320 810 969 while the committed order book amounted to USD196 649 271, and beyond, spread as follows.

Pipeline (USD million)



Committed orders



Innovation

We have always prided ourselves on our ability to innovate, and as a world leader we continue to focus on this fundamental strength to underpin our technology – to the degree that we now see ourselves, and wish to be seen by others, as primarily a technology-driven company, rather than one engaged only in drilling.

Our vertically integrated group structure enables us to provide all the drilling and other related services that any client could require. We provide them with a 'one-stop-shop' where concept, design, manufacture, assembly, deployment and operations can all be supplied from within our stable.

It is because we have wide experience of our clients' differing needs, that we are able to anticipate and act with agility and flexibility with regard to the kinds of technology that will answer the needs of the ever-changing and often economically pressured sectors who can benefit from what we have to offer. We see this as a strategic imperative.

We have always been leaders in drilling technology, and it is as a technology provider that we see ourselves as able to broaden our reach, increase our capacity, achieve the level of growth we target, and ultimately, to create value for our shareholders.

This evolving change of perspective also has the benefit of enabling us to realise our important strategic impetus of diversification that will lessen the risks of dependency on the cyclical nature of mining demand and commodity prices.

Diversification in strategy and practice

During the year 94% of our work was in the mining sector. While we will continue to market ourselves in the mining sector, mainly to the copper, polymetallic and gold/zinc mines, we have long been aware that our dependence on a dominant single sector is a risk for our business.

We are therefore focused on our strategic thrust into diversification – in geographies, currencies, business sectors, activities, commodities and clients. The aim of this

is to cushion and strengthen the business in the face of cyclical downturns and to mitigate our risk exposure to any single geography, commodity or sector. In pursuit of this we have set ourselves a target of at least 30% exposure to the infrastructure and civils sectors.

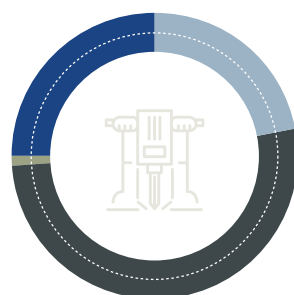
We have placed great focus on developing the designs and technologies that will enable this in the long term. In particular, we have targeted services and sectors such as infrastructure and energy, including hydroelectric energy projects. (To read more on diversification see under *Our Strategy*, on page 36, and under *Chief Financial Officer's Review*, on page 30.)



Our vertically integrated business model facilitates diversification of various kinds, which enables us to classify the revenue we generate accordingly.

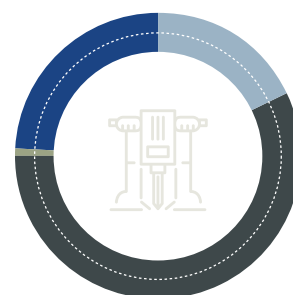
The following charts reflect the Group's combined revenue for financial years ended 31 December 2016.

Revenue by geographical area 2015



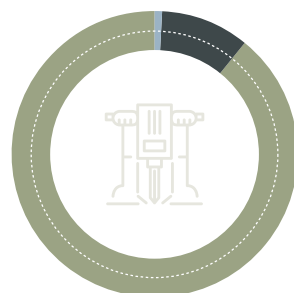
Africa	22%
Latin America	52%
Other countries	1%
South Africa	25%

Revenue by geographical area 2016



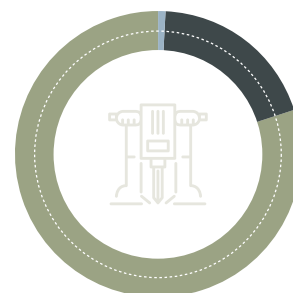
Africa	18%
Latin America	57%
Other countries	1%
South Africa	24%

Revenue by mining activity 2015



Exploration	1%
Capital	10%
Production	89%

Revenue by mining activity 2016



Exploration	1%
Capital	19%
Production	80%

Diversification analysed

Viewing our revenue in terms of diversification enables us to focus on the opportunities we see globally for our pioneering technology.

In many cases our innovations are world-firsts solutions to meet client and even sector requirements. We utilise analyses which range from diversification in mining activity through commodity diversification and – most importantly for our future targeting – they include business-sector diversification. This enables us to be proactive in realising our strategy for growth as well as in creating and adding value.

In addition, our diversity in geographies gives us the flexibility of currency diversification, which provides a natural hedge against currency volatility, while at the same time, with 50% of our earnings USD-based, we can take advantage of the relative value of other currencies.

Mining sector diversification is founded on our strategic pillars of *sustainable growth, optimisation, increased profitability and people capacity and development*. With core activities centred on the more important production phase we have a reduced exposure to their often volatile business lifecycles related to exploration. The fact that we are also involved in capital and exploration phases has resulted in our developing a wide variety of drilling solutions.

Commodity diversification has provided us to some degree with a shield against price fluctuations and flexibility due to geographic diversification.

Business sector diversification has become a strategic focus of our efforts as we strive to widen our exposure. It is founded on the same three strategic pillars as other aspects of our diversification, and enables us to be a part of the drive towards renewable energy through expanding hydroelectric energy projects and other projects in the civil and construction sectors.

Danie Pretorius

Chief Executive Officer

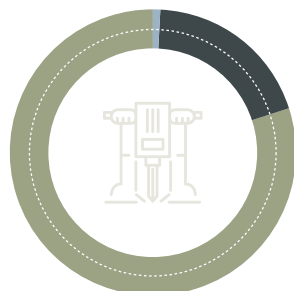


Revenue by mining activity diversification 2015



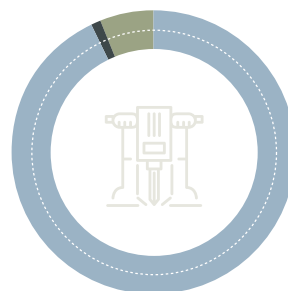
● Exploration	1%
● Capital	10%
● Production	89%

Revenue by mining activity diversification 2016



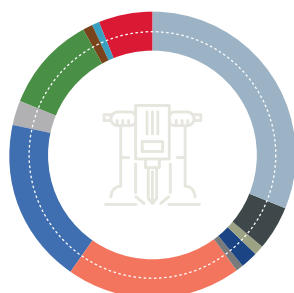
● Exploration	1%
● Capital	19%
● Production	80%

Revenue by business sector 2015



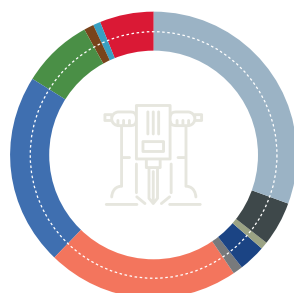
● Mining	93%
● Civil/Construction	<1%
● Energy	6%

Revenue by commodity diversification 2015



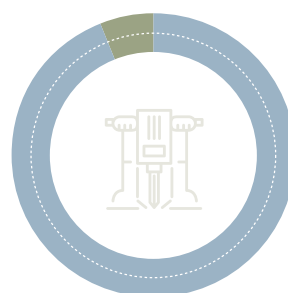
● Gold	32%	● Platinum	5%
● Coal	<1%	● Diamonds	2%
● Chrome	<1%	● Silver/lead/zinc	20%
● Copper	19%	● Tin	3%
● Iron ore	11%	● Manganese	<1%
● Other commodities	1%	● Other	6%

Revenue by commodity diversification 2016



● Gold	31%	● Platinum	5%
● Coal	<1%	● Diamonds	3%
● Chrome	<1%	● Silver/lead/zinc	22%
● Copper	22%	● Tin	0%
● Iron ore	8%	● Manganese	1%
● Other commodities	1%	● Other	6%

Revenue by business sector 2016



● Mining	94%
● Civil/Construction	0%
● Energy	6%

Global operations

The second half of the year under review saw a marked increase in activities, higher utilisation rates and the initiation of new projects that supported Group financial performance. The current operating environment has stabilised with a healthy level of enquiries and an improved operational base throughout.

Latin America

Management in the region was bolstered with new appointments, with the goal of improving financial and operational performance. We were also awarded work relating to hydroelectric projects, with equipment being mobilised following the successful completion of an initial contract. Our silver mining projects are performing well with utilisation rates showing marked improvements and with further contracts in the pipeline.

North America

Following initial delays in commissioning, the Blind Shaft Boring System ("BSBS") contract in the USA is progressing well, and enquiries from other North American operators are encouraging.

In addition to enabling us to increase our presence in the USA, the experience gained from our European operations will provide a platform that in future can be applied to first-world geographies, thereby expanding not only our footprint, but our client base as well.

Africa

The profitability of our African operations was impacted negatively by continuous pricing pressures.

New projects in Sierra Leone and Tanzania as well as an additional project in the DRC had a negative impact on performance in this reporting period due to the high levels of upfront costs, including logistics required to support the clients in the initial phase. The stronger ZAR had a significant forex impact as most costs were ZAR-based while some income was USD-based.

In South Africa we will continue to support our loyal clients, and while growth is likely to remain subdued, we remain committed to expansion into appropriate African countries, using South Africa as a springboard.

Scandinavia

Our investment in Bergteamet Raiseboring Europe AB realised a return of 12,95% on the initial investment made in 2015. Given the competitive economic and market conditions within which it operates, the performance of Bergteamet Raiseboring was satisfactory and we look forward to improved performance in the latter part of 2017.

(To read more about operations see *Our Operations*, on [page 52](#).)

Innovation and impetus

Innovation, a key element in the intellectual capital we create, plays a central role in the nature of our business and in its roll-out in our operations. The following are four examples of our excellent success in this aspect of our business.

- A game-changing concept, in the view of management, is the BSBS whose design was initiated in 2016 and which is slated for commissioning in 2019. The leading edge of the machine bores a 3,3m to 3,5m hole which is then reamed or enlarged at the back to between 6,5m and 8,5m. It is unique in that it is a hard-rock boring machine that drills from the top down, and is an excellent example of the high-impact, high-tech side of drilling on which we focus.
- A second important concept is the HRB which proved itself at the Cullinan Petra Diamonds mine. This horizontal borer drills a hole with access on both sides, in a horizontal application of our vertical raise boring technology. The hole is then reamed back, providing a significant cost- and labour-saving benefit, especially for block-cave mines, and it does so with a technique that conventional wisdom previously held could not be accomplished.
- (To read more on HRB please see *Transforming Mining* on [page 13](#).)
- For a project at Palabora Mining we designed the Remote Operated Shaft Support ("ROSS") and Remote Operated Shaft Inspection ("ROSI") machines that support the hole as it is being drilled. These rigs are in effect remotely controlled robots that prevent the exposure of people to a potentially unsafe environment.





- At Kolomela we have a control station that can operate remotely, including core-handling and add-on services – something that no other contractor provides. It is our willingness and ability to fully embrace our client's requirements and to provide tailored solutions that has enabled us to do this.

Quality control

Quality is an essential component of everything we do. We have in place a continuous improvement process that is linked to strategy. This process enables us to note all deviations as well as potential improvements that might be made. We view these approaches as an integral part of our manufacturing and intellectual capital.

Skills development

The retention of expertise and the development of skills remain key priorities for the Group. Our investment in these requirements is based on a skills gap analysis concluded at the end of 2016 – an investment that will expand our capacity to support our growth strategy. The 2017 financial year sees us focusing on targeted interventions for management and technical training in general. (To read more about skills see *Human Resources* on [page 25](#).)

Maiden dividend

Since its listing in 2012, the Group has achieved a compound annual growth rate ("CAGR") in profit after taxation ("PAT") of 16,1% in USD terms, and has delivered on the key strategic objectives set out in its listing prospectus. This, coupled with ongoing cash generation, now enables us to strike a balance between continued investment in capital projects to support the Group's further growth, and enhancing

returns to our shareholders through the payment of appropriate dividends.

The Board thus declared a maiden dividend of ZAR 30 cents per share on 20 March 2017, payable to all shareholders recorded in Master Drilling Group Limited's share register on 19 May 2017. This dividend represents a seven times earnings cover. As a maiden dividend this is somewhat more conservative than the level of cover at which our dividend policy is likely to settle over time.

The dividend is payable from distributable reserves, and is subject to a dividend withholding tax of 20%, which results in a net dividend of 24 cents per share to shareholders subject to such dividend withholding tax.

Governance principles

We acknowledge the efforts and contributions of the members of the Board and its committees who perform their duties with care, diligence and expertise. At Board level there is more than mere support for compliance. Whatever we do in the execution of our duties we do to be sure that we add value for the time we and the Group invest.

Neither management nor the Board itself views the Board as simply a rubber stamp for management decisions. We maintain a robust process in both the Board and our committees, and if there are differing views on any topic, full and open discussion invariably results in consensus on constructive conclusions.

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

Delegation

We maintain a formal structure of Board functions delegated to committees, but with their reports being submitted to the Board, which retains ultimate responsibility. As part of our commitment to adding value, we have split our audit and risk responsibilities so that they are dealt with in two separate committees. We have found that this efficiently facilitates clarity of discussion and work on risk assessments without the distraction of dealing with financial reporting, which is now the focus of its own dedicated committee, the Audit Committee.

Diversity

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

While our desired diversity on this basis has not yet been achieved, we have adopted a plan to ensure that diversity in line with our belief in this principle will be reflected in our composition in due course, and as practically possible. All Board appointments are made on merit, in the context of the skills, experience, independence and knowledge which the Board as a whole requires in order to be effective. (To read more on compliance and governance, see *Governance* on page 62, and *Internal Audit*, on page 60.)

Appreciation

We would like to thank our Board members, whose input goes above and beyond mere duty and whose involvement and participation make such valuable contributions to all aspects of our business.

Thanks are also due to our clients for being so willing to partner with us and for having the confidence to embrace our innovative approach, proposals and technology.

Finally, to all our employees who have worked so hard to help us achieve results

which, despite the difficult circumstances in which the year began, are above expectation, and which reflect our ongoing ability to create value for our shareholders – thank you for your commitment and passion. Without our people, we would not be the company we are, and it is your continuing spirit, capacity and dedication that reinforce our position as the global leader in our industry.



Hennie van der Merwe
Chairman



Danie Pretorius
Chief Executive Officer

//transforming mining

Our HRB technology through the soft Kimberlite rock at Petra Diamonds mine at Cullinan has proved that straight, horizontal tunnelling can be achieved through friable rock without resorting to the conventional drilling and blasting that destabilises the ground, and endangers crews.

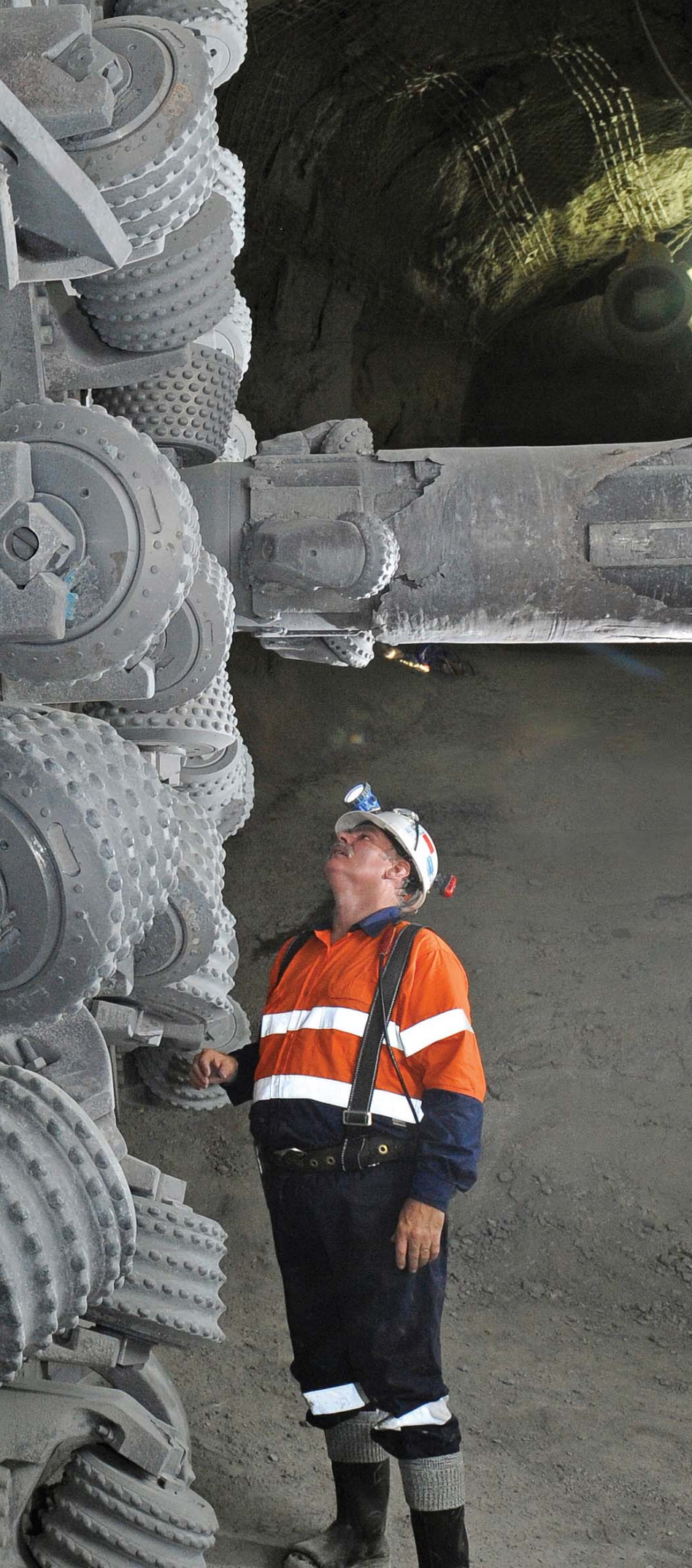
Drilling a pilot hole directly through the ore body, our HRB machine lined it at the same time so that it would not collapse, enabling the reamer head to be drawn back through the hole to produce a consistently circular tunnel. Moreover, all this was accomplished with a technique known as dry drilling, which means that no water was used, further expediting the process, and contributing to the mine's sustainability by reducing its usage of a precious natural resource.

Our technology has shown that improved safety, amplified feasibility, increased speed in advancing tunnels, superior accuracy and reduced costs are within reach. All of this in turn means that, in a world where safety and volatile markets combine to exert their own operational pressures, our cost-effective and innovative HRB solution will more and more become the future of mining.

180 meters
drilled

4.5 meter
diameter
tunnel

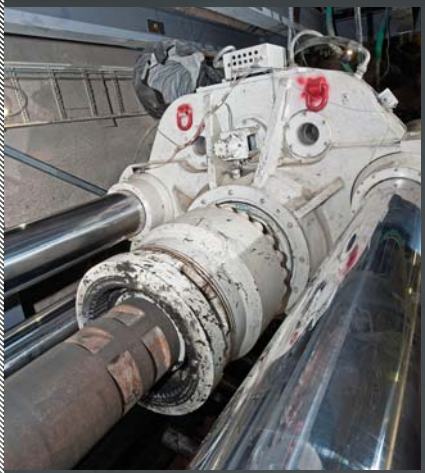
6 meters
per day



No
explosives



Stronger
construction



Reduced
costs



// about us

As the world's largest raise boring firm, 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.



A world leader in specialised drilling solutions

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

Our international operations span large parts of the globe. The international operations are headquartered in Malta and are staffed and equipped by global resources of the Group. On the African continent, and in addition to South Africa, we maintain operations in the DRC, Zambia, Mali, Tanzania and Sierra Leone. In Latin America we operate in Brazil, Chile, Colombia, Ecuador, Mexico and Peru. We have recently extended our operations into the USA. We also retain an office and warehouse facility in China where specialised capital equipment is produced and procured.

Group engineering, manufacturing and support are provided from South Africa and China, servicing several international locations. In December 2015 we acquired a 40% shareholding in Bergteamet Raiseboring Europe AB which is headquartered in Sweden.

How we operate

There are a number of aspects to the way in which we operate our business, all of them aimed at reflecting, enhancing and advancing not only the underlying entrepreneurial spirit of innovation which since our inception has characterised what we do, but also our meticulous commitment to excellence, and the value we add both to our services and the way in which we manage the business.

Adding value

The vertical integration that has characterised our business model from the outset allows us to maintain effective control over the value chain.

The fact that we are contractors who operate, and do not simply sell, the machines that we design and build ourselves, works together with the principle of simplicity to which we adhere in design and mobility, and contributes to the agility and cost-effectiveness with which we can deliver services to our clients.

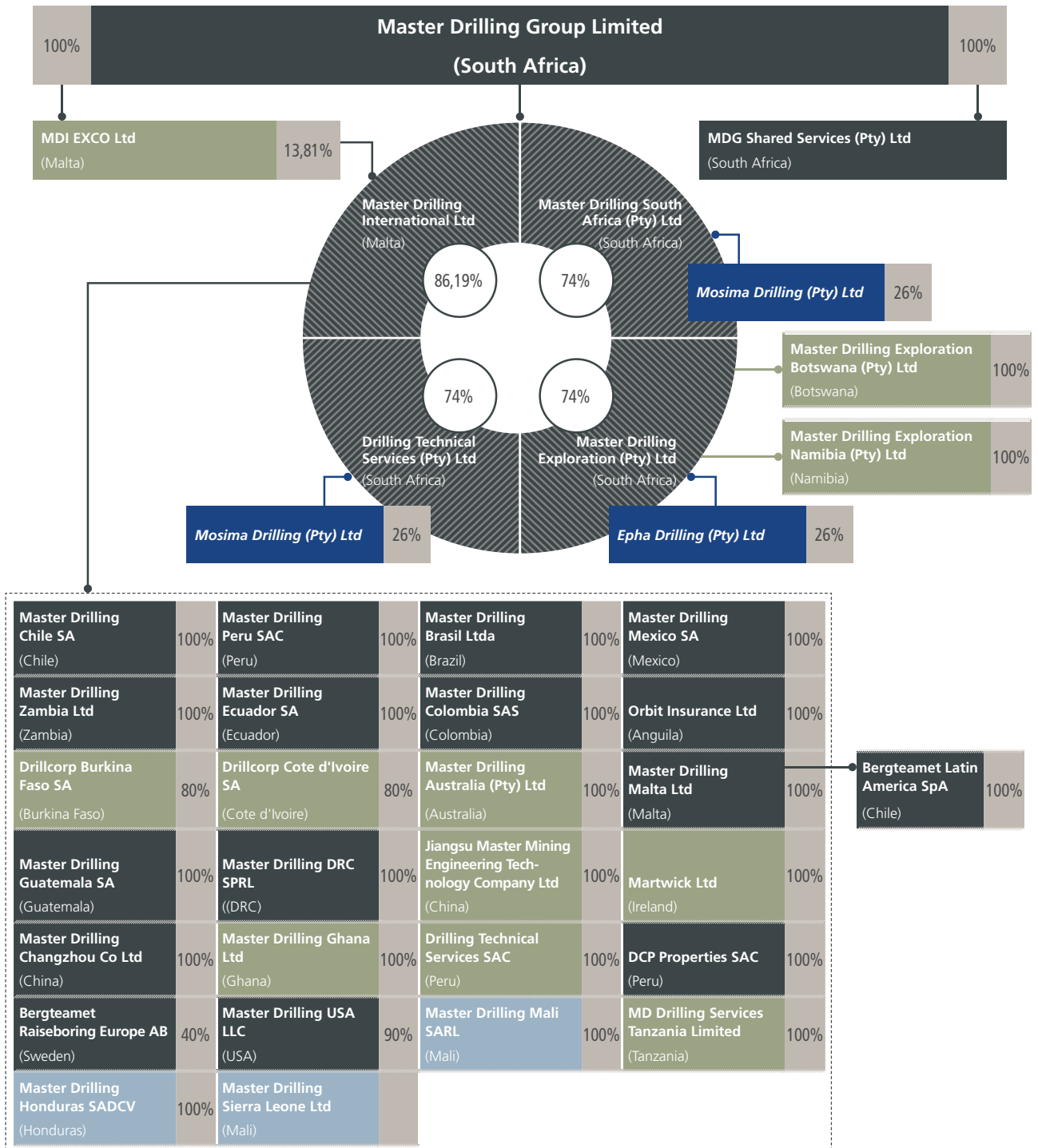
Similarly, given the matter of safety, which is of major concern to us and our clients, and the volatility of the commodities markets and labour issues to which our mining clients are exposed, our focus on risk management is another element of compliance that has brought significant value to what we do, both for our clients and for ourselves. (To read more, see *Risk Management* on [page 46](#).)

In addition to our cognisance of, and our programmes to address issues of safety, we are able to add value to our service through:

- 1 the speed** with which we can accomplish our automated drilling operations, in contrast with older, conventional methods of drilling and blasting, and which allows us to complete jobs often in less than half the time required by conventional methods;
- 2 the efficiency** of our proprietary technology which allows remote operation and monitoring, reduced manning costs, safer holes and tunnels, and real-time sample grading;
- 3 the accuracy** with which we can locate productive ore bodies and meet our clients' analysis requirements, in contrast with conventional methods;
- 4 high levels of service**, due in great part to the flexibility, simplicity and mobility of our equipment, and the customised designs that match the individual needs of our clients;
- 5 pioneering innovation**, arising from our continual search for labour-saving, state-of-the-art designs and capacities that have allowed us to meet unique challenges such as horizontal boring; and
- 6 economies of scale** resulting from our owning and operating the largest fleet of drill rigs in the world.

Our structure

Master Drilling Group Limited Group structure

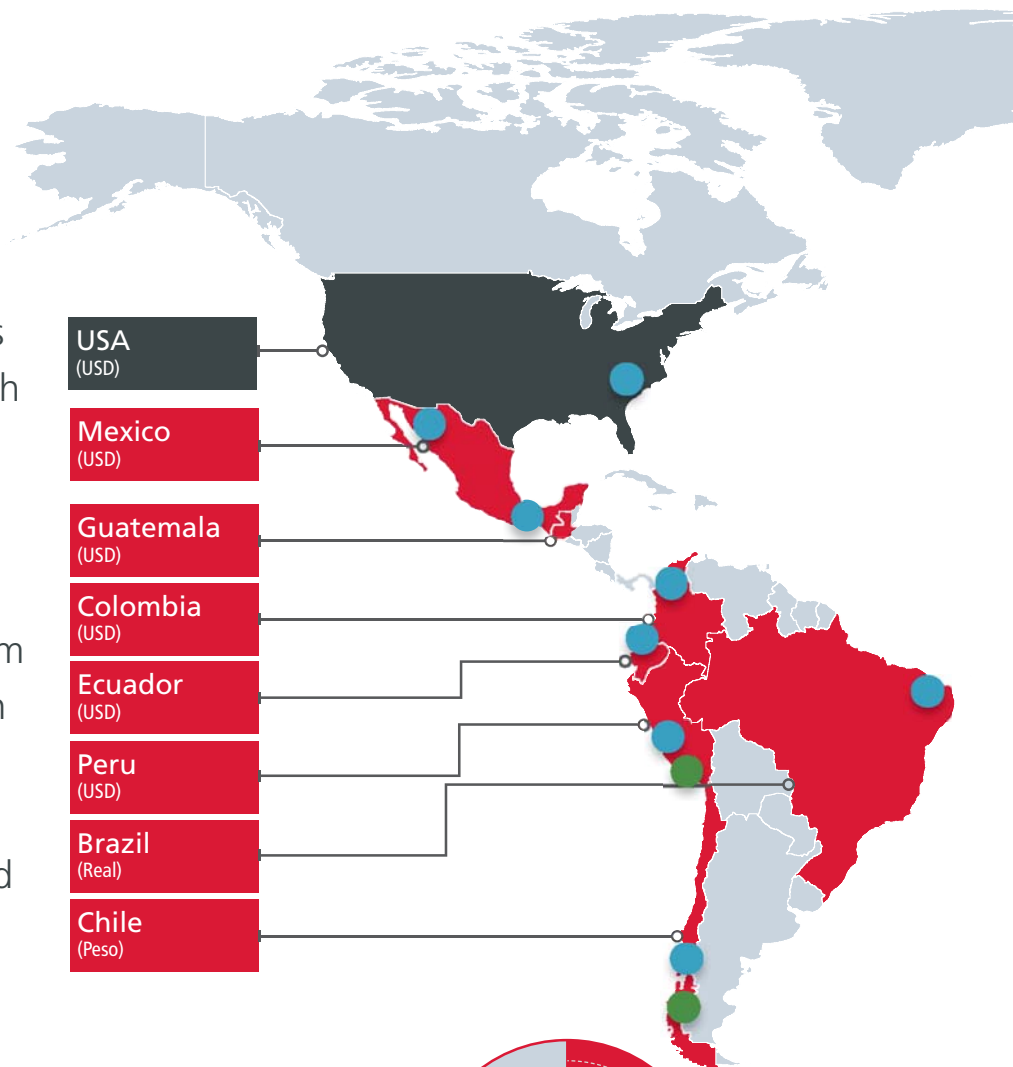


Operational
 Dormant
 Registration in progress
 B-BBEE partner

// our global footprint

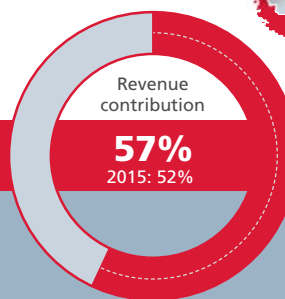
Master Drilling is a global business with geographic diversification being part of our strategy as it broadens our growth potential and reduces our overall risk.

The majority of our revenue is derived from South Africa and Latin America. We tailor solutions to meet the specific conditions and drilling requirements of our clients.



/ Our operational presence

- Design
- Manufacture
- Maintain
- Train
- Operate



Latin America

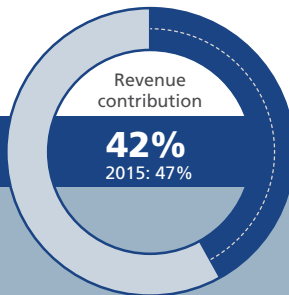
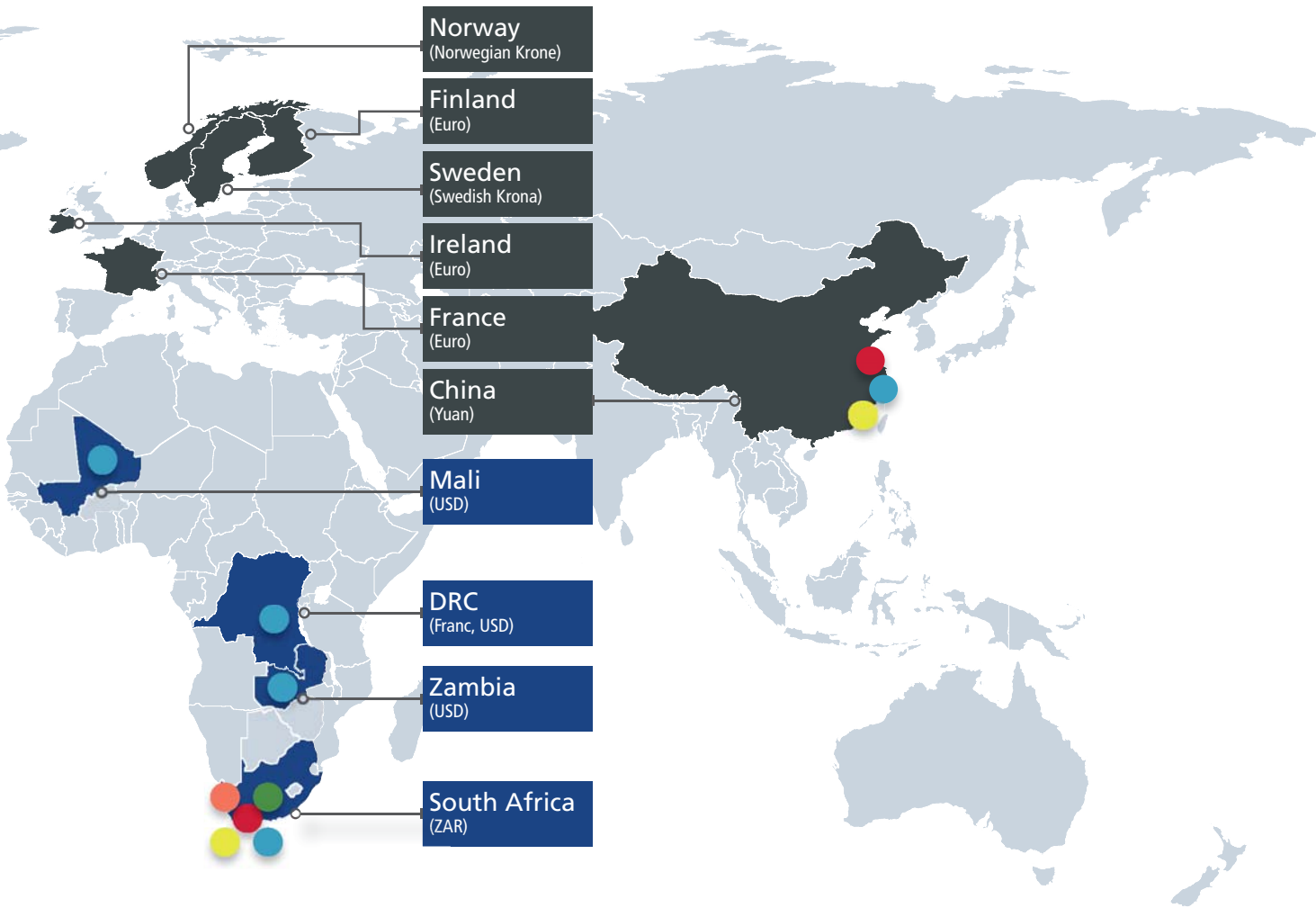
Commodities: Polymetallic, gold, copper, silver
Hydroelectric
Civils and construction



2 099
employees



Total machines:
71



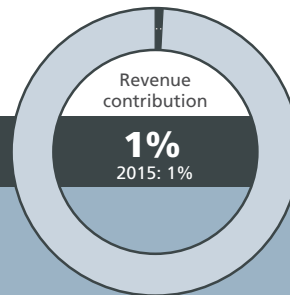
South Africa 24% Rest of Africa 18%

Africa

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



Total machines:
67



Other countries

Commodities: Lead, chrome, zinc, polymetallic, gold, iron ore

Hydroelectric

Civil and construction



Total machines:
18*

* Includes Bergteamet locations and machines.

// our business model

Input

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 approximately 2 000 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.

Vertical integration

Supports one-stop solutions

Design

- Specialised in-house drilling equipment design customised for specific requirements
- Flexibility on capital investment
- Technology development

Manufacture

- Assemble drill rigs to client specifications
- Diverse rig portfolio

Maintain

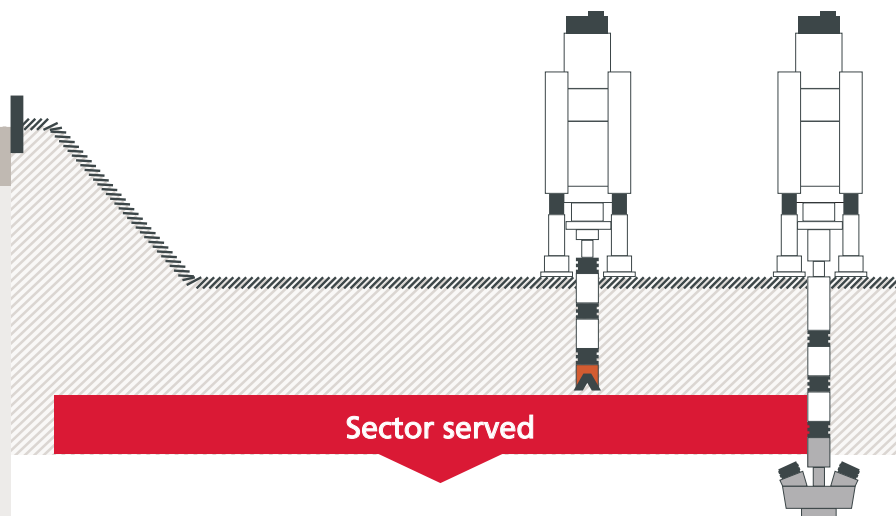
- Provide engineering support to our drill rigs
- Continuous upgrade portfolio

Train

- Enhance skills to leverage our machinery
- Training centres in South Africa, Peru and Chile focused on technical skills
- Grooming management and staff to support our growth strategy

Operate

- Provide operating support to our drill rigs
- Complete project management from exploration to production drilling



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.

Hydroelectric



The energy sector uses raise boring holes and shafts in hydroelectric or pumped storage plants as pressure shafts and to gain access to underground nuclear storage facilities. Tunnel boring is predominantly used in hydroelectric or pumped storage projects for the use of tailrace tunnels.

External environment

External matters influencing our operations include:

- Fluctuations in mining commodities
- Mining outlook, locally and abroad
- Talent war
- Industrial action
- Exchange rate fluctuations



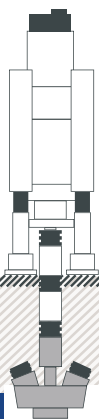
Refer to page 48 of this report

Material matters

Influencing how we do business:

- Global mining and commodity cycles
- Unwanted health and safety-related events
- Funding
- Contract execution
- Client dependency

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



Outcomes

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

Strategic statement

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

Strategic pillars



Sustainable growth



Optimisation and increased profitability



Technology optimisation and development



People capacity and development

Output

Our products and services to the various sectors we serve

Rock boring

Rock boring applications offered by Master Drilling include:

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

Slim drilling

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

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

Support services

Directional drilling, stage shaft support, remote operated shaft support, piling scan mobile, analysing of ore and core yard management
<http://masterdrilling.com/our-business-and-global-footprint.html>



Web brochure on our outputs

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

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

Refer to page 48 of this report

// our investment case



Financial value indicators

- Net cash generated USD26.6 million.
- Increase in shareholder spread from 300 to over 1,300.
- Low current gearing ratio, excluding cash, of 21,2%.
- 16,1% in USD terms compound annual growth in PAT from 2012 to 2016.
- Net asset value of 99 US cents per share.
- HEPS increased by 3,6% to 14.3 US cents.
- Management continuously drives efficiency and cost control to protect business cash.



Specialised market

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



Diversification

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

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.



Well-established client base

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



Technology

- Our work on patented technology over the last 18 months is now coming to fruition.
- Our technologies have the capacity to change the way companies operate underground.
- When the mining industry is under pressure due to low commodity prices and rising costs, our productivity-boosting innovations, speed and lower costs will still be in demand.
- Sophisticated information technology underpins all our strategic initiatives (To read more about our technology, see under *Technology* on [page 54](#)).



Experience and commitment

- Our executive management team has a combined total of 97 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 with 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 mechanisation.
- Declining mineral content and the need to lessen their impact on the environment are causing large mining companies to turn away from open-cast mining 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 to apply our technology for horizontal boring in block cave mining has the potential to lead to significant opportunities in this field.



//a safe, efficient, greener alternative

Combining proven and trusted methodologies, our BSBS allows cost-effective and safe access to ore bodies at great depths and situated in hard rock. The verticality of the drilling is assured with the use of state-of-the-art technology, while pre-cast concrete segments are lowered and placed in position to line the shaft by a manipulator located on the boring machine itself.

The system includes a working platform which can be raised or lowered for inspections and maintenance. Most importantly, with the entire operation conducted without the need for any blasting, noise and fumes are no longer a feature of the drilling process, and the environmental impact is minimal.

7 meters
advance per day

40-person
crew

18 months
earlier
production

10 – 14 meter
diameter



// values and behaviours

R

Respect

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

Behaviours

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

A

Accountability

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

Behaviours

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

I

Innovation

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

Behaviours

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

S

Safety

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

Behaviours

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

E

Efficiency

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

Behaviours

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

// human resources ("HR")

At December 2016, our total workforce complement stood at 2 099. 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

	South Africa	Chile	Brazil	Mexico	Peru	Zambia	DRC	China	Mali	Tanzania	Sierra Leone	Total
December	706	251	155	251	490	88	92	23	18	11	14	2 099

	South Africa	Chile	Brazil	Mexico	Peru	Zambia	DRC	China	Mali	Tanzania	Sierra Leone	Total
Workforce December												
Skilled	368	76	85	63	61	35	25	19	6	5	10	753
Semi-skilled	117	75	18	79	154	13	13	4	0	0	1	474
Unskilled	221	100	52	109	275	40	54	0	12	6	3	872
	706	251	155	251	490	88	92	23	18	11	14	2 099

Unionised members

Entity	Number of unionised employees
MDSA	340
DTS	121
MDSS	89
MDX	156
Zambia	88
China	23
Peru	203
Mexico	126
Chile	93
Total	1 239

// human resources (“HR”) / continued

Salary increases

Entity	Last wage % increase	Senior managers (%)	Executives (%)	Employees (%)
South Africa	<ul style="list-style-type: none"> All employees received a 7,00% increase All employees now on a pension fund of 5,00% employee and 5,00% or better employer contribution. (Some would thus have received a total increase of 12,00%) Top 10,00% received a minimum of 10,50% Top 2,00% received minimum of 12,25%. This was applied irrespective of managerial level and not based on cost to company (“CTC”) 	<ul style="list-style-type: none"> All employees received a 7,00% increase All employees now on a pension fund of 5,00% employee and 5,00% or better employer contribution. (Some would thus have received a total increase of 12,00%) Top 10,00% received a minimum of 10,50% Top 2,00% received minimum of 12,25%. This was applied irrespective of managerial level and not based on CTC 	<ul style="list-style-type: none"> Please see <i>Remuneration under Governance</i>, page 68 	<ul style="list-style-type: none"> All employees received a 7,00% increase All employees now on a pension fund of 5,00% employee and 5,00% or better employer contribution. (Some would thus have received a total increase of 12,00%) Top 10,00% received a minimum of 10,50% Top 2,00% received minimum of 12,25%. This was applied irrespective of managerial level and not based on CTC
Rest of Africa	4,00%	4,00%	No executives	4,00%
China	5,25%	5,87%	No executives	4,72%
Peru	4,60%	4,60%	6,00%	4,60%
Mexico	6,00%	6,00%	6,00%	6,00%
Chile	7,00%	7,00%	7,00%	7,00%
Brazil	5,00%	5,00%	5,00%	5,00%



Skills and training

Retaining expertise and skills development is a key priority for us, and we are investing in skills development based on a skills gap analysis concluded at the end of 2016. This investment will extend our capacity to support our growth strategy. During 2017 we will focus on targeted interventions for management and technical training in general.

Management in Training (“MIT”)

MITs trained in and absorbed in 2016, per company

Country	Number of MITs	Number of MITs appointed
Chile	3	2
Peru	1	1
DTS	8	4
MDSS	4	2

Training costs

The table below outlines the various costs and spend incurred in training and development during 2016.

	China	Chile	Peru	Mexico	Brazil	Zambia	DRC	Mali	Guatemala	Colombia	Ecuador	South Africa			
Deemed international training costs	0	48 894	352 000	7 743	0	3 998	5 629	7 437	3 307	3 943	2 297	15 029	256 298	124	579
External training costs	277	59 395	24 911	1 474	0	198	1 941	797	0	0	0	21 509	10 037	2 873	7 422
Total spend	277	108 289	376 911	9 217	0	4 196	7 570	8 234	3 307	3 943	2 297	36 538	266 335	2 997	8 001

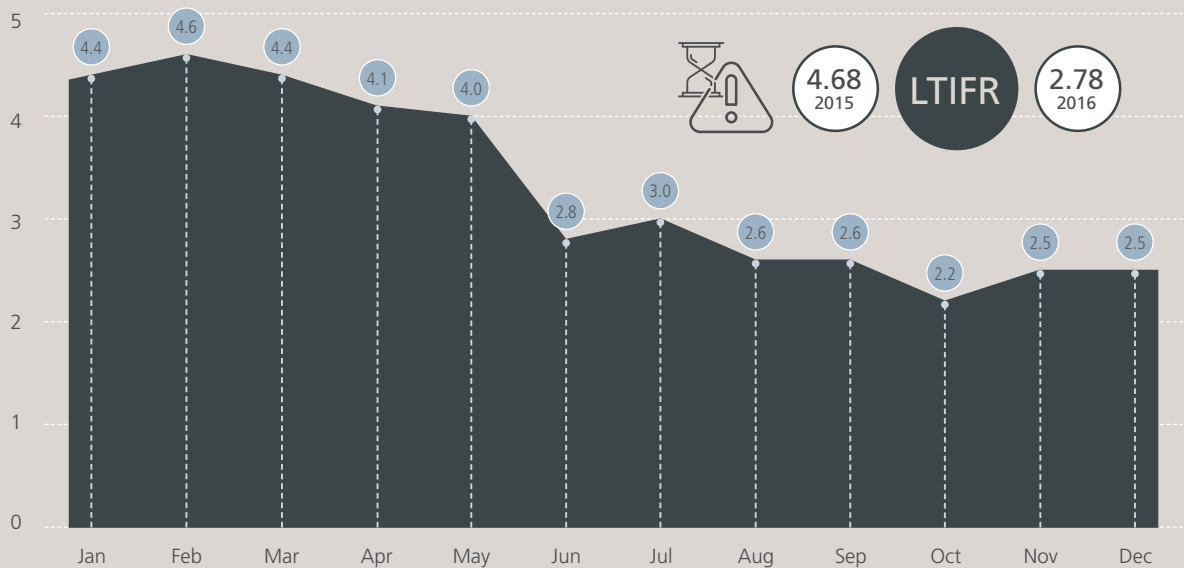
// health and safety

Unwanted safety- and health-related events that result in single or multiple fatalities, irreversible injury, increasing injury statistics, mine safety stoppages, and non-compliance with Master Drilling management standards, are always a risk in a business such as ours. We also face pressure from clients who, in cases where standards are not adhered to, or there is a serious outcome, may even seek to terminate our service. It is a fact that when we bid for tenders, safety heads the list of requirements.

We are engaged in a significant drive to bring down the level of incidents or potential incidents, and to increase awareness and informed safety compliance on the part of 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 for injury on duty. While our lost time injury frequency rate ("LTIFR") reflects a drop of 2, which represents a 40% improvement for the year under review – and it is pleasing to see the figure so low – our aim is nonetheless to achieve a figure of zero, with no serious harm whatsoever coming to any member of our workforce.

Comparative lost time injury frequency rate ("LTIFR") year-on-year



// corporate social investment

At Master Drilling we are, by the nature of our business, dependent on contracts awarded to us by our clients, and as such our work is generally carried out on sites established and administered by them.

This means that depending on the length of the contracts awarded, our presence on site is of necessity transitory, and our impact on the local communities within which we find ourselves working is intimately tied to the primary impact resulting from 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 conscious of the responsibilities we have as a group towards the people among whom and with whom we work.

Skills development

This is particularly true when our operations are situated in rural areas, where the background of the local population is agricultural. In employing local community members in so far as possible, there is always the risk of safety standards not being maintained to both our and our clients' desired levels. Skills therefore have to be imparted. This is sometimes also demanded by legislation, such as in Peru, for example, where any person employed in the industry is required to be in training for one month a year.

Local economies

We also endeavour to re-employ previously trained personnel, and strive to support

local vendors and suppliers. This can mean making use of locally procured transport or using local accommodation and restaurants to feed our crews. In such cases, in rural Andean communities we on occasion bring in our own social workers to assist with upliftment in the area of hygiene, which when implemented is of mutual benefit both to the community and to our business.

As a world-leading public group our labour payments are included on our payroll systems and all payments are done by way of electronic fund transfers.

Our requirement of invoicing from suppliers has the effect of introducing people who would otherwise be excluded from their national economy to formal economic participation – an advance that has a positive effect both on them, and on their national fiscus.

Initiatives and support for projects

The table below outlines our activities with regard to our commitments and activities in supporting various socio-economic initiatives and projects.

Area	Initiative	Contribution	Amount
Fochville and surrounding area (South Africa)	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.	Monthly contribution	ZAR522 800 per annum
Greenspark (South Africa)	Greenspark Primary School	Monthly contribution	ZAR48 000 per annum
Fochville (South Africa)	Laerskool Losberg	Monthly contribution	ZAR60 000 per annum
Greenspark (South Africa)	Reënboog Kleuterskool	Monthly contribution	ZAR12 000 per annum
Fochville (South Africa)	Employees involved by donating blood to the South African National Blood Services	Quarterly	Blood
Khutsong (South Africa)	Palisade fencing at a new school	Once-off contribution	ZAR15 000
Greenspark (South Africa)	Leadership and development programme for prefects at Greenspark Primary School	Once-off contribution	ZAR3 270
Greenspark (South Africa)	Uniforms and stationery for Grade Rs at Reënboog Kleuterskool	Once-off contribution	ZAR8 420
Postmasburg (South Africa)	Anglo American Kolomela Mine – Sports development	Once-off contribution	100 T-shirts
Fochville and surrounding area (South Africa) – Roll-out pending	Enterprise development – MDX	Once-off contribution	ZAR277 699
	Supplier development – MDX	Once-off contribution	ZAR555 338

Area	Initiative	Contribution	Amount
Belo Horizonte/MG (Brazil)	Warm-up campaign – in the winter the company asked its employees for donations of blankets, socks, warm clothes, etc. to pass on to the needy	Once a year	Donations
Belo Horizonte/MG (Brazil)	Blood donation campaign – the company mobilised employees to donate blood to help supply the State of Minas Gerais blood bank and contribute to the father of one of our employees who needed a blood transfusion	Sporadically	Donations
Jacobina/BA (Brazil)	Day Integrate – the company contributes to the event held by the JMC client in order to promote health, citizenship, leisure and interaction with the community	Once a year	USD159
Jacobina/BA Crixás/GO Sabara/MG Belo Horizonte/MG (Brazil)	Safety Week – promotes safety awareness both inside and outside the workplace	Once a year	USD381
Programas Governamentais (Brazil)	Hiring of apprentices and people with disabilities	When necessary	Average of USD317 per contractor
Puno, close to operation at MINSUR mine (Peru)	Support provided to elderly persons in areas where economic resources are difficult to obtain	In accordance with analysis of needs in populations close to MDP operations	USD2 198
Lima – close to administration offices (Peru)	Support for older adult victims of natural disaster, through donations to institutions founded for natural disasters	In accordance with analysis of needs in populations close to MDP operations	USD1 684
Mexico	Employees collect new or used toys in good condition and organise Christmas parties in underprivileged communities where they hand the toys out to the children	Once a year (Christmas time)	Donations
Mexico	Employees have set up a collection centre to collect screwtops from disposable bottles and work with the Foundation Destapa Una Esperanza A.C. to support the needs of children with cancer	Throughout the year	Collections/donations
Mexico	We collaborated with the state government of Oaxaca and Fortuna silver mine in the construction of the foundation of the church in Cuzcatlan	Over a three-year period	USD25 000
Chingola (Zambia)	Provided financial assistance to the organisations assisting with the celebrations around Labour Day	Annually	ZMW1 000
Chingola (Zambia)	Female employees of Master Drilling participated in the government-sanctioned Women's Day parade	Annually	ZMW1 950
Mufulira (Zambia)	Financial assistance with organisation of a golf day to benefit local communities	Annually	ZMW5 000

In addition, meetings were held throughout the year with local mining bodies in which matters regarding the environment, health and public safety, including the impact of the Group's activities and its products and services, were discussed.

Discussions were also held with local community councils regarding labour and employment, including:

- the Group's standing in terms of the International Labour Organization Protocol on decent work and working conditions; and
- the Group's employment relationships, and its contribution toward the educational development of its employees.

In the first of these two matters we adhere to South African legislation, and in regard to the second, we conducted skills gap analyses, and developed a training plan.

// chief financial officer's review



With the mining sector under significant pressure, and other severe operational and economic issues, the 2016 financial year was one in which we had to work exceptionally hard to generate revenue. With stuttering usage across the industry, our utilisation rates were down.

André van Deventer
Chief Financial Officer



This review should be read in conjunction with the summarised consolidated annual financial statements starting on page 76.



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

Although the year began in difficult circumstances, the second half showed enough gradual improvement in our operating environment to enable us to deliver a satisfactory performance.

Revenue decreased 1,5% to USD118.1 million and operating profit decreased 12,8% to USD25.8 million. The decline in revenue was due to the impact of unfavourable foreign exchange movements, market conditions, pricing pressures and clients opting for shorter-term projects that also impacted cost-efficiencies.

Costs related to the launch of new projects in a number of countries including the DRC, Sierra Leone and Tanzania coupled with the decision to invest in people and capabilities to drive future growth, resulted in profit before tax decreasing 12,1% to USD25.3 million.

Taxation

Conservative provisions for taxation in some jurisdictions in previous years, as well as raising of deferred tax assets on historically loss-making entities that returned to profitability, have led to a decrease in taxation, supporting a 5,7% increase in PAT to USD22.3 million.

USD EPS increased 5,9% to 14,3 cents, and ZAR EPS increased 22,1% to 210,0 cents. USD headline earnings per share ("HEPS") increased 14,3% and ZAR HEPS increased 19,4% to 210,0 cents.

Cash generated from operations

Net cash generation was lower at USD26.5 million due to significant investments in working capital. Debtor days increased as a result of longer payment cycles, but we will continue to manage debtors actively as market conditions improve.

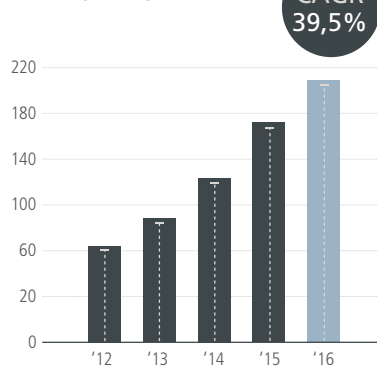
Working capital was also impacted by the Bergteamet Latin America SpA acquisition and investment in property, plant and equipment. The manufacturing of cutters was brought in-house during the year via our plant in China. Inventory increased 24,5% to USD24.4 million as a result and in anticipation of higher volumes of work coming on-stream and capital outlays involved in new projects across the Group.

Cash resources continue to be managed stringently to cater for emerging opportunities that require specific design, planning and investment. Of our capital spend, 88,9% was on expansion with 11,1% on maintenance.

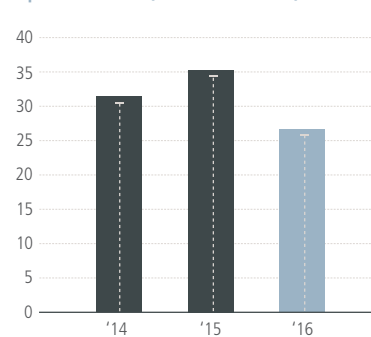
Debt decreased from USD33.4 million to USD31.0 million and the gearing ratio decreased to 21,2% from 28,3% in the prior year.

With our utilisation rates in both our raise bore and slim rigs showing improvements on the previous year, we have every reason to believe that this trend will continue, particularly with our ground-breaking horizontal raise boring and other technologies coming into service. Nevertheless, with our raise bore utilisation some 2% below target, our revenue per rig, at USD111 040, is substantially lower than our target of USD120 000.

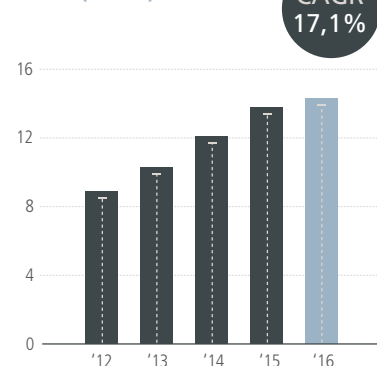
HEPS (ZARc)



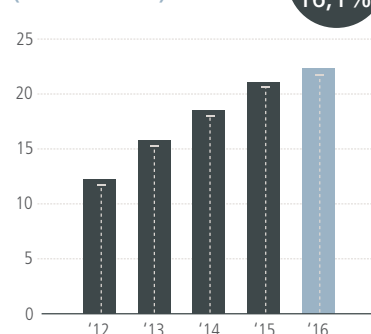
Cash generated from operations (USD'million)



HEPS (USDc)



Profit after tax growth (USD'million)



Average revenue per operating rig ("ARPOR") summary per annum

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

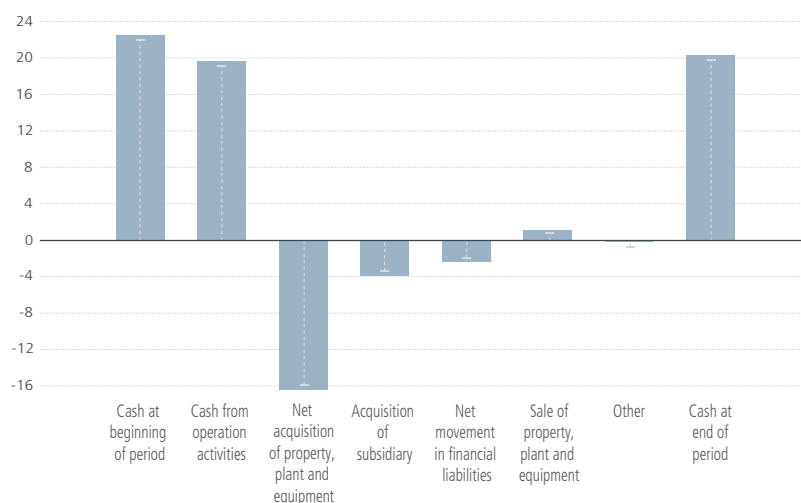
* Average revenue per operating rig per month.

Impaired diamond drilling and underground machines during the year.

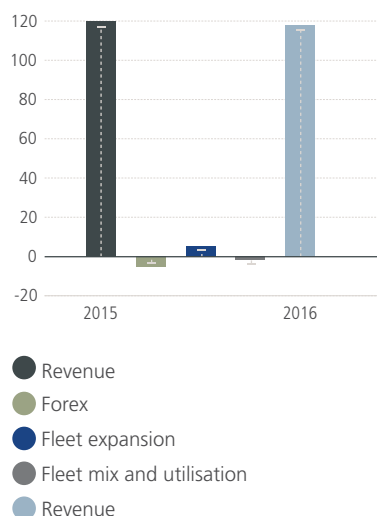
Cash flow waterfall

The use of the cash generated at our operations is shown in the graph below.

Cash flow waterfall (USD'000)



Revenue waterfall (USD'000)



Funding

Our gearing ratio is reducing. We drew down the facility we obtained from ABSA Capital in 2015 to utilise for future growth, with the result that we are now effectively repaying this obligation. With our gearing ratio standing at below 25%, less than our target of 30%, and around 7% or 8% if cash is included, our gearing remains very low, in keeping with our financial conservatism in this respect. Our interest-bearing debt stands at USD31.2 million, a decrease from USD33.3 million in 2015.

Growth

While we targeted a more than 10% growth in profit after tax in USD terms, the tough trading conditions apparent particularly in the first half of the year under review contributed to our attaining just 5%.

Capital investment/ expansion

When Master Drilling listed in 2012, the capital raised was for expansion in the form of building new machines, and the debt raised subsequently was for yet further expansion. This has now largely been achieved with our fleet close to full strength, at least for the time being.



Capital expenditure will now be applied in the area of technology advancements, with this trend continuing into the medium and long term, in line with our strategy of diversification.

Contracts

While there has always been a mix of short- and long-term contracts, the year under review saw a decided increase in the former. This was due to clients being under pressure in the global economic context, and consequently reluctant to commit to significant longer-term capital expenditure. Nonetheless, in looking at the revenue split between exploration, capital and production, the norm has been around 90% allocated to production.

During the year under review this was closer to 80%, which means that the mines are beginning to step up their capital expenditure on the capital stage. This suggests a more positive view for the future.

New geographies

With the USA, Tanzania and Sierra Leone contracts all starting at around the same time, and given the capital intensiveness of the USA operations, the remote location of the Sierra Leone work, and new equipment required in Tanzania, a measure of strain was placed on our working capital, due to a time lag between the capital being expended and the accrual of revenue from it.

Margins

Our margins, although lower than the previous year, were in line with our own expectations, with the decrease due to the weaker ZAR and the stronger USD. During the second half of 2016, with emerging currencies gaining against the USA currency, local costs increased in USD terms. The resultant impact of a 5% drop in gross margin was relatively large.

Human capital

Placing an additional strain on margins was the need to build up middle-management resources required as a result of our rapid growth over the last few years. Although this impacted more on the operating cost line than on the gross profit side, the



operating profit was also down, with an additional USD4 million spent on labour. This spend on human capital is however an investment for the long term.

Sustainability

Training continues to be of the utmost importance, particularly in the light of our drive to cut the cost of labour. The aim is to gradually reduce the manpower required to operate machines, and in this regard we are already duplicating the Bergteamet model in our operations in the USA. In South Africa we maintain our excellent relationships with the unions. The principle we work on is that as we add machines we spread the existing workforce between them, thus avoiding headcount reductions, while at the same time enabling the Group to sustain an acceptable labour cost.

Stability

We view 2016 as a year of stabilisation with a number of positives, even if they are not always, or are not yet, reflected in our results. The Group is healthy, and we have consolidated and resolved a number of human capital issues, as well as processes and procedures, and in some countries, like Brazil, where our operations were previously loss-making, we have seen increased stability.

André van Deventer
Chief Financial Officer

//unique technology

The RD8 is one of the largest raise-boring rigs in the world, designed and manufactured specifically for large-diameter raise-boring applications.

Raise-boring is a lower-cost, faster and more efficient alternative to conventional blind-sinking methods. The RD8 is the only machine of its kind to use 3-meter drill pipes, which reduces the amount of connections within the length of the shaft, thus reducing risk.

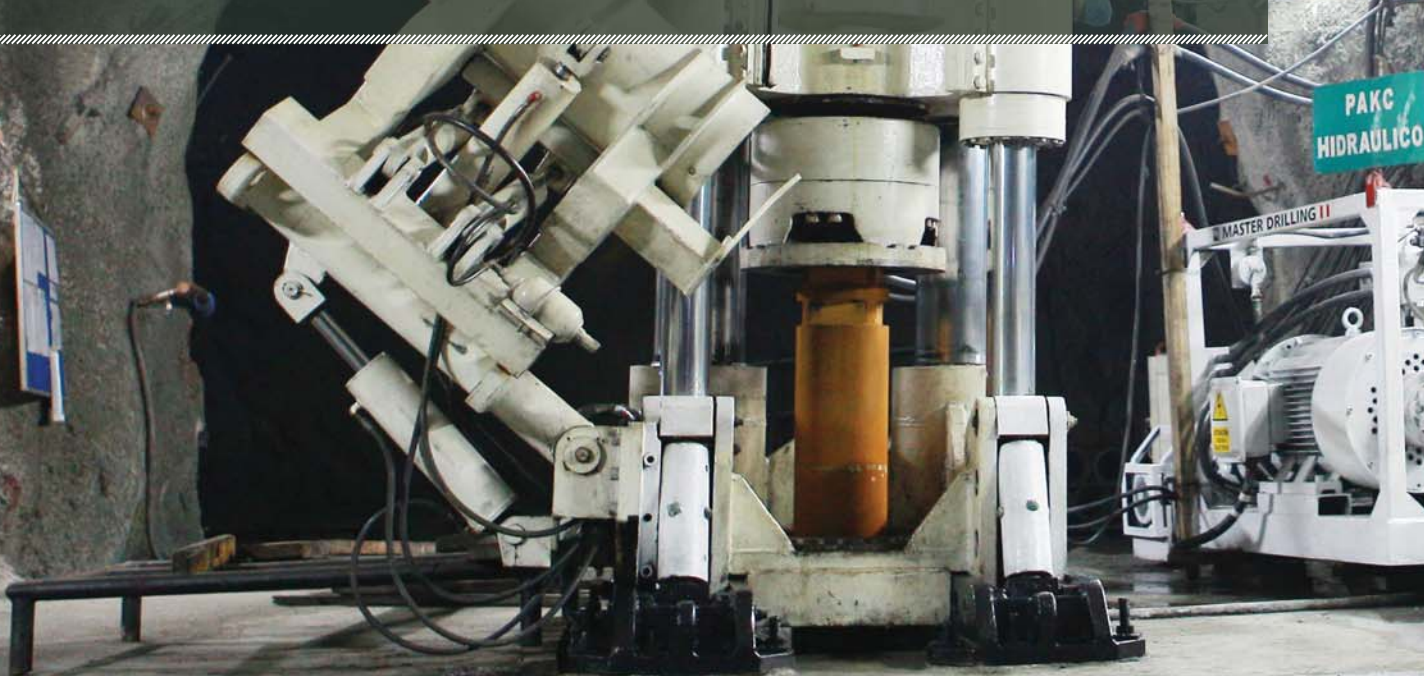
The drill rig is flexible in design, giving it another point of differentiation, as its capacity can be further expanded.

Designed in-house at MDG, the rig is automated, and with its state-of-the-art technology it offers the provision of full diagnostics and can be operated remotely.

1.5 km – the depth of operation of the RD8

8 meters – the maximum diameter of RD8 holes

2 – Personnel required per shift of operation





105 raise bore rigs
– world's largest fleet



Up to four times
faster



Geometry-
scanning capacity



// our strategy

On 19 September 2016, we held a further strategy session facilitated by an external consultant. The purpose of the exercise was to revisit and clarify our strategic thrust in the context of global trends, market realities and our underlying culture of entrepreneurship.

With the fundamental aim of maintaining growth and delivering value through diversification across geographies, industries, our technologically advanced offerings and clients, and building on our strategic pillars of



Sustainable growth



Optimisation and increased profitability



Technology optimisation and development



People capacity and development

we established a renewed and focused definition of our strategic objectives, initiatives and processes.

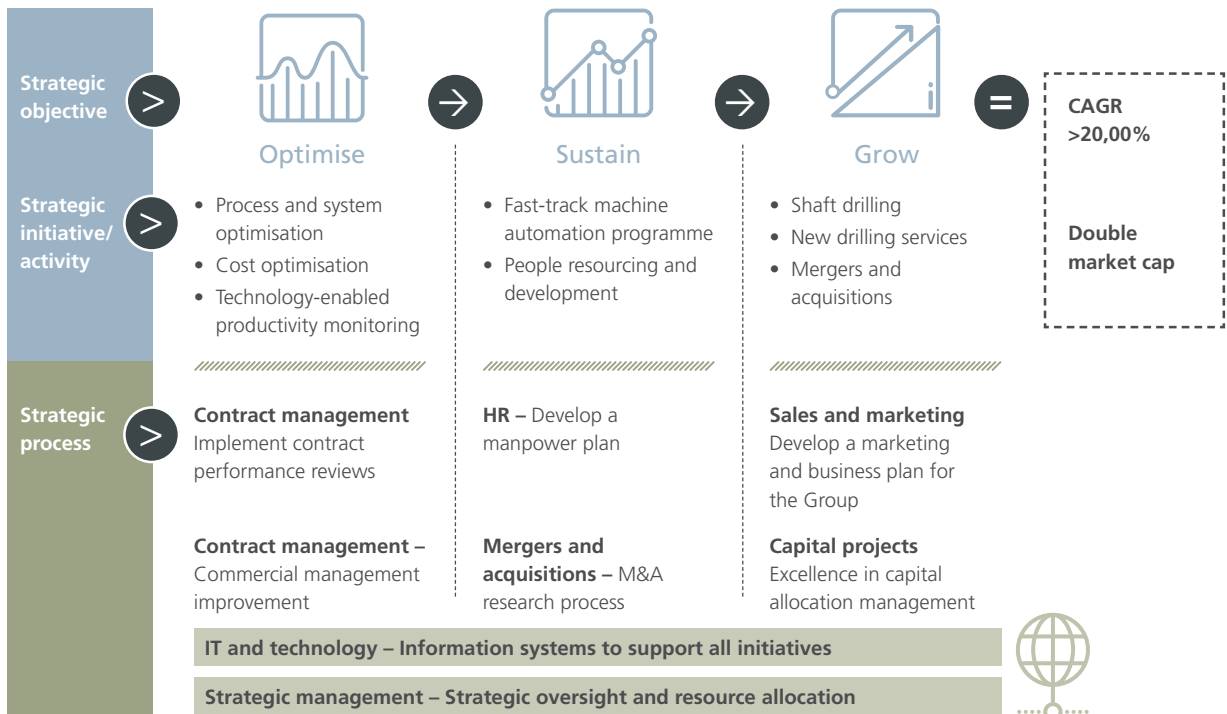
In order to ensure the successful execution of this strategy, we have continued with our rigorous process of measurement through key performance indicators ("KPIs") against which progress is continuously monitored. The KPIs have been modified since 2015 to provide a basis for the new focus, and to establish operational dashboards to facilitate internal reporting and enhance operational efficiency. We have set timelines for the divisional implementation of the strategy to ensure its effective adoption and implementation at a functional and geographic level.

Strategy statement

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

Structure to our strategy

As part of our strategy analysis, we modelled our strategy from the strategic inputs of objectives, initiatives and processes, and founded it on our strategic pillars to attain our goals of growth and value.



As a global leader in our industry we hold 43% of the world's raise bore fleet. While this positions us well in the commodity sector, it is geographic and currency diversification that will enable us to progress towards achieving our goals of creating further value.

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

Strategic goals	KPIs
<ul style="list-style-type: none"> Market capitalisation of R4 billion by 2018 	<ul style="list-style-type: none"> R2,7 billion
<ul style="list-style-type: none"> Two new geographies per year 	<ul style="list-style-type: none"> 1 – USA with USD9 million contract
<ul style="list-style-type: none"> Further diversification into Energy and Civils 	<ul style="list-style-type: none"> 0% – Civils construction* 6% – Hydro Limited energy and civils work awarded
<ul style="list-style-type: none"> Double digit compound profit growth rate in USD terms 	<ul style="list-style-type: none"> 16,1% 2016 Actual**
<ul style="list-style-type: none"> Skilled people to support growth targets 	<ul style="list-style-type: none"> On track with gap analysis and skills assessments


* Revenue for 2016

** 2012 as base

// our strategic pillars

Strategic initiatives


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



Sustainable growth

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

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



Goals in 2017

- Secure an initial contract in North America to establish footprint



Optimisation and increased profitability

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

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



Goals in 2017

- 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 and timing	KPIs
BSBS	Replace conventional shaft-sinking methods	<ul style="list-style-type: none"> Detail engineering completed Estimated costing: R600 million Procurement Possible projects to test concept Industrial Development Corporation ("IDC") funding secured 	<ul style="list-style-type: none"> Funding secured Research and Development ("R&D") costs spend <p>Lag</p> <ul style="list-style-type: none"> Revenue from BSBS
Developing new drilling services	Development of new applications to sustain and grow the business	<ul style="list-style-type: none"> Horizontal Drilling Project: Phase A – length 52m x ø4,5m completed Mobile miner tunnelling Gripper Slot machines Low profile raise bore machine Dewatering rotary machines 	<ul style="list-style-type: none"> R&D capital spend <p>Lag</p> <ul style="list-style-type: none"> % of revenue ROC services
Technology enabled productivity monitoring (Raise boring)	<ul style="list-style-type: none"> Centralised facility to gather and monitor operational data with the goal of improving overall utilisation, efficiency and safety performance Centralised facility to gather and monitor operational data with the goal of improving overall utilisation, efficiency and safety performance 	<p>Operational excellence project in progress:</p> <ul style="list-style-type: none"> Production time increase Penetration Hands free War room meetings: <ul style="list-style-type: none"> Weekly review of high-impact projects Six Sigma contract delay projects Mobile app implementation <p>Systems and process</p> <ul style="list-style-type: none"> MD Online and dashboard completed and implemented Mobile app development and implementation 	<ul style="list-style-type: none"> Operational data capture for all machines <p>Lag</p> <ul style="list-style-type: none"> Machine utilisation Group LTIFR
Technology enabled productivity monitoring exploration business			
Fast-track raise bore machine automation programme	Automated RB machines available with auxiliary equipment as per Group requirement	<ul style="list-style-type: none"> Machines identified for automation in 2017 Programme on track in 2016 	<ul style="list-style-type: none"> % total machines automated <p>Lag</p> <ul style="list-style-type: none"> Availability of automated machines Failure cost of automated machines
Information systems to support all initiatives	Information systems to support all strategic initiatives and special projects, continues to see improvement in projects and risk mitigation strategies	<ul style="list-style-type: none"> IT Steering Committee in place Formal project management methodology implemented in management of IT projects IT resources increased IT governance and risk management framework developed Service providers engaged and contracted to assist in IT projects 	<ul style="list-style-type: none"> IT Steering Committee in place <p>Lag</p> <ul style="list-style-type: none"> % strategic initiatives where IT projects are registered



Goals in 2017

- Finalise testing of BSBS 1st phase



People capacity and development

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

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



Goals in 2017

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

// stakeholder relations

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

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

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

Regular review

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


Considered action




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



The following is an outline of the profiles of our stakeholders, our engagement process with them, and our actions or responses, as determined and undertaken during FY2016.



Stakeholder engagement

Profile	How we engage	How we act and respond
 <p>Clients (current, new and potential clients and targeted sectors)</p>	<p>We communicate by means of:</p> <ul style="list-style-type: none"> • Monthly 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 with presentation • Technical meetings • Business development meetings • Conferences – Participation as sponsor and speaker at the Rapid Underground Mine & Civil Access conference hosted by SAIMM – also involved with arrangements for the conference • Site visit to our facilities and operations on sites • South American clients visited our HRB at Cullinan mine in SA during December 2016 	<ul style="list-style-type: none"> • We undertake 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 • We implement active cost management as an integral part of contract management and contract execution • We support honest opinions • Senior involvement in queries
 <p>Shareholders and investment community</p>	<p>We utilise:</p> <ul style="list-style-type: none"> • Daily management through executive meetings and day-to-day involvement in business • One-on-one CEO and CFO meetings • Reporting into governance structure • JSE and retail investor communication: Integrated report • Interim and year-end investor presentations – Results presentation 22 March 2017 at JSE • Investor forums • Roadshows – Cape Town 23 to 25 March and Johannesburg 27 and 28 March • Analyst meetings • Stock Exchange News Service announcements • Investor site visits to our operations – Cullinan HRB site visit on 6 October 2016; next visit planned at Sibanye – gripper machine 	<ul style="list-style-type: none"> • To achieve our CAGR target, we are continually reinvesting in the business and using our cash resources for investment in asset development • We are committed to maintaining a strong Board with industry-wide experience • We adhere to the principles of King III • We were transparent about the fact that shareholders could not expect dividends while we were investing heavily in our business capacity during the Group's initial growth phase. Cash generation, together with a more mature fleet of rigs, has now enabled us to commence payment of dividends
 <p>Lenders and financiers</p>	<ul style="list-style-type: none"> • CFO meetings • Regular reviews with management • Contact with banks monthly via management statements • Covenant reviews 	<ul style="list-style-type: none"> • We provide detailed financial reports and operate to a strong cash flow and debt coverage ratio. We also hold significant assets

Profile	How we engage	How we act and respond
 <p>Trade unions – Approximate unionisation:</p> <ul style="list-style-type: none"> • South Africa: 100% (UASA majority of 67,9%) • Brazil: 100% • Chile: 35% • Mexico: 100% • Peru: 38% • Zambia: 75% 	<ul style="list-style-type: none"> • Official letters • Annual wage negotiations • Quarterly meetings • In South Africa we have a recognition agreement with the United Association of South Africa (“UASA”) and hold frequent meetings with the Association of Mineworkers and Contractors Union (“AMCU”) officials 	<ul style="list-style-type: none"> • Fair remuneration, benchmarked to industry standards, has been incorporated into the annual wage agreements • Agreements and interactions are reviewed by an independent labour lawyer
 <p>Media</p>	<ul style="list-style-type: none"> • We maintain contact with journalists from all forms of media, including print, online publications and sites and broadcasting. In printed and online media we gain exposure in industry-related trade publications, mining magazines and newspapers by means of editorial content <p>We utilise:</p> <ul style="list-style-type: none"> • Quarterly publications • Financial results • Mining-related gatherings • Meetings and interviews at our offices • Press releases – HRB press release during Mining Indaba to create awareness • Media site visits at authorised operational sites – Sake Rapport and Reuters attended site visit at Cullinan on 2 February 2017 • Media monitoring – 55 editorial publications published during February 2017 • One-on-one meetings to be scheduled with main media throughout the year 2017 – Focus to be on financial media 	<ul style="list-style-type: none"> • 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
 <p>Suppliers</p>	<p>We maintain:</p> <ul style="list-style-type: none"> • A regional procurement office for specific equipment • Regular interactions with suppliers via meetings, visits and email • Engineering trainees working with suppliers to understand the value chain • Audits • Monthly discussions on supplier variations 	<ul style="list-style-type: none"> • We have a dedicated team to deal 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 Dynamics AX

Profile	How we engage	How we act and respond
 <p>Government and regulatory bodies</p>	<ul style="list-style-type: none"> We engage with tax, labour, environmental and mining authorities. We also engage with the JSE and regional and central banks. Engagement takes place at our regional head offices and operation sites <p>We utilise or refer to:</p> <ul style="list-style-type: none"> Regulatory returns Indirect communication through our clients Direct communication from permanent offices Visits by the authorities Quality of education Labour laws B-BBEE expectations Tax paid 	<ul style="list-style-type: none"> We ensure we meet all compliance requirements through timeous filings and the handover of complete, transparent supporting documentation We engage on an ongoing basis in order to maintain and establish mutually respectful relationships
 <p>Communities</p>	<ul style="list-style-type: none"> Our contact is mostly with those communities situated within our clients' areas of operation. Engagement takes place at their sites, under their operating authority We align with our clients Our engagement is ad hoc, as circumstances dictate 	<ul style="list-style-type: none"> Our engagement with communities is aligned with the companies who employ our services in our operational areas Corporate social investment is run by local operations, rather than at a Group level We provide jobs to communities Community investment Sponsorship of community events/projects



// risk management

Our risk management process, aligned with the ISO 31000 risk management standard, a global standard governing the principles and generic guidelines of risk management, has been implemented across the Group and covers all business operations.

Risk management is a central part of our strategic success and an essential part of our governance framework. The Board has delegated its responsibility of risk management oversight to the Risk Committee, as reflected in the Risk Committee charter. The risk department and management are responsible for the implementation of the risk management policy and processes throughout the Group.

Risk management process

The risk management department runs the risk identification process together with the rest of the management team to identify our risks. We maintain the risks we identify in a risk register, which forms the basis for the development of plans to mitigate them using key risk indicators to assist us in their monitoring.

At a governance level, the Risk Committee reviews at quarterly meetings, both the risks we have identified, and management's responses to them. These risks are then used as input when it comes to determining our material matters. (Read more about *Material Matters* on [pages 48 to 51.](#))





























































In identifying the risks to which we are exposed, we have taken the process a step further, by identifying the top three risks we are exposed to, and categorising them in terms of (among other indicators) appetite, tolerance, and the metric by which we assess them.

Our top three risks




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

Top three risks	Key control	Risk appetite
1 Availability of management- and technical skills	Recruitment: Manpower planning and recruitment process and skills development	<ul style="list-style-type: none"> All key resources identified, Key Performance areas ("KPA") established and appointed Low number of staff-turnover resulting in preservation of skill and intellectual property ("IP")
	Skills development: Gap analysis per individual per position	<ul style="list-style-type: none"> Skills gap identified and development plans in place for all key positions
2 Unwanted safety- and health-related events	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	<p>Governance and development through Group IT Steering Committee represented by all pillars of the organisation</p> <p>Monthly IT meetings with management</p>	<ul style="list-style-type: none"> Process: High availability of systems which support its critical business functions Service delivery: All critical and high incidents resolved with same business eight hours Ongoing development: Strategic, risk and continuous improvement projects – on time on budget

Risk dashboard

Risk profile			
Inherent risk ranking	Inherent risk movement	Risk name	Inherent, residual, target 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 customer 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 cycles	  
13		Cost escalations beyond budget	  
14		Reliance on strategic equipment component suppliers	  
15		Effectiveness of current commercial management process	  

Key

-  Decrease in inherent risk exposure
-  No change in inherent risk exposure
-  Increase in inherent risk exposure

// material matters

In order to effectively manage our risks and identify the opportunities in our business and industry, we undertake to define the material matters that have the capacity or potential to substantively affect our ability to create value for our stakeholders over the short, medium and long term.

In addition to the expectations of our stakeholders, our approach in identifying these matters takes into consideration our external environment, and any other identified risks and opportunities that may affect our ability to execute our strategy.

Determining our material matters

We embarked on a process of determining our material matters in 2015 guided by the principles of the IIRC Framework. Material matters were reviewed and updated in 2016. During the year under review, on examining our findings from the previous year, and after taking into account our external environment, stakeholder needs and expectations as well as our risks and opportunities, we determined that no change had occurred in those matters which are material to value creation in our business.

In reaching this conclusion we took into consideration:

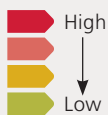
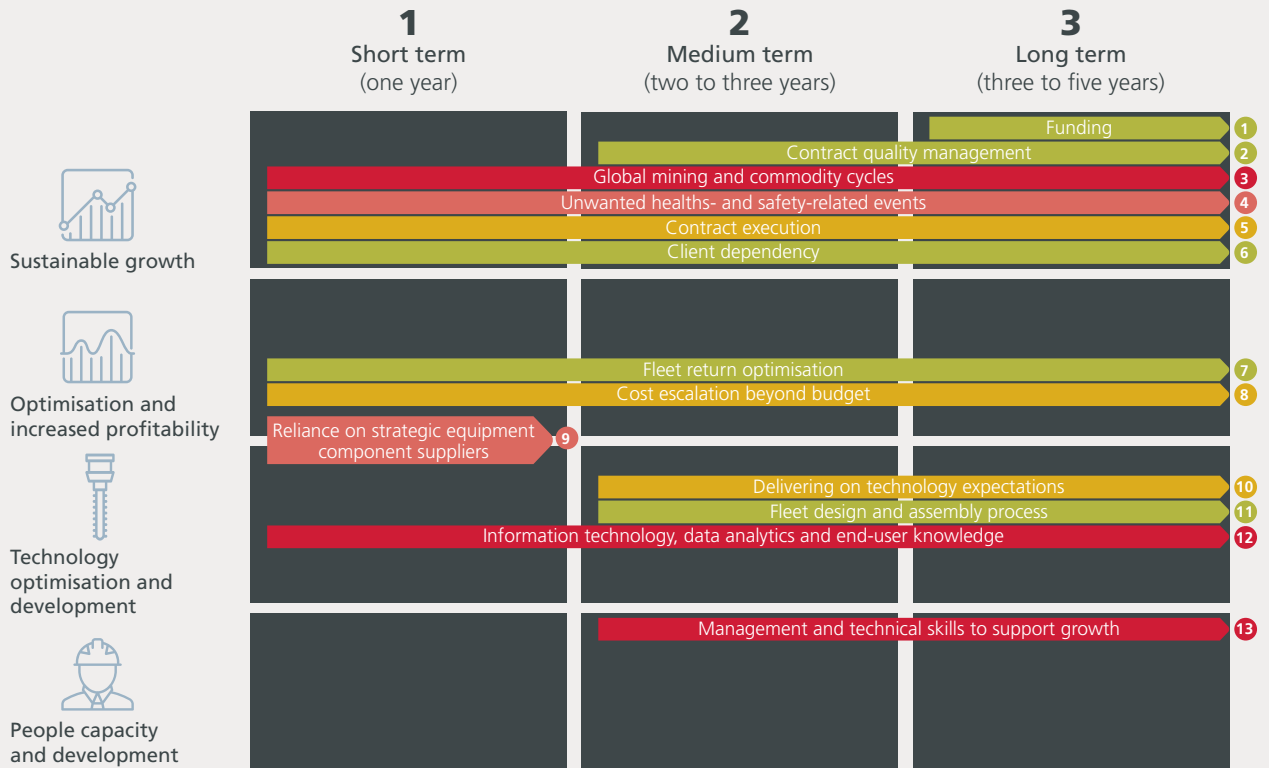
- Our understanding of the external environment in which we operate (To read more see *Our Operations*, [page 52](#);
- A review of our engagement with stakeholders in order to determine their expectations (To read more, see *Stakeholder Engagement*, [page 43](#).)
- Our risks and opportunities as they are managed within our business operations (To read more on our *Risk Management*, please see [page 46](#).)

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

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










Material matters heat map



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



Classifying our material matters

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

Material matter	Context – Opportunities for impact	Strategic pillar
<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 our specifications of cost-effective, high-quality equipment components. We can source other suppliers worldwide, but not without compromising on cost and time • We continue developing new suppliers to reduce this reliance and a dedicated office in China monitors all aspects of the equipment component supply chain management process • In line with our concerted focus on cost containment, we are assessing all elements of our supply chain to see where we can reduce costs without compromising on quality 	 
<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 – a key competitive advantage 	
<p>12 Information technology, data analytics and end-user knowledge</p>	<ul style="list-style-type: none"> • The inability of a business to fully utilise its information system and the data it yields can lead to missed opportunities for driving production efficiencies and capitalising on cost savings • We have established an IT Steering Committee to ensure that systems are in place for optimal extraction, analysis and interpretation of data 	 
<p>13 Management and technical skills to support growth</p>	<ul style="list-style-type: none"> • The lack of management and business skills, project management expertise and skilled labour in the drilling industry could restrict the ability for future growth. Shortage of skilled labour could possibly inhibit our rate of expansion • To support and drive future growth, we have increased training and development to maintain and deliver the specialised skills we require • We have, among other initiatives, established an MIT programme. We operate training centres in South Africa, Peru, Mexico and Chile and provide learnerships and internships in the engineering and operational divisions 	

// our operations

As specialists in global drilling solutions, and owners of the world's largest fleet of raise boring rigs, we are leaders in state-of-the-art automation technology and drilling techniques. With our in-house equipment design, manufacturing, training and maintenance tailored to our clients' individual requirements, our operations span the globe.

Overview

We maintain operations across the African continent. With a number of loyal clients in South Africa, we are also active in projects in the DRC, Zambia and Mali, with additional contracts having come on line during 2016 in Tanzania and Sierra Leone.

In Latin America, where we earn 58% of our revenue, our operations are run by our businesses in Brazil, Chile, Colombia, Ecuador, Mexico, Guatemala and Peru, which together have enabled us to own 70% of the raise bore drilling market in South and Central America. We also maintain training centres in Peru, Chile and South Africa.

During the year under review we secured a maiden contract in the United States where we were able to complete tests of a new blind boring system. This technology entails drilling into virgin rock rather than between two open points, and we expect demand for it to increase, particularly in areas such as nuclear storage and waste water disposal or when rock and ground conditions do not allow raise bore work to be done.

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*.

Design means that we can:

- conceptualise our drilling equipment to meet our clients' specific requirements;
- benefit from flexible capital investment; and
- develop proprietary technology.

Manufacture means that we can:

- assemble custom drill rigs according to clients' specifications; and
- establish a diverse rig portfolio.

Maintain means that we can:

- provide engineering support for our drill rigs; and
- continuously upgrade our portfolio.

Train means that we can:

- enhance skills to leverage our machinery;
- operate training centres in South Africa, Peru and Chile which focus on the development of technical skills; and
- groom management and staff to support our growth strategy.

Operate means that we can:

- provide operational support for all our drill rigs; and
- offer complete project management from exploration through to production drilling.

Our portfolio of equipment, services and methodologies

Our primary service offering of raise boring has a variety of applications – each suited to a different aspect of our clients' specific requirements. The equipment we supply and operate is matched to the conditions and nature of the projects we contract to undertake, and forms the essence of our manufactured, intellectual and human capitals.

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



Plant and equipment

During the year under review we added seven raise bore machines, contributing a 4,5% growth in revenue for 2016. The fleet now consists of 105 raise bore and 33 slim drill rigs. The rate of new rigs coming on-stream will settle as we focus on larger units which typically generate higher income. No new slim rigs are in the pipeline as we move into 2017.

Our technology

Our technology forms the basis of both our intellectual and human capital, and has placed us in advance of our competitors, to the degree that we believe that we are able to produce and perform at one or two levels above our competition.

There are two reasons for this – firstly, we realised in our early years as a business that machines cannot be cost-efficiently run with an abundance of people.

Secondly, the demands for skill were always a challenge. It was because of this challenge that we considered how best our machines could be automated and mechanised. We undertook significant forward thinking about the desirable number of people required per site – the kind of thinking that is an integral element of both our intellectual and human capitals.

The continuous improvement in our technology and services remains a cornerstone of our business, in that it provides our clients with the one-stop solution that they require in order to remain ahead in their markets.

With the mining industry under pressure for both regulatory and financial reasons, there is today a growing trend towards mechanisation, and thanks to our technological leadership, proven services offering and culture of innovation and agility, we are well positioned to respond to this trend.

We have strengthened our internally conceptualised technology service offering during the year under review, and met several development milestones in developing our unique and proprietary innovations.

Technology realised

Our technology department comprises nearly thirty people, who between them perform not only an engineering function, but in addition, R&D work, Product Service Support (“PPS”) and Electronic and Electric programming development and support work. There are thus, in essence, three elements in the department, as well as a separate drawing office pursuing projects that provide a higher value proposition for our clients, and consequently better business for the Group.

These structures have become more formalised than previously, with resources having been brought in, particularly in the electric and electronic area. This has had a positive impact on our in-house capacities.

Innovation and initiatives

One of the key achievements of our technology department in 2016 involved automation. Our strategy commits us to developing automation for our rigs, and we extended this concept to the capacity to insert drill rods mechanically into the machines.

We accomplished this during the year under review, when we solved the mechanical part of the necessary R&D work, which was to develop methods of automating the drilling process as a whole, beyond the actual cutting of the rock.

A second technological achievement in 2016 was the roll-out of a digital reporting product that frees the operator on site from paperwork. An electronic device is uploaded with the relevant information which is streamed to a database which then provides the client with certain reports, and the Group with others. This breakthrough in data transfer can be accomplished either in real time or within the last working shift. With this paperless reporting capacity successfully introduced at one site during 2016, a further roll-out is scheduled for 2017.

Equipment upgrading

Our support function undertakes the upgrading of older plant. This allows us to support our operations by modernising machines for certain functionalities that we believe will add value to the services we deliver.

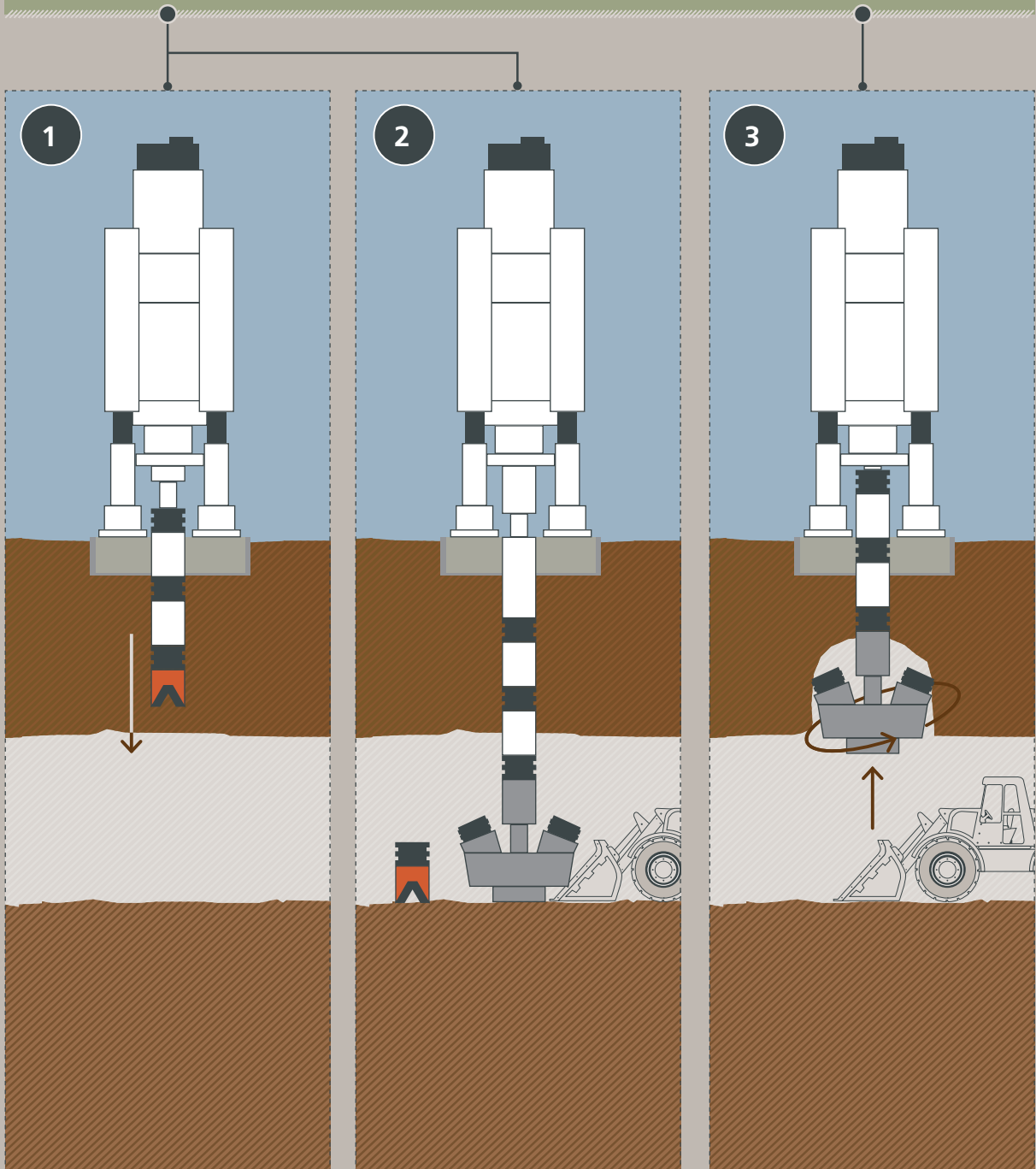
Raise bore operating cycle

Piloting

Some drilling methods require pre-drilling operations to ensure hole accuracy, stability or to enable the subsequent process. The pilot process is usually done using percussion or mud rotary methods.

Reaming

Reaming is the process of enlarging an existing hole. This can be done by either re-drilling a pilot hole using a larger 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.



Project office

On the project office side we have implemented a database management system, which enables our technical data to be handled in more efficient ways, and to be integrated into our business systems. A significant amount of stock and inventory information such as the standardisation of part numbers and naming conventions has been captured with this advance.

R&D

A particular focus during the year under review has been in R&D, with the result that it has become easier and quicker for us to develop required knowledge in-house. There are a number of successful examples that either came to fruition or were initiated in the year under review.

- Our development of reverse circulation for blind shaft-sinking is an outstanding example of our growing capacity. This technology enables wide-diameter work to be undertaken, and straighter shafts to be sunk in hard rock at greater depths. It was at the 2016 Mining Indaba that we had initially publicised our intention to manufacture the BSBS, but the response of the three companies we approached to assist us in realising this proved that the process as then planned would have been complex and expensive. We thus subsequently reconceptualised the project, identified the conceptual risk

in the system, and were able to register more of our IP as patents. The result is a system that can realise significant savings in time and therefore cost, for clients.

- Another such innovation was implemented at the Petra Diamonds mine at Cullinan. The requirement there was to bore a 4,5m tunnel through a kimberlite pipe for over 220 meters, in order to extract ore.

There were a number of setbacks, and although it ultimately took three years, most of 2016 was taken up in resolving the problem successfully, so that by the end of the year we were advancing the tunnel by two meters a day, a rate since improved to five or six meters a day. This capacity has now opened the door to far larger projects, which we believe will materialise with our ability to deploy this revolutionary HRB technology.

- Our remotely operated shaft support system lines the hole it drills as it operates, enabling deeper shafts to be safely and efficiently completed.
- We also executed a trial for Sibanye Gold in which we drilled out carbon-leader reef, pillars of high-grade ore that had been left behind over fifty years of mining. Our techniques obviated the use of potentially damaging explosives, and although the work was not a major exercise financially speaking, it has generated a significant amount of additional work.

Distribution

An important aspect of our endeavours as a technologically adept company that supplies its own in-house developed equipment, is that we own our distribution network that provides a variety of growth options and applications.

With the business depending on our networks and our ability to deliver niche solutions for specific demands, it is our vertical integration as a Group that makes us agile and able to respond adeptly to both risks and opportunities.

There is a great deal of communication and physical travel that takes place between businesses and geographies, facilitating the vital exchange not only of ideas and methodologies, but of culture adoption and adaptation to changing needs and realities.

Our activities in the technology department are the result of a combination of organic growth and the entrepreneurial culture of progress, innovation and experiment that has always characterised Master Drilling. Our medium- to long-term plan is based on a model of sustainability through growing our in-house capacity, training and supported conceptualising based on our observations of the markets, the industry, and our clients' individual needs.

The result will be a continued and continuing process of adding value to our equipment and our services, which by extension creates value for the business, and ultimately, our shareholders.





Outlook and prospects

Despite a year that began under the pressures exerted by foreign exchange currencies, market conditions, pricing and clients opting for shorter-term projects, all of which affected revenue and impacted cost-efficiencies, we began to see a change in some of these trends that, together with the outcomes of our strategic thrust, has enabled us to produce a growth in profit after tax of 5,7%.

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

Engagement with the IDC for the partial funding of the BSBS development and roll-out in 2019 have been entered into and are progressing well. Further opportunities to develop home-grown technologies that support cheaper and simpler drilling systems are also being explored with the IDC.

Various opportunities in first-world countries such as Australia, Canada and the USA are being investigated, while our Latin American businesses are expected to continue on a steady course. We will closely monitor our operations in South Africa, as the country's mining industry continues to face tough economic pressures.

While we will continue to focus on working capital management while decreasing project initiation costs, the consolidation of our raise boring fleet will assist in releasing some pressure. New geographies, clients and technologies require large initial outlays and our robust support approach enables the provision of the optimal operations and maintenance support that is essential to building trust with clients.

We expect the weaker utilisation rates of drill rigs to continue in the first half of 2017 but to start improving in the latter part of the year with our aim still to drive rates to mid-70% and improve our return on investment ("ROI").

Our technology and experience have put the Group in a strong position to continue to support our clients' drive to improve productivity and efficiencies while at the same time reducing operational risk.



//cost-effective, steerable, continuous

Recent developments in Tunnel Boring Machinery have resulted in equipment that is able to bore out a suitably sized excavation at a rate that far exceeds that of conventional methods.

Weighing 16 metric tons, our Raise-bore Gripper Machine ("RGBM") is designed with a steering system to follow the seam as required, and relies on friction and thrust to advance during drilling and to maintain its "grip" inside the hole, while preventing itself from falling through.

The RGBM is scheduled to be deployed for operation at Sibanye Gold's Kloof mine during 2017.

2 460 mm:
Maximum size
of gripping hole

2 – 4 meters:
Expected rate of
advance per day

6 050 x 2 130 mm:
Gripper
dimensions



Able to **operate**
at dips between
0° and **40°**



Alternative to
drilling and blasting



Cost-effective



// board of directors

Non-executive directors



Hennie van der Merwe

Independent Chairman

Appointed July 2014

BA Law, LLB, LLM Tax

Committees: Corporate Governance, Nominations and Risk

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



Johan Botha

Independent

Appointed November 2015

NDip Metalliferous Mining

Committees: Audit, Risk, Social, Ethics and Sustainability

Positions held elsewhere: Non-executive director Mwana Africa Limited



Akhter Deshmukh

Independent

Appointed November 2012

BCom, MBL

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

Positions held elsewhere: Director and CFO Lephatsi Investments Proprietary Limited

Executive directors



Danie Pretorius

Chief Executive Officer

Appointed July 2012

Government Engineers Certificate of Competency

Master Drilling Founder 1986



André van Deventer

Chief Financial Officer

Appointed April 2011

CA(SA)

Joined Master Drilling 2001



Koos Jordaan

Technical Director

Appointed July 2012

BMEng, MBA, BS in International Technology Management

Joined Master Drilling 2001



Jacques de Wet
Independent
Appointed November 2012
CA(SA)

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

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



Shane Ferguson
Non-independent
Appointed September 2012
BCom, LLB

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

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



Gary Sheppard
Chief Operating Officer – Americas
Appointed November 2012
BSc Eng, MBA
Joined Master Drilling 2001



Eddie Dixon
Chief Operating Officer – Exploration
Appointed September 2015
MDip (Civil Eng), MBA
Joined Master Drilling 2007

// governance

As recommended in King III, the Board has prepared an integrated report which is focused on all our stakeholders, but targeted primarily at informing providers of financial capital about all key aspects of our business. Our aim is to continuously improve the quality and reliability of the data presented, and we have accordingly revisited our strategy and material matters and are developing a combined assurance model.

Assurance

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

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

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

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

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

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

Governance approach

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

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

Board of Directors

The Master Drilling Board is a unitary Board comprised of nine directors – four independent non-executive directors, one non-independent non-executive director and four executive directors. The roles of Chairman and Chief Executive Officer are separate and clearly defined and the Chairman of the Board is an independent non-executive director. The executive and alternate executive directors attend all Board meetings.

Company Secretary

The Board appointed Mr Andrew Colin Beaven as Company Secretary to Master Drilling, with effect from 1 December 2015. Having considered the skills, experience and expertise of Mr Beaven, as well as his independence and his arm's length relationship with the Board and the Group, the Board is satisfied that Mr Beaven is suitably qualified to act in this role.

Executive summary

Key governance initiatives and outcomes

A number of initiatives to enhance our governance were continued during 2016.

All committees conducted duties in accordance with formal work plans as approved and supervised by the Board, which continued to ensure their attending to the correct areas and matters.

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

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

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

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



Independent non-executive directors

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

Executive directors

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

Alternate director

Eddie Dixon

Governance framework

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

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

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

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

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

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

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

Board committees

Audit Committee

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

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

Risk Committee

The Risk Committee is responsible for risk and compliance management.

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

Nominations Committee

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

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

Remuneration Committee

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

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

Social, Ethics and Sustainability Committee

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

Johan Botha (Chairman), Jacques de Wet, Akhter Deshmukh, Chris O'Neill and Shane Ferguson*

Corporate Governance Committee

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

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

* Resigned 1 November 2016

Executive directors

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

Assurance

Internal audit
 Risk management
 External audit
 ISO certifications

Laws/regulations/codes

JSE Listings Requirements
 Companies Act
 King III
 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

Combined assurance

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

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

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

Compliance

We comply with a number of regulations, codes and statutes. A compliance function has been established at Group level, including a Group legal compliance policy with reporting structures. Adherence to non-binding rules, codes and standards is considered and, where deemed practicable, is implemented as appropriate. Reports on compliance with these regulations are tabled at the Risk Committee meetings. All Board committee charters have been approved and a Corporate Governance Committee has been established.

Ethics

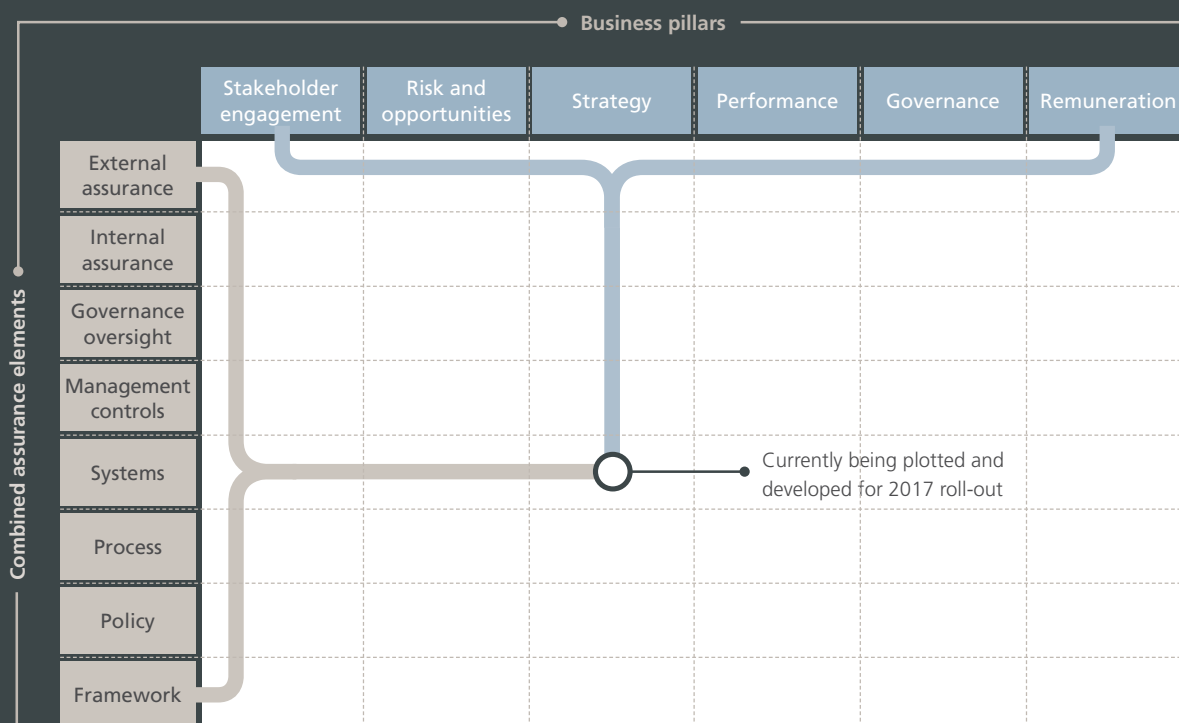
Our Board charter and code of conduct set the ethical foundation for how we operate. To provide employees with further direction and guidance, various policies have been developed for conflicts of interest, gifts and hospitality, anti-bribery and anti-corruption. The employee ethics and code of conduct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

Diversity

The Board and the Nominations Committee have considered the proposed JSE LR amendments vis-à-vis diversity of gender and race at Board level, and have approved a formal diversity policy.

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

The Board will thus identify and nominate potential diversity candidates during 2017, and will commence with director and/or alternate director appointments from 2018 onwards.



Activities

The activities carried out by each committee in supporting and enhancing the governance framework are explained in the table below. Where there have been significant focus areas in FY2016 that enhance the application of King III and other governance matters, these are also provided.

Governing body	Value added	2016 focus
The Board	<ul style="list-style-type: none"> • Approved the longer-term strategy as well as a one-year operating plan • Approved the interim and year-end financial results • Monitored the financial and operational performance and found it satisfactory • Approved the integrated report • Resolved to pay a maiden dividend • Discussed and approved the budget for the next financial year • Ensured a Board committee structure to oversee all aspects of our activities • Monitored the activities of all Board committees and received their report-backs • Assessed and approved the qualifications, independence and experience of the independent Group Company Secretary • Approved executive directors' remuneration and recommended non-executive directors' remuneration for shareholder approval 	<ul style="list-style-type: none"> • To ensure these remain appropriate, and to monitor performance against them • To monitor management's actions in order to ensure that all manpower, funding and operational resources are in place to enable expected performance and growth • To monitor, through report-backs from the Board committees and management, actual performance against operational, financial and corporate governance targets • To ensure informative and timeous reporting to shareholders and the investing public • To ensure that an appropriate realistic long-term strategy – a key driver in business decisions – is in place and to ensure that compliance with the strategy is monitored on a regular basis • To ensure that the industry and business risks faced are monitored and addressed by management • To ensure that report-backs are submitted to the Board regularly to enable it to carry out its monitoring function • To monitor the development, structuring and changing of individual committee charters and work plans for the transition to King IV
The Audit Committee	<ul style="list-style-type: none"> • Reviewed interim and year-end financial results and recommended them to the Board • Recommended the external auditors for the next financial year to the Board for appointment by way of a shareholder vote • Reviewed the scope of work and fees for the year-end audit as well non-audit services • Was satisfied with the competence, qualifications and experience of the Chief Financial Officer and finance team • Reviewed and approved our combined assurance framework • Recommended to the Board the appointment of KPMG to perform an internal audit function and agreed on an internal audit plan • Reviewed and recommended the integrated report to the Board • Was satisfied with the performance of the internal audit function and external audit 	<ul style="list-style-type: none"> • To monitor the implementation of the integrated enterprise resource planning system to all geographies within which the Group operates, including the financial and management accounting modules • To monitor the independence of the external auditors and the cooperation between them and the internal auditors • To monitor finance department and staff training to ensure that it supports the efficient delivery of financial information • To oversee the implementation of a comprehensive integrated assurance strategy and framework • The further integration of the internal audit plan with the combined assurance process • To monitor management's process in ensuring statutory compliance to the respective local authorities in which the individual subsidiaries within the Group operate • The further streamlining of the integrated reporting process to ensure effective reporting on all aspects of the Group affecting future strategy
The Corporate Governance Committee	<ul style="list-style-type: none"> • The committee was appointed as per the Board-approved resolution in 2015 • Managing and monitoring compliance with corporate governance requirements and best practice • Committed to the principles of openness, integrity and accountability in our dealings with stakeholders 	<ul style="list-style-type: none"> • To complete an assessment of compliance with the King III principles and make the assessment available on our website at www.masterdrilling.com • To ensure that sufficient attention will be given by management to successfully accomplish the transition to King IV • To ensure continued compliance with required legislation and the JSE Listing Requirements • To ensure that the Corporate Governance Committee reports to the Board on compliance on a regular basis

Governing body	Value added	2016 focus
The Nominations Committee	<ul style="list-style-type: none"> • Considered the committee's effectiveness as well as the composition of the Board, and recommended changes • Was satisfied with the classification of non-executive directors and the Company Secretary as independent • Recommended a board diversity policy to the Board 	<ul style="list-style-type: none"> • To review the structure and composition of Board committees in order to ensure optimal functioning • To monitor the annual self-evaluation process, with the Chairman and CEO separately evaluated by other Board members • To ensure a correct competency mix and adequate independence is maintained, and that appropriate changes are made to achieve strategic goals • To ensure that the diversity policy proposed is effected and successfully implemented • To review the make-up of the Board in order to ensure a correct competency mix and adequate independence • To finalise and implement the succession plan for key management within the Group
The Remuneration Committee	<ul style="list-style-type: none"> • Considered criteria by which the performance of executive directors in discharging their responsibilities can be measured • Liaised with the Nominations Committee concerning succession plans for the executive directors • Reviewed the remuneration policies and practices of the Group • Developed for implementation an effective remuneration policy aligned with strategy 	<ul style="list-style-type: none"> • A succession plan of the executive directors and senior management has been developed and is constantly reviewed and updated regularly • Continuous reviews of the KPAs and balanced scorecards of the executive directors and ensuring performance agreements are in place • The bonus policy for the group was finalised and implemented for the 2016 year • The travel abroad policy was fine-tuned and implemented for South African Employees • Continuously recommending criteria necessary to measure the performance of directors in discharging their functions and responsibilities in so far as these criteria are relevant to determining performance based incentives • Initiated and agreed upon the terms of the incentive policy for 2017
The Risk Committee	<ul style="list-style-type: none"> • Approved a risk management plan • Reviewed Group risks and mitigation plans • Monitored the controls and residual risk profile of the significant Group risks against agreed tolerance levels • Reviewed compliance with the major areas of legislation that affect the Group 	<ul style="list-style-type: none"> • To further refine the risk registers to include more regular risk scanning of the business environment, in particular that pertaining to the mining sector • To consider the appointment of key personnel and the defining of regional responsibilities • To evaluate the geographic expansion of the business in order to spread the risk of dependence on a particular region
The Social, Ethics and Sustainability Committee	<ul style="list-style-type: none"> • Considered the employment equity plan • Reviewed the B-BBEE rating and planned for maintaining the rating for 2016 • Performed the functions of the committee for all South African subsidiaries of Master Drilling 	<ul style="list-style-type: none"> • To formulate a transformation programme • To ensure the continued refinement of the health, safety and environmental programmes, including the ongoing focus and attention required to improve performance, with good progress made • The stakeholder engagement plan has been formulated and is currently being implemented • To ensure greater community engagement in the areas within which the Group operates

Meeting attendance

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

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

Attendance at meetings is indicated in the table below.

Director	Committees						
	Board meetings	Audit	Corporate Governance	Risk	Nominations	Remuneration	Social, Ethics and Sustainability
Number of meetings held	5	5	2	4	2	5	4
JL Botha	4	5	N/A	4	N/A	N/A	4
AA Deshmukh	5	5	2	N/A	N/A	5	4
JP de Wet	5	5	N/A	4	2	4	3
ST Ferguson	3	4	2	4	2	3	4
BJ Jordaan	5	N/A	N/A	N/A	N/A	N/A	N/A
CG O'Neill*	N/A	N/A	N/A	2	N/A	N/A	N/A
DC Pretorius	5	N/A	N/A	N/A	N/A	N/A	N/A
GR Sheppard	1	N/A	N/A	N/A	N/A	N/A	N/A
HR van der Merwe	5	N/A	2	4	2	N/A	N/A
AJ van Deventer	5	N/A	N/A	N/A	N/A	N/A	N/A

* Resigned as alternate director on 1 November 2016



// remuneration

Remuneration philosophy
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.

Remuneration Committee

Name of director	Position
AA Deshmukh (<i>Chairman</i>)	Independent non-executive director
ST Ferguson	Non-executive director
JP de Wet	Independent non-executive director

Within its agreed terms of reference the Remuneration Committee 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.

Remuneration structures

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



Fixed

Remuneration component	Executives	Senior management	Middle and junior management	Bargaining wage employees	Non-executives
Basic salary	Increase based on: <ul style="list-style-type: none"> • Inflation • Individual performance, qualifications and experience • Continuously benchmarked (PwC remuneration survey used as guideline document for directors) • Aligned with the objectives and strategy of the Group and in shareholders' best interests • Salary increases were 7% for executives and between 6% and 7% for senior management • Salary increases were 9,6% 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 10% 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 D&O 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 net profit, or profit in excess of targets Capped at a percentage of annual salary Continuously benchmarked against the market Linked to achieving financial and strategic objectives STI payments will only be made when the minimum profit target has been achieved An attributable profit of USD21.4 million was achieved for the 2016 financial year and 97.9% STI payments were therefore made 	<ul style="list-style-type: none"> Incentive bonuses based on the achievement of production targets. (For a description of these incentive schemes, see page 71) 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 share or phantom ownership 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 its stated objectives in share price and CAGR of PAT and on the individual's performance 	B-BBEE share option plan open to B-BBEE candidates in this employee band within South Africa		N/A
Overtime pay	Overtime is paid in line with policy derived from local labour law			

Short-term incentive scheme

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

We sought external input to revise our short-term incentives within the Group. Just after year-end, the following three short-term incentive schemes were distributed for comment and approval 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 achievement of, or improvements on, stretched targets. The 2017 business budget as presented to the Board will be the basis for determining achievement of Tier 1 and Tier 2 targets for the period 1 January 2017 to 31 December 2017. Participation in Tier 2 is subject to achieving 100% of Tier 1 targets unless stated otherwise in the rules.

The potential value to employees, provided all targets are achieved for the year, will be 8,33% of annual gross remuneration for Tier 1 and 10% of annual gross remuneration (as defined) for Tier 2. All permanent employees of Shared Services and employees not linked to STI in a particular business will participate.

Special performance reward ("SPR")

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

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

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

Linking performance to remuneration

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

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

Long-term incentive scheme

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

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

The maximum number of shares in respect of which options can be granted to any one option-holder is 500 000 shares in a three-year cycle. Subject to this, the maximum value of shares subject to an option to be awarded to an option-holder will not usually exceed 200% of their base salary per financial year.

Options will vest no earlier than the third anniversary of the date of grant. Options can be exercised in whole or in part once they have vested, up to the 10th anniversary of the date of grant.

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

Find more detail on how our share incentive scheme is structured in the annual financial statements available online at www.masterdrilling.com

B-BBEE share scheme

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

A 26% shareholding in each of Master Drilling South Africa ("MDSA") and Drilling Technical Services ("DTS") was issued to Mosima Drilling Proprietary Limited ("Mosima"), a B-BBEE-owned and controlled company, for consideration of R89,6 million and R859 000 respectively. The main shareholder of Mosima is the MDSA Historically Disadvantaged South Africans ("HDSA") Trust, which was formed for the benefit of employees of MDSA and holds 80% of the B-BBEE stake. The balance of the shares in Mosima are held by the DCP B-BBEE

foundation, a trust established to provide welfare, humanitarian, educational and development assistance to disadvantaged communities or individuals.

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

A 26% shareholding in Master Drilling Exploration ("MDX") was issued to Epha Drilling Proprietary Limited ("Epha"), a B-BBEE-owned and controlled company, for a consideration of R61,7 million. The main shareholder of Epha is the Drillcorp B-BBEE Trust, a trust formed for the benefit of employees, which holds 60% of the B-BBEE stake. The DCP B-BBEE

Foundation, a trust formed to provide welfare, humanitarian, educational and development assistance to disadvantaged communities, holds 20% of the shares in Epha.

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

- Shadreck Moralikobo Motloung, a senior MDX employee;
- Petrus Ngwenya, a senior MDX employee;
- Akhter Alli Deshmukh, CFO of Lephatsi Investments Proprietary Limited; and
- Ronnie Mamoepa, Head of Communications: Office of the Deputy President.

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

Proposed B-BBEE vendor finance

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

Emoluments

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

Director	Basic salary	Travel allowance	Bonus	Fringe benefits	Provident/Pension fund contributions	Director's fees	Consulting and legal fees	Total
Executive								
Danie Pretorius	299 083	24 509	572 436	21 416	–	–	–	917 444
Andre van Deventer	193 635	16 339	259 809	14 335	–	–	–	484 118
Gary Sheppard	369 436	–	186 198	16 046	2 321	–	–	574 001
Koos Jordaan	189 242	16 339	259 809	14 213	–	–	–	479 603
Sub-total	1 051 396	57 187	1 278 252	66 010	2 321	–	–	2 455 166
Non-executive								
Hennie van der Merwe	–	–	–	–	–	37 926	–	37 926
Johan Botha	–	–	–	–	–	24 355	–	24 355
Shane Ferguson	–	–	–	–	–	24 114	60 686	84 800
Jacques de Wet	–	–	–	–	–	24 114	–	24 114
Akhter Deshmukh	–	–	–	–	–	32 606	–	32 606
Sub-total	–	–	–	–	–	143 115	60 686	203 801
Alternate								
Eddie Dixon	140 841	10 961	–	906	–	–	–	152 708
Chris O'Neill (Resigned on 1 November 2016)	105 302	13 888	33 283	8 362	12 785	–	–	173 620
Sub-total	246 143	24 849	33 283	9 268	12 785	–	–	326 328
Prescribed officer								
Pieter van Wyngaard	28 656	4 300	–	1 515	3 159	–	–	37 630
Sub-total	28 656	4 300	–	1 515	3 159	–	–	37 630
Total	1 326 195	86 336	1 311 535	76 793	18 265	143 115	60 686	3 022 925

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 prescribed officer as disclosed in 2015 has taken up a new position within the Group resulting in a change in 2016.

The remuneration of the executive and non-executive directors for the year ended 31 December 2015 is shown in the table below. All figures are indicated in USD.

Director	Basic salary	Travel allowance	Bonus	Fringe benefits	Provident/Pension fund contributions	Director's fees	Consulting and legal fees	Total
Executive								
Danie Pretorius	310 197	28 191	214 212	5 634	13 052	–	–	571 286
Andre van Deventer	209 342	18 794	84 812	3 105	9 070	–	–	325 123
Gary Sheppard	351 590	–	130 558	12 411	11 491	–	–	506 050
Koos Jordaan	234 639	18 794	84 812	3 209	9 049	–	–	350 503
Sub-total	1 105 768	65 779	514 394	24 359	42 662	–	–	1 752 962
Non-executive								
Hennie van der Merwe	–	–	–	–	–	41 313	–	41 313
Johan Botha	–	–	–	–	–	3 306	–	3 306
Shane Ferguson	–	–	–	–	–	26 294	83 337	109 631
Jacques de Wet	–	–	–	–	–	26 294	–	26 294
Akhter Deshmukh	–	–	–	–	–	32 884	–	32 884
Sub-total	–	–	–	–	–	130 091	83 337	213 428
Alternate								
Eddie Dixon	113 630	16 096	35 278	1 764	20 844	–	–	187 612
Chris O'Neill	66 953	9 459	–	792	–	11 197	–	88 401
Sub-total	180 583	25 555	35 278	2 556	20 844	11 197	–	276 013
Prescribed officer								
Roelof Swanepoel	66 733	122	4 361	754	7 741	–	–	79 711
Sub-total	66 733	122	4 361	754	7 741	–	–	79 711
Total	1 353 084	91 456	554 033	27 669	71 247	141 288	83 337	2 322 114

Directors' interest

	Number of shares: direct beneficial	Number of shares: indirect beneficial	Total	Percentages of issued ordinary share capital
2016				
Executive directors				
Danie Pretorius	900	78 630 565	78 631 465	53,03
Andre van Deventer	727 648	2 252 316	2 979 964	2,01
Gary Sheppard	–	2 955 884	2 955 884	1,99
Koos Jordaan	1 781 861	1 228 336	3 010 197	2,03
Total	2 510 409	85 067 101	87 577 510	59,06
2015				
Executive directors				
Danie Pretorius	900	78 630 565	78 631 465	53,03
Andre van Deventer	727 648	2 252 316	2 979 964	2,01
Gary Sheppard	–	2 955 884	2 955 884	1,99
Koos Jordaan	1 781 861	1 228 336	3 010 197	2,03
Total	2 510 409	85 067 101	87 577 510	59,06



//reliability, stability, flexibility

Our raise-boring head, or reamer, possesses cutters designed and manufactured for use in a variety of ground conditions. With its high penetration rates, reliability and stability this unique design assists in maximising raise-boring performance and reducing working time and ultimately, total project costs.

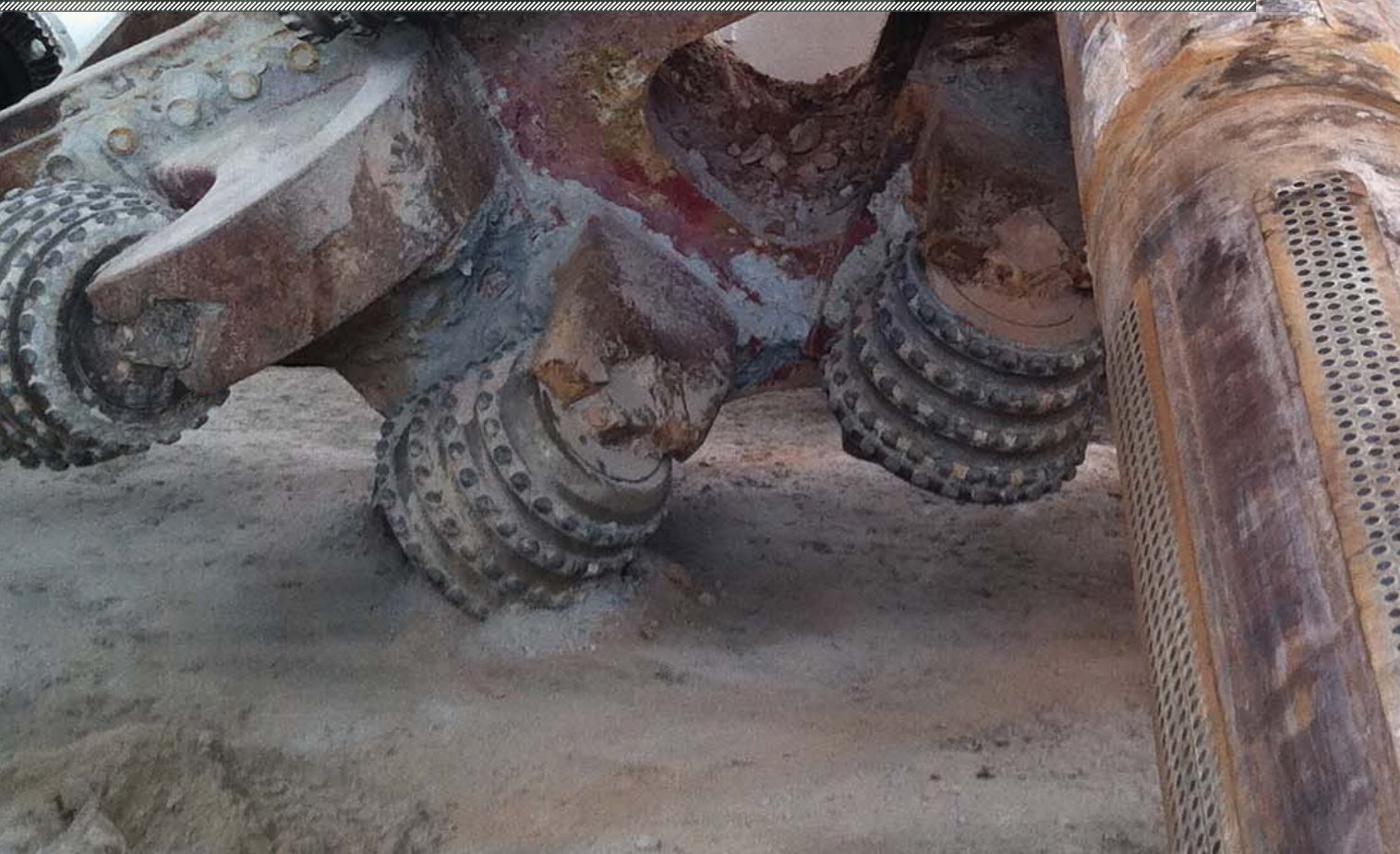
The cutters are usually applied in environments of very hard and abrasive rock, and with their carbide buttons, are easily mounted on the raise-boring head. In doing so, its rows of saddles can be variably spaced to suit different geological conditions.

Our reamers work by rotating and being drawn back towards the drilling unit. Gravity acts on the cuttings, causing them to fall into the chamber at the bottom of the hole, where they are mucked. The unique square design of our reamers has been developed to improve stability, vibration and increase discharge.

109 – 121 kg:
Cutter weight
spectrum

0.6 – 7.2 meters:
Raise sizes
covered

2 050 – 46 000 kg:
Reamer weight
spectrum





Modular component
reamer heads



Varying profile
designs



Customised to
customer and ground
requirements



// consolidated statement of financial position

as at 31 December

	<i>Notes</i>	2016 USD	2015 USD
Assets			
Non-current assets			
Property, plant and equipment	3	105 316 594	89 532 466
Intangible assets	4	3 043 042	2 612 584
Financial assets		10 068 354	9 159 284
Deferred tax asset		1 733 825	1 124 233
Investment in associate	5	6 023 825	5 467 740
		126 185 640	107 896 307
Current assets			
Inventories		24 437 264	19 574 979
Related-party loans		70 486	35 755
Trade and other receivables	6	39 014 664	30 572 822
Cash and cash equivalents		21 690 039	22 496 770
		85 212 453	72 680 326
Non-current assets held for sale	7	1 209 520	–
		86 421 973	72 680 326
Total assets		212 607 613	180 576 633
Equity and liabilities			
Equity			
Share capital		146 607 965	146 607 965
Reserves		(91 010 256)	(97 883 624)
Retained income		74 427 478	53 231 728
		130 025 187	101 956 069
Non-controlling interest		16 291 360	16 309 067
		146 316 547	118 265 136
Liabilities			
Non-current liabilities			
Interest-bearing borrowings		17 806 057	19 096 633
Finance lease obligations		1 950 891	2 957 153
Share-based payment liability		–	706 681
Deferred tax liability		9 266 022	7 387 853
		29 022 970	30 148 320
Current liabilities			
Interest-bearing borrowings		8 650 837	8 417 589
Finance lease obligations		2 579 699	2 941 002
Related party loans		160 622	41 317
Current tax payable		1 561 045	5 195 800
Trade and other payables	8	22 998 427	15 567 469
Cash and cash equivalents		1 317 466	–
		37 268 096	32 163 177
Total liabilities		66 291 066	62 311 497
Total equity and liabilities		212 607 613	180 576 633

// consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December

	Notes	2016 USD	2015 USD
Revenue		118 102 983	119 867 646
Cost of sales		(75 159 529)	(71 989 042)
Gross profit		42 943 454	47 878 604
Other operating income		4 645 115	1 037 888
Other operating expenses		(21 743 714)	(19 336 260)
Operating profit		25 844 855	29 580 232
Investment revenue		808 845	806 556
Finance costs		(1 940 479)	(1 710 539)
Share of profit from equity accounted investment		556 085	134 575
Profit before taxation		25 269 306	28 810 824
Taxation	9	(2 949 412)	(7 695 925)
Profit for the year		22 319 894	21 114 899
Other comprehensive income that will subsequently be classifiable to profit and loss:			
Exchange differences on translating foreign operations		6 618 019	(18 378 247)
Other comprehensive income/(loss) for the year net of taxation		6 618 019	(18 378 247)
Total comprehensive income		28 937 913	2 736 652
Profit attributable to:			
Owners of the parent		21 195 750	19 966 151
Non-controlling interest		1 124 144	1 148 748
Total comprehensive income attributable to:		28 937 913	2 736 652
Owners of the parent		27 813 769	1 587 904
Non-controlling interest		1 124 144	1 148 748
Earnings per share (USD)			
Basic earnings per share (cents)	10	14.3	13.5
Diluted earnings per share (USD)			
Diluted basic earnings per share (cents)	10	14.0	13.3
Earnings per share (ZAR)			
Basic earnings per share (cents)		210,0	172,0
Diluted earnings per share (ZAR)			
Diluted basic earnings per share (cents)		205,6	169,3

// 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 2014	146 607 965	(58 264 013)	(21 613 831)
Share-based payments	-	-	-
Dividends declared by subsidiaries	-	-	-
Total comprehensive income for the year	-	-	(18 378 247)
Total changes	-	-	(18 378 247)
Balance as at 31 December 2015	146 607 965	(58 264 013)	(39 992 078)
Share-based payments	-	-	-
Dividends declared by subsidiaries	-	-	-
Total comprehensive income for the year	-	-	6 618 019
Total changes	-	-	6 618 019
Balance as at 31 December 2016	146 607 965	(58 264 013)	(33 374 059)

Share-based payments reserve USD	Total reserves USD	Retained income USD	Attributable to owners of the parent USD	Non-controlling interest USD	Total shareholders' equity USD
207 864	(79 669 980)	33 265 577	100 203 562	15 474 542	115 678 104
164 603	164 603	–	164 603	–	164 603
–	–	–	–	(314 223)	(314 223)
–	(18 378 247)	19 966 151	1 587 904	1 148 748	2 736 652
164 603	(18 213 644)	19 966 151	1 752 507	834 525	2 587 032
372 467	(97 883 624)	53 231 728	101 956 069	16 309 067	118 265 136
255 349	255 349	–	255 349	–	255 349
–	–	–	–	(1 141 851)	(1 141 851)
	6 618 019	21 195 750	27 813 769	1 124 144	28 937 913
255 349	6 873 368	21 195 750	28 069 118	(17 707)	28 051 411
627 816	(91 010 256)	74 427 478	130 025 187	16 291 360	146 316 547

// consolidated statement of cash flows

for the year ended 31 December

	<i>Notes</i>	2016 USD	2015 USD
Cash flows from operating activities			
Cash generated from operations	11.1	26 551 147	35 327 891
Interest income		808 845	806 556
Finance costs		(1 940 479)	(1 710 539)
Tax paid		(5 840 274)	(6 128 552)
Net cash from operating activities		19 579 239	28 295 356
Cash flows from investing activities			
Purchase of property, plant and equipment		(16 364 467)	(18 396 693)
Sale of property, plant and equipment		1 060 693	228 070
Financial assets movement		303 556	(511 762)
Acquisition of subsidiary	11.2	(3 894 451)	–
Acquisition of associate		–	(5 333 165)
Net cash from investing activities		(18 894 669)	(24 013 550)
Cash flows from financing activities			
Proceeds of financial liabilities		8 678 685	21 434 218
Repayment of financial liabilities		(9 736 013)	(5 891 468)
Proceeds from financial leases		1 524 268	429 245
Repayment of financial leases		(2 891 833)	(5 166 064)
Related party loan movement		84 574	(1 007 132)
Dividends paid to BEE partners		(1 141 851)	(314 223)
Net cash from financing activities		(3 482 170)	9 484 576
Total cash movement for the year		(2 797 600)	13 766 383
Cash at the beginning of the year		22 496 770	12 477 082
Effect of exchange rate movement on cash balances		673 403	(3 746 695)
Total cash at the end of the year		20 372 573	22 496 770

// notes to the audited consolidated financial statements

for the year ended 31 December

1. Accounting policies

Basis of presentation

The abridged audited consolidated annual financial statements have been prepared in accordance with IAS 34: Interim Financial Reporting, International Financial Reporting Standards, the SAICA reporting guides as issued by the Accounting Standards Board and the requirements of the South African Companies Act, 71 of 2008, as amended and the Listings Requirements of the JSE Limited. The abridged audited consolidated annual financial statements have been prepared on the historical cost basis, except for certain financial instruments at fair value, and incorporate the principal accounting policies set out below. They are presented in 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 abridged audited consolidated financial statements for Master Drilling Group Limited (Registration number 2011/008265/06), for the period ended 31 December 2016 have been audited by Grant Thornton, who expressed an unmodified audit opinion thereon. A copy of the auditor's report on the audited consolidated financial statements is available at www.masterdrilling.com. These abridged audited consolidated financial statements were derived from the consolidated annual financial statements.

The consolidated annual financial statements for Master Drilling Group Limited for the period ended 31 December 2016, have been audited by Grant Thornton, the Company's independent external auditors, whose unqualified audit report can be found on pages 8 to 11 of the consolidated annual financial statements 2016, which are available at www.masterdrilling.com.

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

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

2. Significant accounting policies

Basis of consolidation

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

At inception the Group annual financial statements had been accounted for under the pooling of interest method as acquisition of entities under common control is excluded from IFRS 3. The entities had been accounted for at historical carrying values for the period presented.

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

All inter-company transactions, balances, income and expenses are eliminated in full on consolidation/combination.

Non-controlling interests in the net assets of combined subsidiaries are identified and recognised separately from the Group's interest therein, and are recognised within equity. Losses of subsidiaries attributable to non-controlling interests are allocated to the non-controlling interest even if this results in a debit balance being recognised for non-controlling interest.

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

- 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.

// notes to the audited consolidated financial statements / continued

for the year ended 31 December

2. Significant accounting policies continued

Property, plant and equipment

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits associated with the item will flow to the Group; and
- the cost of the item can be measured reliably.

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

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

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

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

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

Investment in associate

An associate is an entity over which the Group has significant influence.

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

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

Functional and presentation currency

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

Going concern

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

Issued capital

There has been no change to the issued capital since 31 December 2016.

Operating segments

There are no changes to the operating segments from those disclosed at 31 December 2015. See note 13.

Changes to the Board

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

Name	Position	Change	Date
Christopher Gerald O' Neill	Alternate Director	Resignation	1 November 2016

Annual General Meeting

The Annual General Meeting of Master Drilling Group Limited will be held at Grant Thornton, Wanderers Office Park, 52 Corlett Drive, Johannesburg, on Thursday, 20 July 2017 at 09:00.

Subsequent events

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

2. Significant accounting policies continued

Outlook and prospects

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

Engagement with the IDC for the partial funding of the blind shaft boring system development and roll-out in 2019 have been entered into and are progressing well. Further opportunities to develop home-grown technologies that support cheaper and simpler drilling systems are also being explored with the IDC.

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

We will continue to focus on working capital management whilst decreasing project initiation costs, and the consolidation of our raise boring fleet will release some pressure. New geographies, clients and technologies require large initial outlays and Master Drilling's robust support approach enables optimal operations and maintenance support that is essential to building trust with clients.

We expect the weaker utilisation rates of drilling rigs to continue in the first half of 2017 but start improving in the later part of the year with an aim to drive rates to mid-70% and improve return on investments.

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

3. Property, plant and equipment

	Cost USD	Accumulated depreciation and impairment losses USD	Carrying value USD
2016			
Land and buildings	4 003 516	(80 517)	3 922 999
Plant and machinery	108 189 065	(31 481 087)	76 707 978
Assets under construction	2 398 153	(2 566)	2 395 587
Furniture and fittings	1 403 341	(339 278)	1 064 063
Motor vehicles	3 158 777	(1 354 858)	1 803 919
IT equipment	887 221	(376 563)	510 658
Finance lease: Plant and equipment	22 349 043	(4 909 530)	17 439 513
Computer software	2 187 833	(945 456)	1 242 377
Patents	229 500	–	229 500
Total	144 806 449	(39 489 855)	105 316 594
2015			
Land and buildings	3 611 305	(38 641)	3 572 664
Plant and machinery	84 071 033	(25 120 600)	58 950 433
Assets under construction	5 505 621	–	5 505 621
Furniture and fittings	1 201 367	(404 331)	797 036
Motor vehicles	2 669 126	(985 579)	1 683 547
IT equipment	564 286	(314 746)	249 540
Finance lease: Plant and equipment	21 737 224	(4 256 153)	17 481 071
Computer software	1 877 368	(814 314)	1 063 054
Patents	229 500	–	229 500
Total	121 466 830	(31 934 364)	89 532 466

Borrowing cost

Included in the cost of land and buildings are capitalised borrowing costs related to the acquisition of land to the amount of USD138 978 (2015: USD172 888) 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
2016			
Land and buildings	3 572 664	297 042	90 182
Plant and machinery	58 950 433	12 271 956	2 743 043
Assets under construction	5 505 621	695 298	9 148
Furniture and fittings	797 036	291 614	106 480
Motor vehicles	1 683 547	509 263	(24 152)
IT equipment	249 540	187 740	10 805
Finance lease: Plant and equipment	17 481 071	1 524 268	856 607
Computer software	1 063 054	587 286	76 512
Patents	229 500	–	–
	89 532 466	16 364 467	3 868 625
2015			
Land and buildings	3 894 241	261 581	(536 993)
Plant and machinery	55 996 007	15 893 937	(7 364 009)
Assets under construction	7 943 681	609 798	(27 296)
Furniture and fittings	842 826	73 848	(61 397)
Motor vehicles	1 993 290	471 266	(270 120)
IT equipment	277 218	102 035	(32 662)
Finance lease: Plant and equipment	21 996 857	429 247	(3 567 469)
Computer software	1 437 735	325 481	(211 809)
Patents	–	229 500	–
	94 381 855	18 396 693	(12 071 755)

Security

Moveable assets to the value of ZAR500 million of the South African subsidiaries have been bonded to ABSA Capital as security for an interest-bearing loan.

Impairment

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

Assets acquired through business combination USD	Reclassifications and transfers USD	Disposals USD	Depreciation USD	Impairment of fixed assets USD	Total USD
-	-	-	(36 889)	-	3 922 999
4 840 001	3 417 381	(711 201)	(4 535 247)	(268 388)	76 707 978
-	(3 814 480)	-	-	-	2 395 587
8 046	-	(68 967)	(70 146)	-	1 064 063
72 350	152 798	(47 477)	(542 410)	-	1 803 919
2 694	172 983	(2 887)	(110 217)	-	510 658
42 925	(1 317 090)	-	(1 148 268)	-	17 439 513
-	-	-	(484 475)	-	1 242 377
-	-	-	-	-	229 500
4 966 016	(1 388 408)	(830 532)	(6 927 652)	(268 388)	105 316 594
-	-	(26 545)	(19 620)	-	3 572 664
-	435 994	(529 625)	(5 481 871)	-	58 950 433
-	(3 020 562)	-	-	-	5 505 621
-	-	(8 999)	(49 242)	-	797 036
-	116 537	(323 726)	(303 700)	-	1 683 547
-	(138)	(5 024)	(91 889)	-	249 540
-	(116 537)	(12 049)	(1 248 978)	-	17 481 071
-	-	-	(488 353)	-	1 063 054
-	-	-	-	-	229 500
-	(2 584 706)	(905 968)	(7 683 653)	-	89 532 466

// notes to the audited consolidated financial statements / continued

for the year ended 31 December

4. Intangible assets

	2016 USD	2015 USD
Goodwill recognised from value chain business combinations	2 612 584	2 612 584
Goodwill recognised from raise bore business combinations	430 458	–
Goodwill recognised from business combinations	3 043 042	2 612 584

Goodwill recognised

The increase of USD430 458 in goodwill during the current year arose with the Bergteamet Latin America SpA acquisition transaction. Refer to note 11.2 for more detail.

5. Investment in associate

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

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

Associates are accounted for using the equity method in the Group's consolidated financial statements.

The financial year-end of Bergteamet is 31 August. This was the reporting date established when that company was incorporated, and a change of reporting date is not permitted. For the purpose of applying the equity method of accounting, the financial information of Bergteamet has been used. Appropriate adjustments were made for fair value adjustments at acquisition, 1 December 2015, differences in accounting policies and effects of significant transactions up to 31 December 2016.

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

	2016 USD	2015 USD
Revenue	16 011 794	1 878 984
Profit from continuing operations	1 390 213	336 438
Total comprehensive income	1 390 213	336 438
Group's share of total comprehensive income	556 085	134 575
Dividends received from associate	–	–
The table summarises and also reconciles the statement of financial position's financial information as at 31 December to the carrying amount of the Group's interest in Bergteamet.		
Non-current assets	8 765 242	5 207 473
Current assets	7 986 687	5 421 292
Non-current liabilities	(5 134 029)	(5 768 094)
Current liabilities	(3 246 175)	(3 387 054)
Net assets	8 371 725	1 473 617
Group's share of net assets	3 348 690	589 447
Goodwill	2 119 050	4 743 718
Share of profit from equity accounted investment	556 085	134 575
Investment in Bergteamet	6 023 825	5 467 740

6. Trade and other receivables

	2016 USD	2015 USD
Trade receivables – Normal	26 789 516	21 437 001
Trade receivables – Retention	3 098 167	2 720 868
Loans to employees	81 097	89 298
Pre-payments	1 372 357	2 534 712
Deposits	46 890	106 733
Indirect taxes	1 426 352	521 086
Sundry	6 200 285	3 163 124
	39 014 664	30 572 822
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	10 981 269	16 947 349
1 month past due	6 702 871	3 109 214
2 months past due	5 591 572	1 719 700
3 months and over past due	6 748 090	3 018 405
Allowance for doubtful debts	(136 119)	(636 799)
	29 887 683	24 157 869
<i>Trade receivables of South African subsidiaries have been ceded to ABSA Capital as security for interest-bearing loan.</i>		
The movement in allowance for doubtful debts is presented below		
Balance on 1 January	636 799	1 590 191
Exchange differences on translation of foreign operations	58 431	(440 887)
Amounts written off	–	(578 880)
Allowance for doubtful debts (reversed)/provided for	(559 111)	66 375
	136 119	636 799
The carrying amount in USD of trade and other receivables is denominated in the following currencies:		
United States Dollar ("USD")	17 591 574	16 520 399
South African Rands ("ZAR")	7 119 116	3 563 917
Brazilian Reals ("BRL")	4 455 101	3 794 977
Mexican Peso ("MXN")	373 151	37 902
Chilean Peso ("CLP")	7 360 884	3 643 250
Peruvian Nuevo Sol ("PEN")	1 289 943	1 271 413
Chinese Yuan Renminbi ("CNY")	440 543	148 753
Guatemalan Quetzal ("GTQ")	–	476 351
Colombian Peso ("CLP")	217 247	946 076
Euro ("EUR")	167 105	169 784
	39 014 664	30 572 822

7. Non-current assets held for sale

In September 2016, management committed to a plan to sell the land and building owned in Peru. Master Drilling Peru uses the land and building to house its administrative and workshop facilities. Management's plan is to develop land owned into offices and workshop facilities. Negotiations to sell the land and buildings are at an advanced stage. The sale is expected to be finalised by May 2017.

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 2016, the assets held for sale comprised the following:

	2016 USD	2015 USD
Land and buildings	1 209 520	–
Assets held for sale	1 209 520	–

8. Trade and other payables

	2016 USD	2015 USD
Trade payables	9 931 942	7 839 195
Income received in advance	391 683	517 570
Indirect taxes	5 914 578	2 850 274
Leave pay accruals	1 821 971	1 306 196
Other accruals	4 938 253	3 054 234
	22 998 427	15 567 469

9. Taxation

	2016 USD	2015 USD
Current		
Normal taxation	2 293 305	5 311 822
Current taxation	3 936 680	6 703 819
Prior year tax over provided	(1 643 375)	(1 391 997)
Deferred taxation: Temporary differences	656 107	2 384 103
	2 949 412	7 695 925
Reconciliation of the tax expense		
Accounting profit	25 269 306	28 810 824
Tax at the applicable tax rate	4 592 417	7 363 529
Prior year tax over provided	(1 643 375)	(1 391 997)
Exempt income	(2 336 512)	(668 115)
Non-deductible expenses	571 321	1 936 907
Deferred taxation: Change in tax rate	187 408	(192 062)
Assessed loss not recognised	1 729 360	647 663
Assessed loss from prior year	(151 207)	–
Taxation per statement of comprehensive income	2 949 412	7 695 925
The total unrecognised assessed loss at 31 December 2016 is USD4 029 099 (2015: USD647 663).		
Normal taxation charge/(refund) per entity within the Group		
Master Drilling Group Limited	–	82 990
Master Drilling Exploration Proprietary Limitada	609 730	642 848
Master Drilling Chile SA	318 739	212 754
Master Drilling Peru SAC	–	–
Master Drilling do Brasil Limited	–	–
Master Drilling Mexico SA	–	1 358 677
Master Drilling Malta Limited	1 894 395	1 540 033
Master Drilling Guatemala SA	195 253	106 815
Master Drilling South Africa Proprietary Limited	–	293 055
Jiangsu Master Mining Engineering Technology Company Limited	30 126	–
Master Drilling DRC sprl	(677 929)	1 338 874
Master Drilling Colombia SAS	503 304	–
Master Drilling Zambia Limited	(256 579)	402 844
Master Drilling International Limited	(655 736)	(1 328 464)
Master Drilling Changzhou Co Limited	213 921	178 250
Drilling Technical Services Proprietary Limited	–	239 767
Master Drilling Group Shared Services Proprietary Limited	–	62 332
Master Drilling Ecuador SA	103 670	181 047
Master Drilling USA LLC	14 411	–
MD Drilling Services Tanzania SARL	–	–
	2 293 305	5 311 822

A conservative provision for taxation in some jurisdictions in previous years, as well as raising of deferred tax assets on historically loss making entities returning to profitability, has led to a decrease in taxation expense. The impact on taxation resulting from potential future dividends is impractical to calculate as at 31 December 2016.

The change in tax rate relates to Chile where the tax rate changed from 22,50% to 24,00%.

// notes to the audited consolidated financial statements / continued
for the year ended 31 December

10. Earnings per share

	2016 USD	2015 USD
Reconciliation between earnings and headline earnings		
Basic earnings for the year	22 319 894	21 114 899
<i>Deduct:</i>		
Non-controlling interest	(1 124 144)	(1 148 748)
Attributable to owners of the parent	21 195 750	19 966 151
(Gain)/loss on disposal of fixed assets	(230 161)	677 898
Impairment of plant and equipment	268 388	–
Tax effect on loss on disposal of fixed assets and impairments	(48 284)	(217 524)
Headline earnings for the year	21 185 693	20 426 525
Earnings per share (cents)	14.3	13.5
Diluted earnings per share (cents)	14.0	13.3
Headline earnings per share (cents)	14.3	13.8
Diluted headline earnings per share (cents)	14.0	13.6
Net asset value per share (cents)	98.7	79.8
Tangible net asset value per share (cents)	96.6	78.0
Dividends per share (cents)	–	–
Weighted average number of ordinary shares at the end of the year for the purpose of basic earnings per share and headline earnings per share	148 265 491	148 265 491
Effect of dilutive potential ordinary shares – employee share options	3 003 793	2 379 656
Weighted average number of ordinary shares at the end of the year for the purpose of diluted basic earnings per share and diluted headline earnings per share	151 269 284	150 645 147

11. Cash generated from operations

11.1 Cash generated from operations

	2016 USD	2015 USD
Profit before taxation	25 269 306	28 810 824
Adjustments for:		
Depreciation and amortisation	6 927 652	7 683 653
Impairment	268 388	–
Share of profit from equity accounted investment	(556 085)	(134 575)
Translation effect of foreign operations	1 134 652	605 318
Share-based payment – equity settled	255 349	164 603
Share-based payment – liability	(706 681)	(47 922)
(Gain)/loss on sale of assets	(230 161)	677 898
Interest received	(808 845)	(806 556)
Finance costs	1 940 479	1 710 539
Changes in working capital:		
Inventories	(3 529 733)	2 247 694
Trade and other receivables	(7 479 267)	(1 741 907)
Trade and other payables	4 066 093	(3 841 678)
	26 551 147	35 327 891

11. Cash generated from operations continued

11.2 Net cash flow on business combinations

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

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

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

	2016 USD	2015 USD
The fair value of assets and liabilities assumed at date of acquisition was:		
Assets		
Property, plant and equipment	4 966 016	–
Net working capital	(964 189)	–
Trade and other receivables	962 575	–
Cash and cash equivalents	105 549	–
Inventory	1 332 552	–
Trade and other payables	(3 364 865)	–
Total assets and liabilities acquired	4 001 827	–
Group's share of total assets and liabilities acquired	4 001 827	–
Goodwill at acquisition	430 458	–
Total consideration	4 432 285	–
Cash and cash equivalents on hand at acquisition	(105 549)	–
Consideration still payable	(432 285)	–
Net cash outflow on acquisition of subsidiaries	3 894 451	–
Profit after tax since acquisition date included in the consolidated results for the year	1 769 112	–
Turnover since acquisition date included in the consolidated results for the year	3 750 069	–
Group profit after tax since acquisition date included in the results for the year	22 319 894	–
Group turnover since acquisition date included in the results for the year	118 102 983	–

12. Capital commitments

	2016 USD	2015 USD
Capital expenditure authorised by the directors and contracted for within 12 months Capital expenditure will be funded through cash generated from operations.	4 276 175	6 974 023

// notes to the audited consolidated financial statements / continued

for the year ended 31 December

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:

	2016 USD	2015 USD
Sales revenue by stage of mining activity		
Exploration	695 690	1 664 074
Capital	22 792 887	11 804 595
Production	94 614 406	106 398 977
	118 102 983	119 867 646
Gross profit by stage of mining activity		
Exploration	297 369	779 248
Capital	9 350 969	4 984 392
Production	33 295 116	42 114 964
	42 943 454	47 878 604

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

13.2 Geographical segments

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

	2016 USD	2015 USD
Sales revenue by geographical market		
Africa	21 110 578	27 087 779
Latin America	68 169 160	61 844 572
Other countries	927 223	207 734
South Africa	27 896 022	30 727 561
	118 102 983	119 867 646
Gross profit by geographical market		
Africa	11 399 711	14 232 105
Latin America	19 121 158	16 594 674
Other countries	2 354 396	1 010 347
South Africa	10 068 189	16 041 478
	42 943 454	47 878 604

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

A customer in the African region, operating in the capital and production segments, accounts for 9% (2015: African region 17%) of the Group's revenue.

13. Segment reporting continued

13.2 Geographical segments continued

	2016 USD	2015 USD
Total assets by geographical market		
Africa	25 401 844	17 637 933
Latin America*	105 685 089	85 986 072
Other countries**	18 465 134	9 173 293
South Africa	63 055 546	67 779 335
Total assets as per statement of financial position	212 607 613	180 576 633
Total liabilities by geographical market		
Africa	13 182 291	16 447 717
Latin America	27 210 338	26 672 086
Other countries	2 048 053	3 628 066
South Africa	23 850 384	15 563 628
Total liabilities as per statement of financial position	66 291 066	62 311 497

* Assets in Latin America include the non-current asset held for sale.

** Assets in other countries include the investment in associate.

//making a difference

With the annual Juguetón initiative, in which our employees in Mexico collect toys to be distributed to children in areas of limited resources over Christmas, and the collection, together with the Destapa Una Esperanza A.C. Foundation, of screwcaps from disposable drinks to raise funds through the Tapatón event, we are helping to bring some joy to young lives near our worksites in Mexico.

Whether it's support for community and educational projects, assistance after natural disasters, or simply helping facilitate a party, Master Drilling is there, amongst the communities near the mines at which we are contracted, to help improve the quality of life.

Youth soccer team
uniforms and equipment

Patron
saint parties

Schools
robotic
competitions



USD25 000
towards building a
church in Cuzcatlán



// 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 fifth Annual General Meeting of Master Drilling will be held (subject to any adjournment, postponement or cancellation thereof) at the Grant Thornton offices, Wanderers Office Park, 52 Corlett Drive, Illovo, Johannesburg on Thursday, 20 July 2017 at 09:00 to consider and, if deemed fit, pass, with or without modification, the resolutions as set out in this notice.

Notice and Form of Proxy

This Notice and Form of 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 14 June 2017.

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 2016
- The appointment of the external auditors
- The re-election of all Directors retiring by rotation
- The appointment of members of the Audit Committee
- The granting of authority to Directors to allot and issue ordinary shares
- The granting of authority to Directors to issue shares for cash
- The granting of authority to the Company to acquire its own shares
- The approval of Directors' fees
- The adoption of the Company's remuneration report, as a non-binding advisory vote
- The granting of authority to the Directors to commit the Company to providing financial assistance
- The approval of the amendment to the Share Option Plan
- To transact such other business as may be transacted at an annual general meeting of shareholders.

Administration: shareholders' diary

Financial year-end		31 December
Annual results 2016	Published on or about	22 March 2017
Record date for maiden dividend		16 May 2017
Payment date of maiden dividend		22 May 2017
Integrated Annual Report 2016	Published on or about	21 June 2017
Annual General Meeting 2017	09:00	20 July 2017
Interim results 2017	Published on or about	30 September 2017

Important information regarding attendance at 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 the Annual General Meeting to be held on Thursday, 20 July 2017 in person, will need to request their CSDP or broker to provide them with the necessary authority in terms of the custody agreement entered into between them and the CSDP or broker.

Voting rights

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

Change of details

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

Annual reports


Should you wish to receive printed copies of the Master Drilling Integrated Report 2016, please request same by completing the form on the Company website at  www.masterdrilling.com or from companysecretary@masterdrilling.com.

Identification

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

Record dates, voting and proxies

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

- the record date for the purposes of participating in and voting at the Annual General Meeting (being the date on which a shareholder must be registered in the Company's register of shareholders in order to participate in and vote at the Annual General Meeting), shall be the close of business on Friday, 14 July 2017 ("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, 11 July 2017; and
- the date by which forms of proxy for the Annual General Meeting are requested to be lodged is, for administrative purposes, 09:30 on Tuesday, 18 July 2017. 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 on  page 108, 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. Proxy forms 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 on [page 103](#) of this Notice of Annual General Meeting. The application is to be received by the share registrars at least ten business days prior to the date of the Annual General Meeting, i.e. by Thursday, 6 July 2017. 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 2016."

2. **Ordinary resolution number 2: Appointment of auditors**

"Resolved that Grant Thornton be and is hereby appointed as the auditors of the Company, to hold office from the conclusion of the Annual General Meeting at which this resolution is passed until the conclusion of the next annual general meeting of the Company. It was noted that J Barradas will serve as the designated registered auditor."

3. **Ordinary resolution number 3: Re-election of Mr Jacques Pierre de Wet as Non-Executive Director**

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

Mr De Wet's brief curriculum vitae is disclosed on [page 61](#) of the Integrated Report 2016, available on www.masterdrilling.com

4. **Ordinary resolution number 4: Re-election of Mr Akhter Alli Deshmukh as Non-Executive Director**

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

Mr Deshmukh's brief curriculum vitae is disclosed on [page 60](#) of the Integrated Report 2016, available on www.masterdrilling.com

5. **Ordinary resolution number 5: Re-appointment of members of the Audit Committee**

5.1 **Re-appointment of Mr Jacques Pierre de Wet as a member of the Audit Committee**

"Subject to the passing of ordinary resolution number 3, resolved that Mr JP de Wet be and 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."

A brief curriculum vitae of Mr De Wet is disclosed on [page 61](#) of Integrated Report 2016, available on www.masterdrilling.com

5.2 **Re-appointment of Mr Johan Louis Botha as a member of the Audit Committee**

"Resolved that Mr JL Botha be and 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."

A brief curriculum vitae of Mr Botha is disclosed on [page 60](#) of Integrated Report 2016, available on www.masterdrilling.com

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

"Resolved that Mr ST Ferguson, be and 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."

A brief curriculum vitae of Mr Ferguson is disclosed on [page 61](#) of Integrated Report 2016, available on www.masterdrilling.com

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

"Subject to the passing of ordinary resolution number 4, resolved that Mr AA Deshmukh be and 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."

A brief curriculum vitae of Mr Deshmukh is disclosed on  page 60 of Integrated Report 2016, available on  www.masterdrilling.com

6. Ordinary resolution number 6: 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 10% of the number of ordinary shares of no par value each in issue from time to time."

Ordinary resolution number 6 is to seek a general authority and approval for the Directors to allot and issue ordinary shares, up to a maximum of 10% of the ordinary shares of the Company in issue from time to time, in order to enable the Company to take advantage of business opportunities which might arise in the future. Pursuant to the Memorandum of Incorporation, this general authority shall be valid only until the next annual general meeting of the Company, at which time it may be submitted for renewal.

7. Ordinary resolution number 7: General authority to Directors to issue for cash, in respect of those ordinary shares which the Directors are authorised to allot and issue in terms of ordinary resolution number 6

"Resolved that, subject to ordinary resolution number 6 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 6, subject to the following conditions:

- 7.1 This authority shall be limited to a maximum number of 15 059 278 shares (being 10% 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 7 is to be proposed, being 20 July 2017);
- 7.2 This authority shall only be valid until the next annual general meeting of the Company but shall not extend beyond 15 months;
- 7.3 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 7.2 above, 10% (15 059 278) of the number of ordinary shares in issue prior to the issue concerned excluding treasury shares;
- 7.4 In the event of a sub-division or consolidation of issued shares during the period contemplated in paragraph 7.2 above, this authority must be adjusted accordingly to represent the same allocation ratio;
- 7.5 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
- 7.6 Any issue of ordinary shares under this authority shall be made only to a public shareholder as defined in the Listings Requirements of the JSE Limited."

Any equity securities already issued under the authority during the period contemplated in paragraph 7.2 above, must be deducted from such number in paragraph 7.1 above.

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

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

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

8. Ordinary resolution number 8: Advisory endorsement of the Master Drilling remuneration policy and implementation report

"To endorse, through a non-binding advisory vote, the remuneration policy and implementation report of the Company as set out on page 68 of the Integrated Report 2016, available on www.masterdrilling.com (excluding the remuneration of Directors for their services as Directors and members of the Board or statutory committees) in terms of the King Report on Governance for South Africa 2009."

The Group remuneration policy and implementation report is set out on page 68 of the Integrated Report 2016, available on www.masterdrilling.com, of which this notice forms part.

9. Ordinary resolution number 9: Amendment to the Master Drilling Share Option Plan ("the Plan")

"Resolved that the second amending deed to the Master Drilling Share Option Plan, a copy of which has been labelled for identification purposes and tabled at the Annual General Meeting, be and is hereby approved."

Copies of the documents listed below will be available for inspection during normal business hours at the registered office of the Company from the date of issue of the Integrated Report of which this Notice of Annual General Meeting forms part, up to and including the date of the Annual General Meeting:

- (i) The Company's 2016 Integrated Report;
- (ii) The Plan and the registered amendments to the Plan;
- (iii) The proposed second amendment to the Plan; and
- (iv) A consolidated version of the Plan, incorporating the proposed amendment to the Plan.

In order for this resolution to be approved, the support of at least 75% of the voting rights exercised on this resolution is required, excluding voting rights attaching to securities owned or controlled by persons who are existing participants in the Plan which have been acquired in terms of the Plan as well as the securities held by the Plan.

Special business

10. Special resolution number 1

Acquisition of the Company's own shares

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

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

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

The purpose and effect of this special resolution is to grant a general authority for the acquisition of the Company's ordinary shares by the Company, or by a subsidiary or subsidiaries of the Company should the Directors deem that to be in the best interest of the Company and its shareholders.

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

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

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

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

In terms of section 11.26 of the JSE Listings Requirements, the following information is disclosed in the Integrated Report 2016, available on www.masterdrilling.com:

- Directors and management – pages 60 to 61;
- Major shareholders – page 73;
- Material change statement – page 102;
- Directors' interest in securities – page 73; and
- Share capital of the Company – page 78.

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 August 2017), 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 with effect from 1 June 2017."

	2017 ZAR	2016 ZAR
Board Chairman	810 384*	575 834
Board member	388 272*	366 294

* The Directors' fees comprise a fixed annual portion and a portion based on attendances at Board and committee meetings. The estimate for the 2017 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:



- (i) the recipient or recipients of such financial assistance;
- (ii) the form, nature and extent of such financial assistance;
- (iii) the terms and conditions under which such financial assistance is provided; and
- (iv) 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:

- (i) meeting all or any of such recipient's operating expenses (including capital expenditure); and/or
- (ii) funding the growth, expansion, reorganisation or restructuring of the businesses or operations of such recipient; and/or
- (iii) funding such recipient for any other purpose which in the opinion of the Board is directly or indirectly in the interest of Master Drilling.

The 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 60 to 61 of the Integrated Report 2016, available on  www.masterdrilling.com, collectively and individually accept full responsibility for the accuracy of the information given in this notice and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading and that all reasonable enquiries to ascertain such facts have been made and that this notice contains all information required by law and the Listings Requirements of the JSE Limited.

No material changes

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

By order of the Board



Hennie van der Merwe
Chairman of the Board

14 June 2017

Registered and corporate office

4 Bosman Street
PO Box 902
Fochville, 2515
South Africa

Important notes about the Annual General Meeting

Date

Thursday, 20 July 2017.

Venue

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


Starting time

09:00 (South African time).

Refreshments

Refreshments will be served after the meeting.

Admission

Shareholders and others attending the Annual General Meeting are asked to register at the registration desk at the venue. Shareholders and proxies are required to provide proof of identity – see *identification* on  page 97 of the Integrated Report 2016.

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 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  inside back cover.

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 the collecting of core in gas, oil, coal or uranium carrying geology. The sample is stored and tested in a laboratory to understand the yield of energy that could be extracted from this type of geology and the nature of the structure.</p>
Mud rotary drilling	Mud rotary drilling is used in the mining industry for the drilling of utility, paste, de-watering and other infrastructure holes. In urban infrastructure it is used predominantly for water wells and horizontal directional drilling, while the most common use in the energy sector is the drilling of coalbed methane, shale gas, gas, oil and geothermal holes. Mud rotary drilling is also commonly used for the directional drilling of horizontal wells.
Percussion drilling	<p>Percussion drilling is a mobile type of drilling with fast production rates. The drilling assembly down the hole comprises a button bit fitted to a precipitating hammer with drill rods to the drill rig.</p> <p>Percussion drilling is commonly used to establish a fast hole in the ground. When used for sampling geology, it is referred to as Reverse Air Blast or RAB drilling. The most common use for this type of drilling is for the drilling of de-watering holes on open-cast mines, water wells for domestic use, blast holes for the injection of explosives during mining, utility holes used for cables and production wells for oil and gas. In many cases these types of holes are also established for diamond tailing, which refers to the establishment of a fast hole by percussion drilling to a particular depth of no geological importance and then to diamond 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.

Operational definitions continued

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

Financial terms and definitions

ARPOR	Average revenue per operating rig
Asset turnover ratio	$\frac{\text{Revenue}}{\text{(average cost of property, plant and equipment)}}$
CAGR	Compound annual growth rate
EBITDA	Earnings before interest, tax, depreciation and amortisation
HEPS	Headline earnings per share
GP	Gross profit
PAT	Profit after tax

// definitions and glossary / continued

Financial terms and definitions continued

ROCE	Return on capital employed = $\frac{\text{Earnings before interest and tax}}{\text{(Total assets – current liabilities)}}$
ROE	Return on equity = $\frac{\text{Profit after tax}}{\text{Total equity}}$

Glossary

AMCU	Association of Mineworkers and Contractors Union
B-BBEE	Broad-based black economic empowerment
BSBS	Blind shaft boring system
CTC	Cost-to-company
DRC	Democratic Republic of Congo
Epha	Drilling Proprietary Limited, a B-BBEE owned and controlled company with a 26% shareholding in MDX
HDSA	Historically disadvantaged South African
HRB	Horizontal raise boring
IAS	International Auditing Standards
IDC	Industrial Development Corporation
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IP	Intellectual property
ISO	International Organisation for Standardisation
ISO 14001	ISO Environmental Management
ISO 9001	ISO Quality Management System
JSE	Johannesburg Stock Exchange
King III	King Report on Corporate Governance for South Africa, 2009
KPI	Key performance indicator
Latin America and Colombia	Includes Mexico, Guatemala, Chile, Peru, Argentina and Brazil
LTI	Long-term incentive scheme
LTIFR	Lost-time injury frequency rate
M&A	Mergers and acquisitions
MDSS	Master Drilling Shared Services
MDX	Master Drilling Exploration Proprietary Limited
MIT	Management in Training
Mosima	Drilling Proprietary Limited, a B-BBEE owned and controlled company with a 26% shareholding in each of MDSA and DTS
OHSAS	Occupational Health and Safety Advisory Services
OHSAS 18001	Occupational Health and Safety Management Systems, South Africa
Other countries	Includes Ireland, Malta, China and Saudi Arabia
PSS	Product Service Support
PwC	PricewaterhouseCoopers Inc.
R&D	Research and development
Remco	Remuneration Committee
Rest of Africa	Includes Mali, Burkina Faso, the Democratic Republic of Congo, Zambia, Botswana and Zimbabwe
ROI	Return on investment
ROSI	Remote operated shaft inspection
ROSS	Remote operational shaft support
SPR	Special Performance Reward
STI	Short-term incentive scheme
UASA	United Association of South Africa

// form of proxy

Master Drilling Group Limited

(Incorporated in the Republic of South Africa)

Registration number: 2011/008265/06

JSE share code: MDI; ISIN: ZAE000171948

("Master Drilling" or "the Company")



Form of proxy for Master Drilling shareholders

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

For use by Master Drilling shareholders at the Annual General Meeting of shareholders to be held at the Grant Thornton offices, Wanderers Office Park, 52 Corlett Drive, Illovo, Johannesburg, on Thursday, 20 July 2017 at 09:00 and at any adjournment of that meeting.

If you have dematerialised your shares with a Central Securities Depository Participant ("CSDP") or broker and have not selected "own name" registration, you must arrange with your CSDP 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 CSDP 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 2016			
Ordinary resolution number 2 Appointment of Grant Thornton as external auditors and noting J Barradas as audit partner			
Ordinary resolution number 3 Re-election of Mr JP de Wet as a Non-Executive Director			
Ordinary resolution number 4 Re-election of Mr AA Deshmukh as a Non-Executive Director			
Ordinary resolution number 5.1 Re-appointment of Mr JP de Wet as a member of the Audit Committee of the Company			
Ordinary resolution number 5.2 Re-appointment of Mr JL Botha as a member of the Audit Committee of the Company			
Ordinary resolution number 5.3 Re-appointment of Mr ST Ferguson as a member of the Audit Committee of the Company			
Ordinary resolution number 5.4 Re-appointment of Mr AA Deshmukh as a member of the Audit Committee of the Company			
Ordinary resolution number 6 General authority to Directors to allot and issue ordinary shares			
Ordinary resolution number 7 General authority to Directors to issue for cash, those ordinary shares placed under the control of the Directors in terms of ordinary resolution number 6			
Ordinary resolution number 8 Advisory endorsement of the Master Drilling remuneration policy and implementation report			
Ordinary resolution number 9 Amendment to the Master Drilling Share Option Plan			
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 _____ 2017

Name of shareholder/joint holders _____

Signature/s _____

Assisted by me (if applicable) _____

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

(In block letters and authority to be attached – see note 7 on page 108)

// 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 abstained by the shareholder or his/her proxy shall be counted, provided that such votes shall not exceed the total of the votes exercisable by the shareholder or the proxy.
2. A signatory to this form of proxy may insert the name of a proxy or the name of an alternate proxy of the signatory's choice in the blank spaces provided, with or without deleting "the Chairman of the 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 notice as to any of the aforementioned matters shall have been received by the share registrars prior to the commencement of the Annual General Meeting, or at any adjournment thereof.
6. Any alteration or correction made to this form of proxy must be signed in full and not merely initialled by the signatory.
7. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the share registrars of the Company.
8. A minor must be assisted by his/her guardian and the relevant documentary evidence establishing his/her legal capacity must be attached to this form of proxy unless previously recorded by the share registrars of the Company.
9. When there are joint holders of shares, any one holder may sign the form of proxy.
10. The completion and lodging of this form of proxy will not preclude the shareholder who grants the proxy from attending the Annual General Meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof should such shareholder wish to do so.
11. The Chairman of the Annual General Meeting may reject or accept any form of proxy which is completed and/or received otherwise than in accordance with these notes, provided that he is satisfied as to the manner in which the shareholder concerned wishes to vote.
12. The appointment of a proxy or proxies:
 - 12.1 is suspended at any time and to the extent that the shareholder chooses to act directly and in person in the exercise of any rights as a shareholder;
 - 12.2 is revocable in which case a shareholder may revoke the proxy appointment by:
 - 12.2.1 cancelling it in writing or making a later inconsistent appointment of a proxy; and
 - 12.2.2 delivering a copy of the revocation instrument to the proxy and to the Company.
13. Forms of proxy must be lodged with or posted to the share registrars, Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank, Johannesburg, 2196 (PO Box 61051, Marshalltown, 2107) and are requested to be lodged timeously so as to be received, for administrative purposes, by 09:30 on Tuesday, 18 July 2017. 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 on page 108, provided that he is satisfied as to the manner in which the shareholder concerned wishes to vote.

// corporate information

Master Drilling Group Limited

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

Registered office and business address

4 Bosman Street, Fochville, 2515, South Africa
PO Box 902, Fochville, 2515, South Africa

Directors

Executive

Daniël (Danie) Coenraad Pretorius Chief Executive Officer and founder
André Jean van Deventer Financial Director and
Chief Financial Officer

Barend Jacobus (Koos) Jordaan Technical Director
Gareth (Gary) Robert Sheppard# Chief Operating Officer

Resident in Peru

Non-executive

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

Company secretary

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

Independent registered auditors

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

JSE sponsor

Investec Bank Limited
Telephone: +27 11 286 8163
Fax: +27 11 291 1202
Switchboard: +27 11 286 7000
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Investor relations contacts

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Rosebank, South Africa
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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.

