

MASTER DRILLING GROUP LIMITED
Registration number: 2011/008265/06
Incorporated in the Republic of South Africa
JSE share code: MDI
ISIN: ZAE000171948 ||| LEI: 37890095B2AFC611E529

UNAUDITED INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2022

HIGHLIGHTS FOR THE PERIOD

- Revenue in USD up 34.0% from 72.0 million to 96.5 million
- Profit in USD increased 47.9% from 9.1 million to 13.4 million
- Headline earnings per share in USD up 46.7% from 6.0 cents to 8.8 cents
- Headline earnings per share in ZAR up 55,5% from 87,2 cents to 135,6 cents
- Basic earnings per share in USD up 48.3% from 6.0 cents to 8.9 cents
- Basic earnings per share in ZAR up 57,2% from 87,2 cents to 137,1 cents
- Net cash from operating activities increased 19.0% from USD11.2 million to USD13.4 million
- Revenue pipeline of USD540.9 million
- Committed order book of USD242.7 million
- In line with the Company's past practice the Board did not declare an interim dividend and will consider an appropriate dividend only at year-end
- Dividend of 32,5 cents per share in ZAR terms relating to FY2021 was declared and paid during June 2022

REGULATORY REQUIREMENTS

The contents of the short form announcement are the responsibility of the Board of directors of Master Drilling. The information in the short-form announcement is a summary of the full announcement available on Master Drilling's website. 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. The full announcement can also be accessed online at <https://senspdf.jse.co.za/documents/2022/JSE/ISSE/MDI/HY2022.pdf>

The information in this announcement has been extracted from the condensed unaudited consolidated interim financial statements as prepared by the corporate reporting staff of Master Drilling, headed by Willem Ligthelm CA(SA), the Group's financial manager. This process was supervised by Andre Jean van Deventer CA(SA), the Group's chief financial officer.

COMMENTARY

About Master Drilling

Master Drilling was established in 1986 and listed on the Johannesburg Stock Exchange in 2012. The company delivers innovative drilling technologies and solutions and has built trusted partner relationships with blue-chip major and mid-tier clients in the mining, hydro-electric energy, civil engineering, and construction sectors across various commodities worldwide for over 35 years. The Master Drilling business model of providing drilling solutions to clients through tailor-made designs coupled with a flexible support and logistics chain, makes it the preferred drilling partner throughout the lifecycle of projects from exploration to capital and production stages.

Commenting on the results for the half year ended 30 June 2022, Danie Pretorius, CEO of Master Drilling, said:

"Master Drilling continued to show resilience in pursuing its growth path, notwithstanding another challenging year due to the Covid19 pandemic's ongoing effect on the global economy. We posted record revenue in USD up 34% from USD72.0 million last year the same period to USD96.5 million, while cash from operating activities increased by 19% to USD13.4 million. Cash generated was invested sensibly with the long-term growth plan in mind. We are satisfied with the Group's current financial position, as this will help us face the uncertainty of future trading conditions with confidence. Technological innovation is a key priority for Master Drilling as we continue to support our clients to move down the cost curve, optimise their operations and improve safety.

Looking forward, the Company will look to leverage its global footprint as part of its drive to create value for all stakeholders. We are closely monitoring the civil engineering and construction industries and the rapid growth of urbanisation worldwide, which present opportunities for us to benefit from our existing footprint exposure. The ramp-up in electric vehicle production will increase the demand for copper and other minerals. We are already exposed to a number of these minerals, and we continue to amplify our exposure to copper and nickel.

Whilst the full impact of the pandemic across our value chain remains unclear, we continue to drive diversification across regions, commodities, currencies and industries with an eye on the long term without compromising the management of short-term risks and headwinds associated with the pandemic over the remainder of the year."

Financial Overview

Revenue increased 34.0% to USD96.5 million with operating profit up 51.9% to USD17.3 million. The increase in revenue was mainly due to the impact of higher commodity prices following the global hibernation on the back of Covid-19 during the previous two financial years.

The benefit of a more stable fixed cost component became apparent in the current year, resulting in an overall increase in profit after taxation of 47.9% to USD13.4 million.

USD basic earnings per share ("EPS") increased 48.3% to 8.9 cents, and ZAR EPS by 57,2% to 137,1 cents compared to the same period last year. USD headline earnings per share ("HEPS") increased 46.7% to 8.8 cents, and ZAR HEPS by 55,5% to 135,6 cents.

Net cash generated improved with USD2.2 million to USD13.4 million, while debtor days remained constant amid current tougher economic conditions. Master Drilling will continue to manage debtors

actively to ensure robust conversion to cash. Cash resources continue to be managed prudently to cater for emerging opportunities that require specific design, planning and investment.

During the reporting period, 38% of the Master Drilling capital spend was on capacity expansion with the remaining 62% allocated towards maintenance capital.

As at 30 June 2022, the Group owed USD27.5 million on its banking facilities. The Group finalised and signed contracts for its long-term debt facilities during August 2022. As at 30 June 2022, the negotiations had not been finalised and the facilities are thus disclosed as current.

Operational Overview

Master Drilling's operations globally enjoyed a profitable year, evidencing the benefits of significant capital investment over the past number of years.

As a business that generates USD revenues off an emerging currency cost base, the Group benefits from currency weakness in emerging economies.

Safety

The Lost Time Injury Frequency Rate ("LTIFR") decreased from 1.65 in the last quarter of 2021 to 1.37. This was due to a ramp-up in our business activities following a letting up of the impact of the Covid-19 pandemic in the past two years. Although the current LTIFR is above the planned milestone, the overall performance compare to pre-Covid 19 levels.

South America

South America has seen increased mining activity since the beginning of 2020. The uptick was primarily driven by the global increase in commodity prices. This improvement continued during the first half of 2022 and up to now. We have also seen our orderbook continue to fill up.

In Brazil, we have experienced good progress and we are busy with a large tender with an existing client. We have also seen an increase in the scope of our existing project for 2022. Brazil is well positioned to have a successful year.

Chile's performance is in line with expectations, and we have seen all drilling projects contributing positively to improved results when compared to the past two years. The machine utilisation in this country have increased on the back of increased commodity prices. The Master Drilling Besalco Consortium is performing well operationally.

In Peru, more machines were allocated to work on new contracts resulting in us currently running at full capacity with all large machines allocated to projects. Additional equipment is also being mobilized to Peru to assist with the ramp-up in this country. Our market share is expected to increase with our cost well controlled and initiatives to continue this trend well imbedded.

Central and North America

Our operations in North America are established and we continue to position Master Drilling as a differentiated competitor.

In Canada, we have progressed as expected. The new contract that we started during 2021 is also progressing well. On the existing contract we are currently just three months away from achieving a three-year period without a LTIFR.

In the United States we continue to work hard to secure contractor's licenses across each state to drive the new business pipeline, with the initial focus primarily on mining-rich Nevada.

We have several initiatives running in Mexico from changes to the management structure to additional support from head office to make sure that Mexico can manage the increased demand. The first project from A&R deployed in Mexico during 2021 is delivering value to our client and we expect to further deploy the A&R services in the region.

Africa

Africa is currently the largest contributor in terms of our revenue and profits and the region delivered good performance during the period. We have several rigs deployed across key projects. Africa remains a key area for the Group, and we are aggressively pursuing further opportunities in this market.

Stable revenue is expected in Mali. In addition to our current work, we received additional dewatering paste holes as an amendment to our existing contract. A concern is the current shipping embargo that makes it extremely difficult to get equipment in and out of Mali.

The DRC continued its satisfactory performance with additional opportunities for work in the copper and cobalt mines. Our site in Kibali was successfully cleared with a prospect of going back in 2023.

We recently moved into a project in Tanzania. Tanzania is generally expected to grow in the next couple of years and become a hub for the Group in Eastern Africa.

In Zimbabwe we currently have two machines operating and are performing in line with expectations.

Zambia's operations have started again with a smaller project with the potential to ramp up soon. The new local government is pro-business and mining, we therefore foresee Zambia's fortunes improving.

Other countries to note in Africa is Sierra Leone where we will be mobilising additional machines during the second half of the year.

Botswana offers opportunities and we are performing in line with expectations on a long-term contract.

The South African business had a steady start to 2022 but has been impacted heavily by the Sibanye Stillwater wage negotiations strike that started in March. Northam Platinum remains our anchor client on a long-term contract. We have successfully completed the world record shaft earlier this

year and currently progressing well on a second similar shaft.

Scandinavia

Of note is that we changed the name of the European operations from Bergteamet (the operation we acquired) to Master Drilling Europe. We are seeing an uptick in work, and we were awarded our first project in Spain to shotcrete a 560m ventilation shaft. We expect further raise boring opportunities once we execute this project successfully.

In general, we see much more movement in the market than just six months ago. Several enquiries are coming from infrastructure as well as hydro-electric sectors.

India

The Indian operations are performing well. The current contract is expiring in 2023 and we continue to perform as expected. Additional scope in this region is expected in the second half of the year from current and prospective clients.

Other Regions

Master Drilling is growing its presence in Australia and Central Asia, with a focus on raise boring.

We are executing a project in Saudi Arabia. We are optimistic about the Middle East as a future growth area.

We are looking to expand our global footprint in Northern Africa.

Technology

Technological innovation is a key priority for Master Drilling to support clients to move down the cost curve, optimise their operations and increase safety.

Given the challenges for our clients in mining, we have identified three technology areas of focus to develop a growth strategy and diversify the business: shaft sinking, tunnelling and non-explosive mining.

To spread our risk and lighten funding requirements, we entered into a venture with the Industrial Development Corporation with a view to pursuing a promising business case. We now have a signed letter of intent with a client to blind bore a ventilation shaft, and we are conducting investigative work on scoping and have started on the detailed design and procurement of resources for the shafts. The project is progressing well and by H2 2022 we hope to commission the service and start executing the project. We are positioning ourselves as a specialised mining contractor, as opposed to offering more general mainstream services.

We secured a contract for an underground exploration decline project in South Africa. We started tunnelling in the first quarter of 2022 and production and construction is progressing well. We have also initiated a study on additional applications and projects. The study is associated with technologies and various value propositions which are substantially diversified including underground mining access and non-explosive mining methods to address the needs of clients.

Non-explosive mining is still an uncharted area, and we are looking to provide clients with solutions that are not bound by the requirement of explosives approvals, while at the same time shielding personnel against hazards by offering the flexibility to operate remotely. We have engaged with four different clients where we are able to develop these technologies and provide bespoke solutions that cater to their specific needs. By doing so, we hope to build relationships with these clients in a phased approach thereby ensuring gradual progress and minimising large exposure or risk. All these projects are progressing well. These technologies all relate to providing a safer, higher productivity, cost-competitive and efficient solution.

Skills development

Safety across the Group is of paramount importance and one of our focus areas, with a goal of zero harm. Due to the ramp up of operations and the increase in personal hours worked, we have seen a slight increase in our "all injury frequency rate." We are addressing this through several initiatives.

The foundation of our strategy is the people who make it happen; our success depends on the skills and expertise that support our goals. Our people have specialized knowledge aligned with global best practice, which is then applied to ensure that sound, sustainable use is made of our assets, enhancing growth, productivity and profitability.

In 2022, the Group continued with the Human Capital project that focused on reviewing the current skills requirements and ensuring that these align with its future growth and expansion vision. Several new roles have subsequently been identified and approved, and individual development plans are being aligned to ensure continuous best practice in the development of our people in key areas.

Work has commenced to revise Master Drilling's overall safety induction program. This initiative will ensure that Master Drilling satisfies legislative and client requirements. This initiative will continue during 2022.

The B-BBEE skills development initiatives for the South African entities were finalised for the Training Centre and the B-BBEE certification was finalised with a level 2 rating being achieved.

Remote learning via the Learner Management System to mitigate the risk of lapsing training certificates is ongoing. The range of training programmes available on this system continues to expand.

Outlook and prospects

Master Drilling's diversified footprint, proactive capital management, service orientation and quick response to ensure the safety of employees and clients have ensured a commendable performance. The fleet utilization is now moving towards the desired benchmark of 75%. The Group's diversification across regions, commodities, currencies, and industries proved to be a key factor in this and will remain a key part of Master Drilling's strategy.

The Group remains committed to ensuring the safety of its people and will continue using innovative

mechanised equipment in its operations. This is also the future of the industry with an increased focus on mechanisation and remote-controlled operations, which is the space in which Master Drilling likes to operate and is well placed to compete. Opportunities to diversify outside of the traditional drilling business into areas such as Artificial Intelligence will also continue to be pursued.

Having made significant investments in its fleet, technology, and geographical diversification over the past couple of years, the Group is now positioned to capitalise on the predicted bull run without requiring major additional capital investment.

In the longer term, our strategy to diversify across regions, commodities, currencies, and industries will stand us in good stead.

Pipeline and committed orders

As at 30 June 2022 our sales pipeline totalled USD540.9 million (2021: USD601.6 million) while the committed order book totalled USD242.7 million (2021: USD232.0 million) for the remainder of 2022 and beyond.

NATURE OF BUSINESS

Master Drilling Group Limited through its operating subsidiary companies provides specialised drilling services to blue-chip major and mid-tier companies in the mining, civil engineering, infrastructure and hydro-electric energy sectors, across a number of commodities and geographies. Master Drilling is the global leader in the raise bore drilling services industry.

Any investment decision by investors and/or shareholders should be based on consideration of the full announcement as available on www.masterdrilling.com. The full announcement is also available at the Company's registered office (for inspection, at no charge, during office hours on any business day).

For and on behalf of the Board

DC Pretorius
Chief Executive Officer

AJ van Deventer
Chief Financial Officer

Sponsor
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