

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 2023

HIGHLIGHTS FOR THE PERIOD

Revenue in USD up 12.1% from 96.5 million to 108.2 million
Profit in USD increased 8.0% from 13.5 million to 14.6 million
Headline earnings per share in USD up 5.7% from 8.8 cents to 9.3 cents
Headline earnings per share in ZAR up 25,0% from 135,6 cents to 169,5 cents
Basic earnings per share in USD up 5.6% from 8.9 cents to 9.4 cents
Basic earnings per share in ZAR up 24,9% from 137,1 cents to 171,3 cents
Net asset value per share in USD up 3.3% from 121 cents to 125 cents
Net cash from operating activities decreased 5.7% from USD13.4 million to USD12.6 million
Revenue pipeline of USD517.1 million
Committed order book of USD276.3 million
In line with the Company's past practice the Board did not declare an interim dividend and will consider an appropriate dividend at year-end
Dividend of 47,5 cents per share in ZAR terms relating to FY2022 was paid during May 2023

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/2023/JSE/ISSE/MDI/HY2023.pdf>

The information in this announcement has been extracted from the 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 Limited (JSE) in 2012. The Group delivers innovative drilling technologies and mining solutions globally. Master Drilling has built trusted partner relationships with blue-chip and mid-tier clients in the mining, hydro-electric energy, civil, engineering, as well as construction sectors worldwide. The Company is exposed to various key commodities that ensure its sustainability. The Master Drilling business model of providing drilling solutions and mining services to clients through tailor-made designs, coupled with a flexible support and logistics chain, makes it the preferred partner throughout the life cycle of projects.

Commenting on the results for the half year ended 30 June 2023, Danie Pretorius, CEO of Master Drilling, said:

"Master Drilling is grateful to announce that we had an excellent start to the year for 2023 on the back of a solid 2022. Revenue is up by 12% to USD108.2 million and cash generated from the business was USD12.6 million. This is on the back of higher revenue per rig and investment in new business ventures. We thank our clients and business partners for their continued support.

There was an increased focus on technology development, and we have seen some of our new technologies maturing and making an impact on the way mining is conducted. We believe in our vision of "making a difference" and we are going to stay the course, to make the industry safer, more productive, and cost-effective.

Apart from our cutting and drilling technologies, we have also invested in asset-light business ventures in the digital space. Master Drilling has further invested in businesses that provide proximity detection solutions and integrated data and resource management systems for mining. These business ventures have contributed to the bottom line and have also opened up new opportunities for the Group. These actions will ensure that the Group remains relevant and maintains its standing as a leading innovator.

Master Drilling has been able to leverage its relationships with clients and partners, as well as its international footprint, to grow the business. Building sound relationships has provided us with the foundation to offer more turnkey solutions to our clients and has seen the business metamorphose into a more holistic contractor.

Whilst the lingering impact of the uncertain global conditions 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 these global uncertainties."

Financial Overview

Revenue increased 12.1% to USD108.2 million with operating profit up 22.8% to USD21.2 million. The increase in revenue and operating profits follows a record 2022 despite difficult operating conditions experienced globally.

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 8.0% to USD14.6 million.

USD basic earnings per share ("EPS") increased 5.6% to 9.4 cents, and ZAR EPS by 24,9% to 171,3 cents compared to the same period last year. USD headline earnings per share ("HEPS") increased 5.7% to 9.3 cents, and ZAR HEPS by 25,0% to 169,5 cents.

Net cash generated from operations decreased by USD0.8 to USD12.6 million. 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, 48% of the Master Drilling capital spend was on capacity expansion with the remaining 52% allocated towards maintenance capital.

As at 30 June 2023, the Group owed USD39.9 million on its banking facilities with a gearing ratio, including cash, of 9.6%.

Operational Overview

Master Drilling's operations globally enjoyed a profitable year, evidencing the benefits of significant capital investment over the past 10 years.

Safety and response to risk

The Group has an extensive risk management programme and this is made visible through a collaborative platform. Progress on the implementation of mitigation measures is tracked and significant business risk is escalated to the executive team and Board. Internal auditors provide assurance that actions are followed through and have the desired impact.

Our Lost Time Injury Frequency Rate for half year 2023 has been 0,49 indicating a significant improvement from 0.83 in the previous year on our path to zero harm. This was achieved in a period where we employed many new employees which can potentially increase risk. Through a focus on behavior-based training and growing a high-performance culture, we have been able to promote compliance with policies and procedures. Our priority remains to move people out of harm's way through innovative engineering solutions.

South America

South America's performance was under pressure for the period as a result of several headwinds for miners in the region.

Our key client in Brazil experienced several headwinds due to regulatory changes that resulted in a delay in our drilling program. Although we are still confident of executing the work this delay impacted our margins. Other contracts in Brazil experienced geomechanical problems which temporarily stopped some of our operations, hence our lower margin in the region. Chile saw several delays from our key client Codelco in the first half of this year. Codelco experienced a few weeks of operational stoppage which impacted on our performance. The Master Drilling Besalco Consortium was also impacted by these delays, and we are in negotiations with Codelco regarding these stoppages. We are participating in a number of tender processes in the Consortium that is reflected in our pipeline and order book.

We are developing a new-generation blind hole machine to be deployed in Chile during the next year. These machines are technologically superior to those available through other companies and we believe they will have a major impact on the market.

In Peru, we started this year with political unrest in January and February. A number of our client's operations were stopped for a couple of weeks. The damage caused in the infrastructure in Peru in general impacted our ability to quickly recover operations. These delays impacted the revenue contribution from Peru. Despite these delays, we have seen a strong performance in Quarter two and we expect this momentum to carry on into the second half of the year. We can report that the bigger raise boring equipment that has been mobilized to the region is being utilized and is achieving good results. We are actively pursuing other opportunities in neighboring countries such as Ecuador and Colombia.

Central and North America

The market for raise boring and exploration drilling activities in North America continued the buoyancy of 2022. Our management team there is working on tenders for the current year as well as long-term drilling contracts to continue the stable business this region has grown into in the last couple

of years.

The Canadian contracts are advancing as expected. The remote locations continue to present logistical challenges; however, we are well positioned to meet these. We have established a solid base in Canada and are well positioned to capitalise on increasing opportunities.

We continue with our efforts to secure contractors' licences across each relevant state in the USA. Doing this will assist in driving our new business pipelines, focusing primarily on mining-rich Nevada and also Arizona.

Mexico had a challenging performance in the first half of 2023. Additional machines have been deployed to projects in other neighboring countries in this area such as Nicaragua. We continue to work on our operational efficiencies to reduce overall costs.

The Master Drilling Mexico business in partnership with A&R Engineering and Mining Services and related companies, a subsidiary of the Group, has successfully delivered its first project in this region.

Africa

Africa remains a key area for the Group, and we are aggressively pursuing further opportunities in this market.

In Ghana, we are strategically placed to service existing and potential contracts in the Western African region.

In the DRC, we continued our satisfactory performance with our long-term project. We have a strong working relationship with the client, with additional opportunities for work in the copper, nickel and cobalt mines. Further growth opportunities exist in this region.

Stable revenue is expected in Mali and the current client is regarded as a strategic partner of Master Drilling. With the Sierra Leone fleet now comprising of 3 machines, this area has become a very valuable contributor.

Tanzania's operations remained stable during the first half of the year with an amendment of our current contracts to add a piling machine during the second half of the year secured.

We remain optimistic about opportunities in Zambia and are staying close to the developments in the country.

In Botswana, we are progressing well with a long-term contract at one of the copper mines and mobilized a second machine to this project. The South African operations have maintained steady growth. With two XXXL machines busy on long-term contracts with a key client, and a third XXXL machine being mobilized at the start of the second half of the year, the medium-term outlook is very positive.

We remain committed to further expansion into other African countries that meet our investment criteria.

Even though the Group's main focus is the provision of specialised drilling services, the Group exercised its option during August 2022 to obtain a controlling stake in A&R Mining and Engineering and related companies. With this control it brought the sale of industrial products as diversification in revenue streams. These industrial products are primarily sold in the South African market with a small portion being sold in South America. The Group's view is to expand this diversification to the rest of its already well established global footprint.

Scandinavia

Master Drilling Europe performed well during the first half of 2023 and showed decent returns on the back of a good 2022. The flagship project in Europe has started and we are performing on schedule. This project is key to providing ventilation through four 500m shafts to the high-speed train between France and Italy. We have expanded our business in Iberia with additional equipment mobilised to the region. Our shaft construction projects in Stockholm are performing well and we will continue investing in similar projects. We see great opportunities in the region in the years to come.

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

India

The Indian operations are performing well, in line with expectations. We will continue to seek additional projects within India and the surrounding areas. We have received a further extension on this long-term contract.

Other Regions

Master Drilling is growing its presence in Australia and Central Asia, with a focus on consolidation in the marketplace and organic growth.

Growth in Australia was promising for the year. We were fortunate to work for some of the largest mining houses in the country. We continue to actively market our offering for additional projects in this region. We have started a project in Saudi Arabia and believe this will be the catalyst for future growth in this region. We have progressed with discussions for various stakeholders to be involved in shaft excavation in this region.

We are staying close to emerging mining countries and are confident of further geographical growth in 2023.

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

In order to spread our risk and lighten funding requirements, we, Master Sinkers, partnered with the Industrial Development Corporation (IDC) with a view to pursuing a promising business case. During 2022, Master Sinkers continued to design, manufacture, and assemble the shaft boring system. Master Sinkers are currently engaging with the market to seek the best possible project to implement the technology in a phased approach. It is envisaged that the shaft boring machine will be commissioned H1 2024 during the test sink of a 50m deep shaft in South African hard rock. We are positioning ourselves as a specialised mining contractor, as opposed to a mainstream one.

A 2nd generation Mobile Tunnel Borer design is progressing well and will be completed and considered for further development during 2024. From our experience gained it has become evident that alternative non-explosive tunnelling technologies would be required for specific tunnelling application needs not addressed by the Mobile Tunnel Borer, and that will be considered for further development.

Non-explosives mining is still an uncharted area, and we are looking to provide solutions for clients 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 a client 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 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.

Operational equipment

The fleet consists of 140 raise bore, 61 slim drilling and one mobile tunnel boring rigs. The total raise boring fleet utilisation rate was around 72% while the slim drilling fleet utilisation was around 84%. The rate of new rigs coming on board will settle with a focus on larger units, which typically generate higher income.

Our people

We believe that a motivated and engaged workforce creates a sustainable, competitive advantage for our business and benefits society. We are committed to attracting, developing and retaining the best people, providing a safe working environment for them and creating a winning culture that embraces their diversity and celebrates their contribution.

As at 30 June 2023, Master Drilling Group, together with its joint ventures, employs a total of 2859 employees. This headcount includes the incorporation of Hall Core Holdings (Pty) Ltd (237) and A&R Engineering and Mining Services (Pty) Ltd and related companies (436) personnel due to the incorporation of these businesses into the Group. There was a total increase in headcount of 649 from the corresponding period in 2022.

We continuously drive and strive to embed our RAISE values to ultimately create and foster a culture where all employees can thrive and grow. It is imperative to improve our working environment to one where employees feel:

1. Respected
2. Accountable
3. Innovative
4. Safe
5. Efficient

Human capital strategy

The human capital strategy, which is currently in the implementation phase is getting the desired momentum and Business milestones for 2023 should successfully be implemented. The milestones are:

- Attraction & retention strategy implemented.
- Coaching & mentoring initiatives rolled out through the Group.
- Active succession planning from middle management and above.
- to create a high-performance culture through the competency based performance management platform to ensure our employees are engaged, motivated and equipped to support the achievement of our group strategy.

- Career paths to ensure growth and a clear line of sight for career advancement.

Creating an ethical culture

The Master Drilling Group's code of ethics is made available and explained to all employees as part of their induction. Our code of ethics provides employees with information about the core principles of the Group, including legal compliance, ethical dealings, labour practices, human rights, and gender and race diversity. We recognise the right of employees to freedom of association, organisation and collective bargaining.

As part of the process of monitoring our ethics, we have an independent, anonymous whistle-blower hotline. This allows anyone to report illegal or unethical behaviour, including mismanagement, discrimination, harassment, vandalism, corruption, violence and theft. The whistle-blower hotline is available to both national and international callers. Hotline activities are reported to the Social, Ethics and Sustainability Committee, Audit Committee, Risk Committee and the Board.

The above continues to be a strong focus area as part of our ESG strategic pillar.

The B-BBEE skills development initiatives for the South African entities will be once again successfully co-ordinated and financed via Master Drilling Training Services. The B-BBEE certification for Master Drilling Exploration should be finalised with a Level 1 rating being achieved by September 2023. Master Drilling (Pty) Ltd should also be finalized by October 2023 and the Level 3 rating should be maintained.

Outlook and prospects

Despite global uncertainty, we are confident that Master Drilling will perform well because of its long-term contracts, diversified footprint, proactive capital management and service orientation. The fleet utilisation is now moving towards the required benchmark of 75%. Capital management remains a top priority. The Group's diversification across regions, commodities, currencies, and industries proved to be a key factor in this and will remain an important 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 operation. This is also the future of the industry, with an increased focus on mechanisation and remote 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.

The pipeline as at 30 June 2023 totalled USD517.1 million, while the committed order book totalled USD276.3 million for the remainder of 2023 and beyond. In the short to medium term, the sales pipeline is expected to stabilise and increase with further tactical acquisitions and joint ventures supporting performance.

We will continue to invest in our people, and we have started to employ best practice in a number of areas within human capital that will ensure that we are an employer of choice and attract the best of the best in the industry.

There is an evolving commitment and enhanced contribution to all matters relating to ESG. This is not just the right thing to do, it will also support the industry objective and ensure that Master Drilling remains sustainable into the future.

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 while reducing operational risk.

Ultimately, our strategic focus remains the same. We want to make a difference in the lives of our employees and our clients. We challenge the status quo and want to ensure we address the challenges of safety, cost and productivity in the way we work. Our 2023 focus will continue to be on building a sustainable, diversified and scalable business through organic and acquisitive growth as well as formal partnerships and alliances.

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

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