

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

REGISTERED AND CORPORATE OFFICE
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UNAUDITED INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2020

SALIENT FEATURES FOR THE PERIOD

- Revenue in USD down 17.9% from USD70.0 million to USD57.4 million
- Profit in USD decreased 45.9% from USD8.3 million to USD4.6 million
- Headline earnings per share in USD down 40.7% from USD5.4 cents to USD3.2 cents
- Headline earnings per share in ZAR down 30,5% from ZAR76,7 cents to ZAR53,3 cents
- Basic earnings per share in USD down 40.7% from USD5.4 cents to USD3.2 cents
- Basic earnings per share in ZAR down 30,5% from ZAR76,7 cents to ZAR53,3 cents
- Cash from operating activities increased 100% from USD5.5 million to USD11.1 million
- Revenue pipeline of USD281.4 million
- Committed order book of USD144.6 million
- No dividend for the current period
- Decisive and effective action taken in response to Covid-19 pandemic

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/2020/JSE/ISSE/MDI/HY2020.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 has built trusted partner relationships with blue-chip major and mid-tier companies in the mining, hydro-electric energy, civil engineering and construction sectors across various commodities worldwide for over 30 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 production and capital stages.

Commenting on the results for the six months to end June 2020, Danie Pretorius, CEO of Master Drilling, said:

"The COVID-19 pandemic has had an unprecedented negative effect on our business with government-imposed lockdowns impacting our customers' operations across most of the 23 countries in which we operate. Decisive actions taken by us from the outset of the crisis which focused on cash generation, capital management and the safety of our people, secured our Group's financial stability.

We have managed to make progress in pursuing our strategy and secured new work in West Africa, Australia, Russia, Europe and North America, whilst also increasing our exposure to commodities experiencing significant upswings and driving mining activity.

Technology remains a key differentiator for Master Drilling and we continue to support our customers with solutions that address changing conditions and future trends. However, our short-term capex plans have been paused to preserve cash until more certainty returns in the environment.

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 decreased 17.9% to USD57.4 million with operating profit down 37.7% to USD7.3 million. The decrease in revenue was mainly due to the impact of the COVID-19 pandemic globally.

The impact of foreign exchange movements on revenue was less than on costs, resulting in an overall decrease in profit after tax of 45.9% to USD4.6 million.

USD basic earnings per share (EPS) decreased 40.7% to 3.2 cents, and ZAR EPS by 30,5% to 53,3 cents compared to the same period last year. USD headline earnings per share (HEPS) decreased 40.7% to 3.2 cents, and ZAR HEPS by 30,5% to 53,3 cents compared to the same period last year.

Net cash generated increased to USD11.1 million, while debtor days remained fairly constant amid the weak 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, 86.1% of the Master Drilling capital spend was on capacity expansion with the remaining 13.9% allocated towards maintenance capital.

Until 30 June 2020, Master Drilling received USD0.5 million from the Temporary Employer/Employee Relief Scheme in South Africa, within the African segment of the Group. Master Drilling has paid over to its employees all amounts so received.

Operational Overview

The Group entered the year facing a challenging operating environment and deteriorating economic fundamentals across most of its operations. Global volatility across capital and commodity markets further impacted overall mining activity and capex spend, with only a limited number of new mining projects expected to be commissioned in the short to medium term.

In addition, the global COVID-19 pandemic is having a profound effect on the world economy and various lockdowns disrupted mining operations globally. Whilst the full impact of the crisis across the Group's value chain remains unclear, all indicators are pointing to a negative trend for the remainder of the year.

Global economic growth is not expected to correct in the short term, resulting in a direct impact on mining demand although some commodities are showing positive trends. An increase in mergers and acquisitions in the mining industry may improve prospects and, as experienced during previous cycles, mining tends to pre-empt an uptick in economic growth. Master Drilling should be in a position to see the early benefits of an upturn.

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

Safety and response to COVID-19

Ensuring the safety of all staff, their families and the communities in which we operate to the greatest practical extent remains our top priority. Master Drilling is fully committed to playing its part in limiting the spread of COVID-19 across the 23 countries in which it operates, including those that are most severely impacted by the pandemic.

The Group continues to support and comply with all requirements set by governments and customers to contain the pandemic and stringent workplace measures have been implemented to ensure that the Group continues to deliver services in a responsible manner.

In addition, Master Drilling is evaluating the risk posed by the pandemic through an active crisis committee focused on maintaining the long-term sustainability of the business. Various stress tests have been conducted and the Board is satisfied that the Group's financial position remains adequate to service its obligations and remain a going concern for the foreseeable future.

Whilst the Company has adequate headroom in terms of liquidity, stringent, proactive measures have been implemented across the business to manage costs, and optimise working capital and capital expenditure, with a stronger focus on cash flow generation during these uncertain times. As at the date of signing these interim financial results the implementation of strict controls measures limited the impact and the business is operating as close to normal as possible. Management is confident that business is able to continue to operate successfully in the current environment.

South America

Operations in South America, which include Brazil, Chile, Ecuador and Peru, were severely impacted by the COVID-19 pandemic, with these countries suffering some of the worst infection rates globally.

Whilst we remain the dominant player in the South American market, revenues were weighed down by a combination of currency impact, government-imposed lockdowns as well as increased competitor activity and market pressures already apparent at the beginning of the year.

Peru continued to present difficult conditions following the restructuring in 2019 that aligned our operations to local commercial activities and the aggressive pricing environment. More recently, mining companies have been forced to keep operations suspended and halt new ones as coronavirus cases surged through the country. Whilst our Peruvian operations continue to support our activities in Columbia and Ecuador, we are proceeding with our plan to establish a Columbia office in 2020 to take advantage of opportunities across copper and gold projects.

Chile, the world's largest copper producer, offers an attractive growth opportunity although mining operations and production levels have been severely affected by ongoing disruptions stemming from the pandemic situation.

In Brazil, where we have established our position as the top contractor, we are expecting returns and performance to improve and continue to look for diversification opportunities, including in the civil construction industry.

Our continuous drive to improve profit margins will support sustainable, long-term business activities across the region and we believe that our compelling offering will ultimately lead to renewed business opportunities post COVID-19. In the short term, given the current pressures from the pandemic as well as political and social issues, the Group will focus on cash generation, cash security and optimisation.

Central and North America

Our operations in North America have been bedded down and we continue to establish Master Drilling as a differentiated competitor compared to other players.

Canada has the largest exploration budget in the world offering many opportunities for growth. In the USA, we continue to work hard to secure contractor's licenses across each state to drive the new business pipeline, with a focus primarily on mining-rich Nevada.

The Mexican operations had a challenging first half with the government declaring mining a non-essential activity and enforcing a lockdown. Although mining output is showing signs of recovery, the effects of the lockdown and currency fluctuation impacted our performance negatively.

We see good opportunities driven by increased mechanisation and modernisation and remain focused on automation and remote controlling with three automation rigs in Canada representing 75% of the raise boring fleet there whilst Mexico's operational fleet is targeting a 50% automation rate.

Africa

Africa is currently the largest contributor in terms of revenues and profits and the region delivered a commendable performance during the period. We currently have 20 rigs deployed across key projects. Projects across most parts of Africa have continued to operate, despite the challenging operating environment and pandemic.

As indicated last year, we continue to pursue aggressive expansion into West Africa with a specific focus on gold producers. The global uncertainty spurred demand for gold as a safe-haven asset in 2019 and this trend accelerated in 2020 as the pandemic took hold with the metal reaching new highs. This trend is positive for gold producers in the short term. Botswana offered opportunities and a long-term contract on the Khoemacau Copper-Silver Project has been secured.

South Africa remains the world's leading supplier of platinum group metals (PGMs), catering for the significant Chinese demand. The surge in PGM prices is expected to balance the significant production losses associated with the national lockdown and phased restart of mining activities. Our exposure to PGMs has steadily increased as a result of the work at Northam's Zondereinde mine. In addition, we are accessing opportunities in Zimbabwe.

While the South African mining sector still provides isolated opportunities, it is shrinking in overall terms and new capital expenditure by this sector is not forthcoming. With cost pressures rising and uncertainty and inflexible labour policies persisting, Master Drilling is positioning itself to benefit from opportunities arising from the inevitable shift towards increased mechanisation over time.

Scandinavia

In Scandinavia, Bergteamet continues to perform in line with expectations and to support our geographical expansion across Europe. A civil engineering project for the French-Italian project developer Tunnel Euralpin Lyon Turin (TELT) in France has been secured. The contract is set to begin mid-2021 with two machines commissioned for 18 months.

India

Our operations in India are performing well in terms of efficiencies and revenues supported by a stable contract. The Vedanta Limited contract is expected to complete this year and negotiations are currently underway for additional work to be performed for this customer under a new contract.

Other Regions

At year end, we highlighted our interest in growing our presence in Australia, Russia and central Asia, with a focus on raise boring.

Our Russian business partner agreement is in place and a project has been secured with equipment currently being mobilised. Opportunities in Kazakhstan and neighbouring states are also being actively worked on.

Operations in Australia have started on a contract and we are actively building a pipeline of new projects.

Technology

Technological innovation and development remain pillars for Master Drilling's long-term success. Artificial intelligence and big data are driving changes around mining activities to enable cost reductions and improve safety. To be sustainable, we need to position ourselves as an innovation partner with our customers to equip them for a future world of work that will encourage further developments in autonomous mining methods. Merger and

acquisitions opportunities focused on technology value add for the mining sector are currently being assessed.

A clear example of Master Drilling's technological advantage during the period was the setting of a world record by successfully drilling a 1 382 metre raise-bore pilot hole at Northam's Zondereinde mine by using our own ground-breaking directional drilling technology and machinery.

Our Mobile Tunnel Borer (MTB) continues to receive keen interest and we are actively looking to deploy the machine on a new project after the phase 2 capital project at Eland Platinum mine was cancelled due to capital cutbacks on the project as a result of COVID-19.

During the period, the decision was made to exit the TunnelPro joint venture due to a lack of contract opportunities, cost management requirements and general economic conditions. However, the skills and intellectual property transfer was completed successfully and the strategy for our MTB technology remains sound.

We anticipate that our markets will be uncertain for the foreseeable future and whilst we remain committed to developing and delivering solutions such as the Shaft Boring System (SBS) to assist clients in meeting their efficiency targets and economic goals, the decision was made to halt all non-essential capex for the time being to preserve cash.

Skills development

One of our major challenges in achieving targeted top line growth is having the right people. Therefore, our focus has been on running projects that are fit for purpose, ensuring that the right number of people with the appropriate skills are working on a project at any given time. We have analysed the business with a five to 10 years horizon and have established a formal two-to-five-year programme that kicked off in January 2020.

This programme is focused on manpower management and also involves training to ensure resources stay aligned to business requirements. Our aim is to keep good engineering skills in-house and use a geographically diverse footprint to move resources between regions as required.

Ensuring that we have the right skills in place does not only mean internal training and external resourcing but also actively creating the skills required. As such, we are giving our support to the South African government YES programme.

Outlook and prospects

Our quick response to the COVID-19 pandemic has ensured that the Group remained financially sound and profitable during these unprecedented times.

Whilst it is still too early to assess the full impact of the pandemic on our business, we believe that our diversified profile, combined with a continued focus on cash and capital management as well as safety, will see Master Drilling emerge from this cycle ready to take advantage of opportunities.

In the short term, the improvement in commodity prices including gold, PGMs, iron ore, copper and polymetals, together with the weaker emerging market currencies, should counter some of the headwinds still facing the Group for the remainder of the year.

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

NATURE OF BUSINESS

Master Drilling Group Limited is an investment holding company, whose subsidiary companies provide 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.

Pipeline and committed orders

As at 30 June 2020 our sales pipeline totalled USD281 408 522 (2019: USD297 075 486) while the committed order book totalled USD144 598 586 (2019: USD198 617 931) for the remainder of 2020 and beyond.

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
Investec Bank Limited

Sandton
25 August 2020