

MASTER DRILLING GROUP LIMITED
Incorporated in the Republic of South Africa
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AUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

SALIENT FEATURES FOR THE PERIOD

- USD Revenue decreased by 17.0% to USD123.1 million
- USD Earnings per share decreased by 78.1% to 2.2 cents
- ZAR Earnings per share decreased by 75,1% to 36,3 cents
- USD Headline earnings per share decreased by 74.8% to 2.6 cents
- ZAR Headline earnings per share decreased by 71,4% to 42,6 cents
- Stable order book of USD212.8 million
- Healthy pipeline of USD539.9 million
- Continued focus on working capital management
- Cash from operating activities increased by 72.7% to USD25.5 million

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 clients 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 capital and production stages.

Commenting on the results for the year ended 31 December 2020, Danie Pretorius, CEO of Master Drilling, said:

"Master Drilling's overall performance for the year was weighed down by the weak global economic growth environment entering 2020 which was compounded by the material impact of Covid-19, across the 23 countries in which we operate, from a human, financial and operational perspective. Although the Group experienced a significant decline in revenue in the South American operations, primarily due to government-imposed Covid-19 restrictions, this was offset by regions such as India, Africa and Scandinavia which remained operational and received various stimulus packages.

Despite a decrease in revenue, the Group experienced much-improved overall cash generation and maintained adequate liquidity whilst prioritising proactive measures around costs, working capital and capex during these uncertain times. These initiatives provide us with a solid platform for the current year as we execute on exciting contracts and opportunities.

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 increase safety. Our recent investment in AVA is aligned with our strategy to diversify our services and invest in businesses that help us meet our clients' demand for increased mechanisation and digitisation. Other opportunities with low capital requirements and short return cycles are currently under consideration.

Although the shape of recovery remains uncertain, we have seen a turnaround in the past six months across the commodities and regions that we are already exposed to. Having made significant investments in our fleet, technology and geographical diversification over the past couple of years, we are now positioned to capitalise on the predicted bull run without requiring additional capital investment."

Financial Overview

Revenue decreased 17.0% to USD123.1 million and operating profit decreased to USD12.3 million. This was a respectable result given the adverse global market conditions experienced. Cost savings initiatives were implemented as far possible to limit the impact of the Covid-19 pandemic.

USD earnings per share (EPS) decreased 78.1% to 2.2 cents, and ZAR EPS decreased 75,1% to 36,3 cents.
USD headline earnings per share (HEPS) decreased 74.8% to 2.6 cents, and ZAR HEPS decreased 71,4% to 42,6 cents.

Net cash generation improved to USD25.5 million. Cash resources continue to be managed stringently to cater for emerging opportunities that require specific design, planning and investment.

Master Drilling's total capital spend of USD9.2 million was 52.9% on expansion and 47.1% on sustaining the existing fleet.

Debt decreased from USD51.4 million to USD42.1 million and the gearing ratio, including cash, changed from 22.5% to 10.3% in the 2020 financial year.

Operational Overview

Master Drilling entered the year facing a challenging operating environment as well as deteriorating economic and socio-political fundamentals across many of its operations. The negative impact of those factors on the mining sector were compounded by the outbreak of the Covid-19 pandemic during the second quarter and subsequent lockdown measures across the countries in which the Group operates.

In particular, the international movement of people and goods has proven incredibly challenging and costly. Even though mining remained an essential component of economic activity throughout the pandemic, limited production led mining companies to build up supply chains and logistics capacity around their respective operating mines.

Despite these unprecedented challenges, the teams managed to stabilise production, partially mitigating the significant financial impact during the initial hard lockdowns of the first half. Subsequently, the Group was awarded new exploration projects and mobilised an additional fleet to service existing clients with a considerable improvement in drilling and exploration activity becoming more apparent and creating a healthy pipeline.

Against this backdrop, it is evident that the flexibility of Master Drilling's business model and the geographical spread of its operations have assisted in cushioning the Covid-19 blow while ensuring sustainability in the short to medium term.

Safety and response to Covid-19

From the onset of the pandemic, Master Drilling put in place extensive safety measures and support structures for its staff, their families and the communities in which we operate.

Through the Crisis Committee, the Group is continuously evaluating risks and adjusting responses, working closely with health authorities and clients to ensure that all sites are adhering to all protocols and guidance.

We continue to support and comply with all requirements set by governments and clients to contain the spread of the virus. Whilst doing that, the Group has also ensured that it continues to deliver services in a safe and responsible manner. Thankfully, the Group experienced relatively low infection rates.

Early proactive measures ensured the Group maintained adequate headroom in terms of liquidity and implemented stringent measures across the business to manage costs, optimise working capital and capital expenditure, and drive a stronger focus on cash flow generation during these uncertain times.

South America

Operations in South America, which include Brazil, Chile, Ecuador and Peru were severely impacted by Covid-19, with some of the world's highest infection rates throughout the year.

Although revenue in the region experienced a significant decline, primarily due to government-imposed Covid-19 restrictions, various restructuring initiatives to right-size our footprint and costs were completed and the businesses continued to show resilience amid the pandemic with Brazil output normalising in the second half of 2020 and all contracts continuing as operationally planned.

Brazil finished the 2020 year in a strong position as delays incurred during the Covid-19 period were recovered during the latter part of the year. The business will continue to look for diversification opportunities, including those in the civil construction sector.

In Chile, margins are showing improvements following the restructuring initiatives. The newly established Joint Venture Master Drilling Besalco S.A. has been successfully awarded a project in Chuiqicamata (Codelco) which positions Master Drilling for additional vertical and horizontal development projects within the country.

Peru continued to present difficult conditions with strict lockdowns in 2020 restricting human capital mobilisation to sites. Revenue remained low, despite Peru starting operations again in July with a couple of machines working. Although the utilisation of the rest of the machines deployed in Peru increased in the fourth quarter, this was not sufficient to offset losses incurred earlier in the year. The management restructuring process was completed during the second half of 2020 and the low revenue necessitated a further reduction in the labour force in addition to the initial restructuring plan. The Peruvian Government Covid-19 related special labor arrangement provided some relief.

Central and North America

Operations in the region have been bedded down and the strategy to grow Master Drilling as a differentiated competitor in the market is progressing.

Canada continues to have the largest exploration budget in the world, offering many opportunities for growth. The largest contract in the country is progressing well and the first rig deployed on the project recently completed the first ever bore hole in Labrador. The second rig has been commissioned and has successfully completed its first pilot hole.

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

The Mexican operations experienced a challenging first half of 2020. Due to mining being declared a non-essential service during the initial nationwide lockdown, business operations were severely affected. Currency fluctuation compounded these challenges, affecting performance negatively. It is, however, encouraging to see signs of recovery with numerous requests for proposals coming to market for new projects in 2021.

The region offers great opportunities driven by increased mechanisation and modernisation providing a good platform for our automation and remote controlling solutions.

Africa

Master Drilling currently has a large fleet deployed across key projects and the region is now the largest contributor of revenue and profits for the Group. Operationally, the pandemic had less impact on operations in the region with no sites closing due to the pandemic. However, logistical issues such as various delays experienced in mobilising equipment to site and ensuring clearances by the necessary authorities had to be managed.

The aggressive expansion into West Africa continued as part of the Group's diversification strategy, 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 which is positive for producers in the short-term.

In Ghana, an initial contract commenced in the second quarter and the Company's footprint was expanded further with different clients during the remainder of 2020 thereby securing a long-term sustainable business.

Operations in Mali will see a marginal growth in revenue due to an increased scope of work. DRC delivered a satisfactory performance aligned with expectations.

Botswana continues to offer great opportunities, with a contract secured in the first half of 2020 now under way. This long-term project is a sign of encouraging opportunities available in the country.

Even though the South African mining sector still provides isolated opportunities, it is shrinking in overall size due to the unfavourable environment limiting new capital expenditure.

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

We remain committed to expansion into African countries meeting our investment criteria.

Scandinavia

After a very positive start to the year, we experienced a slowdown in the latter half of the year, because of mines postponing the start-up of new projects in response to the uncertainty caused by secondary Covid-19 waves. The 18-month underground project is progressing well, and Master Drilling has been awarded an additional shaft. Discussions are also currently underway for other drilling contracts.

The Civil infrastructure sector has been a key focus area and we are starting to see an increase in raisebore enquiries for projects that have historically been excavated conventionally.

India

The Indian operations are performing well. The original contract expired during the year but after successful negotiations it was extended with a bigger scope of work for a further three years. Further discussions regarding expansion are continuing.

Other regions

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

In Australia, our break-through contract is well under way with growing interest from prospective clients providing a healthy pipeline of new projects. Mobilisation and project start-ups were impacted by travel restrictions and unplanned shipping delays, but an office has been set up and all essential personnel have been appointed.

There is a growing appetite in Russia for mechanised mining services and the Group has commenced its first drilling project in this region with a partner. The initiatives in this region is beginning to bear fruit and there is a healthy pipeline of opportunities in the greater region.

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.

Master Drilling recently announced the acquisition of a 40% stake in AVA Solutions (AVA), a specialist in data-driven mine fleet management solutions. Currently, AVA's unique digital platform analyses and tracks vehicles across 28 different sites in 5 countries for a range of blue-chip companies. This investment is aligned with the Group's strategy to diversify its services and invest in businesses that help meet clients' demand for increased mechanisation and digitisation. Other opportunities with low capital requirements and short return cycles are currently under review.

As previously reported, the decision was made to exit the TunnelPro business due to a lack of contract opportunities, cost management requirements and general economic conditions. However, the skills and intellectual property transfer to Master Drilling was completed successfully and the strategy for our Mobile Tunnel Borer (MTB) technology remains sound. The MTB is currently undergoing maintenance and improvements in Fochville following project cancellations because of Covid-19 in March 2020. New project approvals are pending.

The Shaft Boring System is set to replace the conventional shaft-sinking methods. Progress is being made with the Industrial Development Corporation (IDC) to support this approach in co-funding and financing, limiting Master Drilling's contribution and preserving cash.

Plant and equipment

The fleet consists of 145 raise bore and 58 slim drilling rigs. The total fleet's utilisation rate was 60%. The rate of new rigs coming on board will settle with a focus on larger units, which typically generate higher income. No new slim rigs are in the pipeline at this point.

Skills development

Safety across the Group is of paramount importance and one of the main focus areas, with a goal of zero harm. A number of safety initiatives implemented over the past three years have led to an overall reduction in the lost time injury frequency rate of almost 15% over the period and a decline of 18% in all injuries.

In addition, a mobile application was developed and implemented to manage Safety, Health, Environmental and Quality (SHEQ) initiatives. This initiative demonstrates Master Drilling's ability to deploy innovative solutions to increase safety during drilling operations, whether for mining or civil works, across its employee and client base.

Investments in upskilling the workforce also remain an integral part of achieving targeted top line growth. Various activities were implemented to ensure the business remains sustainable. In 2020, the Group embarked on a Human Capital project that will focus on reviewing the current skills requirements and ensure that these align with its future growth and expansion vision.

The MD Training Centre received accreditation from the Mining Qualifications Authority (MQA) and the first accredited Management Training programmes were conducted. The B-BBEE skills development initiatives for the SA entities are now being coordinated and financed via the MD Training centre. Applications for extension of scope have been submitted to the MQA which will enhance the portfolio of training that will be conducted by MD Training.

Raisebore Qualification training material was developed and submitted for accreditation to the MQA and a business plan has been finalised and the training material translated to Portuguese and Spanish to ensure uniform standards of training across the Group. During the Covid-19 lockdown restrictions, the material, as well as accompanying tests, were presented remotely via the Learner Management System (LMS) to mitigate the risk of lapsing qualifications.

The B-BBEE accreditation for the Training Centre was finalised with a level 2 rating being awarded.

Dividend

In view of currently prevailing global volatility and uncertain economic conditions the Board deems it advisable that cash resources should be protected, and thus resolved on 22 March 2021 not to declare a dividend in respect of the 2020 financial year. The Board remains committed to consider the continuation of the Company's dividend history in future financial periods, once circumstances permit.

REGULATORY REQUIREMENTS

The contents of this short form announcement are the responsibility of the Board of directors of Master Drilling Group Limited. 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/2021/JSE/ISSE/MDI/FYResults.pdf>

The information in this announcement has been extracted from the audited consolidated annual financial statements that are 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.

BDO South Africa Inc, the group's independent auditor, has audited the consolidated annual financial statements of the group from which the abridged consolidated results contained in this report have been derived, and has expressed an unmodified audit opinion on the consolidated annual financial statements. The abridged consolidated financial results comprise the statements of financial position at 31 December 2020 and the statements of comprehensive income and cash flows for the year then ended. A copy of the auditor's report is available for inspection at Master Drilling Group Limited's registered office. The auditor's report does not necessarily report on all of the information contained in the abridged consolidated annual

results. Shareholders are therefore advised to obtain a copy of the auditor's report and key audit matters together with the accompanying financial information from Master Drilling Group Limited's registered office.

Pipeline and committed orders

As at 31 December 2020 our pipeline totalled USD539 903 987 while the committed order book totalled USD212 775 709 for 2021 and beyond.

Outlook and prospects

Master Drilling's diversified footprint, proactive capital management and quick response to ensure the safety of employees and clients have ensured a commendable performance during the Covid-19 pandemic. 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 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 AI will also continue.

Although the shape of recovery and the pace at which vaccines will be rolled out globally remains uncertain, the uptick in the past six months across the commodities and regions that Master Drilling is already exposed to is encouraging.

Pipeline and committed orders as at 31 December 2020 totalled USD539.9 while the committed order book totalled USD212.8 for 2021 and beyond. In the short to medium term, the sales pipeline is expected to normalise and increase with further tactical acquisitions and joint ventures supporting performance.

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 additional capital investment.

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

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

Sandton
23 March 2021

Sponsor
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