

SWICK MINING SERVICES

Swick Mining Services Ltd
(ABN 20 112 917 905)
64 Great Eastern Highway
South Guildford WA 6055

PO Box 74
Guildford WA 6935
P: +61 8 9277 8800
F: +61 8 9277 8844

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ASX ANNOUNCEMENT

SWICK – 1H FY16 Result and Operations Update

- ☐ Group safety performance at record levels
- ☐ 1H16 revenue \$64.9m, up 2% from \$63.4m in previous corresponding period (pcp)
- ☐ EBITDA for the first half of \$8.3m, down 2% on the pcp
- ☐ Free cash of \$4.0m generated in the half
- ☐ Improved efficiency – metres up 8%, man-hours down 5% over pcp.

Western Australia – (February 23, 2016) – Swick Mining Services Limited (“Swick” or “the Company”; ASX: SWK), a leading provider of high quality and high value underground and surface mineral drilling services today provided an operations update for the first half of Financial Year 2016.

Operations Update

Revenue and other income for the six months ending December 31, 2015 was \$64.9 million, up 2% from \$63.4 million for the corresponding period a year ago. The Company is operating at 23 mine sites for 18 individual clients, of which 5 sites are international.

EBITDA for the first half was \$8.3 million (12.7% margin), down 2% from \$8.4 million (13.3% margin) in the corresponding period a year ago.

Swick’s existing contracts are operating in line with expectations. Second half revenue will be similar to the first half; however margin improvement is expected as a result of the continued focus on cost efficiencies and the implementation of some of the Company’s research and development initiatives. The final result was impacted by the de-recognition of \$1.1 million of carried forward tax losses in international operations, outside the USA, due to the current low level of contracted work and ongoing tough market conditions, and the write-off of three skid based rigs (\$0.7 million before tax) which are now considered non-core assets.

A FTE figure of 50 rigs from a fleet of 78 (including three client owned rigs) were operating in the field in the first half of FY2016 compared to a FTE 54 rigs from a fleet of 83 a year ago. The fleet number has decreased this half as five non-core assets were de-recognised as available fleet.

Of the total rigs in work, the Underground Diamond Coring division represented a FTE 46 rigs operating from a fleet of 68 (68% utilisation), compared to 48 rigs operating from a fleet of 69 (70% utilisation) a year ago.

Key financial and operating statistics for 1HFY16 are shown below;

AUDITED FINANCIAL RESULTS	1H FY16	1H FY15	% Change
Operational Performance			
Metres drilled	676,367	624,506	8%
Revenue per metre	\$95.95	\$101.60	(6%)
Profit & Loss			
Revenue and other income	\$64.9m	\$63.4m	2%
EBITDA	\$8.3m	\$8.4m	(2%)
EBIT (reported)	\$0.01m	\$1.2m	(99%)
EBIT (before significant items)	\$0.7m	\$1.2m	(45%)
NPAT (reported)	(\$1.6m)	\$0.2m	(937%)
NPAT (before significant items)	\$0.04m	\$0.2m	(77%)
At Balance Date			
Net assets	\$91.7m	\$108.3m	(15%)
Cash	\$6.8m	\$4.7m	46%
Debt	\$22.3m	\$21.9m	2%
Net debt	\$15.5m	\$17.2m	(10%)
Cash Flow			
Net cash from operating activities	\$9.9m	\$8.9m	11%
Net cash used in investing activities	(\$5.9m)	(\$9.2m)	(36%)
Free cash flow	\$4.0m	(\$0.3m)	1433%
Operating cash flow before interest and taxes	\$10.5m	\$10.6m	(0.9%)
Ratios			
Basic EPS – cents per share	(0.72)	0.09	(939%)
EBITDA margin (%)	12.7%	13.3%	
EBIT margin (%)	1.0%	1.9%	
EBITDA cash conversion (%)	127.6%	125.6%	
Gearing (Net debt/equity) (%)	16.8%	15.9%	

*Significant items include the de-recognition of carried forward tax losses in overseas jurisdictions as well as a write-off of three skid based diamond drills which are viewed as non-core, redundant assets in the group

Metres drilled increased by 8% over the two corresponding periods despite a decrease in fleet utilisation. This was delivered as a result of increases to rig performance through various research & development initiatives. Increased performance by individual rigs has resulted in the company having spare rigs that can be utilized for future growth with minimal additional capital injections.

The ongoing challenges within the mineral drilling market have put pressure on pricing resulting in a drop in revenue per metre of 6%. Swick has a strong order book of around \$135 million and operates at a number of world-class operating mine sites.

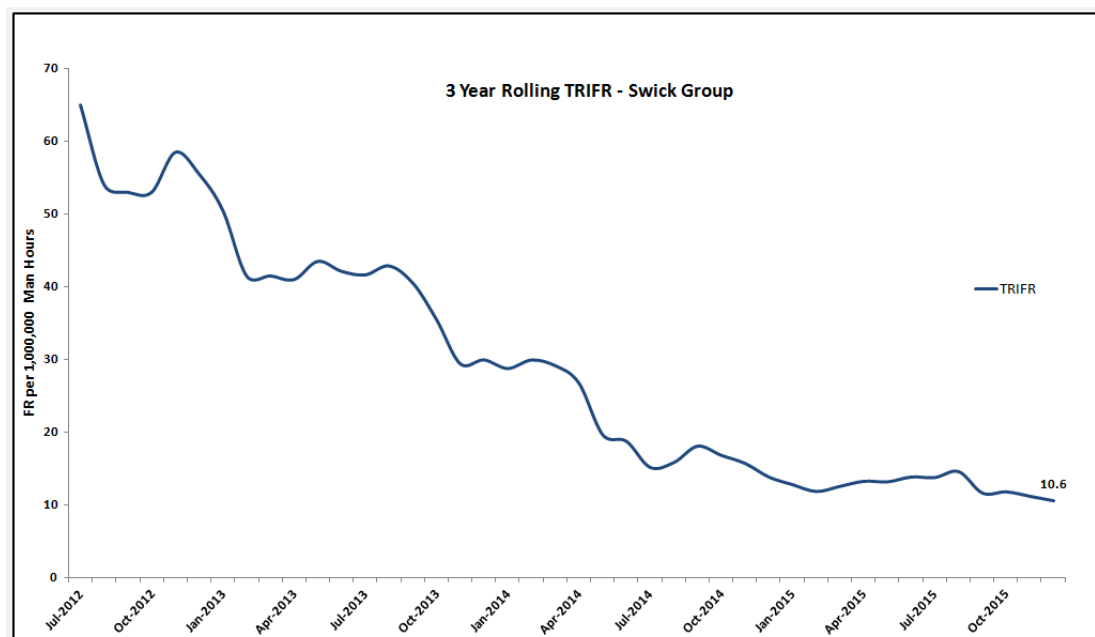
Swick generated free cash flow of \$4.0 million during the period by managing working capital and capital expenditure reductions due to focusing on productivity initiatives to enable production increases, rather than adding fleet. The Company paid down \$2.0 million of its debt facility during the period and also renewed its debt facility for a further two years until December 2017.

Swick has commenced an on-market buy-back of up to 10% of its issued ordinary shares (approximately 21.7 million shares) during the period of 12 months commencing in December 2015. The share buy-back is being undertaken as part of the Company's capital management strategy, particularly given the low market trading price of Swick shares in comparison to the net tangible asset backing of the Company's shares. The Board believes that the current market share price does not reflect the fair value of the Company and the share buy-back therefore constitutes a sound use of available capital.

Swick decided to write off a deferred tax asset in Canada and Portugal to the value of \$1.1 million. In addition, in order to have a fleet representative of our current strategies, the Swick owned Longhole drill rigs have been removed from the fleet numbers as these assets do not meet the ongoing needs of the business. Similarly three of the six skid based underground diamond drills within the Swick fleet have been written down and removed from the fleet register. In total the asset write downs represent a total of \$0.7 million before tax.

Safety and Training

Safety continues to be an integral part of the Swick brand. Over the 2016 half-year period, Swick continued to improve its safety performance with the Total Recordable Injury Frequency Rate (TRIFR) reducing to 10.6 at period end, a 23% reduction over the period, on the back of a 25% reduction in financial year 2015.



Capital Expenditure

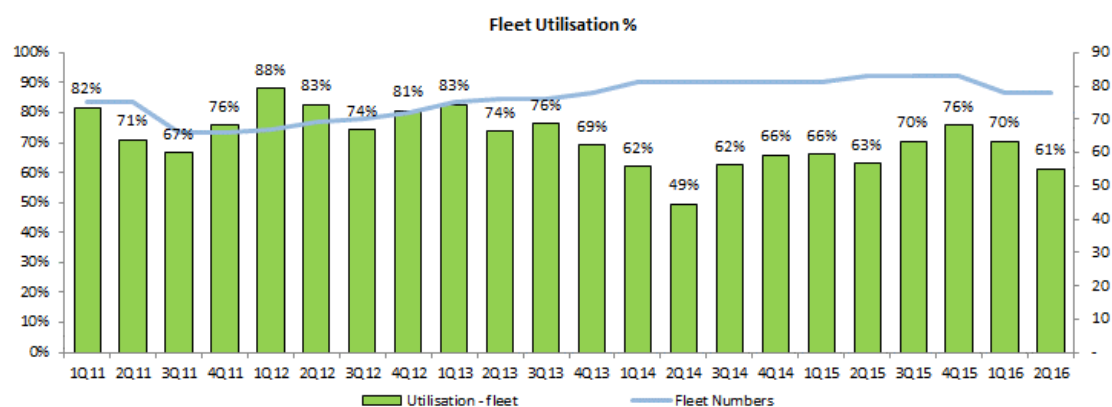
In November 2013, Swick invested an initial sum of \$1.66 million into a mineral analysis business based in Sweden for an initial shareholding of 23% in the Company. Since that date, Swick has provided additional funding to Orexlore AB in the amount of \$2.89 million. Swick's financial commitment to Orexlore AB is in the order of A\$550,000 per half year, which in turn funds the research and development of world first mineral analysis techniques in return for equity. As at 31 December 2015 the Group's ownership interest was 57.6%. Swick has further commitments for up to \$3.3 million (SEK19.9m) over the next 30 months.

Normal business capital expenditure in the first half was \$6.5 million (compared to \$8.9 million in the first half of FY15), of which \$2.1 million relates to specific productivity enhancement projects including R&D projects and rig upgrades. The Company has decided to focus the next phase of capital expenditure on the commercial rollout of many R&D initiatives that will significantly improve the productivity and lower the operating costs of the Underground Diamond Drilling Division. The benefit of these upgrades is primarily efficiency improvements and the subsequent profitability improvements, however as a result of the improved productivity the quantum of capital expenditure for growth is greatly reduced as the business can deliver more production from the existing asset base. The second half capital expenditure is budgeted to be approximately \$6.0 million.

Rigs at Work and Fleet Utilisation

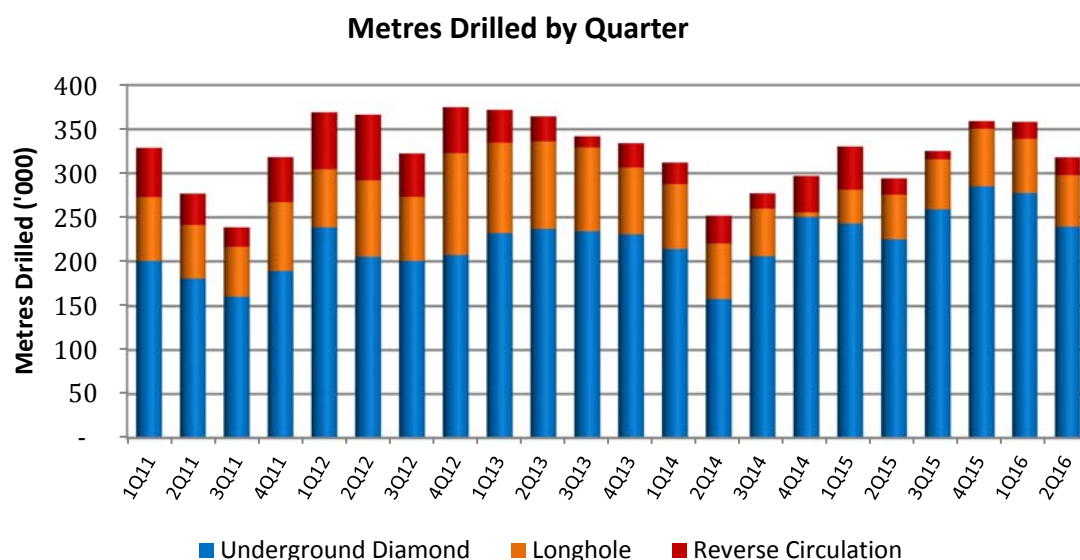
Fleet Utilisation

A FTE average of 50 rigs from a fleet total of 78 (including three client owned rigs) operated in the first half. The Company's rig utilisation against total fleet number as at 31 December 2015 is shown below:



Metres Drilled

Total metres drilled for 1H16 increased 8% to 676,369 metres from 624,506 metres in the corresponding period last year. The quarterly metres drilled by division is shown in the graph below with Underground Diamond up 11%, Longhole Production up 35% and RC down 42%, compared to the corresponding half last year.



2016 Full Year Outlook


The Company is not in a position to offer full year guidance due to the continuation of low (and volatile) commodity prices and uncertain global demand. The current order book stands at around \$135 million.

Commentary

Managing Director Mr. Kent Swick states: “The market remains in a very depressed state with commodity prices significantly down (with the exclusion of AUD gold) in comparison with the corresponding period a year ago. Our clients have worked diligently to reset contract rates with suppliers and Swick has attempted to meet these demands by reducing the cost base of our operations in line with the expected reduction of drilling rates.”

“Swick has numerous initiatives in play to increase productivity and reduce manning on our drill rigs and the timing couldn’t be better for the delivery of these projects considering the marketplace at present. In times like these, our clients are willing to engage with us on utilising new technology in order to achieve an outcome sought by both parties – reduced overall costs to the contractor and therefore to the clients, without compromising safety, quality or productivity.”

“It is impossible to say whether we are in a new norm or a protracted downturn, but either way, the strategies we are employing at Swick to maximise the output of the assets and



minimise the requirements for direct labour on the rigs is the right strategy regardless of the macro market.”

“There is a significant amount of volatility in the rig demand from existing customers and as a result there is an increase in mobilisation and de-mobilisation events at times like these. This is costly and whilst Swick does its best to minimise the effect on the business it inevitably hits the bottom line to a degree. “

“We are trying to do the best for shareholders and we are working towards increasing the earnings per share on two fronts – significant business improvement strategies and the revised share buy-back.”

About Swick Mining Services:

Swick Mining Services Ltd (ASX:SWK) is one of Australia’s largest mineral drilling contractors, providing high quality underground and surface drilling services to a diverse group of mining houses and across a spread of commodities. The Company has a strong reputation for innovation in rig design and drilling practices that delivers improvements in productivity, safety, versatility and value. Swick has a global presence with Operational revenue from Australia, Canada, United States and Europe.

For further information re this announcement, please contact the following on +61 8 9277 8800:

Kent Swick
Managing Director

Jitu Bhudia
Chief Financial Officer

Disclosure Statement:

These materials include forward looking statements. Forward looking statements inherently involve subjective judgement and analysis and are subject to significant uncertainties, risks and contingencies, many of which are outside of the control of, and may be unknown to, the Company. Actual results and developments may vary materially from those expressed in these materials. The types of uncertainties which are relevant to the Company may include, but are not limited to, commodity prices, political uncertainty, changes to the regulatory framework which applies to the business of the Company and general economic conditions. Given these uncertainties, readers are cautioned not to place undue reliance on such forward looking statements. Forward looking statements in these materials speak only at the date of issue. Subject to any continuing obligations under applicable law or any relevant stock exchange listing rules, the Company does not in providing this information undertake any obligation to publicly update or revise any of the forward looking statements or any change in events, conditions or circumstances on which any such statement is based.