Swick Mining Services Ltd and its Controlled Entities

Appendix 4D

Half-Year Financial Report

31 December 2018

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RESULTS FOR ANNOUNCEMENT TO THE MARKET (APPENDIX 4D)

	Period ended
Current Reporting Period	31-Dec-18
Previous Corresponding Period	31-Dec-17

				$'000
Revenue from Ordinary Activities	Up	5%	to	74,034
Net Profit After Tax from Ordinary Activities	Up	249%	to	1,903
Net Profit After Tax Attributable to Members	Up	249%	To	1,903

Dividends
No dividends have been declared during the period.

	31-Dec-18	31-Dec-17
Net tangible asset backing per ordinary share (cents)	31.46	30.07

Net tangible asset backing per share has been calculated by dividing the net tangible assets by the closing number of ordinary shares on issue.

DIRECTORS' REPORT

The Directors of Swick Mining Services Limited (Swick) are pleased to submit their report for the half-year ended 31 December 2018.

DIRECTORS

The names of the Company's Directors in office during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Name	**Appointment Date**
Andrew Simpson (Chairman) (Non-Executive)	Appointed 24th October 2006
Kent Swick (Managing Director)	Appointed 24th October 2006
David Nixon (Non-Executive)	Appointed 1st January 2007
Phil Lockyer (Non-Executive)	Appointed 11th February 2008
Ian McCubbing (Non-Executive)	Appointed 1st August 2010

Company Secretary

Frank Campagna	Appointed 19th June 2014

RESULTS AND REVIEW OF OPERATIONS

FINANCIAL RESULTS (UNREVIEWED NON-IFRS)	HY19 $'000	HY18 $'000	Change %
Profit & Loss			
Revenue and other income	75,297	71,120	5.9%
EBITDA (Drilling business)	16,239	8,063	101.4%
EBITDA (Mineral Technology business)	(1,765)	(882)	(100.1%)
EBITDA (Total)	14,540	7,181	102.5%
EBIT (Drilling business)	6,736	(50)	N/A
EBIT (Mineral Technology business)	(2,790)	(885)	(215.3%)
EBIT (Total)	4,012	(935)	529.1%
NPAT (Drilling business)	4,497	(462)	N/A
NPAT (Mineral Technology business)	(2,640)	(816)	(223.5%)
NPAT (Total)	1,903	(1,278)	248.9%
Cash Flow			
Net cash from operating activities	9,820	4,952	98.3%
Net cash used in investing activities	(8,707)	(5,311)	(63.9%)
Free cash flow	1,113	(359)	(410.0%)
Operating cash flow before interest and taxes	10,593	5,652	87.4%
At Balance Date	**31 Dec 18**	**30 Jun 18**	
Cash	12,319	11,461	7.5%
Debt	29,972	29,220	2.6%
Net debt	17,653	17,759	(0.6%)
Gearing (Net debt/equity) (%)	20.7%	21.3%	
Ratios	**HY19**	**HY18**	
EBITDA margin (Drilling business) (%)	21.4%	11.3%	
EBITDA margin (Total) (%)	19.3%	10.1%	
EBIT margin (Drilling business) (%)	8.9%	(0.1%)	
EBIT margin (Total) (%)	5.3%	(1.3%)	
Basic EPS (reported) – cents per share	0.8	(0.6)	
EBITDA cash conversion (%)	72.9%	78.7%	

Revenue and other income for the six months ending 31 December 2018 was $75.3 million, 5.9% higher than the $71.1 million for the prior corresponding period (pcp). The Company is operating at 17 mine sites for 13 individual clients, of which 3 sites are international.

EBITDA was $14.5 million (19.3% margin) for the first half, up 102.5% from $7.2 million (10.1% margin) in the pcp. EBITDA for the Drilling business was $16.2 million (21.4% margin), up 101.4% from the pcp of $8.1 million (11.3% margin). Spend in the Mineral Technology business for the half was $1.8 million compared to $0.9 million in the pcp, a reflection of the increased activity in this business as the Company moves to commercialisation of the Orexplore technology.

The Drilling Business results add to Swick's earnings turnaround, with the Company successfully delivering on its two key strategies of shifting drill rigs onto better performing contracts or new projects and reducing operating and non-operating costs. Revenue per shift improved by 6.1% for the half while operating costs per shift reduced 4.5%. In addition, Swick benefited from improved short-term rates at two existing underground drilling services contracts. These rates will run through to March 2019, to allow for a competitive tender process for the long-term contracts to be completed (in which Swick is participating).

Swick's Drilling Business operates at a number of world-class operating mine sites and ended the period with an order book of around $123 million. Swick continues to identify opportunities to put idle equipment to work where the opportunity provides a sufficient return on capital as well as working with existing clients to ensure that their expanding drilling needs can be met.

Swick continues to be successful in winning campaign-style contracts for the Reverse Circulation (RC) business, with 3 of the 7 rigs in work at end of the period. Swick is currently in negotiations for a twelve-month extension to one of the RC projects which will require 2 rigs for most of the year, underpinning the ongoing operations for this division.

A full time equivalent (FTE) of 57 rigs from a fleet of 76 were operating in the field in the first half of FY19 compared to an FTE of 56 rigs from a fleet of 75 a year ago. Of the total rigs in work, the Underground Diamond (UD) drilling division represented an FTE of 53 rigs operating from a fleet of 69 (77% utilisation), compared to 52 rigs operating from a fleet of 68 (76% utilisation) a year ago.

Total metres drilled decreased by 14.2% compared to pcp. Metres drilled in the Underground Division (UD) decreased by 11% and metres drilled in the surface Reverse Circulation (RC) division decreased by 47% compared to pcp. Reduced metres drilled did not have a detrimental impact on revenue and margins as rigs were deployed to better performing contracts.

Over the years clients have been increasing their deep hole drilling requirements, reflected by the fact that the portion of underground hole depths greater than 500 metres drilled by Swick has increased from 0.7% in FY15 to 3.8% in HY19. To service this market more effectively with more powerful drill rigs, Swick commenced a new dedicated deep hole drilling division, DeepEX. The first of two high torque DeepEX mobile rigs has been deployed in February 2019, while three new, purpose-built rigs are set for delivery during the second half of FY19.

Swick generated free cash flow for the half of $1.1 million. EBITDA cash conversion was 72.9% for the half and was impacted by increase in working capital and non-cash unrealised foreign exchange gains. During the half, Swick renewed and increased its banking facilities by an additional $8 million in anticipation of increased rig demand.

Drilling Business Outlook

Ongoing contract renewals are expected to result in a mixed outcome in-line with the strategy to adjust rates on contracts that are delivering below target margins. This is expected to be countered by expected increase in rig demand from existing clients as well as new projects currently under tender. As a result, rig utilisation in 2H19 is expected to be lower than 1H19 due to the short-term gap of putting any released rigs back to work on existing sites and new projects. This short-term reduction in utilisation and the cessation of the short-term rates on two contracts is expected to result in lower margins for the Drilling Business in 2H19 compared to 1H19. Both utilisation and margins are expected to improve in 1H20 from expected increase in rig demand from existing clients and successful outcome on tendered work.

Mineral Technology

The Mineral Technology division continues to develop the commercial business for its revolutionary GeoCore X10 scanning machine (for base metals core scanning), with the Australian operation having seven customers signed up and numerous trials underway with a range of miners, explorers and consultants.

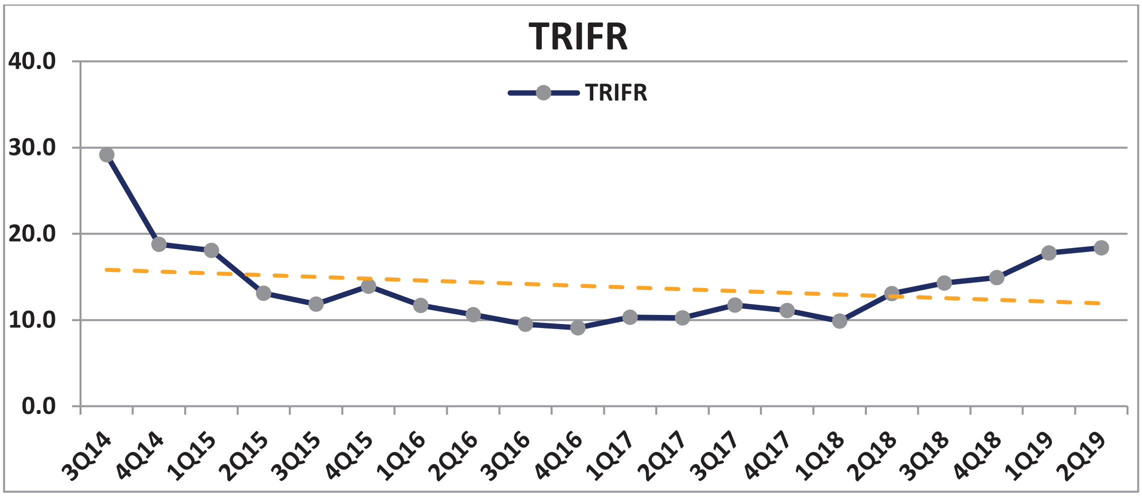
The Australian team is developing a site-based solution to enable machines to be placed on site at client premises. This solution will enable clients to get near real time assay and geology results on drilled metres, eliminating the time consuming and costly process of transporting core off site for destructive testing. It is anticipated that this prototype will be rolled out during calendar 2019.

The Swedish Research and Development team, while continuing to improve the existing product, is progressing with the next generation machine which will be able to scan heavy metals, most notably gold. In addition to feedback from Australia, it is working with joint venture partners in Europe to refine the current product and identify additional markets and applications for this world leading technology.

Safety and Training

Swick continues to be an industry leader in innovation, production and safety. While continuing to use its dedicated workshop and award-winning training facilities at its head office as part of its ongoing improvement culture, Swick is looking to partner with professional partners as it looks towards creating the next generation of drillers.

Safety continues to be an integral part of Swick with engineering solutions being a key focus. Since June 2012, the TRIFR has reduced from 70 to 16.5, a reduction of 77%. A key focus of this reduction has been managing muscular-skeletal injuries – mainly back injuries. At 31 December 2018, the TRIFR for this type of injury was approximately 3.0. This reduction has been achieved through major focus on engineering changes, training and early intervention, especially for new employees. The high attention to detail in this area has now seen a small number of minor other style injuries, plus a stricter recording definition, adversely impact the TRIFR. Swick continues to engineer out risks as much as possible, with a number of new engineering controls in the process of being rolled out, complemented by a more balanced focus to identifying various types of incidents and risks.

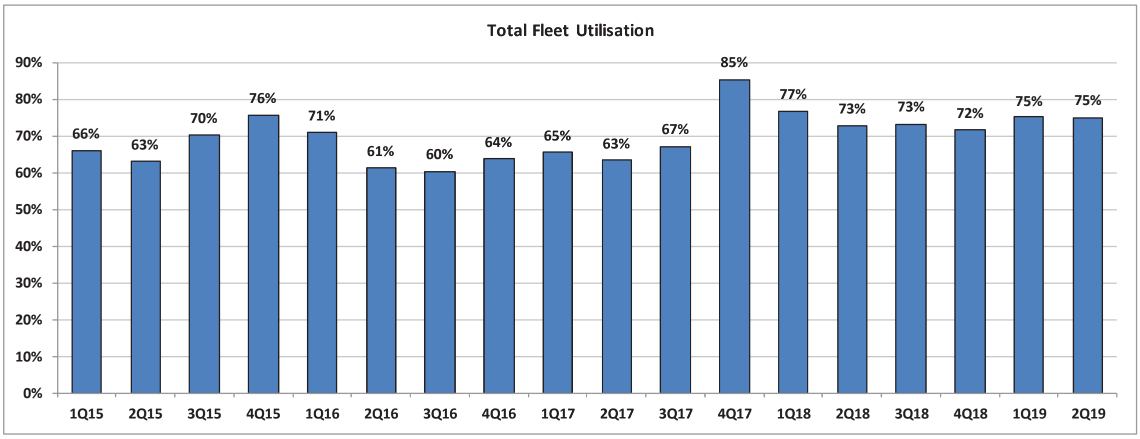


Capital Expenditure

Capital expenditure for the first half was $9.9 million including plant and equipment acquired under finance leases (compared to $6.7 million in the pcp), of which $0.4 million relates to the Mineral Technology business ($0.9 million pcp). The increase in spend comes from new rig capacity ($1.3 million) plus rig rebuild and upgrades spend ($2.6 million, up from $0.4 million pcp). This increased spend is a combination of the DeepEX roll out plus ongoing positive market sentiment and preparations for expected increase in rig demand. The reduced spend in the Mineral Technology business reflects the move to commercial operations and focus on refining the existing machines plus preparing for manufacturing operations as commercial activity increases.

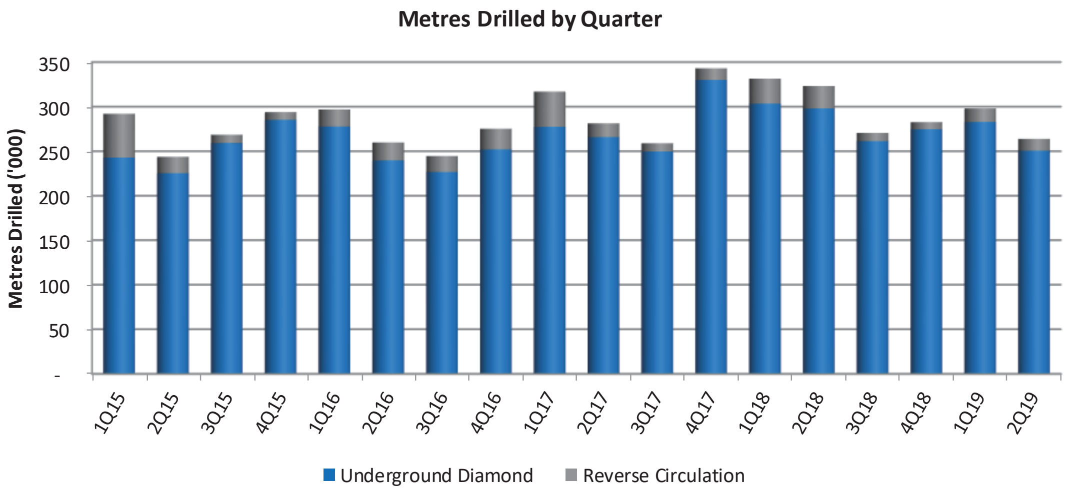
Fleet Utilisation

A full-time-equivalent (FTE) average of 57 rigs from a fleet total of 76 operated in the first half. The increase in utilisation related to the UD division, with an additional 3 FTE rigs operating in North America, offsetting a reduction of 1.5 FTE rigs in the APAC segment. The Company's total fleet utilisation per quarter is shown below:



Metres Drilled

Total metres drilled for HY19 decreased 14% to 561,694 metres from 654,451 metres in HY18. The quarterly metres drilled by division is shown in the graph below with UD down 11%, and RC down 46% compared to the corresponding half last year.



Interim Dividend

Due to the anticipated cash requirements for the capital works program and ongoing development of the Mineral Technology business, the Company has decided not to declare an interim dividend for the half year.

AUDITOR'S INDEPENDENCE DECLARATION

We have obtained an independence declaration from our auditors, Ernst & Young, which is included on page 9.

Signed in accordance with a resolution of the directors

Kent Swick
Managing Director
Dated: 25 February 2019

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Auditor's Independence Declaration to the Directors of Swick Mining Services Ltd

As lead auditor for the review of Swick Mining Services Ltd for the half-year ended 31 December 2018, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Swick Mining Services Ltd and the entities it controlled during the financial period.

Ernst & Young

Ernst & Young

Gavin Buckingham

Gavin Buckingham
Partner
25 February 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Note	Consolidated 31-Dec-18 $'000	31-Dec-17 $'000
Revenue	2.2	74,034	70,346
Other income	2.2	1,263	774
Raw materials and consumables used		(12,948)	(14,789)
Employee benefits expense		(37,155)	(38,143)
Depreciation and amortisation expense		(10,528)	(8,116)
Finance costs		(711)	(640)
Other expenses	2.3	(10,654)	(11,007)
Profit/(loss) before income tax expense		**3,301**	**(1,575)**
Income tax (expense)/benefit		(1,398)	297
Net profit/(loss) after tax for the period		**1,903**	**(1,278)**
Profit/(loss) for the period attributable to:			
Owners of the Company		1,903	(1,278)
		1,903	**(1,278)**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign-controlled entities		291	245
Other comprehensive income for the period, net of tax		**291**	**245**
Total comprehensive income/(loss) for the period		**2,194**	**(1,033)**
Comprehensive income/(loss) for the period attributable to:			
Owners of the Company		2,194	(1,033)
		2,194	**(1,033)**
Earnings per share			
- Basic earnings/(loss) per share (cents)	2.5	0.82	(0.55)
- Diluted earnings/(loss) per share (cents)	2.5	0.80	(0.55)

The Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	Note	Consolidated 31-Dec-18 $'000	30-Jun-18 $'000
Current assets			
Cash and cash equivalents		11,820	10,914
Restricted cash		499	547
Trade and other receivables		18,122	16,003
Inventories		14,297	13,840
Other assets		1,689	1,396
Total current assets		**46,427**	**42,700**
Non-current assets			
Property, plant and equipment		77,465	77,414
Intangible assets		12,664	12,674
Other financial assets	3.1	1,630	1,630
Deferred tax assets		111	186
Total non-current assets		**91,870**	**91,904**
Total assets		**138,297**	**134,604**
Current liabilities			
Trade and other payables		15,227	15,413
Current tax liability		284	36
Deferred income		501	547
Borrowings	3.2	2,847	577
Provisions		5,046	5,243
Total current liabilities		**23,905**	**21,816**
Non-current liabilities			
Borrowings	3.2	27,125	28,643
Provisions		666	729
Deferred tax liabilities		1,121	108
Total non-current liabilities		**28,912**	**29,480**
Total liabilities		**52,817**	**51,296**
Net assets		**85,480**	**83,308**
Equity			
Issued capital	4.1	79,446	79,446
Reserved shares	4.2	(777)	(667)
Reserves	4.3	3,106	2,727
Retained earnings		3,705	1,802
Total equity attributable to owners of the Company		**85,480**	**83,308**

The Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Note	Issued capital $'000	Reserved shares $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
CONSOLIDATED						
At 1 July 2018		**79,446**	**(667)**	**2,727**	**1,802**	**83,308**
Profit for the period		-	-	-	1,903	**1,903**
Other comprehensive income		-	-	291	-	**291**
Total comprehensive income for the period		**-**	**-**	**291**	**1,903**	**2,194**
Reserved shares purchased	4.2	-	(110)	-	-	**(110)**
Share-based payments	4.3	-	-	88	-	**88**
At 31 December 2018		**79,446**	**(777)**	**3,106**	**3,705**	**85,480**
At 1 July 2017		**79,446**	**(453)**	**1,960**	**2,777**	**83,730**
Loss for the period		-	-	-	(1,278)	**(1,278)**
Other comprehensive income		-	-	245	-	**245**
Total comprehensive loss for the period		**-**	**-**	**245**	**(1,278)**	**(1,033)**
Reserved shares purchased	4.2	-	(214)	-	-	**(214)**
Share-based payments	4.3	-	-	182	-	**182**
At 31 December 2017		**79,446**	**(667)**	**2,387**	**1,499**	**82,665**

The Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Consolidated	
	31-Dec-18 $'000	31-Dec-17 $'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	78,625	79,353
Receipts from government grant	304	1,396
Payments to suppliers and employees	(68,336)	(75,097)
Income tax paid	(62)	(60)
Net interest paid	(711)	(640)
Net cash provided by operating activities	**9,820**	**4,952**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant & equipment	59	101
Purchase of property, plant & equipment [1]	(8,027)	(4,187)
Payments for development costs	(805)	(1,278)
Investment income	66	53
Net cash used in investing activities	**(8,707)**	**(5,311)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	-	1,000
Purchase of reserved shares	(110)	(214)
Repayment of borrowings	(364)	(104)
Net cash (used in)/provided by financing activities	**(474)**	**682**
Net increase in cash, cash equivalents and restricted cash held	**639**	**323**
Cash, cash equivalents and restricted cash at the beginning of the period	11,461	8,810
Effect of exchange rate changes on cash, cash equivalents and restricted cash	219	10
Cash, cash equivalents and restricted cash at the end of the period	**12,319**	**9,143**

[1] The Company acquired plant and equipment under finance leases or hire purchase agreements amounting to $1,088,000 (HY18: $1,262,000) during the period which have been excluded from the Consolidated Statement of Cash Flows.

The Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

1 GENERAL NOTES

1.1 General information

The half-year financial report of Swick Mining Services Ltd ('the Company') for the half-year ended 31 December 2018 was authorised for issue in accordance with a resolution of the directors on 25 February 2019.

Swick Mining Services Ltd is a company incorporated in Australia and limited by shares which are publicly traded on the Australian Securities Exchange.

1.2 Basis of preparation

The half-year financial report does not include all of the notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the annual Financial Report of Swick Mining Services Ltd as at 30 June 2018.

It is also recommended that the half-year financial report be considered together with any public announcements made by Swick Mining Services Ltd and its controlled entities ('the Group') during the half-year ended 31 December 2018 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

The half-year consolidated financial report is a condensed general purpose financial report, which has been prepared in accordance with the requirement of the *Corporations Act 2001 and* AASB 134 "Interim Financial Reporting". The half-year financial report has been prepared on a historical cost basis, except where stated.

The consolidated financial statements provide comparative information in respect of the previous period. Comparative information has been realigned to conform to the current year presentation for consistency purposes.

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Report) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

1.3 Functional currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of the Group, and the presentation currency for the consolidated financial statements.

1.4 Principles of consolidation

The half-year consolidated financial statements comprise the financial statements of Swick Mining Services Ltd and its controlled subsidiaries.

A change in the ownership interest of a subsidiary, without a change in control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

1.5 Changes to accounting standards and interpretations

The accounting policies and methods of computation were the same as those disclosed in the most recent financial statements as at 30 June 2018 save for impact of adopting AASB 9 'Financial Instruments' and AASB 15 'Revenue from Contracts with Customers'. The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current half-year.

New and revised Standards and Interpretations effective for the current half-year that are relevant to the Group include:

- AASB 9 'Financial Instruments'
- AASB 2016-5 'Classification and Measurement of Share-based Payment Transactions'
- AASB 15 'Revenue from Contracts with Customers'
- AASB Interpretation 22 'Foreign Currency Transactions and Advance Consideration'

Except for AASB 9 'Financial Instruments' and AASB 15 'Revenue from Contracts with Customers', the adoption of other amending Standards did not have any impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

AASB 9 'Financial Instruments'
The Group applies, for the first time, AASB 9 'Financial Instruments'.

AASB 9 'Financial Instruments' replaces AASB 139 'Financial Instruments: Recognition and Measurement' bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

AASB 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. The Group has adopted AASB 9 retrospectively, with initial application date of 1 July 2018, in accordance with the standard; changes in accounting policies resulting from the adoption of AASB 9 did not have a material impact on the Company's consolidated financial statements and comparatives were not restated.

AASB 9 largely retains the existing requirements of AASB 139 for the classification and measurement of financial liabilities, however, it eliminates the previous AASB 139 categories for financial assets held to maturity, receivables and available for sale. Under AASB 9, on initial recognition a financial asset is classified as measured at:
a. Amortised cost;
b. Fair Value through Other comprehensive Income (FVOCI) – debt investment;
c. FVOCI – equity investment; or
d. Fair Value through Profit or Loss (FVTPL)

The classification of financial assets under AASB 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition. For financial assets measured at amortised cost, these assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

As of 30 June 2018 and 31 December 2018, the Group's financial instruments consist of cash and cash equivalents, restricted cash, trade and other receivables, investments, trade and other payables and borrowings. The change in classification has not resulted in any re-measurement adjustment at 1 July 2018. The result of the assessment is as follows:

Class of financial instrument presented in the statement of financial position	Original measurement category under AASB 139	New measurement category under AASB 9	Carrying value as at 1 July 2018 $'000
Cash and cash equivalents	Loans and receivables	Financial assets at amortised cost	10,914
Restricted cash	Loans and receivables	Financial assets at amortised cost	547
Trade and other receivables	Loans and receivables	Financial assets at amortised cost	16,003
Other financial assets	Available for sale financial assets	FVOCI equity investments	1,630
Trade and other payables	Financial Liability at amortised cost	Financial liability at amortised cost	15,413
Borrowings	Financial Liability at amortised cost	Financial liability at amortised cost	29,220

The cash and cash equivalents, restricted cash, trade and other receivables, trade and other payables and borrowings approximate their fair value.

Fair value movements from the FVOCI equity instruments continue to be recognised in equity through other comprehensive income and are not eligible for recycling through profit or loss upon realisation of the asset.

The Group classifies the fair value of the financial instruments according to the following three levels of fair value hierarchy based on the amount of observable inputs used to value the instruments:

- Level 1 – Values based on unadjusted quoted prices available in active markets for identical assets or liabilities as of the reporting date.
- Level 2 – Values based on inputs, including quoted prices, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. Prices in Level 2 are either directly or indirectly observable as of the reporting date.
- Level 3 – Values based on prices or valuation techniques that are not based on observable market data.

Impairment of financial assets

In relation to the financial assets carried at amortised cost, AASB 9 requires an expected credit loss ("ECL") model to be applied as opposed to an incurred credit loss model under AASB 139. The expected credit loss model requires the Group to account for ECL and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial asset. In particular, AASB 9 requires the Group to measure the loss allowance at an amount equal to lifetime expected credit loss if the credit risk on the instrument has increased significantly since initial recognition. On the other hand, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group is required to measure the loss allowance for that financial instrument at an amount equal to the ECL within the next 12 months.

As at 1 July 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information. For trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Based on this simplified approach, the lifetime ECL model has an immaterial impact on the Group.

Cash balances, other than immaterial petty cash balances, are being held with reputable financial institutions with sound credit ratings, which reduces credit risk and the expected credit loss to be insignificant.

AASB 15 'Revenue from Contracts with Customers'
The Group applies, for the first time, AASB 15 'Revenue from Contracts with Customers' ("AASB 15").

AASB 15 supersedes AASB 118 'Revenue' and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted the modified retrospective transitional approach to implementation and the new standard has therefore been applied only to contracts that remain in force at 1 July 2018. The effect of adopting AASB 15 on the Group's accounting policy for revenue is discussed below, however there is no impact on the consolidated financial statements of the Group.

The Group is in the business of providing mineral drilling services and mineral analysis services to the mining industry.

The effect of adopting IFRS 15 is set out below.

Drilling segments

Customer contracts typically comprise two performance obligations because the promises to provide drilling and grouting services are capable of being distinct and are separately identifiable. The transaction price for each service, based on standalone selling prices for each hour, shift, metre or unit is set out in the customer contract. Where the Group has a right to consideration from a customer, in an amount that corresponds directly with the value to the customer of the Group's performance completed to date, the Group recognises revenue in the amount the Group has the right to invoice.

Billing is done for periods no longer than one month and customers are given up to 60 days to settle.

Mineral Technology segment

The Mineral Technology segment of the Group generates revenue from providing mineral analysis services to the mining industry. Revenue is earned by metre of core scanned.

2 FINANCIAL PERFORMANCE

2.1 Operating segments

General information
Identification of reportable segments

Information reported to the Board for the purposes of resource allocation and assessment of performance is more specifically focused on Drilling Services in Asia Pacific, Drilling Services in International and Mineral Technology. The results from continuing operations are reflected in the table that follows.

For half year ended 31 December 2018 $'000	Drilling Services – Asia Pacific	Drilling Services – International	Mineral Technology	Other	Elimination	Total
Revenue	60,868	13,144	22	-	-	74,034
Other income	206	666	325	66	-	1,263
Inter-segment revenue	864	-	-	-	(864)	-
Total revenue and other income	**61,938**	**13,810**	**347**	**66**	**(864)**	**75,297**
EBITDA	**12,225**	**4,014**	**(1,765)**	**66**	**-**	**14,540**
Depreciation and amortisation	(7,921)	(1,582)	(1,025)	-	-	(10,528)
Segment result – EBIT	**4,304**	**2,432**	**(2,790)**	**66**	**-**	**4,012**
Finance costs						(711)
Profit before tax						**3,301**
Total assets	116,973	24,782	10,889	1,610	(15,957)	138,297
Total liabilities	(49,402)	(17,995)	(1,377)	-	15,957	(52,817)
Total net assets	**67,571**	**6,787**	**9,512**	**1,610**	**-**	**85,480**
Additions to property, plant and equipment	8,061	935	119	-	-	9,115
Additions to intangible assets	536	-	269	-	-	805
Total additions to non-current assets	**8,597**	**935**	**388**	**-**	**-**	**9,920**

For half year ended 31 December 2017 $'000	Drilling Services – Asia Pacific	Drilling Services – International	Mineral Technology	Other	Elimination	Total
Revenue	63,185	7,161	-	-	-	70,346
Other income	159	72	543	-	-	774
Inter-segment revenue	596	-	-	-	(596)	-
Total revenue and other income	**63,940**	**7,233**	**543**	**-**	**(596)**	**71,120**
EBITDA	**7,840**	**224**	**(882)**	**(1)**	**-**	**7,181**
Depreciation and amortisation	(7,385)	(728)	(3)	-	-	(8,116)
Segment result – EBIT	**455**	**(504)**	**(885)**	**(1)**	**-**	**(935)**
Finance costs						(640)
Loss before tax						**(1,575)**
Total assets	120,778	24,399	9,597	11	(22,649)	132,136
Total liabilities	(47,512)	(20,639)	(3,289)	(680)	22,649	(49,471)
Total net assets	**73,266**	**3,760**	**6,308**	**(669)**	**-**	**82,665**
Additions to property, plant and equipment	5,179	270	-	-	-	5,449
Additions to intangible assets	391	-	887	-	-	1,278
Total additions to non-current assets	**5,570**	**270**	**887**	**-**	**-**	**6,727**

2.2 Revenue and other income

	Consolidated 31-Dec-18 $'000	Consolidated 31-Dec-17 $'000
Revenue		
Provision of drilling services	73,208	68,864
Provision of grouting services	804	1,482
Provision of mineral analysis services	22	-
Total revenue	**74,034**	**70,346**
Other income		
Gain on disposal of property, plant and equipment	49	71
Government subsidies received	369	598
Investment income from unit trust	66	53
Unrealised foreign exchange gain	630	-
Realised foreign exchange gain	43	-
Other income	106	52
Total other income	**1,263**	**774**

Disaggregation of revenue

In the following table, revenue is disaggregated by primary geographical market and type of contract. The table also includes a reconciliation of the disaggregated revenue with the Group's strategic divisions, which are its reportable segments (see note 2.1).

For half year ended 31 December 2018 $'000	Drilling Services – Asia Pacific	Drilling Services – International	Mineral Technology	Other	Elimination	Total
Primary geographical markets based on location of customers						
Australia	60,868	-	22	-	-	60,890
North America	-	10,444	-	-	-	10,444
Europe	-	2,700	-	-	-	2,700
Total revenue	60,868	13,144	22	-	-	74,034
Major products						
Underground diamond drilling	57,327	13,144	-	-	-	70,471
Reverse circulation drilling	3,541	-	-	-	-	3,541
Mineral analysis services	-	-	22	-	-	22
Total revenue	60,868	13,144	22	-	-	74,034
Timing of revenue recognition						
Services transferred over time	60,868	13,144	22	-	-	74,034

For half year ended 31 December 2017 $'000	Drilling Services – Asia Pacific	Drilling Services – International	Mineral Technology	Other	Elimination	Total
Primary geographical markets based on location of customers						
Australia	63,185	-	-	-	-	63,185
North America	-	5,138	-	-	-	5,138
Europe	-	2,023	-	-	-	2,023
Total revenue	63,185	7,161	-	-	-	70,346
Major products						
Underground diamond drilling	59,315	7,161	-	-	-	66,476
Reverse circulation drilling	3,870	-	-	-	-	3,870
Total revenue	63,185	7,161	-	-	-	70,346
Timing of revenue recognition						
Services transferred over time	60,185	7,161	-	-	-	70,346

Comparatives have been presented on a consistent basis with the current period but have not been restated or remeasured for the impact of AASB 15 adoption.

2.3 Other expenses

	Consolidated	
	31-Dec-18 $'000	31-Dec-17 $'000
Other expenses		
Accommodation and travel	2,435	2,828
Repairs and maintenance	3,426	3,603
Administration costs	2,635	2,517
Insurance	987	908
Recruitment and training	261	351
Rental expense on operating lease	910	800
Total other expenses	**10,654**	**11,007**

2.4 Dividends

There were no dividends paid in the half-year period ended 31 December 2018 and 31 December 2017.

2.5 Earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	Consolidated	
	31-Dec-18 $'000	31-Dec-17 $'000
Earnings used to calculate basic earnings per share		
Profit/(loss) after income tax expense attributable to owners of the Company	**1,903**	**(1,278)**

	Consolidated	
	31-Dec-18	31-Dec-17
	No.	No.
Weighted average number of ordinary shares outstanding during the period used in calculating basic earnings per share	**231,450,825**	**231,450,825**
Weighted average number of dilutive rights outstanding	7,710,975	-
Weighted average number of ordinary shares outstanding during the period used in calculating dilutive earnings per share	**239,161,800**	**231,450,825**
Basic earnings/(loss) per share (cents)	**0.82**	**(0.55)**
Diluted earnings/(loss) per share (cents)	**0.80**	**(0.55)**

3 ASSETS AND LIABILITIES

3.1 Other financial assets

	Consolidated	
	31-Dec-18	30-Jun-18
	$’000	$’000
Other financial assets		
Units in unlisted property trust	**1,630**	**1,630**

Fair value of the Group's financial assets that are measured at fair value on a recurring basis
The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy, together with a qualitative sensitivity analysis as at 31 December 2018 and 30 June 2018 are as shown below:

Financial asset	Fair value as at 31/12/18 $’000	Fair value as at 30/06/18 $’000	Valuation technique	Significant unobservable input(s)	Sensitivity of the input to fair value
Investment in unlisted property trust	1,630	1,630	Comparable Sales Method	Sales of sites within similar areas taking into account the location, size and condition of improvements to determine a rate per square metre of $425 - $450.	A $25 per square metre increase in price would increase the value by $124,000, and vice versa.

On 4 November 2013 the Group acquired a 20% interest in an unlisted property trust that purchased its leased premises located at 64 Great Eastern Highway, South Guildford, Western Australia. The directors consider the carrying amount of the financial asset approximates the fair value when considering the most recent valuation performed, then compared against market-based movements generally available and the ongoing long-term lease for the property.

3.2 Borrowings

	Consolidated	
	31-Dec-18 $'000	30-Jun-18 $'000
Current liabilities – secured		
Hire purchase liabilities	847	577
Bank loans	2,000	-
	2,847	**577**
Non-current liabilities – secured		
Hire purchase liabilities	2,125	1,643
Bank loans	25,000	27,000
	27,125	**28,643**

Hire purchase liabilities are fixed interest borrowings provided over a three to five-year term.

During the period the Company renegotiated its banking facilities to a total facility value of $38,000,000 of which $25,000,000 is a variable bank bills facility that expires on 30 September 2020. The remaining facility expires on 30 September 2019.

3.3 Recoverable value of assets

In assessing the potential impairment of assets, management have identified three separate functional divisions as being the cash generating units (CGUs) within the Group:
- Underground Diamond (UD) drilling;
- Reverse Circulation (RC) drilling; and
- Mineral Technology

For impairment purposes, intangible assets have been allocated to either the Underground Diamond drilling or the Mineral Technology CGUs.

According to AASB 136 Impairment of Assets, impairment testing is required when there is an indication of possible impairment. The Group considers the relationship between its market capitalisation and the carrying value of its net assets, among other factors, when reviewing for indicators of impairment.

Fair value less costs of disposal
Determining whether the assets of the Group are impaired under this method requires an estimation of the market value of each asset individually and adjusting this value by expected costs required to dispose of the asset. Where the calculated value is less than the book value, an impairment loss may arise. In supporting the fair value less costs of disposal, the directors have engaged an independent valuer to estimate the value of the appropriate assets.

Underground Diamond (UD) drilling
The impairment assessment of the UD CGU relied on an independent third party valuation performed at 30 June 2018. The valuation, a Level 3 input in the fair value hierarchy, was determined by capitalisation of future maintainable earnings methodology, with historically achieved EBITDA (earnings before interest, tax, depreciation and amortisation expenses) used to estimate future earnings and the earnings multiple derived from trading multiples of listed companies with comparable operations to the UD CGU. A cost of disposal was then applied to the value.

Key assumptions used in the valuation were annual revenue of $119 million to $145 million, future maintainable earnings (EBITDA) margin of 16% to 18%, earnings multiple (on a control basis) of 4.0 times to 5.5 times and a cost of disposal of 2%.

Based on the independent valuation and a review of key inputs since the valuation was completed, no impairment expense has been recognised in the UD CGU (HY18: nil).

Reverse Circulation (RC) drilling
The impairment assessment of the RC CGU was performed by an independent third party at 30 June 2018 using the fair value less cost of disposal method for each piece of equipment in the CGU. The valuation, a Level 3 input in the fair value hierarchy, was completed by comparing the available assets against recent sales of similar assets, then applying a 4% sales commission.

Based on the independent valuation and a review of market conditions since the valuation was completed, no impairment expense has been recognised in the RC CGU (HY18: nil).

Mineral Technology
The impairment assessment for the Mineral Technology CGU was performed by an independent third party at 30 June 2018 using the fair value less cost of disposal method. The valuation, a Level 3 input in the fair value hierarchy, was carried out by referencing the valuation implied in the buyout of minority shareholders and the associated equity raisings as announced in May 2017 and undertaking an evidence-based review of the risk profile and earnings potential of the CGU from this transaction date to year-end.

Based on the review, which identified a high earnings potential on achievement of key milestones, and progress in developments since the review, no impairment has been recognised for the Mineral Technology CGU (HY18: nil).

4 CAPITAL STRUCTURE

4.1 Issued capital

Movement in ordinary shares on issue

Details	Number of shares	Value $'000
30 June 2018 balance	231,450,825	79,446
31 December 2018 balance	**231,450,825**	**79,446**
30 June 2017 balance	231,450,825	79,446
31 December 2017 balance	**231,450,825**	**79,446**

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

4.2 Reserved shares

Movement in reserved shares

Details	Number of shares	Value $'000
30 June 2018 balance	18	(667)
Shares bought back during the period	477,075	(110)
Shares allocated to exercised performance rights	(477,075)	-
31 December 2018 balance	**18**	**(777)**
30 June 2017 balance	-	(453)
Shares bought back during the period	800,064	(214)
Shares allocated to exercised performance rights	(800,046)	-
31 December 2017 balance	**18**	**(667)**

The reserved shares for the Company's own shares comprises the cost (net of tax) of the Company's shares held by the trustee of the consolidated entity's equity compensation plans which were purchased on-market in anticipation of vesting of share-based payment awards under the equity compensation plans. During the period 477,075 (HY18: 800,064) shares were purchased by the employee share trust for a total cost of $110,000 (HY18: $214,000) at an average price of $0.230 (HY18: $0.269) per share. As at 31 December 2018 there are 18 (HY18: 18) unallocated Company's own shares held in trust.

4.3 Reserves

	Foreign currency translation reserve $'000	Asset revaluation reserve $'000	Share-based payments reserve $'000	Transactions with non-controlling interest reserve $'000	Total $'000
CONSOLIDATED					
At 1 July 2018	**754**	**441**	**2,537**	**(1,005)**	**2,727**
Other comprehensive income for the period	291	-	-	-	**291**
Share-based payments	-	-	88	-	**88**
At 31 December 2018	**1,045**	**441**	**2,625**	**(1,005)**	**3,106**
At 1 July 2017	**465**	**266**	**2,234**	**(1,005)**	**1,960**
Other comprehensive income for the period	245	-	-	-	**245**
Share-based payments	-	-	182	-	**182**
At 31 December 2017	**710**	**266**	**2,416**	**(1,005)**	**2,387**

5 OTHER NOTES

5.1 Leasing and other commitments

	Consolidated 31-Dec-18 $'000	30-Jun-18 $'000
(a) Hire purchase commitments		
Payable - minimum lease payments:		
Not later than 12 months	984	680
Between 12 months and 5 years	2,271	1,768
Later than 5 years	-	-
Minimum lease payments	3,255	2,448
Less future finance charges	(283)	(228)
Present value of minimum lease payments	**2,972**	**2,220**
Comprising:		
Current liability	847	577
Non-current liability	2,125	1,643
Total financial liability	**2,972**	**2,220**
(b) Operating lease commitments		
Non-cancellable operating leases contracted for but not recognised in the financial statements		
Payable - minimum lease payments:		
Not later than 12 months	1,987	1,851
Between 12 months and 5 years	6,610	6,744
Later than 5 years	7,871	8,401
	16,468	**16,996**

Operating lease commitments relate to minimum lease payment obligations under non-cancellable operating leases of premises.

5.2 Contingent liabilities

	31-Dec-18 $'000	30-Jun-18 $'000
Bank guarantees	**469**	**469**

5.3 Events after the reporting period

The directors are not aware of any significant events since the end of the reporting period.

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Swick Mining Services Limited, I state that:

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

i. give a true and fair view of the financial position as at 31 December 2018 and the performance for the half-year ended on that date; and

ii. comply with Australian Accounting Standards AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001.

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Directors

Kent Swick
Managing Director
Perth, 25 February 2019

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Independent auditor's review report to the Members of Swick Mining Services Ltd

Report on the half-year financial report

Conclusion

We have reviewed the accompanying half-year financial report of Swick Mining Services Ltd (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2018 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst & Young

Gavin Buckingham
Partner
Perth
25 February 2019