

**SWICK MINING SERVICES**

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ASX ANNOUNCEMENT

## Swick commenced rig deployment at new projects in 1Q FY20

**Highlights:**

- Unaudited Drilling Business 1Q FY20 revenue of \$39.1m, EBITDA of \$5.9m, and EBIT of \$0.4m
- Total metres drilled of 303,724 in 1Q FY20, up 2% on prior corresponding period (pcp)
- Average fleet utilisation of 71% across the quarter, and 87% run rate at quarter end (1Q FY19: 76% utilisation)
- Record number of rigs in operation and expected to exceed target 70 Underground Diamond (UD) rigs in work by the end of FY20
- Earnings impacted by increased level of rig mobilisations and new contract mobilisations – as a result the Company expects that full year earnings may not be as strong as the prior year while revenue growth is still expected for FY20
- Full commencement of new contracts to allow Swick to deliver on its strategy

**Western Australia – Swick Mining Services Limited ('Swick', ASX: SWK)**, a leading provider of high-quality underground and surface mineral drilling and mineral analysis services, announces its unaudited results for the three months ended 30 September 2019 (1Q FY20).

Swick's Drilling Business has reported 1Q FY20 revenue of \$39.1 million and earnings before interest, tax, depreciation and amortisation (EBITDA) of \$5.9 million at a margin of 15%. The financial performance was impacted by the increased rig mobilisation during the ramp up phase in particular at two new contracts – Pogo and Silver Lake Resources.

Four rigs were mobilised during the quarter at Pogo bringing the total rigs in work at the site to seven at the end of the quarter with the eighth rig commencing drilling in October 2019.

Increased manning in advance of the rigs being utilised, including Australian expatriate specialist trainers in preparation for the ramp up in rigs, resulted in increased costs during the quarter. As of this month, expatriate trainers are now being removed from site and the contract is expected to approach a normalised run rate of revenue and costs by the end of the second quarter.

Swick Managing Director Kent Swick said that Swick has a proven ability to deliver at US projects and the Company is already seeing signs of improvement.

“We have commenced the deployment of rigs at Pogo which led to increased one off start-up costs being incurred this quarter. However, productivity is building on site, with more metres drilled per rig as we move towards more efficient and consistent drilling. In addition, costs are coming down as the use of the local labour force increases and expat labour reduces and cycles out.”

“I am very pleased that we are now operating a record number of drill rigs being a total of 69 rigs at the end of the September quarter, 66 being underground diamond and 3 surface RC rigs. In particular, our international operations now account for 20 underground drill rigs in work and that is expected to grow further this year. Our US operations in particular have added potential and now account for 25% of the drilling business revenue. This will grow in value as the eighth and final rig commenced at Pogo in October, and additional rigs are expected to operate in Nevada in the second half.”

“In addition to fully mobilising Pogo in Alaska, Swick has established a four underground diamond drill rig site at the Mt Monger complex for Silver Lake Resources. As of the end of September all four rigs have commenced work at Mt. Monger. The FTE equivalent utilisation for the quarter for our underground fleet averaged 73% but we finished the quarter at around 87%.”

“Our strategic objective was to have 70 underground drills in work by the end of the FY20 financial year and we are well on track to exceed that target. Our main focus is to maintain our current clients and serve them well in the respective contracts. A number of customers have indicated that there is possible growth in rig demand so we will focus on ensuring we cater for those needs rather than chase new contracts with new clients.”

“We have also progressed our Mineral Technology Division, Orexplore, which is preparing to mobilise a mobile laboratory containing three GeoCore X10 core scanning instruments to a West Australian Copper mine, and we expect that to be fully commissioned and operable by early January 2020. This commences as a three month pilot project before moving to a commercial basis. Under full utilisation, the lab is anticipated to process 6,000 metres per month of full core. The completion of the site-based trials is expected to enhance market confidence in the technology and drive revenue growth.”



Fig 1. The Orexplore 20ft field container c/w three GeoCore X10 instruments and 120TB data management system.

Drilling Business (Unaudited)	1Q FY20	1Q FY19	% Change
<b>Operational Performance</b>			
Total Metres Drilled	303,724	298,004	2%
Total Rigs in Fleet (period end)	83	76	9%
Total Fleet Utilisation (FTE)	71%	76%	-7%
UD Metres Drilled	288,783	282,620	2%
UD Rigs in Fleet (period end)	76	69	10%
UD Fleet Utilisation (FTE)	73%	78%	-7%
<b>Financial Performance (A\$'000)</b>			
Revenue	39,136	36,746	7%
EBITDA	5,949	6,847	-13%
EBITDA Margin (%)	15%	19%	-18%
EBIT	444	2,209	-80%
EBIT Margin (%)	1%	6%	-81%
<b>Consolidated Group (Unaudited)</b>	<b>1Q FY20</b>	<b>1Q FY19</b>	<b>% Change</b>
<b>Financial Performance (A\$'000)</b>			
Revenue	39,259	36,889	6%
EBITDA	5,088	5,862	-13%
EBITDA Margin (%)	13%	16%	-18%
EBIT	(995)	817	-222%
EBIT Margin (%)	-3%	2%	-214%

\* FTE - Full Time Equivalent

At a Group level, Swick reported consolidated 1Q FY20 EBITDA of \$5.1 million (unaudited) (1Q FY19: \$5.9 million) and an EBIT loss of \$1.0 million (unaudited) (1Q FY19: EBIT of \$0.8 million). The Group result includes Swick's Mineral Technology business.

Swick is making progress with three large mobile drills currently in build, two for DeepEX and a new 'Nevada' style mobile drill for a US client. The two large DeepEX mobile rigs will be the most powerful underground mobile rigs in the global market and will offer clients the opportunity to drill hole lengths that are normally the domain of large surface drills from underground locations. That deep hole underground capability is expected to offer better value, shorter holes overall and often a better approach angle than surface drilling.

### **FY20 Outlook**

Swick expects a stronger H2 FY20 as the Company commences steady state operations from the Pogo site with a fully local labour force, and initial expatriate start-up costs are completed. As seen historically, and once new rigs are fully operational, Swick expects stronger revenue and earnings skewed towards 4Q FY20.

The Company's focus is to enhance earnings from existing projects rather than seeking revenue from additional projects.

With steady state operation at Pogo taking time to establish and other rig deployments impacting the bottom line in the first half, the Company expects that while revenue growth is still expected for FY20, overall FY20 earnings may not be as strong as the prior year. Swick is encouraged by current performance at the new contracts, however based on the higher than anticipated costs of starting these long term contracts the Company remains cautious on the FY20 results. Swick expects that 4Q FY20 should realise the Company's objectives for utilisation, productivity and earnings, as steady state operations are fully reached on the new rig deployments.

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### **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, United States and Europe.

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