31 August 2023

Results for announcement to the market

FY2023 Preliminary Financial Results (Unaudited)

Metarock Group Limited (**ASX**: **MYE**) ("**Metarock**", **"the Group"** or "**the Company**") provides the following documents (which are attached to this announcement), in accordance with ASX Listing Rule 4.3A:

- Unaudited Appendix 4E for 30 June 2023; and
- Unaudited Preliminary Financial Report for the year ended 30 June 2023.

Highlights

- Turnaround plan has delivered significant improvement in underlying operating performance in the second half.
- Current and forward order book significantly lower risk with strong counterparty profile.
- Problematic legacy contracts (Cook, Crinum, Peak and Thalanga) all finalised – $72.7 million of losses attributable to non-recurring significant items.
- Contracts secured for Mastermyne (new contract at Whitehaven's Narrabri Coal Mine and contract extension with Anglo American) and PYBAR (new contracts with MMG Limited and Malabar Resources plus contract extension at AIC's Eloise Copper Mine).
- Revenue of $514 million at upper end of half year guidance of $490 to $520 million.
- Statutory net loss after tax of $(74.0) million (FY2022: $(12.6) million) due to significant impairment write-offs and losses from terminated and onerous contracts.
- Normalised EBITDA of $38.5 million above half year guidance of $31 million reflecting second half improvement.
- Normalised, recurring EBITDA margins of 9% in 2H FY2023 up from 3.5% in 1H.
- Recapitalisation and de-leveraging of balance sheet through $25 million equity injection and $5.1 million reduction in net debt (plus a post balance date reduction of a further $19.9 million).
- Working capital finance facility extension executed with Westpac.
- Funding requirement driven by Cook exit met by restructure of PYBAR vendor deferred consideration on acceptable terms and partly funded by a new $2 million unsecured, subordinated and arm's-length loan from M Resources, the Company's major shareholder, subject to satisfaction of limited conditions precedent which are typical for a financing of this nature.

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1. Background to the requirement for unaudited Preliminary Results

The finalisation of Metarock's audited accounts for FY2023 has been delayed due to a late development on one of its larger projects, Cook, which has impacted accounting treatments as at 30 June 2023. However, Metarock expects to release its audited 2023 Annual Report well before the 30 September 2023 deadline.

The Company noted in an ASX release on 21 August 2023 that Metarock subsidiary, Mastermyne (CC) Operations Pty Ltd had ceased the provision of contract services at the Cook Colliery by mutual agreement, effective as at close of business on Friday, 18 August 2023.

This cessation of services resulted in an adverse impact on net profit before tax in the second half of FY2023 of approximately $11 million and a similar cash impact in the September 2023 quarter. The timing of this impact has resulted in a funding requirement which has been met through a restructure of the $8.9 million deferred consideration loan, payable to the PYBAR vendors, together with a new arm's-length, subordinated and unsecured $2.0 million shareholder loan from M Mining Services Pty Ltd as trustee for M Mining Services Trust (**M Resources**), in a positive signal of support from the Company's major shareholders.

The Company has also extended its working capital finance facilities with Westpac through to 30 September 2024.

The delay in finalisation and release of the Company's FY2023 audited accounts is solely attributable to the timing of these events.

2. FY2023 Review (based on unaudited Preliminary Results)

2.1 Key highlights of the FY2023 unaudited preliminary results

- Developed and implemented a turnaround plan from late 2022 to refocus the business on profitable operations by exiting loss-making contracts, disciplined tender management, sale of non-core assets and overhead reduction.
- Termination of under-performing contracts during the financial year at Crinum, Peak and Thalanga mining operations, and post year end, cessation of services at Cook Colliery.
- Contracts secured for Mastermyne (new contract at Narrabri Coal Mine plus contract extension with Anglo American) and PYBAR (contract extension at AIC's Eloise Copper Mine plus new contracts with MMG Limited and Malabar Resources).
- Revenue of $514 million, towards the top end of guidance range of $490 million to $520 million and a 13.6% increase compared to FY2022.
- FY2023 statutory net loss after tax of $(74.0) million (FY2022: net loss after tax of $(12.6) million) due to significant impairment write-offs and contract losses from terminated and onerous contracts in the current financial year totalling $72.7 million before tax (**Significant Items**).
- Preliminary EBITDA loss for FY2023 of $(34.2) million, a $51.7 million decrease on FY2022 due to the impact of the above-mentioned Significant Items.

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- Normalised preliminary EBITDA of $38.5 million (prior to Significant Items) which is above normalised EBITDA guidance of $31 million provided at the half year.
- Recapitalisation of the balance sheet via a $25 million equity injection.
- Cash position at year-end of $12.9 million.
- $5.1 million reduction in net debt at 30 June 2023 compared to prior year through the sale of surplus assets, with a further debt reduction of $19.9 million from assets sales that have settled shortly post the end of FY2023. This results in proforma net debt at 30 June 2023 of $53.8 million.

2.2 Overview of Operations

As noted in its December 2022 Half Year Report, Metarock experienced a series of adverse events over the prior 18 months which placed significant financial strain on the Group. These events included:

- Protracted recovery work following the roof fall incident at the Crinum 'whole of mine' contract, coupled with a contractual dispute and termination of the contract through mutual agreement;
- Operational losses on the Peak mining services contract which has been terminated through mutual agreement; and
- Losses suffered on the Thalanga mining services contract as a result of the mine owner entering Administration and termination of the contract.

In addition to the above, the Company announced on 21 August 2023 that Metarock had ceased the provision of contract services at the Cook Colliery on Friday, 18 August 2023, resulting in adverse net profit before tax and cashflow impacts.

The terminations of the Crinum, Peak and Thalanga contracts and recognition of Cook as an onerous contract as at 30 June 2023 has resulted in significant write-offs and provisions for contract losses which have materially impacted the Group's results in FY2023.

As part of the turnaround strategy, the Company has implemented a plan to improve the working capital position, reduce costs and return the Company to sustainable profitability. The Company had invested heavily in overhauling mining equipment intended for the Crinum and Cook contracts, necessitating Metarock to prioritise the sale of this equipment.

An additional critical element of the Company's recapitalisation was the completion of an equity placement to M Resources in May 2023. This strategic placement to M Resources injected $25 million of cash into the business (before transaction costs) to reduce debt and improve working capital and resulted in a change in the composition of the board. M Resources is now the largest shareholder of Metarock with a 55.99% shareholding. M Resources also has the right to apply for 51,282,051 options (for nil consideration) with an exercise price of $0.23 per option.

Following the issue of shares to M Resources in May 2023, three independent non-executive directors (Colin Bloomfield, Julie Whitcombe and Gabriel Meena) retired from the Board and Murray Smith (nominated by M Resources) was appointed to the Board and is currently Acting Chairman. M Resources has the right to appoint a further two director nominees to the board.

Metarock also announced in June 2023 further changes to the board with Paul Green (previously CEO and Managing Director) departing the business and Jeff Whiteman (previously CFO) being appointed as Interim CEO. At the same time, Wayne Price was appointed Executive General Manager of Mastermyne with accountability for all coal contracting services in New South Wales and Queensland.

2.3 Financial Performance

The Group has increased its revenue in FY2023 to $514 million, from $453 million in FY2022, as a result of a full year contribution in FY2023 from PYBAR (following its acquisition by Metarock on 31 October 2021) and the Cook contract together with growth from the Wilsons Mining business, partially offset by the cessation of various contracts throughout the financial year.

The Crinum, Peak and Thalanga contract terminations as well as the Cook onerous contract have impacted the Group results materially in FY2023 due to asset impairment write-offs, provision for contract losses and other one-off costs incurred of $72.7 million. Of these costs, $58.8 million were incurred in the first half with a further $13.9 million incurred in the second half. These factors have resulted in an unaudited preliminary net loss after tax of $74.0 million in FY2023 compared to a net loss after tax of $12.6 million in FY2022.

The table below outlines the unaudited preliminary results for FY2023 compared to FY2022.

	Preliminary Results (unaudited) FY2023 $'000	**Preliminary Results (unaudited) FY2022 $'000**	**Movement $'000**
Revenue & other income	521,277	455,944	65,333
EBITDA	**(34,193)**	**17,499**	**(51,692)**
Depreciation	(31,827)	(28,536)	(3,291)
EBITA	(66,020)	(11,037)	(54,983)
Amortisation	(3,945)	(4,298)	353
Net finance costs	(9,770)	(4,022)	(5,748)
Profit/(loss) before tax	(79,735)	(19,357)	(60,378)
Income tax (expense)/benefit	5,724	6,801	(1,077)
Net profit/(loss) after tax	**(74,011)**	**(12,556)**	**(61,455)**

2.4 Normalised results

As noted above, the unaudited preliminary results for FY2023 have been materially adversely impacted by Significant Items before tax of $72.7 million for FY2023 (compared to $21.1 million in FY2022). Prior to the impact of the Significant Items, the normalised EBITDA for FY2023 is $38.5 million which is above the normalised EBITDA guidance of $31 million provided at the half year. This normalised result includes one-off positive impacts on EBITDA in the second half which are not considered to be recurring in FY2024. This is discussed further in Section 2.5 below.

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2.5 Business improvement in 2H FY2023

The Group has achieved a significant turnaround in underlying operating performance in the second half of FY2023 compared to the first half. The table below shows the split of normalised EBITDA and EBITDA margin for each half of FY2023:

	Normalised Results (unaudited) 1H FY2023 $'000	Normalised Results (unaudited) 2H FY2023 $'000	Normalised Results (unaudited) FY2023 $'000
Revenue	253,577	254,497	508,074
EBITDA	**8,775**	**29,695**	**38,470**
EBITDA margin (%)	**3.5%**	**11.7%**	**7.6%**

Of the $29.7 million 2H FY2023 normalised EBITDA shown in the table above, approximately $6 million is non-recurring, relating to ceased contracts, one-off work in 2H and contracts not operating at the same activity level beyond 2H, resulting in a normalised EBITDA margin in 2H of approximately 9%.

2.6 Balance Sheet, Debt and CAPEX

The total assets of Metarock at 30 June 2023 were $227.0 million, a reduction of $72.2 million compared to the prior year. The decrease is mainly due to asset sales (with sale proceeds mainly applied to repayment of borrowings), impairment of intangibles and other asset write-downs (refer to the Significant Items note above) and lower receivables due to ceased contracts.

The net assets of the Group at 30 June 2023 were $32.8 million, a reduction of $50.4 million compared to the prior year, due to the reduction in total assets noted above and increased provisions due to the Cook onerous contract at 30 June 2023.

The Group was able to reduce its capital expenditure during FY2023 which mainly comprised mining equipment rebuilds planned to be deployed at Crinum and Cook. With the cessation of both of these projects, the assets were prioritised for sale during the financial year. On a net basis after asset sales, total payments for capital expenditure and acquisitions for FY2023 were $9.7 million compared to $54.2 million in FY2022. The Group expects capital expenditure in FY2024 and beyond to return to historical levels of maintenance capex. Capital will be deployed to new contracts if it meets the Group's internal return hurdles.

Debt reduction has been a priority for the Group during FY2023 and net debt at 30 June 2023 was $73.7 million compared to $78.8 million at 30 June 2022, a reduction of $5.1 million which has been funded from asset sales during FY 2023. Post year end, this has reduced by a further $19.9 million from the proceeds of asset sales that settled in July 2023.

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3. Going Concern basis for preparation of the preliminary financial report

The attached unaudited preliminary consolidated financial report has been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Group generated a net loss after tax of $74.0 million for FY2023 and has a net current deficiency of $28.0 million at 30 June 2023 (compared to a net current deficiency of $52.7 million at 30 June 2022). The Board has been focused since late 2022 on implementing a turnaround plan with the following key elements:

- Appointment of a new management team which commenced in late 2022 to lead the Group and implement the turnaround plan.
- In the Mastermyne business unit, termination and settlement of Mastermyne's Crinum contract and, post the end of the financial year, cessation of services at Cook Colliery.
- In the PYBAR business unit, exiting the Thalanga contract and terminating the Peak contract by mutual agreement which were either incurring losses or not making a sufficient financial return.
- Sale of idle plant, including the Crinum and Cook coal equipment and various non-core hard rock equipment. The sale of coal equipment is well progressed, with $24.0 million settling prior to year-end and a further $28.5 million which settled post year-end.
- Completion of a $25 million equity placement in May 2023 to M Resources to improve liquidity and net debt positions.
- Restructuring the deferred consideration payable to the PYBAR vendors with a part payment and progressive repayment of the balance, partly funded by a newly agreed $2.0 million unsecured and subordinated shareholder loan from Metarock major shareholder, M Resources.
- Extension of the Westpac working capital facilities through to 30 September 2024.

On the above basis, the Directors are of the opinion the Group will be able to meet its debts as and when they fall due and realise its assets and settle its liabilities in the ordinary course of business. Accordingly, the preliminary financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities which may be necessary should the Group be unsuccessful in extending or increasing its facilities and / or raising additional capital.

Should the Directors not be able to manage these inherent uncertainties and successfully secure new facilities or raise additional equity, there would be a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

4. Status of Audit of FY2023 Results

The accompanying unaudited preliminary financial statements for FY2023 are in the process of being audited. Once completed, it is likely that the Independent Auditor's Report will include an emphasis of matter paragraph regarding a material uncertainty in relation to going concern as a result of the items noted above in Section 3 above.

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Approved for distribution by the Board of Directors of Metarock Group Limited.

Further information:

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