

ASX ANNOUNCEMENT

VYSARN FINANCIAL RESULTS SIX MONTHS TO DECEMBER FY2021

Hydrogeological drilling service provider Vysarn Limited (ASX:VYS) (Vysarn)(Company) announces its financial results for the six (6) months to 31 December 2020 (1HFY21).

Summary of group results:

- Revenue from operations \$11.45 million
- EBITDA \$2.36 million
- NPAT \$0.94 million
- Net Tangible Assets \$25.27 million
- Cash and Cash Equivalents \$8.10 million

Results Commentary

Vysarn's revenue from operations to 31 December 2020 of \$11.45 million exceeded previous corresponding period revenue by \$9.67 million and reflects an average of seven out of the Company's twelve drill rigs being deployed at any one time during the six months to 31 December 2020.

Maintainable consolidated corporate overheads (excluding interest and depreciation) were approximately \$0.32 million per month. Management anticipates that this cost will remain relatively stable going forward other than cost increases associated with staff headcount to meet Company growth initiatives.

Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) was \$2.36 million and Net Profit After Tax (NPAT) was \$0.94 million for the six months to 31 December 2020.

Average EBITDA for the months of July through November was \$0.50 million per month. December produced an EBITDA loss of \$0.14 million due to early mine shutdowns exacerbated by prolonged unfavourable weather conditions.

NPAT included a \$0.29 million income tax benefit due to the unwinding of the deferred tax liability against the gain on bargain purchase recognised in FY2020 and no tax cost due to the Federal Government's COVID-19 related instant asset-write off scheme.

The Company's balance sheet shows Net Tangible Assets of \$25.27 million. Cash and Cash Equivalent position at Balance Sheet date of 31 December 2020 was \$8.10 million.

The decrease in the Cash and Cash Equivalent position of approximately \$1.60 million versus 30 June 2020 is primarily due to ongoing rig readiness and rebuild costs, capital expenditure on new ancillary equipment, and the repayment of equipment finance facilities.



Operations Commentary

Vysarn's wholly owned subsidiary Pentium Hydro Pty Ltd posted several key operational milestones in the six months to 31 December 2020, building on the momentum created during the Company's first financial year.

Pentium Hydro achieved ISO accreditation in occupational health and safety management systems (ISO 45001:2018), quality management systems (ISO 9001:2015) and environmental management systems (ISO 14001:2015) enabling the Company to now position itself as a preferred contractor for all tiers of current and prospective clients across multiple industry sectors requiring hydrogeological drilling services. Of note, the Pentium Hydro team was able to close out the entire ISO accreditation process inside six months.

The Company continued with its push to assemble the best operational team in the hydrogeological drilling space. There were multiple new staff appointments across administration, human resources, safety and drilling operations. Of note within the period, Andrew Chandler was appointed as Chief Operating Officer of Pentium Hydro. Prior to his appointment Mr Chandler was the General Manager of market leading hydrogeological drilling company Easternwell Minerals and consequently has brought with him a wealth of experience in drilling business management and leadership.

Pentium Hydro was awarded a contract with Roy Hill Iron Ore (RHIO). The contract has a three-year and five-month term starting from 1 January 2021 with a one-year extension option by RHIO. The company anticipates multiple rigs will be provided to RHIO to perform drilling and bore installation services within the current financial year.

A dry hire agreement for one drill rig was renewed with Easternwell Minerals on a fixed rate, fixed term contract for twelve months to 31 December 2021.

In addition to the RHIO and Easternwell Minerals contracts, the Company is in late-stage contract negotiations with multiple parties. Successful award of these contracts will provide the opportunity to meet management rig deployment targets of having all 12 drill rigs and ancillary equipment deployed by 30 June 2021.

Rig upgrades have continued in earnest with two in-yard rigs being brought into tier one specifications anticipated to be ready and deployed within the March quarter of FY2021. Of note, one of the rig upgrades has included significant works to enable it to execute dual tube flooded reverse drilling, subsequently bolstering the suite of hydrogeological drilling capabilities within our fleet.

The two rigs purchased from New Zealand in May 2020 continue to be brought into a rig readiness state with management anticipating deployment of one of the rigs in the March quarter and the other anticipated to be deployed by the end of FY2021. The deployment of these two rigs is later than initially planned primarily due to delays in programmed rig rebuild works.

Due to significant market demand from the resource sector for the provision of third-party engineering services to rebuild and improve drill rigs, expanding lead times on rig readiness has frustrated management rig deployment targets. In response, the Company has now taken a short-term lease on a workshop and internalised several engineering services to assist in accelerating rig deployments.

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Operations Commentary – continued

In hand with rig improvements to meet rig deployment targets, a significant ancillary equipment renewal and purchase strategy has also been implemented. This will underpin Pentium Hydro's ability to deploy all its drill rigs inside FY2021 and will provide clients with one of the most modern fleets of equipment within the hydrogeological drilling sector.

Outlook

The hydrogeological drilling market is experiencing strong trading conditions with the Company continuing to field high levels of enquiries for its assets and services, particularly from the iron ore sector in Western Australia. Management expects the demand for water well services will continue for the foreseeable future.

Drill rig deployment and utilisation rates remain on track and are underpinned by multi-year multi-rig contracts with Fortescue Metals Group and RHIO. Management anticipates that up to 9 drill rigs will be deployed across both these clients during FY2021 and beyond. As mentioned above early opportunities for the deployment of the Company's remaining drill rigs prior to 30 June 2021 have also been identified.

Discussions with the major tier one resource companies are ongoing, with the Company actively looking to diversify its client, commodity and geographic concentration risk.

Management continues to anticipate that subject to meeting rig utilisation targets, the Company will meet guidance of \$6.0 million EBITDA in FY2021. This is despite earnings from December to February being below expectations primarily due to delays in anticipated early rig deployments and above average rainfall in the Pilbara region of Western Australia, where the majority of the Company's assets are contracted. The potential to materially outperform (i.e. greater than 10% above guidance) remains but is conditional upon the award of further anticipated multi rig contracts and subsequent full rig utilisation as early as possible in the June half of FY2021.

The Company remains focused on growing the business into a vertically integrated whole of life water service provider. While the board continues to review several organic and acquisitive growth prospects, it remains patient in finding the right opportunity for its initial pivot away from its core business in hydrogeological drilling.

Vysarn is well positioned entering the second half of FY2021. The Company is sufficiently funded, forecasting consistent maintainable earnings, has multiple growth prospects and is well placed to deliver long term, sustainable value for its shareholders.

This announcement has been authorised by the Board of Vysarn Limited.

For further information:

James Clement

Managing Director

Vysarn Limited

E: info@vysarn.com.au