

SWICK MINING SERVICES

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ASX ANNOUNCEMENT

SWICK – Full year results for the year ended 30 June 2017

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 announced its full year results for the year ended 30th June 2017.


Highlights:

- TRIFR of 11.1 at June 2017 – a 75% reduction over a five year period
- Commissioned a purpose built testing, training & induction facility
- Record Underground Diamond (UD) drill metres 1,122,444 - up 12.8%
- Australian UD division - metres per man-hour increased by 8% over the year
- Australian UD division - metres per shift increased by 7% over the year
- Revenue (including other income) of \$130m – up 4% year-on-year (YOY)
- EBITDA of \$12.1m – down 18% YOY
- Strong operating cash flow – EBITDA cash conversion of 129%
- Free cash flow generated from Drilling divisions invested in Mineral Technology (Orexlore) division
- Successful on-site testing of Orexplore product in Europe – first machines expected in Australia in 1H18
- Renewed optimism in the resource and mining services sector

Financial Performance and Dividend

Financial year 2017 saw a general improvement in market conditions with increasing requests for additional rigs to be put to work and more exploration style drilling for existing rigs. Swick has seen a steady progression away from customers reducing rigs and delaying drill spend and moving to increasing rig numbers and deeper exploration style holes within the mining process. This resulted in a new record for metres drilled by the Underground Diamond (UD) division of 1,122,444 metres, a 12.8% increase on the prior year.

Swick maintained its focus on executing its internal strategies and continued to invest in continuous improvement and research and development initiatives that result in increasing productivity. Roll-out of these initiatives saw an 8% improvement in metres per man-hour and a 7% improvement in metres per shift compared to the prior year in the Australian UD division. These productivity improvements were achieved despite the standby event at Newmont Tanami and the disruption from increased rig demand and mobilisations especially in the second half of the year. With the mechanical upgrade cycle approaching maturity, focus is moving towards maximising implemented initiatives and investing in training and biomechanical research to continue this improvement.



The Company recorded \$130 million in revenue (including other income), with an EBITDA of \$12.1 million (EBITDA margin of 9.3%). Operational profitability was negatively impacted by an increase in rig mobilisations in the second half, coupled with a standby event at Newmont Tanami. In addition, non-cash de-recognition of carried forward tax losses of \$1.3 million in the international business resulted in a reported loss after tax of \$4.6 million.

The result for the 2017 financial year was one that showed changing economic conditions with activity increasing in the core Underground Diamond (UD) division, with prices expected to follow in future years as capacity constraints impact the industry. By the year-end new work had been largely mobilized and production rates returned to similar levels to those of the first half. UD rig utilization in Australia reached record levels at year-end. The Company has since managed to extract itself from a poor margin contract releasing five rigs thereby dropping utilization from the record levels reached at year-end.

The stability of performance of the core UD division enabled the Company to continue improving its balance sheet. A vast improvement in working capital management resulted in an EBITDA cash conversion ratio of 128.6% on the back of a 120.5% ratio in the prior year. Despite the increased capital spend in the Drilling divisions to start up the new rigs, this part of the business generated positive free cash flows. The increased capital and operating spend in the Mineral Technology division resulted in an overall negative free cash flow for the year of \$1.7 million.


Swick has now passed the worst of the tough market conditions and the increased utilization at the back end of the second half coupled with replacing low margin contracts with new higher margin contracts will lead to improved profitability in the future.

The 2017 financial year has seen the continued investment in people and training help maintain the risk profile for Swick, with the June 2017 TRIFR achieved of 11.1. A great result when considering the Company put an additional 21 rigs in work in the second half, with the resultant site disruptions and dilution of experience. A major factor in keeping the safety performance so high was an investment in a dedicated purpose built testing, training and induction facility at the Company's South Guildford headquarters. Since its inception in December, new hires have been trained over a four day practical induction which has contributed to the continued industry leading safe production levels.

Due to the loss result for the 2017 financial year, the Company has decided not to declare any dividend for this financial year.

Commentary on results for year ended 30th June 2017

Kent Swick, Managing Director stated: *"The 2017 financial year saw Swick continue to improve its underlying performance in many aspects of the business. While the financial results for the year are disappointing, they reflect our willingness to work with our clients to support them through the downturn in the commodity prices. This has enabled Swick to keep together a critical level of activity to maintain its processes and systems and be in a good position to respond to the market upturn. With the underlying UD division having a high utilisation rate, the near term focus will be on improving margins and return on existing capital invested and challenging customers for improved drilling rates and selectively tendering as the market*



recovers and demand continues to increase to ensure we get appropriately rewarded for our efforts.

“Swick has successfully renewed many key contracts over the year and many opportunities are presenting themselves both in our local market as well as our overseas operating regions. We look forward to continuing to deliver value to our existing clients as well as introducing the Swick service offering to new clients over the next twelve months. Our focus on strategic value drivers will continue to keep Swick at the forefront of the mineral drilling industry and in a strong position to take any opportunity as they may arise.”

“With the recently improved outlook for global commodity markets, and therefore the mining industry, the drilling sector is also expected to see a strong uplift in activity over the next year. Swick is extremely well positioned to take advantage of these improved market conditions. With the company already actively employed at 19 mine sites across three continents, expanded activity at many of these sites is already becoming apparent. We are also well placed to assist potential new clients as they look to utilise the latest technology in underground mineral drilling and increase the quality and output from their exploration programs.”

“The progress made in the new Mineral Technology division during 2017 and specifically the full acquisition and ongoing development of Orexlore brings us to an exciting point in the development of the Company. The first fully operational machines are expected to arrive in Australia in the first half of 2018 financial year and is a major step towards commercialising this world leading technology.”



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, the United States and Europe.

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Disclosure Statement:

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