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ASX ANNOUNCEMENT

## Swick reinstates interim dividends, commences strategic review

### Highlights:

- Group TRIFR at end of 1H FY20 at 6.4 which is the lowest in Swick history – a reduction of 65% from 18.4 at the end of the prior corresponding period
- A record 63 underground diamond drill rigs deployed globally at end of half
- DeepEX division created and commenced operations with deepest hole drilled in the half of 1,374 metres
- Established a significant 8 rig contract in Alaska at Pogo Mine, with the eighth rig mobilised in October 2019
- Revenue and other income of \$81.5m, up 8.2% on 1H FY19, driven by an increase in rig deployments
- Cash generating Drilling Business and robust financial position supports first interim dividend since 2015, with fully franked interim dividend of 0.3cps declared
- 2Q FY20 EBITDA of \$6.8m, up 15% on 1Q FY20, benefiting from cost reductions and productivity improvements at Pogo
- FY20 Drilling Business EBITDA expected to be in line with FY19
- Orexplore achieved a key milestone with two site based trials currently underway
- Board of Directors has commenced a strategic review to consider optimal corporate structure for both Drilling Business and Mineral Technology Business that will deliver greatest value for shareholders

**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 results for the six-month period ended 31 December 2019 (1H FY20).

### 1H FY20 FINANCIAL RESULTS

At a Group level, which includes Swick's Drilling Business and Mineral Technology Business, Swick reported Revenue and other income of \$81.5 million an increase of 8.2% compared to the same period in the prior year, driven by increased rig deployments and metres drilled. Due to the ramp up costs of a significant contract in Alaska and continued investment in the emerging Orexplore technology, the group achieved an EBITDA of \$10.8 million (1H FY19:

\$14.5 million) and an EBIT loss of \$1.8 million (1H FY19: positive \$4.0 million EBIT). This resulted in Swick reporting a Group Net Loss After Tax of \$2.9 million (1H FY19: \$1.9m NPAT).

Swick's Drilling Business continued to generate solid cashflow, with operating cashflow before interest and tax of \$6.9 million in 1H FY20. This was offset by a negative operating cashflow before interest and tax of \$2.3 million in 1H FY20 from the Mineral Technology Business, reflecting the ongoing investment during its pre-revenue phase. Of note, since FY13 - when the Mineral Technology investment commenced in earnest - Swick has generated \$148.6 million in operating cash flow from the Drilling Business.

Swick ended 1H FY20 with a strengthened balance sheet position, with gearing down to 8.9 per cent (30 June 2019: 21.4 per cent). This was driven by a \$16.1 million capital raising, net of transaction costs, which will enable Swick to target additional work and enhance returns to shareholders. Swick's Drilling Business continued to generate solid cashflow in 1H FY20, with \$6.9m operating cash flow before interest and tax. The balance sheet and positive Drilling Business cashflow enabled the Board to declare a fully franked interim dividend of 0.3cps.

Swick Managing Director Kent Swick said significant progress had been achieved in the second quarter which provided confidence going into the second half of FY20.

"Swick has ramped up the total drill rigs in work during the half from around 54 at the start of the financial year to 66 at the end of the half yet we still managed to achieve a record safety performance which is a great effort by our team. I am really proud of our employees' attitudes to doing things the right way backed by a comprehensive safety and training system and our safety culture is well recognised and appreciated by our clients. With around 650 personnel in the global business it has been a great performance over the last twelve months.

"Swick delivered solid earnings in the first half despite navigating some challenges ramping up at our significant new contract at Pogo in Alaska, with the Drilling Business generating positive operating cash flow. This enabled the Board to declare its first interim dividend in five years as we look to enhance returns to shareholders," Mr. Swick said.

"In the first half we went from 52 underground diamond rigs deployed to 63 globally, a record number for the business and we also had three surface RC drills in work. During the six-month period our focus has been on enhancing productivity and cost efficiency from these rigs as we ramp up at new projects. In particular, initiatives at the Pogo project have gained real traction, with Swick achieving material cost reductions and productivity improvements after successfully deploying all eight rigs at the site. This has resulted in second quarter earnings from our Drilling Business up 15 per cent over the first quarter and is providing us with confidence that we will reach target performance at Pogo by the end of FY20.

"Meanwhile, we continue to support investment in our Mineral Technology Business, Orexplore and it is pleasing to see this business approaching the final step in its commercialisation runway, with two site-based trials currently underway. Orexplore is a very exciting technology that has the potential to provide a significant amount of useful data for geotechnical engineers, mining engineers, geologists, and metallurgists from a single scan."

## Drilling Business

A\$ million	1H FY20	1H FY19	Change
Revenue and other income	82.5	75.1	9.9%
EBITDA	12.1	15.6	(21.9%)
<i>EBITDA margin</i>	<i>14.7%</i>	<i>20.7%</i>	<i>(600 bps)</i>
EBIT	0.7	6.1	(88.4%)
<i>EBIT margin</i>	<i>0.8%</i>	<i>8.1%</i>	<i>(730 bps)</i>

Revenue and other income for Swick's Drilling Business was up 9.9% at \$82.5 million, reflecting an increase in number of rigs deployed and metres drilled, in particular at Swick's international operations, which was up 82.2% to \$24.0 million.

Overall the Drilling Business was impacted by the ramp up phase of new rig mobilisations with 12 rigs deployed in 1H FY20, including 8 rigs at the new Pogo project. Swick delivered improvements during 2Q FY20, with EBITDA of \$6.8 million, up 15% on 1Q FY20, in particular with cost reductions and productivity gains being achieved at Pogo.

Notwithstanding the financial impact of the initial start-up period at the Pogo contract, Swick has achieved significant cost reductions and productivity improvements since commencement and has continued to see further gains in 3Q FY20. Costs per shift at Pogo in 2Q FY20 were 16% lower than 1Q FY20, as expatriate start-up costs reduced, and productivity in 2Q FY20 was 16% higher than 1Q FY20, showing the expected trend as the Company settles into this major contract. Accordingly, based on the continued improvements, Swick expects to meet target performance by end of FY20.

The International operations also saw some price reductions from market pressure in other North American contracts. These two events resulted in a small EBITDA loss for 1H20 in the International drilling business, down from a profit of \$3.3 million in 1H FY19.

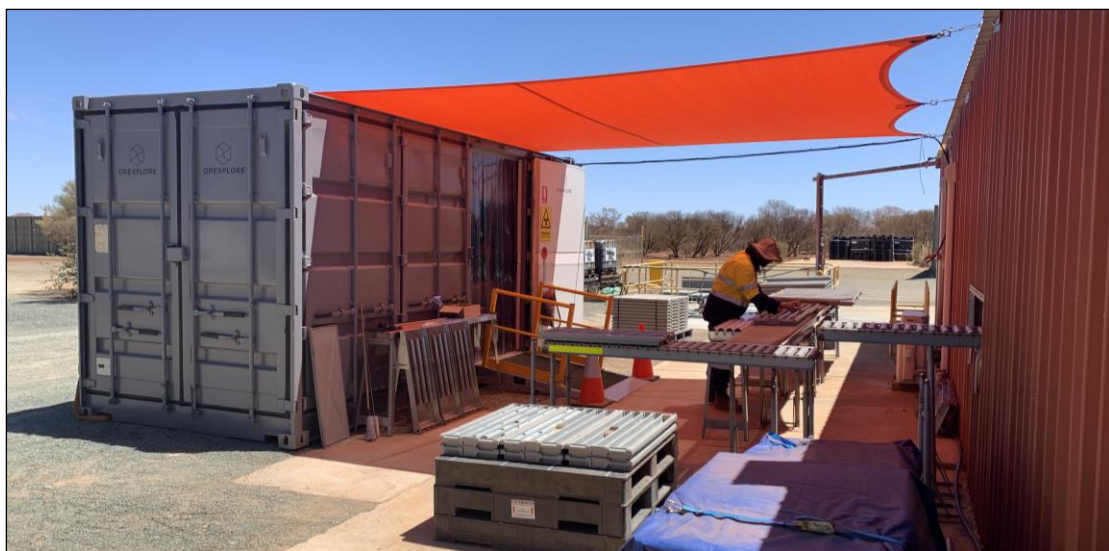
The Company is continuing to develop the DeepEX deep exploration and infrastructure drilling business, with two new large mobile rigs in build. DeepEX provides the industry with the most powerful high torque, high speed underground drill rigs available on the market and the Company is working with new and existing clients to roll out the new DeepEX rigs, set for release in 2H FY20.

## Mineral Technology Business (Orexplode)

A\$ million	1H FY20	1H FY19	Change
Revenue from core scanning	0.05	0.02	118.2%
Government grants	0.2	0.3	(31.7%)
EBITDA	(2.0)	(1.8)	(14.7%)
EBIT	(3.2)	(2.8)	(14.3%)

Swick's Mineral Technology Business, Orexlore, made significant progress and is reaching its final phase of commercialisation, with the achievement of two site-based trials in 4Q FY20 expected to enhance market confidence in the technology and drive revenue growth.

The Company successfully mobilised three GeoCore X10 core scanning instruments at Sandfire Resources' DeGrussa Copper-Gold Mine in early January 2020 under a full function, site-based three-month pilot program. Machine availability has been excellent to-date with an average core scanning speed of 2.6 metres per hour, with the lab anticipated to process around 5,000 metres per month of core under full utilisation. This will transition to commercial basis in 4Q FY20 if the pilot program is successful as expected.



**Fig 1. Orexlore site-based laboratory housing three GeoCore X10 machines established next to client's core farm and scanning core.**



**Fig 2. Orexlore field container with three GeoCore X10 instruments capable of scanning over 5,000m of core per month generating unique 3D tomographic imaging, through the core geochemistry and a host of other automated outputs.**

Orexlore also launched a commercial five month pilot project together with Boliden AB, a Swedish mining and smelting company operating in northern Europe focused on base and precious metals, in early February 2020. A GeoCore X10 core scanning machine has been mobilised at the central core logging facility of Boliden. The purpose of the project is to understand how to turn Orexplore's continuous data sets into valuable and actionable geological insights, with the overall goal to contribute to a more efficient mining and exploration process.

## **STRATEGY AND OUTLOOK**

Swick expects FY20 Drilling Business EBITDA to be in line with FY19, reflecting the stronger performance in 2Q FY20 providing a foundation for 2H FY20. Swick will continue to target productivity improvements and will remain flexible to client demands in 2H FY20, including targeting opportunities for further rig deployments at existing projects to maintain strong rig utilisation.

Swick continues to invest in its drilling Research and Development (R&D) with a dedicated R&D department developing the next evolution of drilling equipment and systems to benefit the industry and the Company's shareholders. This includes the development of a Gen3 prototype mobile underground diamond drill rig that can provide significant energy efficiency when drilling, providing the clients with an approximate 50% energy saving on a metre for metre basis over standard rigs. This is an important economic benefit and also a major environmental benefit to Swick's clients. It is expected that the Gen3 conversion will be prepared as an upgrade kit for the current Gen2 fleet as they cycle through for their scheduled rebuilds.

Swick has a number of innovative rod handling solutions it will start to deploy across the global fleet in 2H FY20 that will lower the total weight experienced by its underground personnel each shift by over 50%.

An in-house automation package is also ready for deployment that will allow the drillers to confidently leave the rig drill controls and free them up to undertake any number of tasks that would otherwise mean the rig would be idle during that time. The new automation algorithm allows the rig to safely drill on the high-speed limit with the ability to provide Swick's less experienced drillers with significant productivity gains.

Orexlore continues to improve its GeoCore X10 instrument and the associated Insight software to further enhance the opportunity for the clients who use this innovative technology. Current developments have the potential to double the throughput per machine which will lower the unit cost per metre scanned and offer compelling value. The data generated is being refined to ensure easy integration with the market's current mining software packages, and Orexplore is committed to working with its customers to ensure maximum value can be generated from the unique three-dimensional data set created which is new to industry on a commercial scale.

### **Commencement of strategic review to consider optimal corporate structure**

The Board of Directors has commenced a strategic review to consider the optimal corporate structure for both the Drilling Business and the Mineral Technology Business that will deliver greatest value for shareholders.



The decision to commence the strategic review follows significant growth and progress Swick has made building a leading cash generating international drilling business and significant progress with the Mineral Technology Business that is well positioned for commercialisation.

Swick Managing Director Kent Swick said: “We have been working hard for several years to establish a clear value proposition for shareholders from our two distinct businesses, and the time is right to consider strategic options that will deliver value from both businesses to our shareholders.

“With the Mineral Technology Business, we have been conscientiously investing in Orexplore to develop a fast and accurate core analysis solution that our customers are looking for. We are confident successful site-based trials will shine a bright light on this disruptive technology and the global market potential it has. With Orexplore approaching commercialisation, it is prudent for the Board to consider the strategic options available for this business that will allow Swick shareholders to realise value from their long-term investment, consistent with our strategy for Orexplore and the broader Swick business.

“In the underground Drilling Business, we have been successful in our strategy of shifting rigs onto better performing contracts and new projects, achieving cost reductions, and growing into attractive overseas markets. Notwithstanding the short-term impact of the large scale start up at Pogo, we are confident that the opportunity this multi-rig, multi-year contract will provide the business is very significant. Swick has now reached a critical mass of rigs in work operating with stable clients in safe and low-risk regions, and our focus is on working closely with these clients and in our existing markets to ensure ongoing strong rig utilisation.

“Our global drilling business has provided a strong foundation for cash generation and we are now well placed to consider strategic options for the business that will enhance value for shareholders. This includes our intention to pay ongoing dividends, which is enhanced by growth capex being limited to the new DeepEX division with the underground diamond rig expansion complete. We look forward to the market uptake of this high-powered solution that will provide low-risk, cost-effective deep diamond core drilling to the underground mining market.

“For many years, Swick shareholders have provided the venture capital generated by the Drilling Business to fund the emerging Mineral Technology Business. We are confident these funds have been well used and that the Orexplore investment will deliver an excellent return for them.

“We will aim to complete the review in a structured and coordinated manner in order to maximise the best possible return for shareholders and we expect to provide an update to shareholders around mid-year.

“The Company will continue to operate as usual during the review, maintaining a strong focus on our high-quality operations and ensure we continue to provide significant opportunity to our shareholders from both sides of our business.”

Swick has appointed Shaw & Partners to advise the Company on the strategic review.

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This ASX announcement was authorised for release by the Board of Swick Mining.

### 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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