

CAPITAL RAISING & ACQUISITION

22 August 2014

Mitchell
SERVICES

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EXECUTIVE SUMMARY

- Mitchell Services Limited ("**Mitchell Services**") is acquiring the assets of Tom Browne Drilling Services ("**TBDS**") for $9.5m (plus GST).
- The acquisition will be funded by a $20.2m capital raising fully underwritten by Morgans Corporate Limited. The capital raising consists of the following components:
  - A placement to institutional and sophisticated investors to raise $1.5m at $0.035 per share ("Placement")
  - A 1 for 1 non-renounceable rights issue to existing shareholders to raise $11.7m at $0.035 per share ("Entitlement Offer")
  - A conditional placement to institutional and sophisticated investors to raise $7.0m at $0.035 per share ("Conditional Placement")
- The acquisition of TBDS assets will position Mitchell Services as a leading provider in the Eastern States drilling market. The rig fleet of Mitchell Services will be appropriately expanded and upgraded following the acquisition.
- Importantly, the addition of 15 Tier 1 drilling rigs will provide capacity to fill Mitchell Services' strong tender pipeline for Tier 1 contracts.
- Following the capital raising Mitchell Services will have a strong balance sheet to allow the company to capitalise on market opportunities as they arise.
- Major shareholder the Mitchell Group has committed to take up their rights in full under the Entitlement Offer. Another major shareholder, Washington H. Soul Pattinson & Company Limited, has also committed to taking up 50,721,825 shares in total under the Placement and Entitlement Offer.
- Selected Directors and Senior Management intend to participate in the Entitlement Offer

HISTORY

MITCHELL SERVICES HISTORY

1969
Mitchell Drilling commenced operations

2000
Mitchell Drilling was at the forefront of the CSG industry in QLD

2008
Mitchell Drilling was sold for circa A$150m – approx. 30 Rigs

2008 – 2013
5 years non-compete period. Further development of overseas business

2013
Non-compete expired in August 2013. Re-entered Australian market.

DRILL TORQUE HISTORY

1992
Drill Torque Queensland founded with a single rig

2007
Well Drilled established with four rigs

2011
Drill Torque Queensland & Well Drilled merge to form Drill Torque with 31 rigs

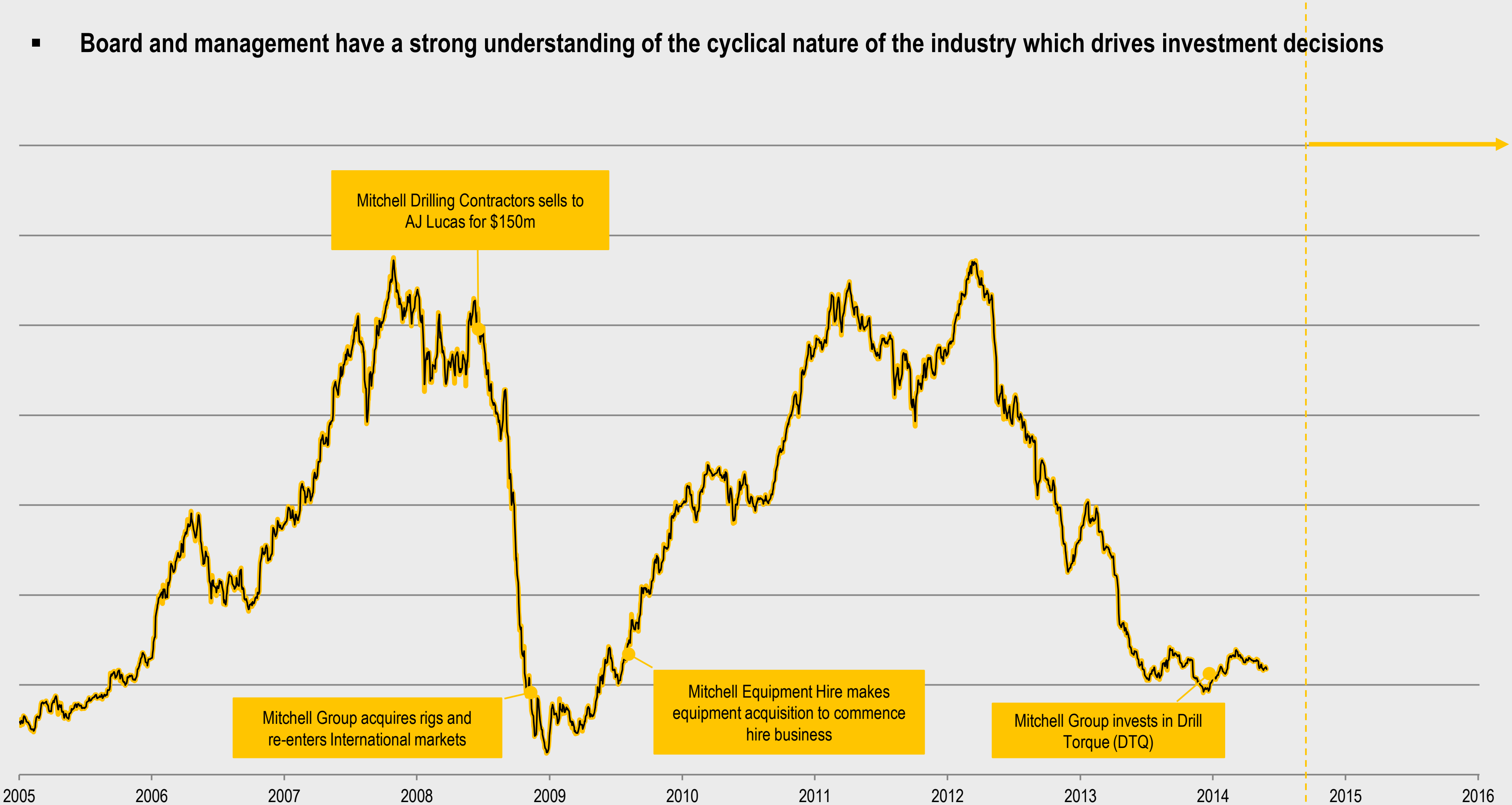
2011
Drill Torque IPO

2013
Mitchell Group & Mitchell Services senior management acquire 19.9% in Drill Torque

November 2013
Drill Torque acquires Mitchell Services Pty Ltd and renamed Mitchell Services (MSV)

CYCLICAL MARKET PRESENTS OPPORTUNITY

- **Board and management have a strong understanding of the cyclical nature of the industry which drives investment decisions**



- Indexed Listed Drilling Company average – Share Price Movements (Average is a non weighted average of daily close prices) for the companies listed on slide 26

MITCHELL SERVICES MARKET PROFILE

ASX Stock Symbol:	MSV
Shares Issued:	290,000,010
Performance Options:	98,700,000*
Share Price (at 19/8/14):	A$0.04
Market Capitalisation:	A$11.6m
Average Daily Volume:	196,159
12 Month Volume:	49,943,363

* Full capital structure detailed in Appendix 1

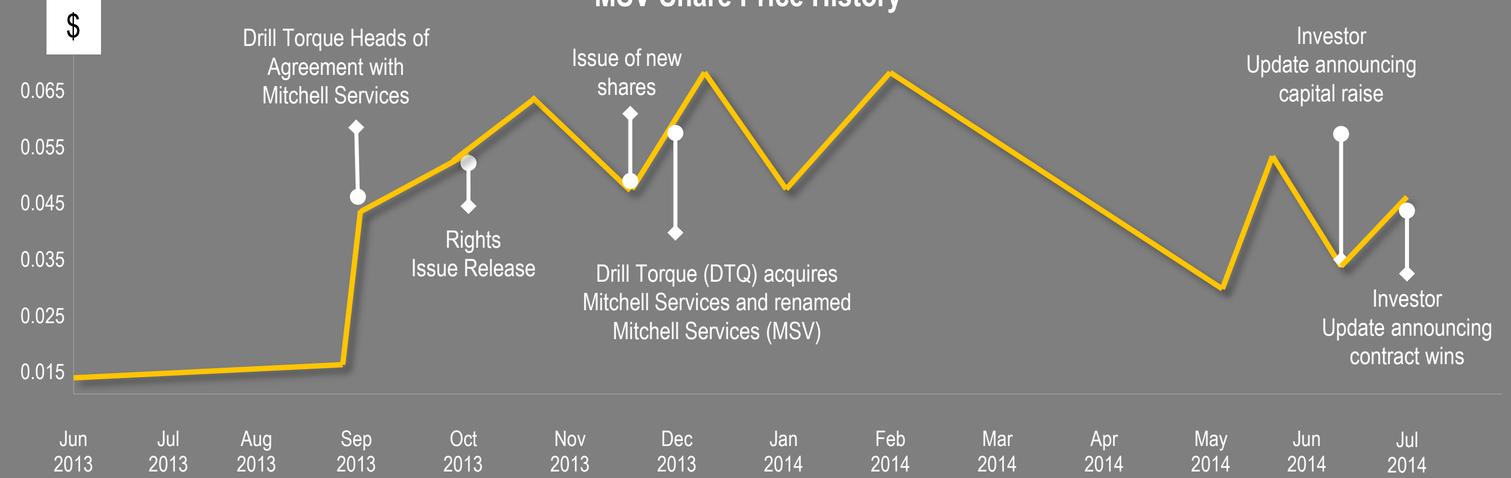
Senior Management Team

- **Executive Chairman – Nathan Mitchell**
- **CEO - Andrew Elf**
- **CFO & Company Secretary – Bob Witty**
- **Chief Commercial Manager – Gary Salter**
- **Operations Manager – Aaron Short**

Major Shareholders

1	**Mitchell Group**	30%
2	**Miller Family**	15%
3	**Washington H Soul Pattinson**	9%
4	**Drummond Family**	3%
5	**Farjoy Group**	2%

MSV Share Price History



MITCHELL SERVICES VISION

To be Australia’s leading provider of drilling services to the global exploration, mining and energy industries

Find a better way

ACHIEVEMENTS FOLLOWING ACQUISITION AND RESTRUCTURE

- Won approximately $30m worth of contracts by revenue since acquisition of Mitchell Services including three *Tier 1* clients
- Rig utilisation increased three fold from four to twelve rigs
- Tier 1 rig utilisation is now operating at 87.5% stretching internal capacity to meet current tender pipeline
- Review and implementation of **Industrial Relations strategy** to increase flexibility across the business
- Moved **operational base** to new Emerald premises and **corporate office** to Brisbane premises
- Rented **Townsville premises** to major global defence contractor creating a valuable standalone property investment that can potentially be divested in the medium term
- Auction of **surplus equipment**
- Access to $3.4m of equipment with **attractive buy out option** through rental agreement

BUSINESS DEVELOPMENT

Won approximately $30m worth of contracts since the acquisition

- Highly focused on **lead generation.** Received approximately 90 expressions of interest or tenders since non compete expiry
- **14 rigs under tender** across Tier 1 and other clients and enquiry levels continue to grow
- Increase in rig utilisation and tender activity over the last six months demonstrates Mitchell Services' **ability to deliver on rig utilisation**
- Conversion rate Tier 1 clients circa 55%
  - Clients focused on safety and efficiency
  - Majority of work is brownfield at mine or near mine
  - Higher barriers to entry for competitors
- Conversion rate Tier 2 clients <50%
  - Highly competitive
  - Majority of work is greenfield exploration
  - Competing against smaller drilling companies

BUSINESS DEVELOPMENT (CONT.)

- **Operational excellence is recognised** across a wide range of commodities and drilling market sectors

  Future Business Opportunities

- **Coal Seam Gas Drilling – Find a better way**
- In 2008 Mitchell Group was a pioneer and previous industry leader in the Coal Seam Gas industry
- **Large Diameter Drilling – Technically complex high margin business**
- In 2008 Mitchell Group was a major provider of large diameter drilling services in Eastern Australia. Now that TBDS and Major Drilling have exited the Eastern Australian market Mitchell Services has the **opportunity to fill this void and take advantage**.
- **Environmental monitoring and remediation**
- A growing market sector gaining momentum

TOM BROWNE DRILLING SERVICES ACQUISITION

- Receivers appointed to Tom Browne Drilling Services (**TBDS**) in April 2014
- Opportunity to acquire -
  - **Significant asset base** of 29 rigs and ancillary equipment
  - Best endeavours to assign an **18 month contract** with Tier 1 global mining company
  - **All business records** including various documents and files
- Attractive pricing -
  - **Acquiring from receivers for A$9.5m**
  - **Replacement valuation** of the material assets assessed by Slattery Auctions Australia Pty Ltd **of A$52.6m** in July 2014
  - **Secondary market valuation** of the material assets assessed by Slattery Auctions Australia Pty Ltd **of A$13m** in July 2014
  - Slattery Auctions Australia Pty Ltd conducted valuations on material assets only and did not contemplate inventory and other ancillary assets
- Opportunistic acquisition below valuation due to –
  - Distressed seller with significant further losses to accrue if the fleet is left idle
  - Portfolio purchase discount

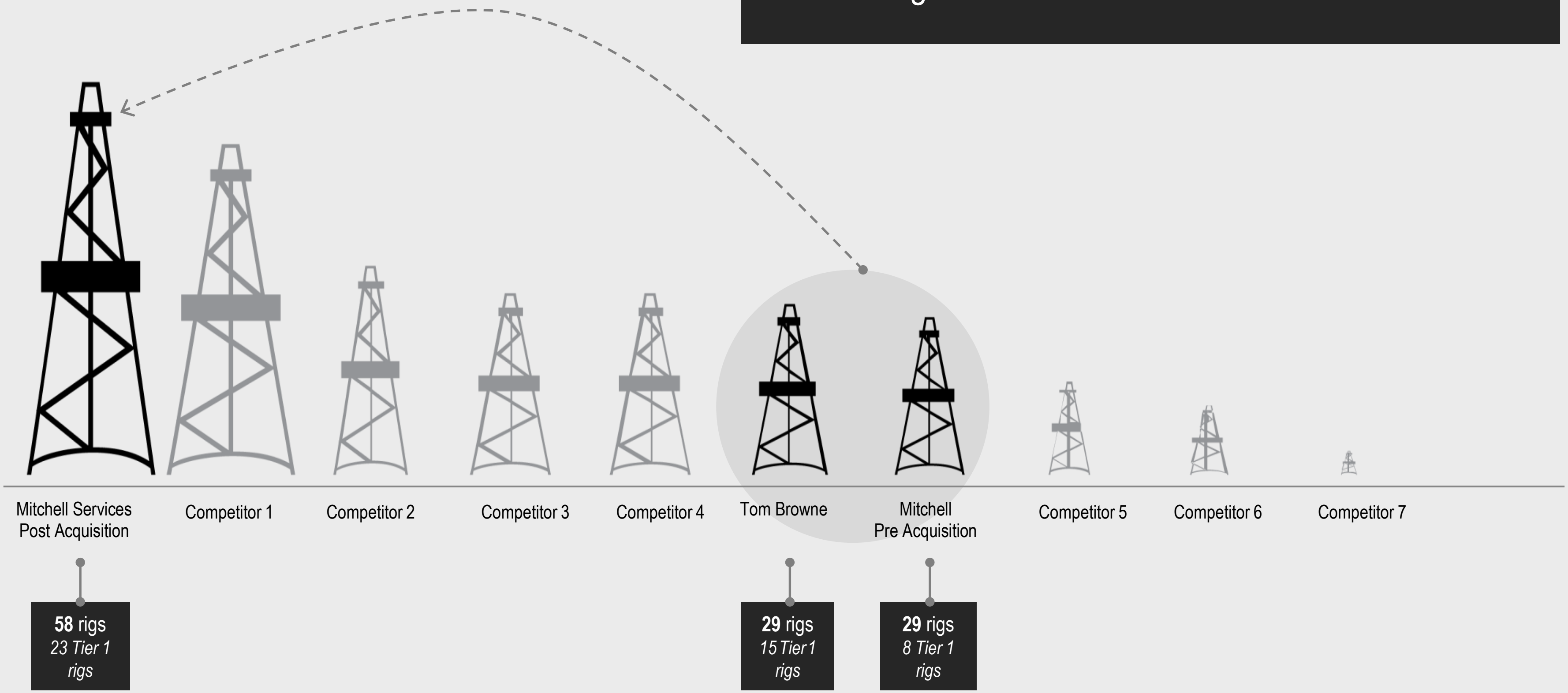



WHY ACQUIRE TBDS ASSETS

- The current Tier 1 rig fleet is operating at near full utilisation
- With the strong tender pipeline Mitchell Services has developed since the merger the TBDS acquisition **creates the rig capacity to execute on the pipeline**
- Mitchell Services can utilise TBDS assets for Tier 1 opportunities and **generate a superior return versus buying new equipment**
- Strengthen market share position and **increase geographical footprint** from predominantly Queensland operations
- Attractive acquisition price is cheaper than refurbishing existing non-tier 1 rig fleet.
- Manufacturers have **significantly reduced capacity** and new rigs will have long lead times

MATERIAL INCREASE IN CAPABILITY POST ACQUISITION

Significant Fleet in Eastern Australia



*Eastern Australia fleet sizes of selected competitors are based on Mitchell Services management internal estimates

MITCHELL SERVICES FLEET CAPABILITY

CURRENT FLEET

FLEET POST ACQUISITION

- Limited Tier 1 rigs but utilisation of these rigs is running at 87.5%
  - These rigs have capability to work more shifts in a month (for example double shift)
- Access to $3.4m of equipment and attractive buyout option through rental agreement
  - Only pay rent when equipment is being used
  - Buyout option less depreciation and 50% of rent paid
- Income spread across multiple commodity sectors including coal, copper and gold
- Income spread across multiple services sectors including exploration, mine services and underground drilling

- 100% increase in total rig fleet from 29 to 58 rigs
- Increase in Tier 1 rigs of 187.5% from 8 to 23 rigs
- The extra rigs allow Mitchell Services to offer clients in excess of 10,000 extra shifts of drilling per year on a single shift basis

FY14 HIGHLIGHTS

Unaudited financials as at reporting date 30 June 2014

Revenue	**$15.01m**
EBITDA	($2.90m)
NPAT	($4.60m)
Operating Cash flow	($2.20m)

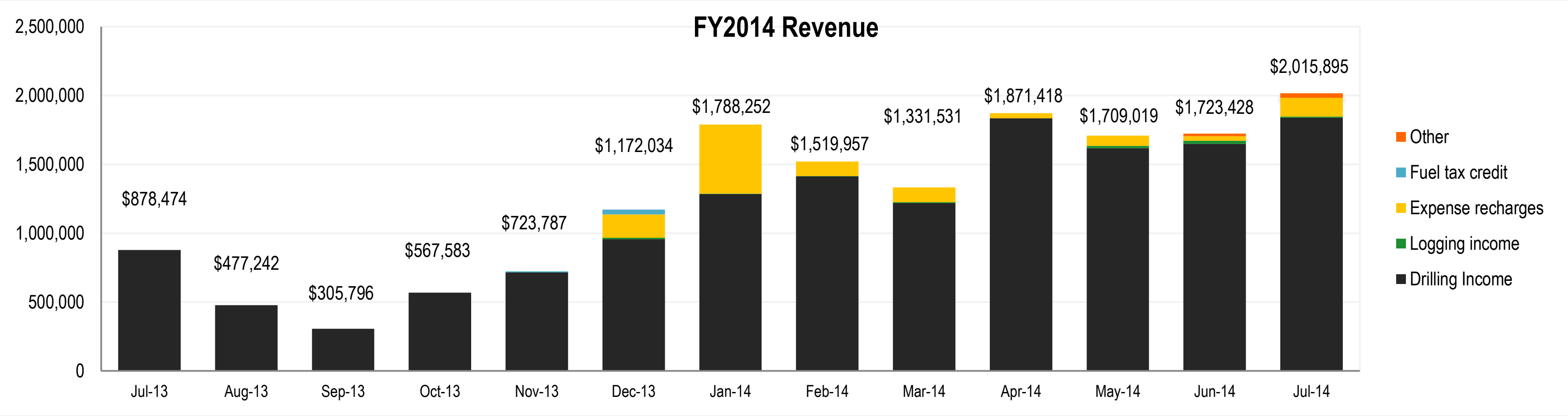
FY15 Outlook

Baseline revenue forecast of circa **$24m** revenue at break even operating cash flow basis

Significant upside potential in forecast revenue in future years

Strong cash generation as rig utilisation increases

- Tenders outstanding for 14 rigs across Tier 1
- Increase in rig utilisation from 4 to 12 rigs over the last six months
- Management has proven it can outperform versus standard industry utilisation rates



FINANCIAL POSITION

Mitchell Services Group
Balance Sheet
As at 30 June 2014
Management Accounts

	Pro Forma Balance Sheet 30 June 2014	Capital Raise Tranche 1	Pro Forma Balance Sheet Post Tranche 1	Capital raise Tranche 2	Pro Forma Balance Sheet Post Acquisition and Tranche 2
Current Assets					
Cash at Bank	$125,003	$9,687,562	$9,812,565	($3,937,314)	$5,875,251
Other Current Assets	$4,259,384	$40,522	$4,299,906	$972,029	$5,271,935
Total Current Assets	**$4,384,387**	**$9,728,084**	**$14,112,471**	**($2,965,285)**	**$11,147,186**
Non Current Assets					
PPE	$14,009,330		$14,009,330	$9,500,000	$23,509,330
Other Non-Current Assets	$7,904,893		$7,904,893		$7,904,893
Total Non Current Assets	**$21,914,223**		**$21,914,223**	**$9,500,000**	**$31,414,223**
TOTAL ASSETS	$26,298,610	$9,728,084	$36,026,694	$6,534,715	$42,561,409
Current Liabilities					
Bank Overdraft and Credit Card	$2,279,043	($2,251,701)	$27,342		$27,342
Term Debt	$205,571		$205,571		$205,571
Equipment Finance	$1,924,310		$1,924,310		$1,924,310
Other Current Liabilities	$4,379,127		$4,379,127		$4,379,127
Total Current Liabilities	**$8,788,051**	**($2,251,701)**	**$6,536,350**		**$6,536,350**
Non-Current Liabilities					
Term Debt	$1,316,262		$1,316,262		$1,316,262
Equipment Finance	$3,382,988		$3,382,988		$3,382,988
Total Non-Current Liabilities	**$4,699,250**		**$4,699,250**		**$4,699,250**
TOTAL LIABILITIES	$13,487,301	($2,251,701)	$11,235,600		$11,235,600
NET ASSETS	$12,811,309	($2,251,701)	$24,791,094		$31,325,809
Capital and Reserves	$12,811,309		$24,791,094		**$31,325,809**
Capital Raising		$13,000,000		$7,000,000	
Less Capital raising Costs		($1,020,215)		($465,285)	
TOTAL EQUITY	**$12,811,309**	**$11,979,785**	**$24,791,094**	**$6,534,715**	**$31,325,809**

The unaudited pro forma balance sheet set out above has been derived from Mitchell Services unaudited management accounts consolidated balance sheet as 30 June 2014 and has been prepared for illustrative purposes to show the impact of the following pro forma adjustments-

(1) Gross proceeds of the Rights Issue and Placement (Tranche 1) of approximately $13 million.
(2) Gross proceeds of the balance of Placement (Tranche 2) of approximately $7 million (which is subject to shareholder approval).
(3) The acquisition of the unencumbered assets of Tom Browne Drilling (In receivership) for $9.5 million

NOTE

The unaudited pro forma balance sheet is based on numerous assumptions that may or may not reflect the actual financial position of Mitchell Services after completion of the offer. This pro forma balance sheet is presented in summary format and does not contain all disclosures required under the Corporations Law. The pro forma information has been prepared using AIFRS and reflects the accounting policies of Mitchell Services and is based on unaudited accounts. The pro forma balance sheet assumes the capital raising has been completed as at 30 June 2014 although the actual date will be at a later date. The pro forma balance sheet assumes the acquisition of Tom Browne Drilling (In receivership) unencumbered assets as at 30 June 2014 although the actual date of acquisition will be at a later date. The pro forma balance sheet of Mitchell Services which includes Tom Browne Drilling assets acquisition is based on the assumption that the fair value of the assets are equal to the acquisition price and a full purchase price allocation will be undertaken post settlement. The Pro forma balance sheet does not reflect an undrawn related party loan which is expected to be drawn to circa $2,000,000 and which is to be repaid from proceeds of the capital raising. The Pro forma balance sheet does not reflect an estimated cost of $683,500 which is expected to be incurred with the acquisition of TBDS (In Receivership) and will be paid from proceeds of the capital raising. In the event that the Conditional Placement is not approved by shareholders it is unlikely that the TBDS acquisition will be completed. In this case, the Company's position would be as per the 'Pro Forma Balance Sheet Post Tranche 1' column (assuming that the full $13m is raised and that the Underwriter does not exercise its right to terminate in the event of the Conditional Placement not being approved) and the $13m new equity raised from the Placement and the Entitlement Offer will be used to reduce debt and fund working capital. If the Underwriter exercises its right to terminate because shareholder approval is not obtained, the Company may raise materially less under the Entitlement Offer.

USE OF FUNDS AND LIQUIDITY

- Set out below are the use of funds and available funding for Mitchell Services post the capital raising and assuming shareholder approval of the Conditional Placement.
- Mitchell Services will have access to approximately **$6.691m in liquid assets** with the potential if required to access additional funding
- Table 1 is an estimate of the actual cash position post acquisition, post capital raising and inclusive of material post capital raising events

Table 1 – Estimate of available cash	Amount
Cash at Bank – ProForma Balance Sheet Post Tranche 2	$5,875,251
Repayment of related party loan to Mitchell Group	($2,000,000)
Payment of TBDS acquisition expenses	($683,500)
Estimate of available cash [1]	**$3,191,751**
Sale of non core TBDS assets	$1,000,000
Potential sale of Townsville building net of debt [2]	$2,500,000
Adjusted estimate of available liquid assets	**$6,691,751**

- With a decrease in debt and increase in assets following the acquisition Mitchell Services believes it has the ability to access additional debt on commercial terms if required

[1] The Estimate of available cash ignores cash flows as a result of GST payments. GST payments will flow in and out of the company in the ordinary course of business.

[2] Net proceeds after potential sale and term debt reduction of $700k. Subject to final sale price.

OFFER OVERVIEW

THE OFFER

The capital raising consists of the following components

- A placement to institutional and sophisticated investors to raise $1.5m at $0.035 per share ("Placement")
- A 1 for 1 non-renounceable rights issue to existing shareholders to raise $11.7m at $0.035 per share ("Entitlement Offer")
- Top-Up Offer to existing shareholders to subscribe for shares greater than their entitlement. Any allocation of additional shares under the Top-Up Offer is subject to the shortfall amount under the Entitlement Offer and the discretion of the Board.
- A conditional placement to institutional and sophisticated investors to raise $7.0m at $0.035 per share ("Conditional Placement") subject to shareholder approval at EGM on 23 September 2014

PRICING

Offer price of $0.035 per share represents

- 12.5% discount to last close of $0.04 per share
- 12.5% discount to 1 week VWAP of $0.04 per share
- 20.2% discount to 1 month VWAP of $0.044 per share
- 4.6% discount to TERP of $0.037 per share

SHAREHOLDER SUPPORT

- Major shareholder, the Mitchell Group, has committed to take up its rights in full under the Entitlement Offer.
- Major shareholder, Washington H. Soul Pattinson & Company Limited, has committed to taking up approximately 50 million shares in total under the Placement and Entitlement Offer.
- Selected Directors and Senior Management intend to participate in the Entitlement Offer

OFFER OVERVIEW

USE OF PROCEEDS	**The capital raising of approx. $20 million will be used as follows** • Acquisition of the assets of Tom Browne Drilling Services (“TBDS”) - $9.5m • Relocation and integration of TBDS assets acquired - $0.683m • Repayment of related party loan to Mitchell Group - $2.0m • Working Capital - $6.332m • Capital raising costs - $1.485m In the event that the Conditional Placement is not approved by shareholders it is unlikely that the TBDS acquisition will be completed. In this case, the new equity raised from the Placement and the Entitlement Offer will be used to reduce debt and fund working capital. If the Conditional Placement is not approved by Shareholders, the Underwriter can elect to terminate the Underwriting Agreement, which may impact on the amount of funds raised under the Entitlement Offer.
RANKING	The new shares will rank equally with Mitchell Services existing shares
UNDERWRITING	The offer is fully underwritten by Morgans Corporate Limited.
PERFORMANCE OPTIONS	Tranche A & B performance options will be cancelled for no consideration on completion of the capital raising.

OFFER OVERVIEW (CONTINUED)

INDICATIVE TIMETABLE (subject to change)

Activity	Date
Announcement of Placement, Conditional Placement and Entitlement Offer	Friday, 22 August 2014
Ex-date for Entitlement Offer	Tuesday, 26 August 2014
Placement Settles	Wednesday, 27 August 2014
Allotment of Placement shares	Thursday, 28 August 2014
Record date	Thursday, 28 August 2014
Entitlement Offer opens	Tuesday, 2 September 2014
Entitlement Offer closes	Friday, 19 September 2014
EGM to approve Conditional Placement	Tuesday, 23 September 2014
Allotment of Entitlement Offer shares	Friday, 26 September 2014
Allotment of Conditional Placement shares	Friday, 26 September 2014
Entitlement Offer shares commence trading on a normal basis	Monday, 29 September 2014
Conditional Placement shares commence trading on a normal basis	Monday, 29 September 2014

SUMMARY

- **Major one off expenses** incurred to rebuild and position the business to work for Tier 1 clients
- **Competitive landscape is improving** rapidly and **barriers to entry for new competitors have increased**
- Best pricing for assets that Board and Management have seen. **TBDS assets to be acquired at $9.5m versus a replacement value of $52.6m**
- Post acquisition, Mitchell Services will have **a significant fleet in Eastern Australia** to deliver on its vision of being **Australia's leading provider of drilling services** to the global exploration, mining and energy industries
- **Compelling bottom of the market investment opportunity with significant upside** if general market conditions improve

APPENDIX

- Appendix 1 – Capital Structure and Performance Options
- Appendix 2 – Assets To Be Acquired From TBDS
- Appendix 3 – Board and Management
- Appendix 4 – Cyclical Market Presents Opportunity
- Appendix 5 – Market Sector Summary
- Appendix 6 – Industry Acquisitions and Divestments
- Appendix 7 – Risks

APPENDIX 1 – CAPITAL STRUCTURE & PERFORMANCE OPTIONS

Current shares on issue	290,000,010
Placement shares (15%)	43,500,001
Expanded share capital	333,500,011

Rights issue ratio	1 for 1
Rights issue shares	333,500,011

Conditional placement shares	200,000,000
New shares on issue post Capital Raising	867,000,022

Total performance shares (Tranche C & D)	98,700,000

Tranche A - $4m FY15 EBITDA & 5cps share price TO BE CANCELLED	45,000,000
Tranche B - $5m FY15 EBITDA & 6cps share price TO BE CANCELLED	65,000,000
Tranche C - $7m FY16 EBITDA & 7cps share price	49,350,000
Tranche D - $9m FY16 EBITDA & 8cps share price	49,350,000

- Performance options were issued to Mitchell Group and its senior managers as consideration for the options cancelled through the merger with Drill Torque
- All tranches are subject to vesting conditions based on EBITDA and share price hurdles.
- Tranche A & B performance options will be cancelled for no consideration on completion of the capital raising
- Tranche C & D are subject to EBITDA hurdles in FY2016 of $7m and $9m respectively, in addition to 10 day VWAP share price hurdles of 7 cps and 8 cps respectively at any time in the 12 month period following the release of the FY16 results.

APPENDIX 2 – ASSETS TO BE ACQUIRED FROM TBDS

- 29 Drilling rigs
- Best endeavours to assign an 18 month contract with Tier 1 global mining company
- All Business Records including various documents and files
- Trucks including prime movers and numerous trailers
- Light vehicles
- Compressors and Boosters
- Pumps
- Lighting Plants
- Drill rig critical spares inventory
- Drilling consumables including drill rods and numerous rod sloops
- Survey equipment including multiple Gyro units
- Workshop machinery, benches and tooling
- Stores racking and forklift
- Office furnishings and IT equipment

APPENDIX 3 - BOARD AND MANAGEMENT

NATHAN MITCHELL – Executive Chairman
During his tenure as CEO for Mitchell Drilling Contractors the company doubled in size with Mr. Mitchell directing an international expansion into China, Indonesia, USA and various countries across Southern Africa.

DR RALPH CRAVEN (BE PhD FIEAust FIPENZ FAICD CPEng) – Non Executive Director
Previous positions include CEO to the predecessor to Ergon Energy and CEO of Transpower New Zealand Ltd. Dr. Craven has held senior executive positions with Shell Coal Pty Ltd and NRG Asia Pacific Limited.

PETER MILLER - Non Executive Director
Mr. Miller founded Drill Torque in 1992 with one drill rig, which grew to 29 prior to the acquisition of Well Drilled. Mr. Miller has been involved in all aspects of the drilling industry for the past 28 years and has extensive knowledge of the drilling conditions, equipment requirements and pricing structure to maximize productivity.

ROBERT DOUGLAS (BCom, LLB) – Non Executive Director
Mr. Douglas has over 15 years experience in finance and investment banking and is currently Executive Director of Morgans Financial. He has vast experience in all aspects of corporate advisory and equity capital raising for listed public companies and companies seeking to list.

ANDREW ELF (B.Com, CPA, MBA, GAICD) – Chief Executive Officer
Mr. Elf has over 15 years finance, commercial and operation experience. He has held senior roles with Boart Longyear where he spearheaded the growth of the African business to an annual turnover in excess of $30 million.

ROBERT WITTY (Associate Dip Bus (Acct), FIPA) - Chief Financial Officer & Company Secretary
Mr. Witty joined Notch Holdings Pty Ltd (now a subsidiary of Mitchell Services) in 2009 after 38 years' experience in retail and business banking and 2 years' experience as a senior manager with Pricewaterhouse Coopers.

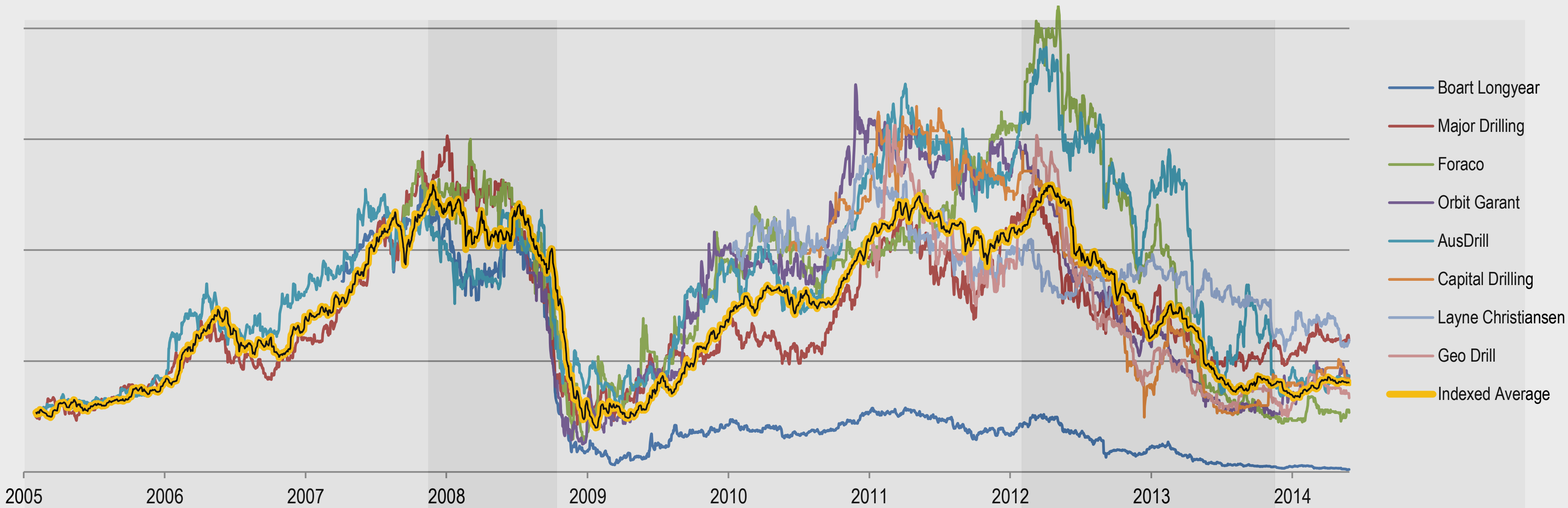
GARY SALTER (B.Sc (Geology) Hons) - Chief Commercial Officer
Mr. Salter has a wealth of senior management experience having worked with BHP Billiton (BHPB) for over 32 years in mine geology and exploration. Mr. Salter has been instrumental in leading the business development function and strengthening relationships with blue chip clients.

AARON SHORT – Operations Manager
Mr. Short has over 20 year's experience in the drilling industry and has directly managed drilling operations across all commodity types and utilising multiple drilling techniques.

APPENDIX 4 - CYCLICAL INDUSTRY PRESENTS OPPORTUNITY

Listed Drilling Company – Share Price Movements (Average is a non weighted average of daily close prices)

GROWTH	DECLINE	GROWTH	DECLINE	->



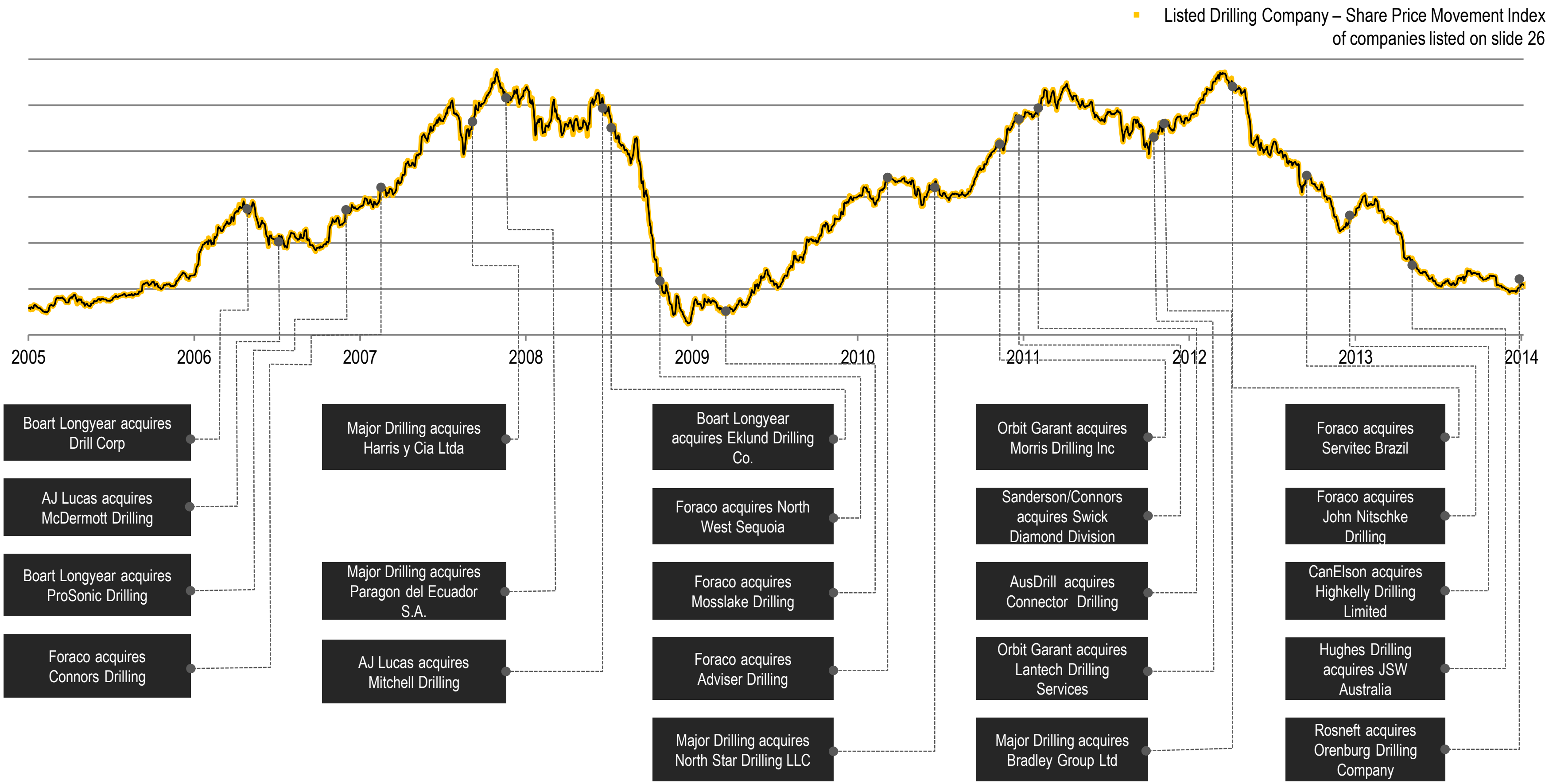
- **Where are we in the cycle?**
  - Production drilling must continue
  - Near mine exploration still continues
  - Evidence of base level commitment spending
- **Why is now the time to invest?**
  - Funds starting to be raised for new exploration
  - ASX Small Resources turning with several successful raisings
  - Industry peers experiencing financial distress and rig counts in the market place are beginning to reduce

APPENDIX 5 - MARKET SECTOR SUMMARY

Types of Drilling			MSV
SURFACE DRILLING COAL	**Activity:** **Competition:** **CAPEX:** **Comment:**	Low -Activity is primarily focused on production High Medium to High Competition has increased markedly as metals drilling companies enter this market sector	Recognised as experts in this market sector and CCO has extensive contacts network
SURFACE DRILLING METALS	**Activity:** **Competition:** **CAPEX:** **Comment:**	Low - Activity is primarily focused on brownfield exploration and production High Medium to High Opportunity for consolidation in highly fragmented market sector	Continue to gain momentum since Australian market re-entry
UNDERGROUND DRILLING	**Activity:** **Competition:** **CAPEX:** **Comment:**	Medium -This work is primarily production related Medium to High Medium Step change in sector with the development of the mobile drill rig	Increase market awareness that Mitchell Services actively participates in this market sector
OIL & GAS	**Activity:** **Competition:** **CAPEX:** **Comment:**	Medium to High High High High risk high return. Long term contracts critical to success	Highly experienced in specific segments of this market sector
OTHER SERVICES	**Activity:** **Competition:** **CAPEX:** **Comment:**	Low to Medium High Low to High pending service Diversification from cyclical minerals cycle	Not core business but have Logging Units

APPENDIX 6 - INDUSTRY ACQUISITIONS & DIVESTMENTS

- The drilling industry is highly cyclical and industry majors have tended to make acquisitions at all stages throughout the cycle, often paying high multiples on cyclical earnings.
- This results in acquisitions at high values which does not always provide long term value to shareholders.



APPENDIX 7 – INVESTMENT RISKS

Acquisition of TBDS assets
Despite having external due diligence completed on the TBDS assets, the asses have been bought under a receiver sale on an 'as is, where is' basis and there is a risk that they do not perform according to current expectations. This may require significant maintenance or additional expenditure by the Company in order to have them in working order or brought up to the required standards for their intended use.
The acquisition involves the Company and TBDS using best endeavours to assign to the Company the benefits of an 18 month drilling contract with a Tier 1 global mining contract. There is no guarantee that this contract will be assigned to the Company which means that the value of that contract will not be realised for the Company.

Seasonal conditions and business interruptions
The Company has exposure to a number of natural events such as cyclones, persistent rainfall, floods and fire which are beyond its control. Natural events would affect the Company's productivity and ability to engage in contract drilling for customers and, as a result, could have a material adverse effect on the Company. Unstable weather conditions, unstable service sites, regulatory intervention, delays in necessary approvals and permits or supply bottlenecks may reduce the Company's ability to complete drilling services contracts resulting in performance delays, increased costs and loss of revenue. The Company seeks to mitigate these and other risks by securing clients in multiple geographic locations so as to minimise the impact of events such as the Queensland wet season.

Dependence on key personnel and labour shortages
The Company's primary intellectual asset is the skill and experience of its staff. It is essential that appropriately skilled staff be available in sufficient numbers to support the Company's operations. While the Company has initiatives to mitigate this risk, including implementing special training programs, loss of key staff or failure to attract new staff may have a negative impact on the financial performance or otherwise of the Company and in particular its ability to expand its business. The loss of key staff to a competitor may magnify this impact.

Effects of amended industrial relations laws
Recent changes to Commonwealth industrial relations laws particularly in regard to new awards may result in increased labour and compliance costs. This could impact on the ability of the Company to retain key personnel, attract new workers or replacement personnel. Any further changes to Commonwealth industrial relations laws may result in additional labour and compliance costs.

Industrial accidents
Industrial accidents may occur with respect to the Company's business. In the event of a serious accident, for example resulting in a fatality or serious injury, or a series of such accidents on projects, substantial claims may be brought against the Company. Any such claim could result in substantial liability for the Company, which could negatively impact on growth prospects and adversely affect the financial performance and/or financial position of the Company.

Customer demand and outlook for resources industry
The Company's business depends on, amongst other things, the level of mining activity. Levels depend on a number of factors outside the control of the Company, including, but not limited to, continued global economic growth, continued international demand and infrastructure constraints experienced by the Company's clients. Any prolonged decline in the demand for resources may result in a corresponding decline in the use of the Company's services which will have an adverse effect on the financial performance and/or financial position of the Company.
Commodity prices are volatile. Industry experience indicates that when commodity prices fall below certain levels, mining expenditure and activity decline in the following 12 months. There is a risk that a significant, sustained fall in commodity prices could substantially reduce future mining activity and accordingly demand for the Company's services.

Equipment constraints
Some of the specialist services provided by the Company require the use of purpose-built drilling rigs and equipment. The Company may have difficulty in gaining access to additional purpose-built rigs or equipment or adequate supplies of equipment at appropriate prices and in a timely manner or the quality of the available equipment may not be acceptable or suitable for its intended use. The Company may also not be able to make the necessary capital investment to maintain or expand its rig fleet. Any of these factors may constrain the Company's ability to provide services and may ultimately have an adverse effect on its growth opportunities, financial performance and/or financial position.

Concentration risk and industry downturn
The Company's focus on drilling gives rise to some degree of concentration risk in that the prospects of the Company are largely tied to the prospects of the mining industry.

APPENDIX 7 – INVESTMENT RISKS (CONT.)

Operational risks
The Company and its customers are exposed to a range of operational risks relating to both current and future operations. Such operational risks include equipment failures, information technology system failures, external services failure, industrial action or disputes and natural disasters. Whilst the Company endeavours to take appropriate action to mitigate these operational risks and to insure against them, the Company cannot control the risks to which its customers are exposed, nor can it completely remove all possible risks relating to its own business.

Changing customer preferences regarding contractual arrangements
The majority of the Company's contracts for the provision of services are negotiated on a variable costs relationship-based agreement. However, a small number are negotiated on a fixed-price basis. Fixed-price contracts are typically higher risk. Should customers in the future exhibit a preference for fixed-price contractual arrangements, this may have an adverse effect on the financial performance and/or financial position of the Company.

Capital and maintenance expenditure
The Company requires sufficient access to capital to fund the maintenance and replacement of its existing fleet of rigs, plant and equipment and any future expansion. Failure to obtain capital on favourable terms may hinder the Company's ability to expand and maintain its fleet of rigs or equipment which may reduce the Company's competitiveness.

Operating costs
This is a risk of unexpected increases in variable operating costs including labour, insurance and maintenance, which may adversely affect the Company's operating and financial performance.

Remote locations
The Company regularly undertakes projects in remote locations. The remoteness of the location exposes the Company to an increased risk of a shortage of skilled and general labour and potentially increased costs which may or may not be able to be passed onto the customer. The Company may also be exposed to a greater risk of logistical difficulties with plant and equipment because of the remote locations of its projects.

Early mine closure
The Company typically enters into contracts for the provision of services in relation to large, individual mines, which remain in force over extended periods of time. The Company ordinarily deploys its equipment and/or personnel with a view to providing services in relation to the particular mine on a continual basis over the duration of a service contract's life. Early or unforeseeable closure of a mine could result in loss of expected revenues, and additional expenses for demobilisation, maintenance and storage of equipment used at that time.

Environmental incidents and claims
The Company operates in an industry where environmental issues, including inclement weather, may delay contract performance or result in complete shutdown of a project, causing a deferral or preventing receipt of anticipated revenues.

Reputation
The Company's ability to retain and source new customers is heavily dependent on its reputation and current relationships with key customers. A dissatisfied customer, poor performance or litigation may result in significant damage to the Company brand and may impact on the Company's ability to maintain existing customers or enter into new customer relationships, resulting in an adverse impact, on its financial performance and/or financial position.

Insurance risks
The Company provides drilling services to third parties, which exposes the Company to the risk of liability from defective services, including indirect or consequential losses suffered by third parties. The Company contractually limits its exposure to liability, and the Company maintains public liability insurance. The Company also has Directors' and Officers' insurance, which it believes to be commensurate with industry standards, and adequate having regard to the business activities of the Company. Nevertheless, there remains a risk that the Company's insurance coverage will be insufficient to meet a very large claim or a number of large claims or that the Company is unable to secure insurance to satisfactorily cover all anticipated risks or that the costs of insurance will increase beyond anticipated levels.

APPENDIX 7 – INVESTMENT RISKS (CONT.)

Future funding
While the Directors believe that the Company will have sufficient funds to fund its activities in the short term, the Company is operating in a dynamic and rapidly growing industry. If the Company does not meet its stated objectives, it may need additional debt or equity funding. There can be no guarantee that such funding will be available to the Company on reasonable terms or at all. Any such failure to obtain funding on reasonable terms may result in a loss of business opportunity and excessive funding costs, including dilution to Shareholders if equity funding is pursued.

Recognition of revenue
The Company's performance is influenced by its ability to win new contracts for the provision of drilling services and the completion of those contracts in a timely and efficient manner. Where new and existing contracts are delayed the recognition of revenue for those contracts may be deferred to later accounting periods.

Entry of new competitors
The entry of additional competitors in the drilling services sector could result in reduced operating margins and loss of market share. Such occurrences could adversely affect the Company's operating and financial performance.

Growth – new customers
The Company's ability to grow its business depends, to a large degree, on its ability to secure new customers and contracts. Failure to obtain new drilling contracts may have a material adverse effect on the Company.

Regulatory environment
The sector in which the Company operates is highly regulated by the various state and federal governments. The Company must comply with the relevant regulations and, as a consequence, its ongoing operations are subject to regulatory changes. Changes to the way in which the market is regulated could adversely affect the business or financial performance of the Company by the imposition of additional capital and/or operational obligations on the Company.

Concentration of shareholding
Entities associated with the Mitchell Group are expected to hold no less than 19.99% of the issued shares in the Company immediately following the issue of shares under the offer with the ability to increase that interest to 27.74% if all of their Performance Options vest. Accordingly, the Mitchell Group and its associated entities will continue to be in a position to exert significant influence over the outcome of matters relating to the Company, including the election of Directors and the consideration of material Board decisions. Although the interests of the Company, the Mitchell Group and other shareholders are likely to be consistent in most cases, there may be instances where their respective interests diverge.

Litigation
Litigation risks to the Company include, but are not limited to, contractual claims, environmental claims, occupational health and safety claims, regulatory disputes, legal actions from special interest groups, as well as third party damage or losses resulting from drilling actions. The Company is not currently involved in any disputes and is not aware of any circumstances which could give rise to any claims or disputes.

General risks
Other than the specific risks identified above, the price at which the Company's shares trade on the ASX may be determined by a range of factors, including inflation, interest rates and exchange rates, changes to government policy, legislation or regulation, the nature of competition in the markets in which the Company operates, inclusion or removal from major market indices and other general operational and business risks. The market for Company shares may also be affected by a wide variety of events and factors, including variations in the Company's operating results, recommendations by securities analysts, and the operating and trading price performance of other comparable listed entities. Some of these factors could affect the Company's share price regardless of the Company's underlying operating performance.