

17 September 2015

The Manager
Company Announcement Office
Australian Stock Exchange
Level 4, 20 Bridge Street
Sydney NSW 2000

ASX Announcement

Mitchell Services Limited (ASX: MSV) Notice of Annual General Meeting

Mitchell Services Limited advises that its Annual General Meeting will be held on 20 October 2015, commencing at 10.00 am (Brisbane time) at Morgans Financial Ltd, Level 29, 123 Eagle Street, Brisbane, Queensland.

Please find attached the Notice of Annual General Meeting, Explanatory Memorandum and Proxy form which are being despatched today, together with an independent expert's report in relation to the proposed grant of security to Mitchell Family Investments as trustee for the Mitchell Family Investment Trust (**Mitchell Group**) in connection with the advance by Mitchell Group to the company's wholly-owned subsidiary Notch No. 2 Pty Ltd for its recent acquisition of drilling assets from Nitro Drilling Pty Ltd (receivers and managers appointed) (in liquidation).

BDO Corporate Finance (QLD) Limited, the independent expert commissioned to prepare the report has concluded that the grant of security to Mitchell Group is **fair and reasonable** to shareholders. The advantages and disadvantages associated with the proposed grant of security are detailed in the notice of meeting and the report.

Signed for and on behalf of Mitchell Services Limited:



Greg Switala
Company Secretary

Mitchell Services Limited

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Mitchell
SERVICES

Notice of annual general meeting

Mitchell Services Limited ACN 149 206 333

Notice is given that the annual general meeting of Mitchell Services Limited (**Company**) will be held at:

Location	Morgans Financial Ltd, Level 29, 123 Eagle Street, Brisbane QLD 4000
Date	Tuesday, 20 October 2015
Time	10.00am (Brisbane time)

Ordinary Business

Financial statements and reports

‘To receive and consider the financial report, directors’ report and auditor’s report for the financial year ended 30 June 2015.’

This item of business is for discussion at the Meeting and is not a resolution.

Resolution 1 – Adoption of the Remuneration Report

To consider, and if in favour, pass the following resolution in accordance with section 250R of the Corporations Act:

‘That the remuneration report for the financial year ended 30 June 2015 be adopted.’

Resolution 2 – Re-election of Robert Douglas as Director

To consider, and if in favour, pass the following resolution as an ordinary resolution:

‘That Robert Douglas, who retires in accordance with rule 5.1 of the Company’s constitution and, being eligible, offers himself for re-election, be re-elected as a director of the Company.’

Special Business

Resolution 3 – Approval under Listing Rule 10.1 for the grant of security to Mitchell Group

To consider, and if in favour, pass the following resolution as an ordinary resolution:

‘That for the purposes of Listing Rule 10.1 and for all other purposes, Shareholders approve the grant of a general security agreement over all of Notch No. 2 Pty Ltd’s (**Notch**) right, title and interest in all of the assets held by Notch to Mitchell Family Investments (Qld) Pty Ltd as trustee for the Mitchell Family Investment Trust (**Mitchell Group**) as security for the advance of \$3.5 million by Mitchell Group to Notch (**Mitchell Group Loan**).’

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Resolution 4 - Approval of issue of Shares to Mitchell Group under Listing Rule 10.11

To consider, and if in favour, pass the following resolution as an ordinary resolution:

‘That for the purposes of Listing Rule 10.11, Shareholders approve the issue of 20,588,235 Shares to Mitchell Group at an issue price of \$0.017 in lieu of payment of the first year’s interest on the Mitchell Group Loan and \$350,000 worth of Shares at an issue price equal to the volume weighted average price for the 30 trading days prior to the issue on 6 July 2016, up to a maximum of 70,000,000 Shares in lieu of payment of the second year’s interest on the Mitchell Group Loan, as detailed in the Explanatory Memorandum accompanying this Notice.’


Resolution 5 – Approval of additional 10% capacity under Listing Rule 7.1A

To consider, and if in favour, pass the following resolution as a special resolution:

‘That pursuant to and in accordance with Listing Rule 7.1A, and for all other purposes, Shareholders approve the Company having the additional capacity to issue equity securities up to 10% of the issued capital of the Company (at the time of issue) calculated in accordance with the formula prescribed in Listing Rule 7.1A.2, over a 12 month period from the date of this Meeting (or until a transaction under Listing Rule 11.1.2 or 11.2 is approved by Shareholders).’

Dated: 17 September 2015

By order of the Board



Greg Switala
Company Secretary

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Notes

- (a) A member who is entitled to attend and cast a vote at the meeting is entitled to appoint a proxy.
- (b) The proxy need not be a member of the Company. A member who is entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise.
- (c) If you wish to appoint a proxy and are entitled to do so, then complete and return the **attached** proxy form by 10.00am (Brisbane time) on 18 October 2015.
- (d) A corporation may elect to appoint a representative in accordance with the *Corporations Act 2001* (Cth) in which case the Company will require written proof of the representative's appointment which must be lodged with or presented to the Company before the meeting.
- (e) The Company has determined under regulation 7.11.37 *Corporations Regulations 2001* (Cth) that for the purpose of voting at the meeting or adjourned meeting, Shares are taken to be held by those persons recorded in the Company's register of shareholders as at 7.00pm (Brisbane time) on Sunday, 18 October 2015.
- (f) If you have any queries on how to cast your votes then call the Company on 07 3722 7222 during business hours.

Voting exclusions

In accordance with Listing Rules 10.10, 10.13.6 and 14.11, the Company will disregard any votes cast on the respective resolutions by the following persons:

Resolution 1 – Adoption of Remuneration Report	<p>No votes may be cast on Resolution 1 in any capacity by or on behalf of a member of the key management personnel details of whose remuneration are included in the remuneration report, or a closely related party of such member (including certain of their family members, dependants and companies they control), unless:</p> <ul style="list-style-type: none"> (a) the person does so as a proxy appointed in writing that specifies how the proxy is to vote on the resolution; or (b) the person is the chair of the meeting and the appointment of the chair as proxy: <ul style="list-style-type: none"> (i) does not specify the way the proxy is to vote; and (ii) expressly authorises the chair to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of a member of key management personnel.
Resolution 3 – Approval under Listing Rule 10.1 for the grant of security to Mitchell Group	<p>No votes may be cast on Resolution 3 by Mitchell Group and its associates (including Mr Nathan Mitchell). Any votes cast by such persons will be disregarded.</p>
Resolution 4 – Approval of issue of Shares to Mitchell Group under Listing Rule 10.11	<p>No votes may be cast on Resolution 4 by Mitchell Group and its associates (including Mr Nathan Mitchell). Any votes cast by such persons will be disregarded.</p>
Resolution 5 – Approval of additional 10% capacity under Listing Rule 7.1A	<p>No votes may be cast on Resolution 5 by a person and any associates of that person who may participate in the proposed issue of the securities, or might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if Resolution 5 is passed, or an associate of such person.</p>

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However, the Company need not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

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Explanatory memorandum

Mitchell Services Limited ACN 149 206 333

Introduction

This explanatory memorandum is provided to the Shareholders of Mitchell Services to explain the resolutions to be put to the Shareholders at the annual general meeting to be held at Morgans Financial Ltd, Level 29, 123 Eagle Street, Brisbane on Tuesday, 20 October 2015 at 10.00am (Brisbane time).

The Board recommends that Shareholders read the accompanying Notice and this Explanatory Memorandum in full before making any decision in relation to the resolutions.

Financial statements and reports

- 1 The Corporations Act requires the financial report (which includes the financial statements and directors' declaration), the directors' report and the auditor's report to be laid before the Meeting. There is no requirement either in the Corporations Act or the Company's Constitution for Shareholders to approve the financial report, the directors' report or the auditor's report. Shareholders will be given a reasonable opportunity at the meeting to ask questions and make comments on these reports.
- 2 Whilst no resolution is required in relation to this item, the auditor of the Company or their representative will be available to receive questions relevant to:
 - (a) the conduct of the audit;
 - (b) the preparation and content of the Auditor's Report;
 - (c) the accounting policies adopted by the Company in relation to the preparation of the Financial Statements; and
 - (d) the independence of the auditor in relation to the conduct of the audit.

Resolution 1 – Adoption of the Remuneration Report

- 3 The annual report for the financial year ended 30 June 2015 contains a remuneration report which sets out the remuneration policies applicable to the Company and reports the remuneration arrangements that were in place for the Company's Directors and senior executives for the financial year ended 30 June 2015.
- 4 A reasonable opportunity will be provided for discussion of the remuneration report at the meeting before Shareholders are asked to vote on Resolution 1, to adopt the remuneration report.
- 5 The vote on the resolution is advisory only and does not bind the Directors or the Company. However, your Directors will take the outcome of the vote into consideration when reviewing the remuneration practices and policies of the Company.
- 6 Under the provisions of the Corporations Act known generally as the "two strikes rule", Shareholders should note that if 25% or more of the votes that are cast are voted against the adoption of the remuneration report at two consecutive annual general meetings, Shareholders will be required to vote at the second of those annual general meetings on a resolution (a "spill resolution") that another meeting be

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held within 90 days at which all of the Company's Directors (other than any managing director who may continue to hold office indefinitely without re-election under the Listing Rules) must stand for re-election. Shareholders should be aware that at the Company's 2014 annual general meeting, less than 25% of the votes that were cast voted against the adoption of the 2013 remuneration report and accordingly no spill resolution can result at this Meeting.

Directors' recommendation

- 7 Noting that each Director has a personal interest in his own remuneration from the Company, the Directors unanimously recommend that you vote in favour of Resolution 1.

Resolution 2 – Re-election of Robert Douglas as Director

- 8 In accordance with the Company's constitution, Robert Douglas will retire by rotation from office at the Meeting, and being eligible, offers himself for re-election as a Director.
- 9 Mr Douglas was appointed a Non-Executive Director on 29 November 2013. Mr Douglas has over 15 years of experience in finance and investment banking and is currently an Executive Director of Morgans Financial. Mr Douglas has experience in all aspects of corporate advisory and equity capital raising for listed public companies and companies seeking to list, including offer structure, prospectus preparation, due diligence, accounts and forecasting, risk management, sales and marketing, logistics and legal requirements. During his time Mr Douglas has worked extensively with energy and resource companies. Mr Douglas has been a member of the Audit and Risk Committee and the Remuneration and Nomination Committee since 20 March 2014.

Independent Directors' recommendation

- 10 The Directors (with Mr Douglas abstaining) unanimously recommend that Shareholders vote in favour of the resolution.

Background to Resolutions 3 and 4

- 11 On 9 June 2015, the Company announced that it had entered into an agreement to acquire the drilling rigs and associated assets of Nitro Drilling Pty Limited (receivers and managers appointed) (in liquidation) and its related entities (**Nitro Assets**) for approximately \$16 million (**Acquisition**), to be funded by:
- (a) an \$8.42 million fully underwritten non-renounceable entitlement offer of 4 new shares for every 7 existing shares at an issue price of \$0.017, which settled on 2 July 2015 (**Entitlement Offer**); and
 - (b) debt facilities totalling \$8.5 million provided by shareholders, Mitchell Family Investments (Qld) Pty Ltd as trustee for the Mitchell Family Investment Trust (**Mitchell Group**) and Washington H Soul Pattinson & Company Limited (**WHSP**).
- 12 The Company's wholly-owned subsidiary, Notch No. 2 Pty Ltd (**Notch**) entered into a loan facility agreement with each of WHSP and Mitchell Group under the terms of which:
- (a) WHSP agreed to advance \$5 million (**WHSP Loan**); and
 - (b) Mitchell Group agreed to advance \$3.5 million (**Mitchell Group Loan**),
- (**Debt Facilities**).

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- 13 The WHSP Loan is secured by the grant of a general security agreement over all of Notch's right, title and interest in all of the assets held by Notch (including the Nitro Assets) and the Mitchell Group Loan will also be secured by a general security agreement over all of Notch's right, title and interest in all of the assets held by Notch (including the Nitro Assets) (**Mitchell Group Security**), subject to Shareholders approving Resolution 3.
- 14 Both Mitchell Group and WHSP advanced the funds to Notch on 6 July 2015, on the same day that Notch completed the Acquisition as announced by the Company on that date.

Independent Directors' rationale for obtaining the Debt Facilities

- 15 The Board (excluding Mr Nathan Mitchell) (**Independent Directors**) have considered and evaluated a range of different funding options.
- 16 The Independent Directors are of the opinion that the terms and conditions of the Debt Facilities with WHSP and Mitchell Group are favourable when compared to those offered by commercial lenders. In particular:
- (a) the cash flow obligations in the short to medium terms are low with no minimum principal repayments required in years one to four of the Mitchell Group Loan. The interest obligations for years one and two are settled via issue of Shares rather than cash, assisting the Company to manage and preserve its working capital; and
 - (b) the terms of the security for the Debt Facilities are also favourable to Shareholders as the security is limited to a general security agreement over all of Notch's right, title and interest in all of the assets held by the Company's subsidiary, Notch, which currently is limited to the Nitro Assets, as compared to a more usual form of security that would typically extend to all companies within the Mitchell Services group (**Group**). There are no guarantees of the Debt Facilities given by Mitchell Services or any other member of the Group.
- 17 The Independent Directors are also of the opinion that the funding has been structured using an appropriate mix of debt and equity.
- 18 The level of debt and the terms and conditions thereof have not placed significant serviceability constraints on the Company in the short to medium terms.
- 19 The Independent Directors are of the opinion that the equity raise level of \$8.42 million was appropriate. The \$8.42 million was raised mainly through existing Shareholders taking up their rights thus minimising the dilutive impact on existing Shareholders. Had a higher level of equity been sought, the potential dilution effect on Shareholders would have been larger.

Purpose of Resolutions 3 and 4

- 20 The purpose of Resolution 3 is to approve the grant of the Mitchell Group Security for the purposes of Listing Rule 10.1 and for all other purposes as security for the Mitchell Group Loan.
- 21 The purpose of Resolution 4 is to approve the issue of Shares to Mitchell Group for the purposes of Listing Rule 10.11 in lieu of the payment of interest on the Mitchell Group Loan for the first two years of the five year term of the loan.
- 22 The Independent Directors are satisfied that Shareholder approval for the grant of the Mitchell Group Security and the issue of Shares is not required for the purposes of Chapter 2E Corporations Act. The Independent Directors consider that the terms of the Mitchell Group Loan are reasonable in the

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circumstances as if the Company and the Mitchell Group were dealing at arm's length, given that the Mitchell Group Loan is on the same terms as the WHSP Loan, except that the grant of security and issue of Shares to Mitchell Group are subject to Shareholder approval (under Resolutions 3 and 4) and if Shareholder approval is not obtained, the Mitchell Group Loan is repayable within 90 days and the interest for the first two years of the five year term is payable upfront on the day after the Meeting.

Resolution 3 – Approval under Listing Rule 10.1 for the grant of security to Mitchell Group

- 23 The Company is seeking the approval of Shareholders to grant the Mitchell Group Security in accordance with Listing Rule 10.1.
- 24 The Mitchell Group Loan to Notch was made in accordance with a facility agreement between the Company, Mitchell Group and Notch (**Facility Agreement**).
- 25 The key terms of the Mitchell Group Loan are as follows:
- (a) the advance is \$3.5 million;
 - (b) the loan is for a five year term;
 - (c) interest on the loan is payable at an interest rate of 10% per annum;
 - (d) the interest on the loan for the first two years of the term, subject to Shareholders approving Resolution 4, is payable by the issue of Shares to Mitchell Group at an issue price of:
 - (i) \$0.017 in year 1 (the same issue price as under the Entitlement Offer); and
 - (ii) the volume weighted average price for the 30 trading days prior to the issue of Shares in year 2, up to a maximum of 70,000,000 Shares (on the date that is 12 months from the first drawdown date which is 6 July 2016); and
 - (e) the loan is secured by the grant of the Mitchell Group Security, subject to Shareholders approving Resolution 3.
- 26 As set out above, the Mitchell Group Loan is on the same terms to the WHSP Loan, except that the grant of security and issue of Shares to Mitchell Group are subject to the approval of the Company's shareholders, because Mitchell Group is a related party of the Company, and if Shareholder approval is not obtained, the Mitchell Group Loan is repayable within 90 days and the interest for the first two years of the five year term is payable upfront on the day after the Meeting.
- 27 On 6 July 2015, WHSP was granted security over Notch's right, title and interest the all assets held by Notch (including the Nitro Assets) and issued with 29,411,765 Shares in lieu of the first year's interest payable under the WHSP Loan (which equates to a 10% interest rate).
- 28 If Resolution 3 is approved, Mitchell Group will be granted the Mitchell Group Security. Given that WHSP has already been granted security on the same terms, Notch, WHSP and Mitchell Group have entered into a deed to regulate the respective rights of WHSP and Mitchell Group in relation to the security, which means that WHSP and Mitchell Group will rank equally in proportion to the amount they have advanced to Notch. This deed is conditional on MSV's shareholders approving the grant of security to the Mitchell Group within six months. If Shareholders do not approve Resolution 3 then WHSP will have first ranking security over Notch's right, title and interest in all of the assets held by Notch (including the Nitro Assets).

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Why is Shareholder approval required?

- 29 Listing Rule 10.1 provides that the Company (or its child entities) cannot acquire a substantial asset from, or dispose of a substantial asset to, a related party of the Company.
- 30 An asset is considered 'substantial' if its value, or the value of the consideration for it is 5% or more of the equity interests of the Company as set out in the latest accounts.
- 31 Under the Listing Rules, the term 'dispose' includes disposing or agreeing to dispose directly or through another person by means, including using an asset as collateral.
- 32 As Mitchell Group and its associates hold a 19.56% interest in the Company, and Mitchell Group is a company controlled by Mr Nathan Mitchell, the Company's executive chairman, Mitchell Group is a related party of the Company.
- 33 The Company has determined that the grant of the Mitchell Group Security to Mitchell Group in accordance with the terms of the Mitchell Group Loan requires shareholder approval for the purposes of Listing Rule 10.1, given that the security to be granted is greater than 5% of the equity interests of the Company, as set out in its latest accounts.
- 34 Accordingly, the Company seeks the approval of Shareholders to grant the Mitchell Group Security in accordance with Listing Rule 10.1.

What if Resolution 3 is not approved by Shareholders?

- 35 Under the terms of the General Security Agreement, if this Resolution is not approved by Shareholders, then:
- (a) the Mitchell Group Loan is unsecured;
 - (b) the loan will become repayable within 90 days from the date of the Meeting; and
 - (c) Notch will be required to pay the interest for the first two years of the five year term, totalling \$700,000 in cash on the day after the Meeting.
- 36 In practice terms, the Independent Directors consider that Notch would need to sell assets to the value of approximately \$4 million in order to repay the Mitchell Group Loan and interest or secure alternative financing. If Notch is required to sell assets (which the Independent Directors consider the more likely scenario), there is a risk that Notch will not realise full value for the assets in the time period allowed, given the prevailing market conditions for the type of assets purchased by Notch.

Independent Expert's Report

- 37 BDO Corporate Finance (QLD) Limited (**Independent Expert**) was commissioned by the Independent Directors to prepare an independent expert's report in relation to the grant of the Mitchell Group Security, as required by Listing Rule 10.10. The Independent Expert's Report is attached as Annexure A to this Explanatory Memorandum.
- 38 The report identifies the advantages and disadvantages of associated with the grant of the Mitchell Group Security and concludes that, in the opinion of the Independent Expert, the grant of the Mitchell Group

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Security is fair and reasonable to Shareholders. In particular, the Independent Expert's Report identifies the advantages and disadvantages set out below.

Advantages associated with the grant of the Mitchell Group Security

- 39 The following key advantages have been identified by the Independent Expert:
- (a) granting security over the Nitro Assets is likely to assist the Company to obtain finance; and
 - (b) the grant of the Mitchell Group Security enables the Company to avoid having to repay the Mitchell Group Loan and an upfront payment of two years' interest.

Disadvantages associated with the grant of the Mitchell Group Security

- 40 The following key disadvantages have been identified by the Independent Expert:
- (a) the Company's ability to secure further or alternative asset based debt finance from non-related third parties may be limited until the Mitchell Group Loan is repaid; and
 - (b) in the event of default, the Company may be required to sell the Notch Assets in order to settle the amounts owing to Mitchell Group and WHSP.

Independent Directors' recommendation

- 41 The Independent Directors unanimously recommend you vote in favour of this Resolution.

Voting exclusion statement

- 42 Mitchell Group and its associates, including Mr Nathan Mitchell are excluded from voting on this Resolution.

Resolution 4 – Approval under Listing Rule 10.11 for issue of Shares to Mitchell Group

Background

- 43 Under the Facility Agreement, Notch must pay interest at a rate of 10% per annum on the Mitchell Group Loan to Mitchell Group.
- 44 The Facility Agreement provides that in the first two years of the five year term, interest on the Mitchell Group Loan is to be paid by the issue of Shares.

How many Shares will be issued to Mitchell Group if Resolution 4 is approved?

- 45 If Shareholders approve Resolution 4, then on the Business Day after the Meeting, Mitchell Group will receive the first year of interest, calculated at a rate of 10% of the value of the Mitchell Group Loan (that is \$350,000), in Shares at an issue price of \$0.017, the same price as under the Entitlement Offer.
- 46 Accordingly, if Resolution 3 is approved, Mitchell Group will receive 20,588,236 Shares (**Year 1 Shares**).
- 47 The issue of the Year 1 Shares is expected to have a minimal dilutive effect on shareholders, given that Mitchell Group will only increase its interest in the Company by 1.18%, from 19.56% to 20.74%.
- 48 If Shareholders approve Resolution 4, then on the date that is 12 months from the first drawdown date (that is, 6 July 2016), Mitchell Group will be issued with the number of shares equivalent to the interest

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payable in year 2 (that is, \$350,000 or 10% of the value of the Mitchell Group Loan outstanding at that time) at an issue price equal to the volume weighted average price (**VWAP**) for the 30 trading days prior to the issue, up to a maximum of 70,000,000 Shares (**Year 2 Shares**).

49 This maximum limit will only be applicable if the VWAP for the 30 trading days prior to the issue of the Year 2 Shares is below \$0.005 (0.5 cents). Even if the 30 day VWAP is below \$0.005, Shareholders would only be diluted by 2.19% based on the expected issued capital of the Company on the issue date of 6 July 2016.

50 Set out below is a table which illustrates the potential dilutive effect of the issue of the Year 2 Shares to Mitchell Group based on a range of different issue prices:

30 day VWAP	Before the issue ¹			After the issue ¹			Dilutive effect (approx)
	Shares held by Mitchell Group	Mitchell Group (%)	Other shareholders (%)	Shares held by Mitchell Group	Mitchell Group (%)	Other shareholders (%)	
\$0.005 ²	292,888,177	20.74%	79.26%	362,888,177	22.93%	77.07%	2.19%
\$0.01	292,888,177	20.74%	79.26%	327,888,177	21.9%	78.1%	1.16%
\$0.02	292,888,177	20.74%	79.26%	310,388,177	21.33%	78.67%	0.59%
\$0.03	292,888,177	20.74%	79.26%	304,554,844	21.14%	78.86%	0.4%
\$0.04	292,888,177	20.74%	79.26%	301,638,177	21.04%	78.96%	0.3%
\$0.05	292,888,177	20.74%	79.26%	299,888,177	20.98%	79.02%	0.24%

Why is Shareholder approval required?

51 Listing Rule 10.11 requires a listed company to obtain shareholder approval prior to the issue of securities to a related party of the Company. If approval is given under Listing Rule 10.11, then approval is not required to be obtained under Listing Rule 7.1.

52 For the purposes of Listing Rule 10.13, the following information is provided in relation to Resolution 4:

Name of allottee	Mitchell Family Investments (Qld) Pty Ltd ACN 111 064 825 as trustee for the Mitchell Family Investment Trust ABN 95 313 411 267
Maximum number of Shares issued	As set out above, the number of Shares to be issued is unknown at this time. If Shareholders vote in favour of this Resolution, Mitchell Group will be issued: <ul style="list-style-type: none"> (a) 20,588,235 Shares on the Business Day following the Meeting; and (b) \$350,000* worth of Shares on the date that is 12 months from the first drawdown date under the Facility Agreement at an issue price equal to the VWAP of the Shares for the 30 trading days prior to the issue date, up to a maximum of 70,000,000 Shares. Therefore, the maximum number of Shares to be issued under Resolution 4 is

¹ On an undiluted basis and assuming no further shares are issued between the date of this Notice and the relevant issue date for the Year 1 and Year 2 Shares, except for the issue of Year 1 and Year 2 Shares to WHSP.

² If the 30 day VWAP is below \$0.005 (0.5 cents), the Company would issue 70,000,000 Shares and pay the difference between \$350,000 and the value of the Year 2 Shares to Mitchell Group in cash.

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	108,088,235. *or 10% of the value of the Mitchell Group Loan outstanding at that time.
The date by which the Shares will be issued, which must not be more than one month after the date of the Meeting	The Year 1 Shares will be issued on the Business Day following the meeting. The Company has obtained a waiver of Listing Rule 10.3.3 from ASX to issue the Year 2 Shares approximately 9 months following the meeting.
The issue price for the Shares and terms of issue	The issue price of the Year 1 Shares is \$0.017. The issue price of the Year 2 Shares is the VWAP of the Shares for the 30 trading days prior to the issue date. If the 30 day VWAP is below \$0.005 (0.5 cents), the Company would pay the difference between \$350,000* owing in interest and the value of the Year 2 Shares (based on the applicable VWAP at the time) to Mitchell Group in cash. The Shares will rank pari passu with all other Shares on issue. *or 10% of the value of the Mitchell Group Loan outstanding at that time.
Intended use of funds raised	No funds are being raised from the issue of Shares. The issue of Shares are in lieu of the payment of interest under the Mitchell Group Loan in the first two years of the five year term.

What if Resolution 4 is not approved by Shareholders?

- 53 Under the terms of the Facility Agreement, if this Resolution is not approved by Shareholders, then the Company will be required to pay the interest on the Mitchell Group Loan for the first two years upfront, totalling \$700,000, on the Business Day following the Meeting.

Independent Directors' recommendation

- 54 The Independent Directors unanimously recommend you vote in favour of this Resolution.

Voting exclusion statement

- 55 Mitchell Group and its associates, including Mr Nathan Mitchell, will be excluded from voting on this Resolution.

Resolution 5 – Approval of additional 10% capacity under Listing Rule 7.1A

- 56 Listing Rule 7.1 allows the Company to issue a maximum of 15% of its capital in any 12 month period without requiring Shareholder approval. In accordance with Listing Rule 7.1A, eligible entities (companies that are outside the S&P/ASX 300 index and that also have a market capitalisation of \$300 million or less), can obtain shareholder approval at an annual general meeting to issue a further 10% of the Company's share capital on a non-pro rata basis over a 12 month period following the annual general meeting (or in the event that there is a transaction involving a significant change to the nature or scale of the Company's activities, the date of the approval by holders of the Company's ordinary securities of the transaction under Listing Rules 11.1.2 or 11.2).
- 57 An eligible entity includes a listed company which, as at the date of the resolution, is not included in the S&P/ASX300 Index and has a market capitalisation (excluding restricted securities and securities quoted

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on a deferred settlement basis) no greater than the prescribed amount (currently \$300 million). At the date of this notice, the Company is an eligible entity and is expected to remain so by the time of the Meeting.

- 58 In the event that the Company is no longer an eligible entity to undertake an additional 10% issue after the Company has already obtained ordinary Shareholders' approval, the approval obtained will not lapse and the Company will still be entitled to undertake the additional 10% issue.
- 59 The number of Shares that may be issued (if Shareholder approval is obtained at the Meeting) will be determined in accordance with the following formula prescribed in Listing Rule 7.1A.2:

(A x D) – E

- A** is the number of fully paid Shares on issue 12 months before the date of issue or agreement:
- (a) plus the number of fully paid Shares issued in the 12 months under an exception in Listing Rule 7.2;
 - (b) plus the number of partly paid Shares that became fully paid in the 12 months;
 - (c) plus the number of fully paid Shares issued in the 12 months with approval of holders of Shares under Listing Rule 7.1 and 7.4. This does not include an issue of fully paid Shares under the entity's 15% capacity pursuant to Listing Rule 7.1 without Shareholder approval;
 - (d) less the number of fully paid Shares cancelled in the 12 months.
- D** is 10%.
- E** is the number of equity securities issued or agreed to be issued under Listing Rule 7.1A.2 in the 12 months before the date of the issue or agreement to issue that are not issued with the approval of Shareholders under Listing Rule 7.1 or 7.4.

- 60 Additional disclosure obligations are imposed when the special resolution is proposed, when securities are issued and when any further approval is sought. For the purposes of Listing Rule 7.3A the Company provides the following information:

Shares	<p>Shares issued under the additional 10% issue must be in the same class as an existing quoted class of shares of the Company.</p> <p>The Company had 1,391,840,685 Shares on issue as at the date of this notice. The Company is only seeking approval to issue securities under the additional 10% issue in addition to its 15% capacity permitted under Listing Rule 7.1.</p>
Minimum price at which the equity securities may be issued	<p>The issue price of each Share must be no less than 75% of the volume weighted average price for the Shares calculated over the 15 trading days on which trades in that class were recorded immediately before:</p> <ul style="list-style-type: none"> (a) the date on which the price at which the securities are to be issued is agreed; or (b) if the securities are not issued within 5 trading days of the date in paragraph (a), the date on which the securities are issued.
Risk of economic and voting dilution	<p>An issue of Shares under Listing Rule 7.1A involves the risk of economic and voting dilution for existing ordinary Shareholders. The risks include:</p>

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	<p>(a) the market price for Shares may be significantly lower on the issue date than on the date of the approval under Listing rule 7.1A; and</p> <p>(b) the equity securities may be issued at a price that is at a discount to the market price for the Shares on the issue date.</p> <p>In accordance with Listing Rule 7.3A.2 a table describing the notional possible dilution, based upon various assumptions as stated, is set out below.</p>
<p>Date by which the Company may issue the securities</p>	<p>The period commencing on the date of the Meeting at which approval is obtained and expiring on the first to occur of the following:</p> <p>(a) the date which is 12 months after the date of the annual general meeting at which approval is obtained; and</p> <p>(b) the date of the approval by holders of the Company’s ordinary securities of a transaction under Listing Rules 11.1.2 or 11.2.</p> <p>The approval under Listing Rule 7.1A will cease to be valid in the event that holders of the Company’s ordinary securities approve a transaction under Listing Rules 11.1.2 or 11.2.</p>
<p>Purposes for which the equity securities may be issued, including whether the Company may issue them for non-cash consideration</p>	<p>As at the date of this notice, the Company does not have any specific intention to offer or issue any shares under the approval. However, if the Company were to offer or issue any shares under the approval, funds raised under the issue would likely be used as follows:</p> <p>(a) to provide the Company with funds to assist it develop its business and/or meet its strategic goals;</p> <p>(b) to provide the Company with funds for general working capital purposes; and</p> <p>(c) to raise funds for an acquisition or to assist the Company make an acquisition, or as consideration for an acquisition, or partly to raise funds and partly as consideration, for an acquisition.</p> <p>The Company reserves the right to issue Shares for non-cash consideration, including as non-cash consideration for any acquisition.</p>
<p>Details of the Company’s allocation policy for issues under approval</p>	<p>The Company’s allocation policy is dependent on the prevailing market conditions at the time of any proposed issue pursuant to Listing Rule 7.1A. The identity of the allottees will be determined on a case-by-case basis having regard to the factors including but not limited to the following:</p> <p>(d) the methods of raising funds that are available to the Company including but not limited to, rights issues or other issues in which existing Shareholders can participate;</p> <p>(e) the effect of the issue of the Listing Rule 7.1A Shares on the control of the Company;</p> <p>(f) the financial situation and solvency of the Company; and</p> <p>(g) advice from corporate, financial and broking advisers (if applicable).</p> <p>The allottees under the Listing Rule 7.1A facility have not been determined as at the date of this notice but may include existing substantial Shareholders and/or new Shareholders who are not related parties or associates of a related party of the Company.</p> <p>If the Company makes an acquisition in exchange for Shares to be issued under the approval, it is likely that the persons to be issued the Shares will be those who are interested in the acquisition e.g. the sellers of assets or officers and employees of the acquired businesses.</p>



Previous approvals under Listing Rule 7.1A	The Company has previously sought and obtained approval under Listing Rule 7.1A at its 2014 annual general meeting.
---------------------------------------------------	---------------------------------------------------------------------------------------------------------------------

Information under Listing Rule 7.3A.6(a)

61 The table below shows the total number of equity securities issued in the 12 months before the date of the AGM and the percentages those issues represent of the total number of equity securities on issue at the commencement of the 12 month period.

Equity securities on issue at the commencement of the 12 month period	978,700,122³
Equity securities issued in the 12 month period	544,840,463
Percentage issues in the 12 month period represent of total number of equity securities on issue at commencement of 12 month period	53.63%

Information under Listing Rule 7.3A.6(b)

The table below sets out specific details for each issue of equity securities that has taken place in the 12 month period prior to the AGM:

Date of issue and number issued	(a) 3 July 2015 – 495,428,698 ordinary shares (Entitlement Offer Shares) (b) 6 July 2015 – 29,411,765 ordinary shares (WHSP Year 1 Shares)
Class and type of equity security	Quoted ordinary shares.
Summary of terms	Fully paid ordinary shares which rank equally with the ordinary shares on issue.
Names of persons who received securities or basis on which those persons were determined	(a) Persons who received Entitlement Offer Shares were existing shareholders with a registered address in Australia and New Zealand on the record date who participated in the 4 for 7 non-renounceable entitlement offer announced on 9 June 2015; and (b) Person who received WHSP Year 1 Shares - Washington H Soul Pattinson and Company Limited received the shares in lieu of the first year's interest payable on the WHSP Loan (which equates to a 10% interest rate).
Price	\$0.017 per share
Discount to market price (if any) on the date of issue	(a) Entitlement Offer Shares – 10.53% discount to closing price of MSV shares on 3 July 2015; and (b) WHSP Shares – 5.56% discount to the closing

³ includes 867,000,222 fully paid ordinary shares, 12,499,900 quoted options, 500,000 unquoted management options, 98,700,000 unquoted performance based options.

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	price of MSV shares on 6 July 2015.
For cash issues	
Total cash consideration received	Approximately \$8.42 million
Amount of cash consideration spent	All
Use of cash consideration	As partial consideration for the acquisition of the Nitro Assets.
Intended use for remaining amount of cash (if any)	Not applicable
For non-cash issues	
Non-cash consideration paid	WHSP Year 1 Shares were issued in lieu of the first year's interest payable on the WHSP Loan.
Current value of that non-cash consideration	\$500,000 (based on the closing price of MSV shares on 7 September 2015).

Information under Listing Rule 7.3A.2

62 As required by Listing Rule 7.3A.2, the table below shows the economic and voting dilution effect, in circumstances where the issued capital has doubled and the market price of the Shares has halved. Table 1 also shows additional scenarios in which the issued Share capital has increased (by both 50% and 100%) and the market price of the Shares has:

- (a) decreased by 50%; and
- (b) increased by 100%.

Issued Shares	50% decrease in Market Price (\$0.01)		Current Market Price (\$0.02)		100% increase in Market Price (\$0.04)	
	10% voting dilution (Shares)	Capital raised	10% voting dilution (Shares)	Capital raised	10% voting dilution (Shares)	Capital raised
Present = 1,391,840,685	139,184,068 Shares	\$1,391,840	139,184,068 Shares	\$2,783,681	139,184,068 Shares	\$5,567,362
If 50% increase = 2,087,761,027	208,776,102 Shares	\$2,087,761.03	208,776,102 Shares	\$4,175,522	208,776,102 Shares	\$8,351,044
If 100% increase = 2,783,681,370	278,368,137 Shares	\$2,783,681	278,368,137 Shares	\$5,567,362	278,368,137 Shares	\$11,134,725

Assumptions and explanations

63 The following assumptions and explanations have been made:

- (a) The market price is \$0.02, based on the closing price of the Shares on ASX on 14 August 2015.

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- (b) The above table only shows the dilutionary effect based on the additional 10% issue and not the 15% under Listing Rule 7.1.
- (c) The 10% voting dilution reflects the aggregate percentage dilution against the issued share capital at the time of issue.
- (d) The Company issues the maximum number of 10% Shares available to it under the additional 10% issue.
- (e) The issued capital has been calculated in accordance with the formula in Listing Rule 7.1A(2) as at 28 August 2015.
- (f) The table does not show an example of dilution that may be caused to a particular Shareholder by reason of a share issue under Listing Rule 7.1A, based on that Shareholder's holding at the date of the Meeting.
- (g) The issue of equity securities under Listing Rule 7.1A consists only of Shares.
- (h) The issue price of the Shares used in the table does not take into account the discount to the market price (if any).

64 As at the date of this notice, the Company has on issue 1,391,840,685 Shares. Subject to Shareholder approval being obtained for Resolution 5, the Company will have capacity to issue the following equity securities as at the date of the Meeting:

- (a) 174,952,573 Shares (under Listing Rule 7.1); and
- (b) 136,242,892 Shares (under Listing Rule 7.1A).

65 Listing Rule 7.1A requires Resolution 5 to be passed as a special resolution. A special resolution needs approval by at least 75% of the votes cast by members entitled to vote on the resolution.

66 As at the date of this notice, the Company does not have any specific intention to offer or issue any shares under the approval, nor has it any specific intention in relation to the parties that it may approach to participate in an offer of shares under the approval. Further, the Company has not formed an intention to offer shares to any particular class or group of existing shareholders or to offer shares just to new investors who have not previously been shareholders of the Company. The ability to issue an extra 10% of equity securities is being sought primarily to provide the Company with flexibility to respond to potential growth opportunities that may arise in the next 12 months.

Directors' recommendation

67 The Directors unanimously recommend that you vote in favour of this resolution.

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Glossary

A number of capitalised terms are used throughout this Notice of Meeting and Explanatory Memorandum. Capitalised terms in this Notice of Meeting have the same meaning given to them in the Corporations Act and:

Term	Definition
AGM, Annual General Meeting or Meeting	means the Company's annual general meeting the subject of this Notice of Meeting.
ASX	means ASX Limited and the exchange operated by it, being the Australian Securities Exchange.
Board	means the board of directors of the Company.
Company or Mitchell Services	means Mitchell Services Limited ACN 149 206 333.
Corporations Act	means the <i>Corporations Act 2001</i> (Cth).
Director	means one or more directors of the Company.
Facility Agreement	means the facility agreement dated 5 June 2015 between the Company, Notch and Mitchell Group.
General Security Agreement	means the general security agreement dated 5 June 2015 between Notch and Mitchell Services.
Independent Directors	means the Directors of the Company, excluding Mr Nathan Mitchell.
Independent Expert	means BDO Corporate Finance (Qld) Pty Ltd.
Independent Expert's Report	means the independent expert's report dated 4 September 2015 prepared by the Independent Expert attached as Annexure A to this Notice of Meeting.
Listing Rules	means the listing rules of ASX.
Mitchell Group	means Mitchell Family Investments (Qld) Pty Ltd as trustee for the Mitchell Family Investment Trust.
Mitchell Group Loan	means the advance of \$3.5 million by Mitchell Group to Notch under the terms of the Facility Agreement.
Mitchell Group Security	means the grant of a general security agreement over Notch's right, title and interest in all of the assets held by Notch (including the Nitro Assets) to Mitchell Group as security for the Mitchell Group Loan, the subject of Resolution 3 of the Notice.
Nitro Assets	means the drilling rigs and associated assets acquired by Notch from Nitro Drilling Pty Limited (receivers and managers appointed) (in liquidation) and related assets.
Notch	means Notch No. 2 Pty Ltd, a wholly-owned subsidiary of Mitchell Services.
Notch Assets	means all of the assets held by Notch, including the Nitro Assets.
Notice of Meeting	means the notice of meeting and includes the Explanatory Memorandum.

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Term	Definition
Shareholder	means a registered shareholder or shareholders of Mitchell Services who are entitled to vote at the Meeting.
Shares	means fully paid ordinary shares in the Company.
WHSP Loan	means the advance of \$5 million by WHSP to Notch under the terms of a facility agreement dated 5 June 2015 between the Company, Notch and WHSP.
WHSP	means Washington H Soul Pattinson & Company Limited.
Year 1 Shares	means the Shares to be issued to Mitchell Group as payment of interest in the first year of the five year term of the Mitchell Group Loan.
Year 2 Shares	means the Shares to be issued to Mitchell Group as payment of interest in the second year of the five year term of the Mitchell Group Loan.

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Annexure A – Independent Expert’s Report

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MITCHELL SERVICES LIMITED
Independent Expert's Report

4 September 2015

Table of Contents

1.0 INTRODUCTION	1
2.0 SUMMARY OF OPINION	3
2.1 Fairness of the Security Transaction	3
2.2 Reasonableness of the Security Transaction.....	3
2.3 Expert’s Opinion on the Security Transaction	3
2.4 Other Considerations for MSV Shareholders.....	3
3.0 DESCRIPTION OF THE SECURITY TRANSACTION	5
3.1 Summary of the Mitchell Group Loan	5
3.2 Overview of the Security Transaction.....	6
3.3 Strategic Rationale for the Security Transaction	6
4.0 SCOPE OF REPORT AND METHODOLOGY FOR ASSESSMENT	7
4.1 Scope of the Report	7
4.2 Assessment Methodology	8
5.0 OVERVIEW OF MITCHELL SERVICES LTD	10
5.1 Description of MSV.....	10
5.2 Equity Structure of MSV	10
5.3 Trading of MSV Shares on the ASX	11
5.4 Historical Financial Information of MSV	14
6.0 FAIRNESS OF THE SECURITY TRANSACTION	19
6.1 Approach Adopted to Assess Fairness	19
6.2 Assessment of Fairness	20
7.0 REASONABLENESS OF THE SECURITY TRANSACTION	21
7.1 Advantages of the Security Transaction	21
7.2 Disadvantages of the Security Transaction.....	21
7.3 Position of MSV Shareholders if the Security Transaction is Not Approved	22
7.4 Assessment of the Reasonableness of the Security Transaction.....	22
8.0 SOURCES OF INFORMATION	23
9.0 REPRESENTATIONS, INDEMNITIES AND WARRANTIES	24
9.1 Indemnities	24
9.2 Representations & Warranties.....	24
10.0 EXPERIENCE, DISCLAIMERS AND QUALIFICATIONS	25
APPENDIX A: INDUSTRY OVERVIEW - CONTRACT MINING SERVICES IN AUSTRALIA	26
A.1 Overview of the Contract Mining Services Industry.....	26
A.2 Revenue Segmentation	26
A.3 Demand Determinants and Historical Exploration Expenditures	27

Financial Services Guide

The Financial Services Guide ('FSG') is provided to comply with the legal requirements imposed by the Corporations Act 2001 and includes important information regarding the general financial product advice contained in this report ('this Report'). The FSG also includes general information about BDO Corporate Finance (QLD) Ltd ('BDO CFQ' or 'we', 'us' or 'our'), including the financial services we are authorised to provide, our remuneration and our dispute resolution.

BDO CFQ holds an Australian Financial Services Licence to provide the following services:

- (a) Financial product advice in relation to deposit and payment products (limited to basic deposit products and deposit products other than basic deposit products), securities, derivatives, managed investments schemes, superannuation, and government debentures, stocks and bonds; and
- (b) Arranging to deal in financial products mentioned in a) above, with the exception of derivatives.

General Financial Product Advice

This Report sets out what is described as general financial product advice. This Report does not consider personal objectives or an individual's financial position or needs and therefore does not represent personal financial product advice. Consequently any person using this Report must consider their own objectives, financial situation and needs. They may wish to obtain professional advice to assist in this assessment.

The Assignment

BDO Corporate Finance (QLD) Ltd ABN 54 010 185 725, Australian Financial Services Licence No. 245513 has been engaged to provide general financial product advice in the form of a report in relation to a financial product. Specifically, BDO CFQ has been engaged to provide an independent expert's report to the shareholders of Mitchell Services Limited ('MSV') in relation to the grant of a General Security Agreement ('GSA') over all of the assets held by Notch No. 2 Pty Ltd ('Notch'), a subsidiary of MSV, in favour of Mitchell Family Investments (Qld) Pty Ltd as trustee for the Mitchell Family Investment Trust ('Mitchell Group') as security for the advance of a \$3.5 million loan provided by the Mitchell Group ('Mitchell Group Loan') to Notch ('the Security Transaction').

Further details of the Security Transaction are set out in Section 3.0. The scope of this Report is set out in detail in Section 4.0. This Report provides an opinion on whether or not the Security Transaction is fair and reasonable to Mitchell Services shareholders.

This Report cannot be relied upon for any purpose other than the purpose mentioned above and cannot be relied upon by any person or entity other than those mentioned above, unless we have provided our express consent in writing to do so. A shareholder's decision to vote in favour of or against the Security Transaction is likely to be influenced by their particular circumstances, including their own tax situation and risk profile. Each shareholder should obtain their own professional advice in relation to their own circumstances.

Fees, commissions and other benefits we may receive

We charge a fee for providing reports. The fees are negotiated with the party who engages us to provide a report. We estimate the fee for the preparation of this Report will be approximately \$30,000 plus GST. Fees are usually charged as a fixed amount or on an hourly basis depending on the terms of the agreement with the engaging party. Our fees for this Report are not contingent on the outcome of the Security Transaction.

Except for the fees referred to above, neither BDO CFQ, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of this Report.

Directors of BDO CFQ may receive a share in the profits of BDO Group Holdings (QLD) Pty Ltd, a parent entity of BDO CFQ. All directors and employees of BDO Group Holdings (QLD) Pty Ltd and its subsidiaries (including BDO CFQ) are entitled to receive a salary. Where a director of BDO CFQ is a shareholder of BDO Group Holdings (QLD) Pty Ltd, the person is entitled to share in the profits of BDO Group Holdings (QLD) Pty Ltd.

Associations and relationships

From time to time BDO CFQ or its related entities may provide professional services to issuers of financial products in the ordinary course of its business. These services may include audit, tax and business advisory services. BDO CFQ has previously been engaged by Drill Torque Ltd to prepare an independent expert's report in relation to the acquisition of Mitchell Services by Drill Torque Ltd. BDO (QLD) Pty Ltd was also engaged by Mitchell Services to prepare a calculation of an appropriate weighted average cost of capital ('WACC') to apply to cash flows associated with Mitchell Services' drilling business.

The signatory to the Report does not hold any shares in Mitchell Services and no such shares have ever been held by the signatory.

To prepare our reports, including this Report, we may use information sourced from research facilities to which we subscribe or which is publicly available. Reference has been made to the sources of information in this Report, where applicable. Research fees are not included in the fee details provided in this Report.

Complaints

We are members of the Financial Ombudsman Service. Any complaint about our service should be in writing and sent to BDO Corporate Finance (QLD) Ltd, GPO Box 457, Brisbane QLD 4001.

We will endeavour to resolve the complaint quickly and fairly. If the complaint cannot be satisfactorily resolved within 45 days of written notification, there is a right to lodge a complaint with the Financial Ombudsman Service. They can be contacted on 1300 780 808. This service is provided free of charge.

If the complaint involves ethical conduct, a complaint may be lodged in writing with Chartered Accountants Australia and New Zealand, Queensland Branch, GPO Box 2054, Brisbane QLD 4001. The Australian Securities and Investment Commission ('ASIC') also has an Infoline on 1300 300 630 which can be used to make a complaint and obtain information about investor rights.

Contact Details

BDO Corporate Finance (QLD) Ltd

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Fax: (07) 3221 9227	

Glossary

Reference	Definition
\$	Australian dollars
Acquisition, the	Notch's acquisition of the Nitro Assets from Nitro on 6 July 2015 for approximately \$16 million, funded by a combination of the Mitchell Group Loan, the WHSP Loan and the proceeds of the Entitlement Offer.
Annual General Meeting	means the annual general meeting of MSV shareholders to vote, amongst other resolutions set out in the Notice of Meeting, on the Security Transaction and issue of MSV shares to Mitchell Group in lieu of interest on the Mitchell Group Loan for the first two years of the five year term.
ASIC	Australian Securities and Investment Commission
ASX	ASX Limited
ASX Listing Rules	the Listing Rules of ASX as amended or replaced from time to time
BDO CFQ	BDO Corporate Finance (QLD) Ltd
BDO Persons	BDO CFQ, BDO (QLD) or any of its partners, directors, agents or associates
Company, the	Mitchell Services Limited
Corporations Act, the	<i>Corporations Act 2001</i> (Cth)
Drill Torque	Drill Torque Limited
Entitlement Offer, the	The fully underwritten non-renounceable entitlement offer of 4 new shares for 7 existing shares held in MSV at an offer price of \$0.017 per share announced on 9 June 2015 and completed on 2 July 2015 raising \$8.42 million of equity to assist with funding the Acquisition
Facility Agreement	The Facility Agreement entered into by Notch, MSV and Mitchell Group dated 5 June 2015
FSG	Financial Services Guide
FY	Financial year
GSA or General Security Agreement	The General Security Agreement entered into by Notch and the Mitchell Group dated 5 June 2015
Mitchell Group, the	Mitchell Family Investments (Qld) Pty Ltd as trustee for the Mitchell Family Investment Trust
Mitchell Group Loan, the	The \$3.5 million loan advanced to Notch by the Mitchell Group in accordance with the terms of the Facility Agreement
MSV	Mitchell Services Limited
Nitro	Nitro Drilling Pty Ltd (Receivers and Managers appointed)(In Liquidation)
Nitro Assets	Certain drilling rig and other associated assets acquired by Notch from Nitro
Notice of Meeting	The notice of Annual General Meeting and explanatory memorandum prepared by MSV and dated on or about 17 September 2015
Notch	Notch No. 2 Pty Ltd, a wholly-owned subsidiary of MSV
Notch Assets	All of the assets held by Notch, including the Nitro Assets

Reference	Definition
Regulations, the	<i>Corporation Regulations 2001</i> (Cth)
Report, this	This independent expert's report prepared by BDO CFQ and dated 4 September 2015
RG 111	Regulatory Guide 111: <i>Content of Expert Report</i>
RGs	Regulatory guides published by ASIC
Security Transaction, the	The grant of a GSA over Notch's right, title and interest in the Notch Assets in favour of the Mitchell Group as security for the advance of the Mitchell Group Loan in accordance with the terms of the Facility Agreement.
TBDS	Tom Browne Drilling Services Pty Ltd (Receivers and Managers Appointed) (In Liquidation)
Variations to the Facility Agreement	The Variations to the Facility Agreement entered into by Notch, MSV and the Mitchell Group dated 9 June 2015 and 27 August 2015
VWAP	Volume weighted average price
We, us, our	BDO Corporate Finance (QLD) Ltd
WHSP	Washington H. Soul Pattinson & Company Ltd
WHSP Loan	The \$5.0 million loan advanced to Notch by WHSP for the purposes of funding the Acquisition

The Shareholders
C/- The Directors
Mitchell Services Limited
GPO Box 3199
DARRA QLD 4076

4 September 2015

Dear Shareholders,

Independent Expert's Report

1.0 Introduction

BDO Corporate Finance (QLD) Limited ('BDO CFQ' or 'we', 'us' or 'our') has been engaged by the directors of Mitchell Services Limited ('MSV' or 'the Company') to prepare an independent expert's report ('this Report') to the shareholders of MSV in relation to the grant of a General Security Agreement ('GSA') over Notch No. 2 Pty Ltd's ('Notch') right, title and interest in all of the assets held by Notch ('Notch Assets'), a wholly-owned subsidiary of MSV. The Notch Assets include certain drilling rig and other associated assets acquired by Notch from Nitro Drilling Pty Ltd (Receivers and Managers appointed) (In Liquidation) and its related entities ('Nitro') ('Nitro Assets').

The security to be granted in favour of Mitchell Family Investments (Qld) Pty Ltd as trustee for the Mitchell Family Investment Trust ('Mitchell Group') is to secure the advance of a \$3.5 million loan provided by the Mitchell Group ('Mitchell Group Loan') to Notch in accordance with the terms of a facility agreement dated 5 June 2015 ('Facility Agreement') and variations to the Facility Agreement dated 9 June 2015 and 27 August 2015 ('Variations to the Facility Agreement') ('Security Transaction').

ASX Listing Rule 10.1 states that an entity must ensure that neither it, nor any of its child entities, acquires a substantial asset from, or disposes of a substantial asset to, a substantial holder or a related party without the approval of holders of the entity's ordinary securities. An asset is considered 'substantial' if its value, or the value of the consideration for it, is 5% or more of the value of the equity interests in the Company, as set out in the latest accounts. Pursuant to ASX Listing Rule 19, the definition of 'dispose' includes using an asset as collateral.

As Mitchell Group and its associates hold a 19.56% interest in MSV and is a company controlled by MSV's executive chairman, Mr Nathan Mitchell, Mitchell Group is both a substantial holder in and a related party of MSV. In addition, the value of the security to be granted over the Notch Assets as security for the Mitchell Group Loan has been determined by the directors of MSV to be greater than 5% of the value of the equity interests in the Company, as set out in the latest accounts. On this basis, the Company is required to obtain shareholder approval for the Security Transaction in order to meet the requirements of ASX Listing Rule 10.1.

It is also proposed that interest accruing on the Mitchell Group Loan during the first two years of the five year term will be paid in the form of MSV shares. Although the issue of new MSV shares to satisfy interest payments on the Mitchell Group Loan is also subject to shareholder approval, we have not been engaged to opine on this matter in this Report.

A more detailed discussion of the Security Transaction is set out in Section 3.0 of this Report. The scope of this Report and the basis for assessing the Security Transaction is set out in detail in Section 4.0 of this Report.

In this Report, BDO CFQ has expressed an opinion as to whether or not the Security Transaction is 'fair and reasonable' to MSV shareholders.

This Report has been prepared to provide information to non-associated MSV shareholders and to assist them to make an informed decision on whether to vote for or against the Security Transaction. This Report has been prepared solely to provide information to MSV shareholders prior to voting on the Security Transaction. Apart from the purpose stated directly above, this Report cannot be used or relied on for any other purpose or by any other person or entity.



This Report should be read in full, including the assumptions underpinning our work, together with the other information provided to MSV shareholders in conjunction with this Report, including the Notice of Annual General Meeting and Explanatory Memorandum prepared by MSV and dated on or about 17 September 2015 ('the Notice of Meeting').

This Report does not address circumstances specific to individual MSV shareholders. An MSV shareholder's decision to vote for or against the Security Transaction is likely to be influenced by their own particular circumstances, including their own tax situation and risk profile. MSV shareholders should obtain their own professional advice in relation to their own circumstances.

APES 225 'Valuation Services' issued by the Accounting Professional & Ethical Standards Board sets out mandatory requirements for the provision of quality and ethical valuation services. BDO CFQ has complied with this standard in preparing this Report.

2.0 Summary of Opinion

This section is a summary of our opinion only and cannot substitute for a complete reading of this Report.

2.1 Fairness of the Security Transaction

Our assessment of the fairness of the Security Transaction is set out in detail in Section 6.0 of this Report. In summary, to assess whether the Security Transaction is fair we have:

- Compared the value of:
 - The proceeds flowing to the Mitchell Group from the sale of the Notch Assets in the event of a default on the Mitchell Group Loan; and
 - The principal and capitalised interest owing to the Mitchell Group in the event of a default on the Mitchell Group Loan; and
- Considered other factors which we consider to be relevant to MSV shareholders in the assessment of the Security Transaction.

After considering the information summarised above and set out in further detail in the balance of this Report, it is our view that the Security Transaction is **Fair** as at the date of this Report.

2.2 Reasonableness of the Security Transaction

Our assessment of the reasonableness of the Security Transaction is set out in detail in Section 7.0 of this Report.

To assess whether or not the advantages of the Security Transaction outweigh the disadvantages, we have considered a number of quantitative and qualitative factors. Having regard to those matters, we have formed a view as to whether the advantages of the Security Transaction outweigh the disadvantages and whether the Security Transaction is 'reasonable' to MSV shareholders.

A summary of the advantages and disadvantage of the Security Transaction is set out in Table 2.1.

Table 2.1: Advantages and Disadvantages of the Security Transaction

Advantage	Disadvantage
<ul style="list-style-type: none">■ The Security Transaction is fair■ Granting security over the Nitro Assets is likely to assist the Company to obtain finance■ The Security Transaction enables the Company to avoid having to repay the Mitchell Group Loan and an upfront payment of two years interest	<ul style="list-style-type: none">■ MSV's ability to secure further / alternative asset based debt finance from non-related third parties may be limited until the Mitchell Group Loan is repaid■ In the event of default, MSV may be required to sell the Notch Assets in order to settle the amounts owing to the Mitchell Group (and WHSP)

Source: BDO CFQ analysis

After considering the information summarised above and set out in further detail in the balance of this Report, it is our view that, the Security Transaction is **Reasonable** as at the date of this Report.

2.3 Expert's Opinion on the Security Transaction

In our opinion, having regard to the information set out above and in the balance of this Report, the Security Transaction is **Fair and Reasonable** to MSV shareholders. We strongly recommend that shareholders read the balance of this Report for more information in relation to how we formed this view.

2.4 Other Considerations for MSV Shareholders

Before forming a view on the Security Transaction, we strongly recommend that MSV shareholders:

- Consult their own professional advisers;
- Carefully read all relevant documentation provided to them, including this Report and the Notice of Meeting; and

- Consider their own specific circumstances and assess the way in which those circumstances might impact their decision to vote for or against the Security Transaction.

The analysis set out in this Report has relied on certain economic, market and other conditions prevailing as at the date of this Report. We note that changes in these conditions may have a material impact on the results presented in this Report. BDO CFQ is not responsible for updating this Report in the event that these circumstances change.

MSV shareholders should refer to Section 7.3 of this Report for a more detailed discussion of the position of MSV shareholders in the event that the Security Transaction is not approved.

3.0 Description of the Security Transaction

3.1 Summary of the Mitchell Group Loan

On 9 June 2015, MSV announced to ASX that its subsidiary, Notch, had entered into an agreement to acquire the Nitro Assets from Nitro for approximately \$16 million ('the Acquisition'). The Acquisition was completed on 6 July 2015 and was funded by a combination of:

- \$8.5 million of debt, jointly provided by Mitchell Group and another major shareholder in MSV, Washington H. Soul Pattinson & Company Ltd ('WHSP'). The Mitchell Group Loan accounts for \$3.5 million while the loan from WHSP accounts for \$5.0 million ('WHSP Loan'); and
- \$8.42 million of equity, raised from a fully underwritten non-renounceable entitlement offer of 4 new shares for 7 existing shares held in MSV at an offer price of \$0.017 per share ('the Entitlement Offer').

The Security Transaction relates solely to the Mitchell Group Loan. The key terms of the Mitchell Group Loan are summarised in Table 3.1 below.

Table 3.1: Key Terms of the Mitchell Group Loan

Matter	Description
Lender	Mitchell Family Investments (Qld) Pty Ltd as trustee for the Mitchell Family Investment Trust
Borrower	Notch No. 2 Pty Ltd, a wholly-owned subsidiary of Mitchell Services Ltd
Facility Amount	\$3.5 million
Term	5 years
Interest Rate	10% per annum
Initial Two Years Interest	Subject to MSV shareholder approval, the interest accruing on the Mitchell Group Loan during the first two years of the five year term will be met by way of issuing MSV shares as follows: <ul style="list-style-type: none">▪ Year One - 20,588,235 shares to Mitchell Group at an issue price of \$0.017 in lieu of payment of the first year's interest on the Mitchell Group Loan; and▪ Year Two - \$350,000¹ worth of shares at an issue price equal to the volume weighted average price ('VWAP') of MSV shares over the 30 trading days prior to the issue of the new shares on 6 July 2016 (being 12 months from the first drawdown date). In the event that the VWAP falls below \$0.005 the shares will be issued at \$0.005 (capping the number of shares that can be issued to 70,000,000) with the difference between \$350,000¹ and the value shares issued in year 2 being payable in cash.
Security	The Mitchell Group Loan will be secured by the grant of a General Security Agreement over Notch's right, title and interest in the Notch Assets, subject to MSV shareholder approval.

Source: Facility Agreement, General Security Agreement and Variations to the Facility Agreement

1 In the event that a portion of the Mitchell Group Loan has been repaid, this amount will be 10% of the value of the Mitchell Group Loan outstanding at the time.

The terms of the Mitchell Group Loan are the same as the terms of the WHSP Loan, but for the requirement to obtain shareholder approval in relation to the grant of the GSA and the issue of MSV shares in lieu of paying interest expense during the first two year period, and the floor on the issue price. If shareholder approval for the Security Transaction is not obtained, the Mitchell Group Loan is repayable within 90 days and the interest for the first two years of the five year term is payable upfront on the day after the Annual General Meeting.

WHSP has been granted a general security agreement over Notch's right, title and interest in the Notch Assets as security for the WHSP Loan. If shareholder approval for the Security Transaction is obtained, Mitchell Group will also be granted a general security agreement over Notch's right, title and interest in the Notch Assets on the same terms as WHSP. Mitchell Group and WHSP have therefore entered into a deed to regulate the respective rights of each party in relation to their security over the Notch Assets, which comes into effect subject to MSV shareholders approving the Security Transaction. Under this deed, Mitchell Group and WHSP will rank equally (*pari passu*) in proportion to the amount each party has advanced to Notch. If MSV shareholders do not approve the Security Transaction, then WHSP will have first ranking security over all of the Notch Assets.

For completeness, we note that we have not been engaged to opine on the issue of new MSV shares in lieu of paying interest on the Mitchell Group Loan during the first two year period of its five year term.

3.2 Overview of the Security Transaction

The Mitchell Group Loan is proposed to be secured by a General Security Agreement granted by Notch over Notch's right, title and interest in the Notch Assets in favour of Mitchell Group. The granting of the General Security Agreement is referred to as the Security Transaction in this Report.

Regarding the Security Transaction, we note the following:

- Mitchell Group and its associates hold 19.56% of the issued capital in MSV as at the date of this Report. As Mitchell Group and its associates hold more than 10% of the ordinary shares in the Company, it is considered to be a substantial holder of MSV in accordance with ASX Listing Rule 10.1. Mitchell Group is also considered to be a related party of MSV given that it is a company controlled by MSV's executive chairman, Mr Nathan Mitchell;
- The GSA to be granted over Notch's right, title and interest in the Notch Assets is considered to have a value that is greater than 5% of the value of the equity interests in the Company, as set out in the latest accounts. The GSA granted over Notch's right, title and interest in the Nitro Assets is considered to be a substantial asset of MSV for the purposes of ASX Listing Rule 10.1; and
- The granting of the GSA over Notch's right, title and interest in the Notch Assets by Notch in favour of Mitchell Group constitutes the disposal of a substantial asset to a substantial holder and a related party under ASX Listing Rule 10.1. As such, the Security Transaction requires the approval of non-associated MSV shareholders.

3.3 Strategic Rationale for the Security Transaction

The independent directors of MSV have considered and evaluated a range of different funding options and are of the opinion that the terms and conditions of the Mitchell Group Loan are favourable to MSV when compared to those offered by other commercial lenders. In particular, the independent directors are the view:

- The cash flow obligations in the short to medium term are low with no minimum principal repayments required in years one to four of the Mitchell Group Loan. The interest obligations for years one and two are settled via the issue of shares in MSV rather than cash, assisting the Company to manage and preserve its working capital;
- The terms of the security are favourable to MSV shareholders as the security provided to Mitchell Group is limited to the Notch Assets. Lenders other than Mitchell Group may have requested security over the assets of the parent entity or other MSV subsidiaries before agreeing to provide finance to the Company; and
- The acquisition of the Nitro Assets has been funded using a mix of debt and equity that the directors consider appropriate. The directors consider the level of debt used to purchase the Nitro Assets assists to ensure the Company is not placed under significant serviceability constraints in the short to medium term, while assisting to avoid the further potential dilution of existing MSV shareholders.

4.0 Scope of Report and Methodology for Assessment

4.1 Scope of the Report

An independent expert, in certain circumstances, must be appointed to meet the requirements set out in the Corporations Act 2001 ('the Corporations Act'), the regulatory guides ('RGs') published by the Australian Securities and Investments Commission ('ASIC') and in some cases the listing requirements of the relevant exchanges. These requirements have been set out in Section 4.1.1 below.

The purpose of this Report is to express BDO CFQ's opinion as to whether the Security Transaction is fair and reasonable to MSV shareholders. This Report cannot be used by any other person for any other reason or for any other purpose. A copy of this Report will accompany the Notice of Meeting to be distributed to MSV shareholders by the Company.

For completeness we note it is proposed that the interest accruing on the Mitchell Group Loan during the first two years of the five year term will be paid in the form of MSV shares. Although the issue of new MSV shares to satisfy the interest payments on the Mitchell Group Loan is also subject to shareholder approval, we have not been engaged to opine on this matter in this Report.

This Report is general financial product advice only and has been prepared without taking into account the objectives, risk profile, financial situation or needs of MSV shareholders. Before deciding whether to vote for or against the Security Transaction, individual MSV shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation and needs (including tax considerations). MSV shareholders should read in full the Notice of Meeting issued by Mitchell Services in relation to the Security Transaction.

Whether to vote for or against the Security Transaction is a matter for individual MSV shareholders to consider. MSV shareholders should consider their own expectations of value, their own view of future market conditions and their own particular circumstances, including risk profile, liquidity preference, investment strategy, portfolio structure and tax position, when determining the appropriate action to take in relation to the Security Transaction. MSV shareholders who are in doubt as to the action they should take in relation to the Security Transaction should consult their own professional adviser.

4.1.1 Listing Requirements

ASX Listing Rule 10.1

ASX Listing Rule 10.1 of Chapter 10: *Transactions with persons in a position of influence* states that an entity must ensure that neither it, nor any of its child entities, acquires a substantial asset from, or disposes of a substantial asset to, a substantial holder or a related party without the approval of holders of the entity's ordinary securities. Pursuant to ASX Listing Rule 19, the definition of 'dispose' includes using an asset as collateral.

ASX Listing Rule 10.2 defines an asset as 'substantial' if its value or the consideration for it is, or in ASX's opinion is, 5% or more of the value of the equity interests of the entity, as set out in the latest accounts given to the ASX in accordance with the listing rules.

Pursuant to ASX Listing Rule 10.2, a company is considered to be a substantial holder if it and its associated entities have a relevant interest, or had a relevant interest at any time in the 6 months prior to the Security Transaction, in at least 10% of the total votes attaching to the company's voting securities.

Having regard to the definitions contained in ASX Listing Rules 10.1 and 10.2, we note the following:

- It is proposed that Notch grant a GSA over Notch's right, title and interest in the Notch Assets in favour of Mitchell Group in relation to the Mitchell Group Loan. The security to be granted to Mitchell Group, subject to the approval of MSV shareholders, has a value that is greater than 5% of the value of the equity interests in the Company, as set out in the latest accounts; and
- Mitchell Group and its associates hold a relevant interest in 19.56% of the ordinary shares in MSV and Mitchell Group is a company controlled by MSV's executive chairman, Mr Nathan Mitchell, and therefore, Mitchell Group is a substantial holder in and a related party of MSV.

Based on the above, and pursuant to the ASX Listing Rules, the granting of the GSA over Notch's right, title and interest in the Notch Assets in favour of the Mitchell Group may be considered as the 'disposal' of a substantial asset to a substantial holder in, and a related party of, the Company. Shareholder approval is required for the Security Transaction in accordance with the requirements of ASX Listing Rule 10.1.

ASX Listing Rule 10.10.2

Under ASX Listing Rule 10.10.2, where shareholder approval is sought for the purpose of complying with Listing Rule 10.1, the notice of meeting distributed to shareholders in relation to the transaction must include a report prepared by an independent expert, which states the expert's opinion as to whether the transaction is fair and reasonable to the non-associated shareholders.

This Report has been prepared to comply with the requirements of ASX Listing Rules 10.1 and 10.10.2.

4.2 Assessment Methodology

Neither the Corporations Act nor the ASX Listing Rules provide guidance in relation to the definition of 'fair and reasonable'. In determining whether the Security Transaction is considered fair and reasonable we have had regard to the guidance provided by ASIC Regulatory Guide 111: Content of Experts Reports ('RG 111'). RG 111 provides guidance as to what matters an independent expert should consider to assist security holders to make an informed decision about transactions.

RG 111 suggests that where an expert is to assess whether a related party transaction is 'fair and reasonable' for the purpose of complying with ASX Listing Rule 10.1, the assessment should be applied as a composite test. That is, the expert should assess separately whether the transaction is 'fair' and 'reasonable'. The expert's report should explain how the particulars of the transaction were evaluated as well as the results of the examination and evaluation.

To meet the ASIC requirements, an expert seeking to determine whether a proposal is 'fair and reasonable' should complete the steps set out below.

4.2.1 Step 1 - Assessment of Fairness

RG 111 states that a related party offer is fair if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided to the entity. This comparison should be made:

- Assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length; and
- If the transaction is considered to be a control transaction, assuming 100% ownership of the target irrespective of whether the consideration is scrip or cash.

In the case of the Security Transaction, the proceeds flowing to Mitchell Group from the sale of the Notch Assets in the event of a default on the Mitchell Group Loan constitute the financial benefit provided to Mitchell Group. The consideration is the principal and capitalised interest which will be foregone by the Mitchell Group in the event of a default on the Mitchell Group Loan.

Having regard to the above, we have assessed the fairness of the Security Transaction by comparing the proceeds flowing to the Mitchell Group from the sale of the Notch Assets in the event of a default on the Mitchell Group Loan with the value of the principal and capitalised interest which will be foregone by the Mitchell Group in the event of a default on the Mitchell Group Loan.

4.2.2 Step 2 - Assessment of Reasonableness

Reasonableness examines other significant factors which shareholders may consider prior to voting for or against the Security Transaction. This includes comparing the likely advantages and disadvantages of voting for or against the Security Transaction, with the position of the shareholders if the Security Transaction is not approved. This step can be classified as an assessment of whether the Security Transaction is 'reasonable'.

Our assessment of the reasonableness of the Security Transaction is set out in Section 7.0.

4.2.3 Step 3 - Expert's Opinion

Upon completing steps 1 and 2 above, we will conclude whether the Security Transaction is 'fair' and/or 'reasonable' to MSV shareholders. We note that under RG 111, the Security Transaction is considered to be 'reasonable' if it is 'fair'. It may also be possible to conclude that the Security Transaction is 'reasonable' if there are sufficient valid reasons for the approval, notwithstanding that the Security Transaction may not be 'fair' to MSV shareholders.

This Report will conclude by providing our opinion as to whether or not the Security Transaction is 'fair and reasonable'. While all relevant issues must be considered prior to forming an overall opinion, we will assess the fairness and reasonableness issues separately for clarity.

In this Report we have not provided any tax, legal or other advice in relation to the Security Transaction. Other advisors have provided advice on those matters to MSV in relation to the Security Transaction.

When considering the Security Transaction, we have relied on certain economic, market and other conditions prevailing at the date of this Report. We note that changes in these conditions may have a material impact on the results presented in this Report. BDO CFQ is not responsible for updating this Report in the event that these circumstances change.

5.0 Overview of Mitchell Services Ltd

5.1 Description of MSV

Overview

MSV is an ASX listed company that provides exploration and mine site drilling services to the exploration, mining, and energy industries, primarily in Australia. The Company (in its current form) evolved from the acquisition of Mitchell Services Pty Ltd by Drill Torque Ltd ('Drill Torque') in December 2013. Drill Torque listed on the ASX in 2011 under the stock ticker DTQ. After the acquisition of Mitchell Services Pty Ltd, the Company's ASX code changed from DTQ to MSV. MSV is currently headquartered in Seventeen Mile Rocks, Queensland.

The Company specialises in various segments of the drilling market and has a history of innovation in the drilling industry. Its offerings include:

- Coal exploration;
- Mineral exploration;
- Mine services;
- Large diameter, coal seam gas and shale gas, and directional drilling services; and
- Coal mine methane drainage and wireline services.

MSV's operations span across Africa and the Asia-Pacific.

Acquisition of Assets from Tom Browne Drilling Services Pty Ltd (In Liquidation)

On 30 September 2014, MSV purchased 29 drill rigs and ancillary equipment from Tom Browne Drilling Services Pty Ltd (receivers and managers appointed) (in liquidation) ('TBDS') for \$9.5 million, bringing its fleet size up to 52 rigs and increasing its Tier 1 client base of major mining and energy companies. The purchase was funded by a \$20.2 million equity raising, which was completed in September 2014. The equity raising also allowed the Company to improve its financial position and reduce debt.

Acquisition of Assets from Nitro Drilling Pty Ltd (In Liquidation) and its related entities

On 6 July 2015, MSV announced that it had acquired certain assets from Nitro for approximately \$16 million, funded by a combination of \$8.5 million in debt provided by the Mitchell Group and WHSP and \$8.42 million in equity raised from the Entitlement Offer. The Acquisition is expected to further strengthen MSV's position as a leading provider in the eastern Australian drilling market and provide capacity to fulfil MSV's tender pipeline for Tier 1 contracts. The Nitro Assets include 25 drilling rigs, including twenty Tier 1 rigs, three grouting units and an extensive array of other support equipment and inventory. Following the Acquisition, MSV's rig count increased to 77, of which 43 are Tier 1 rigs.

On 30 June 2015, MSV announced that the Entitlement Offer had closed and that valid applications and additional applications under the top up facility represented a take up of approximately 91% of the total shares made available under the Entitlement Offer, with the shortfall allotted to Morgans Corporate Limited in its capacity as underwriter.

The Entitlement Offer settled on 2 July 2015 and new MSV shares were issued on 3 July 2015.

5.2 Equity Structure of MSV

As at the date of this Report, MSV has on issue 1,391,840,685 shares and 12,499,900 options. This includes 29,411,765 shares issued on 6 July 2015 in lieu of the interest payable under the WHSP Loan for the first year of the five year term.

5.2.1 Top 10 Shareholders in MSV

The top 10 shareholders in MSV as at 27 July 2015 are set out in Table 5.1 below.

Table 5.1: Top 10 MSV Shareholders as at 27 July 2015

Shareholder	Number of Shares	Percentage of Total Shares (%)
1 Mitchell Group Holdings Pty Ltd	176,785,715	12.70%
2 Washington H. Soul Pattinson and Company Limited	149,177,561	10.72%
3 CVC Limited	100,696,309	7.23%
4 Mitchell Family Investments Pty Ltd	94,285,715	6.77%
5 National Nominees Australia Ltd	81,463,151	5.85%
6 JP Morgan Nominees Australia Ltd	61,158,682	4.39%
7 Farjoy Pty Ltd	56,114,711	4.03%
8 Mirrabooka Investments Limited	51,366,930	3.69%
9 Citicorp Nominees Pty Ltd	24,175,716	1.74%
10 Pybar Holdings Pty Ltd	23,803,771	1.71%
Other shareholders	572,812,424	41.16%
Total Shares on Issue	1,391,840,685	100.00%

Source: MSV

Mitchell Group holds its 19.56% interest in MSV through the following shareholders:

- Mitchell Group Holdings Pty Ltd - 12.70% interest;
- Mitchell Family Investments Pty Ltd - 6.77% interest;
- Mr Nathan Andrew Mitchell and others as trustees for the Mitchell Family Superannuation Fund - 0.07% interest (not listed in Table 5.1); and
- Mitchell Family Investments (QLD) Pty Ltd - 0.02% interest (not listed in Table 5.1).

5.3 Trading of MSV Shares on the ASX

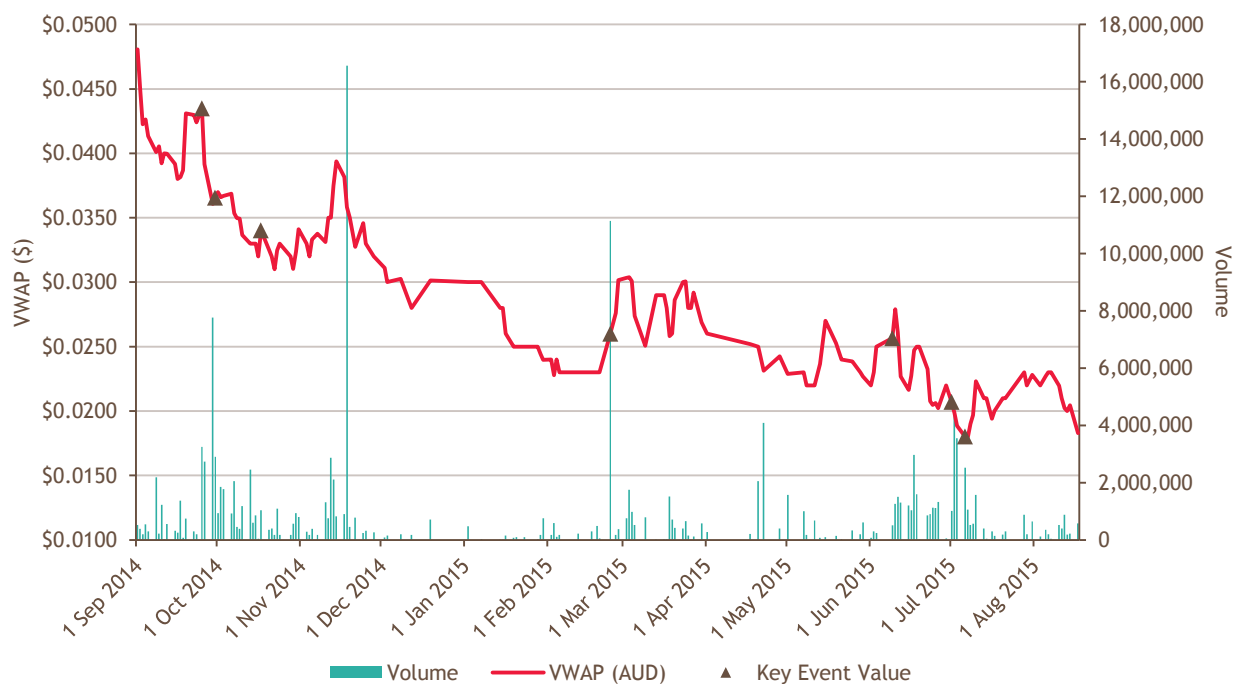
This section sets out our analysis of the share market performance of MSV by considering:

- The recent price of MSV shares listed on the ASX; and
- The liquidity of MSV shares.

5.3.1 MSV Share Price

MSV's shares are listed on the ASX. Figure 5.1 below sets out MSV's daily VWAP and volume traded over the period from 1 September 2014 to 31 August 2015.

Figure 5.1: MSV's Daily VWAP from 1 September 2014 to 31 August 2015



Source: Capital IQ as at 1 September 2015

Over the period graphed in Figure 5.1, the MSV daily VWAP shows a period low of \$0.0180 on 6 July 2015 and a period high of \$0.0481 on 1 September 2014.

In addition to the share price and trading data, we have also provided additional information in this Report to assist readers to understand possible reasons for movements in MSV's share price and volume of share trades over the time period analysed. We have provided a summary of MSV's announcements over the period from 1 September 2014 to 31 August 2015 in Table 5.2 below.

Table 5.2: Summary of MSV's Announcements over the period from 1 September 2014 to 31 August 2015

Date	Announcement
(b) 24/09/2014	MSV completes a \$20.2 million equity raising announced on 22 August 2014 via a placement to institutional investors, in two tranches.
(c) 30/09/2014	MSV completes the acquisition of the assets of TBDS. MSV announced on 22 August 2014 that it had entered into an agreement to acquire the drilling rigs and associated assets of TBDS for \$9.5 million.
(d) 17/10/2014	MSV issues a Notice of Annual General Meeting seeking shareholders' approval to issue an additional 10% of the issued capital of the Company over a 12 month period.
(e) 25/02/2015	MSV announces its results for the half year ended 31 December 2014. While revenue from continuing operations increased by 105% from the previous corresponding period, profit after tax decreased by 54%.
(f) 09/06/2015	MSV enters into an agreement to acquire the Nitro Assets from Nitro for approximately \$16 million, funded by an \$8.42 million fully underwritten non-renounceable Entitlement Offer and \$8.5 million in debt provided by Mitchell Group and WHSP.
(g) 30/06/2015	MSV completes the Entitlement Offer.
(h) 06/07/2015	MSV completes the acquisition of the Nitro Assets from Nitro.

Source: ASX Announcements

Table 5.3 sets out MSV's VWAP for the 1 week, 1 month, 3 months, 6 months, 9 months and 12 months prior to 4 June 2015, being the date MSV entered into a trading halt pending the release of the announcement of the Acquisition, and 31 August 2015. We have set out MSV's VWAP prior to 4 June 2015 to provide additional information regarding MSV's share price performance excluding the effects of the Acquisition.

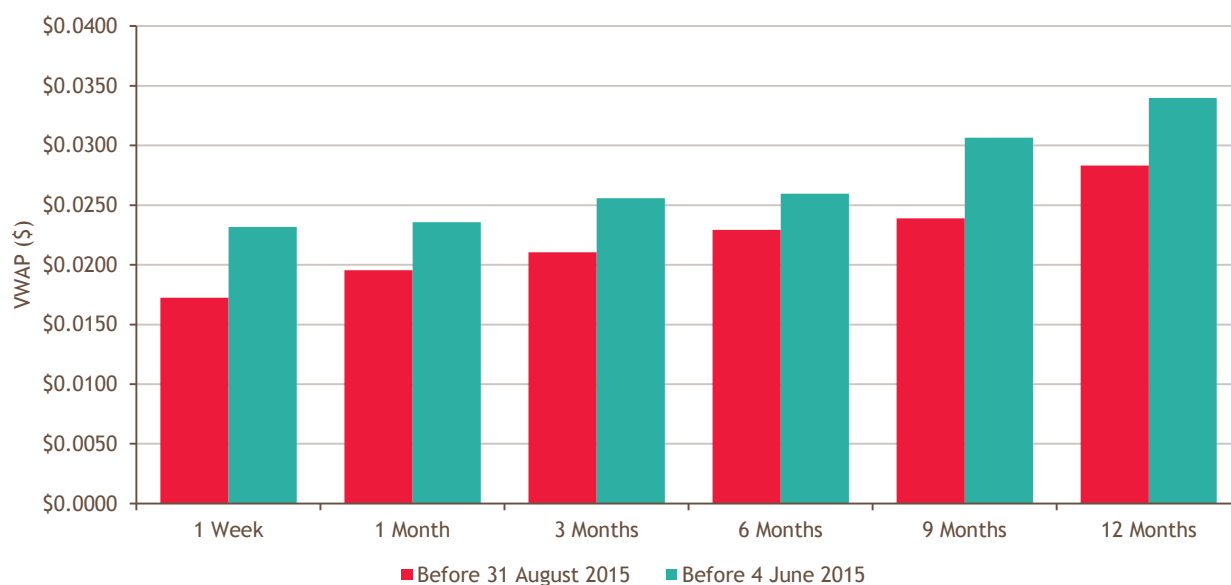
Table 5.3: MSV VWAP prior to 4 June 2015 and 31 August 2015

Period before 4 June 2015	VWAP (\$)	Period before 31 August 2015	VWAP (\$)
1 Week	\$0.0232	1 Week	\$0.0173
1 Month	\$0.0236	1 Month	\$0.0195
3 Months	\$0.0256	3 Months	\$0.0210
6 Months	\$0.0260	6 Months	\$0.0229
9 Months	\$0.0307	9 Months	\$0.0239
12 Months	\$0.0340	12 Months	\$0.0283

Source: Capital IQ as at 1 September 2015

The information set out in Table 5.3 above is also expressed graphically in Figure 5.2 below.

Figure 5.2: MSV VWAP over Specified Periods



Source: Capital IQ as at 1 September 2015

5.3.2 Liquidity of MSV Shares

Table 5.4 below summarises the monthly liquidity of MSV shares from 1 September 2014 to 31 August 2015. Liquidity has been summarised by considering the following:

- Volume of MSV trades per month;
- Total value of trades in MSV shares per month;
- Volume of MSV trades per month as a percentage of total MSV shares on issue at the end of the month; and
- Monthly VWAP.

Table 5.4: Liquidity of MSV Shares

Month	Volume	Turnover	Shares Outstanding	Volume per Shares Outstanding	Monthly VWAP
August 2015	6,520,800	124,420	1,391,840,690	0.47%	\$0.0191
July 2015	18,569,180	364,810	1,314,762,640	1.41%	\$0.0196
June 2015	17,380,440	408,640	867,000,220	2.00%	\$0.0235

Month	Volume	Turnover	Shares Outstanding	Volume per Shares Outstanding	Monthly VWAP
May 2015	4,916,500	110,840	867,000,220	0.57%	\$0.0225
April 2015	7,026,010	166,950	867,000,220	0.81%	\$0.0238
March 2015	9,399,580	268,180	867,000,220	1.08%	\$0.0285
February 2015	13,797,110	353,840	867,000,220	1.59%	\$0.0256
January 2015	1,916,030	49,600	867,000,220	0.22%	\$0.0259
December 2014	1,330,000	39,030	867,000,220	0.15%	\$0.0293
November 2014	28,401,360	1,034,130	867,000,220	3.28%	\$0.0364
October 2014	19,224,240	659,960	867,000,170	2.22%	\$0.0343
September 2014	26,072,990	1,031,520	333,500,010	7.82%	\$0.0396
Total	154,554,240	4,611,920	903,592,106	17.10%	\$0.0298

Source: Capital IQ as at 1 September 2015

1 Average number of shares outstanding.

Based on an average number of 903,592,106 MSV shares on issue, approximately 17.10% of MSV shares on issue were traded over the period from 1 September 2014 to 31 August 2015. Given the above information, we consider that MSV shares exhibited relatively low liquidity over the period.

5.4 Historical Financial Information of MSV

This section of this Report sets out the historical financial information of MSV. As this Report contains only summarised historical financial information, we recommend that MSV shareholders read and understand the additional notes and financial information contained in MSV's annual reports which include the full statements of comprehensive income, statements of financial position and statements of cash flows.

MSV's financial reports were audited by Jessups Accountants and Business Advisors. BDO CFQ has not performed any audit or review of any type on the historical financial information of MSV. We make no statement as to the accuracy of the information provided. However, we have no reason to believe that the information is misleading.

5.4.1 Comprehensive Income

The consolidated statement of comprehensive income of MSV for the financial years ('FY') ended 30 June 2012, 2013, 2014 and 2015 are summarised in Table 5.5 below.

Table 5.5: Summarised MSV Statements of Comprehensive Income

	12 Months Ended 30-Jun-12 Audited (\$)	12 Months Ended 30-Jun-13 Audited (\$)	12 Months Ended 30-Jun-14 Audited (\$)	12 Months Ended 30-Jun-15 Draft (\$)
Revenue	37,091,392	26,321,843	15,015,003	25,290,974
Changes in inventories of finished goods	352,565	(189,465)	-	-
Advertising	(67,317)	(17,793)	(8,752)	(67,229)
Drilling consumables	(4,395,332)	(2,082,997)	(2,086,171)	(4,495,425)
Employee and contract labour expenses	(17,813,404)	(12,763,020)	(8,076,800)	(13,254,828)
Freight and couriers	-	-	(1,100,711)	(1,975,127)
Fuel and oil	(1,907,171)	(1,542,483)	(890,825)	(913,405)
Hire of plant and equipment	(1,073,908)	(561,104)	(1,165,773)	(1,608,672)
Insurances	(1,859,259)	(1,448,279)	(529,566)	(499,588)
Legal and consultant fees	-	-	(575,905)	(829,597)

	12 Months Ended 30-Jun-12 Audited (\$)	12 Months Ended 30-Jun-13 Audited (\$)	12 Months Ended 30-Jun-14 Audited (\$)	12 Months Ended 30-Jun-15 Draft (\$)
Loss on sale of assets	-	-	(366,916)	(146,249)
Rent	(179,639)	(188,040)	(307,074)	(392,253)
Service and repairs	(2,319,516)	(1,096,517)	(1,054,542)	(2,860,539)
Travel expenses	(2,011,617)	(1,389,096)	(531,694)	(1,367,977)
Other expenses	(2,207,697)	(1,421,352)	(1,390,773)	(1,202,532)
EBITDA	3,609,097	3,621,697	(3,070,499)	(4,322,447)
Impairment of goodwill	-	(1,515,032)	-	(4,481,519)
Change in fair value of investment property	-	-	-	(414,282)
Depreciation expense	(2,632,702)	(3,313,118)	(2,598,051)	(3,429,323)
EBIT	976,395	(1,206,453)	(5,668,550)	(12,647,571)
Finance expense	(888,218)	(857,618)	(617,095)	(526,579)
Profit/(Loss) before tax	88,177	(2,064,071)	(6,285,645)	(13,174,150)
Income tax benefit/(expense)	(19,752)	151,633	1,678,387	(3,825,333)
Profit/(Loss) after tax	68,425	(1,912,438)	(4,607,258)	(16,999,483)

Source: Drill Torque 2013 Annual Report, MSV 2014 Annual Report and MSV 2015 Draft Annual Report

In relation to the financial performance of MSV set out in Table 5.5 above, we note the following:

- MSV (Drill Torque prior to FY2014) reported decline in revenue from FY2012 to FY2014 due to on-going deterioration of market conditions in the drilling industry and resources sector. While the resources sector remains subdued, the Company reported a 68% increase in revenue for the FY2015 compared to FY2014 due to significant contributions from Tier 1 clients and increases in rig utilisation. The Company was also awarded a significant contract with global mining company Anglo American in March 2015;
- The acquisition of Mitchell Services Pty Ltd by Drill Torque in FY2014 resulted in one-off costs which contributed to the significant after tax losses during the period;
- In FY2015 MSV had the following non-recurring expenses:
 - Costs associated with a \$20.2 million equity raise of \$40,000;
 - Asset integration costs of \$0.5 million in relation to the acquisition of TBDS assets;
 - Restructuring costs of \$0.4 million;
 - Asset integration costs of \$0.2 million in relation to the acquisition of Nitro Assets;
 - Costs associated with ramping up to deliver on the Anglo American contract of \$2.5 million;
 - Costs associated with ramping up for other clients of \$0.4 million; and
 - Full impairment of goodwill of \$4.5 million recognised in the acquisition of Mitchell Services Pty Ltd in FY2014;
- Goodwill of \$1.5 million arose in FY2011 as a result of assets acquired from Well Drilled Pty Ltd. The full amount was impaired in FY2013 having regard to the downturn in the resources industry and the resulting recoverable amount of the assets; and
- Income tax expense of \$3.8 million was recognised in FY2015 primarily due to the write-off of deferred tax assets and tax losses not recognised in FY2015.

5.4.2 Financial Position

The consolidated statements of financial position of MSV as at 30 June 2012, 2013, 2014 and 2015 are summarised in Table 5.6 below.

Table 5.6: Summarised MSV Statements of Financial Position

	As at 30-Jun-12 Audited (\$)	As at 30-Jun-13 Audited (\$)	As at 30-Jun-14 Audited (\$)	As at 30-Jun-15 Draft (\$)
Current assets				
Cash	745,061	528,167	125,004	515,679
Trade and other receivables	3,680,404	1,924,550	2,348,514	7,148,908
Other financial assets	17,630	9,800	7,708	3,724
Right to purchase assets	-	-	-	16,125,000
Other assets	224,958	272,379	298,212	440,156
Current tax assets	2,190	6,671	-	-
Inventories	1,749,333	1,559,870	1,604,952	1,869,518
Total current assets	6,419,576	4,301,437	4,384,390	26,102,985
Non-current assets				
Other financial assets	17,272	12,131	5,572	3,195
Property, plant and equipment	18,572,955	15,976,187	14,009,330	18,286,816
Investment property	-	-	-	2,975,000
Other assets	63,250	63,250	20,000	18,000
Deferred tax asset	1,101,281	1,261,978	3,397,802	-
Goodwill	1,515,032	-	4,481,519	-
Total non-current assets	21,269,790	17,313,546	21,914,223	21,283,011
Total assets	27,689,366	21,614,983	26,298,613	47,385,996
Current liabilities				
Bank overdraft	1,197,903	1,853,075	2,251,701	1,130,013
Trade and other payables	3,563,424	1,510,396	3,689,775	24,587,154
Other financial liabilities	4,046,583	2,582,779	2,449,305	2,293,225
Current tax payable	-	9,064	-	-
Provisions	740,264	404,904	352,163	367,360
Total current liabilities	9,548,174	6,360,218	8,742,944	28,377,752
Non-current liabilities				
Other financial liabilities	5,253,463	4,298,031	4,699,250	3,655,853
Provisions	95,361	76,804	45,107	97,963
Total non-current liabilities	5,348,824	4,374,835	4,744,357	3,753,816
Total liabilities	14,896,998	10,735,053	13,487,301	32,131,568
Net assets	12,792,368	10,879,930	12,811,312	15,254,428
Equity				
Issued capital	14,524,100	14,524,100	19,024,100	39,219,134
Share issue costs	(1,049,780)	(1,049,780)	(1,199,944)	(1,922,724)
Contingent option reserve	-	-	2,122,402	2,122,402
Retained earnings	(681,952)	(2,594,390)	(7,135,246)	(24,164,384)
Total equity	12,792,368	10,879,930	12,811,312	15,254,428

Source: Drill Torque 2013 Annual Report, MSV 2014 Annual Report and MSV 2015 Draft Annual Report

In relation to the financial position of MSV set out in Table 5.6 above we note the following:

- MSV entered into an agreement to acquire Nitro Assets on 5 June 2015. As all risks and rewards associated with Nitro Assets had not passed to MSV as at 30 June 2015, MSV has classified the purchase as a right as opposed to property, plant and equipment. Upon settlement of the transaction on 6 July 2015, MSV reclassified the purchase price to property, plant and equipment;
- As part of funding the acquisition of Nitro Assets, MSV raised \$8.42 million as a result of issuing 495,428,698 shares under the Entitlement Offer. As the issue of new shares settled on 3 July 2015, post the FY2015 reporting date, the cash raised and new shares issued under the Entitlement Offer are not reflected in the statement of financial position as at 30 June 2015;
- Property, plant and equipment increased by \$8.6 million in FY2015 as a result of acquiring assets from TBDS;
- In FY2015, MSV reclassified one of its properties at 133-137 Crocodile Crescent, Mount St John from property, plant and equipment to investment property and revalued to fair value of \$3.0 million;
- Deferred tax assets as at 30 June 2014 primarily relate to tax losses carried forward. Deferred tax assets were fully derecognised in FY2015;
- Trade and other payables as at 30 June 2015 include \$16.2 million payable for the purchase of Nitro Assets and \$1.3 million payable for the purchase of a rig;
- Goodwill of \$4.5 million arose in FY2014 as a result of Drill Torque's acquisition of Mitchell Services Pty Ltd, which had a net asset deficiency of \$0.3 million. MSV subsequently wrote off the full amount of goodwill in FY2015;
- Consideration paid in Drill Torque's acquisition of Mitchell Services Pty Ltd comprised of 40,000,000 ordinary shares worth \$2.0 million and 198,660,000 options worth \$2.1 million;
- In addition to the issuance of 40 million shares for the acquisition of Mitchell Services Pty Ltd, 125 million shares worth \$2.5 million were issued as part of a rights issue in FY2014; and
- In FY2015, MSV issued the following shares:
 - On 28 August 2014, 43.5 million shares were issued at a price of \$0.035 by way of a first tranche placement to institutional and sophisticated investors;
 - On 26 September 2014, 333.5 million shares were issued at a price of \$0.035 by way of a 1 for 1 non-renounceable rights issue; and
 - On 26 September 2014, 200.0 million shares were issued at a price of \$0.035 by way of a second tranche placement to institutional and sophisticated investors.

5.4.3 Cash Flows

The consolidated statement of cash flows of MSV for the 12 month periods ended 30 June 2012, 2013 and 2014 and for the 6 month period ended 31 December 2014 are summarised in Table 5.7 below.

Table 5.7: Summarised MSV Statements of Cash Flow

	12 Months Ended 30-Jun-12 Audited (\$)	12 Months Ended 30-Jun-13 Audited (\$)	12 Months Ended 30-Jun-14 Audited (\$)	12 Months Ended 30-Jun-15 Draft (\$)
Cash flows from / (used in) operating activities				
Receipts from customers	40,198,830	29,617,148	14,471,061	21,669,432
Payments to suppliers and employees	(36,819,736)	(26,591,790)	(15,917,753)	(25,822,159)
Interest received	30,213	38,537	691	52,706
Interest paid	(802,554)	(752,277)	(599,238)	(498,287)
Income tax paid	(36,687)	(4,481)	(160,214)	(117,767)
Net cash flows from / (used in) operating activities	2,570,066	2,307,137	(2,205,453)	(4,716,075)

	12 Months Ended 30-Jun-12 Audited (\$)	12 Months Ended 30-Jun-13 Audited (\$)	12 Months Ended 30-Jun-14 Audited (\$)	12 Months Ended 30-Jun-15 Draft (\$)
Cash flows from / (used in) investing activities				
Proceeds on sale of property, plant and equipment	147,273	280,528	1,010,895	551,916
Payment for Tom Browne assets	-	-	-	(9,617,678)
Payment for Nitro Assets	-	-	-	(1,499,550)
Payment for other property, plant and equipment	(9,541,317)	(901,822)	(922,355)	(875,535)
Net cash flows from / (used in) investing activities	(9,394,044)	(621,294)	88,540	(11,440,847)
Cash flows from financing activities				
Proceeds from issue of shares	13,000,000	-	2,500,000	20,195,034
Payments for share issue costs	(1,499,686)	-	(214,520)	(1,032,542)
Dividends paid	(625,000)	-	-	-
Proceeds from borrowings	5,943,326	1,196,365	1,906,567	1,282,532
Repayment of borrowings	(3,966,574)	(3,749,139)	(2,876,221)	(2,775,739)
Repayment of ATO debt	(3,498,778)	-	-	-
Repayment of related party loans	(3,535,337)	-	-	-
Costs associated with borrowing	(21,100)	(5,135)	(702)	-
Net cash flows from financing activities	5,796,851	(2,557,909)	1,315,124	17,669,285
Net increase / (decrease) in cash held	(1,027,127)	(872,066)	(801,789)	1,512,363
Opening cash balance	574,285	(452,842)	(1,324,908)	(2,126,697)
Closing cash balance	(452,842)	(1,324,908)	(2,126,697)	(614,334)

Source: Drill Torque 2013 Annual Report, MSV 2014 Annual Report and MSV 2015 Draft Annual Report

In relation to the cash flows of MSV set out in Table 5.7 above, we note the following:

- The Company had net decreases in cash held and negative closing cash balances for FY2012, FY2013 and FY2014. MSV improved its cash balance by \$1.5 million in FY2015, despite negative operating and investing cash flows, primarily due to the \$20.2 million equity raise;
- Payment for other property, plant and equipment of \$9.5 million in FY2012 relates to the purchase of three new drill rigs from the United States of America; and
- \$0.4 million of proceeds on sale of property, plant and equipment in FY2015 relates to the sale of excess assets that were acquired as part of the TBDS asset purchase.

6.0 Fairness of the Security Transaction

This section provides our opinion on the fairness of the Security Transaction to MSV shareholders and is set out as follows:

- Section 6.1 sets out the approach we have adopted to assess the fairness of the Security Transaction; and
- Section 6.2 sets out our assessment on the fairness of the Security Transaction.

6.1 Approach Adopted to Assess Fairness

RG 111 suggests that a proposed related party transaction is ‘fair’ if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided to the entity. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm’s length.

In the case of the Security Transaction, the proceeds flowing to Mitchell Group from the sale of the Notch Assets (over which security is proposed to be granted) in the event of a default on the Mitchell Group Loan constitutes the financial benefit provided to Mitchell Group. The consideration provided by Mitchell Group to Notch is the value of the principal and capitalised interest which will be foregone by Mitchell Group in the event of a default on the Mitchell Group Loan.

Having regard to the above, the Security Transaction is ‘fair’ if the value of the security provided to the Mitchell Group (i.e. the value of the proceeds flowing to Mitchell Group from the sale of the Notch Assets) is equal to or less than the value of the liabilities to be settled by the security (i.e. the value of the principal and capitalised interest owing to Mitchell Group) in the event of a default on the Mitchell Group Loan.

Under the terms of the Mitchell Group Loan, Mitchell Group’s entitlement in the event of default is limited to the amount of the principal and capitalised interest expense outstanding on the Mitchell Group Loan. As mentioned previously in this Report, if the Security Transaction is approved by MSV shareholders, Mitchell Group and WHSP will rank equally (*pari passu*) in proportion to the amount each party has advanced to Notch.

If the proceeds received from the sale of the Notch Assets are greater than the principal and capitalised interest expense outstanding on the Mitchell Group Loan and the WHSP Loan, the Mitchell Group will only receive the amount owing on the Mitchell Group Loan at the time the Notch Assets are sold. Once any amounts owing to other creditors (such as WHSP) have been repaid, any surplus funds that remain from the sale of the Notch Assets will be returned to Notch. On this basis, we do not consider it necessary to value Notch or the Notch Assets for the purposes of the analysis set out in this Report.

For completeness, we note that, in the event of a default on the Mitchell Group Loan, the Mitchell Group may appoint an administrator or receiver in order to sell the Notch Assets. We understand that if appointed, an administrator or receiver has an obligation under the Corporations Act to take reasonable care to sell the secured assets at:

- ‘Not less than market value’ where a market value exists; and
- The ‘best price that is reasonably obtainable’ where a market value does not exist.

We understand that in certain circumstances it is possible that a liquidator may be appointed instead of an administrator or receiver. If appointed, a liquidator’s obligations under the Corporations Act are similar to that of administrators and receivers, although unlike administrators and receivers, there is no statutory instruction for liquidators to seek the market value. There is however an obligation to discharge their duties with due care and diligence and deal with the secured assets in a manner that will most benefit an entity’s creditors and achieve the best price that is reasonably obtainable, having regard to the state of the asset at the time of sale.

Having regard to the above, in our view, it is appropriate to assume for the purposes of our analysis in this Report that, in the event of a default on the Mitchell Group Loan, any sales process pursued to divest the Notch Assets will be conducted in a manner which realises fair market value as at the time of the sale, having regard to the existing state of the Notch Assets.

6.2 Assessment of Fairness

To assess whether the Security Transaction is fair, we have compared the value of the proceeds flowing to the Mitchell Group from the sale of the Notch Assets to the value of the principal and capitalised interest owing to the Mitchell Group in the event of a default on the Mitchell Group Loan under several scenarios. In considering the various possible scenarios, we note the following:

- In the scenario where the value of the proceeds from the sale of the Notch Assets is greater than the value of the principal and capitalised interest owing to Mitchell Group on the Mitchell Group Loan, the Mitchell Group is only entitled to receive sale proceeds equal to the amount outstanding on the Mitchell Group Loan;
- In the scenario where the value of the proceeds from the sale of the Notch Assets is equal to the value of the principal and capitalised interest owing to the Mitchell Group on the Mitchell Group Loan, the Mitchell Group is entitled to receive all of the sale proceeds; and
- In the scenario where the value of the proceeds from the sale of the Notch Assets is less than the value of the principal and capitalised interest owing to Mitchell Group on the Mitchell Group Loan, the Mitchell Group is entitled to receive all of the sale proceeds. To the extent the amount outstanding on the Mitchell Group Loan exceeds the proceeds received from the sale of the Notch Assets, the Mitchell Group can only recover it as an unsecured creditor of the Company.

Table 6.1 below summarises the potential outcomes from the settlement of the Mitchell Group Loan under a default scenario.

Table 6.1: Potential Settlement Scenarios for the Mitchell Group Loan

Scenario	Consequence	Fairness
Proceeds from Notch Assets > Mitchell Group Loan Outstanding	Security provided = Liabilities settled	Fair
Proceeds from Notch Assets = Mitchell Group Loan Outstanding	Security provided = Liabilities settled	Fair
Proceeds from Notch Assets < Mitchell Group Loan Outstanding	Security provided < Liabilities settled	Fair

Source: BDO CFQ Analysis

Having regard to the potential settlement scenarios summarised above, in all circumstances the Mitchell Group is entitled to receive a maximum amount equal to the value of the principal and capitalised interest owing to them on the Mitchell Group Loan, in circumstances where the Notch Assets are sold.

After considering the information above, we conclude that the Security Transaction is **Fair** to MSV shareholders as at the date of this Report.

MSV shareholders should also refer to Section 7.0 of this Report which sets out additional matters that should be considered when deciding whether to vote in favour of or against the Security Transaction.

7.0 Reasonableness of the Security Transaction

We have considered the reasonableness of the Security Transaction having regard to other significant factors to which MSV shareholders may give consideration prior to voting in favour of or against the Security Transaction. Our assessment of the reasonableness of the Security Transaction includes consideration of the likely advantages and disadvantages of the Security Transaction and the position of MSV shareholders if the Security Transaction does not proceed.

7.1 Advantages of the Security Transaction

Table 7.1 below outlines the potential advantages of the Security Transaction to MSV shareholders.

Table 7.1: Advantages of the Security Transaction

Advantage	Explanation
The Security Transaction is fair	<p>In our view, the Security Transaction is fair to MSV shareholders as at the date of this Report. In accordance with RG 111, a transaction is considered reasonable if it is fair.</p> <p>Refer to Section 6.0 of this Report for our assessment of the fairness of the Security Transaction.</p>
Granting security over the Nitro Assets is likely to assist the Company to obtain finance	<p>It is not unusual for companies to grant security over their assets when raising debt finance. In many cases, the granting of security assists companies to obtain the funding they require for their ongoing operations and development on terms that are more favourable than they otherwise would have been if no security was granted. This is because the granting of security assists to reduce counterparty risk for the financier, or the risk to the financier of the borrower defaulting on their obligations.</p> <p>If Notch does not grant security over the Notch Assets, it may not be able to obtain finance on terms as favourable as those offered by Mitchell Group and WHSP.</p>
The Security Transaction enables the Company to avoid having to repay the Mitchell Group Loan and an upfront payment of two years interest	<p>Under the terms of the GSA, if the Security Transaction is not approved the Mitchell Group Loan will be repayable within 90 days of the date of the Annual General Meeting. In addition, Notch (a subsidiary of MSV) will be required to pay two years' worth of interest expense (totalling \$700,000) in cash on the day after the Annual General Meeting.</p> <p>However, if the Security Transaction is approved, the Mitchell Group Loan will remain in place in accordance with the Facility Agreement and Notch will not be required to source alternative funding to pay these amounts.</p> <p>Further information on the potential implications to MSV shareholders of not approving the Security Transaction is set out in Table 7.3 below.</p>

Source: BDO CFQ Analysis

7.2 Disadvantages of the Security Transaction

Table 7.2 below outlines the potential disadvantages of the Security Transaction to MSV shareholders.

Table 7.2: Disadvantages of the Security Transaction

Disadvantage	Explanation
Limited ability to secure alternative sources of funding from non-related third parties	<p>If the Security Transaction is approved, the Mitchell Group will be granted security over the Notch Assets. As a result, MSV's ability to secure further / alternative asset based debt finance from non-related third parties may be limited until the Mitchell Group Loan is repaid. In addition, if MSV does obtain debt finance from a non-related third party, it may be on less favourable terms than would otherwise be the case if the Security Transaction was not approved, as any additional debt provider would rank behind the Mitchell Group.</p>

Disadvantage	Explanation
MSV may lose control over the Notch Assets	In the event of default, MSV may be required to sell the Notch Assets in order to settle the amounts owing to the Mitchell Group (and WHSP). In this circumstance, MSV will be forced to forego the potential future profits that would otherwise accrue to them from having ownership of the Notch Assets.

Source: BDO CFQ Analysis

7.3 Position of MSV Shareholders if the Security Transaction is Not Approved

Table 7.3 below outlines the possible position of MSV shareholders in the event the Security Transaction is not approved.

Table 7.3: Position of MSV Shareholders if the Security Transaction is Not Approved

Position of Shareholders	Explanation
The Mitchell Group will be unsecured	If the Security Transaction is not approved, the Mitchell Group will not be provided with security over the Notch Assets in relation to the Mitchell Group Loan.
The Mitchell Group Loan will become repayable along with an upfront payment for two years' interest	<p>If the Security Transaction is not approved, the Mitchell Group Loan will become repayable within 90 days of the date of the Annual General Meeting and Notch (a subsidiary of MSV) will be required to pay two years' worth of interest expense (totalling \$700,000) in cash on the day after the Annual General Meeting.</p> <p>In order to repay the Mitchell Group Loan (including the associated interest expense), the independent directors of MSV are of the view that Notch would need to either 1) sell Notch Assets to a value of at least \$4.2 million¹ or 2) secure alternative financing. In relation to these two options, we note the following:</p> <ul style="list-style-type: none"> ▪ The independent directors of MSV are of the view that the Company is likely to find it difficult to secure alternative financing at terms which are equal to or better than those currently offered under the Mitchell Group Loan. Further, if MSV attempted to complete an equity issue to raise funds for the purpose of settling the Mitchell Group Loan, it is likely that any issue would be at a discount to the current share price of MSV; and ▪ If the Notch Assets are sold to facilitate the repayment of the Mitchell Group Loan and the associated interest expense (which the independent directors consider to be the more likely scenario), there is a risk that the value realised will be less than the purchase price paid for the assets (although this will depend on the prevailing market conditions over the 90 day period for the type of assets held by Notch).
MSV's share price may decrease	If the Security Transaction is not approved, the requirement to repay the Mitchell Group Loan with 90 days of the Annual General Meeting and to pay two years' worth of interest in cash on the day after the Annual General Meeting may have an unfavourable impact on the Company's share price.

Source: BDO CFQ Analysis

7.4 Assessment of the Reasonableness of the Security Transaction

In our opinion, after considering all of the issues set out in this Report, in the absence of any other information, the Security Transaction is **Reasonable** to MSV shareholders as at the date of this Report.

¹ For completeness we note that in the circumstances where shareholders vote against approving the granting of security, the terms of the WHSP Loan facility agreement allow MSV to sell assets held by Notch to repay the Mitchell Group Loan without being required to make any repayments to WHSP.

8.0 Sources of Information

This Report has been prepared using information obtained from the following sources:

- Drill Torque / MSV annual reports for the years ended 30 June 2012, 2013 and 2014;
- MSV draft annual report for the year ended 30 June 2015;
- MSV ASX announcements;
- MSV company website (www.mitchellservices.com.au);
- Capital IQ;
- Australian Bureau of Statistics;
- IBISWorld;
- Various transaction documents including the Facility Agreement, Variations to the Facility Agreement, General Security Agreement and Notice of Meeting;
- Various other research publications and publicly available data as sourced throughout this Report; and
- Various discussions and other correspondence with MSV directors, management and their advisers.

9.0 Representations, Indemnities and Warranties

MSV has agreed to our usual terms of engagement in addition to the indemnities and representations set out below.

9.1 Indemnities

In connection with BDO CFQ's engagement to prepare this Report, MSV agrees to indemnify and hold harmless BDO CFQ, BDO (QLD) or any of the partners, directors, agents or associates (together 'BDO Persons'), to the full extent lawful, from and against all losses, claims, damages, liabilities and expenses incurred by them. MSV will not be responsible, however, to the extent to which such losses, claims, damages, liabilities or expenses result from the negligent acts or omissions or wilful misconduct of any BDO Persons.

MSV agrees to indemnify BDO Persons in respect of all costs, expenses, fees of separate legal counsel or any other experts in connection with investigating, preparing or defending any action or claim made against BDO Persons, including claims relating to or in connection with information provided to or which should have been provided to BDO CFQ by MSV (including but not limited to the directors and advisers of MSV) as part of this engagement.

9.2 Representations & Warranties

MSV recognises and confirms that, in preparing this Report, except to the extent to which it is unreasonable to do so, BDO Persons will be using and relying on publicly available information and on data, material and other information furnished to BDO Persons by MSV, its management, and other parties, and may assume and rely upon the accuracy and completeness of, and is not assuming any responsibility for independent verification of, such publicly available information and the other information so furnished.

MSV management represent and warrant to BDO Persons that all information and documents furnished by MSV (either directly or through its advisors) in connection or for use in the preparation of this Report will not, at the time so furnished, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein.

MSV has acknowledged that the Company's engagement of BDO CFQ is as an independent contractor and not in any other capacity including a fiduciary capacity.

10.0 Experience, Disclaimers and Qualifications

BDO CFQ has extensive experience in the provision of corporate finance advice, including takeovers, valuations and acquisitions. BDO CFQ holds an Australian Financial Services Licence issued by ASIC for preparing expert reports pursuant to the Listing Rules of the ASX and the Corporations Act.

BDO CFQ and its related parties in Australia have a wide range of experience in transactions involving the advising, auditing or expert reporting on companies that have operations domestically and in foreign jurisdictions. BDO in Queensland and in Australia is a national association of separate partnerships and entities and is a member of the international BDO network of individual firms.

Steven Sorbello and Mark Whittaker have prepared this Report with the assistance of staff members. Mr Sorbello and Mr Whittaker are directors of BDO CFQ and have extensive experience in corporate advice and the provision of valuation and business services to a diverse range of clients, including large private, public and listed companies, financial institutions and professional organisations.

This Report has been prepared at the request of the directors of MSV to provide MSV shareholders with information to assist them to decide whether to vote in favour of or against the Security Transaction. BDO CFQ hereby consents to this Report being used for that purpose. Apart from such use, neither the whole nor any part of this Report, nor any reference thereto may be included in or with, or attached to any document, circular, resolution, statement, or letter without the prior written consent of BDO CFQ.

BDO CFQ takes no responsibility for the contents of other documents supplied in conjunction with this Report. BDO CFQ has not audited or reviewed the information and explanations supplied to us, nor has it conducted anything in the nature of an audit or a review of any of the entities mentioned in this Report. However we have no reason to believe that any of the information or explanations so supplied is false or that material information has been withheld.

Any forecast information which has been referred to in this Report has been prepared by the relevant entity and is generally based upon best estimate assumptions about events and management actions, which may or may not occur. Accordingly, BDO CFQ cannot provide any assurance that any forecast is representative of results or outcomes that will actually be achieved.

With respect to the tax implications of the Security Transaction, it is strongly recommended that MSV shareholders obtain their own taxation advice, tailored to their own particular circumstances.

APES 225 'Valuation Services' issued by the Accounting Professional & Ethical Standards Board sets out mandatory requirements for the provision of quality and ethical valuation services. BDO CFQ has complied with this standard in the preparation of this Report.

The statements and opinions included in this Report are given in good faith and in the belief that they are not false, misleading or incomplete. This Report is current as at 4 September 2015.

BDO Corporate Finance (QLD) Ltd



Steven Sorbello
Director



Mark Whittaker
Director

Appendix A: Industry Overview - Contract Mining Services in Australia²

This appendix sets out a summary of the Australian Contract Mining Services industry in which MSV is considered to operate.

The information presented in this section has been compiled from a range of publicly available sources. This summary is not intended to be a comprehensive analysis of the Australian mining services industry.

We recommend that MSV shareholders refer to the original source of the information referred to in this section and any other information they believe appropriate for a more comprehensive analysis. This section should be referred to as a broad guide only.

A.1 Overview of the Contract Mining Services Industry

The contract mining services industry consists of companies that carry out parts of a mining operation on a fee or contract basis. The primary service offered by companies operating within the contract mining services industry is contract mining, which ranges from preparation of the mine site to undertaking the entire mining operation for a period of time. Other mining services include the provision of oil and gas extraction. The process of these mining services typically involves the use of drill wells that allow resources from underground to be brought to the surface for processing.

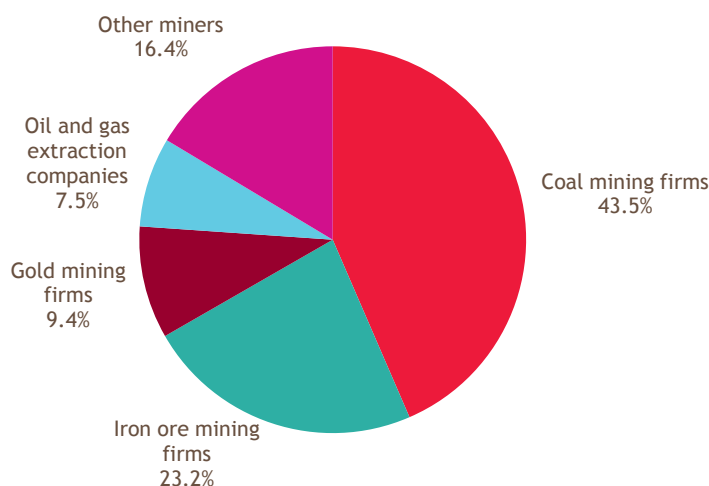
Drilling is a specialised and complex operation that mineral exploration and mining companies have typically found to be more economical to outsource to external contractors. Drilling is required at all stages of a mining operation from greenfield exploration, development and mine site production to closure of the mine. Different types of drilling are required at various stages of the mine life cycle and include auger drilling, Rotary Air Blast, Reverse Circulation, diamond coring, mine dewatering, underground drilling and geotechnical drilling.

The contract mining services industry is dominated by four major industry participants, namely CIMIC Group Limited, Brynecut Australia Pty Ltd, Downer EDI Limited and McMahon Holdings Limited. Together, these four companies account for approximately 56% of the industry revenue.

A.2 Revenue Segmentation

Figure A.1 below sets out a breakdown of the industries that require mining services based on the estimated aggregated revenue of the contract mining services industry in 2015 - 2016 of \$8.7 billion.

Figure A.1: Estimated Revenue Breakdown by Industry (2015-2016)



Source: IBISWorld

Figure A.1 above shows that the contract mining services industry revenue is largely contributed by firms operating in the coal industry (43.5%) and iron ore industry (23.2%). Other mining industries that contribute to demand for contract mining services include firms exploring for silver, zinc, lead, bauxite, nickel, mineral sand, and copper.

² Information in this section has been sourced from the Australian Bureau of Statistics and IBISWorld Industry Report B1099: Contract Mining Services in Australia.

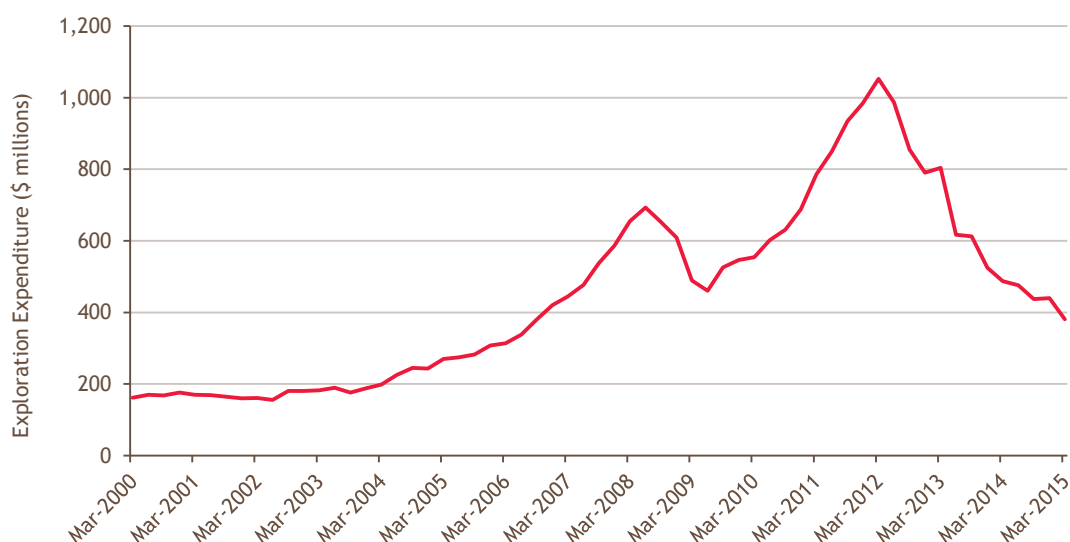
The majority of the revenue generated by companies in the mining services industry is sourced from Western Australia (45.1%) and Queensland (23.5%).

A.3 Demand Determinants and Historical Exploration Expenditures

Demand for contract mining services is generally driven by the same factors affecting the level of mineral production in Australia. Global GDP growth tends to be the main driver of growth in this industry as this tends to drive the demand for and price of minerals. The industry is also heavily affected by the level of mineral exploration expenditure since the exploration / development stages of mining projects typically require considerable support from the mining services industry. Other important factors include the spot prices of commodities such as coking coal, iron ore, and gold, as industries involved in producing these commodities contribute a large proportion of revenue to the contract mining services industry.

Figure A.2 below illustrates the trend in quarterly seasonally adjusted mineral exploration expenditure by companies operating in the mining industry.

Figure A.2: Seasonally Adjusted Quarterly Mineral Exploration Expenditure

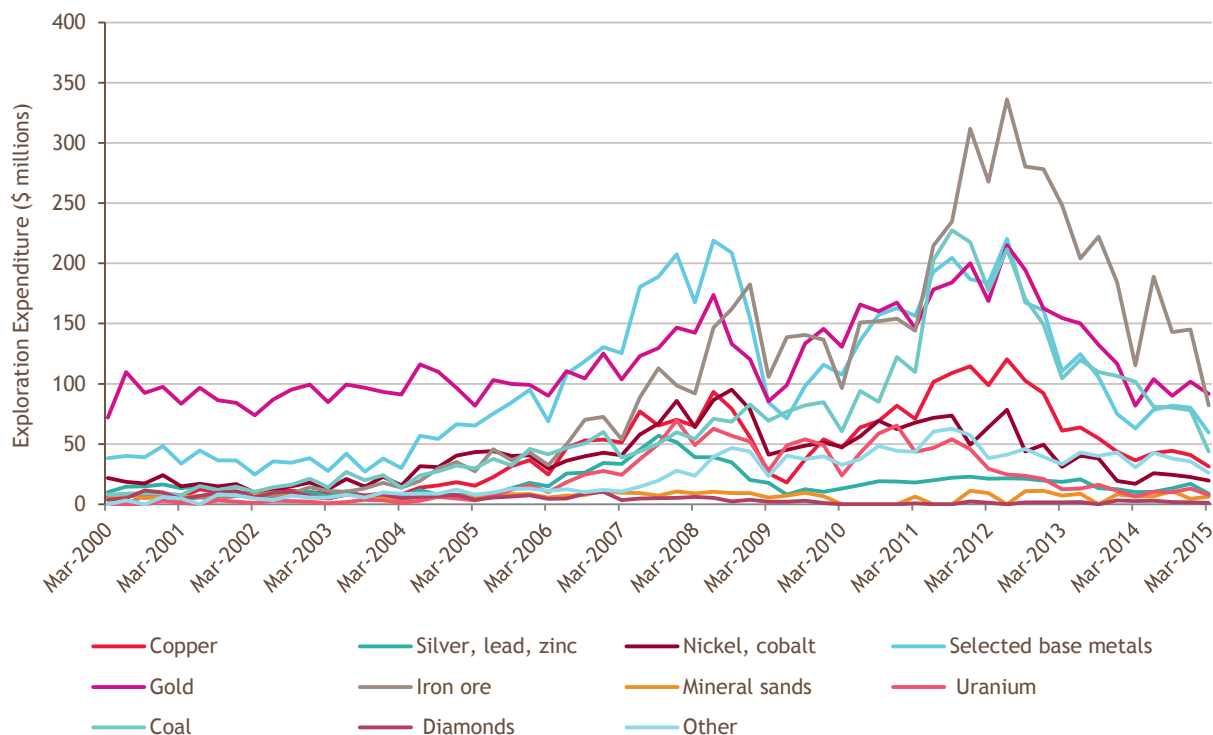


Source: Australian Bureau of Statistics

Figure A.2 above shows that the level of mineral exploration expenditure has been characterised by significant volatility over the past ten years. There was significant growth in mining exploration expenditure from June 2009 to March 2012, which consequently increased the level of commodity production and also increased the demand for mining services. However, the level of exploration expenditure has declined in recent periods due to continual decreases in the spot price of commodities particularly iron ore and coal, resulting in a decrease in new mine developments and the deferral of expansion projects.

Figure A.3 below provides a breakdown of the quarterly mineral exploration expenditure by commodity.

Figure A.3: Quarterly Mineral Exploration Expenditure by Commodity



Source: Australian Bureau of Statistics

With reference to Figure A.3 above, we note that total mineral exploration expenditure fell from \$459 million in the December 2014 quarter to \$318 million in the March 2015 quarter. The largest contributor to the decrease in mineral exploration expenditure in the June 2013 quarter was iron ore exploration which fell by 43.4% or \$63.0 million. With the exception of mineral sands (increase in expenditure by \$1.8 million), mineral exploration expenditure in all types of commodity decreased in the March 2015 quarter.



Mitchell
SERVICES

ACN 149 206 333

Lodge your vote:



By Online Vote:

www.advancedshare.com.au

By Mail:

Advanced Share Registry Limited
PO Box 1156, Nedlands 6909
Western Australia

By Facsimile:

+61 8 9262 3723

By Email:

admin@advancedshare.com.au

For all enquiries call:

Telephone:

(Within Australia) (08) 9389 8033

(Outside Australia) +618 9389 8033

Email: admin@advancedshare.com.au

Proxy Form

Instructions

1. Every shareholder has the right to appoint some other person or company of their choice, who need not be a shareholder, to attend and act on their behalf at the meeting. If you wish to appoint a person or company other than the Chairman, please insert the name of your proxyholder(s) in the space provided (see reverse).
2. If the securities are registered in the name of more than one owner (for example, joint ownership, trustees, executors, etc), then all those registered should sign this proxy. If you are voting on behalf of a corporation or another individual you may be required to provide documentation evidencing your power to sign this proxy with signing capacity stated.
3. This proxy should be signed in the exact manner as the name that appears on the proxy.
4. If a shareholder appoints two proxies, each proxy may be appointed to represent a specific proportion of the shareholder's voting rights. If such appointment is not made then each proxy may exercise half of the shareholder's voting rights. Fractions shall be disregarded.
5. Completion of a proxy form will not prevent individual shareholders from attending the Meeting in person if they wish. Where a shareholder completes and lodges a valid proxy form and attends the Meeting in person, then the proxy's authority to speak and vote for that shareholder is suspended while the shareholder is present at the Meeting.
6. To be effective, proxies must be delivered by shareholders as follows:
 - a. Shareholders must deliver their proxies prior to 10.00am (Brisbane Time) 18 October 2015 by mail to PO Box 1156, Nedlands, 6909, Western Australia, or by facsimile at (08) 9262 3723, or by online at www.advancedshare.com.au, or deliver to the Share Registry of the Company at 110 Stirling Hwy, Nedlands, Western Australia, 6009.
 - b. For the purposes of Regulation 7.11.37 of the Corporations Regulations the Company determines that shareholders holding shares at 7.00pm (Brisbane Time) on Sunday, 18 October 2015 will be entitled to attend and vote at the Meeting.
7. The Chairman intends to vote in favour of all resolutions set out in the Notice of Meeting.
8. This proxy confers discretionary authority in respect of amendments to matters identified in the Notice of Meeting or other matters that may properly come before the Meeting.
9. This proxy should be read in conjunction with the accompanying documentation provided by management of the Company.
10. The shares represented by this proxy will be voted or withheld from voting in accordance with the instructions of the shareholder on any poll that may be called for, and if the shareholder has specified a choice in respect of any matter to be acted upon, the shares will be voted accordingly.

Turn over to complete the form →



CHECK OUT OUR WEBSITE at
www.advancedshare.com.au

- Check all holdings by using HIN/SRN
- Update your holding details
- Reprint various documents online



Change of address. If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'x') should advise your broker of any changes.

Form of Proxy

Please mark to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

PLEASE NOTE: This proxy is solicited on behalf of the management of Mitchell Services Limited ACN 149 206 333 (the "Company") for use at the meeting of the shareholders of the Company to be held at Morgans Financial Ltd, Level 29, Riverside Centre, 123 Eagle Street, Brisbane QLD 4000 on Tuesday, 20 October 2015 at 10.00am (Brisbane Time) or any adjournment thereof (the "Meeting").

I/We being a member/s of Mitchell Services Limited hereby appoint

the Chairman
of the meeting

OR

PLEASE NOTE: If you leave the section blank, the Chairman of the Meeting will be your proxy.

or failing the individual(s) or body corporate(s) named, or if no individual(s) or body corporate(s) is named, the Chairman of the Meeting, as my/our proxy to act generally at the Meeting on my/our behalf and to vote in accordance with the following directions, or if no directions have been given, to vote as the proxy sees fit, to the extent permitted by law, at the Meeting and at any postponement or adjournment of the Meeting.

I/we expressly authorise the Chairman of the Meeting to exercise my/our proxy even if the resolution is connected directly or indirectly with the remuneration of a member of the key management personnel.

If you have not appointed the Chairman of the Meeting as your proxy and you are appointing a second proxy please complete the following: Proxy 1 is appointed to represent _____% of my voting right and Proxy 2 is appointed to represent _____% of my total votes. My total voting right is _____ shares.

PLEASE NOTE: If the appointment does not specify the proportion or number of votes that the proxy may exercise, each proxy may exercise half the votes.

With respect to any amendment or variations to the matters identified in the Notice of Meeting and any other matters which may properly come before the Meeting, I/we confer discretionary authority on the person voting on behalf of me/us to vote as that person sees fit. At the time of printing this Form of Proxy, management knows of no such amendment, variation or other matter.

STEP 2 Items of Business

PLEASE NOTE: If you mark the abstain box for a particular item, you are directing your proxy not to vote on that item on a show of hands or on a poll and your votes will not be counted in computing the required majority on that item.

If you wish to indicate how your proxy is to vote, please mark the appropriate places below.

FOR AGAINST ABSTAIN

Resolution 1 – Adoption of the Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2 – Re-election of Robert Douglas as Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3 – Approval under Listing Rule 10.1 for the grant of security to Mitchell Group	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4 – Approval of issue of Shares to Mitchell Group under Listing Rule 10.11	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5 – Approval of additional 10% capacity under Listing Rule 7.1A	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

SIGN Signing by member

This section **must** be signed in accordance with the instructions overleaf to enable your directions to be implemented.

Individual or Member 1

Sole Director and Sole Secretary

Member 2 (if joint holding)

Director/Company Secretary

Member 3 (if joint holding)

Director

/ /

Date