

SWICK MINING SERVICES

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ASX ANNOUNCEMENT

SWICK – 3Q FY16 Operations Update

- ☐ Revenue of \$28.6m (unaudited) for 3Q16 down from \$32.7m for the previous corresponding period (pcp), a decrease of 13%
- ☐ Total metres drilled of 311,867 for the quarter down 4% from 325,259 pcp
- ☐ Underground Diamond (UD) drilled metres of 226,472 for the quarter down 13% from 258,957 pcp
- ☐ Total operational man-hours for UD division of 193,265 down 23.4% from 252,272 pcp
- ☐ Improved efficiency – Underground diamond drilling metres per man-hour at 1.17 up from 1.03 pcp, an increase of 14% - in line with strategic objective
- ☐ Total fleet utilisation at 60% for the period down from 70% pcp
- ☐ Underground diamond fleet utilisation at 61% for the period down from 78% pcp

Western Australia – (April 29, 2016) – Swick Mining Services Limited (“Swick” or “the Company”; ASX: SWK), a leading provider of high quality and high value underground and surface mineral drilling services today provided an operations update for the third quarter of FY16.

Operations Update

Revenue for the quarter ending March 31, 2016 was \$28.6 million (unaudited), down from \$32.7 million for the corresponding period a year ago. The drop in revenue was predominantly due to the renewed Newmont Tanami contract which commenced at the start of this quarter. This contract was renewed at lower rates due to the lower manning levels made possible by the rollout of the Company’s technological advancements on rigs operating at this project.

A total of 53 rigs from a fleet of 78 (including three client owned rigs) were operating in the field as of March 31, 2016 compared to 61 rigs from a fleet of 83 a year ago. Of the total rigs in work, the UD division represented 47 rigs operating from a fleet of 68, compared to 57 rigs operating from a fleet of 69 a year ago.

Swick has experienced a decrease in rig utilisation during the quarter. This has however, been offset by an increase in productivity per rig, a result of ongoing productivity improvements being implemented on our UD rigs. The UD division achieved an improved metres per man-hour ratio (a measure of efficiency) of 1.17 for this quarter, an increase of 14% compared to the prior corresponding period. Rig utilisation is expected to increase in 4Q16 as the Company commenced drilling at the Nova and Jaguar projects in April 2016.

The roll-out of the new rig technology at the Tanami project involves the removal of existing drilling equipment from the Northern Territory operation, upgrading those assets in the Perth workshop facility and returning the upgraded rigs to site. At the same time as the upgrades, the Company has taken the opportunity to carry out the required maintenance on the rigs which would otherwise have occurred at a future date at site and at a higher cost.

The long term gain of the equipment upgrades at the Tanami mine is that the technology allows for a lower manning ratio of 1.5 men per rig shift down 37.5% from 2.4 men per rig shift. The lower rates offered to Newmont are designed to share the benefits of lower labour costs, and the subsequent flight and accommodation savings over the tenure of the contract, which is currently in place until September 2018 (with an additional one year extension on mutual agreement).

In addition to the temporary costs associated with the machinery upgrades at the Tanami project, a number of our other clients are managing their drill programs tightly with an increase in rig mobilisations and de-mobilisations when compared to the normal market conditions. As a result there has been a negative impact on the overall margins for FY16 and the year-end result is expected to be gross revenue of approximately \$123m at an EBITDA margin of around 11% and a loss after tax of around \$3m (includes \$1.6m of de-recognised carried forward losses in the international operations and impairment of skid based rigs, both items reported in the first half of FY16).


Capital management programs focused on stay-in-business capital and targeted investment in upgrading the efficiency of the assets has the capital expenditure forecast for the full year at around \$11m.

Key operating statistics for 3Q16 are shown below;

| Operational Performance | 3Q FY16 | 3Q FY15 | % Change |
|-------------------------------------|---------|---------|----------|
| Total Metres Drilled | 311,867 | 325,259 | -4% |
| Total Rigs in Fleet (at period end) | 78 | 83 | -6% |
| Total Rigs in Use (at period end) | 53 | 61 | -13% |
| Consolidated Revenue (\$m) | 28.6 | 32.7 | -13% |
| UD Metres Drilled | 226,472 | 258,957 | -13% |
| UD Rigs in Fleet (at period end) | 68 | 69 | -1% |
| UD Rigs in Use (at period end) | 47 | 57 | -18% |
| Total Employees | 498 | 606 | -18% |

Swick believes its market leading UD division is still well placed to see through the current tough market conditions as a result of continued improvements in rig productivity and its focus on total value in the sector.

Swick remains on track to achieve its strategic objective to 'double the metres per man-hour' from June 2012 to June 2017. The strategy is based on two key elements – increased rig productivity and reduced rig manning. The Company has over the last few years researched various technological upgrades which have resulted in a significant improvement in rig productivity over the last year and especially this quarter. The UD division improved this key measure by 14% this quarter compared to the prior corresponding period. The roll-out of these upgrades on all UD rigs is expected to continue for the remainder of this calendar year.



Kent Swick, Managing Director stated “The macro circumstances in which we operate have generally worsened and a number of our clients, with the exception of the gold miners, are reducing drilling spends and in some cases, ceasing spending all together. ”

“ Year on year, we have seen a reduction in the Nickel price of 31%, Copper is down 20% and Zinc is down 15%, all in Australian dollar terms, so it is tough out there for many mining companies. Those three metals represent around 40% of Swick’s drilling, so whilst we work as closely as possible with our clients on reducing costs and maintaining efficiency, volume is inevitably affected by that downturn. Swick maintains excellent relationships with our clients and will benefit from any commodity upturn which allows drilling to recommence. ”

“Gold miners are enjoying a 10% year on year uplift in the price in Australian dollar terms, so it is expected that volumes will improve in this sector in the near term. Swick has a strong exposure to upside in this sector with approximately 50% of its volume with gold miners. Whilst volume is likely to improve in this area of the market, rates will remain competitive as a result of softness in the other commodity sectors.”

“Swick has an ability to reduce the impact of the market downturn by a continuous focus on improving efficiency and by investing in in-house engineering upgrades that drive our strategic objective of doubling the metres per man-hour. All stakeholders will benefit from the improved value, safety and quality that these improvements make over time”.

“With a broad regional spread and diverse commodity exposure, Swick is still expected to maintain its total volume of metres drilled this year to a level very similar to last year. Adjusting our rates to meet the market has led to lower overall revenues for that volume of work, however the net effect will be softened with reduced costs. The new in-house technology we are deploying as we systematically upgrade our fleet allows for significant improvements in efficiency and we are in a unique position to recover margins in the near term in this depressed market.”

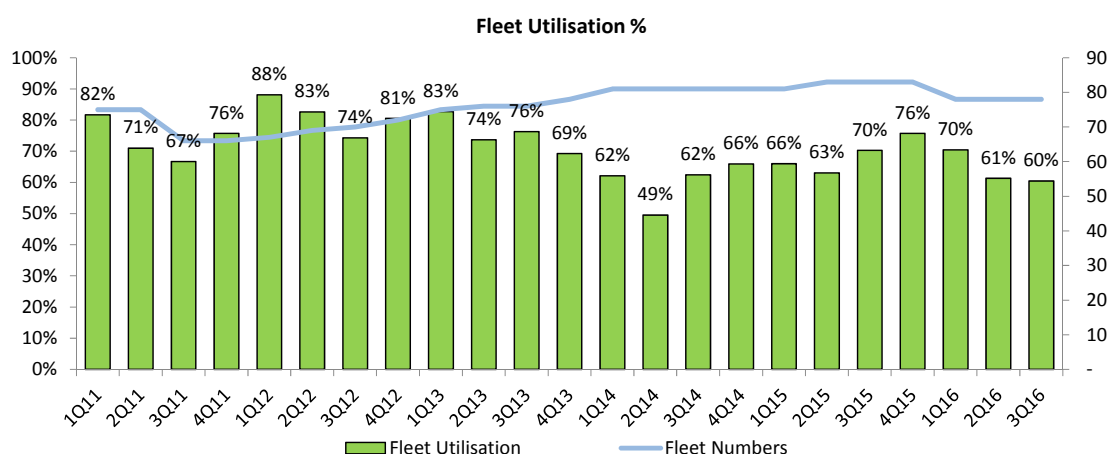
Safety and Training

The journey towards zero harm continues at Swick. The TRIFR at 31st March 2016 stands at 9.5 per million man-hours which is down 10% from the level at 31st December 2015.

Swick is engaged with external safety specialists and university researchers with the aim to leverage their experience from other industries which we can apply to Swick. Our underlying philosophy of continuous improvement and engineering design, will ultimately lead to significant developments at the drill site to further reduce risk and enhance our safety record.

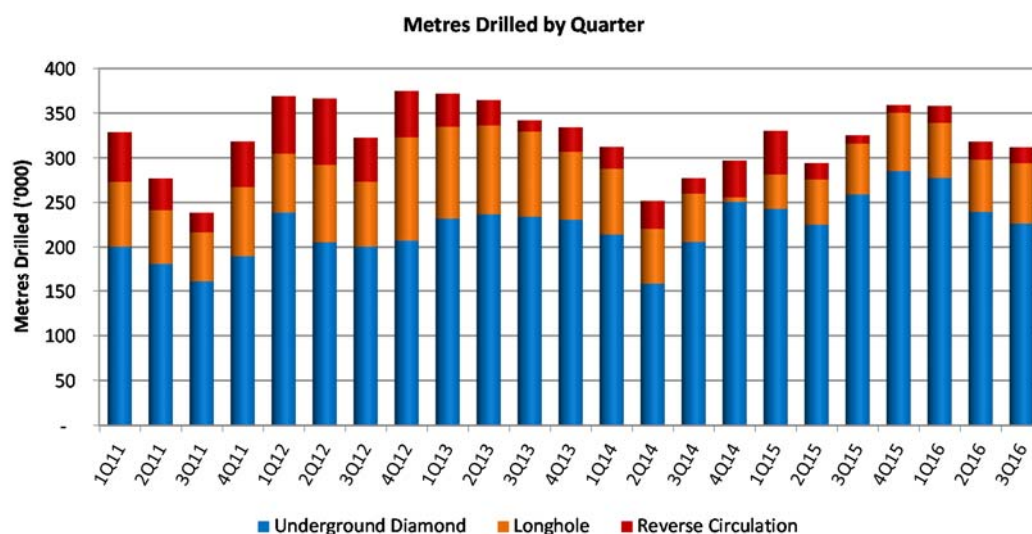
Fleet Utilisation

A FTE (full time equivalent) average of 47 from a fleet total of 78 (including three client owned rigs) operated in the third quarter. The Company’s rig utilisation against total fleet number is shown below:



Metres Drilled

Total metres drilled for 3Q16 decreased 4% to 311,867 metres from 325,259 metres in the corresponding period last year. The quarterly metres drilled by division is shown in the graph below with UD down 13%, Longhole Production up 18% and RC up 91%, compared to the corresponding period last year.



FY16 Outlook

The group revenue forecast stands at approximately \$123m for FY16 with an EBITDA margin of around 11% and a resultant NPAT loss of around \$3m (includes \$1.6m of de-recognised carried forward losses in the international operations and impairment of skid based rigs, both items reported in the first half of FY16).

A disciplined capital management program will lead to a total capital expenditure for the year of approximately \$11m, allowing free cash generation, reduction of debt and an improvement in the Company's net debt position.

The order book at 31st March 2016 stands at around \$120m.

Commentary

Mr. Swick states: “Despite another tough year in the industry, Swick is performing well given the circumstances. Swick’s ability to maintain volumes despite the hyper competitive market is testament to the service provision offered as a whole and the value created for our customers. Our quest for efficiency is paying dividends and despite significant face value impacts on market pricing which has led to a 7% reduction in rates over last year, the impact on the EBITDA margin will be limited to around 2%.”

“With these efficiency projects still only touching a fraction of our fleet, the future recovery of margins to an acceptable level to our shareholders is possible, even in a depressed market and is so as a result of long term strategies in place at Swick.”

About Swick Mining Services:

Swick Mining Services Ltd (ASX: SWK) is one of Australia’s largest mineral drilling contractors, providing high quality underground and surface drilling services to a diverse group of mining houses and across a spread of commodities. The Company has a strong reputation for innovation in rig design and drilling practices that delivers improvements in productivity, safety, versatility and value. Swick has a global presence with Operational revenue from Australia, Canada, United States and Europe.

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Disclosure Statement:

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