28 January 2020

Mitchell Services Limited (ASX:MSV)

Quarterly Investor Update

Mitchell Services Limited recorded strong FY20 Q2 operating and financial performance:

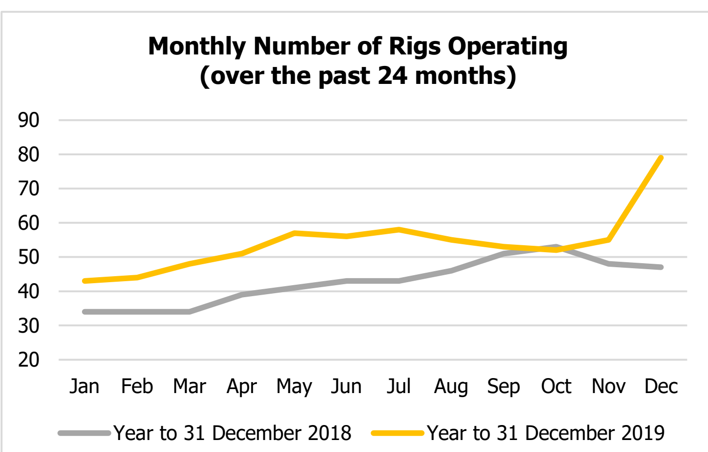
- Revenue $39.5m
- EBITDA $7.9m
- Operating cash flow $8.3m
- Operating cash conversion ratio 105%

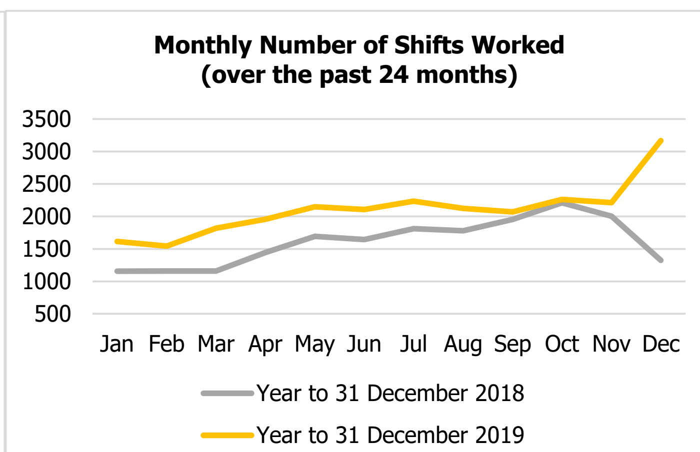
Dear Shareholder,

I am pleased to provide the following investor update for the quarter ending 31 December 2019 (**FY20 Q2**) for Mitchell Services Limited (**the Group**) based on the Group's un-audited management accounts. The Group has once again delivered a strong performance during FY20 Q2.

As utilisation and productivity levels continue to improve amid favourable market conditions and following the recent Deepcore Drilling acquisition, FY20 Q2 has seen increases in revenue, EBITDA, operating rigs and shift numbers when compared to the same quarter last year (FY19 Q2) as the below tables illustrate.

	FY20 Q2	FY19 Q2	Movement	Movement %
Average operating rigs	62.2	49.3	12.9	26.2%
Number of shifts	7,642	5,536	2,106	38.0%
Revenue ($'000s)	39,529	32,173	7,356	22.9%
EBITDA ($'000s)	7,901	7,218	683	9.5%
Operating cash flow ($'000s)	8,338	10,901	(2,563)	(23.5%)





This result included one month's contribution from Deepcore Drilling (which was acquired on 29 November 2019) and I am pleased to inform shareholders that the Deepcore Drilling business is performing safely, efficiently and in line with expectations. Integration of Deepcore Drilling is well underway, and all acquisition related transaction costs were incurred and expensed prior to 31 December 2019 and are included in these financial results for the quarter ending 31 December 2019. This puts the Group on a solid footing heading into the second half of the 2020 financial year. The following table summarises the un-audited financial and operating results for the first half of the 2020 financial year.

Un-audited FY20 year-to-date information as at 30 December 2019

	FY20 Q2	**FY20 Q1**	**FY20 YTD**
Average operating rigs	62.2	55.3	58.8
Number of shifts	7,642	6,427	14,069
Revenue ($'000s)	39,529	33,454	72,983
EBITDA ($'000s)	7,901	6,247	14,148
EBITDA (%)	20.0%	18.7%	19.39%
Operating cash flow ($'000s)	8,338	5,674	14,012
Annualised revenue per rig ($'000s)	2,542	2,420	2,485
Net debt ($'000s)	39,487	12,695	39,487

The Group expects that revenue and EBITDA for the second half of FY20 will be materially greater than the first half and as such expects that full year FY20 revenue and EBITDA will be significantly greater than the full year FY19 figures of $120m and $24m respectively.

The Group's net debt at 31 December 2019 was $39.5m compared to $12.7m at 30 September 2019. This additional $26.8m in debt is associated with the Deepcore Drilling acquisition and comprises:

- $10.8m worth of Deepcore net debt recognised upon consolidation. This debt (with National Australia Bank Limited) comprises equipment finance facilities with short amortisation profiles at an average interest cost of approx. 4.9% p.a
- A new $16m facility provided by National Australia Bank to fund the cash component of the Deepcore Drilling purchase price plus associated costs on the following summarised terms
    - Expiry date – 30 November 2022
    - Minimum annual principle repayments – $3,200,000
    - Interest rate – BBSY plus 2.7% p.a (30-day BBSY currently approx. 0.9% p.a)
    - Security by way of a first ranking general security agreement over all companies within the Group

The outlook across the business (and broader mining services sector) remains positive and I am grateful for your continued support.

Our near-term focus will include:

- Continue to operate safely across the organisation
- Finalise the integration of the Deepcore Drilling business
- Consider the appropriateness of a special dividend

Yours faithfully

Andrew Elf
Chief Executive Officer