



Mitchell
SERVICES

Appendix 4D

Mitchell Services Limited (ABN 31 149 206 333)

Current reporting period	Previous reporting period
1 July 2019 to 31 December 2019	1 July 2018 to 31 December 2018

Results for Announcement to the Market

		Current reporting period	Previous reporting period	Change
		\$A'000's	\$A'000's	\$A'000's
Revenue from continuing operations	Up 15%	72,983	63,291	9,692
EBITDA	Down 1%	14,140	14,229	(89)
Profit after tax attributable to members	Down 63% ¹	4,290	11,728	(7,438)

Net Tangible Assets per Security

	31 Dec 19	30 Jun 19	31 Dec 18
Net tangible asset backing per ordinary security	1.85 cents ²	2.17 cents	1.90 cents

¹ The corresponding reporting period had benefited from recognising previously unbooked deferred tax assets on tax losses which resulted in an income tax credit/benefit of \$4m (versus an income tax charge of \$2.08m in the current reporting period). The current reporting period includes one month's contribution from Deepcore Drilling (which was acquired on 29 November 2019). All acquisition related transaction costs were expensed and are included in the current reporting period results

² On completion of the Deepcore Drilling acquisition (and as part of the required purchase price allocation process) the Company recognised intangible assets of approximately \$20.9m in the form of customer contracts and goodwill. The resultant increase in intangible asset value from 30 June 2019 to 31 December 2019 has resulted in a decrease in the reported net tangible asset backing per security from 30 June 2019 to 31 December 2019. The net asset backing per ordinary security calculation is based on the number of securities on issue at 31 December 2019 (i.e. prior to the 1 for 10 consolidation that took place on 10 February 2020).

Mitchell Services Limited

ARN 31 149 206 333

112 Bluestone Circuit
Seventeen Mile Rocks Qld 4073 Australia
PO Box 3250 Darra Qld 4076 Australia

t +61 7 3722 7222

e info@mitchellservices.com.au

f +61 7 3722 7256

w www.mitchellservices.com.au

For personal use only

Dividends

The Company has today determined a fully franked special dividend of 1.1 cents per fully paid ordinary share with a record date of 30 June 2020.

Other Disclosures

Additional Appendix 4D disclosure requirements and further information including commentary on significant features of the operating performance, trends in performance and other factors affecting the results for the current period are contained in the attached Half-Year Report and Investor Presentation released 27 February 2020.

This report is based on financial statements which have been subject to independent review by the auditor, Jessups.



Greg Switala
Company Secretary

27 February 2020

For personal use only

MITCHELL SERVICES LTD ACN 149 206 333

FOR THE HALF-YEAR ENDED
31 DECEMBER 2019



Mitchell
SERVICES

HALF-YEAR REPORT

For personal use only

CONTENTS

Directors' Report	2
Auditor's Independence Declaration	9
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	10
Condensed Consolidated Statement of Financial Position	11
Condensed Consolidated Statement of Changes in Equity	12
Condensed Consolidated Statement of Cash Flows	13
Notes to the Condensed Consolidated Financial Statements	14
Directors' Declaration	23
Independent Auditor's Review Report	24

DIRECTORS' REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

The Directors of Mitchell Services Limited submit herewith the financial report of Mitchell Services Limited (**Company**) and its subsidiaries (**Group**) for the half-year ended 31 December 2019. In order to comply with the provisions of the Corporations Act 2001, the Directors' report as follows:

DIRECTORS

The names of the Directors of the Company during or since the end of the half-year are:

Name

Nathan Andrew Mitchell
Peter Richard Miller
Robert Barry Douglas
Neal Macrossan O'Connor
Scott David Tumbridge

Other than Mr Scott David Tumbridge (who was appointed as Director on 29 November 2019), the above-named Directors have held office throughout the six months ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Group provides exploration and mine site drilling services to the exploration, mining, and energy industries, primarily in Australia. The Group is currently headquartered in Seventeen Mile Rocks, Queensland.

The Group provides drilling solutions at all stages of the mining lifecycle, in both energy and minerals. The diversity in operations allows for better management of the cyclical nature of commodity prices, as well as giving employees exposure to various forms of drilling as part of their career development.

The various stages of the project lifecycle that the Group can provide its drilling services are:

- Greenfield exploration
- Project feasibility
- Mine site exploration and resource definition
- Development
- Production

There were no significant changes in the Group's nature of activities during the year.

REVIEW OF OPERATIONS

Acquisition of Deepcore Drilling

1H20 was marked by the Group's acquisition of Deepcore Holdings Pty Ltd and its subsidiary companies (collectively **Deepcore Drilling**). Deepcore Drilling provides highly specialised services to the mining and infrastructure industries, including underground mobile drilling, diamond drilling, acoustic and deep directional drilling. The acquisition (which is expected to be materially earnings accretive into the foreseeable future) was strategically and financially compelling for the Group. Given Deepcore Drilling's specialist product offerings and its strong exposure to gold in Victoria, the combination of the two business has resulted in the Group becoming one of the largest and most diversified drilling services providers in Australia. The acquisition has further strengthened the Group's market position with regard to diversity of drilling type, commodity and geography whilst maintaining a high proportion of Tier 1 clients on operating mine sites.

DIRECTORS' REPORT CONTINUED FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

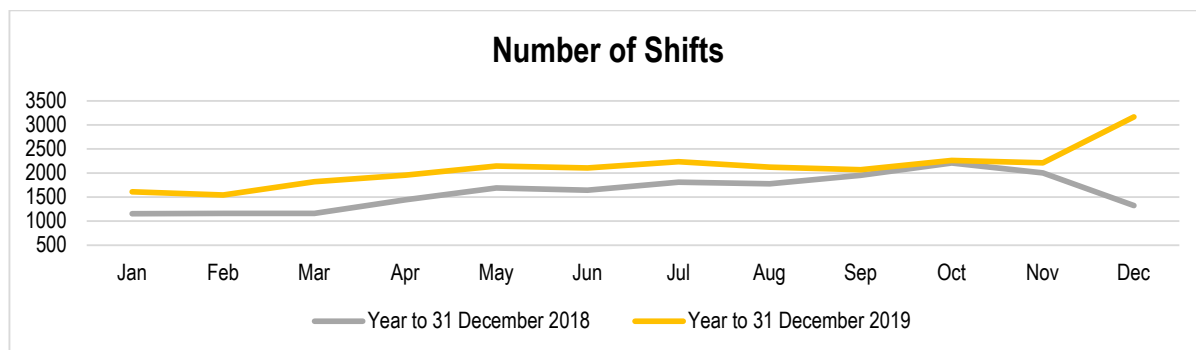
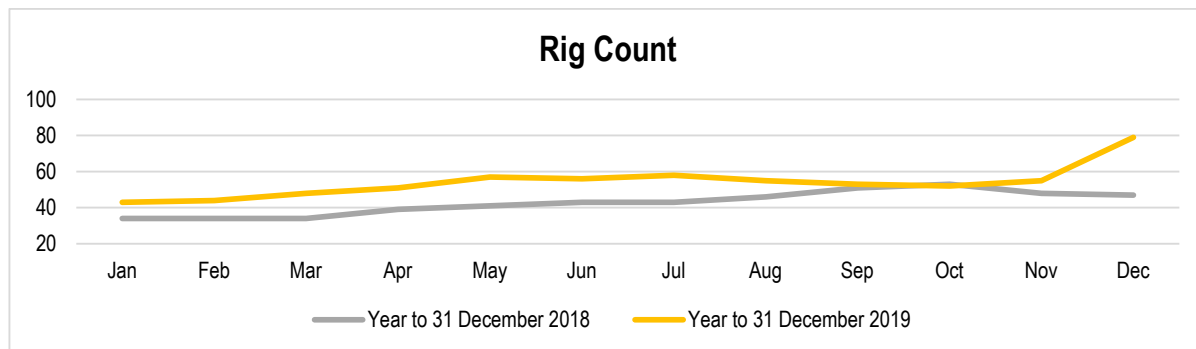
The Group acquired 100% of the equity in Deepcore Drilling in exchange for \$15m cash and 250 million fully paid ordinary Mitchell Services Limited shares at an agreed issue price of \$0.068 per share, as well as a contingent consideration element, fair valued at approximately \$1.9m, whereby the vendors will be entitled to a 50 per cent share of any portion of EBITDA generated by Deepcore Drilling in excess of \$12.5m per annum for a period of three years from 1 January 2020 through to 31 December 2022.

Activity levels

The six months ending 31 December 2019 (1H20) continued the momentum of FY2019 which had been financially transformational for the Group with revenue for 1H20 of \$73.0m representing a 15% increase from the previous corresponding period of \$63.3m and 120% increased on 1H18 which recognised revenue of \$33.2m.

This significant revenue improvement was driven by a combination of increased utilisation, productivity and pricing levels as well as the inclusion of one month's contribution from Deepcore.

The charts below illustrate the sustained increase in utilisation (rig count) and productivity (number of shifts) over the past 24 months with improved metrics being shown over the 5 months ended 30 November 2019 compared to the previous corresponding period, as well as highlighting the effect of the Deepcore acquisition (although this will become more pronounced in 2H20 which will reflect the benefit of a full half of contribution from Deepcore).



DIRECTORS' REPORT CONTINUED FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

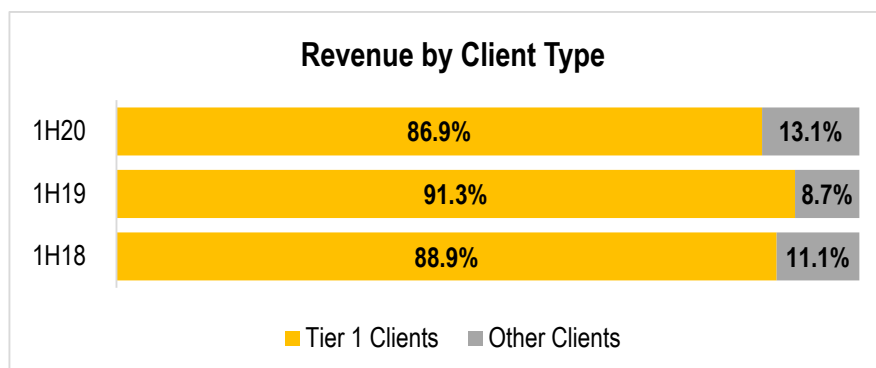
The table below illustrates the revenue impact of the increased utilisation and productivity over the past 30 months.

	FY2018		FY2019		
	1H18	2H18	1H19	2H19	1H20*
Average operating rigs	36.7	37.5	48.1	49.8	58.7
Number of shifts	7,423	8,332	11,078	11,188	14,069
Revenue (\$'000s)	33,215	39,485	63,153	57,052	72,983
Annualised revenue per rig (\$'000s)	1,810	2,106	2,626	2,291	2,487

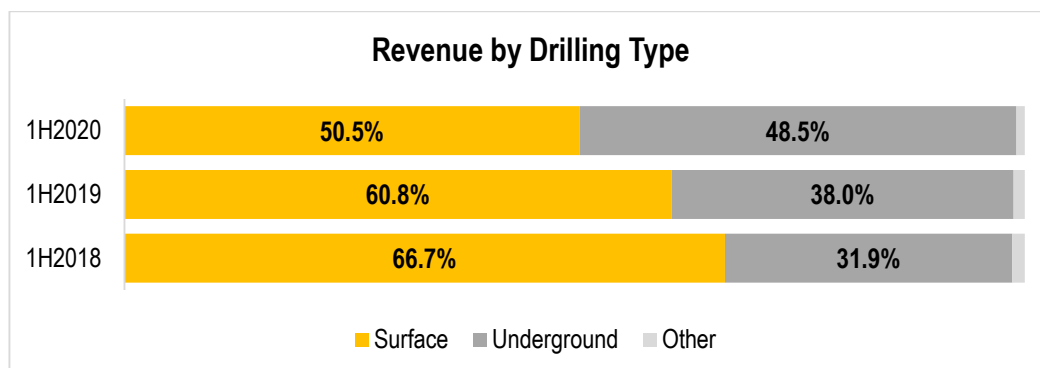
*1H20 reflects one month's contribution from Deepcore and therefore does not reflect the underlying contribution of Deepcore from an average operating rig and number of shifts perspective.

Customer base and revenue break-down

As the chart below demonstrates, the Group's revenue was predominantly derived from large, multinational mining clients (Tier 1 clients). The drilling services that were provided to these Tier 1 clients were generally at producing mine sites and were linked to the resource definition, development and production stages within the mine life cycle as opposed to greenfield exploration.

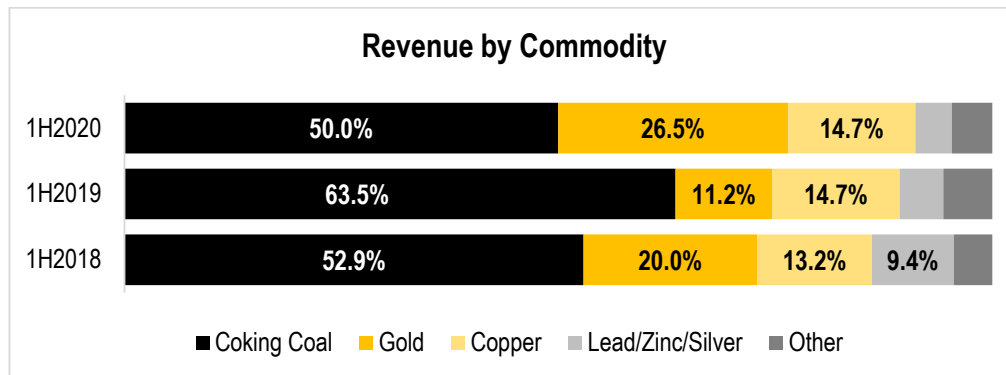


The Board and management remain mindful of the importance of diversification in revenue streams including the mix between surface and underground drilling and the mix between different commodity types. Underground drilling is generally performed on a double shift basis and is generally not subjected to seasonal fluctuations. 1H20 Revenue from underground drilling has grown by 47% compared to 1H19 and now accounts for 48% of the Group's total revenue.

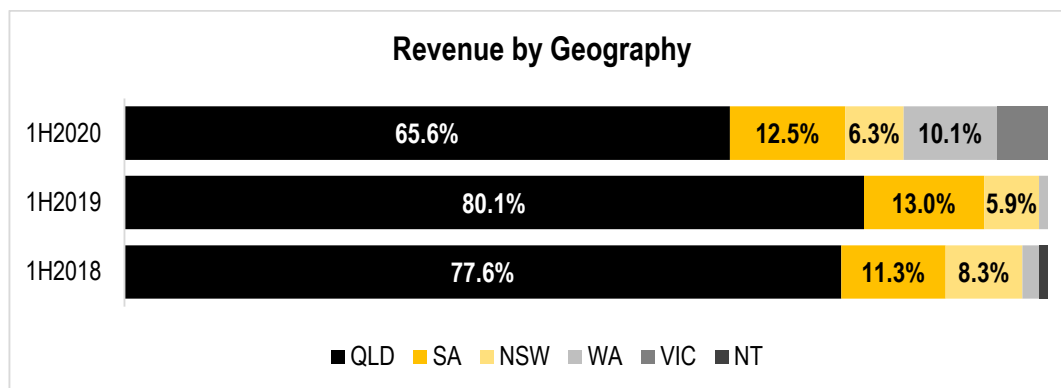


DIRECTORS' REPORT CONTINUED FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

The Group's revenue mix by commodity remains well balanced with exposures across coking coal only and a range of precious metals and other minerals.



The Group has continued to expand its geographical footprint with 1H20 including revenue derived from Western Australia based on its entry into the drill and blast production drilling market while the share of revenue derived from Victoria and New South Wales will progressively become a more substantial portion of the geography mix with 1H20 including only one month's contribution from Deepcore Drilling.



DECEMBER 2019

DIRECTORS' REPORT CONTINUED FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Safety

Finishing each day without harm is a core Mitchell Services value and the Group is committed to the safety of its most important asset – its people. The Group is particularly focused (amid improving market conditions) on training to attract, retain and further develop its drillers and support crews to ensure that service levels and the quality of the Mitchell brand remain high.

In November 2019 Mitchell Services received the 2019 Australian Prospect Mining "Contract Miner of the Year" award. The Group's safety record and culture was recognised as key criteria in this award.

Profitability

During 1H20, the Group has been able to maintain momentum from a financially transformational FY19, recording 1H20 earnings before interest, depreciation and amortisation (EBITDA) of \$14.1m, virtually in line with the previous corresponding period of \$14.2m, while 1H18 had recorded \$2.7m.

After deducting depreciation and amortisation of \$7.1m, the Group recorded 1H20 earnings before interest and tax (EBIT) of \$7.1m, down \$1.4m on the 1H19 EBIT of \$8.5m, although this is largely represented by a greater depreciation expense, up \$2.3m on 1H19, driven by a substantial investment in financed equipment over the last 18 months, required to service the expansion in operations over that period.

Reduced EBIT flowed down to 1H20 net profit before tax (NPBT) of \$6.4m, down \$1.3m on the 1H19 NPBT of \$7.7m, driven by the increased depreciation and amortisation expense while the Group recorded a 1H20 net profit after tax (NPAT) of \$4.3m, down \$7.4m on 1H19 however the corresponding period had benefited from recognising previously unbooked deferred tax assets on tax losses which had resulted in a tax credit of \$4.0m.

Cash flow

As reported above, the Group recorded 1H20 EBITDA of \$14.1m, and with minor net movements in working capital between 30 June 2019 and 31 December 2019, the Group generated \$14.9m in cash flow from operations. After deducting interest payments of \$0.9m, the Group's cash flow from operating activities was \$14.0m for 1H20, down \$1.3m on 1H19 but still representing a healthy cash conversion ratio of 99%.

Balance sheet

The Group's strong pre-acquisition balance sheet enabled the cash consideration component of the Deepcore Drilling acquisition to be funded by debt with the balance of the purchase price funded through the issue of 250 million fully paid MSV ordinary shares at an issue price of \$0.068 per share. The cash component of the purchase price (plus associated costs) was funded by a new \$16m facility provided by National Australia Bank on the following summarised terms:

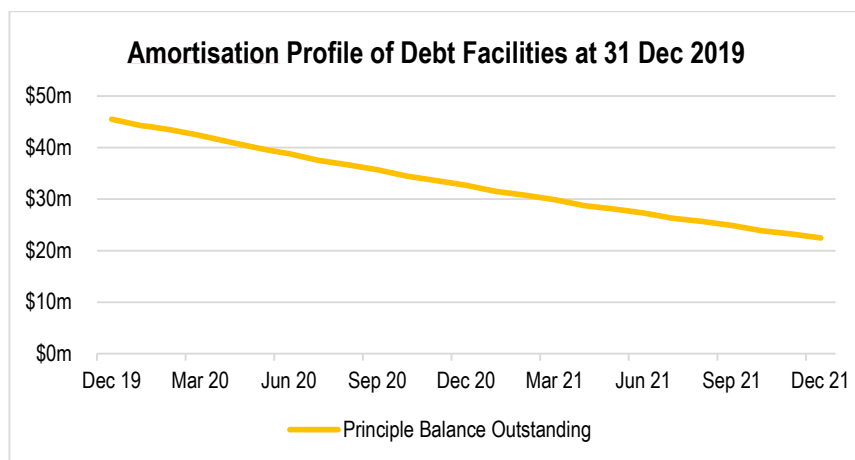
- Loan amount - \$16m
- Minimum annual principle repayments - \$3.2m
- Interest rate – BBSY plus 2.7%
- Security by way of a first ranking general security agreement over all companies within the Group

**DIRECTORS' REPORT CONTINUED
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019**

Consolidated net debt at 31 December 2019 of \$38.5m represents approximately 1.1 times EBITDA on a guided FY20 EBITDA basis. Whilst the Group remains strategically focussed on debt reduction in the medium to long term, it considers current debt levels appropriate based on a number of factors including the size and remaining term of its contract book and tender pipeline. Further, at 31 December 2019, the Group held cash and cash equivalents of \$7.1m while the liquidity coverage has also been enhanced by the working capital facility being increased from \$5m to \$10m.

With purchase price allocation accounting (PPA) being provisionally complete, the fair valuation of Deepcore's net assets has resulted in the recognition of Property, Plant and Equipment and Customer contracts (Intangible Assets) of \$27.5m and \$19.1m respectively. The former is largely represented by Deepcore's fleet of 32 rigs (including latest generation mobile underground rigs) while the latter is based on valuation of contracts executed with customers which will be amortised over the remaining term of the contract on a straight-line basis.

Gross debt at 31 December 2019 of approx. \$45.5m is comprised of debt to fund the acquisition of Deepcore, traditional equipment finance facilities with relatively short amortisation profiles (as the chart below demonstrates) and lease liabilities associated with right-of-use assets under the new leasing standard.



The Group's current ratio (current assets: current liabilities) has increased by 18% from 1.12 at 30 June 2019 to 1.32 at 31 December 2019.

EVENTS AFTER THE REPORTING DATE

Subsequent to 31 December 2019, the directors have determined a fully franked special dividend of 1.1 cents per fully paid ordinary share with a record date of 30 June 2020. The total anticipated dividend payable of approximately \$2.2m is not recognised as a liability at 31 December 2019.

There has not been any other matter or circumstance occurring subsequent to the end of the reporting period that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in the future.



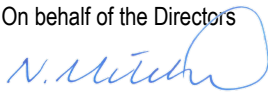
DIRECTORS' REPORT CONTINUED FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration under s 307C of the Corporations Act 2001 is set out on page 9 for the half-year ended 31 December 2019.

This Directors' Report is signed in accordance with a resolution of the Board of Directors.

On behalf of the Directors



Nathan Mitchell
Executive Chairman

Dated at Brisbane this 27th day of February 2020

MITCHELL SERVICES LTD
AUDITOR'S INDEPENDENCE DECLARATION
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Auditor's Independence Declaration under Section 307C of the *Corporations Act 2001* to the Directors of Mitchell Services Ltd

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2019 there have been no contraventions of:

- (i) the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

JESSUPS



Paul Sapelli
Director

Dated: 27 February 2020

Level 1, 211 Sturt Street
Townsville QLD 4810

Townsville Office
Level 1
211 Sturt Street
Townsville Q. 4810
PO Box 1269
Townsville Q. 4810

Telephone
07 4755 3330

Facsimile
07 4755 3320

info@jessupsnq.com.au

www.jessupsnq.com.au

Other Office
Cairns

Professional Services

- > Audits
- > Business Plans
- > Business Pre-Purchase Reviews (Due Diligence)
- > Business Valuations
- > Forensic Accounting
- > Intensive Care Assignments
- > Investigative Accountants Reports
- > Litigation Support
- > Security & Pre-Lending Reviews
- > Strategic & Management Advice

For personal use only

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR
LOSS AND OTHER COMPREHENSIVE INCOME**
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

		31 Dec 19	31 Dec 18
	Note	\$	\$
Continuing operations			
Revenue	3	72,983,343	63,291,294
Gain on sale of assets		1,335,386	7,337
Advertising		(64,407)	(141,708)
Drilling consumables		(8,000,709)	(9,860,892)
Employee and contract labour expenses		(35,627,885)	(27,215,326)
Fuel and oil		(1,562,410)	(947,842)
Freight and couriers		(836,266)	(664,877)
Hire of plant and equipment		(3,117,477)	(2,090,528)
Insurances		(795,629)	(796,693)
Legal, professional and consultant fees		(1,135,682)	(388,844)
Rent		(504,829)	(543,630)
Service and repairs		(3,535,149)	(2,689,558)
Travel expenses		(3,225,904)	(2,235,518)
Other expenses		(1,772,406)	(1,493,789)
Earnings before interest, tax, depreciation and amortisation		14,139,976	14,229,426
Depreciation expense		(6,253,097)	(3,990,387)
Amortisation of intangibles		(823,786)	(1,780,742)
Profit / (loss) before interest and tax		7,063,093	8,458,297
Finance expenses		(692,406)	(733,036)
Profit / (loss) before tax		6,370,687	7,725,261
Income tax (expense)/benefit		(2,080,758)	4,002,463
Profit / (loss) for the period from continuing operations		4,289,929	11,727,724
Discontinued operations			
Profit / (loss) for the period from discontinued operations		-	-
Profit / (loss) for the period		4,289,929	11,727,724
Other comprehensive income, net of income tax			
Other comprehensive income for the period, net of income tax		-	-
Total comprehensive income for the period		4,289,929	11,727,724
Profit / (loss) attributable to:			
Owners of the parent		4,289,929	11,727,724
Total comprehensive income attributable to:		4,289,929	11,727,724
Owners of the parent		4,289,929	11,727,724
Earnings per share			
From continuing and discontinued operations			
Basic (cents per share)		0.24	0.68
Diluted (cents per share)		0.24	0.67
From continuing operations			
Basic (cents per share)		0.24	0.68
Diluted (cents per share)		0.24	0.67

The accompanying notes are an integral part of these financial statements

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

		31 Dec 19	30 Jun 19
	Note	\$	\$
ASSETS			
Current assets			
Cash and cash equivalents		7,082,061	1,596,676
Trade and other receivables		30,174,477	22,775,835
Other assets		1,400,291	2,350,016
Inventories		3,962,631	2,994,947
Intangibles at cost	4	11,437,184	-
Total current assets		54,056,644	29,717,474
Non-current assets			
Right-of-use assets	5	2,579,865	-
Property, plant and equipment	6	71,663,574	35,273,397
Intangibles at cost	4	8,594,278	-
Deferred tax assets	8	3,846,475	5,027,750
Other assets		229,669	178,383
Total non-current assets		86,913,861	40,479,530
Total assets		140,970,505	70,197,004
LIABILITIES			
Current liabilities			
Trade and other payables		20,620,392	16,241,168
Dividend payable		-	1,734,966
Income tax payable	8	139,419	-
Other financial liabilities	7	13,775,010	4,890,434
Provisions		6,404,426	3,602,646
Total current liabilities		40,939,247	26,469,214
Non-current liabilities			
Other financial liabilities	7	34,753,194	5,717,699
Deferred tax liabilities	8	5,804,458	-
Provisions		2,627,672	416,727
Total non-current liabilities		43,185,324	6,134,426
Total liabilities		84,124,571	32,603,640
Net assets		56,845,934	37,593,364
EQUITY			
Issued capital		72,995,137	58,245,137
Share issue costs		(2,781,212)	(2,726,220)
Retained earnings		(13,367,991)	(17,925,553)
Total equity		56,845,934	37,593,364

The accompanying notes are an integral part of these financial statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Note	Issued Capital	Retained Earnings	Total
		\$	\$	\$
Balance at 1 July 2018		55,174,562	(34,140,098)	21,034,464
Comprehensive income				
Profit/(loss) for the period		-	11,727,724	11,727,724
Other comprehensive income for the period		-	-	-
Total comprehensive income for the period		-	11,727,724	11,727,724
Issue of ordinary shares		-	-	-
Share issue costs		-	-	-
Recognition of deferred tax asset		252,350	-	252,350
Recognition of share-based payments		-	158,891	158,891
Balance at 31 December 2018		55,426,912	(22,253,483)	33,173,429
Balance at 1 July 2019		55,518,917	(17,925,553)	37,593,364
Comprehensive income				
Profit/(loss) for the period		-	4,289,929	4,289,929
Other comprehensive income for the period		-	-	-
Total comprehensive income for the period		-	4,289,929	4,289,929
Issue of ordinary shares		14,750,000	-	14,750,000
Share issue costs, net of tax		(19,712)	-	(19,712)
Income tax related to share issue costs		(35,280)	-	(35,280)
Recognition of share-based payments		-	267,633	267,633
Balance at 31 December 2019		70,213,925	(13,367,991)	56,845,934

The accompanying notes are an integral part of these financial statements

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

		31 Dec 19	31 Dec 18
	Note	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		74,502,079	63,807,444
Payments to suppliers and employees		(59,623,518)	(47,342,323)
Interest received		-	71
Interest paid		(866,616)	(671,425)
Income tax paid		-	(483,803)
Net cash provided by operating activities		14,011,945	15,309,964
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		1,892,877	95,850
Payment for purchase of property, plant and equipment		(9,183,363)	(2,772,641)
Payment for purchase of Deepcore, net of cash acquired		(15,680,378)	-
Net cash used in investing activities		(22,970,863)	(2,676,791)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		-	-
Payments for share issue costs		(28,160)	-
Proceeds from borrowings		19,188,319	-
Repayment of borrowings		(2,980,890)	(10,572,124)
Dividends paid		(1,734,966)	-
Net cash provided by/ (used in) financing activities		14,444,303	(10,572,124)
Net increase in cash and cash equivalents		5,485,385	2,061,049
Cash and cash equivalents at the beginning of the period		1,596,676	1,863,738
Cash and cash equivalents at the end of the period		7,082,061	3,924,787

The accompanying notes are an integral part of these financial statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These general purpose interim financial statements for half-year reporting period ended 31 December 2019 have been prepared in accordance with requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB 134: *Interim Financial Reporting*. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Mitchell Services Limited and its controlled entities (referred to as the **Group**). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2019, together with any public announcements made during the following half-year.

These interim financial statements were authorised for issue on 27 February 2020.

(b) Accounting policies

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements, except for those as described in Note 1(c) below

(c) New and Amended Standards Adopted by the Group

The Group has considered the implications of new or amended Accounting Standards which have become applicable for the current financial reporting period. The Group had to change its accounting policies and make adjustments as a result of adopting the following Standard:

- AASB 16 *Leases*

The impact of the adoption of this Standard and the respective accounting policies is disclosed in Note 2.

2. CHANGES IN ACCOUNTING POLICIES

This note describes the nature and effect of the adoption of AASB 16: *Leases* on the Group's financial statements and discloses the new accounting policies that have been applied from 1 July 2019, where they are different to those applied in prior periods.

As a result of the changes in the Group's accounting policies, prior year financial statements have not been restated.

(a) Leases

The Group as lessee

At inception of a contract, the Group assesses if the contract contains or is a lease. If there is a lease present, a right-of-use asset and a corresponding lease liability are recognised by the Group where the Group is a lessee. However, all contracts that are classified as short-term leases (i.e. a lease with a remaining lease term of 12 months or less) and leases of low-value assets are recognised as an operating expenses on a straight-line basis over the term of the lease.

Initially the lease liability is measured at the present value of the lease payments still to be paid at the commencement date. The lease payments are discounted at the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses the incremental borrowing rate.

Lease payments included in the measurement of the lease liability are as follows:

- fixed lease payments less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options;
- lease payments under extension options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, any lease payments made at or before the commencement date and any initial direct costs. The subsequent measurement of the right-of-use assets is at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the lease term or useful life of the underlying asset, whichever is the shortest.

Where a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group anticipates to exercise a purchase option, the specific asset is depreciated over the useful life of the underlying asset.

(b) Initial Application of AASB 16: Leases

The Group has adopted AASB 16: *Leases* retrospectively with the cumulative effect of initially applying AASB 16 recognised at 1 July 2019. In accordance with AASB 16 the comparatives for the 2018 reporting period have not been restated.

The Group has recognised a lease liability and right-of-use asset for all leases (with the exception of short-term and low-value leases) recognised as operating leases under AASB 117: *Leases* where the Group is the lessee.

There has been no significant change from prior year treatment for leases where the Group is a lessor.

Lease liabilities are measured at the present value of the remaining lease payments. The Group's incremental borrowing rate as at 1 July 2019 was used to discount the lease payments.

The right-of-use assets for leases have been measured and recognised in the statement of financial position as at 1 July 2019 by taking into consideration the lease liability and the prepaid and accrued lease payments previously recognised as at 1 July 2019 (that are related to the lease).

The following practical expedients have been used by the Group in applying AASB 16 for the first time:

- for a portfolio of leases that have reasonably similar characteristics, a single discount rate has been applied.
- leases that have remaining lease term of less than 12 months as at 1 July 2019 have been accounted for in the same way as short-term leases.
- the use of hindsight to determine lease terms on contracts that have options to extend or terminate.
- applying AASB 16 to leases previously identified as leases under AASB 117: *Leases* and Interpretation 4: *Determining whether an arrangement contains a lease* without reassessing whether they are, or contain, a lease at the date of initial application.
- not applying AASB 16 to leases previously not identified as containing a lease under AASB 117 and Interpretation 4.

The Group's weighted average incremental borrowing rate on 1 July 2019 applied to the lease liabilities was 5.0%.

3. REVENUE

(a) Income from continuing operations

	31 Dec 19	31 Dec 18
	\$	\$
Revenue from contracts with customers	72,983,343	62,984,203
Interest received	-	71
Rental income	-	138,724
Other	-	168,296
	<u>72,983,343</u>	<u>63,291,294</u>

(b) Disaggregation of revenue from contracts with customers

The Group disaggregates revenue from contracts with customers by commodity, drilling type and client type, as this appropriately depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

Commodity

Coking Coal	36,467,714	40,182,573
Gold	19,342,415	7,069,650
Copper	10,702,765	9,283,927
Lead/zinc/silver	3,071,504	3,190,439
Other	3,398,945	3,257,614
	<u>72,983,343</u>	<u>62,984,203</u>

Drilling type

Surface drilling	36,888,474	38,455,013
Underground drilling	35,432,282	24,054,013
Other revenue	662,587	475,177
	<u>72,983,343</u>	<u>62,984,203</u>

Geography

Queensland	47,848,219	50,440,213
South Australia	9,121,194	8,197,643
New South Wales	4,608,098	3,743,676
Western Australia	7,379,391	602,671
Victoria	4,026,441	-
	<u>72,983,343</u>	<u>62,984,203</u>

Client type

Tier-1 clients	63,401,029	57,801,787
Other clients	9,582,314	5,182,416
	<u>72,983,343</u>	<u>62,984,203</u>

Timing of revenue recognition

Services transferred over time	61,836,127	53,427,528
Goods transferred at a point in time	11,147,216	9,556,675
	<u>72,983,343</u>	<u>62,984,203</u>

4. INTANGIBLE ASSETS

	Goodwill	Customer Contracts	Total
	\$	\$	\$
At 31 December 2019			
Cost or fair value	1,759,958	19,095,290	20,855,248
Accumulated amortisation	-	(823,786)	(823,786)
Net book amount	1,759,958	18,271,504	20,031,462
Half-year ended 31 December 2019			
Opening net book amount	-	-	-
Acquired in purchase of Deepcore (see note 9)	1,759,958	19,095,290	20,855,248
Amortisation	-	(823,786)	(823,786)
	1,759,958	18,271,504	20,031,462

Customer contracts expire progressively, ranging from October 2020 to February 2023 and are being amortised on a straight-line basis. The closing carrying amount allocation of customer contracts between current and non-current is \$11,437,184 and \$6,834,320 respectively.

5. RIGHT-OF-USE ASSETS

The Group's lease portfolio relates only to leased premises with the date of expiry ranging from July 2020 through to December 2026.

Options to Extend or Terminate

The options to extend or terminate are contained in several of the property leases of the Group. These clauses provide the Group opportunities to manage leases in order to align with its strategies. All the extension or termination options are only exercisable by the Group. The extension options or termination options which management were reasonably certain to be exercised have been included in the calculation of the lease liability.

(i) AASB 16 related amounts recognised in the balance sheet

	31 Dec 19
	\$
Right-of-use assets	
Leased premises	2,848,459
Accumulated depreciation	(268,595)
	2,579,865
Movement in carrying amounts	
Recognised on initial application of AASB 16 (previously classified as operating leases under AASB 117)	2,848,459
Depreciation expense for the half-year ended	(268,595)
Net carrying amount	2,579,865

(ii) AASB 16 related amounts recognised in the statement of profit or loss

Depreciation charge related to right-of-use assets	268,595
--	---------

Interest expense on lease liabilities (under finance cost)

68,745

6. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and equipment	Motor vehicles	Furniture and fittings	Total
	\$	\$	\$	\$	\$
At 1 July 2019					
Cost or fair value	101,473	52,568,077	15,120,021	682,445	68,472,016
Accumulated depreciation	(66,927)	(22,093,721)	(10,644,946)	(393,025)	(33,198,619)
Net book amount	34,546	30,474,356	4,475,075	289,420	35,273,397
Half-year ended 31 December 2019					
Opening net book amount	34,546	30,474,356	4,475,075	289,420	35,273,397
Acquired in purchase of Deepcore (see note 9)	19,865	25,709,532	1,798,566	5,286	27,533,249
Additions	-	14,970,965	462,139	87,760	15,520,864
Disposals	-	(660,058)	(17,799)	(1,577)	(679,434)
Depreciation	(9,354)	(5,122,311)	(769,266)	(83,571)	(5,984,502)
	45,057	65,372,484	5,948,715	297,318	71,663,574
At 31 December 2019					
Cost or fair value	121,338	91,621,572	17,228,637	772,903	109,744,450
Accumulated depreciation	(76,281)	(26,249,088)	(11,279,922)	(475,585)	(38,080,876)
Net book amount	45,057	65,372,484	5,948,715	297,318	71,663,574

7. FINANCIAL LIABILITIES

	31 Dec 19	30 Jun 19
	\$	\$
Current		
Borrowings (i)	2,668,387	-
Equipment finance leases (ii)	10,347,783	4,074,157
Lease liabilities – right-of-use assets (iii)	400,791	-
Premium funding	358,049	816,277
	13,775,010	4,890,434
Non-current		
Borrowings (i)	13,112,814	-
Equipment finance leases (ii)	19,402,381	5,717,699
Lease liabilities – right-of-use assets (iii)	2,237,999	-
	34,753,194	5,717,699

- (i) In order to fund the acquisition of Deepcore (refer note 9), the Group secured a \$16m debt facility with National Australia Bank (NAB) in December 2019 which includes the following terms:
- Minimum annual repayments totalling \$3.2m, due monthly in arrears with the balance payable at the end of the three-year expiry period on 30 November 2022;
 - The facility is subject to pricing periods of between 1-3 months, with each pricing period reflecting a weighted average interest rate, including interest being based on BBSY plus 2.7% per annum; and
 - The facility is secured by way of a first ranking general security agreement over all companies within the Group.

- (ii) During the half-year, the following activity occurred with respect to equipment finance leases:
- Separate from the acquisition of Deepcore (discussed in note 9), the Group obtained new equipment finance leases to fund the purchase of various new items of property, plant and equipment. The repayment terms on these facilities vary between 3.0 to 3.5 years with interest ranging between 3.65% and 5.06%.
 - As part of the acquisition of Deepcore, the Group acquired certain items of equipment under finance leases with a remaining term ranging from 0.6 years to 3.9 years as at 31 December 2019. As with the Group's existing portfolio of finance leases, the obligations on these acquired leases are secured by lessor's title to goods under those finance leases. The effective interest rates payable under these leases are between 4.46% and 5.95% per annum. As at 31 December 2019, the amounts acquired within current and non-current liabilities are \$4,007,565 and \$7,556,714 respectively.
- (iii) Lease Liabilities – right-of-use assets relate to the recognition of right-of-use assets as discussed in Note 5.

8. TAX EXPENSE, ASSETS AND LIABILITIES

(i) Income tax expense

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period. The Group's consolidated effective tax rate for the half-year ended 31 December 2019 was 32.7%.

(ii) Deferred tax assets

Deferred tax assets at 31 December 2019 total \$3,846,475 (30 June 2019: \$5,027,750) and are mainly comprised of tax losses and temporary deductible differences, mainly employee benefit provisions. The reduction is largely attributable to the utilisation of tax losses during the period, partially offset by the recognition of temporary deductible differences per the Deepcore acquisition (refer note 9).

(iii) Deferred tax liabilities

Deferred tax liabilities at 31 December 2019 total \$5,804,458 (30 June 2019: nil) and are mainly comprised of taxable temporary differences relating to customer contracts which were acquired in the purchase of Deepcore (refer note 9) with a fair value of \$19,095,290 and an accounting carrying value of \$18,271,504 at 31 December 2019 (tax base of nil).

(iv) Current tax liability

Per the acquisition of Deepcore (refer note 9), Deepcore Drilling joined the Mitchell Services income tax consolidated group immediately following the acquisition and as such is grouped for income tax purposes with effect from 30 November 2019. The current tax liability of \$139,419 relates to Deepcore Drilling income tax liabilities that existed on acquisition.

9. BUSINESS COMBINATION

On 29 November 2019 the Group acquired Deepcore Holdings Pty Ltd and its subsidiary companies (collectively **Deepcore Drilling**). Deepcore Drilling provides highly specialised services to the mining and infrastructure industries, including underground mobile drilling, diamond drilling, acoustic and deep directional drilling. The acquisition (which is expected to be materially earnings accretive into the foreseeable future) was strategically and financially compelling for the Group. Given Deepcore Drilling's specialist product offerings and its strong exposure to gold in Victoria, the combination of the two business has resulted in the Group becoming one of the largest and most diversified drilling services providers in Australia. The acquisition has further strengthened the Group's market position with regard to diversity of drilling type, commodity and geography whilst maintaining a high proportion of Tier 1 clients on operating mine sites.

The fair value of the purchase consideration as at the date of the acquisition was \$31,825,495 and is represented below:

Total Purchase consideration	\$
Cash consideration	(15,000,000)
Completion adjustment (i)	(171,795)
Cash component	(15,171,795)
Ordinary shares issued (ii)	(14,750,000)
Contingent consideration liability (iii)	(1,903,700)
Total purchase consideration	(31,825,495)

- (i) The cash consideration of \$15,000,000 is subject to a completion adjustment to the purchase price based on an agreed target working capital and net debt position as set out per the share purchase agreement.
- (ii) The fair value of \$14,750,000 was based on the issue of 250,000,000 fully paid ordinary Mitchell Services shares at an agreed issue price of \$0.068 per share but fair valued at \$0.059 per share on transaction date. Issue costs of \$28,160 which were directly attributable to the issue of the shares have been netted against the deemed proceeds.
- (iii) As part of the share purchase agreement, Deepcore Drilling will operate under an earn out arrangement for a period of three years from 1 January 2020 through to 31 December 2022. The arrangement will entitle the vendors to a 50 per cent share of any portion of EBITDA generated by Deepcore Drilling in excess of \$12.5m per annum. The estimated undiscounted amount payable under the agreement is between nil and \$2.4m with the fair value of \$1,903,700 estimated by calculating the present value of the future expected cash flows, based on a discount rate of 12.4 per cent.

Purchase consideration – cash outflow reconciliation	\$
Total purchase cash consideration	(15,171,795)
Completion adjustment amount – recognised in trade and other receivables	(828,205)
Cash outflow to sellers recorded in statement of cash flows	(16,000,000)
Less: cash and cash equivalents acquired	319,622
Net outflow of cash - investing activities	(15,680,378)

Assets acquired and liabilities assumed	\$
Cash assets	319,622
Current receivables	8,196,209
Inventories	527,352
Property, plant and equipment	27,533,249
Intangible assets - customer contracts	19,095,290
Payables	(5,642,842)
Current tax liabilities	(139,419)
Provisions	(3,049,399)
Deferred tax liabilities	(4,878,142)
Financial liabilities	(11,896,383)
Net identifiable assets acquired	30,065,537
Add: goodwill	1,759,958
	31,825,495

At the time the financial statements were authorised for issue, the Group had not yet completed the accounting for the acquisition, with fair values of certain assets and liabilities disclosed above having been determined provisionally.

10. RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated. The following transactions occurred with related parties.

Transactions with Manutech Engineering and Maintenance

The Group engages Manutech Engineering and Maintenance to purchase parts and in some instances perform repair and maintenance type services. Manutech Engineering and Maintenance is an entity controlled by Peter Miller. The amount incurred during the reporting period in relation to these services was \$198,444 including GST. Amounts were billed on normal market rates for such services and were due and payable under normal payment terms. An amount of \$52,861 remains owing to this related entity at the end of the reporting period.

Equipment Hub Pty Ltd

Nathan Mitchell is a significant shareholder of Equipment Hub Pty Ltd. In order to satisfy specific contract requirements, the Group hired plant and equipment not available in its fleet from Equipment Hub. Hire of plant and equipment from this related entity for the reporting period amounted to \$246,730 including GST and was based on normal market rates and under normal payment terms.

In addition, during the reporting period, the Group engaged Equipment Hub Pty Ltd as a broker to sell certain items of property, plant and equipment to third parties. Commission of \$97,470 (including GST) was paid to Equipment Hub.

An amount of \$46,913 remains owing to this related entity at the end of the reporting period.

XLM Systems Pty Ltd

XLM Systems Pty Ltd is an entity controlled by Mitchell Group Holdings (a related party of Nathan Mitchell). XLM designs and develops specialist information technology and communication platforms and applications. During the reporting period, the Group has engaged XLM to develop a remote drilling operations centre located at its Brisbane head office that delivers live video monitoring of rigs through satellite connection. Development and communication costs were \$70,830 including GST and were based on normal market rates and under normal payment terms. Nil amount remained owing to this related entity at the end of the reporting period.

Eastwest Drilling and Mining Supplies Pty Ltd

Eastwest Drilling and Mining Supplies Pty Ltd is an entity controlled by Scott Tumbridge. During the reporting period, the Group was supplied plant items, parts and consumables totalling \$936,842. All amounts are inclusive of GST and were based on normal market rates and under normal payment terms. Hire charges (for ancillary equipment) of \$46,323, GST inclusive, were also incurred. An amount of \$2,062,682 remains owing to this related entity at the end of the reporting period.

Mitchell Family Investments (QLD) Pty Ltd

Mitchell Family Investments (QLD) Pty Ltd is an entity controlled by Nathan Mitchell. The Group leases the majority of the premises located at 112 Bluestone Circuit, Seventeen Mile Rocks Brisbane, which is owned by Mitchell Family Investments (QLD) Pty Ltd. The rental associated with this property for the reporting period amounted to \$146,640 net of applied rental reductions associated with the revised lease. An amount of \$82,170 remains owing to this related entity at the end of the reporting period.

Mitchell Group Pty Ltd

Mitchell Group Pty Ltd is an entity controlled by Nathan Mitchell. On 30 November 2016, the Group entered into a licence deed with Mitchell Group for the use by Mitchell Group of a designated area within 112 Bluestone Circuit, Seventeen Mile Rocks Brisbane. There are no rental charges associated with this property and Mitchell Group used the designated area under the licence deed for the duration of the reporting period.

Mitchell Family Superannuation Fund

Mitchell Family Superannuation Fund is an entity controlled by Nathan Mitchell. On 30 November 2016, the Group entered into a licence deed with Mitchell Family Superannuation Fund for the use by the Group of 119 Thomas Mitchell Drive, Muswellbrook to facilitate the Group's expansion into NSW. There are no rental charges associated with this property and the Group used the designated area under the licence deed for the duration of the reporting period.

11. OPERATING SEGMENTS

The Group operates primarily within Australia, providing services wholly to a discrete industry segment (provision of drilling services to the mining industry). These geographic and operating segments are considered based on internal management reporting and the allocation of resources by the Group's chief decision makers. On this basis, the financial results of the reportable operating and geographic segments are equivalent to the financial statements of the Group as a whole and no separate segment reporting is disclosed in these financial statements.

12. FINANCIAL COMMITMENTS

As at 31 December 2019 the Group had outstanding capital expenditure commitments of approximately \$0.7m relating to the acquisition of one drilling rig.

13. EVENTS AFTER THE REPORTING DATE

Subsequent to 31 December 2019, the directors have determined a fully franked special dividend of 1.1 cents per fully paid ordinary share with a record date of 30 June 2020. The total anticipated dividend payable of approximately \$2.2m is not recognised as a liability at 31 December 2019.

There has not been any other matter or circumstance occurring subsequent to the end of the reporting period that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in the future.

Directors' Declaration

In accordance with a resolution of the Directors of Mitchell Services Limited, the Directors declare that:

- 1) the financial statements and notes, as set out on pages 10-22, are in accordance with the Corporations Act 2001, including:
 - a) complying with Accounting Standard AASB 134 Interim Financial Reporting; and
 - b) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date.
- 2) in the Directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable

On behalf of the Directors



Nathan Mitchell
Executive Chairman

Dated at Brisbane this 27th day of February 2020

For personal use only

INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF MITCHELL SERVICES LTD ACN 149 206 333
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Report on the Half-year Financial Report

We have reviewed the accompanying half-year financial report of Mitchell Services Ltd, which comprises the condensed consolidated statement of financial position as at 31 December 2019, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the half-year ended on that date, notes to the financial statements including a summary of significant accounting policies, other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-year Financial Report

The directors of Mitchell Services Ltd are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of Mitchell Services Ltd's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Mitchell Services Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Mitchell Services Ltd, would be in the same terms if given to the directors as at the time of this auditor's review report.

Townsville Office
Level 1
211 Sturt Street
Townsville Q. 4810
PO Box 1269
Townsville Q. 4810

Telephone
07 4755 3330

Facsimile
07 4755 3320

info@jessupsnq.com.au

www.jessupsnq.com.au

Other Office
Cairns

Professional Services

- > Audits
- > Business Plans
- > Business Pre-Purchase Reviews (Due Diligence)
- > Business Valuations
- > Forensic Accounting
- > Intensive Care Assignments
- > Investigative Accountants Reports
- > Litigation Support
- > Security & Pre-Lending Reviews
- > Strategic & Management Advice

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Mitchell Services Ltd is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of Mitchell Services Ltd's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*.

JESSUPS



Paul Sapelli
Director

Dated: 27 February 2020

Level 1, 211 Sturt Street
Townsville QLD 4810

For personal use only