

SWICK MINING SERVICES

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ASX ANNOUNCEMENT

Swick delivers improved profitability in 1H FY21 and declares increased dividend

Highlights:

- **Drilling Business performing strongly on long term contracts and new work**
 - Drilling business revenue of \$72.7m, EBITDA of \$14.9m at a 20.5% margin
 - Underground Drilling Revenue of \$68.7m, EBITDA of \$13.5m at 19.7% margin
 - 61 underground diamond drill rigs deployed globally at end of half
 - Swick GenII rigs now being sold to open market with four rigs sold
 - Sale of Surface RC business into the stronger market for \$6.4m cash
- **Strong balance sheet with low gearing**
- **Interim dividend of 0.45cps (fully franked), up 50% over pcps**
- **Continued priority on safety - TRIFR of 12.7 (6.4 in 1H FY20)**
- **Solid foundation for 2H FY21 as a result of contract renewals, new work and revenue diversification opportunities**

Western Australia – Swick Mining Services Limited ('Swick', ASX: SWK), a leading provider of high-quality underground and surface mineral drilling and mineral analysis services, announces its results for the six-month period ended 31 December 2020 (1H FY21).

1H FY21 FINANCIAL RESULTS

Swick reported Total Group Revenue of \$72.8 million in 1H FY21 (\$80.3m in 1H FY20) and EBITDA of \$11.8 million (1H FY19: \$10.8 million). In 1H FY21 the Company delivered significantly higher profitability based on operational improvements across all regions.

EBIT rebounded to \$3.2 million up 276% compared to prior comparable period. The return to positive EBIT reflects the significantly increased profitability on 1H FY20 driven by stronger rig performance from existing and new work and higher utilisation at target rates.

Swick continued to generate healthy positive cashflow with net cash flow from operations before interest and tax of \$6.5 million in 1H FY21, reflecting an EBITDA cash conversion rate of 55%.

The Company has ended 1H FY21 with a strengthened balance sheet, with low gearing and net debt of \$9.5 million, which is expected to reduce further in 2H FY21 following completion of the sale of the RC Drilling business. The balance sheet position and positive Group cash flow

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has supported the declaration of a fully franked interim dividend of 0.45cps. The Company expects to maintain this level of dividend for 2H FY21.

DRILLING

Swick's Drilling operations in 1H FY21 comprised Underground Diamond Drilling, Surface RC Drilling which has since been sold, and Swick Engineering which has been recently ramped up.

A\$ million	1H FY21	1H FY20	Change
Revenue	72.7	80.3	(9.5%)
EBITDA	14.9	12.1	23.1%
<i>EBITDA margin</i>	<i>20.5%</i>	<i>15.1%</i>	<i>540 bps</i>
EBIT	7.2	0.7	929%
<i>EBIT margin</i>	<i>9.9%</i>	<i>0.9%</i>	<i>900 bps</i>

Swick's Drilling business recorded 1H FY21 revenue of \$72.7 million (1H FY20 \$80.3m), EBITDA of \$14.9 million (1H FY20 \$12.1m) and EBIT of \$7.2 million (1H FY \$0.7m). Underground Drilling is Swick's dominant business activity and contributes around 96% of the Company's annual revenue.

Underground Drilling

During the period, increased profitability and performance was driven by ongoing higher rig utilisation in Australia and improved performance at the Pogo mine in USA. 61 rigs (56 FTE – full time equivalent rigs) are currently deployed globally: 14 operating internationally, 25 in Western Australia and 22 across the rest of Australia.

Renewed work included Northern Star Resources' Jundee Gold operations for 15 rigs – Swick's largest contract to date and one of the largest underground drilling contracts in the world. Alongside that cornerstone renewal was a new five-year contract at BHP's Olympic Dam mine with an initial 8 rigs – Swick's second largest contract.

In addition, a two-year contract extension was awarded at Perilya's Broken Hill operation, with four rigs deployed, and a two-year contract with Aurelia Metals at Peak and Hera – deploying five rigs, up from one initial rig. Internationally, a five-year contract was secured from Minas de Aguas Teñidas SAU (MATSA) at its copper operations in Spain, with two rigs deployed.

The Underground business commenced 2H FY21 with a strong order book in excess of \$330 million from new and extended contracts.

Surface RC Drilling

The Surface RC Drilling business recorded improved utilisation and performance compared to the comparative period due to the increase in demand.

In line with the strategy to focus on the core Underground Drilling Business, the Company disposed of some individual RC assets in 1H FY21 to various buyers and sold the remaining Surface RC Drilling business in 2H FY21 for combined proceeds of \$6.4 million in cash, resulting in a profit on sale of \$1.2 million before tax. The portion of cash and profit that related to the sale of individual assets was recognised in 1H FY21 and the portion related to the sale of the business will be recognised in 2H FY21.

DeepEX

Innovation and revenue diversification remain a priority for Swick, with the launch and early commercialisation of its DeepEX rigs and the ramp up of the Swick Engineering Business.

To expand its deep drilling fleet and to provide that sector of the market with specialist equipment and personnel, Swick launched its DeepEX deep exploration and infrastructure drilling business in FY20 which has commenced to gain early traction. Three high capacity mobile rigs have been built and are currently deployed at client sites.

The DeepEX rigs represent the world's most powerful underground mobile drills available in the underground market, drilling deep holes in excess of 2,000m from relatively standard underground platforms. These drills will allow clients to lower their cost of deep exploration drilling and have results earlier as the drill holes are shorter and permitting is not required unlike surface drills.

Swick Engineering

In response to increased global demand for underground mobile diamond drill rigs and in response to inbound enquiries, the Company has commenced the manufacture and sale of its underground GenII mobile drill rigs to third party customers via its Engineering Business.

Swick has appointed an experienced senior mechanical engineer as Production Manager and appointed an experienced Swick drilling professional as a Sales Engineer to ensure the world class Swick rigs can be manufactured efficiently, at a very high quality and can be effectively marketed and supported globally. The workshop space left vacant by the sale of the RC Drilling business will be converted to a world class rig manufacture and assembly facility.

Two GenII rigs were manufactured in the period with delivery to the customer expected in March 2021. A further two GenII drills are currently in build for another customer.



The first two Swick GenII mobile rigs constructed for third parties – destined for Canada

MINERAL TECHNOLOGY

Orexplore

A\$ million	1H FY21	1H FY20
Revenue from core scanning	0.03	0.05
Government grants	0.2	0.2
EBITDA	(2.8)	(2.0)
EBIT	(3.6)	(3.2)

Strategic investment in Orexplore of \$2.8 million (1H FY20: \$3.2m), reflecting continued development, testing and preparing the technology for commercial adoption.

Swick remains committed to implementing the recommendations of the FY20 strategic review - separating the Drilling and Orexplore businesses to maximise shareholder value. Demerger to occur once commercialisation runway is established.

OUTLOOK

Swick finished the first half of FY21 with a strong order book of \$330 million and a solid balance sheet. Fleet utilisation remains high and the outlook for exploration and mining activity is more positive in 2021.

The Company expects 2H FY21 Underground Drilling business performance to be as strong as 1H FY21.

Swick Managing Director Kent Swick said Swick's improved earnings performance in 1H FY21 provided confidence going into the second half of the financial year.

"Swick finished the first half of FY21 with a strong order book and balance sheet, having delivered enhanced productivity and cost efficiencies on the back of greater fleet utilisation. We achieved this with a record safety performance while managing the impact of the COVID-19 pandemic and the associated disruptions to our personnel movements.

"Swick is very well positioned operationally as we enter the second half of FY21 with improving market sentiment in the resources sector, and we have continued to strategically refocus the business on Underground Drilling following the sale of the Surface RC Drilling business. Rig utilisation remains high and we will target opportunities for further rig deployments at existing and new projects to support this.

"Swick will reach a significant milestone in early March 2021 of the equivalent of having cored through the centre of the Earth – 12,742,000 metres – with the division currently at 12,720,000 metres. That achievement since we commenced coring in June 2004 is incredible, however with the market outlook solid and the operating performance of the drilling business strong, the achievements will keep coming.

"During this week, one of our drill crews in Broken Hill set what we believe to be a world record by drilling 200 metres of underground core in one shift beating our previous record of 187

metres and to my knowledge it is the most productive shift ever in our sector. This proves that the continuous improvement philosophy and innovation developed by Swick continue to yield results and in this case at an operation where Swick has been contracted for over 11 years.

“As we carry on growing our rig fleet capabilities with additional rig builds in the Underground Diamond Drilling business including our specialist deep hole drilling division DeepEX we expect to secure further work in our current operating regions. The sale of RC will allow a focus and efficiency in the business that will materialize with an expectation of better operating performance and a more efficient overhead.

“The sale of the RC business and the removal of its footprint from our corporate headquarters will allow our Engineering Division to improve its manufacturing facility and assemble an industry proven, best in class drilling rig to the wider market. The sales of Swick GenII rigs to third parties will allow Swick to benefit from the global trend towards mobile drill rigs and to participate in regions of the market that Swick would otherwise have no participation in. Swick Engineering will also provide aftermarket support with spare parts, major components and training. The first four rigs are heading to Canada and Tanzania respectively, both markets that Swick does not participate in as a drilling contractor.

“We are also focused on driving the uptake of Orexplore for the Mineral Technology Business to be well positioned to ultimately succeed on its own.

“While Swick is in a good position entering the second half of FY21, the COVID-19 situation continues to evolve and remains uncertain. We consequently remain vigilant around potential impacts and prioritise the safety of our people, while working closely with our clients.”

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This ASX announcement was authorised for release by the Board of Swick Mining.

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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, United States and Europe.

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