



Mitchell
SERVICES

Appendix 4D

Mitchell Services Limited (ABN 31 149 206 333)

Current reporting period

1 July 2021 to 31 December 2021

Previous reporting period

1 July 2020 to 31 December 2020

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 3% | 102,895 | 100,035 | 2,860 |
| EBITDA | Up 41% | 17,545 | 12,465 | 5,080 |
| Profit/(Loss) after tax attributable to members | Up 135% | 1,091 | (3,131) | 4,222 |

Net Tangible Assets per Security

| | 31 Dec 21 | 30 Jun 21 | 31 Dec 20 |
|--|------------|------------|------------|
| Net tangible asset backing per ordinary security | 24.5 cents | 20.9 cents | 20.8 cents |

Dividends

The Company has determined that no interim dividend will be declared.

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 25 February 2022.

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


Greg Switala
Company Secretary

24 February 2022

Mitchell Services Limited
ABN 31 149 206 333

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MITCHELL SERVICES LTD ACN 149 206 333

FOR THE HALF-YEAR ENDED
31 DECEMBER 2021



Mitchell
SERVICES

HALF-YEAR REPORT

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DIRECTORS' REPORT

FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

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 2021 (1H22). 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
Peter Geoffrey Hudson

The above-named Directors have held office throughout the six months ended 31 December 2021.

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 to date.

REVIEW OF OPERATIONS

The current financial year to date has been primarily focused on executing a material organic growth strategy and capital investment program, underpinned by the planned purchase of twelve LF160 drill rigs (with the initially locked-in nine rigs supplemented by a now exercised option to take delivery of a further three). As at 31 December 2021, the Group had taken delivery of five rigs with the remaining seven rigs due to arrive at various times in the first half of calendar year 2022. As at the date of this report nine of the twelve drill rigs were assigned to existing drilling contracts with Tier 1 global miners, with strong customer interest received from existing and potential clients for the remaining three.

1H22 has seen the Group win multiple new contracts and extend multiple existing contracts (predominately with Tier 1 global mining majors). The cumulative impact of these wins is extremely positive, and the business is well positioned to benefit from these wins post the usual mobilisation and ramp up costs.

DIRECTORS' REPORT CONTINUED

FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

Whilst there were numerous positives in 1H22, it was not free from operational challenges beyond the Group's expectations with operational and financial performance impacted to a greater degree than expected by the emergence of the Omicron variant and excessive wet weather events across the country. The emergence of the Omicron variant has exacerbated the now well-established challenges including inter-state border restrictions and reductions in domestic airline capacity. However, through a combination of well-executed response plans and significant dedication and commitment from field-based employees, the Group has maintained strong activity levels, even later in the period when the variant first emerged. To mitigate against a La Nina weather pattern, supply chain impacts from COVID-19 and the material increases in demand for drilling services, inventory levels were proactively increased across the business. Orders were placed further in advance and for larger quantities than usual to reduce supply chain risk. The Group is beginning to see evidence of supply chain normalisation and, if this materialises, it is likely that inventory levels will be run down to more normal levels in the short term.

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.

As part of this commitment to finishing each day without harm, the Group has implemented an industry leading critical risk management program across the organisation. This infield program is designed to verify the presence and effectiveness of critical control measures to prevent life changing injuries and fatalities.

Two years into the pandemic and the Group has continued to be agile in dealing with the operational challenges presented by COVID-19 and most recently its Omicron variant. This includes monitoring the ongoing risks, working closely with government, various specialist organisations and all clients and stakeholders in order to limit its spread through active preventative measures.

Despite the ongoing COVID-19 challenges and the continued growth across the business (with Group headcount increasing from 637 in January 2021 to 713 in December 2021), the safety performance of the Group on a rolling annual basis to 31 December 2021 was the best it has ever been.

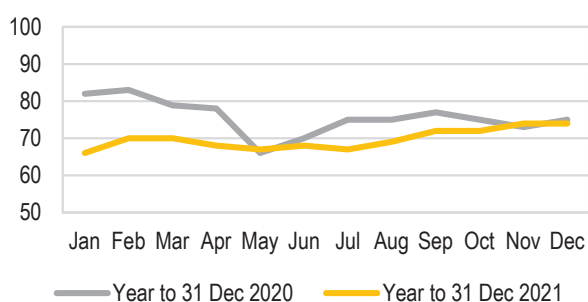
Activity levels

H122 has seen the Group begin ramping up from rig and shift counts recorded during the second half of the previous financial year (2H21) although they are marginally down on the corresponding financial period (1H21) which had benefited from certain high utilisation contracts which have either terminated or expired during that period. Pleasingly, despite utilisation being slightly down on 1H21, revenue per rig has increased 2.82% on 1H21 with the strategic rollout of LF160 surface rigs (a partial revenue contributor at the tail end of 1H22) expected to have a marked impact on the quality and quantity of revenue moving forward. Greater revenue per rig utilised has seen reported revenue for 1H22 of \$102.9m representing a 3% increase from the previous corresponding period of \$100.0m and a 41% increase on 1H20 which recognised revenue of \$73.0m.

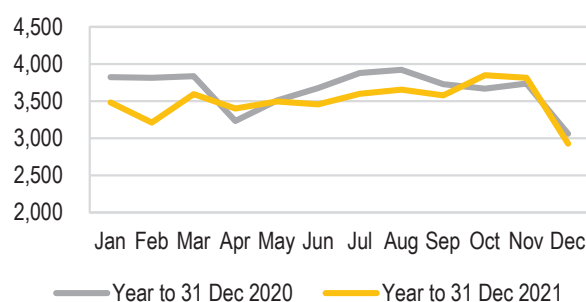
The charts below illustrate the utilisation (rig count) and productivity (number of shifts) over the past 24 months.

DIRECTORS' REPORT CONTINUED FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

Monthly Number of Rigs Operating
(over the past 24 months)



Monthly Number of Shifts Worked
(over the past 24 months)



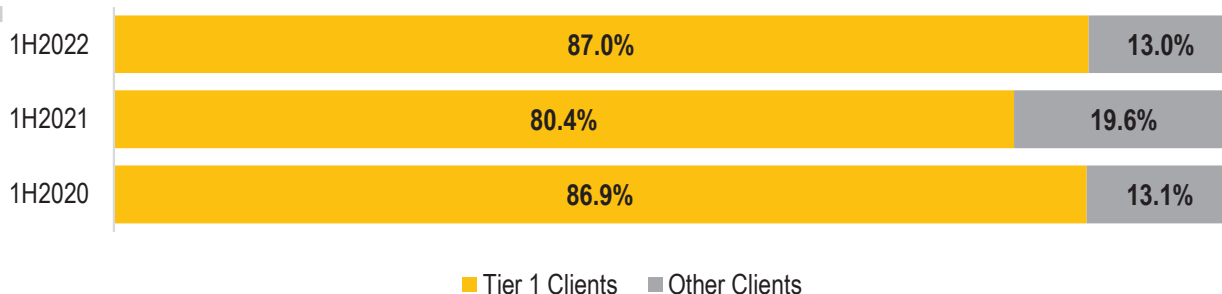
| | 1H20* | 2H20 | 1H21 | 2H21 | 1H22 |
|--------------------------------------|--------|---------|--------|--------|---------|
| Average operating rigs | 58.7 | 76.7 | 75.0 | 68.2 | 71.3 |
| Number of shifts | 14,069 | 21,887 | 21,996 | 20,637 | 21,414 |
| Revenue (\$'000s) | 72,983 | 102,572 | 99,989 | 91,395 | 102,884 |
| Annualised revenue per rig (\$'000s) | 2,487 | 2,675 | 2,666 | 2,680 | 2,885 |

*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.

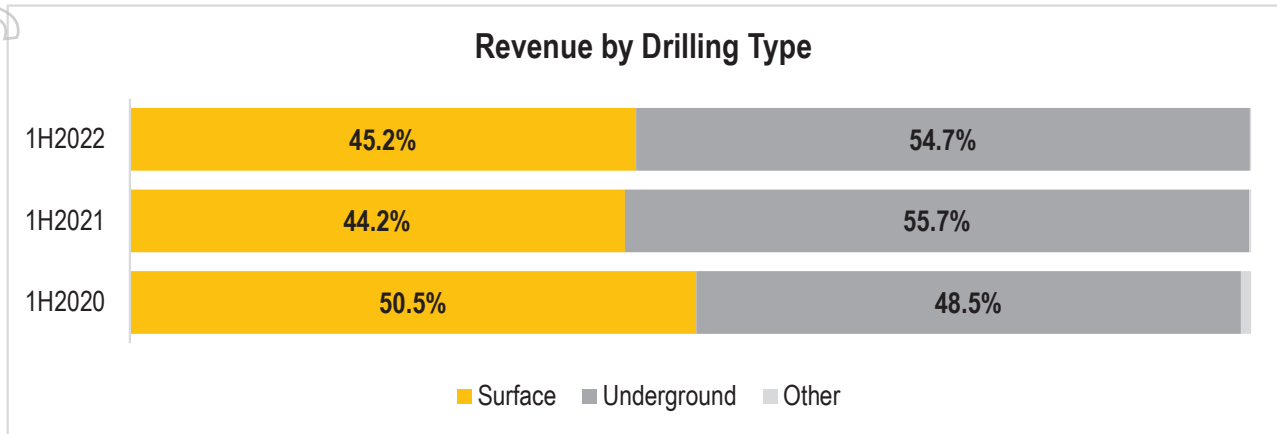
Revenue by Client Type



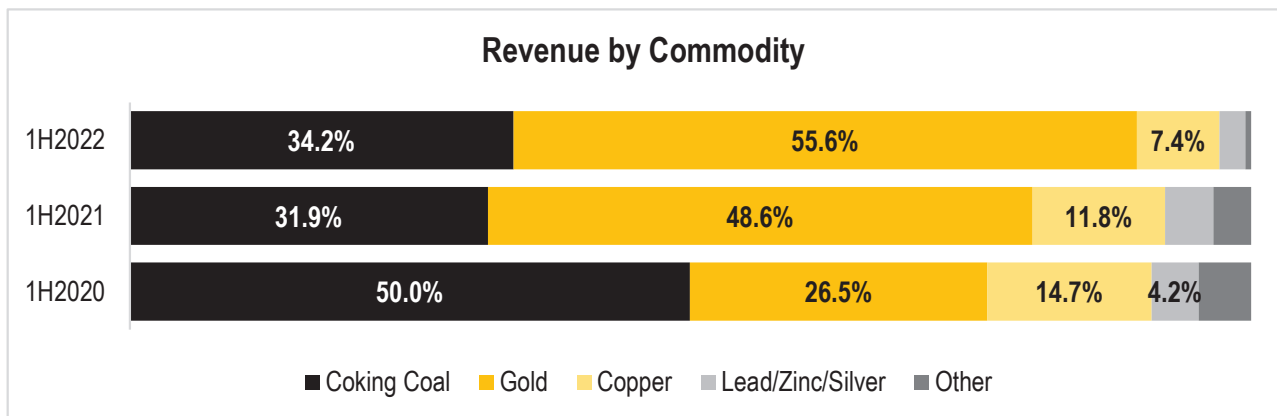
The Board and management remain mindful of the importance of diversification in revenue streams including the mix between surface and underground drilling and the mix between different commodity types. Underground drilling is generally performed on a double shift basis and is generally not subjected to seasonal fluctuations. With Deepcore now embedded into the business, revenue from underground drilling continues to represent the majority, being 55% of the Group's total revenue.

DIRECTORS' REPORT CONTINUED
FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

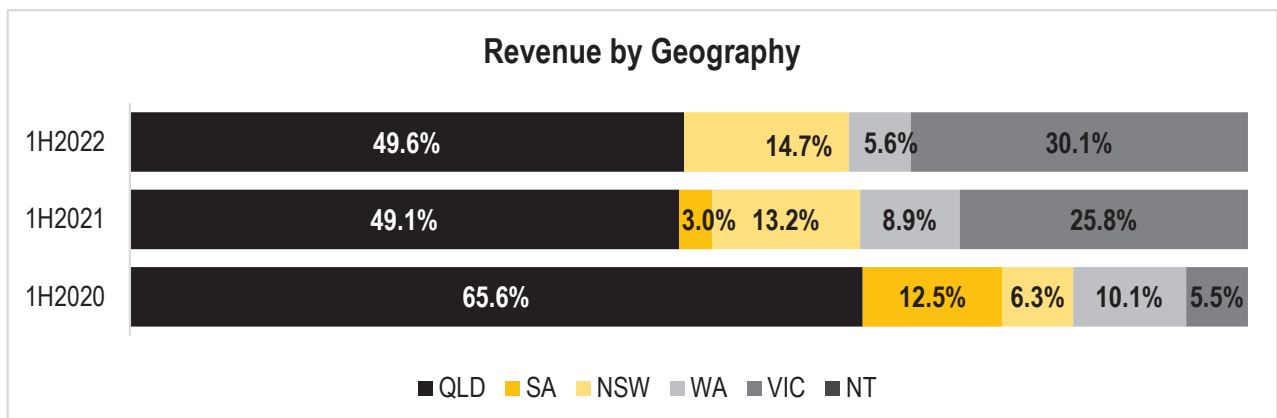
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Consistent with the comparative financial period, demand for drilling services within the gold and base metals sectors has remained very strong in 1H22 and this also serves to underline the heavy weighting towards gold within Deepcore's client base.



Relative to the comparative financial period, Queensland has remained relatively flat while Victoria is a greater part of the revenue mix. As expected, Western Australia and South Australia have lessened in contribution due to the timing of contract wins and losses.



DECEMBER 2021

DIRECTORS' REPORT CONTINUED

FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

Profitability

The Group recorded a post-tax profit in 1H22 of approx. \$1.1m representing an increase of approximately \$4.2m compared to the post tax loss recorded in 1H21.

The below table summarises the various profitability metrics for the half-year ended 31 December 2021 vs the corresponding six months ended 31 December 2020.

| | 6 months ended 31 Dec 21 | 6 months ended 31 Dec 2020 | Movement | Movement % |
|--------------------------|-----------------------------|-------------------------------|----------|------------|
| EBITDA (1) | \$17.5m | \$12.5m | \$5.0m | 28.6% |
| EBITDA (%) | 17.0% | 12.5% | | |
| EBIT (1) | \$2.3m | (\$3.0m) | \$5.3m | 176.7% |
| Profit/(loss) before tax | \$1.5m | (\$4.4m) | \$5.9m | 134.1% |
| Profit/(loss) after tax | \$1.1m | (\$3.1m) | \$4.2m | 135.5% |

(1) These figures are not subject to audit or review.

The improvements in EBITDA, pre-tax and post-tax profits were driven largely by the inclusion of the following non-regular adjustments in 1H22.

SMS FY21 Impairment loss and partial reversal in FY22

During the year ended 30 June 2021, the Group recognised a trade receivables impairment of \$6,624,899 relating to one of its customers, SMS Innovative Mining Pty Ltd (SMS) following the termination of a drilling contract with SMS on grounds of SMS' failure to pay invoices that were due and owing. The impairment represented the gross amount receivable from SMS at 30 June 2021 of \$9,624,899 less \$3,000,000 that the Group received from SMS in July 2021. The \$3,000,000 receipt represented the first of three payment tranches that SMS had agreed to pay to the Group pursuant to a settlement deed that was agreed in July 2021. In accordance with the terms of the settlement deed, both parties had agreed to resolve all claims relating to this matter on the basis that SMS pay the group a settlement sum of \$5,000,000 in three tranches over a six-month period ending 30 December 2021.

In accordance with the settlement deed, two additional tranches of \$1,000,000 each were received in September 2021 and December 2021 and were reflected in earnings for the half-year ended 31 December 2021.

Deepcore Contingent consideration liability

Earnings for the half-year ended 31 December 2021 include a benefit of \$1,898,819 being a reduction to the fair value of the contingent consideration liability in relation to the acquisition of Deepcore Drilling (Deepcore). Deepcore EBITDA performance was impacted by various operational challenges that were beyond the Group's expectations including excessive adverse wet weather events and ongoing COVID-19 factors. As a result of these factors, Deepcore recorded lower than anticipated EBITDA for the half-year ended 31 December 2021 resulting in a reduction in the liability.

Cash flow

The Group generated \$12.7m cash flow from operations and, after adding back interest payments of \$0.8m, the Group's cash flow from operating activities was \$13.5m for 1H22, down \$2.2m on 1H21 but representing a reasonable cash conversion ratio of 77%. This conversion percentage is lower than expected longer-term levels with the decrease largely due to increased inventory levels (supply chain risk mitigant) and ramp up related working capital requirements associated with new contract wins.

DECEMBER 2021

DIRECTORS' REPORT CONTINUED FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

Net cash used in investing activities was \$11.2m in 1H22 and comprised mainly of cash payments for the purchase of property plant and equipment. Net cash provided by financing activities was \$4.7m in 1H22 which comprised net proceeds from issue of shares of \$9.8m and net borrowings payments of \$5.1m. Overall, the cash and cash equivalents balance increased from \$4.2m at 30 June 2021 to \$10.4m at 31 December 2021.

Balance sheet

The Group's balance sheet was strengthened by the successful completion of an equity raise in September 2021 which generated gross cash proceeds of \$10.5m. This, along with free cash flow generation has been utilised to fund capital expenditure and reduce net debt over 1H22. The commencement of the Group's organic growth strategy has seen the drill rig fleet bolstered by the delivery of a further five LF160 surface rigs over 1H22.

It is also worth noting inventory levels at 31 December 2021 are up \$1.8m (approx. 35%) on 30 June 2021. To mitigate against a La Nina weather pattern, supply chain impacts from COVID-19 and the material increases in demand for drilling services, inventory levels were proactively increased across the business. Orders were placed further in advance and for larger quantities than usual to reduce supply chain risk. The Group is beginning to see evidence of supply chain normalisation and if this materialises, it is likely that inventory levels will be run down to more normal levels in the future

Consolidated net debt at 31 December 2021 stands at \$22.2m, down \$3.1m (12.4%) on 30 June 2021 while gross debt is increased \$3.0m on 30 June 2021 due mainly to the financing of new LF160 rigs (and related assets) during the period, partially offset by debt repayments of \$6.7m in 1H22.

The Group's current ratio (current assets: current liabilities) has increased by 21% from 0.88 at 30 June 2021 (restated) to 1.07 at 31 December 2021 due mainly to the relatively large positive movement in cash and cash equivalents during the period (based on the equity raise and operating cash flows generated).

EVENTS AFTER THE REPORTING DATE

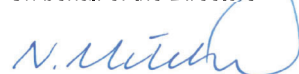
There has not been any matter or circumstance occurring subsequent to the end of the reporting period that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in the future.

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration under s 307C of the *Corporations Act 2001* is set out on page 8 for the half-year ended 31 December 2021.

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 24th day of February 2022



Lead Auditor's Independence Declaration under Section 307C of the *Corporations Act 2001*

To the Directors of Mitchell Services Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Mitchell Services Limited for the half-year ended 31 December 2021, there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

M J Jeffery
Partner

Brisbane
24 February 2022

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DECEMBER 2021

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

| | | 31 Dec 21 | 31 Dec 20 |
|--|------|--------------|--------------|
| | Note | \$ | \$ |
| Continuing operations | | | |
| Revenue | 2 | 102,894,711 | 100,035,276 |
| (Loss)/Gain on sale of assets | | (14,766) | 1,342,346 |
| Drilling consumables | | (10,973,024) | (9,854,781) |
| Employee and contract labour expenses | | (54,126,098) | (48,719,622) |
| Fuel and oil | | (953,264) | (986,023) |
| Freight and couriers | | (1,837,243) | (832,648) |
| Hire of plant and equipment | | (5,910,416) | (5,339,811) |
| Insurances | | (1,546,434) | (1,488,682) |
| Legal, professional and consultant fees | | (682,590) | (500,006) |
| Rent | | (591,169) | (603,626) |
| Service and repairs | | (6,413,163) | (7,080,892) |
| Travel expenses | | (4,253,073) | (3,724,282) |
| Reversal of impairment/(Impairment) of trade receivables | 3 | 2,000,000 | (7,329,472) |
| Fair value decrease to contingent consideration liability | 6 | 1,898,819 | - |
| Depreciation expense | | (12,874,834) | (11,039,652) |
| Amortisation of intangibles | | (2,332,010) | (4,436,189) |
| Finance costs | | (857,858) | (1,367,265) |
| Other expenses | | (1,947,571) | (2,452,837) |
| Profit / (loss) before tax | | 1,480,017 | (4,378,166) |
| Income tax (expense)/benefit | 7 | (388,860) | 1,247,649 |
| Profit / (loss) for the period | | 1,091,157 | (3,130,517) |
| Other comprehensive income, net of income tax | | | |
| Other comprehensive income for the period, net of income tax | | - | - |
| Total comprehensive income for the period | | 1,091,157 | (3,130,517) |
| Profit / (loss) attributable to: | | | |
| Owners of the parent | | 1,091,157 | (3,130,517) |
| Total comprehensive income attributable to: | | | |
| Owners of the parent | | 1,091,157 | (3,130,517) |
| Earnings per share | | | |
| From continuing and discontinued operations | | | |
| Basic (cents per share) | | 0.50 | (1.57) |
| Diluted (cents per share) | | 0.50 | (1.57) |

The accompanying notes are an integral part of these financial statements

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

| | | 31 Dec 21 | Restated* 30 June 21 |
|--------------------------------------|------|--------------------|-------------------------|
| | Note | \$ | \$ |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | 10,363,464 | 4,236,219 |
| Trade and other receivables | 3 | 25,910,377 | 31,534,236 |
| Other assets | | 2,489,551 | 1,689,144 |
| Inventories | | 7,113,916 | 5,271,953 |
| Current income tax asset | 7 | 1,538,898 | 1,540,162 |
| Total current assets | | 47,416,206 | 44,271,714 |
| Non-current assets | | | |
| Right-of-use assets | | 2,419,855 | 2,703,752 |
| Property, plant, and equipment | 5 | 75,187,504 | 69,738,456 |
| Intangible assets | 4 | 7,681,430 | 10,013,440 |
| Other assets | | 49,998 | 25,485 |
| Total non-current assets | | 85,338,787 | 82,481,133 |
| Total assets | | 132,754,993 | 126,752,847 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | | 18,446,953 | 24,399,791 |
| Financial liabilities | 6 | 17,116,065 | 16,927,611 |
| Provisions | | 8,787,030 | 8,851,588 |
| Total current liabilities | | 44,350,048 | 50,178,990 |
| Non-current liabilities | | | |
| Financial liabilities | 6 | 22,993,640 | 22,664,875 |
| Deferred tax liabilities | 7 | 1,760,500 | 1,589,409 |
| Provisions | | 848,328 | 708,731 |
| Total non-current liabilities | | 25,602,468 | 24,963,015 |
| Total liabilities | | 69,952,516 | 75,142,005 |
| Net assets | | 62,802,477 | 51,610,842 |
| EQUITY | | | |
| Issued capital | 8 | 80,241,766 | 70,249,205 |
| Retained earnings | | (17,439,289) | (18,638,363) |
| Total equity | | 62,802,477 | 51,610,842 |

The accompanying notes are an integral part of these financial statements

* Refer to Note 13.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

| | Note | Issued Capital | Retained Earnings | Total |
|---|------|-------------------|----------------------|-------------------|
| | | \$ | \$ | \$ |
| Balance at 1 July 2020 | | 70,249,205 | (12,787,784) | 57,461,421 |
| Comprehensive income | | | | |
| Loss for the period | | - | (3,130,517) | (3,130,517) |
| Other comprehensive income for the period | | - | - | - |
| Total comprehensive income for the period | | - | (3,130,517) | (3,130,517) |
| Recognition of share-based payments | | - | 176,182 | 176,182 |
| Balance at 31 December 2020 | | 70,249,205 | (15,742,119) | 54,507,086 |
| Balance at 1 July 2021 | | 70,249,205 | (18,638,363) | 51,610,842 |
| Comprehensive income | | | | |
| Profit for the period | | - | 1,091,157 | 1,091,157 |
| Other comprehensive income for the period | | - | - | - |
| Total comprehensive income for the period | | - | 1,091,157 | 1,091,157 |
| Issue of ordinary shares | 8 | 10,497,738 | - | 10,497,738 |
| Share issue costs, net of tax | 8 | (505,177) | - | (505,177) |
| Recognition of share-based payments | | - | 107,917 | 107,917 |
| Balance at 31 December 2021 | | 80,241,766 | (17,439,289) | 62,802,477 |

The accompanying notes are an integral part of these financial statements

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

| | Note | 31 Dec 21 \$ | 31 Dec 20 \$ |
|---|------|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | | 110,642,568 | 104,196,073 |
| Payments to suppliers and employees | | (97,111,489) | (85,332,442) |
| Interest received | | - | 90 |
| Interest paid | | (873,812) | (916,120) |
| Income tax paid | | - | (2,201,286) |
| Net cash provided by operating activities | | 12,657,267 | 15,746,316 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from sale of property, plant and equipment | | 156,930 | 1,622,974 |
| Payments for purchase of property, plant and equipment | | (11,338,456) | (9,356,864) |
| Net cash used in investing activities | | (11,181,526) | (7,733,890) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of shares | | 10,497,738 | - |
| Payments for share issue costs | | (721,682) | - |
| Proceeds from borrowings | | 1,545,065 | - |
| Repayment of borrowings | | (6,669,617) | (8,127,794) |
| Dividends paid | | - | (2,191,627) |
| Net cash provided by/ (used in) financing activities | | 4,651,504 | (10,319,421) |
| Net increase/(decrease) in cash and cash equivalents | | 6,127,245 | (2,306,995) |
| Cash and cash equivalents at the beginning of the period | | 4,236,219 | 11,906,383 |
| Cash and cash equivalents at the end of the period | | 10,363,464 | 9,599,388 |

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 2021

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These general purpose interim financial statements for half-year reporting period ended 31 December 2021 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 2021, together with any public announcements made during the following half-year.

These interim financial statements were authorised for issue on 24 February 2022.

(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.

The Group has considered the implications of new and amended Accounting Standards but determined that their application to the financial statements is either not relevant or not material.

(c) Restatement of prior periods

The Group has restated the financial position for prior periods as a result of reclassifying the Intangible asset customer contracts from current assets to non-current assets. Refer to Note 13.

2. REVENUE

(a) Income from continuing operations

| | 31 Dec 21 | 31 Dec 20 |
|---------------------------------------|--------------------|--------------------|
| | \$ | \$ |
| Revenue from contracts with customers | 102,883,540 | 99,989,102 |
| Other | 11,171 | 46,174 |
| | <u>102,894,711</u> | <u>100,035,276</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 | 35,234,120 | 31,941,088 |
| Gold | 57,183,036 | 48,567,215 |
| Copper | 7,579,325 | 11,829,321 |
| Lead/zinc/silver | 2,360,862 | 4,302,886 |
| Other | 526,197 | 3,348,593 |
| | <u>102,883,540</u> | <u>99,989,102</u> |

Drilling type

| | | |
|----------------------|--------------------|-------------------|
| Surface drilling | 46,475,900 | 44,164,841 |
| Underground drilling | 56,309,182 | 55,656,215 |
| Other revenue | 98,458 | 168,046 |
| | <u>102,883,540</u> | <u>99,989,102</u> |

Geography

| | | |
|-------------------|--------------------|-------------------|
| Queensland | 51,010,105 | 49,121,216 |
| South Australia | - | 2,965,228 |
| New South Wales | 15,157,677 | 13,230,347 |
| Western Australia | 5,723,004 | 8,907,431 |
| Victoria | 30,992,754 | 25,764,880 |
| | <u>102,883,540</u> | <u>99,989,102</u> |

Timing of revenue recognition

| | | |
|--------------------------------------|--------------------|-------------------|
| Services transferred over time | 87,070,592 | 87,443,401 |
| Goods transferred at a point in time | 15,812,948 | 12,545,701 |
| | <u>102,883,540</u> | <u>99,989,102</u> |

| | 31 Dec 21 | 30 June 21 |
|---------------------------------------|------------|------------|
| | \$ | \$ |
| 3. TRADE AND OTHER RECEIVABLES | | |
| Trade debtors | 12,373,329 | 19,886,892 |
| Accrued income | 13,504,780 | 11,616,356 |
| Bonds and deposits | 32,268 | 30,988 |
| | 25,910,377 | 31,534,236 |

Impairment of trade receivables

The Group establishes an allowance for impairment by utilising the simplified approach in AASB 9 which uses an estimation of lifetime expected credit losses. While this has in effect seen the Group consider a provisioning matrix to measure expected credit losses, the substantially Tier one client base and strong collection history meant nil expected credit losses had been recognised prior to the year ended 30 June 2021.

During the year ended 30 June 2021, the Group recognised a trade receivables impairment of \$6,624,899 relating to one of its customers, SMS Innovative Mining Pty Ltd (SMS) following the termination of a drilling contract with SMS on grounds of SMS' failure to pay invoices that were due and owing. The impairment represented the gross amount receivable from SMS at 30 June 2021 of \$9,624,899 less \$3,000,000 that the Group recovered from SMS on 19 July 2021. The \$3,000,000 represented the first of three payment tranches SMS had agreed to pay the Group pursuant to a settlement deed agreed on 13 July 2021. Both parties had agreed to resolve all claims relating to this matter on the basis that SMS pay the Group a settlement sum of \$5,000,000 in three tranches over a six-month period ending 30 December 2021.

In accordance with the settlement deed, two additional tranches of \$1,000,000 each were received in September and December 2021 and were reflected in earnings for the half-year ended 31 December 2021.

With all payments under the settlement deed having been collected, the Group anticipates the second half of the financial year will see the impairment loss reduced by a further amount of \$420,445, being the GST component of uncollected invoices which, on being written off as a bad debt, will cease to qualify as taxable supplies and will become refundable from the Australian Tax Office.

There are nil other amounts receivable from customers at 31 December 2021 upon which any expected credit loss requires recognition at 31 December 2021. The table below details gross receivables at 31 December 2021 adjusted for the impairment loss recognised:

| | 31 Dec 21 | 30 June 21 |
|---------------------------|-------------|-------------|
| | \$ | \$ |
| Gross trade debtors* | 16,998,228 | 26,511,791 |
| Impairment loss allowance | (4,624,899) | (6,624,899) |
| Net trade debtors | 12,373,329 | 19,886,892 |

* The gross receivable from SMS Innovative Mining Pty Ltd at 31 December 2021 was \$4,624,899, contained within trade debtors.

4. INTANGIBLE ASSETS

| | Goodwill | Customer Contracts* | Total |
|---|-----------|---------------------|--------------|
| | \$ | \$ | \$ |
| At 31 December 2021 | | | |
| Cost or fair value | 5,755,572 | 17,129,163 | 22,884,735 |
| Accumulated amortisation | - | (15,203,305) | (15,203,305) |
| Net book amount | 5,755,572 | 1,925,858 | 7,681,430 |
| Half-year ended 31 December 2021 | | | |
| Opening net book amount | 5,755,572 | 4,257,868 | 10,013,440 |
| Amortisation | - | (2,332,010) | (2,332,010) |
| | 5,755,572 | 1,925,858 | 7,681,430 |

Goodwill and customer contracts were initially recognised upon completion of the Group's acquisition of Deepcore Drilling during the year ended 30 June 2020. These recognised customer contracts comprise separate contracts that either will expire, or have expired, at different dates post acquisition, ranging from October 2020 to February 2023 and are amortised on a straight-line basis over the contract periods.

* Refer to Note 13 which details the restatement of previously recognised customer contracts.

5. PROPERTY, PLANT AND EQUIPMENT

| | Land and Buildings | Plant and Equipment | Motor vehicles | Furniture and Fittings | Capital WIP | Total |
|---|--------------------|---------------------|----------------|------------------------|--------------|--------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| At 1 July 2021 | | | | | | |
| Cost or fair value | 210,982 | 104,198,653 | 18,095,994 | 1,266,777 | 9,304,260 | 133,076,666 |
| Accumulated depreciation | (121,519) | (49,418,798) | (12,925,935) | (871,958) | - | (63,338,210) |
| Net book amount | 89,463 | 54,779,855 | 5,170,059 | 394,819 | 9,304,260 | 69,738,456 |
| Half-year ended 31 December 2021 | | | | | | |
| Opening net book amount | 89,463 | 54,779,855 | 5,170,059 | 394,819 | 9,304,260 | 69,738,456 |
| Additions | - | 3,429,913 | - | - | 14,780,991 | 18,210,904 |
| Transfers | 88,285 | 13,999,081 | 685,766 | 88,946 | (14,862,078) | - |
| Disposals | - | (131,063) | (34,887) | (4,969) | - | (170,919) |
| Depreciation | (19,118) | (11,421,426) | (1,015,944) | (134,449) | - | (12,590,937) |
| Closing net book amount | 158,630 | 60,656,360 | 4,804,994 | 344,347 | 9,223,173 | 75,187,504 |
| At 31 December 2021 | | | | | | |
| Cost or fair value | 299,267 | 121,191,099 | 18,717,583 | 1,320,754 | 9,223,173 | 150,751,876 |
| Accumulated depreciation | (140,637) | (60,534,739) | (13,912,589) | (976,407) | - | (75,564,372) |
| Net book amount | 158,630 | 60,656,360 | 4,804,994 | 344,347 | 9,223,173 | 75,187,504 |

Depreciation expense reflected above of \$12,590,937 does not include depreciation of \$283,897 on right-of-use assets recognised during the half-year ended 31 December 2021.

6. FINANCIAL LIABILITIES

| | 31 Dec 21 | 30 Jun 21 |
|--|------------|------------|
| | \$ | \$ |
| Current | | |
| Borrowings | 3,200,000 | 3,198,674 |
| Equipment Hire Purchase Facilities (i) | 10,784,058 | 8,714,837 |
| Lease liability | 536,621 | 516,953 |
| Insurance premium and vehicle registration funding | 470,947 | 786,534 |
| Contingent consideration liability (ii) | 2,124,439 | 3,710,613 |
| | 17,116,065 | 16,927,611 |
| Non-current | | |
| Borrowings | 6,133,333 | 7,733,333 |
| Equipment Hire Purchase Facilities (i) | 12,474,984 | 9,962,327 |
| Lease liability | 2,110,921 | 2,382,168 |
| Contingent consideration liability (ii) | 2,274,402 | 2,587,047 |
| | 22,993,640 | 22,664,875 |

A reconciliation of movement in financial liabilities (excluding contingent consideration liability) during the half-year ended 31 December 2021 is shown below:

| Half-year ended 31 December 2021 | At 1 July 2021 | Funding received in cash | Non-cash funding received | Cash Repayments | At 31 December 2021 |
|--|----------------|--------------------------|---------------------------|-----------------|---------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Borrowings | 10,932,007 | - | - | (1,598,674) | 9,333,333 |
| Equipment Hire Purchase Facilities (i) | 18,677,164 | 1,545,065 | 6,873,223 | (3,836,410) | 23,259,042 |
| Lease liabilities – right-of-use assets | 2,899,121 | - | - | (251,579) | 2,647,542 |
| Insurance premium and vehicle registration funding | 786,534 | - | 667,367 | (982,954) | 470,947 |
| Total | 33,294,826 | 1,545,065 | 7,540,590 | (6,669,617) | 35,710,864 |

(i) Equipment Hire Purchase Facilities

The Group leases certain items of equipment under finance leases and, during the half-year ended 31 December 2021, a number of new finance lease arrangements have been entered into, mainly related to drill rigs and motor vehicles. In line with the Group's recently announced organic growth strategy, new leases include financing of a further four newly acquired LF160 surface drill rigs and related assets (in addition to the first delivered LF160 financed in June 2021).

(ii) Contingent consideration liability

The contingent consideration liability is payable to the vendors of the Deepcore business, which was acquired by the Group in November 2019. Under the terms of the acquisition, the Deepcore business operates under an earnout arrangement applicable to the first three calendar years post acquisition subject to outperformance against pre-agreed EBITDA targets. This entitles the Deepcore vendors to an annual earnout payment being 50% of that portion of calendar year EBITDA that is greater than \$12,500,000. The earnout for the calendar year ended 31 December 2020 (of \$2,344,468) was settled in March 2021.

The total contingent consideration liability at 31 December 2021 (\$4,398,841) was calculated based on a known earnout payment for the calendar year ended 31 December 2021 plus an up-to-date estimate based on forecast performance for the calendar year ending 31 December 2022.

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Earnings for the half-year ended 31 December 2021 include a benefit of \$1,898,819 being a reduction to the fair value of the contingent consideration liability. Deepcore EBITDA performance was impacted by various operational challenges that were beyond the Group's expectations including excessive adverse wet weather events and ongoing COVID-19 factors. As a result of these factors, Deepcore recorded lower than anticipated EBITDA for the half-year ended 31 December 2021 resulting in a reduction in the liability.

7. TAXATION

(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 2021 was 26.3% (half-year ended 31 December 2020: 28.5%).

(ii) Net deferred tax liabilities

Net deferred tax liabilities comprise deferred tax liabilities on temporary differences partially offset by deferred tax assets on temporary differences and losses. At 31 December 2021, net deferred tax liabilities total \$1,760,500 (30 June 2021: \$1,589,409). The increase is largely attributable to an increase in temporary differences on property, plant, and equipment (pursuant to the Australian Government's instant asset write-off regime), partially offset by increased deferred tax assets on losses arising from that same excess of tax depreciation over accounting depreciation.

(iii) Current tax assets

Current tax assets of \$1,538,898 (30 June 2021: \$1,540,162) reflect the amount recoverable from the Australian Tax Office based on the lodged return for the year ended 30 June 2021 with collection expected in February 2022.

8. ISSUED CAPITAL

Equity raise during half-year ended 31 December 2021

On 16 August 2021, the Group announced a material organic growth strategy and capital investment program which included the purchase of up to 12 LF160 drill rigs.

To support the funding of this organic growth strategy, the Group undertook a fully underwritten accelerated non-renounceable entitlement offer to raise approximately \$10,500,000. Under the offer, eligible shareholders could subscribe for 1 fully paid ordinary share for every 8 Mitchell Services Ltd shares that they held on 18 August 2021 at the issue price of \$0.42 per New Share.

The offer was made to both institutional and eligible retail shareholders with the institutional and retail components successfully completing on 18 August and 9 September respectively. This resulted in 24,994,615 new shares being issued, equivalent to approximately 11.1% of the Company's total shares outstanding at 30 June 2021, raising \$10,497,738.

Refer table below which reconciles movement in the number of shares and proceeds from contributed equity during the half-year ended 31 December 2021.

| | Period ended 31 December 2021 | |
|---|-------------------------------|------------|
| | No of shares | \$ |
| Fully paid ordinary shares | | |
| Balance at the beginning of the period | 199,238,740 | 72,995,137 |
| Shares issued pursuant to Executive Share and option plan | 715,550 | - |
| Entitlement Offer during period | 24,994,615 | 10,497,738 |
| Balance at end of the period | 224,948,905 | 83,492,875 |

DECEMBER 2021*Share Issue costs*

During the period, the Group incurred pre-tax transaction costs of \$721,682 being mainly management fees, underwriting fees and legal expenses associated with the capital raise. These have been adjusted for tax with a deferred tax asset of \$216,505 being recognised on these amounts which will be deductible for income tax.

9. 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.

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 \$119,799 including GST. Nil amounts remain owing to this related entity at the end of the reporting period.

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 Pty Ltd (Equipment Hub). Nathan Mitchell is a significant shareholder of Equipment Hub. Hire of plant and equipment from this related entity for the reporting period amounted to \$241,673 including GST.

An amount of \$37,879 remains owing to this related entity at the end of the reporting period.

Eastwest Drilling and Mining Supplies Pty Ltd

Deepcore Drilling Pty Ltd operate under an outsourced procurement model whereby the majority of its purchasing function is outsourced to Eastwest Drilling and Mining Supplies Pty Ltd (Eastwest). This arrangement (which was in place prior to and at the date of the Deepcore Drilling acquisition) has remained in place post the completion of the acquisition as part of a broader integration plan designed to minimise acquisition related disruption within the Deepcore business and to the manner in which it operates. On acquisition of Deepcore, the outsourced procurement arrangements were reviewed and agreement reached on pricing to ensure that the arrangement was no less favourable to normal commercial terms. Eastwest is an entity controlled by Scott Tumbridge.

During the reporting period, the Group was supplied plant items, parts and consumables and also hired ancillary equipment with amounts charged totalling \$2,674,666. All amounts are inclusive of GST and were based on normal market rates and under normal payment terms. An amount of \$889,776 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 rent associated with this property for the reporting period amounted to \$195,087 net of applied rental reductions associated with the revised lease. There are also ancillary utilities charges of \$17,171 reflected in the period. Amounts owing to this related entity at the end of the reporting period is \$63,173.

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 however, during the period, the related party charged the Group an amount of \$14,424 to reimburse for the cost of council rates. There were nil amounts payable to this related entity at the end of the reporting period.

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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.

The Group and this related entity currently operate under an arrangement whereby the services of an in-house legal counsel are shared between the two entities. Invoices in relation to this shared resource totalling \$71,037, inclusive of GST, were issued to the Group by the related entity during the period with an amount of \$15,708 remaining owing at the end of the reporting period.

10. 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.

11. FINANCIAL COMMITMENTS

As at 31 December 2021, pursuant to the material organic growth strategy, the Group had significant capital commitments of approximately \$22,660,199, comprising seven LF160 drill rigs and ancillary equipment including, but not limited to, support trucks and rod sumps, drilling pipe and other associated items.

12. EVENTS AFTER THE REPORTING DATE

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 future periods.

13. RECLASSIFICATION OF INTANGIBLE ASSETS

The Group now classifies the total carrying amount of Customer Contract Intangible Assets as non-current assets in the Condensed Consolidated Statement of Financial Position. Previously the Group classified a portion of Customer Contract Intangible Assets as current assets.

The following table summarises the impact of the reclassification on the comparatives on each line item affected of the Group's Condensed Consolidated financial statements:

| | As previously reported \$ | Adjustments \$ | As restated \$ |
|--|---------------------------------|--------------------|-------------------|
| Condensed Consolidated Statement of Financial Position as at 30 June 2021 | | | |
| Current Intangible assets | 3,157,378 | (3,157,378) | - |
| Total current assets | 47,429,092 | (3,157,378) | 44,271,714 |
| Non-current Intangible assets | 6,856,062 | 3,157,378 | 10,013,440 |
| Total non-current assets | 79,323,755 | 3,157,378 | 82,481,133 |

There is no impact on the Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income, basic or diluted earnings per share and Condensed Consolidated Statement of Cash Flows for the period ended 31 December 2020.

Directors' Declaration

In accordance with a resolution of the Directors of Mitchell Services Limited ("the Company"), the Directors declare that:

- 1) the Condensed consolidated financial statements and notes, as set out on pages 9-20, are in accordance with the *Corporations Act 2001*, including:
 - a) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
 - b) giving a true and fair view of the Company's financial position as at 31 December 2021 and of its performance for the six-month period 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 24th day of February 2022



Independent Auditor's Review Report

To the shareholders of Mitchell Services Limited

Conclusion

We have reviewed the accompanying **Half-year Financial Report** of Mitchell Services Limited.

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 Limited does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 31 December 2021 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Half-year Financial Report** comprises:

- Condensed consolidated statement of financial position as at 31 December 2021;
- Condensed consolidated statement of profit or loss and other comprehensive income, Condensed consolidated statement of changes in equity and Condensed consolidated statement of cash flows for the half-year ended on that date;
- Note 1 to 13 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

The **Group** comprises Mitchell Services Limited (the Company) and the entities it controlled at the end of the half year or from time to time during the half-year.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with these requirements.



Emphasis of matter – Restatement of comparative balances

We draw attention to Note 13 to the Half Year Financial Report, which describes the restatement of amounts reported with respect to Intangible asset customer contracts. The Group has restated its comparatives to appropriately reflect the classification of the Intangible asset customer contracts as non-current assets. The annual financial report of Mitchell Services Limited for the year ended 30 June 2021 was audited by Jessups, another auditor who issued an unmodified opinion on that financial report on 25 August 2021. Our conclusion is not modified in respect of this matter.

Responsibilities of the Directors for the Half-year Financial Report

The Directors of the Company 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
- 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 Responsibilities for the Review of the Half-year Financial Report

Our responsibility is to express a conclusion on the Half-year Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Half-year Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2021 and its performance for the Half-Year ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

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.

KPMG

KPMG

M J Jeffery
Partner

Brisbane
24 February 2022