



**Mitchell**  
SERVICES

18 July 2018

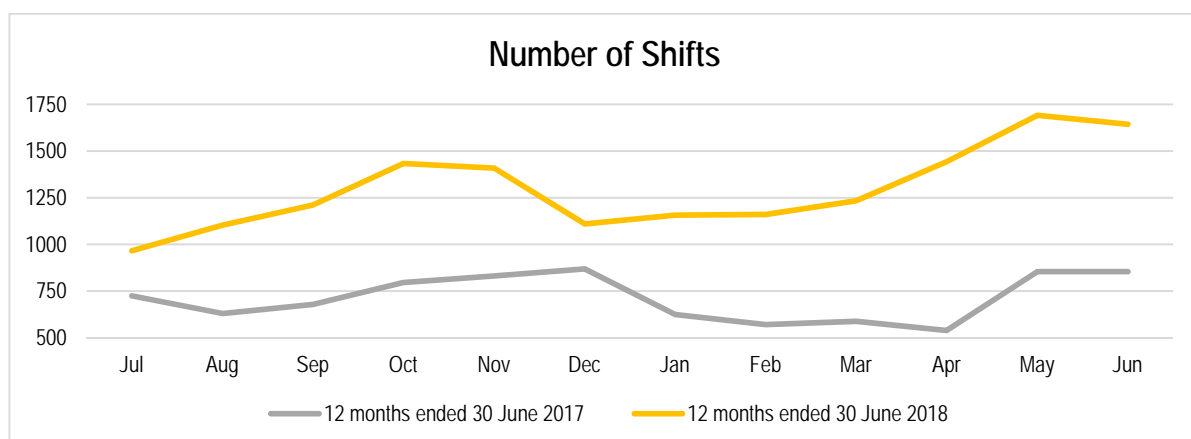
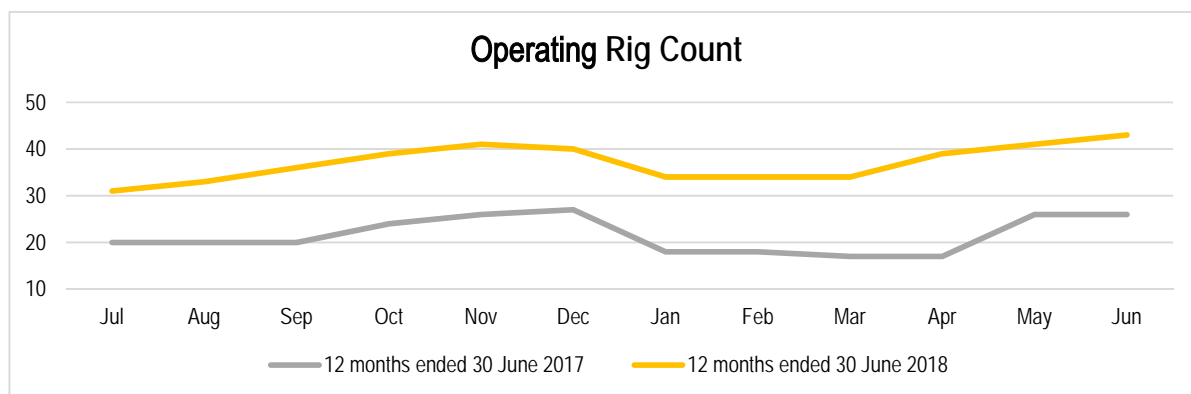
**MITCHELL SERVICES LIMITED**  
**(ASX: MSV)**

**Appendix 4C Quarterly Report and Investor Update**

Dear Shareholder,

Mitchell Services Limited (**Mitchell Services**) is pleased to provide the following Investor Update for the quarter ended 30 June 2018.

As outlined in the March 2018 investor update both utilisation and productivity have continued to increase during the second half of the 2018 financial year as general market conditions continue to improve. These improvements have led to a material increase in rig utilisation (fig 1) and number of shifts for the quarter ended 30 June 2018 (fig 2).



**Mitchell Services Limited**

ABN 31 149 206 333

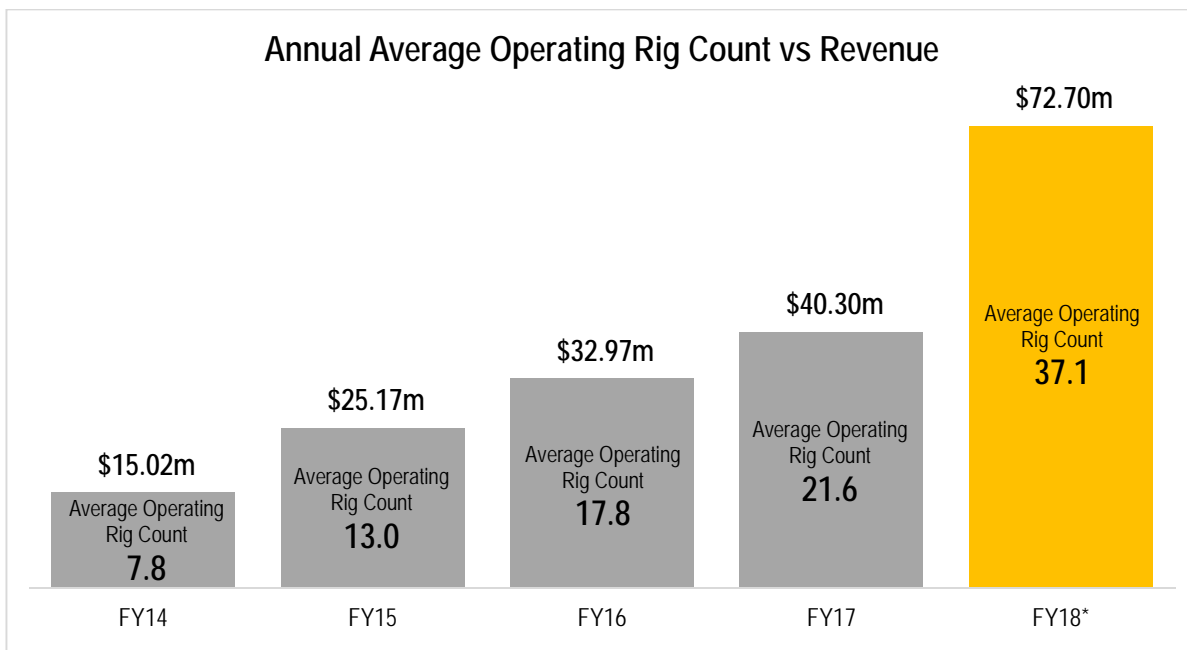
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The continual increase in both operating rig count and number of shifts has driven a significant increase in revenue, with a 384% increase since 2014. The table below outlines a number of key six-monthly utilisation metrics and the impact of those utilisation levels on financial results.

	FY16		FY17		FY18	
	1H	2H	1H	2H	1H	2H
Ave operating Rigs	20.2	15.3	23.5	19.8	36.7	37.5
Number of shifts	3,036	3,471	4,528	4,029	7,423	8,332
Revenue (\$000's)	18,472	14,498	20,843	19,460	33,215	39,485 *
EBITDA (\$000's)	131	391	2,559	(321)	2,678	3,576 *
Operating cash flow (\$000's)	236	(302)	2,400	1,907	(2,290)	1,016 *
Annualised revenue per rig (\$000's)	1,829	1,895	1,774	1,966	1,810	2,106

\* un-audited

As disclosed previously, EBITDA in the first half of FY18 was impacted by material levels of ramp up associated with major project wins. Mitchell Services' EBITDA is beginning to normalise and anticipate further material increases in revenue and EBITDA during the first half of FY19.

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The material increase in revenue (particularly in the quarter ended 30 June 2018) has resulted in a significant increase to Mitchell Services' trade receivables as at 30 June 2018, giving rise to a timing difference between the strong EBITDA performance in the June quarter and the conversion of that EBITDA into positive operating cashflow (which will likely occur in the following quarter).

As outlined in the March 2018 investor update and following the announcement made on 4 April 2018, I am pleased to inform shareholders that the Radco Drilling business continues to perform safely, efficiently and in line with expectations following the recent acquisition. The acquisition is anticipated to be materially EPS and EBITDA accretive into the foreseeable future.

Since the completion of the Radco acquisition (which saw the overall fleet size increase to 76 rigs), Mitchell Services has recently concluded an asset optimisation program which included the sale of non-core assets. Under this sales program assets with a book value of approx. \$1.28m were sold for \$1.88m. Post these sales, Mitchell Services' fleet comprises 65 high quality drill rigs designed to service core markets including surface drilling, underground drilling and large diameter drilling (for both energy and minerals clients) across Australia.

The outlook remains positive with continued improvement across all operating metrics expected. Near term focus continues to be:

- Continue to operate safely across all operations
- Finalise the integration of the Radco drilling business and focus on increasing its operating rig count
- Generate strong operational cash flow to pay down debt
- Sell the investment property located in Townsville to pay down debt

Thank you for your continued support.

Yours faithfully

**Andrew Elf**  
Chief Executive Officer  
Mitchell Services Limited

**Mitchell Services Limited**

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## Appendix 4C

### Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

**Name of entity**

Mitchell Services Limited and subsidiaries (**The Group**)

**ABN**

31 149 206 333

**Quarter ended ("current quarter")**

30 June 2018

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
<b>1.</b>	<b>Cash flows from operating activities</b>		
1.1	Receipts from customers	20,288	64,342
1.2	Payments for		
	(a) research and development	-	-
	(b) product manufacturing and operating costs	(6,898)	(25,181)
	(c) advertising and marketing	(34)	(94)
	(d) leased assets	-	-
	(e) staff costs	(11,086)	(35,724)
	(f) administration and corporate costs	(843)	(2,697)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	-	13
1.5	Interest and other costs of finance paid	(500)	(1,712)
1.6	Income taxes paid	(221)	(221)
1.7	Government grants and tax incentives	-	-
1.8	Other (provide details if material)	-	-
<b>1.9</b>	<b>Net cash from / (used in) operating activities</b>	<b>706</b>	<b>(1,274)</b>

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Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
<b>2.</b>	<b>Cash flows from investing activities</b>		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(911)	(5,661)
	(b) businesses (see item 10)	(4,251)	(4,251)
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	1,878	2,339
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(3,284)</b>	<b>(7,573)</b>
<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of shares	-	8,791
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	(550)
3.5	Proceeds from borrowings	5,000	7,000
3.6	Repayment of borrowings	(2,981)	(4,812)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
3.9	Other (provide details if material)	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>2,019</b>	<b>10,429</b>
<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of quarter/year to date	2,423	282
4.2	Net cash from / (used in) operating activities (item 1.9 above)	706	(1,274)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(3,284)	(7,573)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	2,019	10,429
4.5	Effect of movement in exchange rates on cash held	-	-
<b>4.6</b>	<b>Cash and cash equivalents at end of quarter</b>	<b>1,864</b>	<b>1,864</b>
<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	1,864	2,422
5.2	Call deposits	-	1
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>1,864</b>	<b>2,423</b>
<b>6.</b>	<b>Payments to directors of the entity and their associates</b>	Current quarter \$A'000	
6.1	Aggregate amount of payments to these parties included in item 1.2	58	
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-	
6.3	Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2		
The transactions included in 6.1 above relate to director's fees and associated superannuation payments.			

<b>7.</b>	<b>Payments to related entities of the entity and their associates</b>	<b>Current quarter \$A'000</b>	
7.1	Aggregate amount of payments to these parties included in item 1.2	279	
7.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-	
7.3	Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2		
The transactions included in 7.1 above relate to payments made to entities that are controlled by certain directors. The nature of these transactions has not changed from those outlined in note 21 of the Group's most recent published Annual Report and include equipment hire, repair and maintenance type services and office rental.			
<b>8.</b>	<b>Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
8.1	Loan facilities	11,200	11,200
8.2	Credit standby arrangements	9,000	-
8.3	Other (equipment finance facilities)	8,358	8,358
8.4	Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		
<b>8.1</b>	<p>\$8.5 million secured shareholder loan facility provided by major shareholders Washington H. Soul Pattinson &amp; Company Limited and Mitchell Family Investments (Qld) Pty Ltd as trustee for the Mitchell Family Investment Trust. This loan was provided to partly fund the acquisition of all Nitro Drilling Pty Ltd assets in 2015. Interest is charged at a fixed rate of 10% pa on this facility.</p> <p>\$2.7million secured loan provided by NAB. The loan expires in April 2019 and interest is currently levied at 6.18% per annum. The loan is secured by of a mortgage over the Group's investment property located in Townsville in addition to charges granted in favour of NAB pursuant to General Security Agreements between NAB and Mitchell Services' subsidiaries – Notch Holdings Pty Ltd and Well Drilled Pty Ltd.</p>		
<b>8.2</b>	<p>Day to day working capital requirements of the Group are funded through a trade finance facility with NAB. This facility is provided under the following key terms:</p> <ul style="list-style-type: none"> <li>• NAB will advance 75% of the Group's outstanding trade receivables balance (up to a maximum advance of \$9 million).</li> <li>• The advances are secured against the Group's trade receivables balance and a first ranking general security interest in Mitchell Operations Pty Ltd (a wholly owned subsidiary of Mitchell Services Limited) and a guarantee provided by Mitchell Services Limited.</li> <li>• Interest is levied at 6.5% per annum plus an annual line fee of 1% applicable to the facility.</li> </ul>		
<b>8.3</b>	<p>Secured equipment finance facilities through a range of lenders including Westpac, Commonwealth Bank, Suncorp, Toyota Equipment Finance, Atlas Copco Financial Solutions, NAB and MEH Equipment Hire, at fixed interest rates between 4.09% and 8.33% pa.</p>		

<b>9. Estimated cash outflows for next quarter</b>		<b>\$A'000</b>
9.1	Research and development	-
9.2	Product manufacturing and operating costs	7,726
9.3	Advertising and marketing	38
9.4	Leased assets	-
9.5	Staff costs	12,416
9.6	Administration and corporate costs	850
9.7	Other (repayment of borrowings and capital expenditure)	3,906
<b>9.8</b>	<b>Total estimated cash outflows</b>	<b>24,936</b>

<b>10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)</b>		<b>Acquisitions</b>	<b>Disposals</b>
10.1	Name of entity	Radco Technologies Pty Ltd and Radco Group Australia Pty Ltd (collectively Radco)	N/A
10.2	Place of incorporation or registration	New South Wales	N/A
10.3	Consideration for acquisition or disposal	\$7,633,501.88 (\$4,251,263) net of cash acquired	N/A
10.4	Total net assets	\$5,791,163*	N/A
10.5	Nature of business	Underground coal and gas drainage	N/A

\*The net asset value of \$5,791,163 represents the book values of the assets and liabilities per Radco's financial statements at acquisition date (4 April 2018). These values do not take into account the fair values of any identified intangible assets (in the form of customer contracts) that existed at acquisition date. Michell Services is currently finalising the purchase price allocation as required by AASB3 (Business Combinations) under which it will recognise all assets and liabilities acquired (including the customer contracts) at appropriate fair values. It is anticipated that the calculated fair values of the net assets recognised under AASB3 will be approximately equal to the consideration of \$7.6 million. Goodwill will be recognised to the extent that the purchase consideration is greater than the identified fair values. Conversely, to the extent that the fair values of net assets exceed the purchase consideration, a resultant discount/gain on purchase will be recognised in accordance with AASB3.



**Compliance statement**

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:

.....  
(Company/secretary)

Date: 18 July 2018

Print name: Greg Switala

**Notes**

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.

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