SWICK

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Company Insight

the intelligent market update

Swick Mining Services Limited Date of Lodgement: 24/01/13

Title: "Company Insight – Update on Record H1 Operations"

Highlights of Interview

- **Revenue was a record $75.6 million and EBITDA a record $15.8 million for the half-year (unaudited)**
- **Underground diamond drilling is intrinsic to miners' operations and near-term prospective operations – and their ongoing cashflow generation.**
- **This factor has had a distinctive effect on the maintenance and development of the Swick business in current resource market conditions**
- **Outlines the continuous improvement culture within the Company that has been important to developing the business**
- **North American rig utilisation will rebound to a record high of nine (9) rigs in work by the end of March 2013**
- **Current renewals, deployments and recent contract signings mean expected rig utilisation by the end of March 2013 should be around 66 rigs from the fleet of 76, or around 87%.**

Record of interview:

We interview Kent Swick, the Managing Director of Swick Mining Services Limited (ASX: SWK, market capitalisation A$86 million) about the Company's operations during the first-half of FY2013.

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What are the key elements of Swick's operations update for the December half?

Managing Director, Kent Swick
Our revenue was a record $75.6 million and EBITDA a record $15.8 million for the half-year (unaudited).

Even more pleasing have been some of the underlying things we've done particularly well in the last six months - focussing on our strengths, implementing some of our key engineering innovations and adding a more detailed and accurate understanding of our operations through our business information systems. On top of that, I like to think we've catered well to our clients, provided a safe and efficient service provision, and maintained high quality standards. These are the basics of developing the business.

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The increase in revenue for the half to $75.6 million (up 9% on prior corresponding period to December 2011) was achieved despite a difficult market for drilling contractors. What do you attribute Swick's performance to - relative to other drilling contractors?

Kent Swick
I can't really speak for other contractors as I am not fully aware of their strategies and operations, but I know that Swick, has benefited from being shielded from the volatility of the exploration drilling market. Exploration drilling has been under pressure for some time, due mainly to the tight capital markets rather than a lack of need, or desire, to explore. I believe investors don't have the desire to put risk capital into exploration at the junior end of the market. We deliberately de-risked our revenue stream about 18 months ago by significantly reducing our exposure to exploration drilling - so the current capital market's weakness has not had a significant impact on our business.

Swick's strength is underground diamond drilling. This means we are, in the main, drilling in cash-generative, underground mining operations - which require large amounts of drilling to feed detailed information to the technical teams. We do delineation drilling with these rigs, not exploration. Delineation drilling feeds a raft of information to the mining engineers, metallurgists and geologists – providing detailed information of the rock structure for 3D modelling of the orebody boundaries, and of course, grade control.

Some of our contract work is at the early development stages of underground mines where the Swick rig's mobility and flexibility makes it an ideal fit for high-traffic, start-up development areas with independent blasting times. Recent contract awards such as Argyle Diamond Mine, MMG's Dugald River Project and Sandfire's DeGrussa mine are examples of such projects.

In other words, our underground diamond drilling is intrinsic to miners' operations and near-term prospective operations – non-discretionary spending which keeps their cashflows going. So, our business is not affected by the current capital markets conditions.

This factor has protected our business – when others may have been under pressure.

Our results are also benefiting from our investment strategy of improving our three core divisions by way of technology, personnel development and management systems. This is what some call 'continuous improvement' – and which I say means 'we are always aiming to be a better Company'. I think our customers and suppliers are seeing that side of our culture. What's more, improvement means we are able to maintain competitive advantage and operational efficiency, which gives us the ability to retain our clients as well as expand our customer base.

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How is the Company's revenue performance developing?

Kent Swick
Our half-yearly revenue of $75.6 million was up 9% on the previous corresponding period – which was very pleasing.

Revenue growth is important, but is not our only goal. With an underlying revenue now at a run rate of around $150 million per annum, that is a fair amount of revenue for the Company to generate yield from. It is just as important, now, to grow profitably with the right clients and in the right regions.

We have a good foundation for similar or even better top-line growth rates, and we are aiming to yield a better bottom-line by improving our performances at our site operations, lowering our cost base, and applying new technology. This half's record EBITDA of $15.8 million (unaudited) was up 14% over the prior corresponding period – so that result has been very satisfactory.

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Looking forward into the current 2013 year, your recent North American signings will build rig utilisation from the year's seasonal low point at 31 December. What impact do you expect these developments to have on North American rig utilisation and the North American business generally?

Kent Swick
North American rig utilisation will rebound to a record high of nine (9) rigs in work by the end of March 2013. We're pleased to have overcome the disappointing lull in our utilisation when some clients put operations on hold, and as we demobilised from the Nevada region. Our highly mobile drill rigs were not in their element at the Nevada operations as they were constrained by difficult drilling conditions and complex site preparations that took away many of the significant benefits of the Swick rig. Instead of trying to fit a square peg in a round hole, we're now redeploying those assets to operations where they can yield better results for the Company - and that has been achieved in this last round of contract awards.

We are still awaiting a few outcomes of tenders; however we feel that the quality of the base load of work secured for this calendar year will see us establishing better credentials in the North American region over the next twelve months. In turn, this should give us the platform for further success in the next tendering season, later this year.

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In addition to the contract renewals you've announced, what additional deployment has been achieved within your existing Australian client base?

Kent Swick
Sometimes a client's organic operational demand requires additional rigs and at the same time, others may need reduced drilling for some period. In this coming quarter, there are a net three (3) additional rigs being deployed to three of our key contracts - being Newmont's Granites Gold Mine, Sandfire Resources' DeGrussa Mine and Perilya's Broken Hill Mine.

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Given that the Company's rig fleet has increased from 69 to 76 over the past year, what is projected rig fleet deployment - based on current renewals and deployments, and recent contract signings?

Kent Swick
Current renewals, deployments and recent contract signings mean our expected utilisation by the end of March 2013 should be around 66 rigs from our fleet of 76 or around 87%. Any further work awarded will increase this rig deployment further.

In these circumstances, fleet size has to increase and we are currently building Swick mobile drill rigs to meet our anticipated demand. We'll do this because once rig utilisation reaches the high 80%'s or beyond, it can become a little bit of a constraint on growth opportunities, client flexibility and maintenance scheduling.

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Thank you, Kent.

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