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Mitchell SERVICES

22 July 2021

Mitchell Services Limited (ASX: MSV)

Quarterly Investor Update

Mitchell Services Limited records solid FY21 Q4 operating and financial performance

- Revenue $46.2m
- Reported EBITDA $7.6m
- Operating cash flow $7.9m
- Operating cash conversion ratio 104%
- 12-month gross debt reduction 25.1%

Dear Shareholder

I am pleased to provide the following investor update for the quarter ended 30 June 2021 (**FY21 Q4**) for Mitchell Services Limited (**the Company**) based on the Company's un-audited consolidated management accounts.

FY21 Q4 was an extremely busy quarter for the business as it began to significantly increase ramp up activities in preparation for FY22 where revenue and earnings are expected to be materially higher than FY21. Whilst not necessarily reflective in the Q4 operating rig count (due to timing around mobilisations, demobilisations and project start dates) the business' existing surface fleet is fully booked for the remainder of the 2021 calendar year and the Company has plans to expand the surface fleet over the course of FY22 given the strong demand and resulting size of the current pipeline. FY21 Q4 saw a large operational focus on the preparation and readiness of rigs in anticipation of both contracted and potential FY22 work. This, against a backdrop of extremely positive industry fundamentals which include strong and, in many cases, increasing commodity prices as a result of:

- Global government stimulus and subsequent infrastructure spending, and reducing grades and reserves
- Australia perceived as an attractive region to invest due to its high quality, low risk jurisdiction in which to operate
- An increase in new projects and exploration programs following increased levels of capital markets activity
- Increased budgets amongst larger tier 1 producers
- Significant barriers to entry for new service providers including rig lead times/availability, their access to start-up funding and a highly regulated and complex operating environment

	FY21 Q4	FY20 Q4	Movement	Movement %
Average operating rigs	67.7	71.3	(3.6)	(5.0%)
Number of shifts	10,354	10,415	(61)	(0.1%)
Revenue ($'000s)	46,238	50,705	(4,467)	(8.8%)
Reported EBITDA ($'000s)	7,621	10,758	(3,137)	(29.2%)
Operating cash flow ($'000s)	7,895	9,786	(1,891)	(19.3%)

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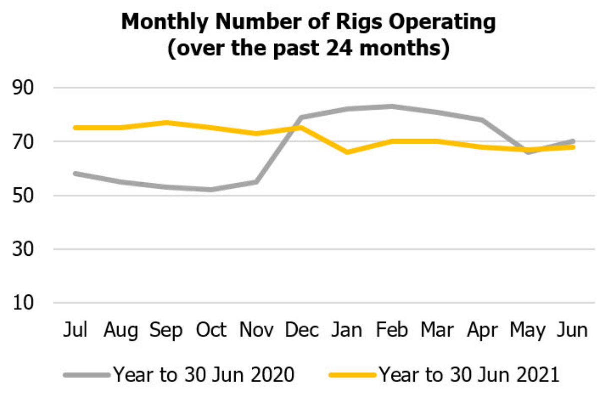

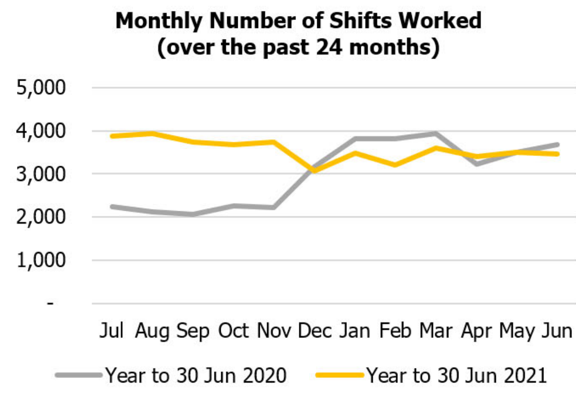

The below table summarises the un-audited financial and operating results for the 12 months ended 30 June 2021.

Un-audited FY21 year-to-date information as at 30 June 2021

	FY21 Q1	FY21 Q2	FY21 Q3	FY21 Q4	FY21 YTD
Average operating rigs	75.7	74.3	68.7	67.7	71.6
Number of shifts	11,529	10,467	10,283	10,354	42,633
Revenue ($'000s)	53,185	46,804	45,157	46,238	191,384
EBITDA ($'000s)	10,400	2,065	5,789	7,621	25,875
EBITDA (%)	19.6%	4.4%	12.8%	16.5%	13.5%
Operating cash flow ($'000s)	9,474	6,272	6,416	7,895	30,057
Annualised revenue per rig ($'000s)	2,810	2,520	2,629	2,732	2,673
Net Debt ($'000s)	25,557	23,379	27,127	25,373	25,373
Gross debt ($'000s)	36,061	32,978	30,256	29,609	29,609

SMS Innovative Mining Update

As announced to the ASX on 13 July 2021 and 20 July 2021, a settlement was reached between the Company's wholly owned subsidiary Mitchell Operations Pty Ltd (MO) and SMS Innovative Mining Pty Ltd (SMS) in relation to the $9.6 million owing by SMS to MO pursuant to a drill and blast contract between MO and SMS. To avoid the inherent uncertainties surrounding potential protracted, costly, management time consuming litigation, all claims were resolved on the basis that SMS pay MO an amount of $5 million over three payment tranches. The first tranche of $3 million was paid on 19 July 2021.

Whilst this matter has been disappointing, the settlement will allow the company to focus on the operations of the business as we look to deliver on our FY22 strategy.

Please note that the year to date reported EBITDA figure of $25.9 million includes the impact of a trade receivable impairment of $6.6m (being the gross revenue value of the SMS receivable previously recognised less the $3 million received to date pursuant to the settlement agreement).

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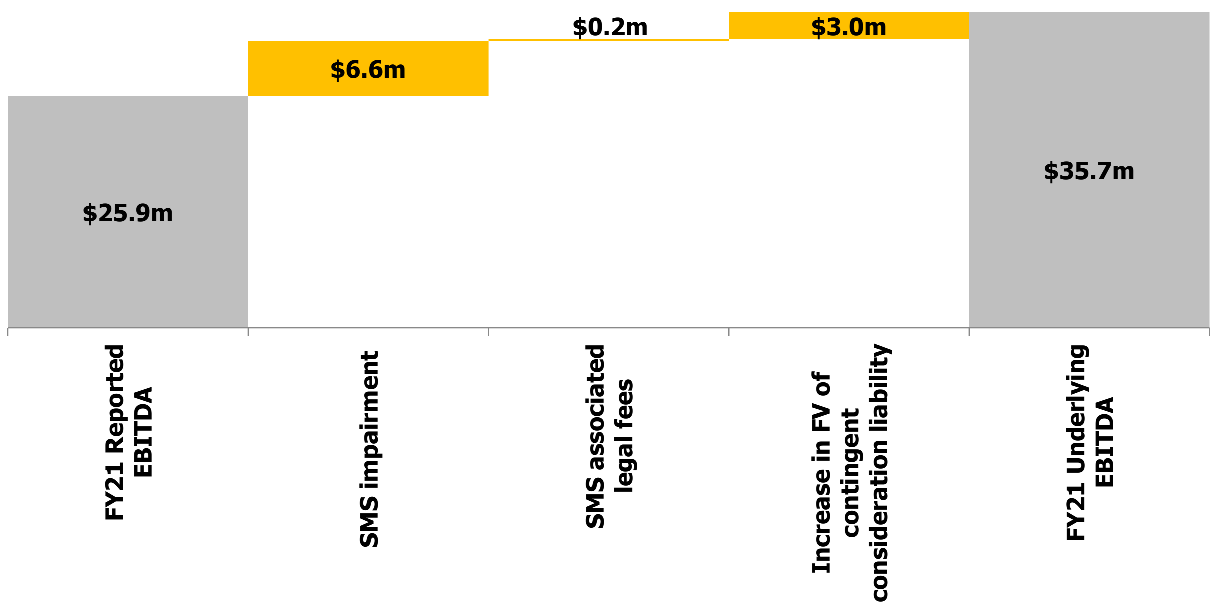
Deepcore earn-out

In November 2019, the Company purchased 100% of the equity in Deepcore Holdings Pty Ltd (Deepcore). Under the terms of the acquisition Deepcore operate under an earnout arrangement applicable to the first three calendar years post acquisition subject to outperformance against pre-agreed EBITDA targets. Under the earnout arrangement, the Deepcore vendors are entitled to an annual earnout payment being 50% of that portion of calendar year EBITDA that is greater than $12.5 million. As part of the acquisition accounting at 30 June 2020, a $4.9 million liability (contingent consideration liability) was recognised, being the present value of the anticipated annual cash payments in relation to the three year earn out.

The Deepcore acquisition has been transformational for the company and given the exceptionally strong Deepcore performance for the 18 months ended 30 June 2021 and the expected level of continued growth and EBITDA performance into the next 18 months, the Company has deemed it prudent to revise its contingent consideration liability valuation on the basis of the stronger anticipated Deepcore performance. As a result, the reported FY21 Q4 EBITDA figure includes a fair value adjustment to the contingent consideration liability of approx. $3 million.

Adjusted EBITDA

At an adjusted level, the Company generated EBITDA of approx. $35.7 million. Given the material level of once off/non-recurring adjustments recognised in FY21, we believe that it is appropriate to outline the EBITDA on an adjusted basis to demonstrate the underlying performance of the Company. The below chart provides a reconciliation of the expected FY21 statutory EBITDA to expected underlying EBITDA noting addbacks of the SMS impairment, SMS associated legal fees and the increase to the contingent consideration liability.



COVID-19

I could not be prouder of the performance of our employees who have continued to deliver a safe and productive service to our clients since the start of the pandemic. I would like to thank all our employees, especially those who have had to spend time in quarantine or a longer time away from home than would ordinarily be the case.

We are thankful that our services have been deemed essential throughout COVID-19 so far but managing COVID-19 has come at a cost to the company. The overall estimated financial impact of COVID-19 in FY21 is estimated to be in the range of $1 million to $2 million.

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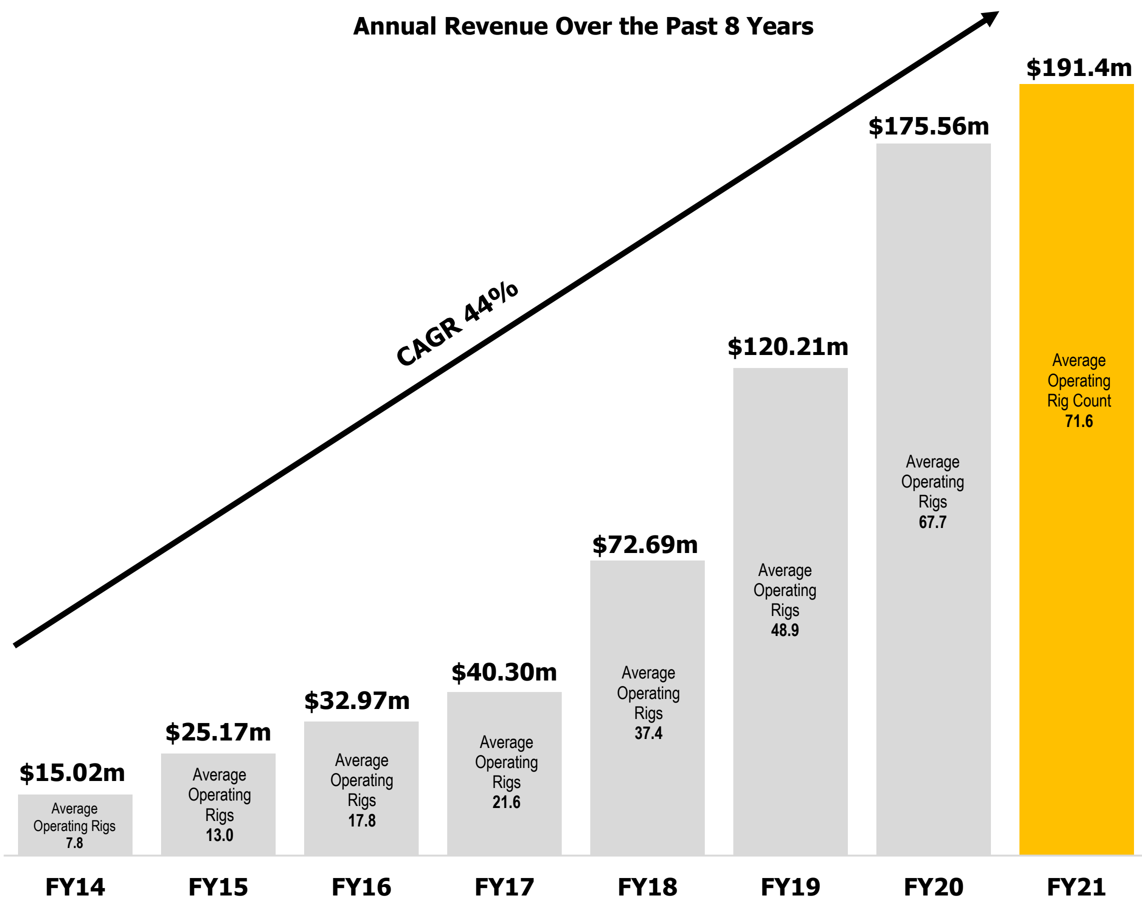
Closing

In closing, I would like to again thank all employees for their hard work and dedication and all shareholders for their ongoing support.

As we reflect on what an extremely busy and challenging year FY21 has been, I leave you with the graphic below that illustrates the Company's compound annual revenue growth rate (CAGR) since re-entering the Australian market back in FY14.

The market is the strongest it has been since re-entry and the Company is well positioned to capitalise on these positive fundamentals based on the size of our current tender pipeline and planned organic growth strategy which we expect will translate into strong future earnings.



Yours faithfully,

Andrew Elf
Chief Executive Officer
Mitchell Services Limited