2 June 2014

MITCHELL SERVICES LIMITED
(ASX:MSV)

ASX Announcement

INVESTOR UPDATE

Dear Shareholder,

At the end of last year, following the expiry of the Australian drilling non-compete clause between Mitchell Group and AJ Lucas, the Mitchell Group decided that it would re-enter the market in Australia, with the vision of re-establishing itself as one of Australia's largest tier 1 drilling contractors. The reverse merger with Drill Torque provided a publicly listed vehicle to achieve this vision, albeit at a time when market conditions are extremely challenging. Strategically it was important to secure a company with a solid shareholder base and core assets that allowed the merged company to increase its immediate revenue base. Over the last six months the business has been restructured to allow it to service tier 1 companies in a safe, professional and cost effective manner. The restructuring process embodied a significant amount of change including:

- The replacement of previous management.
- Implementation of new industrial relations instruments across the company.
- Implementation of new safety and reporting systems.
- Relocation of corporate headquarters from Townsville to Brisbane.
- Relocation of operational activities from Townsville to Emerald and Cloncurry.
- Finalizing negotiations to rent the Townsville premises on a long term lease.
- Resizing of core assets including an auction of surplus and decommissioned assets.
- The completion of a transaction with Coe Drilling to utilise in excess of $8m dollars worth of capital equipment to increase capability in Coal Seam Gas, Coal Mine Methane and Mine Services market sectors. This transaction includes very attractive first and last right purchase options on all capital equipment.
- Upgrading of capital equipment and procurement of consumables in order to work for "Tier 1" mining and energy companies.
- Actions taken to achieve pre-qualification so that the company now receives tenders from "Tier 1" mining and energy companies.

This restructure has been the catalyst for a number of positive developments which include:

- Increased rig utilisation from three rigs in December 2013 to ten rigs as at the end of May.
- Won in excess of $30m worth of contracts since December 2013.
- Won three contracts with "Tier 1" mining companies.
- Further opportunities already in hand to tender with "Tier 1" mining and energy companies amongst others.

Mitchell Services Limited
ABN 31 149 206 333

112 Bluestone Circuit
Seventeen Mile Rocks Qld 4073 Australia
PO Box 3250 Darra Qld 4076 Australia
t +61 7 3722 7222 f +61 7 3722 7256
e info@mitchellservices.com.au w www.mitchellservices.com.au

Mitchell
SERVICES

The significant increase in rig utilisation and the transition of the company to 'Tier 1' drilling status has been very pleasing, however the amount of work and capital required to modernise the drilling fleet and systems to a level acceptable to tender for tier 1 drilling contracts was more significant than originally anticipated. This will lead to a loss in the current financial year.

The recent contract win with Peabody required additional upfront capital. The contract in its fourth month of operations has already paid back this additional capital demonstrating the leverage possible within the drilling business. Since the commencement of operations Peabody has signed additional variations to the contract leading to projected additional revenue. This outcome illustrates the benefit of operating a professional drilling business that delivers results.

Mitchell Services has a number of potential contracts with tenders pending, which if successful will require further working capital to properly prepare the business to deliver on these contracts. To ensure that the company is able to meet its obligations in the near term and take advantage of new contract opportunities Mitchell Group has offered to provide the company with an arms-length ,short-term debt facility.

Mitchell Services is in the final stages of completing its initial strategic review and will release to the market a directions document detailing our restructuring and positioning initiatives to date and outlining the next phase of the strategy including our growth and acquisition plan.

The strategic plan will include a capital raising that will provide working capital for further ramp up and increase in rig utilisation and enable the company to pay down some high interest debt. In addition Mitchell Services recognises that the drilling market in Australia and globally is highly fragmented. High quality drilling assets are now becoming available at a fraction of their as new cost base. This situation enables companies able to take advantage of the opportunities that arise to consolidate and thus secure a faster growth trajectory. The proposal of any capital raising will include an entitlement offer to all shareholders.

I understand the lack of communications with the market may have been frustrating however a significant amount of work required attention prior to any market communication. I am confident in our growth plans and the value we will return to our shareholders – this will not happen overnight, but with our experience, team and implementation of our targeted strategy we will again become a leading global drilling services company.

Yours Faithfully

Nath Mitchell

Nathan Mitchell
Executive Chairman

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About Mitchell Services

With a proud history dating back to 1969 and a strong record of delivering safe, efficient and proactive drilling services to the global exploration, mining and energy industries, at Mitchell Services our people are your success.

Mitchell Services has a history of innovation in the drilling industry and this is due to our philosophy of constantly striving to find a better way for clients. Mitchell Services operates in Australia and overseas and offers a range of drilling services including Mineral Exploration, Coal Exploration, Mine Services including large diameter and production drilling, Coal Mine Methane Drainage, Coal Seam Gas, Directional Drilling and Wireline Services.

Mitchell Services is headquartered in Brisbane, Australia, and is listed on the Australian Securities Exchange. More information about Mitchell Services can be found at www.mitchellservices.com.au

Disclaimer

The announcement contains certain "forward-looking statements." The words "anticipate", "believe", "expect", "project", forecast", "estimate", "likely", "intend", "should", "could", "may", "target", "plan" and other similar expressions are intended to identify forward-looking statements. Due care and attention has been used in the preparation of forecast information. Such forward looking statements are not guarantees of future performance and include known and unknown risks uncertainties and other factors, many of which are beyond the Companies control and may cause actual results to differ from those expressed or implied in such statements. There can be no assurance that actual outcomes will not differ materially from these statements.

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