

Zenith Energy Limited
ACN: 615 682 203

APPENDIX 4E: PRELIMINARY FINAL REPORT

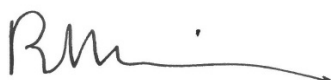
30 June 2018

This Preliminary Final Report is provided to the Australian Securities Exchange (ASX) under ASX Listing Rule 4.3A

Current Reporting Period: 30 June 2018

Previous Corresponding Period: 30 June 2017

For and on behalf of the Directors



REBECCA STRINGER-KREIN
COMPANY SECRETARY
Dated: 6 August 2018

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Revenue and Net Profit				AUD \$'000's
Revenue from ordinary activities	up	66%	to	51,429
Profit from ordinary activities after tax attributable to members	up	171%	to	8,473
Net profit for the year attributable to members	up	171%	to	8,473

COMMENTARY ON RESULTS AND OTHER SIGNIFICANT INFORMATION

Principal Activities

The principal activities of the consolidated group during the financial year are to build, own, operate and maintain remote energy infrastructure.

Significant Changes to Activities

There were no significant changes in the nature of the consolidated group's principal activities during the financial year.

Our Business Model and Objectives

Zenith Energy Limited ("Zenith") operates two separate streams of material revenues. The first, the Build, Own, Operate ("BOO") model, involves building power stations on our client sites (generally remote mine sites), and then selling electricity through a Power Purchase Agreement (PPA) on a 5-10 year (on average) term. BOO Contracts and PPA's form the basis of Zenith's Special Purpose Vehicle ("SPV") companies, which are wholly owned by Zenith Pacific Pty Ltd, which is in turn wholly owned by Zenith Energy Limited. The second revenue stream is the Manage, Operate, Maintain ("MOM") model, which is run through Zenith Pacific Pty Ltd as an operating entity. This model involves Zenith managing, operating and maintaining our client's assets on their sites, without the purchase of the power station assets by Zenith. Zenith also undertakes contracts for existing clients on an Engineering, Procurement and Construction ("EPC") basis when requested.

Operating Results

The consolidated profit of the consolidated group amounted to \$8.473 million after providing for income tax. This represented a 171% increase on the results reported for the year ended 30 June 2017. The significant improvement was largely from increases in revenue from completed projects (both BOO and EPC) and continuing scrutiny around operating costs. Further discussion on the Group's operations is provided below.

Review of Operations

For the whole of the 2017-2018 financial year, the following BOO contracts were operational:

- Barrow Island
- Plutonic
- Daisy Milano
- Jundee Stage 1 & 2
- Nova
- Kundana
- Halls Creek

The Mt Morgans Power Station was commissioned on 28 March 2018, and the Dalgaranga Power Station became operational 17 May 2018.

The following MOM contracts were operational for the whole of the 2017-2018 financial year:

- Barrow Island MOM
- Plutonic MOM
- Ok Tedi
- Phosphate Hill
- Jundee MOM

Financial Position

The net assets of the consolidated group have increased from \$36.05 million at 30 June 2017 to \$45.56 million at 30 June 2018. This increase is largely due to the following factors:

- Improved operating performance of the Group; and
- Full year contribution from Jundee Stage 2, Kundana and Halls Creek Power Stations; and
- Completion of the Mt Morgans and Dalgaranga power stations in Q4 FY18.

The consolidated group's strong financial position has enabled the Group to increase its power generating assets by \$24.98 million while maintaining sufficient working capital.

Rounding

The parent entity is a company of the kind specified in the ASIC Corporation Legislative Instrument 2016/191. In accordance with this class order, amounts contained in the preliminary final report have been rounded to the nearest thousand dollars (\$'000), unless specifically stated otherwise.

Significant Changes in State of Affairs

There were no significant changes in the state of affairs of the parent entity during the financial year.

Changes in controlled entities:

- i. During the course of the financial year, three new entities were incorporated into the Group: Zenith Pacific (JPT) Pty Ltd, Zenith Pacific (DGA) Pty Ltd, and Zenith Pacific (DBS-GTS) Pty Ltd.

Events after the Reporting Period

- i. On 31 July 2018, Zenith Energy Limited advised the ASX it had signed a one year extension to its MOM contract at the Phosphate Hill Power Station near Mt Isa.
- ii. On 1 August 2018, Zenith Energy Limited advised the ASX that it had executed a PPA with Chevron for the Barrow Island Power Station. The new PPA (ten-years with possible ten-year extension) will come into effect around January 2020, and will have a positive impact on FY20 earnings. Zenith and Chevron will operate under the existing PPA conditions until the new Power Station is completed.
- iii. On 6 August 2018, Zenith Energy Limited advised the ASX that it had finalised a bond issue with FIIG Securities Limited for \$40.00 million (7 year tenor).

Except for the above, no other matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the consolidated group in future financial years.

Outlook

Current areas of strategic focus of the group include the following:

- Continuing to work with resource companies to assist them with the provision of power, while they focus on resource extraction; and
- Continuing to focus on the contract possibilities related to Zenith's extensive expertise in hybrid generation, in the hybrid/renewables market.

To further improve the consolidated group's profit and maximise shareholder wealth, the following projects are intended for implementation in the near future:

- i. Completion of the Newmont Tanami power station in the Northern Territory, with revenues commencing in Q3 FY19; and
- ii. Construction of the contracted hybrid Diesel/Solar plant at the Nova Nickel Mine.

These developments, together with the current strategy of rigorous cost management and strong counterparty relationships are expected to assist in the achievement of the consolidated group's long-term goals and development of new business opportunities. The Group is well positioned in terms of balance sheet strength, diversity of capability and reputational strength to capitalise on its growing pipeline of opportunities in Australia.

Dividends

No dividends were declared or paid during the financial year ended 30 June 2018. The directors have not yet determined the payment of a dividend in respect to the year ended 30 June 2018.

NET TANGIBLE ASSET BACKING

	30 June 2018 \$'000	30 June 2017 \$'000
Net assets	44,556	36,048
Less intangible assets	11	11
Net tangible assets of the Company	44,545	36,037
Fully paid ordinary shares on issue at balance date	98,000,000	98,000,000
Net tangible asset backing per issued ordinary share as at balance date	\$0.45	\$0.37

EARNINGS PER SHARE

Basic earnings per share (Cents)	8.65	5.88
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AUDIT DETAILS

This report is based on accounts which are in the process of being audited.

Statement of Profit or Loss and Other Comprehensive Income

	Note	2018 \$'000	2017 \$'000
Revenue	3	51,429	30,971
Other income	3	384	426
Total Income		51,813	31,397
Cost of sales		22,882	13,489
Employee expenses		7,255	5,217
Insurance expenses		830	677
Occupancy expenses		566	344
Foreign exchange losses		104	137
Other expenses		1,960	1,689
Total Expenses		33,597	21,553
		18,216	9,844
Finance costs		2,153	1,520
Depreciation and amortisation expense		3,808	2,041
Loss on Cancellation of Joint venture	2	-	1,638
(Gain)/Loss on disposal of assets		42	19
Profit for the year before income tax		12,213	4,626
Income tax expense		3,740	1,503
Profit for the year after income tax		8,473	3,123
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations, net of tax		-	-
Other comprehensive income/(loss) for the year		-	-
Total comprehensive income attributable to members of Zenith Energy Limited		8,473	3,123

This statement should be read in conjunction with the accompanying notes

Statement of Financial Position

	Note	2018 \$'000	2017 \$'000
Assets			
Current assets			
Cash and cash equivalents	4	1,994	19,291
Trade and other receivables	5	9,221	3,781
Inventories	7	2,686	649
Current tax asset		755	1,384
Related party receivables	5	1,940	-
Other assets	6	1,128	1,502
Total current assets		17,724	26,607
Non-current assets			
Property, plant and equipment	8	75,944	39,426
Deferred tax assets		836	772
Related party receivables	5	-	1,878
Intangible assets		11	11
Other assets	6	1,903	469
Total non-current assets		78,694	42,556
Total assets		96,418	69,163
Liabilities			
Current liabilities			
Trade and other payables	9	7,674	3,393
Borrowings	11	7,405	16,334
Current tax liabilities		1,578	96
Deferred revenue	10	812	1,120
Provisions	12	1,398	1,150
Total current liabilities		18,867	22,093

This statement should be read in conjunction with the accompanying notes

Statement of Financial Position

		2018	2017
	Note	\$'000	\$'000
Non-current liabilities			
Borrowings	11	30,729	8,174
Deferred revenue	10	2,105	2,602
Deferred tax liabilities		-	-
Provisions	12	161	246
Total non-current liabilities		32,995	11,022
Total liabilities		51,862	33,115
Net assets		44,556	36,048
Equity			
Share capital	13	26,109	26,109
Share based payment reserve		40	5
Retained earnings		18,407	9,934
Total equity		44,556	36,048

This statement should be read in conjunction with the accompanying notes

Statement of Cash Flows

	2018 \$'000	2017 \$'000
Cash Flows from Operating Activities		
Receipts from customers	52,381	36,204
Payments to suppliers and employees	(41,656)	(28,481)
Interest received	14	7
Borrowing costs	(2,153)	(1,520)
Income tax	(1,694)	(993)
Net cash provided by operating activities	6,892	5,217
Cash Flows from Investing Activities		
Payments of property, plant and equipment	(37,824)	(9,518)
Proceeds from sale of property, plant and equipment	9	-
Proceeds from related parties	-	8
Net cash used in investing activities	(37,815)	(9,510)
Cash Flows from Financing Activities		
Proceeds from issue of shares	-	23,414
Dividends paid	-	(223)
Proceeds from borrowings	19,445	3,647
Repayment of borrowings	(5,819)	(5,773)
Net cash provided by financing activities	13,626	21,065
Net (decrease)/increase in cash held	(17,297)	16,772
Cash and cash equivalents at beginning of financial year	19,291	2,519
Cash and cash equivalents at end of financial year	1,944	19,291

This statement should be read in conjunction with the accompanying notes

Statement of Changes in Equity

	Share capital	Retained earnings	Share based payment reserve	Total equity
	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2016	120	7,034	-	7,154
Total comprehensive income for the year				
Profit for the period	-	3,123	-	3,123
Total comprehensive income for the year	-	3,123	-	3,123
Transactions with owners, recorded directly in equity				
Issue of ordinary shares, net of transaction costs and tax	25,513	-	-	25,513
Tax effect on share issue costs	476	-	-	476
Share based payment expense	-	-	5	5
Dividends paid	-	(223)	-	(223)
Total transactions with owners	25,989	(223)	5	25,771
Balance as at 30 June 2017	26,109	9,934	5	36,048
Balance at 1 July 2017	26,109	9,934	5	36,048
Total comprehensive income for the year				
Profit for the period	-	8,473	-	8,473
Total comprehensive income for the year	26,109	18,407	5	44,521
Transactions with owners, recorded directly in equity				
Share based payment expense	-	-	35	35
Dividends paid	-	-	-	-
Total transactions with owners	-	-	35	35
Balance as at 30 June 2018	26,109	18,407	40	44,556

This statement should be read in conjunction with the accompanying notes

Notes to the Financial Statements

1. Basis of Preparation

This preliminary final report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the financial report for the year ended 30 June 2017 and any public announcements made by Zenith Energy Limited during the year in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The preliminary final report has been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The amounts contained in this preliminary final report are rounded to the nearest thousand dollars (\$'000) where rounding is applicable under the option available the Group under ASIC Corporation Legislative Instrument 2016/191. Zenith is an entity to which the class order applies.

Statement of compliance

The preliminary final report has been prepared in accordance with applicable Australian Accounting Standards, other pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*. The preliminary final report is also in compliance with ASX listing Rule 4.3.A and the disclosure requirements of ASX Appendix 4E. Australian Accounting Standards include Australian equivalents of International Reporting Standards ("IFRS").

2. Details of entities over which control has been gained or lost during the period

The dissolution of joint venture ("JV") expense disclosed in 2017 relates to a joint venture with Solea AG, a German Photo-Voltaic provider. In November 2016, Zenith Pacific Pty Ltd dissolved the JV due to incompatibility of business models. The amount written of (\$1.64 million) includes formation costs, legal fees, and a settlement amount.

During the course of the financial year, three new entities were incorporated into the Group: Zenith Pacific (JPT) Pty Ltd, Zenith Pacific (DGA) Pty Ltd, and Zenith Pacific (DBS-GTS) Pty Ltd.

3. Revenue

	2018 \$'000	2017 \$'000
Revenue from continuing operations		
Revenue:		
– BOO revenue	25,134	22,062
– MOM and Sales revenue	26,295	8,909
	<u>51,429</u>	<u>30,971</u>
Other income:		
– Other revenue	384	426
	<u>384</u>	<u>426</u>
Total revenue	<u>51,813</u>	<u>31,397</u>

4. Cash and Cash Equivalents

	2018 \$'000	2017 \$'000
Cash at bank and on hand	1,994	19,291
	1,994	19,291

5. Trade and Other Receivables

	2018 \$'000	2017 \$'000
CURRENT		
Trade and other receivables	9,221	3,781
Provision for impairment	-	-
	9,221	3,781
Related party receivables	1,940	-
Provision for impairment	-	-
	1,940	-
Total current trade and other receivables	11,161	3,781
NON-CURRENT		
Related party receivables	-	1,878
Provision for impairment	-	-
	-	1,878
Total current and non-current trade and other receivables	11,161	5,659

6. Other Assets

	2018 \$'000	2017 \$'000
CURRENT		
Pre-paid expenses & insurance	783	1,345
Deferred establishment costs	345	157
	1,128	1,502

6. Other Assets (continued)

	2018 \$'000	2017 \$'000
NON-CURRENT		
Deferred establishment costs	1,353	469
Maintenance reserve fund **	550	-
	1,903	469

** Balance at bank as maintenance reserve fund under equipment finance lease arrangement.

7. Inventories

	2018 \$'000	2017 \$'000
CURRENT		
At cost:		
Work in progress	1,709	381
Finished goods	977	268
	2,686	649
Total inventories	2,686	649

8. Property, Plant and Equipment

	2018 \$'000	2017 \$'000
Plant and Equipment		
At cost	2,379	2,119
Accumulated depreciation	(1,273)	(1,281)
	1,106	838
Power Generation Assets		
At cost	66,998	42,021
Accumulated depreciation	(9,040)	(5,109)
	57,958	36,912
Capital Works in Progress		
At cost	16,880	1,676
Total Property, Plant and Equipment	75,944	39,426

a. Movements in Carrying Amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	Plant and Equipment \$'000	Power Generation Assets \$'000	Capital Works in Progress \$'000	Total \$'000
Group				
Balance at 1 July 2016	907	22,886	973	24,766
Additions	102	14,962	899	15,963
Disposals	(39)	-	-	(39)
Transfers	-	973	(973)	-
Transfers from Inventory	-	-	777	777
Depreciation expense	(132)	(1,909)	-	(2,041)
Balance at 30 June 2017	838	36,912	1,676	39,426
Additions	427	1,306	33,150	34,883
Disposals	(9)	(48)	-	(57)
Transfers	-	23,446	(23,446)	-
Transfers from inventory	-	-	5,500	5,500
Depreciation expense	(150)	(3,658)	-	(3,808)
Balance at 30 June 2018	1,106	57,958	16,880	75,944

9. Trade and Other Payables

	2018 \$'000	2017 \$'000
CURRENT		
Unsecured liabilities:		
Trade payables	4,619	1,492
Sundry payables	356	1,395
Accrued expenses and wages	2,699	506
	7,674	3,393

Trade and other payables represent liabilities for goods and services provided to the group prior to year-end which are unpaid. These amounts are unsecured and generally have 30-60 day payment terms. These amounts are non-interest bearing.

10. Other Liabilities

	2018 \$'000	2017 \$'000
CURRENT		
Deferred revenue	812	1,120
NON-CURRENT		
Deferred revenue	2,105	2,602
	2,917	3,722

Deferred revenue consists of two contracts where the client has chosen to make prepayments against the PPA. The amount is being unwound each month of the contract and shows as a reduction on the monthly capacity charge.

11. Borrowings

	2018 \$'000	2017 \$'000
CURRENT		
<i>Secured borrowings:</i>		
Hire purchase finance	1,563	5,102
CBA facility	5,355	11,232
Premium funding	487	-
Total secured current borrowings	7,405	16,334
NON-CURRENT		
<i>Secured borrowings</i>		
Hire purchase finance	8,907	8,174
CBA facility	21,822	-
Total unsecured non-current borrowings	30,729	8,174

The CBA trade advance facility was classed as current debt at 30 June 2017. During the financial year, this was rolled into a senior long-term debt facility for \$40 million.

12. Provisions

	2018 \$'000	2017 \$'000
CURRENT		
Employee provisions	1,398	1,150
NON-CURRENT		
Employee provisions	161	246
Total provision for employee benefits	1,559	1,396

13. Equity

	2018 Shares '000	2017 Shares '000	2018 \$'000	2017 \$'000
Ordinary shares	98,000	98,000	26,109	26,109
Total share capital	98,000	98,000	26,109	26,109

Details	Number of shares '000	Total \$'000
Opening balance on 1 July 2016	85	120
Share issued under prospectus	50,000	25,000
Shares issued on share split 1:480	40,715	-
Shares issued – Directors/Key Management Personnel	7,200	2,099
Less: Transaction costs arising on shares issues	-	(1,586)
Deferred tax credit recognised directly in equity	-	476
Closing Balance 30 June 2017	98,000	26,109
Shares Issued	-	-
Closing Balance 30 June 2018	98,000	26,109

(i) Ordinary shares

Ordinary shareholders participate in dividends and the proceeds on winding-up of the parent entity in proportion to the number of shares held.

At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called; otherwise each shareholder has one vote on a show of hands.

Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

a. Basic earnings per share

	2018 cents	2017 cents
From continuing operation attributable to the ordinary equity holders of the company	8.65	5.88
- from discontinued operations	-	-
Total basic earnings per share attributable to the ordinary equity holders of the company	8.65	5.88

b. Diluted earnings per share

	2018 Cents	2017 cents
From continuing operation attributable to the ordinary equity holders of the company	8.65	5.88
- from discontinued operations	-	-
Total basic earnings per share attributable to the ordinary equity holders of the company	8.65	5.88

c. Reconciliations of earnings used in calculating earnings per share

	2018 \$'000	2017 \$'000
<i>Basic earnings per share</i>		
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share:		
- from continuing operations	8,473	3,123
- from discontinued operations	-	-
	8,473	3,123
<i>Diluted earnings per share</i>		
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share:		
- used in calculating basic earnings per share	8,473	3,123
Profit from discontinued operations	-	-
Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	8,473	3,123

d. Weighted average number of shares used as the denominator

	2018 Number	2017 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	98,000,000	53,140,659
Adjustments for calculation of diluted earnings per share:		
- options	-	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	98,000,000	53,140,659

12. Contingent Liabilities and Contingent Assets

Under the terms of one of the group's PPAs, the group has provided a performance bank guarantee of \$3.00 million to a customer. This guarantee expires on 1 March 2019 if not advised prior.

15. Events after the Reporting Period

- i. On 31 July 2018, Zenith Energy Limited advised the ASX it had signed a one year extension to its MOM contract at the Phosphate Hill Power Station near Mt Isa.
- ii. On 1 August 2018, Zenith Energy Limited advised the ASX that it had executed a PPA with Chevron for the Barrow Island Power Station. The new PPA (ten-years with possible ten-year extension) will come into effect around January 2020, and will have a positive impact on FY20 earnings. Zenith and Chevron will operate under the existing PPA conditions until the new Power Station is completed.
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Except for the above, no other matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the consolidated group in future financial years.