

ZENITH ENERGY LIMITED AND CONTROLLED ENTITIES

(ACN 615 682 203)

FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2018

Corporate Directory

Board of Directors

Executive Chairman	Doug Walker
Managing Director	Hamish Moffat
Non-Executive Director	Darren Smith
Non-Executive Director	Stephanie Unwin
Company Secretary	Rebecca Stringer-Krein
Joint Company Secretary	Peter Torre

Registered Office

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Email: investors@zenithenergy ltd.com
Website: www.zenithenergy ltd.com

Stock Exchange Listing

Listed on the Australian Securities Exchange (ASX Code: ZEN)

Auditors

BDO Audit (WA) Pty Ltd

38 Station Street
Subiaco WA 6008
Telephone: +61 08 6382 4600

Solicitors

Steinpreis Paganin
16 Milligan St
Perth WA 6000
Telephone: +61 08 9321 4000

Bankers

Commonwealth Bank of Australia
225 St Georges Tce
Perth WA 6000
Telephone: 13 22 21

Share Registry

Link Market Services Ltd
Level 4, 152 St Georges Tce
Perth WA 6000
Telephone: 1300 554 474

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Directors' Report

Your Directors present their report on the consolidated entity (referred to herein as the Group) consisting of Zenith Energy Limited and its controlled entities for the financial year ended 30 June 2018.

General Information:

Directors

The following persons were Directors of Zenith Energy Limited during or since the end of the financial year up to the date of this report, unless otherwise stated:

William Douglas Walker – Executive Chairman
Hamish Moffat – Managing Director
Darren Smith – Non-Executive Director
Stephanie Unwin – Non-Executive Director (appointed on 11 September 2017)
Gavin Great – Executive Director (resigned on 24 January 2018)

Particulars of each Directors' experience and qualifications are set out on page 5 of this report.

Dividends Paid or Recommended

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

Indemnifying Officers or Auditor

During or since the end of the financial year, the Company has given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

- The Company has paid premiums to insure each of the Directors against liabilities for costs and expenses incurred by them in defending legal proceedings arising from their conduct while acting in the capacity of Directors of the Company, other than conduct involving a willful breach of duty in relation to the Company.

Proceedings on Behalf of Company

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Non-Audit Services

The Board of Directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- All non-audit services are reviewed and approved by the Board prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- The nature of the services provided does not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

During the year, BDO (Nth QLD) Pty Ltd, a related party of the Group's auditors, BDO Audit (WA) Pty Ltd provided services in relation to taxation services.

The following fees for non-audit services were paid/payable during the year ended 30 June 2018:

Services	Amount
Taxation services	\$70,224

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2018 as required under section 307C of the Corporation Act 2001 has been received and can be found on page 23 of the financial report.

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 financial report have been rounded to the nearest thousand dollars (\$'000), unless specifically stated otherwise.

Environmental Regulations

The Group is not subject to any significant environmental regulations under either Commonwealth or State legislations. The Board is not aware of any breach of environmental requirements as they apply to the Group.

Options

At the date of this report, there are no unissued ordinary shares of Zenith Energy Limited under option.

There have been no options granted over unissued shares or interests of any controlled entity within the Group during or since the end of the reporting period.

There were no options issued to directors and executives as remuneration, refer to the remuneration report for details of other transactions.

During the year ended 30 June 2018, there were no ordinary shares of Zenith Energy Limited issued on the exercise of options granted. No further shares have been issued since year-end. No amounts are unpaid on any of the shares.

No person entitled to exercise options had or has any right by virtue of the option to participate in any share issue of any other body corporate.

Information relating to directors and company secretaries

William (Doug) Walker

Executive Chairman

Mr Walker is a 36-year veteran of the power generation industry. He has designed and built more than 60 remote power stations across Australasia, initially through his own company, StateWest Power, and later through Zenith Pacific Pty Ltd, which he co-founded in 2006. StateWest power was subsequently acquired by Wesfarmers Energy.

Mr Walker is recognised in the industry for his innovative thinking, both in finding effective solutions to difficult power generation problems and for creating the now widely-recognised Build, Own and Operate ("BOO") approach to the establishment of remote area power plants.

During the three years prior to the end of the year, Mr Walker was not a director of any other listed entities.

Mr Walker was appointed a Director of Zenith Energy Limited on 2 November 2016, and Executive Chairman on 22 March 2017.

Hamish Moffat

Managing Director

Mr Moffat has extensive experience in the downstream oil industry gained primarily in building markets in numerous sectors across Asia, Europe and the US. Mr Moffat was most recently the CEO of a private commercial services company which he sold into a major public services conglomerate in the second half of 2015. Previously he was the Chief Executive Officer of a privately held oil distribution company which holds exclusive distribution rights to a major international brand and has performed roles as Segment Director and Marketing Director for one of the world's largest oil companies.

During the three years prior to the end of the year, Mr Moffat was not a director of any other listed entities.

Mr Moffat was appointed a Director of Zenith Energy Limited on 2 November 2016 and Managing Director on 22 March 2017.

Gavin Great

Executive Director

A co-founder of Zenith Pacific Pty Ltd, Mr Great played a key role in the commissioning and operation of Zenith projects. He has extensive experience in the mining and offshore oil and gas industries, where he has specialized in power station PLC programming, and control system design and implementation. He also has overall operational responsibility for all Zenith Pacific Pty Ltd projects across Australia and Papua New Guinea.

Mr Great not does not currently hold any other directorships.

Mr Great was appointed a Director of Zenith Energy Limited on 2 November 2016, and as Executive Director - Operations on 21 March 2017. Mr Great resigned as Director of Zenith Energy and as Executive Director - Operations on 24 January 2018.

Darren Smith

Non-Executive Director

Mr Smith is a strategy and management consultant with experience at PwC, GEM Consulting and Arthur D Little.

He was the National Lead Partner for PwC's Capital Project Services, where he created and led a national team focused on capital project value optimisation, cost and schedule risk analytics and project delivery across a range of infrastructure project types and industries in Australia and South East Asia. Prior to his consulting career, he held senior industry roles, including as Corporate Engineering Manager for a major technology development company, where he was responsible for technology development and licensing activities around one of Australia's largest R&D budgets.

Mr Smith has a Degree in Mechanical Engineering from Melbourne University, has completed an EDP at Harvard University and holds a number of patents in combustion technology and emissions controls.

During the three years prior to the end of the year, Mr Smith was not a director of any other listed entities. Mr Smith was appointed Non-Executive Director on 30 March 2017.

Stephanie Unwin

Non-Executive Director

Ms Unwin is an experienced company director with more than 15 years of Board engagements across both ASX and TSX listed companies.

Ms Unwin is currently General Manager Transformation and Technology at CBH Group and in April 2018 was appointed as a board member for the Australian Renewable Energy Agency (ARENA). In her most recent role Ms. Unwin was Chief Executive Officer of Phylogica, a biotech and medical devices company in Western Australia, and has previously served on the Boards of Integra Mining Limited and Alacer Gold Corp.

In her previous role as Executive General Manager Retail of Synergy, Western Australia's leading energy provider, Ms Unwin oversaw the retail business unit through the development of new energy solutions, providing her with invaluable experience as a strategist coupled with a deep knowledge of the energy landscape in Australia.

Ms Unwin was appointed Director of Phylogica limited on 18 January 2017 and resigned on 27 April 2018. Ms Unwin was appointed Non-Executive Director on 11 September 2017.

Rebecca Stringer-Krein

Chief Financial Officer and Company Secretary

Ms Stringer-Krein joined Zenith Pacific Pty Ltd as Chief Financial Officer and Company Secretary in August 2016. She has held CFO roles previously in the engineering, commercial services and facilities management sectors, and has extensive experience in large Australian companies, both listed and private.

Ms Stringer-Krein has a strong interest in corporate governance, and has often been engaged in positions related to organisational transformation, as well as preparing companies for mergers, acquisition, and ASX listing.

Ms Stringer-Krein was appointed Chief Financial Officer and Company Secretary of Zenith Energy on 2 November 2016.

Peter Torre

Joint Company Secretary

Mr Torre has 20 years of corporate advisory experience. He holds a Bachelor of Business, is a Chartered Accountant, a Chartered Secretary and a Member of the Australian Institute of Company Directors.

Mr Torre is currently the company secretary for several ASX listed companies. He was a partner of an internationally affiliated firm of chartered accountants, working within its corporate services division for over nine years where he also held the position of Chairman of the National Corporate Services Committee.

Mr Torre was appointed Joint Company Secretary on 22 February 2017.

Interest in the shares, options and performance rights of the company and related bodies corporate

At the date of this report, the interests of the directors (including related nominees) in the shares, options and performance rights of Zenith Energy Limited were:

DIRECTOR	ORDINARY SHARES	PERFORMANCE RIGHTS ¹
William (Doug) Walker	23,440,000	-
Hamish Moffat	3,400,000	-
Darren Smith ²	-	84,000
Stephanie Unwin ³	-	42,000

1. subject to shareholder approval at the Company's 2018 annual general meeting.

2. Includes 42,000 performance rights which vested during FY2018, and 42,000 subject to shareholder approval at the Company's 2018 annual general meeting.

3. Ms Unwin is entitled to 42,000 Performance Rights relating to her FY2018 service (included in the table above), and 42,000 on her anniversary date of 11 September 2018, subject to shareholder approval at the Company's 2018 annual general meeting.

Meetings of Directors

During the financial year, twelve meetings of directors (including committees of directors) were held. The number of meetings attended by each of the director were as follows:

DIRECTOR	ELIGIBLE TO ATTEND	MEETINGS ATTENDED
William (Doug) Walker	12	12
Hamish Moffat	12	11
Darren Smith	12	12
Stephanie Unwin	10	10
Gavin Great	7	7

In addition to the scheduled Board and Committee meetings, directors regularly communicate by telephone, email and other electronic means, and where by necessary, circular resolutions are executed to effect decisions.

Principal Activities

The principal activities of the Group during the financial year is to build, own, operate and maintain remote power plants for the resources industry. 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 our clients on an Engineering, Procurement and Construction ("EPC") basis when requested.

Operating Results

The consolidated profit of the 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

At 30 June 2018, Zenith had 12 operational contracts representing 420MW of generation capacity under control, and a robust pipeline of remote power generation opportunities. The Company had 88MW of contracted BOO in May 2017 at IPO, and has added 95MW since that time, more than doubling the BOO contracted capacity.

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

Build Own Operate (BOO)	Manage, Operate, Maintain (MOM)
Barrow Island	Barrow Island ¹
Plutonic	Plutonic ²
Daisy Milano	Ok Tedi
Jundee Stage 1 & 2	Jundee ²
Nova	Phosphate Hill
Kundana	
Halls Creek	

1. Barrow Island has been a hybrid BOO/MOM contract since 2008. Subsequent to year-end, Zenith has converted this contract to a full BOO on a 10 year term.
2. Jundee and Plutonic are BOO/MOM hybrid sites, where Zenith has built, owns and operates its own assets, as well as managing, operating and maintaining our client's assets on the same site.

In addition to above contracts, the Mt Morgans Power Station was commissioned on 28 March 2018, and the Dalgara Power Station became operational 17 May 2018.

2017-2018 financial year highlights:

- Strong financial performance – revenue of \$51.43m up 64% on FY2017, EBITDA of \$18.22m up 85% on FY2017 and NPAT of \$8.47m up 171% on FY2017
- Successfully completed construction and commissioning of the second stage of the new gas fired power station at the Northern Star Resources Jundee Gold Project
- Awarded a further three-year MOM contract with Ok Tedi Mining at its Tabubil Power Station facilities in the Western Province of Papua New Guinea
- Awarded a one-year extension of MOM contract with Incitec Pivot Limited at its Phosphate Hill Power Station facilities in the Mount Isa region of Northern Queensland
- Appointment of Stephanie Unwin as an Independent Non-Executive Director, effective 11 September 2017
- Awarded a Power Purchase Agreement (PPA) to build, own and operate a 17MW power station at Dacian Gold's Mt Morgans Gold Project in Western Australia, and commenced producing power under the PPA in March 2018.
- Awarded a Power Purchase Agreement (PPA) to build, own and operate a 15MW power station at Gascoyne Resources' Dalgara Project in Western Australia, and commenced producing power under the PPA in May 2018.
- Executed a PPA to build, own and operate a 62MW Power Station at Newmont Mining Services Pty Ltd's Tanami Gold Mine. Supply will commence in the first quarter of 2019 for an initial 10-year term, with an option to extend the contract for a further 10 years

With the signing of the new PPA's for Dacian, Gascoyne Resources, Newmont Australia, and Chevron (subsequent to year end), Zenith Energy's average PPA term has increased to 7.3 years, with an average time left to run of 5.8 years, offering long term revenue streams for investors and security of supply to our clients.

Financial Position

The net assets of the group have increased from \$36.05 million at 30 June 2017 to \$44.56 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 Dalgara power stations in Q4 FY2018.

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

Significant Changes in State of Affairs

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

Changes in controlled entities:

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.

Outlook

Zenith's strategy is to become the leading independent power producer specialising in reliable, sustainable and innovative solutions.

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;
- Continuing development of the group's people and enhancing systems and processes, utilising leading technologies to ensure the most efficient outcomes for clients; 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 group's profit and maximise shareholder wealth, the following projects are intended for implementation in the near future:

- Completion of the Newmont Tanami power station in the Northern Territory, with revenues commencing in Q3 FY19; and
- 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.

Risk Factors

There are a number of risks that, either individually or in combination, may materially and adversely affect the future operating and financial performance of Zenith Energy Limited and the value of its Shares. Some of these risks may be mitigated by Zenith Energy Limited's internal controls, the directors and management.

The risks identified in this section, or other risk factors, may have a material impact on the financial performance of Zenith Energy Limited and the market price of the Shares. The following is not intended to be an exhaustive list of the risk factors to which the Group is exposed.

Specific Risks

Operating Risks

Zenith Energy Limited is, and will continue to be, exposed to a range of operational risks relating to current and future operations. These include equipment failures and other accidents, industrial action or disputes, lease renewals, damage by third parties, floods, fire, major cyclone, earthquake, lightning strike, terrorist attack or other disaster.

Contractual Relationships with Key Customers

Zenith Energy Limited's ability to conduct its business and generate income is derived from Power Purchase Agreements (PPA) with its customers. Any termination of one or more PPAs may affect the Company's financial performance.

Additional Capital and Financing

Zenith Energy Limited, through its interest in each of its generation projects, has significant borrowings. The Company's debt facilities include common financial and non-financial covenants which could limit the Group's future financial flexibility.

Reliance on Key Personnel

The responsibility of overseeing the day-to-day operations and the strategic management of Zenith Energy Limited depends substantially on its senior management and directors.

Failing to Convert Pipeline Opportunities into Binding Contracts

The success of Zenith Energy Limited's growth strategy, particularly in the commercial market for our hybrid and micro-grid offers, is highly dependent upon securing customers and converting trial or pipeline customers into ongoing, revenue producing customer relationships. For new green field and existing brown field projects, prospective clients often engage expert teams to research the latest technology for incorporation into their power delivery plans. The importance of educating customers as to the benefits of Zenith Energy Limited's products therefore becomes paramount.

Competitive Threat

The Group's earnings and market share could come under threat from aggressive domestic and overseas market competitors. Competition may be based on factors including price, service, product differentiation and quality, production capability, innovation, growth, capital accessibility and turnaround times. The Group's success is built on the key features of its offering, being innovation, strong long term client relationships, quality, reliability and durability.

Construction Risk

New power generation plants under construction are exposed to risks associated with the project not being completed on time, on budget, or in accordance with specifications. Increased costs and/or timing delays may delay or reduce the expected cash flows on a project and consequently impact the Group's operating and financial performance.

Reliance on Business Systems

Power production consists of a diverse collection of operations and sequences, which is complex to control. Over the last thirty years Zenith Energy Limited's key management has developed control and monitoring systems which are used to gather information to create the cost control file for every job.

There is a risk that any key business systems, particularly the Group's unique control and monitoring systems, may be adversely affected by a number of factors, including an inability to operate, lack of support to maintain the system, damage, equipment faults, power failure, communication system failure, computer viruses, misuse by employees or contractors, external malicious interventions such as hacking, fire, natural disasters or weather interventions. Any failure of key business systems may materially affect the Group's operations and profitability.

Supply Chain

Any disruption or external market condition limiting the supply or increasing the cost of components, consumables or raw materials to the Group could have a material adverse impact on Zenith Energy Limited's profitability. The Group relies on the procurement of components, consumables and raw materials used in operation from its existing extensive network of local and international suppliers.

Intellectual Property

Zenith Energy Limited's ability to fully leverage its expertise and innovation depends upon its ability to use and protect its intellectual property and any improvements to it. Such intellectual property may not be capable of being legally protected, it may be the subject of unauthorised disclosure or unlawfully infringed, or Zenith Energy Limited may incur substantial cost in asserting or defending its intellectual property rights.

Failing to Match Production to Demand

Zenith Energy Limited's objectives are dependent on its ability to meet commercial demand for its products and services.

This is particularly true in relation to Zenith Energy Limited's hybrid & micro-grid offers, where the Company is seeking to establish footholds in a relatively immature market. There is a risk that Zenith Energy Limited will not be able to increase its power production capacity quickly enough, while maintaining appropriate quality standards, to meet incoming demand.

Insurance Risk

Zenith Energy Limited currently insures its operations in accordance with industry practice. However, in certain circumstances, Zenith Energy Limited's insurance may not be of a nature or level to provide adequate liability cover.

General Risks

Commodity Risk

Zenith Energy Limited endeavours to maintain a balanced portfolio of customers by resource (i.e. gold, nickel, lithium, phosphate, oil, bauxite, iron ore) and commodity type across a select group of tier one and upper mid-tier resources and energy clients in a diverse range of geographies. Despite employing this diversification strategy, Zenith Energy Limited cannot provide any assurance that there will not be an adverse impact on their performance as a consequence of a downturn in one or more commodities or geographies.

Market Risk

Share market conditions may affect the value of Zenith Energy Limited's securities regardless of Zenith's operating performance. Share market conditions are affected by many factors such as:

- general economic outlook;
- introduction of tax reform or other new legislation;
- interest rates and inflation rates;
- changes in investor sentiment toward particular market sectors;
- the demand for, and supply of, capital; and
- terrorism or other hostilities.

The resources market can be particularly sensitive to world economic conditions.

Exchange Rate Risk

Currently, all of the Group's revenues and the majority of costs are in Australian dollars. However, the mix of currencies in which Zenith Energy Limited pays its costs and earns its revenues may change over time. If that mix changes, there may be a greater impact on profitability in Australian dollar terms. Zenith Energy Limited's financial statements are prepared and presented in Australian dollars, and any appreciation in the Australian dollar against other currencies in which the Group transacts may adversely affect its financial performance and position. The Group has developed a global supply chain for components incorporated into both the Group's operations and projects. This global supply chain will act as a natural exchange rate hedge which will provide some or limited security for the Group against fluctuations in the Australian dollar.

Dilution of Shareholdings

In future, Zenith Energy Limited may issue Shares to new investors in order to finance the Group's operations or growth strategy. While the Company will be subject to the constraints of the ASX Listing Rules regarding the percentage of its capital it is able to issue within a 12 month period, as a result of any new issue of Shares, an investor's proportional beneficial ownership in the underlying assets of the Company may be diluted.

Events after the Reporting Period

- 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.
- 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.
- On 3 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 tenure).

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.

Corporate Governance Statement

Zenith Energy Limited's 2017 Corporate Governance Statement can be found at

<http://www.zenithenergy ltd.com/>.

Remuneration Report

The directors present the Zenith Energy Limited's 2018 remuneration report, outlining key aspects of our remuneration policy and framework, and remuneration awarded this year.

The report is structured as follows:

- (a) Key management personnel ("KMP") covered in this report
- (b) Remuneration policy and link to performance
- (c) Elements of remuneration
- (d) Link between remuneration and performance
- (e) Remuneration expenses for executive KMP
- (f) Contractual arrangements for executive KMP
- (g) Non-executive director arrangements
- (h) Other statutory information.

(a) KMP covered in this report

Doug Walker	Executive Chairman
Gavin Great	Executive Director (Resigned 24 January 2018)
Hamish Moffat	Managing Director
Darren Smith	Non-Executive Director
Stephanie Unwin	Non-Executive Director (Appointed 11 September 2017)
Graham Cooper	Chief Operating Officer ("COO")
Rebecca Stringer-Krein	Chief Financial Officer ("CFO") and Company Secretary

(b) Remuneration policy and link to performance

The remuneration policy of Zenith Energy Limited has been designed, with the assistance of external consultants, to align KMP objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Group's financial results. The Board of Zenith Energy Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain KMP to run and manage the Group, as well as create goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for KMP of the Group is based on the following:

The measures within the remuneration policy are developed by the Remuneration and Nomination Committee.

All KMP receive a base salary (which is based on factors such as length of service and experience), superannuation and performance incentives.

Performance incentives are only paid once predetermined key performance indicators ("KPIs") have been met.

Incentives paid in the form of shares, options or performance rights are intended to align the interests of the directors and company with those of the shareholders.

The Remuneration and Nomination Committee reviews KMP packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors.

The performance of KMP is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the Group's profits, shareholders' value and non-financial considerations. All incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and equity arrangements, and can recommend changes to the Remuneration and Nomination Committee's recommendations. Any change must be justified by reference to measurable performance criteria.

The policy is designed to attract the highest calibre of executives and reward them for performance results leading to long-term growth in shareholder wealth.

KMP receive a superannuation guarantee contribution required by the government, which is currently 9.5% of the individual's monthly ordinary time earnings. Some individuals, may choose to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to KMP is valued at the cost to the company and expensed.

The Board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Remuneration and Nomination Committee will recommend payments to the non-executive directors and review their remuneration annually, based on market practice, duties and accountability. These recommendations will then be taken to the Board for approval. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Company's annual general meeting.

In addition, the Board's remuneration policy prohibits directors and KMP from using Zenith Energy Limited shares as collateral in any external financial transaction, including margin loan arrangements.

Performance-based remuneration

KPIs are set annually, with a certain level of consultation with KMP. The measures are specifically tailored to the area each individual is involved in and has a level of control over. The KPIs target areas the Board believes hold greater potential for Group expansion and profit, covering financial and non-financial as well as short and long-term goals. The level set for each KPI is based on budgeted figures for the Group and respective industry standards. KPI's are set in relation to both ongoing organisational objectives (e.g. no lost time injuries), as well as goal-setting for a particular financial year, for example, one-off projects. For more information on KPI targets, refer to (c) Elements of remuneration in the Remuneration Report below.

Performance in relation to KPIs is assessed annually, with incentives being awarded depending on the number and weighting of KPIs achieved. Following the assessment, the KPIs are reviewed by the Remuneration and Nomination Committee in light of the desired and actual outcomes, and their efficiency is assessed in relation to the Group's goals and shareholder wealth, before the KPIs are set for the following year.

(c) Elements of remuneration

Fixed remuneration

Executive KMP are paid a total fixed remuneration ("TFR") amount consisting of salary plus 9.5% superannuation. The annual salaries for the year ended 30 June 2018 are tabled below. The actual salary amounts paid for the year ended 30 June 2018 are contained in section (e) Remuneration expenses for executive KMP in the Remuneration Report below.

KMP NAME	POSITION	TFR ¹	
		UP TO MARCH 22 2018	FROM MARCH 22 2018 ²
WD Walker	Executive Chairman	437,250	546,000
H Moffat	Managing Director	396,250	464,000
G Great	Executive Director – Operations ³	382,000	382,000
G Cooper	Chief Operating Officer	382,000	382,000
R Stringer-Krein	Chief Financial Officer & Company Secretary	260,860	329,000

1. TFR is composed of salary plus 9.5% superannuation.

2. TFR from 22 March 2018 is to bring KMP remuneration which was below the median of the market in line with median benchmark remuneration rates. Benchmark testing was conducted by BDO Rewards (WA) Pty Ltd in March 2017.

3. Mr G Great resigned as Director on 24 January 2018.

Short-term incentives ("STIs") and Long-term incentives ("LTIs")

Incentive options and performance rights plan

Part of the remuneration paid to non-executive directors is in the form of performance rights issued on an annual basis under the Company's 'Incentive options and performance rights plan'. The purpose of the plan is to assist in the reward, retention and motivation of Eligible Participants, link the reward of Eligible Participants to performance and the creation of Shareholder value, align the interests of Eligible Participants more closely with the interests of Shareholders by providing an opportunity for Eligible Participants to receive shares, provide Eligible Participants with the opportunity to share in any future growth in value of the Company, and provide greater incentive for Eligible Participants to focus on the Company's shorter and longer term goals.

Under this plan, the Company has issued performance rights to its non-executive directors subject to a vesting condition of 12 months service as a non-executive director from grant date. Details of performance rights issued under the incentive options and performance rights plan is contained in section (h) Other statutory information – (2) Details of share based compensation. The performance rights cannot be exercised until the vesting condition is satisfied or is waived in accordance with the plan (at the sole discretion of the Board). If there is a change of control of the Company during the 12 months service period, unvested performance rights automatically vest on a pro rata basis reflecting the proportion of the 12 months that has passed since grant date. The performance rights have a nil exercise price and on vesting, will automatically convert into one ordinary share of the Company.

Executive incentive plan

The Company's executive incentive plan consists of two components, a short-term incentive ("STI") (Performance-based cash incentive) and a long-term incentive ("LTI") (share plan). The STI is a performance-based cash incentive based on KPIs, and the LTI is a long term share-based payment arrangement subject to vesting over a three-year service period to encourage the alignment of personal and shareholder interests. The company believes this policy will be effective in increasing shareholder wealth. Further details on each component are detailed below.

Performance-based cash incentives

As part of the remuneration policy, the Group has structured STI cash reward incentives for results and continued commitment to the Group through the provision of various performance-based cash incentive plan, specifically the incorporation of cash incentives based on the achievement of forecast normalised earnings before interest, tax, depreciation and amortisation ("EBITDA") targets and other KPIs (both financial and non-financial). All incentive payments will be triggered for consideration where the Group and respective KMP returns results that meet the respective targets set at the commencement of each financial year. These conditions provide KMP with a performance target which focuses on driving profit growth utilising existing Group resources in a sustainable manner.

Share plan

The Company has an incentive share plan in place. The purpose of the plan is to assist in the reward, retention and motivation of Eligible Participants, link the reward of Eligible Participants to performance and the creation of Shareholder value, align the interests of Eligible Participants more closely with the interests of Shareholders by providing an opportunity for Eligible Participants to receive Shares, provide Eligible Participants with the opportunity to share in any future growth in value of the Company, and provide greater incentive for Eligible Participants to focus on the Company's shorter and longer term goals. The share plan is subject to vesting over a 3-year service period, which commences on the 1 July, following the year of LTI eligibility.

Additional details on executive incentive plan

As detailed above, the initial hurdle for the incentive schemes is performance against forecast normalised EBITDA, followed by achievement against other set KPIs. KMP have the opportunity to earn 100% of their TFR against the respective targets. KMP are designated into two bands – Executive - Upper, and Executive - Lower. Upper Executive KMP have the opportunity to earn a maximum of 44% of their TFR under the LTI plan and a maximum of 56% under the STI plan, while Lower Executive KMP have the opportunity to earn a maximum of 49% of their TFR under the LTI plan and a maximum of 51% under STI plan.

STIs will be paid in cash while LTIs are issued net of withholding tax in shares in the Company over a three-year vesting period. The exception to this would be if KMP LTIs contravene take-over/creep rules. The number of shares to be issued under the LTI share plan is determined based on the LTI award value, net of withholding at the market price of the Company's shares at each vesting date. LTI share plan incentives yet to vest will be forfeited on cessation of employment with the Company. The Board retains the discretion to require these LTIs to be paid in cash, subject to vesting conditions (service condition) remaining the same (3 years from year-end date). For the year ended 30 June 2018, the STI cash payment for the Group in relation to KMP is \$0.793 million and the maximum non-cash LTI pool is \$0.928 million.

KPI Metrics STI and LTI plans – FY2018

METRIC	TARGET	WEIGHTING	REASON FOR SELECTION
Normalised EBITDA	Forecast EBITDA \$12.03 million	40%	Reflects improvements in both revenue and cost control
Other	Financial improvements	43%	Various
Other	Non-financial improvements	17%	Reflects improvements in safety, environmental and individual areas of responsibility

For FY2017, based on the performance of the KMPs against the set performance metrics, the Remuneration and Nomination Committee awarded 100% of the maximum STI and LTI amounts as set out in the table in section (e) Remuneration expenses for KMP.

(d) Link between remuneration and performance

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. A STI and LTI plan have been created to achieve this aim, the STI being a performance-based cash incentive based on KPIs, and the LTI being a long term share-based payment arrangement subject to vesting over a three-year period to encourage the alignment of personal and shareholder interests. The Company believes this policy will be effective in increasing shareholder wealth.

Statutory performance indicators

The following table shows key statutory performance indicators of the Group over the last five financial years.

	2018	2017	2016	2015	2014
Profit for the year after tax (\$'000)	8,473	3,123	1,603	3,186	1,765
Basic earnings per share (cents)**	8.65	5.88	3.93	7.81	4.36
Closing share price	\$0.95	\$0.50	N/A*	N/A*	N/A*

*No closing share price available, as the Company was only listed on the Australian Securities Exchange on 5 May 2017.

** The number of ordinary shares used in the basic earnings per share calculation pre FY2017 has been adjusted for the share split which occurred in FY2017 in relation to the Company's initial public offering (1:480).

(e) Remuneration expenses for KMP

Details of the nature and amount of each major element of remuneration of KMP for the year ended 30 June 2018 and 30 June 2017 are as follows:

KMP	YEAR ³	FIXED REMUNERATION					VARIABLE REMUNERATION					TOTAL REMUNE- RATION	PERFOR- MANCE RELATED (%)
		FIXED REMUNER- ATION (CASH SALARY)	NON- MONE- TARY BENEFITS ⁴	LONG SERVICE LEAVE ⁵	POST- EMPLOY- MENT BENEFITS (SUPERAN- NUATION)	OTHER ⁶	CASH BONUS	STI CASH INCENTIVE ⁷	EQUALIS- ATION PAY ⁸	RIGHTS TO DEFERRED SHARES ⁹	LTI SHARES ¹⁰		
Non-Executive Directors													
D Smith ¹	2018	42,000	-	-	-	-	-	-	-	15,591	-	57,591	27%
	2017 ¹	10,500	-	-	-	-	-	-	-	5,408	-	15,908	34%
Ms Stephanie Unwin ²	2018 ²	35,000	-	-	3,325	-	-	-	-	19,488	-	57,813	34%
	2017	-	-	-	-	-	-	-	-	-	-		-
Executive Directors													
WD Walker	2018	429,453	-	26,327	40,798	-	-	240,240	-	-	61,215	798,033	38%
	2017	330,558	-	75,852	31,688	-	3,000	48,098	108,750	-	-	597,946	27%
G Great ⁶	2018	228,100	-	3,759	29,290	248,291	-	-	-	-	-	509,440	0%
	2017	315,033	-	83,105	30,354	-	6,280	46,795	-	-	-	481,567	11%
H Moffat	2018	380,553	53,136	8,680	36,153	-	-	204,160	-	-	55,475	738,157	35%
	2017	319,068	105,430	9,762	30,109	-	3,000	43,588	67,750	-	-	578,707	20%
Other													
G Cooper (COO)	2018	348,858	106,273	6,197	33,141	-	-	187,180	-	-	48,705	730,354	32%
	2017	315,033	210,861	60,302	30,213	-	3,000	46,795	-	-	-	666,204	7%
R Stringer-Krein (CFO & Company Secretary)	2018	257,122	-	572	24,427	-	-	161,210	-	-	33,260	476,591	41%
	2017	169,455	-	3,777	16,158	-	625	31,955	68,140	-	-	290,110	35%
Total	2018	1,721,086	159,409	45,535	167,134	248,291	-	792,790	-	35,079	198,655	3,367,979	30%
	2017	1,459,647	316,291	232,798	138,522	-	15,905	217,231	244,640	5,408	-	2,630,442	18%

Notes:

1. *Mr D Smith was appointed a Director on 30 March 2017. The FY2017 amount references three months directors' fees.*
2. *Ms Stephanie Unwin was appointed a Director on 11 September 2017. The FY2018 amount references ten months directors' fees.*
3. *FY2017 remuneration was paid through Zenith Pacific Pty Ltd from 1 July 2016 - 21 March 2017. Salaries from 22 March 2017 onwards and for FY2018 were paid through Zenith Energy Limited.*
4. *Non-monetary benefits relate to interest, in full, which would have been charged at an arm's length basis over the life of the loans granted during FY2017. FY2018 amount relate to interest, in full, which would have been charged at an arm's length basis over the life of the loan extension period granted during FY2018, relating to loans granted in FY2017. Refer to (h) Other statutory information – (6) Other transactions with KMP in the Remuneration Report for further details.*
5. *Long service leave consists of amounts accrued and not yet vested.*
6. *Mr G Great resigned as Director on 24 January 2018. Termination benefits to Mr G Great included annual and long service leave entitlements paid.*
7. *FY2017 STI cash Incentive includes short-term cash incentives relating to FY2017 performance that were paid in FY2018. FY2018 STI cash Incentives includes short-term cash incentives relating to FY2018 performance that will be paid in FY2019.*
8. *FY2017 equalisation payment was an additional bonus paid to KMP to address the shortfall between their TFR in FY2017 and the salary benchmarking undertaken pre-IPO. It allowed for KMP paid under the median to earn a payment up to the median on the basis that financial results were achieved. These amounts were paid in FY2018.*
9. *Right to deferred shares (performance rights) are expensed over the respective vesting period. Refer to (h) Other statutory information – (2) Details of share based compensation in the Remuneration Report and note 25 for further details.*
10. *LTI shares are expensed equally over a three-year vesting period, commencing on 1 July following the financial year in which the performance and award amount is determined.*
During FY2018, at the Remuneration and Nomination Committee's discretion & recommendation the FY2017 LTI award of \$247,360 was paid in cash rather than shares, and the associated three-year vesting condition (service condition for FY2018 - FY2020) was waived. Of the award value, \$48,705, relating to Mr Gavin Great was forfeited as a result of his resignation of employment. As a consequence, a total expense of \$198,655 was recognised in FY2018 relating to the FY2017 LTI share plan. Refer to (h) Other statutory information – (2) Details of share based compensation in the Remuneration Report and note 25.

(f) Contractual arrangements with executive KMP

The following table provides employment details of persons who were, during the financial year, members of KMP of the Group.

KMP	TITLE	TYPE OF EMPLOYMENT	CONTRACT DURATION	TERMINATION (REDUNDANCY) PAYMENTS	TOTAL FIXED REMUNERATION ¹
					\$
WD Walker	Executive Chairman	Full-time salaried employee	No fixed date (3 month notice period)	26 week's pay on base salary	546,000
G Great ²	Executive Director - Operations	Full-time salaried employee	No fixed date (3 month notice period)	32 week's pay on base salary	464,000
H Moffat	Managing Director	Full-time salaried employee	No fixed date (3 month notice period)	10 week's pay on base salary	382,000
G Cooper	Chief Operating Officer	Full-time salaried employee	No fixed date (3 month notice period)	26 week's pay on base salary	382,000
R Stringer-Krein	Chief Financial Officer & Company Secretary	Full-time salaried employee	No fixed date (3 month notice period)	8 week's pay on base salary	329,000

The fixed remuneration detailed above reflects the most recent pay arrangements with the respective KMP (from 22 March 2018). Mr G Great resigned as Director on 24 January 2018.

(g) Non-executive director arrangements

The total annual remuneration paid to non-executive directors may not exceed the limit in the Company's Constitution (currently \$500,000) and may be varied by ordinary resolution of the Shareholders in a general meeting. The remuneration of the non-executive directors is fixed, rather than variable.

Non-executive directors are not paid additional remuneration for participation in the Company's sub Committees.

All non-executive directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including remuneration, relevant to the office of director.

(h) Other statutory information

1. Relative proportion of fixed versus variable remuneration expense

KMP NAME	YEAR	FIXED REMUNERATION	AT RISK – STI ¹	AT RISK – LTI ²
D Smith	2018	73%	27%	0%
	2017	66%	34%	0%
S Unwin	2018	66%	34%	0%
	2017	N/A	N/A	N/A
WD Walker	2018	62%	30%	8%
	2017	73%	9%	18%
G Great ³	2018	100%	0%	0%
	2017	89%	11%	0%
H Moffat	2018	65%	28%	8%
	2017	80%	8%	12%
G Cooper	2018	68%	26%	7%
	2017	93%	7%	0%
R Stringer-Krein	2018	59%	34%	7%
	2017	65%	11%	23%

1. STI remuneration includes performance-based cash incentives and performance rights issued under the company's incentive options and performance rights plan.
2. LTI remuneration includes equalisation pay and LTI share plan.
3. Mr G Great resigned as Director on 24 January 2018. Fixed remuneration for Mr G Great includes other benefits.

2. Details of share based compensation

Performance Rights

Zenith Energy Limited has issued performance rights to its non-executive directors. These performance rights are issued under the Company's incentive option and performance right plan and are issued as part of their appointment remuneration package. The performance rights have no performance milestones attached, however contain a 12-month service condition. Performance rights granted under the plan carry no dividend or voting rights.

The terms and conditions of these performance rights affecting remuneration in the current or a future reporting period are table below.

KMP	Number issued	Grant date	Exercise price	Vesting date	Share price on grant date	Fair value per performance right ³	Total fair value (\$)	% vested
D Smith	42,000	30 Mar 2017	Nil	29 Mar 2018	\$0.50	\$0.50 ¹	21,000	100%
D Smith	42,000 ²	30 Mar 2018	Nil	29 Mar 2019	\$0.80	\$0.80	33,600	-
S Unwin	42,000 ²	11 Sep 2017	Nil	10 Sep 2018	\$0.58	\$0.58	24,360	-

1. The fair value on grant date is by reference to the Company's initial public offering price ("IPO"), being \$0.50/share.
2. Subject to shareholder approval at the Company's 2018 Annual General Meeting.
3. The fair value at grant date is in accordance with AASB 2 Share-based Payments.

Details of Performance Rights provided as part of remuneration to KMP are shown below. The vesting conditions are set out in section (c) Elements of remuneration in the Remuneration Report. Further information on the Performance Rights is set out in note 25 to the financial statements.

Rights to deferred shares (Performance Rights):

KMP	GRANT YEAR	BALANCE AT START OF YEAR	GRANTED DURING YEAR	RIGHTS TO DEFERRED SHARES				BALANCE AT END OF YEAR		MAXIMUM VALUE YET TO VEST ¹
		NUMBER	NUMBER	VESTED		FORFEITED		VESTED	UNVESTED	\$
				NUMBER	%	NUMBER	%	NUMBER	NUMBER	
D Smith	2017	42,000	-	42,000	100%	-	-	42,000	-	-
	2018	-	42,000 ²	-	-	-	-	-	42,000	25,108
S Unwin	2018	-	42,000 ²	-	-	-	-	-	42,000	4,872

1. The maximum value of the deferred shares (performance rights) yet to vest has been determined as the amount of the grant date fair value of the performance rights that is yet to be expensed.
2. Subject to shareholder approval at the Company's 2018 Annual General Meeting.

Executive Incentive Plan - Share plan

During FY2018, no shares were granted under the Company's LTI share plan. Details relating to FY2017 and FY2018 LTI share plan awards are tabled below.

KMP	AWARD YEAR	LTI SHARE PLAN AWARD	CHANGES DURING CURRENT YEAR				MAXIMUM YET TO VEST ¹
			VESTED ¹		FORFEITED		
		VALUE (\$)	VALUE (\$)	%	VALUE (\$)	%	VALUE (\$)
WD Walker	2018	305,760	-	-	-	-	305,760
	2017	61,215	61,215	100% ²	-	-	-
G Great ³	2018	-	-	-	-	-	-
	2017	48,705	-	-	48,705	100% ³	-
H Moffat	2018	259,840	-	-	-	-	259,840
	2017	55,475	55,475	100% ²	-	-	-
G Cooper	2018	194,820	-	-	-	-	194,820
	2017	48,705	48,705	100% ²	-	-	-
R Stringer-Krein	2018	167,790	-	-	-	-	167,790
	2017	33,260	33,260	100% ²	-	-	-
Total	2018	928,210	-	-	-	-	928,210
	2017	247,360	198,655	80%	48,705	20%	-

1. LTI shares are expensed equally over a three-year vesting period, commencing on 1 July following the financial year in which the performance and award amount is determined. Details on the LTI shares is disclosed under (c) Elements of remuneration in the Remuneration Report and note 25.
2. During FY2018, at the Remuneration and Nomination Committee's discretion & recommendation the FY2017 LTI award pool of \$247,360 was awarded and paid in cash rather than shares, and the associated three-year vesting condition (service condition for FY2018-FY2020) was waived. As a consequence, a total expense of \$198,655 was recognised in FY2018 relating to the FY2017 LTI share plan, reflecting the vesting of the eligible component of the LTI share plan in FY2018.
3. Mr G Great resigned as Director on 24 January 2018. The FY2017 LTI, relating to Mr Gavin Great was forfeited as a result of his resignation of employment during the year.

3. Engagement of Remuneration Consultants

Independent external advice is sought from remuneration consultants as required. No remuneration recommendation was provided by a remuneration consultant in FY2018. In FY2017 prior to the company listing on the ASX, the directors engaged BDO Reward (WA) Pty Ltd for recommendations around the development of a remuneration policy for the Group which included recommendations for the design of an incentive arrangement. BDO Reward (WA) Pty Ltd was paid \$37,000 (excluding GST) for these services.

The following arrangements were made to ensure that the remuneration recommendations were free from undue influence:

- BDO Reward (WA) Pty Ltd was engaged directly by the Board of directors. As the services were provided pre IPO of the company, a Remuneration and Nomination Committee was not established at that time; and
- The recommendations and report were addressed and communicated direct to the full Board of directors at that time.

As a result the directors are satisfied that the recommendations made were made free from undue influence from any members of KMP.

4. Voting of Shareholders at last year's annual general meeting

The FY2017 remuneration report received a positive shareholder support at the Company's FY2017 Annual General Meeting with a vote of 99.82% in its favour.

5. Equity instruments held by KMP

KMP Shareholdings

The number of ordinary shares in Zenith Energy Limited held by each KMP of the Group during the financial year is as follows:

KMP	BALANCE AT BEGINNING OF YEAR	GRANTED AS REMUNERATION DURING THE YEAR	RECEIVED ON VESTING OF RIGHTS TO DEFERRED SHARES	OTHER CHANGES DURING THE YEAR	BALANCE AT END OF YEAR
D Smith	-	-	-	-	-
S Unwin	-	-	-	-	-
WD Walker	23,440,000	-	-	-	23,440,000
G Great ¹	18,360,000	-	-	(18,360,000)	-
H Moffat	3,400,000	-	-	-	3,400,000
G Cooper	4,800,000	-	-	-	4,800,000
R Stringer-Krein	114,000	-	-	-	114,000
Total	50,114,000	-	-	(18,360,000)	31,754,000

1. Mr G Great resigned as Director on 24 January 2018. Other changes during the year reflect on market disposal of 10,953,477 ordinary shares and movement of 7,406,523 ordinary shares reflecting the non-KMP status of the Group at the end of the year.

KMP Performance Right Holdings

The number of performance rights in Zenith Energy Limited held by each KMP of the Group during the financial year is as follows:

KMP	BALANCE AT BEGINNING OF YEAR	GRANTED AS REMUNERATION DURING THE YEAR	OTHER CHANGES DURING THE YEAR	BALANCE AT END OF YEAR
D Smith	42,000	42,000 ²	-	84,000 ¹
S Unwin	-	42,000 ²	-	42,000
Total	42,000	84,000	-	126,000

1. Balance at end of year includes performance rights of 42,000 which vested during FY2018.
 2. Issue of performance rights is subject to shareholder approval at the Company's 2018 Annual General Meeting.

6. Other transactions with KMP

KMP Loans

Details of loans made to directors and other KMP of Zenith Energy Limited are set out below.

KMP	BALANCE AT THE START OF THE YEAR	LOANS ISSUED DURING THE YEAR	INTEREST NOT CHARGED	BALANCE AT THE END OF THE YEAR	HIGHEST INDEBTEDNESS DURING THE YEAR
	\$	\$	\$	\$	\$
H Moffat	699,700	-	53,136	699,700	699,700
G Cooper	1,399,400	-	106,273	1,399,400	1,399,400

Loan balances above are at face value.

Following completion of the common control transaction, on 7 November 2016 loans were provided to Mr H Moffat and Mr G Cooper to fund the issue of 2,400,000 and 4,800,000 ordinary shares respectively in Zenith Energy Limited. The loans are interest free and repayment is expected within 12 months of reporting date.

The shares issued are under a disposal restriction until the loans are fully repaid.

The amounts shown for interest not charged in the table above represents the amount of interest that would have been charged on an arm's length basis over the life of the loan.

Interest not charged has been disclosed as a non-monetary remuneration benefit received in the details of the remuneration table in (e) Remuneration expenses for executive KMP in the Remuneration Report.

No write-downs or allowances for doubtful debts loan receivables have been recognised in relation to any loans made to KMP.

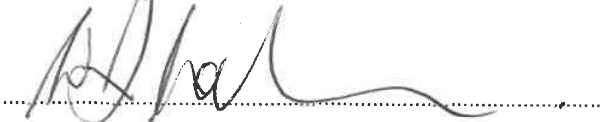
KMP Transactions

- The Company leases its Cairns office premises from Pacific Synergy Pty Ltd ATF for Pacific Synergy Unit Trust (Pacific Synergy), an entity controlled by Mr W Walker and Mr G Great. The lease is on standard tenancy terms, with \$138,000 (ex GST) per annum in rent and no fixed term.
- The Company leases an apartment in West Perth for the benefit of its travelling employees. This lease is on standard tenancy terms through a third-party property manager, with \$28,679 (ex GST) per annum in rent and a one year term (lease term expires January 2019). The property is owned by an associate of Executive Chairman Mr W Walker.

There were no other transactions conducted between the Group and KMP or their related parties, apart from those disclosed above relating to equity, compensation and loans, that were conducted other than in accordance with normal employee, customer or supplier relationships on terms no more favourable than those reasonably expected under arm's length dealings with unrelated persons.

End of audited remuneration report

This directors' report, incorporating the remuneration report, is signed in accordance with a resolution of the Board of Directors:



Mr William (Doug) Walker, Executive Chairman
Dated: 28 September 2018

Auditor's independence declaration



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DECLARATION OF INDEPENDENCE BY NEIL SMITH TO THE DIRECTORS OF ZENITH ENERGY LIMITED

As lead auditor of Zenith Energy Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Zenith Energy Limited and the entities it controlled during the period.

A handwritten signature in blue ink, appearing to read 'Neil Smith', with a stylized flourish at the end.

Neil Smith

Director

BDO Audit (WA) Pty Ltd
Perth, 28 September 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
Revenue	5	51,429	30,971
Other income	5	384	426
Total Income		51,813	31,397
Cost of sales	6	22,882	13,489
Employee expenses	6	7,255	5,217
Insurance expenses		830	677
Occupancy expenses		566	344
Foreign exchange losses		104	138
Other expenses		1,960	1,688
Total Expenses		33,597	21,553
		18,216	9,844
Finance costs	6	2,153	1,520
Depreciation and amortisation expense	12	3,808	2,041
Loss on cancellation of JV	6	-	1,638
Loss on disposal of assets		42	19
Profit before income tax		12,213	4,626
Income tax expense	7	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
Earnings per share for the year attributable to the members of Zenith Energy Limited	19		
Basic earnings per share (cents)		8.65	5.88
Diluted earnings per share (cents)		8.64	5.88

These consolidated financial statements should be read in conjunction with the accompanying notes

Consolidated Statement of Financial Position as at 30 June 2018

	Note	2018 \$'000	2017 \$'000
Assets			
Current assets			
Cash and cash equivalents	8	1,994	19,291
Trade and other receivables	9	9,221	3,781
Inventories	11	2,686	649
Current tax asset		755	1,384
Other receivables	9	1,940	-
Other assets	10	1,128	1,502
Total current assets		17,724	26,607
Non-current assets			
Property, plant and equipment	12	75,944	39,426
Deferred tax assets	7	836	772
Intangible assets		11	11
Other receivables	9	-	1,878
Other assets	10	1,903	469
Total non-current assets		78,694	42,556
Total assets		96,418	69,163
Liabilities			
Current liabilities			
Trade and other payables	13	7,674	3,393
Borrowings	15	7,405	16,334
Current tax liabilities		1,578	96
Deferred revenue	14	812	1,120
Provisions	16	1,398	1,150
Total current liabilities		18,867	22,093
Non-current liabilities			
Borrowings	15	30,729	8,174
Deferred revenue	14	2,105	2,602
Provisions	16	161	246
Total non-current liabilities		32,995	11,022
Total liabilities		51,862	33,115
Net assets		44,556	36,048
Equity			
Contributed equity	17	26,109	26,109
Share based payment reserve	18	40	5
Retained earnings	18	18,407	9,934
Total equity		44,556	36,048

These consolidated financial statements should be read in conjunction with the accompanying notes

Consolidated Statement of Changes in Equity for the Year Ended 30 June 2018

	Contributed equity	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 year	-	3,123	-	3,123
Total comprehensive income for the year	-	3,123	-	3,123
Transactions with owners, in their capacity as owners				
Issue of ordinary shares, net of transaction costs	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 year	-	8,473	-	8,473
Total comprehensive income for the year	26,109	18,407	5	44,521
Transactions with owners, in their capacity as owners				
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

These consolidated financial statements should be read in conjunction with the accompanying notes

Consolidated Statement of Cash Flows for the Year Ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
Cash Flows from Operating Activities			
Receipts from customers (including GST)		52,381	36,204
Payments to suppliers and employees (including GST)		(41,656)	(28,481)
Interest received		14	7
Borrowing costs paid		(2,153)	(1,520)
Income taxes paid		(1,694)	(993)
Net cash provided by operating activities	24	6,892	5,217
Cash Flows from Investing Activities			
Payments for property, plant and equipment		(37,824)	(9,518)
Proceeds on 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 (net of transaction costs)		-	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	8	1,994	19,291

Non-cash financing and investing activities

During the year, the consolidated entity acquired property, plant and equipment and power generation assets with a fair value of \$2.87 million (30 June 2017: \$6.88 million) by means of finance leases. These acquisitions are not reflected in the statement of cash flows.

In addition, shares issued to related parties during the year \$nil (30 June 2017: \$2.099 million) which were non-cash. Refer to details in note 17 and 22.

These consolidated financial statements should be read in conjunction with the accompanying notes

NOTES TO THE FINANCIAL STATEMENTS

Notes to the Financial Statements

Note 1: Reporting Entity

Zenith Energy Limited is a company limited by shares incorporated in Australia, whose shares are publicly traded on the Australian Securities Exchange. The company is a for-profit entity and the address of the company's registered office is 24 Brennan Way, Belmont WA 6104.

These consolidated financial statements and notes represent those of Zenith Energy Limited ("the Company" or "the Parent") and Controlled Entities (collectively, "the consolidated Group" or "the Group").

The financial statements were authorised for issue on 28 September 2018 by the directors of the Company.

Note 2: Basis of Preparation

Statement of Compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001*, Accounting Standards and Interpretations, and comply with other requirements of the law. Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the company and the Group comply with International Financial Reporting Standards ('IFRS').

Capital Restructure

The Company was incorporated on 2 November 2016 to act as an Australian Securities Exchange ('ASX') listed holding Company and acquired Zenith Pacific Pty Ltd. The acquisition of Zenith Pacific Pty Ltd by the Company (the Capital Restructure) was not considered to be a business combination and did not result in any change of economic substance. Accordingly, following the Capital Restructure on 2 November 2016, the consolidated financial statements of the Company represent a continuation of the operations of Zenith Pacific Pty Ltd and controlled entities.

The Company and Zenith Pacific Pty Ltd and controlled entities, together form the Consolidated Group or the Group. As such, the financial statements for the year ended 30 June 2018 and the comparatives for 30 June 2017 represent the consolidated financial statement of the Group.

New Standards and Interpretations for Current Year

The Group has adopted all the new, revised or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting year. Any new, revised or amended Accounting Standards and Interpretations that are not mandatory have not been early adopted. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

The following Accounting Standards and Interpretations are most relevant to the Group and have been applied for the first time for the annual reporting period commencing 1 July 2017:

AASB 2016-1 'Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses'

AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'

AASB 2017-2 'Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle'.

Basis of Measurement

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss and derivative financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

Note 2: Basis of Preparation (continued)

Functional and Presentation Currency

These consolidated financial statements are presented in Australian dollars, which is the company's functional currency.

Rounding of Amounts

The company is a company of the kind referred to in ASIC Instrument 2016/91, dated 1 April 2016 and in accordance with that Instrument, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

Use of Critical Accounting Judgements, Estimates and Assumptions

The preparation of financial statements in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future years affected. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

(i) Impairment of non-current assets

Property, plant and Equipment are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Group assesses for indicators of impairment in reference to but not limited to the following factors:

- Observable indication that the assets value have declined significantly more than would be expected as a result of passage of time or normal use;
- Significant changes with adverse effect on the Group has taken place in the technological, economic or legal environment in which the Group operates;
- Carrying value of net assets of the entity is more than the market capitalisation of the Company;
- Evidence of obsolesces or physical damage of an asset; and
- Evidence from internal reporting that indicates that the economic performance of the asset is worse than expected.

For the year ended 30 June 2018 no impairment indicators were identified by management which would require impairment testing to be undertaken.

(ii) Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees and key management personnel by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes option valuation model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled transactions would have no impact on the carrying amounts of assets and liabilities within the next annual reporting year but may impact profit or loss and equity. Refer to note 3 for the Group's accounting policy in respect to share-based transactions.

(iii) Provision for impairment of receivables

The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the specific knowledge of the individual debtors' financial position. As at 30 June 2018, after review by the board, there was no impairment of receivables identified.

(iv) Lease classification

The Group enters into various lease agreements as part of the Group's business strategy and operations.

The classification of whether a lease is to be accounted for as a finance or operating lease requires management's judgement in relation to determining whether the terms of the lease transfer substantially all risks and rewards incidental to ownership of the equipment. Refer to note 3 for the Group's accounting policy in respect to leases.

NOTES TO THE FINANCIAL STATEMENTS

Note 2: Basis of Preparation (continued)

(v) Estimated useful life of property, plant and equipment

The Group estimates the useful life of property, plant and equipment based on the following factors:

- Expected usage of the asset (in reference to assets expected capacity or physical output);
- Its expected physical wear and tear;
- Technical and commercial obsolesces arising from changes and improvements in production; and
- Any legal or similar limits on the use of the asset such as expiry dates of related leases.

Refer to note 3 for the Group's accounting policy in respect to property, plant and equipment.

(vi) Recognition of tax receivable in relation to Papua New Guinea ("PNG") withholding tax

The Group has recognised a current tax receivable in relation to an expected credit to be received in the Group's 2018 Australian income tax return in relation to PNG withholding tax.

Included in the current tax asset in the statement of financial position is a receivable of \$0.755 million (30 June 2017: \$1.384 million) in relation to the PNG withholding tax.

The recognition of the receivable requires management's judgement in relation to the expectation that the amount will be credited by the Australian Taxation Office.

Note 3: Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

Basis of Consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies have been changed where necessary to align them with the policies adopted by the Group.

Intra-Group balances and transactions, and any unrealised income and expenses arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Gains and losses are recognised when the contributed assets are consumed or sold by the equity accounted investees or, if not consumed or sold by the equity accounted investee, when the Group's interest in such entities is disposed of.

Foreign Currency

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency (\$AUD) of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Australian dollars at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in Australian dollars at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to Australian dollars at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

NOTES TO THE FINANCIAL STATEMENTS

Note 3: Summary of Significant Accounting Policies (continued)

Financial Instruments

(i) Non-derivative financial assets

The Group has the following non-derivative financial assets: receivables and cash and cash equivalents.

Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

Collectability of trade receivables is assessed on an ongoing basis. Debts which are known to be uncollectable are written off.

An allowance is made for doubtful debts where there is objective evidence that the Group will not be able to collect all amounts due.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Restricted cash balances are reflected as non-current assets on the statement of financial position.

(ii) Non-derivative financial liabilities

The Group has the following non-derivative financial liabilities: borrowings and trade and other payables.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any noncash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

NOTES TO THE FINANCIAL STATEMENTS

Note 3: Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (if applicable).

Cost encompasses all expenditures that are directly attributable to the acquisition or installation of an asset. The cost base for self-constructed groups of assets (for example power stations) includes the cost of materials and direct labour, as well as any other costs directly attributable to completion of an asset to working condition for its intended use, as well as capitalised borrowing costs. The cost base may (if applicable) also include costs for dismantling and/or removing items or restoring the site in which they were located. The Group notes that restoration costs have not been required in the past.

Gains/(losses) on disposal of property, plant or equipment are calculated by comparing the realised proceeds from disposal with the its written down value, and are recognised in the statement of profit or loss and other comprehensive income in each reporting period.

Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with them will flow to the Group and the cost of the item can be measured reliability. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Depreciation

Depreciation is calculated on either a straight life method or diminishing value method over the asset's estimated useful life.

The depreciation rates per asset class used in the calculation of depreciation is as follows:

	Depreciation Rate	
	Straight Line	Diminishing Value
Plant and Equipment	5 - 100%	5 - 40%
Power Generation Assets	2.5 - 10%	2.5 - 66.67%

Capital works in progress

Capital works in progress is projects of a capital nature, which usually relates to the construction of plant and equipment and power generation assets. Upon completion (when ready for use in the manner intended by management), capital works in progress are transferred to the relevant asset class. Capital works in progress is not depreciated.

Intangible Assets

Trademarks and licences

Separately acquired trademarks and licenses are shown at historic cost. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses (where appropriate).

NOTES TO THE FINANCIAL STATEMENTS**Note 3: Summary of Significant Accounting Policies (continued)****Leased Assets**

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (note 15).

Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 27). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the statement of financial position based on their nature.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises all direct materials, direct labour and an appropriate portion of variable and fixed overheads. Fixed overheads are allocated on the basis of normal operating capacity. Costs are assigned to inventories using the average costs and for serialised items at actual cost basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling cost of completion and selling expenses.

Borrowing Costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the year of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Other borrowing costs are expensed in the financial year in which they are incurred.

Impairment

Financial assets including receivables

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset and can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

NOTES TO THE FINANCIAL STATEMENTS

Note 3: Summary of Significant Accounting Policies (continued)

Impairment (continued)

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. In assessing collective impairment, the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such impairment exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest Group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or Groups of assets ("the cash-generating unit" ("CGU")).

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs. An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount.

Impairment losses are recognised in the statement of profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Employee Benefits

Short-term benefits

Short-term employee benefit obligations are those benefits expected to be settled within 12 months of the reporting date. They are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits are those not expected to be settled within 12 months of the reporting date and are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data.

NOTES TO THE FINANCIAL STATEMENTS

Note 3: Summary of Significant Accounting Policies (continued)

Employee Benefits (continued)

Share-based payment transactions

The Group operates an employee share plan and a director and employee incentive option and performance rights plan. The grant date fair value of equity instruments granted to directors and employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees and directors become unconditionally entitled to the equity instrument. The amount recognised as an expense is adjusted to reflect the number of equity instruments for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of equity instruments that do not meet the related service and non-market performance conditions at the vesting date. For equity instruments with non-vesting conditions, the grant date fair value of the equity instruments is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes. When the company grants equity instruments to employees of subsidiaries, the fair value at grant date is recognised as a receivable from subsidiaries, with a corresponding increase in equity over the vesting period of the grant.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

Revenue

Sale of electricity supply

Revenue from the sale of electricity is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Any revenue received from a customer, for which the goods and/or services are yet to be provided are recognised as deferred income and recognised over the period in which the goods and services are expected to be provided to the customer.

Revenue from electricity supply is recognised when the electricity has been delivered to the customer based on fixed charges and electricity consumed.

Sale of constructed goods

Revenue from the sale of constructed goods is recognised the outcome of a construction contract can be estimated reliably. Contract revenue and contract costs associated with the construction contract are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period.

In the case of a fixed price contract, the Group determines that a construction contract can be estimated reliably when both the contract costs to complete the contract and the stage of contract completion at the end of the reporting period can be measured reliably, and the contract costs attributable to the contract can be clearly identified and measured so that actual contract costs incurred can be compared with prior estimates. This estimation takes the form of comparing revenues agreed for achieved milestones by the client with purchase requisitions, purchase orders, and invoices already received to determine a fair value of percentage complete.

Other Income

Income from the provision of services, and from penalties received under customer/supplier contracts, is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the consolidated entity and it can be reliably measured.

NOTES TO THE FINANCIAL STATEMENTS

Note 3: Summary of Significant Accounting Policies (continued)

Lease Payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Goods and Services Tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

NOTES TO THE FINANCIAL STATEMENTS**Note 3: Summary of Significant Accounting Policies (continued)****Tax consolidation**

The company and its wholly-owned Australian resident entities are part of a tax-consolidated Group. As a consequence, all members of the tax-consolidated Group are taxed as a single entity from that date. The head entity within the tax-consolidated Group is Zenith Energy Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated Group are recognised in the separate financial statements of the members of the tax-consolidated Group using the "separate taxpayer within Group" approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated Group and are recognised by the company as amounts payable (receivable) to/(from) other entities in the tax-consolidated Group. Any difference between these amounts is recognised by the company as an equity contribution or distribution.

The company recognises deferred tax assets arising from unused tax losses of the tax-consolidated Group to the extent that it is probable that future taxable profits of the tax-consolidated Group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

Earnings per Share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

Operating Segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Maker ("CODM"). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

Segment results that are reported to the CODM include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments (other than investment property) and related revenue, loans and borrowings and related expenses, corporate assets (primarily the company's headquarters) and head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire non-current assets, other than deferred tax assets and financial assets.

NOTES TO THE FINANCIAL STATEMENTS

Note 3: Summary of Significant Accounting Policies (continued)

New Standards and Interpretations Not Yet Adopted

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application date or future reporting periods and which the Group has decided not to early adopt. A discussion of those future requirements and their impact on the Group is as follows:

AASB 9: Financial Instruments

Applicable to annual reporting periods beginning on or after 1 January 2018.

The Standard will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

The key changes that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income.

The group does not have any hedging relationships and therefore does not expect to be impacted by AASB 9 hedge accounting. The Group will apply the simplified approach under the expected credit loss model for impairment which may result in earlier recognition of impairment charges and impact loans and trade receivables balances. The Group is currently still assessing the impact of IFRS 9 classification and measurement on other items of the primary financial statements.

AASB 15: Revenue from Contracts with Customers

Applicable to annual reporting periods beginning on or after 1 January 2018.

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

identify the contract(s) with a customer;

- (i) identify the performance obligations in the contract(s);
- (ii) determine the transaction price;
- (iii) allocate the transaction price to the performance obligations in the contract(s); and
- (iv) recognise revenue when (or as) the performance obligations are satisfied.

The transitional provisions of this Standard permit an entity to either: restate the contracts that existed in each prior period presented per AASB 108: *Accounting Policies, Changes in Accounting Estimates and Errors* (subject to certain practical expedients in AASB 15); or recognise the cumulative effect of retrospective application to incomplete contracts on the date of initial application. There are also enhanced disclosure requirements regarding revenue.

The Group has assessed the likely impact of transitioning to AASB 15 Revenue from contracts with customers. Based on Groups' assessment, there will be no material impact on the timing or amount of revenue recognition.

NOTES TO THE FINANCIAL STATEMENTS

Note 3: Summary of Significant Accounting Policies (continued)

New Standards and Interpretations Not Yet Adopted (continued)

AASB 16: Leases

Applicable to annual reporting periods beginning on or after 1 January 2019.

When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: *Leases* and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

The main changes introduced by the new Standard include:

- recognition of a right-to-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets);
- depreciation of right-to-use assets in line with AASB 116: *Property, Plant and Equipment* in profit or loss and unwinding of the liability in principal and interest components;
- variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability using the index or rate at the commencement date;
- by applying a practical expedient, a lessee is permitted to elect not to separate non-lease components and instead account for all components as a lease; and
- additional disclosure requirements.

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

The Group is still in the process of fully assessing the impact on the Group's financial results and position when it is first adopted for the year ending 30 June 2020 and it is not practicable to provide a reasonable financial estimate of the effect until the Group has completed a detailed review.

NOTES TO THE FINANCIAL STATEMENTS

Note 4: Operating Segments

General Information

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of revenue stream, as the diversification of the Group's operations inherently have notably different performance assessment criteria. Operating segments are therefore determined on the same basis.

Unless stated otherwise, all amounts reported to the Board of Directors, with respect to operating segments, are determined in accordance with accounting policies that are consistent with those adopted in the annual financial statements of the Group.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- the products sold and/or services provided by the segment;
- the type or class of customer for the products or services;
- the distribution method; and
- any external regulatory requirements.

Types of products and services by segment

Build, Own, Operate (BOO) Revenue

Where revenue is produced by operating the Group's assets under a Power Purchase Agreement (PPA). Under BOO Revenue, supply, project and sales revenue is recognised.

BOO products and services are provided in Australia.

ZPPL/Manage, Operate, Maintain (MOM) Revenue

Where the revenue is produced by operating a client's assets under a MOM agreement. Under MOM Revenue, supply, project and sales revenue is recognised. The ZPPL also contains Engineer, Procure, Construct revenues, and head office administrative costs. MOM products and services are provided in Australia and Papua New Guinea.

NOTES TO THE FINANCIAL STATEMENTS

Note 4: Operating Segments (continued)

Financial Performance Analysis	ZPPL/MOM		BOO		Others		Consolidated	
	30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
External sales	26,295	8,909	25,134	22,062	-	-	51,429	30,971
Intersegment sales	-	-	-	-	-	-	-	-
Interest revenue	8	4	-	-	228	98	236	102
Total segment revenue	26,303	8,913	25,134	22,062	228	98	51,665	31,073
Other income	-	211	148	113	-	-	148	324
Intersegment elimination	-	-	-	-	-	-	-	-
Total Group revenue	26,303	9,124	25,282	22,175	228	98	51,813	31,397
Segment EBITDA before unusual items	3,088	3,535	18,852	7,238	(3,724)	(929)	18,216	9,844
- Depreciation and amortisation expense	233	190	3,575	1,851	-	-	3,808	2,041
- Loss on disposal of assets	(3)	19	45	-	-	-	42	19
- Finance costs	612	183	1,541	1,337	-	-	2,153	1,520
- Loss on cancellation of JV	-	1,638	-	-	-	-	-	1,638
Profit/(loss) before income tax	2,246	1,505	13,691	4,050	(3,724)	(929)	12,213	4,626
Income tax expense							(3,740)	(1,503)
Profit after income tax							8,473	3,123
Financial Position Analysis	ZPPL/MOM		BOO		Others		Consolidated	
	30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Segment assets	28,999	8,422	64,183	40,334	3,236	20,407	96,418	69,163
Total consolidated assets	28,999	8,422	64,183	40,334	3,236	20,407	96,418	69,163
Segment liabilities	23,826	3,915	27,362	28,549	674	651	51,862	33,115
Total consolidated liabilities	23,826	3,915	27,362	28,549	674	651	51,862	33,115
Segment assets include								
Deferred tax assets/(liabilities)	342	250	(132)	21	626	501	836	772

NOTES TO THE FINANCIAL STATEMENTS**Note 4: Operating Segments (continued)**

Geographic Analysis	Australia		Papua New Guinea		Consolidated	
	30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017	30 Jun 2018	30 Jun 2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000

Revenue attributable to external customers is disclosed below, based on the location of the external customer:

Revenue - External customers	32,826	25,324	18,603	5,647	51,429	30,971
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The location of segment asset by geographic location of the assets is disclosed below:

Total Assets	96,010	68,770	408	393	96,418	69,163
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Major Customers

Revenues from our 12 (30 June 2017:10) customers in the BOO segment represents approximately 49% (30 June 2017:71%) of the Groups' total revenues.

Note 5: Revenue and Other Income

	2018 \$'000	2017 \$'000
Revenue from continuing operations		
Revenue:		
– BOO revenue	25,134	22,062
– ZPPL/MOM and sales revenue	26,295	8,909
	<u>51,429</u>	<u>30,971</u>
Other income:		
– Interest revenue	236	102
– Other	148	324
	<u>384</u>	<u>426</u>
Total income	<u>51,813</u>	<u>31,397</u>

NOTES TO THE FINANCIAL STATEMENTS**Note 6: Profit for the Year**

	2018	2017
	\$'000	\$'000
Profit before income tax from continuing operations includes the following specific expenses:		
a. Expenses		
Cost of sales	22,882	13,489
Interest expense on financial liabilities not at fair value through profit or loss:		
– Related parties	-	-
– Unrelated parties	2,153	1,520
Total finance cost	<u>2,153</u>	<u>1,520</u>
Employee benefits expense:		
– Wages and salaries	5,570	3,805
– Contributions to defined contributions plans	1,047	731
– Employment related taxes and insurances	638	681
Total employee benefits expense	<u>7,255</u>	<u>5,217</u>
Bad and doubtful debts:		
– Trade receivables	-	624
Total bad and doubtful debts	<u>-</u>	<u>624</u>
Rental expense on operating leases:		
– Minimum lease payments	566	358
Total rental expense on operating leases	<u>566</u>	<u>358</u>

Significant Revenue and Expenses

The following significant revenue and expense items are relevant in explaining the financial performance:

In 2015, Zenith Pacific Pty Ltd formed a joint venture (“JV”) entity with Solea AG, a German Photo-Voltaic (“PV”) provider. In November 2016, Zenith Pacific Pty Ltd dissolved the JV due to incompatibility of business models. The amount written off (\$1.638 million) includes formation costs, legal fees and a settlement amount in the year ended 30 June 2017.

NOTES TO THE FINANCIAL STATEMENTS**Note 7: Income tax expense**

	2018	2017
	\$'000	\$'000
a) Recognised in the Statement of Profit or Loss		
Current tax expense	3,417	1,472
Deferred tax movements	(64)	31
Under provision in respect of prior years	387	-
	<u>3,740</u>	<u>1,503</u>
b) Numerical reconciliation of tax expense:		
The prima facie tax on profit from ordinary activities before income tax is reconciled to income tax as follows: Prima facie tax payable on profit from ordinary activities before income tax at 30% (2017: 30%)		
	3,664	1,388
Add tax effect of:		
- Non-deductible expenditure	(311)	115
- Under provision in respect of prior year	387	-
	<u>3,740</u>	<u>1,503</u>
The applicable weighted average effective tax rates are as follows:	31%	32%

The company and its wholly-owned Australian resident entities are part of a tax-consolidated Group. As a consequence, all members of the tax-consolidated group are taxed as a single entity from that date. The head entity within the tax-consolidated Group is Zenith Energy Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated Group are recognised in the separate financial statements of the members of the tax-consolidated Group using the "separate taxpayer within Group" approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated Group and are recognised by the company as amounts payable (receivable) to/(from) other entities in the tax-consolidated Group.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

NOTES TO THE FINANCIAL STATEMENTS**Note 7: Income tax expense (continued)**

c) Deferred tax assets and liabilities

	2018	2017
	\$'000	\$'000
Deferred tax balances:		
Assets:		
Employee entitlements	474	419
Borrowing costs	68	42
Contract Termination Fee (Section 40/880 deduction)	199	-
Non-deductible equity raising costs - recognised in equity	286	381
Unrealised foreign exchange losses	21	-
	<u>1,048</u>	<u>842</u>
Liabilities:		
Revenue received in advance	(27)	(13)
Consumables	(105)	-
Borrowing costs	(80)	(57)
	<u>(212)</u>	<u>(70)</u>
Net deferred tax asset	<u>836</u>	<u>772</u>

Note 8: Cash and Cash Equivalents

	2018	2017
	\$'000	\$'000
Cash at bank and on hand	<u>1,994</u>	<u>19,291</u>
	<u>1,994</u>	<u>19,291</u>
Balances as above		
Cash at bank and on hand	1,994	19,291
Balance as per statement of cash flows	<u>1,994</u>	<u>19,291</u>

The Group's exposure to interest rate risk, credit risk and foreign currency risk is discussed in note 26.

NOTES TO THE FINANCIAL STATEMENTS**Note 9: Trade and Other Receivables**

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

Trade and other receivables are generally due for settlement in 30 days and therefore are all classified as current. The Group's impairment review and other accounting policies for trade and other receivables are outlined in note 2 - Use of Critical Accounting Judgements, Estimates and Assumptions (iii) and note 3, respectively.

Further information relating to related party receivables is set out in note 22.

Due to the short term nature of the current receivables, the carrying amount is assumed to be the same as their fair value.

Information about the impairment of trade and other receivables, their credit quality and the Group's exposure to credit risk, foreign currency risk and interest rate risk and trade and other receivables past due but not impaired can be found in note 3 and note 26.

NOTES TO THE FINANCIAL STATEMENTS**Note 10: Other Assets**

	2018	2017
	\$'000	\$'000
CURRENT		
Pre-paid expense & insurance	783	1,345
Deferred establishment costs	345	157
Total other current assets	1,128	1,502
NON-CURRENT		
Deferred establishment costs	1,353	469
Maintenance reserve fund *	550	-
Total other non-current assets	1,903	469

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

Note 11: Inventories

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

Inventories recognised as an expense during the year ended 30 June 2018 amounted to \$0.270 million (30 June 2017: \$0.117 million). There were no write downs of inventories during the year (30 June 2017: \$nil).

NOTES TO THE FINANCIAL STATEMENTS**Note 12: Property, Plant and Equipment**

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

a) Leased Assets

Plant and equipment and power generation assets includes the following amounts where the Group is a lessee under a finance lease or hire purchase agreement.

Total carrying amount	<u>12,896</u>	<u>13,479</u>
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b) Assets pledged as security

The Group's Financiers have general security over the Group's assets apart from SPV's with leasing arrangements, as detailed above. Refer to note 15 for additional details.

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	Power Generation Assets	Capital Works in Progress	Total
	\$'000	\$'000	\$'000	\$'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	38,650	40,383
Disposals	(9)	(48)	-	(57)
Transfers	-	23,446	(23,446)	-
Depreciation expense	(150)	(3,658)	-	(3,808)
Balance at 30 June 2018	1,106	57,958	16,880	75,944

NOTES TO THE FINANCIAL STATEMENTS**Note 13: Trade and Other Payables**

	2018	2017
	\$'000	\$'000
CURRENT		
Unsecured liabilities:		
Trade payables	4,619	1,492
Sundry payables	356	1,395
Accrued expenses and wages	2,699	506
Total current trade and other payables	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 have 30-60 day payment terms. These amounts are non-interest bearing.

The Group's does not currently have any significant exposure to foreign currency and liquidity risk related to trade and other payables. Refer to note 26 for further information on the Group's financial risk management policy.

Note 14: Deferred Revenue

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

Deferred revenue consists of two contracts where the client has chosen to make prepayments against their relevant PPA. The amount is being unwound each month over the life of the contracts and is recognised as revenue in the financial period when the customer has received the goods and service under the PPA.

NOTES TO THE FINANCIAL STATEMENTS**Note 15: Borrowings**

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

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

a. Lease liabilities

The hire purchase and finance lease liabilities are secured by the rights to the asset in the event of a default. The carrying value of the assets pledged as security is \$12.896 million (30 June 2017: \$13.479 million). Refer to note 12 for additional details.

Currently, hire purchase liabilities relates to a small number of company vehicles, all more than 12 months into their contract term and various power generator assets which vary in contract term between three and five years.

b. Risk exposures

Details of the Group's exposure to risks on borrowings are set out on note 26.

c. Fair value

For the majority of borrowings, the fair values are not materially different to their carrying values, since the interest payable on these borrowings are either close to current market rates, or the borrowings are relatively short term nature. Material differences are identified only for the following borrowings:

	2018	2018	2017	2017
	Carrying	Fair	Carrying	Fair
	amount	value	amount	value
	\$'000	\$'000	\$'000	\$'000
CBA facility	27,177	24,390	11,232	11,232

The fair value of non-current borrowing is based on discounted cash flows using a current borrowing rate.

d. Compliance with borrowing covenants

The Group has complied with the financial covenants of its borrowing facilities during the 2018 and 2017 reporting years.

e. Unutilised borrowing facilities

Group borrowing facilities have unutilised amounts of \$10.306 million (30 June 2017: \$3.820 million). Refer to note 26 for additional details.

NOTES TO THE FINANCIAL STATEMENTS**Note 16: Provisions**

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

Provision for employee benefits represents amounts accrued for annual leave and long service leave.

The current portion for this provision includes the total amount accrued for annual leave entitlements and the amounts accrued for long service leave entitlements that have vested due to employees having completed the required period of service. Based on past experience, the Group does not expect the full amount of annual leave or long service leave balances classified as current liabilities to be settled within the next 12 months. However, these amounts must be classified as current liabilities since the Group does not have an unconditional right to defer the settlement of these amounts in the event employees wish to use their leave entitlement. However, based on past experiences, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The amount of leave that is not expected to be taken or paid within the next 12 months is \$0.780 million (30 June 2017: \$0.700 million).

The non-current portion for this provision includes amounts accrued for long service leave entitlements that have not yet vested in relation to those employees who have not yet completed the required period of service.

Note 17: Contributed Equity

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

	Number of	Total
	shares	
	'000	\$'000
Details		
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 (refer note 22)	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

Ordinary shares

On the show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll, each share is entitled to one vote.

NOTES TO THE FINANCIAL STATEMENTS**Note 18: Retained Earnings and Other Reserves****Retained Earnings**

Movements in retained earnings were as follows:

	2018	2017
	\$'000	\$'000
Opening balance	9,934	7,034
Net profit for the year attributable to members	8,473	3,123
Dividends paid to members (note 20)	-	(223)
Closing balance	18,407	9,934

Other Reserves

	2018	2017
	\$'000	\$'000
Share-based payment reserve		
Opening balance	5	-
Performance rights issued (note 25)	35	5
Closing balance	40	5

Nature and purpose of other reserves***Share-based payment reserve***

The share-based payment reserve is used to recognise the grant date fair value of performance rights granted to employees and directors.

NOTES TO THE FINANCIAL STATEMENTS**Note 19: Earnings per Share**

The following reflects the earnings and share data used in the calculations of basic and diluted earnings per share after tax attributable to member of the Company.

	2018	2017
	\$'000	\$'000
Profit after tax from continuing operations	8,473	3,123
	8,473	3,123
	2018	2017
	Number	Number
Weighted average number of shares	98,000,000	53,140,659
Effect of dilution*	42,000	-
Weighted average number of shares adjusted for effect of dilution	98,042,000	53,140,659

* Performance rights which have vested as at 30 June 2018 to the Group's Non-Executive Director (refer to note 25).

	2018	2017
	Cents	Cents
Basic earnings per share	8.65	5.88
Diluted earnings per share	8.64	5.88

Note 20: Dividends**a. Dividends paid or payable**

The directors have not recommended the payment of a dividend in respect to the year ended 30 June 2018. During the financial year ended 30 June 2017 dividends/distributions of \$0.223 million were paid prior to the common control transaction and Initial Public Offering ("IPO").

b. Dividends not recognised at year end

The Directors have determined to not declare a dividend for the financial year ended 30 June 2018 (30 June 2017: \$nil).

c. Franking Credits

	2018	2017
	\$'000	\$'000
Franking credits available at the reporting date based on a tax rate of 30% (2017: 30%):	5,071	952
	5,071	952

The above available amounts are based on the balance of the franking account at year-end. Franking credits will arise from the payment of the current tax liabilities.

NOTES TO THE FINANCIAL STATEMENTS

Note 21: Key Management Personnel Compensation

Refer to the remuneration report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Group's key management personnel ("KMP") for the year ended 30 June 2018 and 30 June 2017.

The totals of remuneration to KMP of the company and the Group are as follows:

	2018	2017
	\$	\$
Short-term employment benefits*	3,135,156	1,791,843
Post-employment benefits	415,425	138,522
Other long-term benefits	45,535	232,798
Share-based payments	233,734	5,408
Total KMP compensation	3,829,850	2,168,571

These amounts include fees and benefits paid to the executive Chair and non-executive directors as well as all salary, paid leave benefits, termination benefits and performance-based cash incentives awarded to executive directors and other KMP.

* FY 2018 includes performance-based cash incentives of \$217,231 for FY 2017 and equalisation pay of \$244,640 for executives not remunerated at market median.

Post-employment benefits

These amounts are the current year's costs of providing for superannuation contributions made during the year and termination benefits.

Other long-term benefits

These amounts represent long service leave benefits accrued during the year.

Share-based payments

These amounts represent the expense related to the participation of KMP in equity-settled benefit schemes as measured by the fair value of the performance rights on grant date. Refer to note 25 for additional details.

Note 22: Related Party Transactions

Related Parties

a. The Group's main related parties are as follows:

Entities exercising control over the Group

- The ultimate parent entity that exercises control over the Group is Zenith Energy Limited, which is incorporated in Australia. For interest in subsidiaries, refer to note 23.

Key management personnel:

- Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity, are considered key management personnel.
- For details of disclosures relating to key management personnel, refer to note 21.

Entities subject to significant influence by the Group:

- An entity that has the power to participate in the financial and operating policy decisions of an entity, but does not have control over those policies, is an entity which holds significant influence. Significant influence may be gained by share ownership, statute or agreement. Zenith Energy Limited does not have any entities in which it exerts significant influence over.

NOTES TO THE FINANCIAL STATEMENTS

Note 22: Related Party Transactions (continued)*Other related parties:*

- Other related parties include entities controlled by the ultimate parent entity and entities over which key management personnel have joint control. Zenith Energy Limited does not have any entities in which it exerts joint control.

b. Transactions with related parties

- The Company leases its Cairns office premises from Pacific Synergy Pty Ltd ATF for Pacific Synergy Unit Trust (Pacific Synergy), an entity controlled by Mr W Walker and Mr G Great. The lease is on standard tenancy terms, with \$138,000 (ex GST) per annum in rent and no fixed term.
- The Company leases an apartment in West Perth for the benefit of its travelling employees. This lease is on standard tenancy terms through a third-party property manager, with \$28,679 (ex GST) per annum in rent and a one-year term (lease term expires January 2019). The property is owned by an associate of Executive Chairman Mr W Walker.

c. Loans to/from related parties*Loans to key management personnel*

	2018	2017
	\$	\$
Balance at beginning of the year	1,877,616	-
Loans advanced	-	2,099,100
Fair value adjustment (i)	(159,409)	(316,291)
Interest income (ii)	221,483	94,807
Balance at end of year	1,939,690	1,877,616

- (i) The loans advanced are interest free and repayable in 12 months from reporting date. The difference between the fair value of the loans (discounted based on a market rate of 8.06%) and the face value of the loans has been recognised during the year as an employee benefit. Total face value of the loans are \$2,099,100.
- (ii) Interest income represents the unwinding of the loan to its face value from the date of issue to 30 June 2018.

Terms and conditions

Following completion of the common control transaction, on (7 November 2016) loans were provided to Mr H Moffat and Mr G Cooper to fund the issue of 2,400,000 and 4,800,000 ordinary shares respectively in Zenith Energy Limited. The loans are interest free and repayment is expected within 12 months of reporting date.

The shares issued are under disposal restriction until the loans are fully repaid.

d. Guarantees by related parties

As at 30 June 2018 no personal guarantees given by any related party on or behalf of the Group. At 30 June 2017, the Group's bankers had not completed their activities with respect to removing personal Director's guarantees from the Group's facilities. The following guarantees were still in place at 30 June 2017, however subsequent to 30 June 2017 these were removed:

- WD Walker – guarantee limited to \$418,000
- Gavin Great – guarantee limited to \$342,000

NOTES TO THE FINANCIAL STATEMENTS

Note 23: Interests in Subsidiaries

Information about Principal Subsidiaries

The subsidiaries listed below have share capital consisting solely of ordinary shares, which are held directly by the Group. The proportion of ownership interests held equals the voting rights held by the Group. Each subsidiary's principal place of business is also its country of incorporation.

Name of Subsidiary	Principal Place of Business	Ownership Interest Held by the Group	
		2018 (%)	2017 (%)
Zenith Pacific Pty Ltd	Australia	100%	100%
Zenith Pacific (Kundana) Pty Ltd	Australia	100%	100%
Zenith Pacific (NOVA-PV) Pty Ltd	Australia	100%	100%
Zenith Pacific (JUN) Pty Ltd	Australia	100%	100%
Zenith Pacific (SLR) Pty Ltd	Australia	100%	100%
Zenith Pacific (SIR) Pty Ltd	Australia	100%	100%
Zenith Pacific (BWI) Pty Ltd	Australia	100%	100%
Zenith Pacific (NSR) Pty Ltd	Australia	100%	100%
Zenith Micro-Grid Pty Ltd	Australia	100%	100%
Zenith Solea International (Singapore)*	Singapore	-	-
Zenith Pacific (HCM) Pty Ltd	Australia	100%	100%
Zenith Pacific (JPT) Pty Ltd	Australia	100%	-
Zenith Pacific (DGA) Pty Ltd	Australia	100%	-
Zenith Pacific (DBS-GTS) Pty Ltd	Australia	100%	-

**Deregistered with ASIC and in the process of de-registration with overseas regulators.*

Note 24: Cash Flow Information

	2018	2017
	\$'000	\$'000
Reconciliation of Cash Flows from Operating Activities with Profit after Income Tax		
Profit after income tax	8,473	3,123
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit:		
– Depreciation and amortisation	3,808	2,041
– Non-cash movement in directors' and KMP loans	(62)	221
– Inventory transferred to capital WIP	-	(848)
– Loss on disposal of property, plant and equipment	42	19
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:		
– (Increase) in trade and term receivables	(5,440)	(445)
– (Increase) in other assets	(510)	(1)
– (Increase)/Decrease in inventories	(2,037)	542
– Increase/(Decrease) in trade payables and accruals	1,412	(228)
– Increase/(Decrease) in income taxes payable	2,047	(1,081)
– (Decrease)/Increase in deferred revenue	(1,004)	1,297
– Increase in provisions	163	577
	<u>6,892</u>	<u>5,217</u>

NOTES TO THE FINANCIAL STATEMENTS

Note 24: Cash Flow Information (continued)

Reconciliation of liabilities arising from financing activities

	2017	Net cash flows	Non-cash changes				2018
			Acquisition	Foreign Exchange Movements	Fair value changes	Other changes	
Balances	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Lease liabilities	13,276	(2,806)	-	-	-	-	10,470
CBA facility	11,232	15,945	-	-	-	-	27,177
Premium funding	-	487	-	-	-	-	487
Total	24,508	13,626	-	-	-	-	38,134

	2016	Net cash flows	Non-cash changes				2017
			Acquisition	Foreign Exchange Movements	Fair value changes	Other changes	
Balances	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Lease liabilities	5,580	1,609	-	-	-	6,087	13,276
CBA facility	13,406	(2,174)	-	-	-	-	11,232
Premium funding	48	(48)	-	-	-	-	-
Related party loans	1,513	(1,513)	-	-	-	-	-
Total	20,547	(2,126)	-	-	-	6,087	24,508

Note 25: Share-based Payments

Recognised share-based payment transactions - Performance Rights

Zenith Energy Limited has issued performance rights to its Non-Executive Directors. These performance rights are issued under the company's incentive option and performance right plan and are issued as part of their appointment remuneration package. The performance rights have no performance milestones attached, however contain a 12-month service condition.

The terms and conditions of these performance rights affecting remuneration in the current or a future reporting year are table below.

KMP	Number issued	Grant date	Exercise price	Vesting date	Share price on grant date	Fair value per performance right	Total fair value (\$)
D Smith ²	42,000	30 Mar 2017	Nil	29 Mar 2018	\$0.50	\$0.50 ¹	21,000
D Smith	42,000 ³	30 Mar 2018	Nil	29 Mar 2019	\$0.80	\$0.80	33,600
S Unwin	42,000 ³	11 Sep 2017	Nil	10 Sep 2018	\$0.58	\$0.58	24,360

1. The fair value on grant date is by reference to the Company's initial public offering price ("IPO"), being \$0.50/share.
2. All rights are vested at 30 June 2018 and are yet to be issued into ordinary shares of the Company.
3. Subject to shareholder approval at the company's 2018 Annual General Meeting.

NOTES TO THE FINANCIAL STATEMENTS

Note 25: Share-based Payments (continued)

Recognised share-based payment transactions - Performance Rights (continued)

On vesting, each performance right automatically converts into one ordinary share of the Company. The rights vest on achievement of the attached service condition.

The total expense arising from share-based payment transactions recognised during the year in relation to the performance rights issued was \$35,079 (30 June 2017: \$5,408). This expense represents the total fair value of the rights issued apportioned over the vesting period. This amount has been included in Employee expenses in the statement of profit or loss.

Share based payment transaction – Long term incentives (“LTIs”)

During the year ended 30 June 2018 and 2017, key management personnel were eligible for Performance-based cash incentives bonuses based on the satisfaction of the predetermined performance criteria, as disclosed in the Remuneration report. Under Zenith Energy Limited's remuneration policy, key management personnel are eligible between 51% - 56% of their total fixed remuneration (TFR), dependant on their Executive role, for the LTI plan.

The LTI vesting period commences on the 1 July, following the year of eligibility and is subject to a three year service condition, which correlates to the recognition of the share based payment expense. The LTI will be settled in shares of the company over a three year vesting period.

For the year ended 30 June 2018, a LTI award pool of \$928,210 was calculated by Remuneration and Nomination Committee, as disclosed in the Remuneration report. No shares vested, or were issued in respect to the LTI during the year in accordance with the LTI plan, and accordingly no share based payment expense has been recognised in respect of the current year LTI plan.

For the year ended 30 June 2017, a LTI award pool of \$247,360 was calculated by management, as disclosed in the Remuneration report. At the Board's discretion, this pool was awarded and paid in cash rather than shares, and the associated three-year vesting condition (service condition for FY2018-FY2020) was waived and settlement terms adjusted during the year. The LTI award pool \$48,705, relating to Mr Gavin Great was forfeited as a result of his resignation of employment during the year. Due to this modification, a total expense of \$198,655 was recognised as an employee benefits expense for the year ended 30 June 2018.

Note 26: Financial Risk Management

The Group's principal financial instruments comprise cash and short-term deposits. In addition, the Group has trade receivables, trade payables and borrowings arising directly out of its operations. Risk oversight, management and internal control are dealt with on a continuous basis by management and the Board, with differing degrees of involvement depending upon the nature and materiality of the matter being dealt with.

The Board as a whole guides and monitors the business and affairs of Zenith Energy Limited. The Board has also constituted an Audit and Risk Management Committee, which oversees various aspects of the financial risks of the Group.

NOTES TO THE FINANCIAL STATEMENTS**Note 26: Financial Risk Management (continued)**

The totals for each category of financial instruments, measured in accordance with AASB 139: *Financial Instruments: Recognition and Measurement* as detailed in the accounting policies to these financial statements are as follows:

	2018	2017
	\$'000	\$'000
<i>Financial assets</i>		
Cash and cash equivalents	1,994	19,291
Trade and other receivables	9,221	3,781
Related party loan receivables	1,940	1,878
Maintenance reserve fund	550	-
	13,705	24,950
<i>Financial liabilities</i>		
Trade and other payables	7,674	3,393
Borrowings	38,134	24,508
	45,808	27,901

The carrying amounts of assets pledged as security against borrowings are reflected in note 12.

Specific Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are market risk consisting of interest rate risk and foreign currency risk, credit risk and liquidity risk. There have been no substantive changes in the types of risks the Group is exposed to, how these risks arise, or the Board's objectives, policies and processes for managing or measuring the risks from the previous period.

a) Market risk***Interest rate risk***

The Group's exposure to interest rate risk relates primarily to the assets and liabilities bearing variable interest rates. The Group does not engage in any hedging or derivative transactions to manage interest rate risk. Interest rate risk is managed using a mix of fixed and floating rate debt. At 30 June 2018, approximately 29% of Group debt is fixed rate (30 June 2017: 54%).

During 2017 and 2018, the Group's borrowings were denoted in Australian dollars.

The following table reflects the net debt position subject to variable interest rate risk, and sensitivities to the Group's exposures to changes in interest rates. The table indicates the impact of how profit and equity values reported at the end of the reporting period would have been affected by changes in the interest rate variable that management considers reasonably possible.

NOTES TO THE FINANCIAL STATEMENTS

Note 26: Financial Risk Management (continued)

a) Market risk (continued)

Interest rate risk (continued)

30 June 2018

	Weighted average interest rate	Carrying value \$'000	Profit (before tax) + 2% \$'000	Equity (before tax) + 2% \$'000	Profit (before tax) -2% \$'000	Equity (before tax) -2% \$'000
Financial assets						
Cash and cash equivalents	0.15%	1,994	40	-	(3)	-
Financial liabilities						
CBA facility	5.16%	(27,177)	(544)	-	544	-

30 June 2017

	Weighted average interest rate	Carrying value \$'000	Profit (before tax) + 2% \$'000	Equity (before tax) + 2% \$'000	Profit (before tax) -2% \$'000	Equity (before tax) -2% \$'000
Financial assets						
Cash and cash equivalents	0.15%	19,291	386	-	(29)	-
Financial liabilities						
CBA facility	4.11%	(11,232)	(225)	-	225	-

Foreign currency risk

The Group is not currently exposed to significant foreign exchange risk arising from the foreign currency risk exposure. Majority of the Group's transactions are denoted in Australian dollars.

b) Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group.

Credit risk is managed through the maintenance of procedures (such as the utilisation of systems for the approval, granting and renewal of credit limits, regular monitoring of exposures against such limits and monitoring of the financial stability of significant customers and counterparties), ensuring to the extent possible that customers and counterparties to transactions are of sound credit worthiness. Such monitoring is used in assessing receivables for impairment. Credit terms are generally 30 days from the invoice date.

The maximum exposure to credit risk at reporting date is the carrying amount of the financial assets summarised below.

Maximum credit risk

	2018 \$'000	2017 \$'000
Trade and other receivables	9,221	3,781
Allowance for impairment of receivables	-	-
Total trade and other receivables	9,221	3,781

NOTES TO THE FINANCIAL STATEMENTS**Note 26: Financial Risk Management (continued)****b) Credit risk (continued)**

A summary of the credit risk and trade and other receivables past due is tabled below.

	Gross Amount	Past Due and Impaired	Past Due But Not Impaired				Within Initial Trade Terms
			<30 days	31 – 60 days	61 – 90 days	+91 days	
2018	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade and other receivables	9,221	-	3,090	321	144	133	5,533
2017							
Trade and other receivables	3,781	-	-	-	-	-	3,781

The Group's credit risk on liquid funds is limited because the counterparties are with banks with a minimum credit rating of –AA, as assigned by reputable credit rating agencies. At reporting date, the Group's cash and cash equivalents were held with counterparties with credit ratings summarised below.

	2018 \$'000	2017 \$'000
Cash and cash equivalents		
-AA rated	1,994	19,291
	1,994	19,291

c) Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- preparing forward-looking cash flow analyses in relation to its operating, investing and financing activities;
- monitoring undrawn credit facilities;
- obtaining funding from a variety of sources;
- maintaining a reputable credit profile;
- managing credit risk related to financial assets;
- only investing surplus cash with major financial institutions; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

The table below reflects an undiscounted contractual maturity analysis for financial liabilities.

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward.

NOTES TO THE FINANCIAL STATEMENTS

Note 26: Financial Risk Management (continued)

c) Liquidity risk (continued)

	Within 1 year		1 - 5 years		Over 5 years		Total Carrying Value		Total Contractual Cash Flows	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
<i>Financial liabilities</i>	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade and other payables	7,674	3,393	-	-	-	-	7,674	3,393	7,674	3,393
CBA Facility	5,355	11,232	21,822	-	-	-	27,177	11,232	32,186	11,694
Premium funding	487	-	-	-	-	-	487	-	487	-
Lease liabilities	1,563	5,102	8,907	8,174	-	-	10,470	13,276	14,120	17,251
Total financial liabilities	15,079	19,727	30,729	8,174	-	-	45,808	27,901	54,467	32,338

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

Capital Management

Management controls the capital of the Group in order to maintain a sustainable debt to equity ratio, generate long-term shareholder value and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital include ordinary share capital and financial liabilities, supported by financial assets.

The Group is not subject to any externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, and in future could include distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year. This strategy is to ensure that the Group's gearing ratio moves towards a consolidated overall gearing of ~50% debt funding, in line with market expectations. This will fluctuate between 50-70% when the Group is in the construction phase of new projects. The gearing ratios for the years ended 30 June 2018 and 30 June 2017 are as follows:

	2018	2017
	\$'000	\$'000
Total borrowings	38,134	24,508
Less cash and cash equivalents	1,994	19,291
Net debt	36,140	5,217
Total equity	44,556	36,048
Total capital	80,696	41,265
Gearing ratio	44.8%	12.6%

NOTES TO THE FINANCIAL STATEMENTS**Note 27: Capital and Leasing Commitments****Capital expenditure commitments**

Significant capital expenditure contracted at the end of the reporting period but not recognised as liabilities is as follows:

	2018	2017
	\$'000	\$'000
Property, plant and equipment	-	-
Capital expenditure projects (Purchase orders raised but not received)	27,184	1,677
Total capital expenditure not recognised	27,184	1,677

Operating lease commitments

Non-cancellable operating lease rentals are payable

	2018	2017
	\$'000	\$'000
Less than one year	338	351
Between one and five years	178	498
Later than five years	-	-
Total operating lease rentals	516	849

The 24 Brennan Way (Perth) property lease is a non-cancellable lease with a 5 year (40 months remaining as at 30 June 2018) term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require that minimum lease payments shall be increased by 3% per annum. An option exists to renew the lease at the end of the five-year term for an additional term of five years. The 23 Brennan Way (Perth) property lease is a non-cancellable lease with a 2 year term ending (16 months remaining as at 30 June 18), with rent payable monthly in advance. Contingent rental provisions within the lease agreement require that minimum lease payments shall be increased by CPI factor. There are two 12 months renewal options for the lease at the end of the initial two-year term. The Fearnley St (Cairns) premises is currently on a periodic tenancy arrangement, and therefore 12 months has been reported.

Note 28: 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 (30 June 2017: \$nil). This guarantee expires on 1 March 2019 if not advised prior.

Other than as disclosed above as at 30 June 2018, the Group had no material contingent liabilities or contingent assets.

Note 29: Auditor's Remuneration

	2018	2017
	\$'000	\$'000
Remuneration of the auditor for:		
- Auditing or reviewing the financial report	107,358	116,970
- Non audit services	70,224	118,759
	177,582	235,729

NOTES TO THE FINANCIAL STATEMENTS**Note 30: Parent Entity Disclosures**

	2018	2017
	\$'000	\$'000
ASSETS		
Current assets	359	18,529
Non-current assets	20,708	5,100
TOTAL ASSETS	21,067	23,629
LIABILITIES		
Current liabilities	392	302
Non-current liabilities	11	253
TOTAL LIABILITIES	403	555
EQUITY		
Issued capital	25,989	25,989
Share based payment reserve	40	5
Retained earnings	(5,365)	(2,920)
TOTAL EQUITY	20,664	23,074
Statement of Profit or Loss and Other Comprehensive Income		
Total Loss	2,445	2,920
Total comprehensive loss	2,445	2,920

Commitments and contingent liabilities and assets

The parent entity has no contingent liabilities or assets and has not entered into any new contractual commitments to purchase property, plant or equipment at year-end (30 June 2017: \$nil).

Note 31: Events after the Reporting Period

Other than the following, the directors are not aware of any significant events since the end of the reporting period.

- 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.
- 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.
- 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 tenure).

Note 32: Company Details

The registered office of the company is:

Zenith Energy Limited
24 Brennan Way
Belmont WA 6104

The principal places of business are:

24 Brennan Way
Belmont WA 6104

80 Fearnley Street
Portsmith QLD 4870

NOTES TO THE FINANCIAL STATEMENTS

Directors' declaration

The directors of Zenith Energy Limited declare that, in their opinion:

1. the financial statements and notes, as set out on pages 24-64, are in accordance with the *Corporations Act 2001* and:
 - a. comply with Australian Accounting Standards, which, as stated in accounting policy note 2 to the financial statements, constitutes compliance with International Financial Reporting Standards; and
 - b. give a true and fair view of the financial position as at 30 June 2018 and of the performance for the year ended on that date of the consolidated Group;
2. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
3. the directors have been given the declarations required by s295A of the *Corporations Act 2001* from the Managing Director and Chief Financial Officer.
4. The remuneration disclosures set out in the Directors Report as part of the audited remuneration report comply with S300A of the *Corporations Act 2001* for the year ended 30 June 2018.



Mr William (Doug) Walker
Executive Chairman

Dated: 28 September 2018

Independent Auditors' Report



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INDEPENDENT AUDITOR'S REPORT

To the members of Zenith Energy Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Zenith Energy Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the Corporations Act 2001, including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Report section of our report. We are independent of the Group in accordance with the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Carrying value of property, plant and equipment

Key audit matter	How the matter was addressed in our audit
<p>The Group's principle activity is to build, own, operate and maintain remote power plants for entities in the resources industry.</p> <p>As disclosed in Note 12 of the financial report, the carrying value of property, plant and equipment represents a significant asset of the Group.</p> <p>The Group's policy for accounting for property, plant and equipment and significant judgements applied are disclosed in Notes 2 and 3 of the financial report.</p> <p>The determination of the useful life of property, plant and equipment requires significant judgement. As a result, we considered it necessary to assess whether any facts or circumstances exist to suggest that property, plant and equipment may be impaired and/or that the assessment on expected useful life is appropriate.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Reconciling property, plant and equipment balances at 30 June 2018 to supporting fixed asset registers; • Performing a review of depreciation calculations of assets within property, plant and equipment; • Obtaining management's assessment of useful life and evaluating this assessment against expected factors such as physical wear and tear and expected usage of the asset; • Assessing management's componentisation of property, plant and equipment undertaken during the year; • Reviewing and challenging management's assessment of whether any internal or external indicators of impairment existed as per AASB 136 Impairment of Assets; and • Assessing the adequacy of the related disclosures in Notes 2, 3 and 12 of the financial report.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 22 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Zenith Energy Limited, for the year ended 30 June 2018, complies with section 300A of the Corporations Act 2001.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO Audit (WA) Pty Ltd



Neil Smith

Director

Perth, 28 September 2018