

Zenith Energy Operations Update

Projects | Safety | Environment | Appointments | Reporting

Highlights

- **Total generation capacity of 423MW under control, 195MW of which is BOO**
- **Australia's first fully-integrated commercial hybrid diesel/solar PV facility**
- **1.5 million working hours LTI free, which equates to over nine years**
- **Recipient of Chevron Harry Butler Champion Award**
- **Appointment of Matthew Currie as Business Development Manager**
- **Details of change in Segment Reporting**

Remote power generation specialist Zenith Energy Limited (ASX: ZEN) (Zenith or The Company) is pleased to provide the following operations update outlining recent project news, safety and environment highlights, staff appointments and a change to the Company's segment reporting.

Managing Director, Hamish Moffat, commented on the progress made during 2018: "The Zenith leadership team takes great pride in what has been achieved this year. In a relatively subdued local mining and resources sector our ability to meet and, in many cases, exceed our operational and financial targets is testament to the effort and ability of the entire Zenith Energy team.

"Looking ahead, I am confident that the momentum we have generated this year can continue into 2019 and beyond."

Project News

Over the past 12 months Zenith has continued to capitalise on opportunities to deliver reliable, cost-effective solutions to remote locations. The Company currently has 12 contracts in place representing a total generation capacity in excess of 423MW under control, 195MW of which is under build, own, operate (BOO) agreements.

Independence Group – Nova Operation

On 23 October 2018 Zenith executed an amendment to the Power Purchase Agreement (PPA) with Independence Group NL (IGO) to incorporate a solar photovoltaic (solar PV) facility at the Nova Operation with a forecast 12.5GWh annual yield. This will be the first fully-integrated commercial hybrid diesel/solar PV facility in Australia.

ZENITH ENERGY LIMITED

PERTH | 24 Brennan Way, Belmont, WA, 6104 | **P** +61 (0) 8 9416 2000 | **F** +61 (0) 8 9477 1833

CAIRNS | 80 Fearnley Street, Cairns, Qld, 4870 | **P** + 61 (0) 7 4051 9533 | **F** +61 (0) 7 4051 9599

E info@zenithenergyltd.com

| **W** www.zenithenergyltd.com

| **ACN** 615 682 203

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Under the agreed amended terms, Zenith will build, own and operate (BOO) a hybrid diesel/solar PV power station of approximately 26MW installed capacity, comprising circa 6MW solar PV and 20MW diesel output.

Supply from the facility is expected to commence in the first quarter of FY2020 under a six-year term. The world-class Nova Operation is in the Fraser Range, Western Australia, producing nickel, copper and cobalt.

Newmont Mining Corporation – Tanami Operation

Zenith executed a PPA with Newmont Mining Corporation's wholly-owned subsidiary, Newmont Mining Services Pty Ltd, in February 2018 for its Tanami Gold Mine. Under the agreement Zenith will build, own and operate a 62MW gas/diesel power station comprising 52MW gas-fired and circa 10MW of diesel back-up generation capacity.

Only a couple months later in May 2018 three Wartsila 34DF generators were on the road to Tanami from Fremantle harbour, a 3,000km journey that required a convoy of three prime movers and escort vehicles. Each of the 150-tonne power generators in the multi-million-dollar project will produce 8.7MW, operating on either natural gas or diesel fuel, replacing the existing diesel-only system.

Supply from the facility is expected to commence in early 2019, under a 10-year term.



Dead Bullock Soak Power Station exhaust system under construction at Newmont Mining Corporation's Tanami Operation.

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Granites Power Station under construction at Newmont Mining Corporation's Tanami Operation.

Chevron Australia – WA Oil Operation (Barrow Island)

In August this year Zenith executed a power generation services contract to supply electricity and build, own, operate, maintain and upgrade equipment for a nameplate-rated 20MW power station at the WA Oil Operation on Barrow Island, Western Australia. Zenith has operated the power station since 2008 and the renewal of this service contract is testament to the quality of Zenith's ongoing partnership with Chevron Australia.

Provision of services commenced in the first quarter of FY2019 under a 10-year term. Upgrades to the existing Central Power Station include the installation of a 5MW dual fuel turbine, an upgrade of the existing 5MW gas-fired turbine and circa 10MW of reciprocating gas back-up power generation. Also included in the revised contract is ongoing maintenance to the overhead powerline and High-Voltage (HV) system.

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Dacian Gold – Mt Morgans Operation

In May 2018 Zenith successfully completed construction and commissioning of a 17MW gas-fired power station at Dacian Gold's Mt Morgans Operation under an eight-year BOO agreement.



Power Station at Dacian Gold's Mt Morgans Operation.

Gascoyne Resources – Dalgaranga Operation

Also completed in April 2018 was the construction and commissioning of a 15MW gas-fired power station at Gascoyne Resources' Dalgaranga Operation under a six-year BOO agreement.



Power Station at Gascoyne Resources' Dalgaranga Operation.

Both the Mt Morgans and Dalgaranga power station projects were completed without incident, on time and within budget. Zenith is continuously working to optimise the operation and delivery of efficient gas-fired power at both locations.

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Safety

Zenith maintained its excellent safety record this year. At 30 August 2018 the Company achieved 1.5 million working hours LTI (lost-time due to injury) free, which equates to more than nine years without any significant or lost-time injury.

The Company also introduced Near Miss Event Reporting during the year, a key safety initiative focussed on proactively identifying hazards, promoting safety events and behavioural observations at all of Zenith's operational sites. We have commenced tracking our teams' statistics and recognising meritorious actions by our people under this initiative.

Significantly, our workforce increased substantially during this period, growing from 73 upon listing on the ASX to 120 at June 30 and increasing again to 150 people by November 2018. Zenith has been able to successfully manage these transitions with no adverse impact and has continued to deliver excellent safety results.



Environment



In July 2018 Zenith received the prestigious Chevron Harry Butler Champion Award for finding practical solutions to prevent fauna casualties by implementing improvements to the physical power distribution network at Chevron's Barrow Island operation.

The Harry Butler Award recognises environmental excellence among groups and individuals. The award is judged on pillars including: environmental impact, innovation, interaction and engagement, sustainability and commitment.

Zenith also commenced the Nova hybrid diesel/solar PV generation project in 2018 to utilise the benefit of renewable power, providing Nova Operations with a hybrid system of power generation that will see them save up to 3,000,000 litres of diesel fuel consumption per year and deliver a corresponding reduction in exhaust gas emissions to the environment.

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Zenith developed its environmental management systems to align with the expectations of Chevron Australia. As this system is considered industry best practice, Zenith adapted the lessons learnt from providing reliable energy on Barrow Island to all power station operations throughout Australia.

The team continues to work closely with our clients to balance the load production within power station operations to maximise fuel efficiencies in both diesel and gas fuelled generation, thereby minimising exhaust emissions to the environment.

Appointments

Zenith recently appointed Matthew Currie as Business Development Manager. Matthew is a senior manager with more than 15 years' experience working in Australian and international energy and power generation businesses. He commenced the role on 23 October 2018 and has a national and international focus.

There has been a recruitment drive across the entire business. At 30 June the team numbered 120 people. By the end of September Zenith's headcount had grown to 150 including full time employees and fixed term contractors, specialising in project management and engineering for specific projects, including Tanami.

Segment Reporting

As communicated by the Company in previous disclosures, Zenith has revised its segment reporting methodology. The change in reporting methodology relates to the presentation of Zenith's segment results only and has no impact on Zenith's historical or future financial results.

Since its inception, when Zenith has executed a BOO contract for a third party, the Company has established a 100% owned Special Purpose Vehicle (SPV) to house the project. Up to and including December 2017, all revenue streams and contributions (including a portion of EPC and sales revenue) derived from a BOO site SPV were classified as BOO in Zenith's segmental reporting.

This approach was consistent with Zenith's historical practice and in accordance with accounting standards, as all of the revenues generated from a site relate to the SPV entity's operating activities.

However, to provide more meaningful and relevant information, the Company adjusted what it now includes as revenue and EBITDA in the BOO segment. This approach, also in accordance with accounting standards, was adopted in the full year financial report for the year ended 30 June 2018 and for future periods, and will essentially provide greater differentiation in the revenue and earnings contribution of pure BOO sources versus Manage, Operate, Maintain (MOM) and EPC.

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Zenith's 30 June 2018 reporting reflects BOO revenues comprising the capacity charge and variable charges generated from Zenith's owned power generation assets. In the case of the two ongoing hybrid BOO/MOM sites, Jundee and Plutonic, the contracted MOM revenue portion is also included as the MOM and BOO contracts, given they are inextricably linked.

Barrow Island is currently classified as a mixed business model (BOO/MOM) site, but will convert to a full BOO on completion of the upgrade mid-way through FY2020. Any additional works on hybrid sites has been classified as EPC and will be reported in the Zenith Pacific Pty Ltd/MOM segment.

At December 2018 Zenith will restate its December 2017 segment analysis to reflect the new reporting alignment.

Annual General Meeting

Zenith Energy will host its Annual General Meeting (AGM) at 1:00PM on Thursday, 29 November in the Gershwin Main Room at Hyatt Regency Perth (99 Adelaide Terrace).

Shareholders are encouraged to attend, and if unable, to vote on the resolutions outlined in the notice of meeting located here <https://bit.ly/2DpX3F4> by lodging their personalised proxy form received as part of the documentation distributed with the Notice of Meeting.

ENDS

Hamish Moffat
Managing Director
+61 8 9416 2000

Media
Citadel-MAGNUS
John Gardner / Henry Downing
+61 8 6160 4900

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