

Zenith Energy Limited
ACN: 615 682 203

APPENDIX 4E: PRELIMINARY FINAL REPORT

30 June 2019

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

Current Reporting Period: 30 June 2019

Previous Corresponding Period: 30 June 2018

For and on behalf of the Directors



REBECCA STRINGER-KREIN
COMPANY SECRETARY
Dated: 22 August 2019

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Revenue and Net Profit				AUD \$'000's
Revenue from ordinary activities	up	7%	to	55,037
Profit from ordinary activities after tax attributable to members	down	31%	to	5,814
Net profit for the year attributable to members	down	31%	to	5,814

COMMENTARY ON RESULTS AND OTHER SIGNIFICANT INFORMATION

Principal Activities

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

Significant Changes to Activities

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

Our Business Model

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. While Zenith also occasionally undertakes contracts for our clients on an Engineering, Procurement and Construction ("EPC") basis, the Company's focus is on continuing to build its BOO portfolio.

Operating Results

The consolidated profit of the consolidated group amounted to \$5.814 million after providing for income tax. This represented a 31% decrease on the NPAT results reported for the year ended 30 June 2018. The decrease was largely attributable to higher depreciation due to full year contributions from Mt Morgans and Dalgaranga in addition to higher finance charges from the FIIG note facility which completed in August 2018. The increases in depreciation charges and finance costs were partly offset by increased revenue and continuing scrutiny around operating costs resulting in a higher EBITDA (increase of 14% on FY2018). Further discussion on the Group's operations is provided below.

Review of Operations

For the whole of the 2018-2019 financial year, the following BOO contracts were operational:

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

The Tanami Power Station completed commissioning on 29 April 2019.

The following MOM contracts were operational for the whole of the 2018-2019 financial year:

- Barrow Island (Hybrid BOO/MOM until practical completion of the new power station in December 2019)
- Plutonic (Hybrid BOO/MOM)
- Ok Tedi
- Phosphate Hill (contract completed 17 August 2019)
- Jundee (Hybrid BOO/MOM)

Financial Position

The net assets of the consolidated group have increased from \$44.56 million at 30 June 2018 to \$72.39 million at 30 June 2019. This increase is largely due to the following factors:

- Continued profitable performance of the Group;
- Full year contribution from Mt Morgans and Dalgaranga Power Stations;
- Completion of the Tanami power station in Q4 FY19; and

- Placement of \$25m (before costs) which was completed on 27 June 2019.

The Consolidated Group's financial position has been strengthened during the year, which has enabled the Group to increase its power generating assets by \$72.31 Million (increase of 95% on FY2018). The Company will continue to strengthen its balance sheet in order to sustain growth in generating assets and to maintain sufficient working capital with the application of its capital management policy.

Rounding

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

Significant Changes in State of Affairs

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

Changes in controlled entities:

There were no significant changes in the controlled entities during the financial year.

Events after the Reporting Period

- On 19 July 2019, Zenith Energy Limited advised the ASX it had completed its 6MW BOO Power Plant Expansion at Northern Star Resources' Jundee Gold Mine. This uplifted increased the existing 19.2MW BOO capacity at Jundee to 25.2MW.
- On 26 July 2019, Zenith Energy Limited advised the ASX that it issued a total of 3,275,240 fully paid ordinary shares to Zenith Energy Limited Directors and Management at \$0.58 per Share, to raise \$1,899,639 (before costs) as part of Zenith Energy Limited's recent Placement. This issue was approved at the General Meeting held 25 June 2019.
- On 26 July 2019, 42,000 performance rights previously awarded to former non-executive director Mr Darren Smith, converted to fully paid ordinary shares.
- On 29 July 2019, Zenith Energy Limited advised the ASX that the term of its Manage Operate and Maintain contract with Incitec Pivot's Phosphate Hill Project, is scheduled to come to completion on 17 August 2019.
- On 2 August 2019, Zenith Energy Limited advised the ASX that it issued a total of 8,241,381 fully paid ordinary shares under the SPP Shortfall Placement to sophisticated and professional investors at \$0.58 per Share, to raise \$4,780,001 (before costs).

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

Outlook

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

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

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

- i. Completion of the Kirkalocka power station in Western Australia, with revenues commencing in Q1 FY20; and
- ii. Completion of construction of the contracted hybrid Diesel/Solar plant at the Nova Nickel Mine.

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

Dividends

No dividends were declared or paid during the financial year ended 30 June 2019. The directors have not yet determined the payment of a dividend in respect to the year ended 30 June 2019.

NET TANGIBLE ASSET BACKING

	30 June 2019	30 June 2018
	\$'000	\$'000
Net assets	72,386	44,556
Less intangible assets	13	11
Net tangible assets of the Company	72,373	44,545
Fully paid ordinary shares on issue at balance date	137,826,965	98,000,000
Net tangible asset backing per issued ordinary share as at balance date	\$0.53	\$0.45

EARNINGS PER SHARE

Basic earnings per share (Cents)	5.80	8.65
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AUDIT DETAILS

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

Statement of Profit or Loss and Other Comprehensive Income

	Note	2019 \$'000	2018 \$'000
Revenue from contracts with customers	3	55,037	51,429
Other income	3	160	384
Total Income		55,197	51,813
Cost of sales		23,715	22,882
Employee expenses		5,671	7,255
Insurance expenses		977	830
Occupancy expenses		562	566
Foreign exchange losses		278	104
Other expenses		3,268	1,960
Total Expenses		34,471	33,597
		20,726	18,216
Finance costs		3,950	2,153
Depreciation and amortisation expense		7,208	3,808
Loss on disposal of assets		924	42
Profit for the year before income tax		8,644	12,213
Income tax expense		2,830	3,740
Profit for the year after income tax		5,814	8,473
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		5,814	8,473

This statement should be read in conjunction with the accompanying notes

Statement of Financial Position

	Note	2019 \$'000	2018 \$'000
Assets			
Current assets			
Cash and cash equivalents	4	7,293	1,994
Trade and other receivables	5	8,363	11,161
Inventories	7	6,962	2,686
Current tax asset		991	755
Contract assets		1,610	-
Other assets	6	1,078	1,128
Total current assets		26,297	17,724
Non-current assets			
Property, plant and equipment	8	148,146	75,944
Deferred tax assets		129	836
Intangible assets		13	11
Other receivables	5	1,928	-
Other assets	6	2,882	1,903
Total non-current assets		153,098	78,694
Total assets		179,395	96,418
Liabilities			
Current liabilities			
Trade and other payables	9	6,339	7,674
Borrowings	11	20,626	7,405
Current tax liabilities		-	1,578
Contract liability	10	805	812
Provisions	12	1,560	1,398
Total current liabilities		29,330	18,867

This statement should be read in conjunction with the accompanying notes

Statement of Financial Position

		2019	2018
	Note	\$'000	\$'000
Non-current liabilities			
Borrowings	11	75,420	30,729
Contract liability	10	1,971	2,105
Provisions	12	288	161
Total non-current liabilities		77,679	32,995
Total liabilities		107,009	51,862
Net assets		72,386	44,556
Equity			
Share capital	13	48,434	26,109
Share based payment reserve		97	40
Retained earnings		23,855	18,407
Total equity		72,386	44,556

This statement should be read in conjunction with the accompanying notes

Statement of Cash Flows

	2019	2018
	\$'000	\$'000
Cash Flows from Operating Activities		
Receipts from customers	59,616	52,381
Payments to suppliers and employees	(41,156)	(41,656)
Interest received	73	14
Borrowing costs	(2,658)	(2,153)
Income taxes paid	(3,605)	(1,694)
Net cash provided by operating activities	12,270	6,892
Cash Flows from Investing Activities		
Payments for property, plant and equipment	(86,732)	(37,824)
Proceeds from sale of property, plant and equipment	-	9
Net cash used in investing activities	(86,732)	(37,815)
Cash Flows from Financing Activities		
Proceeds from issue of shares	21,994	-
Borrowing costs	(1,454)	-
Proceeds from borrowings	77,728	19,445
Repayment of borrowings	(18,507)	(5,819)
Net cash provided by financing activities	79,761	13,626
Net (decrease)/increase in cash held	5,299	(17,297)
Cash and cash equivalents at beginning of financial year	1,994	19,291
Cash and cash equivalents at end of financial year	7,293	1,994

This statement should be read in conjunction with the accompanying notes

Statement of Changes in Equity

	Share capital	Retained earnings	Share based payment reserve	Total equity
	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 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, recorded directly in equity				
Share based payment expense	-	-	35	35
Total transactions with owners	-	-	35	35
Balance as at 30 June 2018	26,109	18,407	40	44,556
Balance at 1 July 2018 as originally presented	26,109	18,407	40	44,556
Change in accounting policy	-	(366)	-	(366)
Restated balance at 1 July 2018	26,109	18,041	40	44,190
Total comprehensive income for the period				
Profit for the year	-	5,814	-	5,814
Total comprehensive income for the year	-	5,814	-	5,814
Transactions with owners, recorded directly in equity				
Contribution of equity, net of transaction costs and tax	22,325	-	-	22,325
Share based payment expense	-	-	57	57
Total transactions with owners	-	-	57	22,382
Balance as at 30 June 2019	48,434	23,855	97	72,386

This statement should be read in conjunction with the accompanying notes

Notes to the Financial Statements

1. Basis of Preparation

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

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

Statement of compliance

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

(a) Change in accounting policy - AASB 15

The Group has adopted AASB 15 with a date of initial application of 1 July 2018. The Group has applied AASB 15 using the cumulative effect method and therefore the comparative information has not been restated and continues to be reported under AASB 118 Revenue. As a result of adoption of AASB 15, the Group has changed its accounting policy for revenue recognition as detailed below:

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control over a product or service to a customer.

Impact of the adoption of AASB 15

The Group's revenue consists mainly of revenues from sale of electricity supply and sale of constructed goods. The Group undertook a detailed review of its revenue contracts on transition date and the impacts on the opening Retained Earnings balance is tabled below.

	As originally presented 1 July 2018	AASB 15	Reported balance 1 July 2018
	\$'000	\$'000	\$'000
Assets			
Deferred tax assets	836	(157)	679
Liabilities			
Contract Liability	2,917	523	3,440
Equity			
Retained Earnings	18,407	(366)	18,041

(b) Change in accounting policy - AASB 9

The Group has adopted AASB 9 with a date of initial application of 1 July 2018 and has elected not to restate its comparatives.

Impact of the adoption of AASB 9

The Group has determined that the application of AASB 9's requirements at transition 1 July 2018 did not result in a material adjustment.

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

There were no significant changes in the controlled entities during the financial year.

3. Revenue from contracts with customers

	2019 \$'000	2018 \$'000
Revenue from contracts with customers		
Revenue:		
– BOO revenue	38,079	25,134
– MOM/EPC revenue	16,958	26,295
	55,037	51,429
Other income:		
– Other revenue	160	384
	160	384
Total revenue	55,197	51,813

4. Cash and Cash Equivalents

	2019	2018
	\$'000	\$'000
Cash at bank and on hand	7,293	1,994
	7,293	1,994

5. Trade and Other Receivables

	2019	2018
	\$'000	\$'000
CURRENT		
Trade and other receivables	8,626	9,221
Loss allowance	(263)	-
	8,363	9,221
Related party receivables	-	1,940
Loss allowance	-	-
	-	1,940
	8,363	11,161
NON-CURRENT		
Related party receivables **	1,928	-
	10,291	11,161

** Loan Receivable is secured over shares held by KMP.

6. Other Assets

	2019	2018
	\$'000	\$'000
CURRENT		
Pre-paid expenses & insurance	752	783
Deferred establishment costs	326	345
	1,078	1,128

6. Other Assets (continued)

	2019 \$'000	2018 \$'000
NON-CURRENT		
Deferred establishment costs	1,682	1,353
Maintenance reserve fund **	1,200	550
	2,882	1,903

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

7. Inventories

	2019 \$'000	2018 \$'000
CURRENT		
At cost:		
Work in progress	1,126	1,709
Finished goods	5,836	977
	6,962	2,686
Total inventories	6,962	2,686

8. Property, Plant and Equipment

	2019 \$'000	2018 \$'000
Plant and Equipment		
At cost	2,303	2,379
Accumulated depreciation	(1,305)	(1,273)
	998	1,106
Power Generation Assets		
At cost	130,863	66,998
Accumulated depreciation	(15,016)	(9,040)
	115,847	57,958
Capital Work in Progress		
At cost	31,300	16,880
Total Property, Plant and Equipment	148,146	75,944

a. Movements in Carrying Amounts

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

	Plant and Equipment \$'000	Power Generation Assets \$'000	Capital Works in Progress \$'000	Total \$'000
Group				
Balance at 1 July 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
Additions	356	86	79,898	80,340
Disposals	(283)	(322)	(326)	(931)
Transfers	-	65,152	(65,152)	-
Depreciation expense	(181)	(7,027)	-	(7,208)
Balance at 30 June 2019	998	115,847	31,300	148,146

9. Trade and Other Payables

	2019 \$'000	2018 \$'000
CURRENT		
Unsecured liabilities:		
Trade payables	1,697	4,619
Sundry payables	747	356
Accrued expenses and wages	3,895	2,699
	6,339	7,674

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

10. Other Liabilities

	2019 \$'000	2018 \$'000
CURRENT		
Contract liability	805	812
NON-CURRENT		
Contract liability	1,971	2,105
	2,776	2,917

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

11. Borrowings

	2019 \$'000	2018 \$'000
CURRENT		
<i>Secured borrowings:</i>		
Hire purchase finance	1,559	1,563
CBA facility	14,246	5,355
FIIG Fixed Rate Bonds	4,589	-
<i>Unsecured borrowings:</i>		
Premium funding	232	487
Total current borrowings	20,626	7,405
NON-CURRENT		
<i>Secured borrowings</i>		
Hire purchase finance	7,415	8,907
CBA facility	35,080	21,822
FIIG Fixed Rate Bonds	32,925	-
Total non-current borrowings	75,420	30,729

12. Provisions

	2019 \$'000	2018 \$'000
CURRENT		
Employee provisions	1,560	1,398
NON-CURRENT		
Employee provisions	288	161
Total provision for employee benefits	1,848	1,559

13. Equity

	2019 Shares '000	2018 Shares '000	2019 \$'000	2018 \$'000
Ordinary shares	137,827	98,000	48,434	26,109
Total share capital	137,827	98,000	48,434	26,109

Details	Number of shares '000	Total \$'000
Opening balance on 1 July 2016	85	120
Share issued under prospectus	50,000	25,000
Shares issued on share split 1:480	40,715	-
Shares issued – Directors/Key Management Personnel	7,200	2,099
Less: Transaction costs arising on shares issues	-	(1,586)
Deferred tax credit recognised directly in equity	-	476
Closing Balance 30 June 2017	98,000	26,109
Shares Issued	-	-
Closing Balance 30 June 2018	98,000	26,109
Shares Issued	39,827	23,100
Less: Transaction costs arising on shares issues	-	(1,106)
Deferred tax credit recognised directly in equity	-	332
Closing Balance 30 June 2019	137,827	48,434

(i) Ordinary shares

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

At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called; otherwise each

shareholder has one vote on a show of hands.

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

a. Basic earnings per share

	2019 cents	2018 Cents
From continuing operation attributable to the ordinary equity holders of the company	5.80	8.65
Total basic earnings per share attributable to the ordinary equity holders of the company	5.80	8.65

b. Diluted earnings per share

	2019 Cents	2018 Cents
From continuing operation attributable to the ordinary equity holders of the company	5.79	8.64
Total basic earnings per share attributable to the ordinary equity holders of the company	5.79	8.64

c. Reconciliations of earnings used in calculating earnings per share

	2019 \$'000	2018 \$'000
<i>Basic earnings per share</i>		
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share:		
- from continuing operations	5,814	8,473
	5,814	8,473
<i>Diluted earnings per share</i>		
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share:		
- used in calculating basic earnings per share	5,814	8,473
Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	5,814	8,473

d. Weighted average number of shares used as the denominator

	2019 Number	2018 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	100,300,770	98,000,000
Adjustments for calculation of diluted earnings per share:		
- performance rights	126,000	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	100,426,770	98,000,000

14. Contingent Liabilities and Contingent Assets

On 5 June 2019, Gascoyne Resources Limited ("GCY") advised the ASX that it had entered voluntary administration. Zenith Energy Limited provides energy to GCY at its Dalgarranga mine site under a PPA and recognises power station assets in relation to the PPA as at 30 June 2019.

Further to this, on 25 June 2019, Zenith Energy Limited advised ASX that the company had received purchase orders from the administrators, FTI Consulting for the period 1 July 2019 to 30 September 2019.

Subsequent to 30 September 2019, Zenith has a range of rights and options under the PPA. As at the date of this report, the Directors were not in a position to determine the likely outcome in relation to the available options under the PPA, and therefore it is not practical to estimate any reasonably expected costs which may be incurred at a future point in time.

In addition, Zenith Energy Limited has provided a loss allowance of \$263,000 against trade receivables from GCY as at 30 June 2019. A determination on any distribution will be made in the future.

15. Events after the Reporting Period

- i. On 19 July 2019, Zenith Energy Limited advised the ASX it had completed its 6MW BOO Power Plant Expansion at Northern Star Resources' Jundee Gold Mine. This uplifted increased the existing 19.2MW BOO capacity at Jundee to 25.2MW.
- ii. On 26 July 2019, Zenith Energy Limited advised the ASX that it issued a total of 3,275,240 fully paid ordinary shares to Zenith Energy Limited Directors and Management at \$0.58 per Share, to raise \$1,899,639 (before costs) as part of Zenith Energy Limited's recent Placement. This issue was approved at the General Meeting held 25 June 2019.
- iii. On 26 July 2019, 42,000 performance rights previously awarded to former non-executive director Mr Darren Smith, converted to fully paid ordinary shares.
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- v. On 2 August 2019, Zenith Energy Limited advised the ASX that it issued a total of 8,241,381 fully paid ordinary shares under the SPP Shortfall Placement to sophisticated and professional investors at \$0.58 per Share, to raise \$4,780,001 (before costs).

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.