



ASX Announcement

29 August 2014

PRELIMINARY FINAL REPORT

SubZero Group Limited (ASX: SZG) submits its Appendix 4E preliminary financial report for the year ended 30 June 2014.

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About SubZero Group Limited

The SubZero Group carries on an established mining service business based in the Hunter Valley, New South Wales. Its clients are almost exclusively involved in the Hunter Valley thermal coal mining industry. SubZero Group's services include Mechanical Support (on and off-site mining machinery support), Structural Support (on and off-site engineering support) and Production Support (mining production support). SubZero has a presence in over 25 coal mines and over 90 clients including Rio Tinto, BHP Billiton and Xstrata. Further information can be found at the SubZero website: <http://subzeroservices.com.au/>

SubZero Group Limited

ASX Preliminary final report – 30/06/2014

Lodged with the ASX under Listing Rule 4.3A

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SubZero Group Limited
Year ended 30 June 2014
(Previous corresponding period:
Year ended 30 June 2013)

Results for Announcement to the Market

				\$'000
Revenue from ordinary activities	down	24.9%	to	63,786
Profit/(loss) from ordinary activities after tax attributable to members	down	114.4%	to	(12,998)
Net profit/(loss) for the period attributable to members	down	114.4%	to	(12,998)

Commentary on the results

SubZero Group Limited's (SZG) statutory net loss after tax attributable to members for the year ended 30 June 2014 (FY14) was \$12.998 million, underlying net loss after tax was \$10.054 million as per the attached reconciliation. Underlying earnings before interest, tax, depreciation and amortization (EBITDA) was a loss of \$3.935 million.

The underlying sales and profit results in FY14 continued to be negatively impacted by the general downturn in the mining sector resulting in continued delays in scheduled maintenance work from customers which has led to underutilization of SZG people and plant.

In addition the following factors have impacted the FY14 results;

- a) Write downs in work in progress and other capitalized expenses
- b) Impairment of goodwill and other intangibles
- c) Non recurring costs relating to prior years

Gross debt at 30 June 2014 was \$23.824 million, an increase of \$7.239 million from 30 June 2013. The debt is represented by loans of \$16.000 million and finance leases of \$7.824 million for equipment. As at 30 June 2014, the Group had breached its debt covenants with respect to its major banking facilities. Subsequent to 30 June 2014, the Group's financiers waived compliance with the June 2014 covenants within the testing period and agreed to new covenants for FY15.

On the 28th August 2014 SZG notified the ASX that the Company has continued to experience disappointing operating results and cashflow due to weak trading conditions as a number of the Company's customers have delayed and continue to delay scheduled maintenance work. In these circumstances the Board has initiated an internal review of the Company's business operations, in particular cost savings to offset anticipated revenue weakness.

SubZero Group Limited

Preliminary consolidated statement of comprehensive income

For the year ended 30 June 2014

	2014 \$'000	2013 \$'000
Revenue from continuing operations	63,786	84,903
Cost of sales	<u>(49,162)</u>	<u>(55,463)</u>
Gross profit	<u>14,624</u>	<u>29,439</u>
Other income	1,340	593
General and administration expenses	(5,766)	(3,712)
Vehicle and equipment costs	(2,365)	(5,144)
Depreciation and amortisation	(5,444)	(4,230)
Finance costs	(2,274)	(2,253)
Employee benefits expense	(9,834)	(14,879)
Rental expense	(3,064)	(1,957)
Costs of listing	-	(3,468)
Other expenses	(93)	-
Profit/(loss) before income tax	<u>(12,876)</u>	<u>(5,611)</u>
Income tax (expense)/benefit	(69)	(453)
Profit/(loss) for the year	<u>(12,945)</u>	<u>(6,064)</u>
Profit/(loss) is attributable to:		
Owners of SubZero Group	(12,998)	(6,064)
Non-controlling interests	53	-
	<u>(12,945)</u>	<u>(6,064)</u>
Other comprehensive income		
Other comprehensive income for	-	-
Total comprehensive income	<u>(12,945)</u>	<u>(6,064)</u>
Total comprehensive income for the year is attributable to:		
Owners of SubZero Group	(12,998)	(6,064)
Non-controlling interests	53	-
	<u>(12,945)</u>	<u>(6,064)</u>
	Cents	Cents
Earnings per share for profit		
Basic earnings per ordinary	<u>(6.0)</u>	<u>(3.9)</u>
Diluted earnings per ordinary	<u>(6.0)</u>	<u>(3.9)</u>

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

SubZero Group Limited
Preliminary consolidated statement of financial position
As at 30 June 2014

	2014 \$'000	2013 \$'000
Current assets		
Cash and cash equivalents	782	125
Trade and other receivables	12,927	14,961
Inventories	4,402	2,601
Total current assets	<u>18,111</u>	<u>17,687</u>
Non-current assets		
Property, plant and equipment	14,865	17,431
Deferred tax assets	198	166
Financial assets	188	300
Intangible assets	542	1,391
Total non-current assets	<u>15,793</u>	<u>19,288</u>
Total assets	<u>33,904</u>	<u>36,975</u>
Current liabilities		
Trade and other payables	14,672	18,012
Borrowings	17,865	9,297
Current tax liabilities	234	424
Provisions	29	44
Total current liabilities	<u>32,800</u>	<u>27,777</u>
Non-current liabilities		
Borrowings	4,102	7,511
Provisions	390	227
Total non-current liabilities	<u>4,492</u>	<u>7,739</u>
Total liabilities	<u>37,292</u>	<u>35,515</u>
Net assets	<u>(3,388)</u>	<u>1,460</u>
Equity		
Share capital	18,383	10,286
Reserves	(502)	(502)
Retained earnings	(21,322)	(8,324)
Capital and reserves attributable	<u>(3,441)</u>	<u>1,460</u>
Non-controlling interests	53	-
Total equity	<u>(3,388)</u>	<u>1,460</u>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

SubZero Group Limited
Preliminary consolidated statement of cash flows
For the year ended 30 June 2014

	2014 \$'000	2013 \$'000
Cash flows from operating activities		
Receipts from customers	70,744	94,906
Payments to suppliers and employees (inclusive of goods and services tax)	(79,451)	(87,932)
Other revenue	1,251	531
Interest paid	(2,274)	(2,416)
Income taxes paid	-	-
Net cash (outflow) inflow from operating activities	<u>(9,730)</u>	<u>5,089</u>
Cash flows from investing activities		
Payment for non-controlling interest	-	(659)
Payment for intangibles	(602)	(558)
Payment for property, plant and equipment	(1,954)	(3,186)
Proceeds from held-to-maturity investments	112	-
Proceeds from sale of property, plant and equipment	49	64
Net cash (outflow) inflow from investing activities	<u>(2,395)</u>	<u>(4,339)</u>
Cash flows from financing activities		
Proceeds from capital raising, net of transaction costs	8,097	6,262
Repayment of borrowings	(12,101)	(7,507)
Proceeds from borrowings	16,786	300
Net cash (outflow) inflow from financing activities	<u>12,782</u>	<u>(945)</u>
Net increase (decrease) in cash and cash equivalents	657	(195)
Cash and cash equivalents at the beginning of the year	<u>125</u>	<u>320</u>
Cash and cash equivalents at the end of the year	<u>782</u>	<u>125</u>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

SubZero Group Limited
Preliminary consolidated statement of changes in equity
For the year ended 30 June 2014

	Attributable to owners of SubZero Group Limited				Non-controlling interest	Total equity
	Contributed Equity	Reserves	Retained earnings	Total		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Total equity at the beginning of the financial year 30 June 2013	10,286	(502)	(8,324)	1,460	-	1,460
Profit for the year	-	-	(12,998)	(12,998)	53	(12,945)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the year	-	-	(12,998)	(12,998)	53	(12,945)
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs and tax	8,097	-	-	8,097	-	8,097
Transactions with non-controlling interests	-	-	-	-	-	-
Balance at 30 June 2014	18,383	(502)	(21,322)	(3,441)	53	(3,388)

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

SubZero Group Limited
Notes to the preliminary consolidated financial statements
For the year ended 30 June 2014

Note 1 Segment information

The SubZero Group operates in a single segment, Mining Services, in Australia. The various products and services all relate to the same economic characteristics and are sold to a common set of customers. Based on the operation of a single segment and geography separate segment numbers have not been provided as the financial statements represent the one segment.

Note 2 Profit from ordinary activities

	2014	2013
	\$'000	\$'000
Revenue from continuing operations		
Sales revenue	63,786	84,903
Other	1,340	593
	<u>65,126</u>	<u>85,496</u>
Expenses		
Profit before income tax includes the following specific expenses:		
Depreciation		
Motor vehicles	1,082	1,322
Plant & equipment	2,752	2,667
Leasehold improvements	17	8
Office furniture & equipment	103	159
Low value asset pool	51	55
Total depreciation	<u>4,005</u>	<u>4,212</u>
Amortisation		
Intangibles assets	6	1
Borrowing costs	11	17
Total amortisation	<u>17</u>	<u>18</u>
Impairment		
Impairment of goodwill	833	-
Impairment of research and development	589	-
Total impairment	<u>1,422</u>	<u>-</u>

Note 3 Events occurring after the balance sheet date

As at 30 June 2014, the Group had breached its debt covenants with respect to its major banking facilities. Subsequent to 30 June 2014, the Group's financiers waived compliance with the Interest Cover Ratio and Net leverage Ratio.

As a result of the amendment not being in place at 30 June 2014, the Group has classified \$16 million of borrowings as current liabilities on the balance sheet notwithstanding that at the date of this report they are not due to be repaid within twelve months.

SubZero Group Limited
Notes to the preliminary consolidated financial statements
For the year ended 30 June 2014

Note 4 Reconciliation of profit from ordinary activities after income tax to net cash flow from operating activities

	2014 \$'000	2013 \$'000
Profit for the year	(12,945)	(6,064)
Cost of listing	-	3,468
Depreciation and amortisation	5,444	4,207
Bad Debts Expense	199	21
Net (gain) loss on sale of non-current assets	185	7
(Increase) / decrease in trade debtors	1,923	1,513
(Increase) / decrease in inventories	(1,382)	(1,292)
(Increase) / decrease in deferred tax assets	32	224
Increase / (decrease) in trade creditors	(3,203)	2,660
Increase / (decrease) in provision for income taxes payable	(21)	229
Increase / (decrease) in other provisions	39	116
Net cash inflow from operating activities	<u>(9,730)</u>	<u>5,089</u>

Note 5 Contributed equity

	2014 Shares	2013 Shares	2014 \$'000	2013 \$'000
(a) Share capital				
Share Capital				
Fully paid	252,915,402	165,900,455	<u>18,383</u>	<u>10,286</u>
			<u>18,383</u>	<u>10,286</u>

(b) Movements in ordinary share capital:

Date	Details	Number of shares	\$'000
1 July 2013	Opening Balance	165,900,455	10,286
11 November 2013	Issue of Shares	24,195,000	2,420
6 December 2013	Capital raising (net of transaction costs)	62,819,947	5,677
30 June 2014	Balance	<u>252,915,402</u>	<u>18,383</u>

SubZero Group Limited
Notes to the preliminary consolidated financial statements
For the year ended 30 June 2014

Note 6 Reconciliation of income tax expense

	2014 \$'000	2013 \$'000
(a) Income tax expense		
Current tax	101	229
Deferred tax	(32)	224
	<u>69</u>	<u>453</u>
 Income tax expense is attributable to:		
Profit from continuing operations	69	453
Aggregate income tax expense	<u>69</u>	<u>453</u>
 Deferred income tax (revenue) expense included in income tax expense comprises:		
Decrease (increase) in deferred tax assets	(347)	(86)
(Decrease) increase in deferred tax liabilities	315	310
	<u>(32)</u>	<u>224</u>
 (b) Numerical reconciliation of		
Profit from continuing operations before income tax expense	<u>(12,876)</u>	<u>(5,611)</u>
 Tax at the Australian tax rate of 30% (2013: 30%)	(3,863)	(1,683)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Listing costs	-	1,040
Trust distribution taxable within the group	-	15
Entertainment	5	16
Fines	8	2
Research and development rebate	-	(54)
Legal Fees	212	235
Distribution	-	93
	<u>(3,638)</u>	<u>(336)</u>
Recognition of deferred tax balances previously not recognised	(1)	(42)
Current year revenue losses not recognised as DTA	3,569	831
Income tax expense	<u>(70)</u>	<u>453</u>

SubZero Group Limited

Supplementary Appendix 4E information

Audit

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

The Audit report will be made available with the Company's financial report as part of the Company's Annual Report which is still being completed and will be released before the end of September 2014.

Other significant information

Reconciliation of Underlying Profit to Statutory Profit

	EBITDA	Net Profit/(loss) After Tax
Statutory financial statements		
Net loss after tax	(12,945)	(12,945)
Tax expense	69	
Finance costs	2,274	
Depreciation and amortisation	5,444	
Statutory EBITDA	(5,159)	
Inventory write-off	160	160
Redundancies	94	94
Impairment costs	-	1,422
Non-recurring expenses	970	1,215
Underlying profit	(3,935)	(10,054)

Net Tangible Asset Backing

	2014	2013
Net Tangible Assets per Security	-1.56 cents p/s	0.04 cents p/s

Controlled Entities acquired

	Milford Hills Pty Ltd
Date control gained	30 April 2014
Contribution to profit / (loss) from ordinary activities after tax in current period	\$ 158,473