

SubZero Group Limited

ASX Preliminary final report – 30 June 2015

Lodged with the ASX under Listing Rule 4.3A

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SubZero Group Limited
Year ended 30 June 2015
(Previous corresponding period:
Year ended 30 June 2014)

Results for Announcement to the Market

				\$'000
Revenue from ordinary activities	down	10.9%	to	56,849
Profit/(loss) from ordinary activities after tax attributable to members	down	126.2%	to	(29,398)
Net profit/(loss) for the period attributable to members	down	126.2%	to	(29,398)

Commentary on the results

SubZero Group Limited's (SZG) statutory net loss after tax attributable to members for the year ended 30 June 2015 (FY15) was \$29.398 million. The underlying net loss after tax, which excludes one off items, was \$15.282 million as detailed in the Reconciliation of Underlying Profit to Statutory Profit on page 11. Underlying earnings before interest, tax, depreciation and amortisation (EBITDA) for the year was a loss of \$7.902 million, a deterioration of \$1.244 million in the second half due mainly to January and February from low revenue and cost savings not realised. A positive EBITDA was achieved for the fourth quarter.

The transformation and improvement of the business has seen positive EBITDA results over the past three months and the outlook has considerably improved. However, there still remains significant doubt on the ability of the Group to continue as a going concern given the substantial negative net assets. Negotiations are at an advanced stage between the Company, its financiers, prospective investors and major creditors, to restructure and recapitalise the balance sheet and place the Group on a firm financial footing for the future. The directors have prepared the financial information in this report on a going concern basis on the basis that the current negotiations for restructure and recapitalisation of the balance sheet will be finalised in the immediate future. If the restructure and recapitalisation is not finalised in the immediate future the going concern assumption will no longer be considered to be appropriate and the Assets and Liabilities would have to be valued on a liquidation basis and reclassified as current.

Details of the one off items totalling \$14.244 million that impacted the FY15 results are set out on page 11. They include:

- a) impairment of property, plant & equipment
- b) redundancies and restructuring costs
- c) inventory obsolescence
- d) impairment of related party indemnity
- e) non recurring costs relating to prior years.

The Board has made significant changes during the year to improve the performance of the Company. These changes commenced in October 2014 with the Board initiating a \$15 million cost out program. A new CEO was appointed in November 2014 to complete the cost out program implementation and strengthen management. In December 2014, Vantage Performance were engaged to carry out an independent review of the business. In January 2015 the Vantage Performance review determined the Company was viable subject to the successful implementation of a Turnaround Plan which was developed with the assistance of Vantage Performance. Since then Vantage Performance have worked closely with management to assist with implementing the plan. The Company's major secured creditor confirmed their support and provided additional working capital of \$1.5m

Results for Announcement to the Market (cont.)

The CEO strengthened the management team through a number of changes including the appointment of a new:

- CFO
- GM Mining
- Safety Manager
- Financial Controller
- Commercial Manager
- HR Manager

\$11.5 M of annualised cost savings were achieved in the first nine months to 30 June, with a further \$3.5m of savings identified to be executed in FY16. Achieved cost savings included:

- Restructuring the workforce from over 500 FTEs to approximately 350 FTEs.
- Increased casualisation of the workforce from 35% to 51%.
- Consolidation of premises from 10 to 5.
- \$2.1m in sales of surplus assets.

In addition to the above, significant and continued support of our customers has been received as demonstrated by the winning of two significant contracts:

- The \$10m Rehabilitation contract at Glenore's Bulga Open Cut to be carried out over 3 years.
- BHP Billiton's Mt Arthur Coal appointment of the Company to be one of 4 service providers to share in \$20m pa maintenance and fabrication work for 3 years.

Monthly Revenue grew through the second half of FY15 from \$3.5m in January to a peak of \$5.0m which underpinned the continuing turnaround of the Company evidenced by achieving positive operating EBITDA for May, June, and July 2015.

Performance and revenue has been hindered by a restrictive balance sheet. A restructure and recapitalisation of the balance sheet will enhance revenue growth opportunities.

The Company continues with 85% of revenue coming from the top tier miners in the Hunter Valley. Coal companies have continued with high production to minimise unit costs of production and shipments through the Port of Newcastle continuing at record levels.

SubZero Group Limited

Preliminary consolidated statement of comprehensive income

For the year ended 30 June 2015

	2015 \$'000	2014 \$'000
Revenue from continuing operations	56,849	63,786
Cost of sales	<u>(49,612)</u>	<u>(49,162)</u>
Gross profit	<u>7,237</u>	<u>14,624</u>
Other income	155	1,340
General and administration expenses	(6,825)	(5,766)
Vehicle and equipment costs	(2,258)	(2,365)
Depreciation and amortisation	(2,786)	(5,444)
Finance costs	(4,395)	(2,274)
Employee benefits expense	(7,380)	(9,834)
Rental expense	(2,840)	(3,064)
Impairment provision	(3,342)	-
Other expenses	(6,892)	(93)
Profit/(loss) before income tax	<u>(29,328)</u>	<u>(12,876)</u>
Income tax (expense)/benefit	<u>(198)</u>	<u>(69)</u>
Profit/(loss) for the year	<u>(29,526)</u>	<u>(12,945)</u>
Profit/(loss) is attributable to:		
Owners of SubZero Group	(29,398)	(12,998)
Non-controlling interests	<u>(128)</u>	<u>53</u>
	<u>(29,526)</u>	<u>(12,945)</u>
Other comprehensive income		
Other comprehensive income for	<u>-</u>	<u>-</u>
Total comprehensive income	<u>(29,526)</u>	<u>(12,945)</u>
Total comprehensive income for the year is attributable to:		
Owners of SubZero Group	(29,398)	(12,998)
Non-controlling interests	<u>(128)</u>	<u>53</u>
	<u>(29,526)</u>	<u>(12,945)</u>
	Cents	Cents
Earnings per share for profit		
Basic earnings per ordinary	<u>(11.7)</u>	<u>(6.0)</u>
Diluted earnings per ordinary	<u>(11.7)</u>	<u>(6.0)</u>

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

SubZero Group Limited
Preliminary consolidated balance sheet
As at 30 June 2015

	2015 \$'000	2014 \$'000
Current assets		
Cash and cash equivalents	(319)	782
Trade and other receivables	10,258	12,927
Inventories	1,645	4,402
Total current assets	<u>11,584</u>	<u>18,111</u>
Non-current assets		
Property, plant and equipment	8,546	14,865
Deferred tax assets	-	198
Financial assets	19	188
Intangible assets	23	542
Total non-current assets	<u>8,588</u>	<u>15,793</u>
Total assets	<u>20,172</u>	<u>33,904</u>
Current liabilities		
Trade and other payables	26,630	14,672
Borrowings	24,064	17,865
Current tax liabilities	234	234
Other	-	29
Total current liabilities	<u>50,928</u>	<u>32,800</u>
Non-current liabilities		
Borrowings	1,848	4,102
Provisions	310	390
Total non-current liabilities	<u>2,158</u>	<u>4,492</u>
Total liabilities	<u>53,086</u>	<u>37,292</u>
Net assets	<u>(32,914)</u>	<u>(3,388)</u>
Equity		
Share capital	18,383	18,383
Reserves	(502)	(502)
Retained earnings	(50,720)	(21,322)
Capital and reserves attributable	<u>(32,839)</u>	<u>(3,441)</u>
Non-controlling interests	(75)	53
Total equity	<u>(32,914)</u>	<u>(3,388)</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 2015

	2015 \$'000	2014 \$'000
Cash flows from operating activities		
Receipts from customers	52,179	70,744
Payments to suppliers and employees (inclusive of goods and services tax)	(54,845)	(81,303)
Other revenue	155	1,251
Interest paid	(538)	(2,274)
Income taxes paid	-	-
Net cash (outflow) inflow from operating activities	<u>(3,049)</u>	<u>(11,582)</u>
Cash flows from investing activities		
Payment for software	-	(506)
Payment for intangibles	(5)	(73)
Payment for property, plant and equipment	(176)	(1,536)
Proceeds from held-to-maturity investments	-	112
Proceeds from sale of property, plant and equipment	1,107	49
Net cash (outflow) inflow from investing activities	<u>926</u>	<u>(1,954)</u>
Cash flows from financing activities		
Proceeds from capital raising, net of transaction costs	-	8,097
Repayment of borrowings	(3,035)	(8,839)
Proceeds from borrowings	4,057	14,934
Net cash (outflow) inflow from financing activities	<u>1,022</u>	<u>14,192</u>
Net increase (decrease) in cash and cash equivalents	(1,101)	657
Cash and cash equivalents at the beginning of the year	<u>782</u>	<u>125</u>
Cash and cash equivalents at the end of the year	<u>(319)</u>	<u>782</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 2015

	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 2014	18,383	(502)	(21,322)	(3,441)	53	(3,388)
Profit for the year	-	-	(29,398)	(29,398)	(128)	(29,526)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the year	-	-	(50,720)	(32,839)	(75)	(32,914)
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs and tax	-	-	-	-	-	-
Transactions with non-controlling interests	-	-	-	-	-	-
Balance at 30 June 2015	18,383	(502)	(50,720)	(32,839)	(75)	(32,914)

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 2015

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

	2015 \$'000	2014 \$'000
Revenue from continuing operations		
Sales revenue	56,849	63,786
Other	155	1,340
	57,004	65,125
Expenses		
Profit before income tax includes the following specific expenses:		
Provision for the non-recovery of related party indemnity	1,952	-
Borrowing costs written off	1,480	-
Harness Master debt and investment written off	1,381	-
Restructuring costs	1,181	-
Inventory obsolescence	1,327	-
Redundancies	2,171	-
Depreciation		
Motor vehicles	795	1,082
Plant & equipment	1,813	2,752
Leasehold improvements	18	17
Office furniture & equipment	82	103
Low value asset pool	33	51
Total depreciation	2,740	4,005
Amortisation		
Intangibles assets	46	6
Borrowing costs	-	11
Total amortisation	46	17
Impairment		
Impairment of Property, Plant & Equipment	2,401	-
Impairment of intangible assets	941	-
Impairment of goodwill	-	833
Impairment of research and development	-	589
Total impairment	3,342	1,422

SubZero Group Limited
Notes to the preliminary consolidated financial statements
For the year ended 30 June 2015

Note 3 Events occurring after the balance sheet date

The transformation and improvement of the business has seen positive EBITDA results over the past three months and the outlook has considerably improved. However, there still remains significant doubt on the ability of the Group to continue as a going concern given the substantial negative net assets. Negotiations are at an advanced stage between the Company, its financiers, prospective investors and major creditors, to restructure and recapitalise the balance sheet and place the Group on a firm financial footing for the future. The directors have prepared the financial information in this report on a going concern basis on the basis that the current negotiations for restructure and recapitalisation of the balance sheet will be finalised in the immediate future. If the restructure and recapitalisation is not finalised in the immediate future the going concern assumption will no longer be considered to be appropriate and the Assets and Liabilities would have to be valued on a liquidation basis and reclassified as current.

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

	2015 \$'000	2014 \$'000
Profit for the year	(29,526)	(12,945)
Non-cash write-off's	5,424	-
Depreciation and amortisation	6,128	5,444
Bad Debts Expense	1,952	199
Borrowing costs written off/(capitalised)	1,480	(1,852)
Net (gain) loss on sale of non-current assets	996	185
(Increase) / decrease in trade debtors	579	1,923
(Increase) / decrease in inventories	(98)	(1,382)
(Increase) / decrease in deferred tax assets	198	32
Increase / (decrease) in trade creditors	9,768	(3,203)
Increase / (decrease) in provision for income taxes payable	10	(21)
Increase / (decrease) in other provisions	39	39
Net cash inflow from operating activities	<u>(3,049)</u>	<u>(11,582)</u>

Note 5 Contributed equity

	2015 Shares	2014 Shares	2015 \$'000	2014 \$'000
(a) Share capital				
Share Capital				
Fully paid	252,915,402	252,915,402	<u>18,383</u>	<u>18,383</u>
			<u>18,383</u>	<u>18,383</u>

(b) Movements in ordinary share capital:

Date	Details	Number of shares	\$'000
1 July 2014	Opening Balance	252,915,402	18,383
30 June 2015	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 2015

Note 6 Reconciliation of income tax expense

	2015 \$'000	2014 \$'000
(a) Income tax expense		
Current tax	-	101
Deferred tax	<u>198</u>	<u>(32)</u>
	<u>198</u>	<u>69</u>
 Income tax expense is attributable to:		
Profit from continuing operations	<u>198</u>	<u>69</u>
Aggregate income tax expense	<u>198</u>	<u>69</u>
 Deferred income tax (revenue) expense included in income tax expense comprises:		
Decrease (increase) in deferred tax assets	<u>1,077</u>	<u>(347)</u>
(Decrease) increase in deferred tax liabilities	<u>(879)</u>	<u>315</u>
	<u>198</u>	<u>(32)</u>
 (b) Numerical reconciliation of		
Profit from continuing operations before income tax expense	<u>(29,328)</u>	<u>(12,876)</u>
 Tax at the Australian tax rate of 30% (2014: 30%)	<u>(8,798)</u>	<u>(3,863)</u>
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Listing costs	-	-
Trust distribution taxable within the group	-	-
Entertainment	3	5
Fines	31	8
Research and development rebate	-	-
Legal Fees	<u>514</u>	<u>212</u>
	<u>(8,249)</u>	<u>(3,638)</u>
Prior year deferred tax balances de-recognised	<u>198</u>	<u>(1)</u>
Current year revenue losses not recognised as DTA	<u>8,249</u>	<u>3,708</u>
Income tax expense	<u>198</u>	<u>69</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 2015.

Other significant information

Reconciliation of Underlying Profit to Statutory Profit

	EBITDA	Net Profit/(loss) After Tax
Statutory financial statements		
Net loss after tax	(29,526)	(29,526)
Tax expense	198	
Loss on sale of property, plant & equipment	835	835
Impairment costs	3,342	3,342
Borrowing costs written off	1,480	1,480
Finance costs	4,395	
Depreciation and amortisation	2,786	
Statutory EBITDA	<u>(16,489)</u>	
Inventory obsolescence	1,327	1,327
Redundancies	2,171	2,171
Provision for impairment of related party indemnity	1,952	1,952
Other non-recurring write-offs	575	575
Harness Master International debt and investment write-off	1,381	1,381
Restructuring costs	1,181	1,181
Underlying profit	<u>(7,902)</u>	<u>(15,282)</u>

Net Tangible Asset Backing

	2015	2014
Net Tangible Assets per Security	-13.05 cents p/s	-1.55 cents p/s

Controlled Entities acquired

No entities were acquired in the year.