



## ASX ANNOUNCEMENT

27 November 2015

### CHAIRMAN'S ADDRESS TO ANNUAL GENERAL MEETING

SubZero Group Limited continued to experience difficult trading conditions over the year to 30 June 2015 however we have seen an improvement in operating performance with positive underlying EBITDA for each of the last 6 months. Cash flow remains tight and despite a number of expressions of interest we have not yet been able to finalise an agreement to strengthen our balance sheet.

Nevertheless, I would like to thank our employees, investors, stakeholders and in particular our financial backers who have continued to support the Company. I would also like to acknowledge and thank all those who have worked with us to strengthen the Company as it faces the significant and ongoing challenges of the current trading climate.

As I reported last year and, like all companies supporting the mining and resource sector, SubZero has not been immune from the significant downturn in the sector and accordingly the underlying results have proven to be very unsatisfactory and well below expectations. Whilst production levels in the Hunter Valley have remained high, mine operators have been managing both expenditure and cash very keenly. I am pleased to report that since 30 June 2015 the Company's performance has improved despite market conditions remaining soft.

Throughout the year the Company has endeavoured to consolidate its financial position and to this end we believe we have secured an ongoing pipeline of work to support its core businesses as a provider of support services to the mining and resource sector. This is best evidenced by the fact that our main facilities are currently close to full capacity.

In late August last year it became evident that we could no longer rely on the orders that we were expecting and your Board took steps necessary to implement significant cost savings. These savings, together with the improved revenue and the dedication of our employees, has seen our operating margins improve significantly. This process is continuing with further cost saving initiatives identified to deliver a further \$4m of annualised savings.

At the time of writing this report the Company is working with stakeholders and parties who have an interest in recapitalising the Company to provide the necessary working capital to properly fund the Company's ongoing activities. Until we have achieved this, the company's shares will remain suspended from trading on the ASX. Fortunately our financiers have continued to support our turnaround strategy by deferring interest payments and providing an extra \$2.5m in facilities.

With ongoing support the Company aims to preserve its ability to offer clients the services they need to meet their long term operational and maintenance requirements given we have both the facilities and the expertise to support the industry.

However the continuing viability of the Company and its ability to continue as a going concern and meet its debt and commitment obligations depend upon us being successful in:

- Completion of a successful recapitalisation
- Ensuring the continued support from its financiers
- Negotiating settlement terms on liabilities to statutory creditors; and
- Continued improvement in the order book and trading results throughout FY16.

During the last 12 months we have maintained our commitment to work place safety and to staff training and development even as we moved to a more flexible staffing model. Equally, the Company has maintained its capability to deliver in its core service areas in expectation of an eventual uplift in demand for services. As mentioned earlier we have seen signs that customers who had previously



deferred maintenance are now looking to repair and maintain their existing equipment and in preference to committing to new capital expenditure.

Our business model is built around providing critical tasks and services, which involve preventative, regular and planned maintenance activities across a wide range of vehicles and equipment. The majority of these services are non-discretionary in nature and critical to our clients in maximising their production and minimising downtime. SubZero's aim is to continue to provide our clients with low execution risk together with meaningful cost benefits whilst generating a sound revenue basis to support our growth and development.

As Chairman of the Company I would like to acknowledge the ongoing dedication and commitment of the management team and workforce in what has proven to be a very difficult environment for companies such as ours. Their efforts have enabled us to achieve the turnaround in our performance. There is still much to be done. Our people remain key to our success in the future and to retaining the goodwill of our customers.

Finally as Chairman of the Company I would like to acknowledge the ongoing dedication and commitment of my fellow directors. The results and current situation remain totally unacceptable to us all as shareholders but I can assure you that your Board has never faulted in terms of effort or commitment in seeing us through these difficult times. We remain focussed on strengthening the balance sheet and in delivering further improvements in financial performance.

## **Ends**

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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: [www.subzeroservices.com.au](http://www.subzeroservices.com.au)