

Zenith Market and Outlook Update

Gascoyne Resources Power Purchase Agreement

Zenith Energy Limited (ASX: ZEN) (“Zenith” or the “Company”) has considered the impact of the appointment of FTI Consulting as Voluntary Administrators to Gascoyne Resources Limited (ASX: GCY) and its related entities (“Gascoyne”) as advised to the ASX on 3 June 2019.

Background

Zenith provides energy to Gascoyne at its Dalgara mine site under a Power Purchase Agreement (“PPA”). The Company acknowledges the formal advice to the market and creditors that the Administrators have stated their intention to continue to operate Gascoyne on a ‘business as usual’ basis while they explore recapitalisation options. The Administrators have indicated that Zenith will continue to be paid for the provision of energy during the review period, under the terms of the PPA. The Company will continue to explore its options under the Gascoyne PPA with the Administrators, and will update the market as information becomes available.

Impact

Zenith’s assessment of its exposure to the possible outcomes of the Gascoyne Administration can be summarised into four potential outcomes under the provisions of its PPA:

- If the Administrator continues to operate Gascoyne as a going concern and confirms its obligations under the PPA, Zenith expects there will be no or immaterial impact to Zenith’s earnings. The Company currently anticipates there will be no impact to Zenith for FY19 as the Administrator works through the review. Any financial impact to FY20 would be dependent on the timing of the Administrator’s review completion and the outcomes of that review.
- If Gascoyne or Gascoyne’s financiers exercise their rights to buyout the power plant assets under the PPA, Zenith will receive a cash payment sufficient to repay all debt secured against the project at the buyout date plus its margin on the remaining contract term.
- If Gascoyne terminate for convenience, Zenith would have a claim for a termination payment. Debt secured against the project would need to be repaid from the termination payment.
- If Zenith terminates the contract for breach or insolvency, Zenith would have a claim for breach of contract. Debt secured against the project may need to be repaid from the proceeds claim.

Zenith is confident it can redeploy its assets and workforce resources to other sites and near-term projects if necessary. Any earnings impact would be limited to the timing between demobilisation of the Dalgara mine site assets and their redeployment into new projects. The Company estimates it could redeploy those assets within a six-month time frame, which would lead to a ~\$1m EBITDA impact for the period.

FY20 Outlook

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ASX Announcement

5 June 2019

Previously, the Company indicated its FY20 guidance in the range of \$63-\$65m revenue and \$26.5m-\$28.5m EBITDA. Disregarding the effect of any option available to Zenith under the PPA and removing the Gascoyne contract in its entirety, the Company would anticipate revenues within the range of \$59m-\$62m and EBITDA of \$24.5-\$26.5m for FY20. As the Company retains all its rights under the PPA, any exercise of the options listed above may materially mitigate any earnings impact through FY20 and beyond.

Hamish Moffat, Zenith's Managing Director, commented, "While we, like other parties affected, are disappointed with the recently announced events at Gascoyne, Zenith's Outlook for FY20 and beyond remains positive. We have a large qualified pipeline of new business opportunities, and we are confident we can quickly redeploy our assets and workforce resources into near term projects in the event a Gascoyne recapitalisation is not successful".

ENDS

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