Merredin Energy Holdings Pty Ltd

ABN 80 146 779 053

Consolidated Financial report
For the year ended 30 June 2018

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MERREDIN ENERGY HOLDINGS PTY LTD
ABN 80 146 779 053

DIRECTORS' REPORT

The directors present their report together with the financial report of the group, being the company and its controlled entity, for the year ended 30 June 2018 and auditor's report thereon.

Directors names

The names of the directors in office at any time during or since the end of the year are:

Shane Jones

Lindsay Ward

Jon Biesse

James Hann

The directors have been in office since the start of the year to the date of this report unless otherwise stated.

Rodney Jones was an alternate director to Shane Jones during the financial year and up to the date of this report.

Results

The profit of the group for the year after providing for income tax amounted to $1,543,000 (2017: $2,219,000).

Review of operations

The group continued to engage in its principal activity, the results of which are disclosed in the attached financial statements.

Significant changes in state of affairs

Significant changes in the state of affairs of the group during the financial year, were as follows:

Refinancing of the existing term debt and swap interest facility occured on 15 November 2017. Merredin Energy Pty Ltd issued $44,000,000 in fixed rate amortising notes allowing the existing facility with the Commonwealth Bank of Australia to be repaid in full. These notes were issued on a 5 year term maturing 15 November 2022.

Other than the above, there have been no significant changes in the group's state of affairs during the financial year.

MERREDIN ENERGY HOLDINGS PTY LTD
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DIRECTORS' REPORT

Principal activities

The principal activity of the group during the year was the operation of an 82 Megawatt ("MW") reserve capacity power station at Robartson Road, Merredin, Western Australia with the purpose of being available for use when shortfalls occur within the current operating electricity network.

No significant change in the nature of these activities occurred during the year.

After balance date events

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the group, the results of those operations, or the state of affairs of the group in future financial years.

Likely developments

A report "2017 Electricity Statement of Opportunities" was issued by Australian Energy Market Operator ("AEMO") in June 2017, noting that Wholesale Electricity Market ("WEM") rules for a Reserve Capacity Auction is still in the process of being developed. In the meantime transitional reforms remain in place.

Management have considered and will continue to consider the effects of the transitional reforms and changes to the WEM Rules to see what impact they have on the group.

Environmental regulation

The group is subject to a range of environmental legislation and regulations. There were no significant breaches of any requirements during the financial year.

The Directors have considered compliance with the *National Greenhouse and Energy Reporting Act 2007* which requires entities to report annual greenhouse gas emissions and energy use. The Directors have considered and assessed that the group did not have any reportable emissions during commercial operations in the year ended 30 June 2018.

Dividends paid, recommended and declared

No dividends were paid or declared since the start of the year. No recommendation for payment of dividends has been made.

Options

No options over unissued shares or interests in the group were granted during or since the end of the year and there were no options outstanding at the end of the year.

Indemnification of officers

The Company maintained its own Directors and Officers Indemnity during the financial year against certain personal liabilities which they may incur in the performance of their duties as directors and officers where those directors and officers acted in good faith.

In accordance with common commercial practice, the insurance policy prohibits disclosure of the nature of the liability insured against and the amount of the premium.

Indemnification of auditors

No indemnities have been given or insurance premiums paid, during or since the end of the year, for any person who is or has been an auditor of the group.

Auditor's independence declaration

A copy of the auditor's independence declaration under section 307C of the *Corporations Act 2001* in relation to the audit for the financial year is provided with this report.

Proceedings on behalf of the group

No person has applied for leave of Court to bring proceedings on behalf of the group or intervene in any proceedings to which the group is a party for the purpose of taking responsibility on behalf of the group for all or any part of those proceedings.

Rounding of amounts

In accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, the amounts in the directors' report and in the financial report have been rounded to the nearest one thousand dollars, or in certain cases, to the nearest dollar (where indicated).

Signed in accordance with a resolution of the board of directors.

L.J. Ward.

Director: ______________________________

Lindsay Ward

Dated this 25th day of September 2018

Auditor's Independence Declaration

As lead auditor for the audit of Merredin Energy Holdings Pty Ltd for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Merredin Energy Holdings Pty Ltd and the entity it controlled during the period.

Craig Thomason
Partner
PricewaterhouseCoopers

Sydney
25 September 2018

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MERREDIN ENERGY HOLDINGS PTY LTD
ABN 80 146 779 053

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 $ '000	2017 $ '000
Revenue and other income			
Revenue	4	9,432	9,921
Other revenue	4	19	29
Other income	4	2,439	1,721
	4	11,890	11,671
Less: expenses			
Materials and consumables used		(133)	(130)
Transmission expenses and fees		(750)	(888)
Consultancy and advisory expenses		(203)	(204)
Depreciation expense	5	(3,017)	(3,054)
Finance costs	5	(3,431)	(2,569)
Loss on fair value of derivatives	5	(406)	-
Operations & maintenance		(711)	(1,174)
Other expenses		(796)	(482)
		(9,447)	(8,501)
Profit before income tax expense		2,443	3,170
Income tax expense	6	(900)	(951)
Net profit from continuing operations		1,543	2,219
Other comprehensive income			
Other comprehensive income for the year		-	-
Total comprehensive income		1,543	2,219

The accompanying notes form part of these financial statements.

MERREDIN ENERGY HOLDINGS PTY LTD
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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

	Note	2018 $ '000	2017 $ '000
Current assets			
Cash and cash equivalents	7	2,397	1,162
Receivables	8	1,431	1,092
Inventories	9	1,034	1,057
Other assets	12	101	106
Total current assets		4,963	3,417
Non-current assets			
Property, plant and equipment	10	59,193	62,160
Intangible assets	11	561	561
Deferred tax assets	6	1,832	2,732
Other assets	12	130	130
Total non-current assets		61,716	65,583
Total assets		66,679	69,000
Current liabilities			
Payables	13	626	614
Borrowings	14	2,163	37,675
Other liabilities	15	-	1,323
Total current liabilities		2,789	39,612
Non-current liabilities			
Borrowings	14	38,426	2,037
Other liabilities	15	-	3,430
Total non-current liabilities		38,426	5,467
Total liabilities		41,215	45,079
Net assets		25,464	23,921
Equity			
Share capital	16	31,147	31,147
Reserves	17	1,763	-
Accumulated losses	18	(7,446)	(7,226)
Total equity		25,464	23,921

The accompanying notes form part of these financial statements.

MERREDIN ENERGY HOLDINGS PTY LTD
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2018

	Share capital $ '000	Reserves $ '000	Accumulated losses $ '000	Total equity $ '000
Consolidated				
Balance as at 1 July 2016	31,147	-	(9,445)	21,702
Profit for the year	-	-	2,219	2,219
Total comprehensive income for the year	-	-	2,219	2,219
Balance as at 30 June 2017	31,147	-	(7,226)	23,921
Balance as at 1 July 2017	31,147	-	(7,226)	23,921
Profit for the year	-	-	1,543	1,543
Total comprehensive income for the year	-	-	1,543	1,543
Transfers	-	1,763	(1,763)	-
Balance as at 30 June 2018	31,147	1,763	(7,446)	25,464

MERREDIN ENERGY HOLDINGS PTY LTD
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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 $ '000	2017 $ '000
Cash flow from operating activities			
Receipts from customers and net fuel tax credits		10,037	9,960
Payments to suppliers including GST		(3,497)	(2,907)
Interest and finance costs paid		(2,681)	(2,238)
Interest received		19	30
Net cash provided by operating activities	19(b)	3,878	4,845
Cash flow from investing activities			
Return of bond deposits on trust		-	7
Payment for property, plant and equipment		(50)	(14)
Net cash used in investing activities		(50)	(7)
Cash flow from financing activities			
Funds from refinancing borrowings		44,000	-
Borrowing costs		(2,388)	(51)
Repayment of borrowings		(44,205)	(4,887)
Net cash used in financing activities		(2,593)	(4,938)
Reconciliation of cash			
Cash at beginning of the financial year		1,162	1,262
Net increase / (decrease) in cash held		1,235	(100)
Cash at end of financial year	19(a)	2,397	1,162

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The directors have determined that the group is not a reporting entity on the basis that, in the opinion of the directors, there are unlikely to exist users of the financial report who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs. Accordingly, this financial report is a special purpose financial report, which has been prepared to satisfy the financial reporting requirements of the *Corporations Act 2001*.

The financial report covers Merredin Energy Holdings Pty Ltd and its consolidated entity. Merredin Energy Holdings Pty Ltd is a company limited by shares, incorporated and domiciled in Australia. Merredin Energy Holdings Pty Ltd is a for-profit entity for the purpose of preparing the financial statements.

The financial report was approved by the directors as at the date of the directors' report.

The financial report has been prepared in accordance with the *Corporations Act 2001*, the recognition and measurement requirements specified by all Australian Accounting Standards and Interpretations, and the disclosure requirements of:

AASB 101:	Presentation of Financial Statements
AASB 107:	Statement of Cash Flows
AASB 108:	Accounting Policies, Changes in Accounting Estimates and Errors
AASB 1031:	Materiality
AASB 1048:	Interpretation and Application of Standards
AASB 1054:	Australian Additional Disclosures

The following specific accounting policies, which are consistent with the previous period unless otherwise stated, have been adopted in the preparation of this financial report:

(a) Basis of preparation of the financial report

Historical Cost Convention

The financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets and liabilities as described in the accounting policies.

Significant accounting estimates and judgements

The preparation of the financial report requires the use of certain estimates and judgements in applying the entity's accounting policies. Those estimates and judgements significant to the financial report are disclosed in Note 3 to the financial statements.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Going concern

The group financial statements have been prepared on a going concern basis.

(c) Principles of consolidation

The consolidated financial statements are those of the consolidated entity ("the group"), comprising the financial statements of the parent entity and all of the entities the parent controls. The group controls an entity where it has the power, for which the parent has exposure or rights to variable returns from its involvement with the entity, and for which the parent has the ability to use its power over the entities to affect the amount of its returns.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist.

All inter-company balances and transactions, including any unrealised profits or losses have been eliminated on consolidation. Subsidiaries are consolidated from the date on which control is transferred to the group and are de-recognised from the date that control ceases.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Revenue

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of capacity credit refunds and duties and taxes paid.

The group recognises revenue when the amount of revenue can be reliably measured, and it is probable that future economic benefits will flow to the entity.

The group recognises reserve capacity revenue once certification has been received from the AEMO of the approved certified reserve capacity. Certification is provided by the AEMO two years in advance after the group has demonstrated it passes the necessary tests and has the necessary contracts and agreements in place. Once the group's reserve capacity is verified revenue can be recognised, as it becomes reliably measured and probable that future economic benefits will flow to the entity. Bilateral agreements to supply certified reserve capacity to other market participants does not change the amount of revenue recognised by the group.

Certified capacity is tested at least biannually through independent measurement and verification testing conducted in the winter and summer. The group may receive additional revenue as part of this testing for any energy output produced from the testing traded on the Balancing Market (“BM”).

Revenue is measured based on the reserve capacity price per MW per year established by the AEMO from 1 October to 1 October of the following year (the Reserve Capacity Year). Energy generated to the BM or the Short Term Energy Market (“STEM”) is paid at current market rates.

The group may also choose to offer energy to the market or the group may be called on to offer capacity to the market for capacity not already contracted.

Where the group is unable to offer its certified capacity to the market without an approved outage, the group will incur refunds. The value of the refunds will be calculated per AEMO calculation rules.

Additionally, the group may also be called to generate electricity to support the grid under duress, under these circumstances the group will be paid for the energy it generates in addition to the capacity payments it receives.

Interest revenue is measured in accordance with the effective interest method.

All revenue is measured net of the amount of goods and services tax (GST).

(e) Finance costs

Finance costs comprise interest payable on borrowings calculated using the effective interest rate method.

Finance costs are expensed as incurred.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Borrowing costs

Borrowing costs include interest expense calculated using the effective interest method, finance charges in respect of finance leases, and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs are capitalised and amortised over the term of the loan.

(g) Income tax

Current income tax expense or revenue is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

Deferred tax assets and liabilities are recognised for temporary differences at the applicable tax rates when the assets are expected to be recovered or liabilities are settled. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax Consolidation

The parent entity, Merredin Energy Holdings Pty Ltd, and its subsidiary has implemented the tax consolidation legislation and have formed a tax-consolidated group. The parent entity and subsidiary in the tax-consolidated group have entered into a tax funding agreement such that each entity in the tax-consolidated group recognises the assets, liabilities, expenses and revenues in relation to its own transactions, events and balances only. This means that:

- the parent entity recognises all current and deferred tax amounts relating to its own transactions, events and balances only;
- the subsidiary recognises current or deferred tax amounts arising in respect of their own transactions, events and balances; and
- current tax liabilities and deferred tax assets arising in respect of tax losses, are transferred from the subsidiary to the head entity as inter-company payables or receivables.

The tax-consolidated group also has a tax sharing agreement in place to limit the liability of subsidiaries in the tax-consolidated group, arising under the joint and several liability provisions of the tax consolidation system, in the event of default by the parent entity to meet its payment obligations.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Impairment of non-financial assets

Goodwill, intangible assets not yet ready for use and intangible assets with indefinite useful lives are not subject to amortisation and are therefore tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

For impairment assessment purposes, assets are generally grouped at the lowest levels for which there are largely independent cash flows ('cash generating units'). Accordingly, most assets are tested for impairment at the cash-generating unit level. Individually significant financial assets are tested for impairment on an individual basis. Because it does not generate cash flows independently of other assets or groups of assets, goodwill is allocated to the cash generating unit or units that are expected to benefit from the synergies arising from the business combination that gave rise to the goodwill.

Assets other than goodwill, intangible assets not yet ready for use and intangible assets with indefinite useful lives are assessed for impairment whenever events or circumstances arise that indicate the asset may be impaired.

An impairment loss is recognised when the carrying amount of an asset or cash generating unit exceeds the asset's or cash generating unit's recoverable amount. The recoverable amount of an asset or cash generating unit is defined as the higher of its fair value less costs to sell and value in use. Refer to Note 3 for a description of how management determines value in use.

Impairment losses in respect of individual assets are recognised immediately in profit or loss unless the asset is carried at a revalued amount such as property, plant and equipment, in which case the impairment loss is treated as a revaluation decrease. Impairment losses in respect of cash generating units are allocated first against the carrying amount of any goodwill attributed to the cash generating unit with any remaining impairment loss allocated on a pro rata basis to the other assets comprising the relevant cash generating unit.

(i) Cash and cash equivalents

Cash and cash equivalents include cash on hand and at banks, short-term deposits with an original maturity of three months or less held at call with financial institutions, and bank overdrafts.

(j) Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance is raised for any doubtful accounts.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the statement of profit or loss and other comprehensive income and are included in other income or other expenses.

(l) Debt forgiveness

Intragroup debt forgiveness transactions are tested in accordance with their substance, and are classified as transactions with owners when they are completed on a non arm's length basis. Any gains or losses on consummation of these transactions are taken directly to equity.

(m) Property, plant and equipment

Each class of plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and any accumulated impairment losses.

Land and Buildings

Freehold land is measured on a cost basis.

Plant and equipment

Plant and equipment is measured on a cost basis.

Depreciation

Land is not depreciated. The depreciable amount of all property, plant and equipment is depreciated over their estimated useful lives commencing from the time the asset is held available for use, consistent with the estimated consumption of the economic benefits embodied in the asset.

Class of fixed asset	Useful lives	Depreciation basis
Plant and equipment	3-30 years	Straight line

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Intangibles

Goodwill

Goodwill represents the future economic benefits arising from other assets acquired in a business combination that are not individually identifiable or separately recognised.

Goodwill is not amortised, but is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less any accumulated impairment losses.

(o) Inventories

Inventories are measured at the lower of cost and net realisable value.

(p) Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(q) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

(s) Contributed equity

Ordinary share capital is recorded at the fair value of the consideration received. The costs of issuing securities are charged against the share capital net of any income tax benefit. Ordinary share capital bears no special terms or conditions affecting income or capital entitlements of the shareholders. Dividends are recognised as a liability in the period in which they are declared. When share capital recognised as equity is repurchased, the fair value of the consideration paid, including directly attributable costs, is recognised as a deduction in comprehensive income, net of any tax.

(t) Dividends

A provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

(u) Financial instruments

Classification

The group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the nature of the item and the purpose for which the instruments are held.

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. For financial assets, this is equivalent to the date that the entity commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Financial instruments (Continued)

Financial instruments are initially measured at fair value adjusted for transaction costs, except where the instrument is classified as fair value through profit or loss, in which case transaction costs are immediately recognised as expenses in profit or loss.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and the group intends to hold the investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest rate method.

Financial liabilities

Financial liabilities include trade payables, other creditors and loans from third parties including inter-company balances and loans from or other amounts due to director-related entities.

Non-derivative financial liabilities are subsequently measured at amortised cost, comprising original debt less principal payments and amortisation.

Financial liabilities are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

Derivative financial instruments

The group holds derivative financial instruments to mitigate its risk exposures from foreign currency and interest rate movements.

Derivatives that are not designated in a qualifying hedge relationship are subsequently measured at fair value through profit or loss.

Impairment of financial assets

Financial assets are tested for impairment at each financial year end to establish whether there is any objective evidence for impairment as a result of one or more events ('loss events') having occurred and which have an impact on the estimated future cash flows of the financial assets.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Goods and services tax (GST)

Revenues, expenses and purchased assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the consolidated statement of financial position are shown inclusive of GST.

Cash flows are presented in the consolidated statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(w) Rounding of amounts

The parent entity and the consolidated entity have applied the relief available under *ASIC Corporations (Rounding in Financial/Directors' report) Instrument 2016/191* and accordingly, the amounts in the consolidated financial statements and in the directors' report have been rounded to the nearest thousand dollars, or in certain cases, to the nearest dollar (where indicated).

(x) Comparatives

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

NOTE 2: ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the group. The group has decided not to early adopt any of these new and amended pronouncements. The group's assessment of the new and amended pronouncements that are relevant to the group but applicable in future reporting periods is set out below.

AASB 9: Financial Instruments (December 2014) (applicable for annual reporting periods commencing on or after 1 January 2018).

These Standards will replace AASB 139: Financial Instruments: Recognition and Measurement. The key changes that may affect the group on initial application of AASB 9 and associated amending Standards include:

- simplifying the general classifications of financial assets into those carried at amortised cost and those carried at fair value;
- permitting entities to irrevocably elect on initial recognition to present gains and losses on an equity instrument that is not held for trading in other comprehensive income (OCI);
- simplifying the requirements for embedded derivatives, including removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in OCI, except when it would create an 'accounting mismatch';
- introducing a new model for hedge accounting that permits greater flexibility in the ability to hedge risk, particularly with respect to non-financial items; and
- requiring impairment of financial assets carried at amortised cost to be based on an expected credit loss approach.

Although the directors anticipate that the adoption of AASB 9 may have an impact on the group's financial instruments, including hedging activity, it is impracticable at this stage to provide a reasonable estimate of such impact.

AASB 15: Revenue from Contracts with Customers (applicable to for profit entities for annual reporting periods commencing on or after 1 January 2018).

AASB 15 will provide (except in relation to some specific exceptions, such as lease contracts and insurance contracts) a single source of accounting requirements for all contracts with customers, thereby replacing all current accounting pronouncements on revenue.

These Standards provide a revised principle for recognising and measuring revenue. Under AASB 15, revenue is recognised in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the provider of the goods or services expects to be entitled. To give effect to this principle, AASB 15 requires the adoption of the following 5-step model:

- identify the contract(s) with a customer;
- identify the performance obligations under the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations under the contract(s); and
- recognise revenue when (or as) the entity satisfies the performance obligations.

AASB 15 also provides additional guidance to assist entities in applying the revised principle to licences of intellectual property, warranties, rights of return, principal/agent considerations and options for additional goods and services.

Work to date has focused primarily on assessing the transition impact of the new standard on the reserve capacity revenue. To date, no mateiral measurement differences have been identified between AASB 118, the current revenue standard, and AASB 15.

NOTE 3: SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Certain accounting estimates include assumptions concerning the future, which, by definition, will seldom represent actual results. Estimates and assumptions based on future events have a significant inherent risk, and where future events are not as anticipated there could be a material impact on the carrying amounts of the assets and liabilities discussed below:

(a) Impairment of goodwill

Goodwill is allocated to a cash generating unit or units (CGU's) according to management's expectations regarding which assets will be expected to benefit from the synergies arising from the business combination that gave rise to the goodwill. The recoverable amount of a CGU is based on value in use calculations. These calculations are based on projected cash flows approved by management covering a minimum period of 1 year (maximum of five years). Management's determination of cash flow projections and gross margins are based on past performance and its expectation for the future.

The carrying amount of goodwill at 30 June 2018 was $561,000 (2017: $561,000) and no impairment was recognised for the year ended 30 June 2018.

NOTE 3: SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(b) Impairment of non-financial assets other than goodwill

All assets are assessed for impairment at each reporting date by evaluating whether indicators of impairment exist in relation to the continued use of the asset by the consolidated entity. Impairment triggers include declining product or manufacturing performance, technology changes, adverse changes in the economic or political environment and future product expectations. If an indicator of impairment exists the recoverable amount of the asset is determined.

The recoverable amount of a CGU is based on value in use calculations. These calculations are based on projected cash flows approved by management based on past performance and its expectation for the future and reflect the long term nature of the investments. The forecasts include assumptions related to the growth in revenue, operating expenditure and capital expenditure. The estimated future cash flows are discounted to their present value using a discount rate appropriate for that asset or cash generating unit. These assumptions are subject to risk and uncertainty. Hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the asset or CGU.

(c) Taxes

The Group is subject to income tax legislation in Australia. Judgment is required in determining the provision for income taxes. There are transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable profits will be available to utilise those temporary differences and tax losses and the tax losses continue to be available.

Assumptions are made about the application of income tax legislation. These assumptions are subject to risk and uncertainty and there is a possibility that changes in circumstances will alter expectations which may impact the amount of deferred tax assets and deferred tax liabilities recorded in the statement of financial position and the amount of tax losses and timing differences not yet recognized. In these circumstances, the carrying amount of deferred tax assets and liabilities may change, impacting the profit or loss of the Group.

	2018 $ '000	2017 $ '000
NOTE 4: REVENUE AND OTHER INCOME		
Revenue		
- Reserve capacity credits	9,432	9,921
Other revenue		
- Interest income	19	29
Other income		
- Gain on fair value adjustments of derivatives	-	1,721
- Gain on writeback of Advance on Interest	2,439	-
	11,890	11,671
NOTE 5: OPERATING PROFIT		
Profit before income tax has been determined after:		
Finance costs		
- Interest expense	2,681	2,223
- Amortisation of capitalised borrowing costs	750	346
	3,431	2,569
Depreciation		
- plant and equipment	3,017	3,054
Loss on fair value adjustments		
- Derivatives at fair value through profit and loss	406	-
Fees		
- Management fees	316	107
Remuneration of auditors for:		
- Audit of financial statements	38	38

	2018 $ '000	2017 $ '000

NOTE 6: INCOME TAX

(a) Components of tax expense

	2018 $ '000	2017 $ '000
Deferred tax	900	951

(b) Prima facie tax payable

	2018 $ '000	2017 $ '000
The prima facie tax payable on profit before income tax is reconciled to the income tax expense as follows:		
Prima facie income tax payable on profit before income tax at 27.5% (2017: 30.0%)	672	951
Add tax effect of:		
- Other non-allowable items	8	-
- Impact of change in tax rates on deferred tax assets	220	-
Income tax expense attributable to profit	900	951

(c) Deferred tax

Deferred tax relates to the following:

	2018 $ '000	2017 $ '000
Deferred tax assets		
The balance comprises:		
Tax losses carried forward	2,995	2,643
Derivatives	-	1,426
Accruals	5	-
	3,000	4,069
Deferred tax liabilities		
The balance comprises:		
Depreciation	1,097	1,297
Other	71	40
	1,168	1,337
Net deferred tax assets	1,832	2,732

	2018 $ '000	2017 $ '000
NOTE 7: CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	2,397	1,162
NOTE 8: RECEIVABLES		
CURRENT		
Trade debtors	1,321	1,092
Other receivables	110	-
	1,431	1,092
NOTE 9: INVENTORIES		
CURRENT		
At net realisable value		
Fuel - Diesel	260	283
Spare parts and consumables	774	774
	1,034	1,057
NOTE 10: PROPERTY, PLANT AND EQUIPMENT		
Land		
At cost	205	205
Plant and equipment		
At cost	79,342	79,292
Less accumulated depreciation	(20,354)	(17,337)
Total plant and equipment	58,988	61,955
Total property, plant and equipment	59,193	62,160

	2018 $ '000	2017 $ '000

NOTE 10: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) Reconciliations

	2018 $ '000	2017 $ '000
Land and buildings		
Opening carrying amount	205	205
Closing carrying amount	205	205
Plant and equipment		
Opening carrying amount	61,955	64,995
Additions	50	14
Depreciation expense	(3,017)	(3,054)
Closing carrying amount	58,988	61,955
Total property, plant and equipment		
Carrying amount at 1 July	62,160	65,200
Additions	50	14
Depreciation expense	(3,017)	(3,054)
Carrying amount at 30 June	59,193	62,160

The directors performed a valuation of Equity and the Enterprise Value at at 30 June 2018. The results of the valuation was $40,845,000 Equity value fair value less costs to sell (30 June 2017: $37,700,000) and $82,372,000 Enterprise Value (30 June 2017: $74,800,000).

NOTE 11: INTANGIBLE ASSETS

	2018 $ '000	2017 $ '000
Goodwill at cost	561	561

NOTE 12: OTHER ASSETS

	2018 $ '000	2017 $ '000
CURRENT		
Prepayments	101	106
NON CURRENT		
Bond deposits on trust	130	130

	2018 $ '000	2017 $ '000
NOTE 13: PAYABLES		
CURRENT		
Unsecured liabilities		
Trade creditors	226	79
Sundry creditors and accruals	400	535
	626	614

NOTE 14: BORROWINGS

	2018 $ '000	2017 $ '000
CURRENT		
Secured liabilities		
Bank loans	-	37,675
Fixed rate amortising notes	2,163	-
	2,163	37,675
NON CURRENT		
Secured liabilities		
Bank loans	-	2,037
Fixed rate amortising notes	38,426	-
	38,426	2,037

i) The group entered into a 3 year $50,200,000 term facility in the year ended 30 June 2014 and further obtained an advance of $4,900,000 from a financial institution at the inception of a new interest rate swap. The advance was due to be repaid over the life of the swap (expected to expire on 16 September 2022).

ii) During the financial year ended 30 June 2016 the term facility went into a Lock-up-event due to the Loan Life Cover Ratio ("LLCR") falling below 1.30x. In order to address this event, the group and the lender agreed to amend the term facility. The term facility was amended to increase the Mandatory Prepayment – Cash Sweep from 65% to 100% and to use the DSRA funds to make a Voluntary Prepayment towards the facility.

iii) The above existing banking facilities were subsequently refinanced and repaid in full on 15 November 2017 via 5 year amortising notes for a total value of $44,000,000. The amortising notes were issued at a fixed rate of 7.5% per annum with a maturity date of 15 November 2022.

	2018 $ '000	2017 $ '000

NOTE 15: OTHER LIABILITIES

	2018 $ '000	2017 $ '000
CURRENT		
Derivative Financial Instruments	-	1,323
NON CURRENT		
Derivative Financial Instruments	-	3,430

As part of the refinancing of banking facilities on 15 November 2017, the existing derivative facility was repaid in full (refer also note 14.)

NOTE 16: SHARE CAPITAL

	2018 $ '000	2017 $ '000
Issued and paid-up capital		
22,993,901- (2017: 22,993,901) Ordinary Shares - fully paid	31,147	31,147

Rights of each type of share

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

At 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.

NOTE 17: RESERVES

	2018 $ '000	2017 $ '000
Profits reserve	1,763	-

The profits reserve is used to record transfers of profits that would otherwise be offset against accumulated losses. The balance of the profits reserve is available for distribution as a dividend in future periods.

NOTE 18: ACCUMULATED LOSSES

	2018 $ '000	2017 $ '000
Accumulated losses at beginning of year	(7,226)	(9,445)
Net profit	1,543	2,219
Transfers to reserves	(1,763)	-
	(7,446)	(7,226)

	2018 $ '000	2017 $ '000
NOTE 19: CASH FLOW INFORMATION		
(a) Reconciliation of cash		
Cash at the end of the financial year as shown in the consolidated statement of cash flows is reconciled to the related items in the consolidated statement of financial position is as follows:		
Cash at bank	2,397	1,162
(b) Reconciliation of cash flow from operations with profit after income tax		
Profit from ordinary activities after income tax	1,543	2,219
Adjustments and non-cash items		
Amortisation of capitalised borrowing costs	750	346
Depreciation	3,017	3,054
Gain on write back of advance interest	(2,439)	-
Fair value adjustments to derivatives	406	(1,721)
Changes in operating assets and liabilities		
(Increase) / decrease in receivables	(339)	34
(Increase) / decrease in other assets	5	-
(Increase) / decrease in inventories	23	(74)
Increase / (decrease) in payables & other liabilities	12	36
(Increase) / decrease in deferred taxes	900	951
Cash flows from operating activities	3,878	4,845

NOTE 20: INTERESTS IN SUBSIDIARIES

(a) Subsidiaries

The following are the group's subsidiaries:

	Country of incorporation	Ownership interest held by the group	
Subsidiaries of Merredin Energy Holdings Pty Ltd and Controlled Entity:		**2018 %**	**2017 %**
Merredin Energy Pty Ltd	Australia	100	100

Ownership interest are the same as voting rights

	2018	2017
	$ '000	$ '000

NOTE 21: PARENT ENTITY DETAILS

Summarised presentation of the parent entity, Merredin Energy Holdings Pty Ltd, financial statements:

(a) Summarised consolidated statement of financial position

	2018 $ '000	2017 $ '000
Assets		
Current assets	-	-
Non-current assets	29,944	30,164
Total assets	29,944	30,164
Liabilities		
Current liabilities	145	145
Non-current liabilities	-	-
Total liabilities	145	145
Net assets	29,799	30,019
Equity		
Share capital	31,147	31,147
Retained earnings	(1,348)	(1,128)
Total equity	29,799	30,019

(b) Summarised consolidated statement of profit or loss and other comprehensive income

	2018 $ '000	2017 $ '000
Loss for the year	220	-
Other comprehensive income for the year	-	-
Total comprehensive income for the year	220	-

(c) Parent entity guarantees

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2018 (2017: Nil).

(d) Parent entity contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2018 (2017: Nil).

(e) Parent entity contractual commitments

The parent entity had no contractual commitments as at 30 June 2018 (2017: Nil).

NOTE 22: EVENTS SUBSEQUENT TO REPORTING DATE

There has been no matter or circumstance, which has arisen since 30 June 2018 that has significantly affected or may significantly affect:

(a) the operations, in financial years subsequent to 30 June 2018, of the group, or
(b) the results of those operations, or
(c) the state of affairs, in financial years subsequent to 30 June 2018, of the group.

NOTE 23: ENTITY DETAILS

The registered office of the group is:

Merredin Energy Holdings Pty Ltd and Controlled Entity
C/- Pitcher Partners
Level 13, 664 Collins Street
Docklands VIC, 3008

The principal place of business is:

Merredin Energy Holdings Pty Ltd and Controlled Entity
Level 26, 140 William Steet
Melbourne VIC 3000

MERREDIN ENERGY HOLDINGS PTY LTD
ABN 80 146 779 053

DIRECTORS' DECLARATION

The directors have determined that the company is not a reporting entity and that this special purpose financial report should be prepared in accordance with the accounting policies outlined in Note 1 to the financial statements.

The directors of the company declare that:

1. In the directors' opinion, the financial statements and notes, as set out on pages 5 - 30, are in accordance with the *Corporations Act 2001*, including:

   (a) complying with Accounting Standards in Australia as detailed in Note 1 to the financial statements and the *Corporations Regulations 2001*; and

   (b) giving a true and fair view of the financial position as at 30 June 2018 and performance for the year ended on that date of the consolidated entity in accordance with the accounting policies described in Note 1 to the financial statements.

2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Director: L.J. Ward.

Lindsay Ward

Dated this 25th day of September 2018

Independent auditor's report

To the members of Merredin Energy Holdings Pty Ltd

Our opinion

In our opinion:

The accompanying financial report of Merredin Energy Holdings Pty Ltd (the Company) and its controlled entity (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards to the extent described in Note 1 and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2018
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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Emphasis of matter - basis of accounting and restriction on use

We draw attention to Note 1 in the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under the *Corporations Act 2001*. As a result, the financial report may not be suitable for another purpose. Our report is intended solely for Merredin Energy Holdings Pty Ltd and its members and should not be used by parties other than Merredin Energy Holdings Pty Ltd and its members. Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Consolidated Financial Report for the year ended 30 June 2018, including the Directors' report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view and have determined that the basis of preparation described in Note 1 to the financial report is appropriate to meet the requirements of the *Corporations Act 2001* and is appropriate to meet the needs of the members. The directors' responsibility also includes such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

PricewaterhouseCoopers

Craig Thomason
Partner

Sydney
25 September 2018