

MERREDIN ENERGY HOLDINGS PTY LTD

ACN 146 779 053

SPECIAL PURPOSE FINANCIAL REPORT

30 June 2017

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Directors' report
30 June 2017

Directors' report

The directors present their report on the consolidated entity (referred to hereafter as "the group") consisting of Merredin Energy Holdings Pty Ltd ("the company") and its controlled entity at the end of, or during the year ended 30 June 2017.

Directors

The following persons were directors of Merredin Energy Holdings Pty Ltd during the financial year end and up to the date of this report:

Shane Jones

Lindsay Ward

Jon Biesse

James Hann (appointed 15 February 2017)

Julian Widdup (appointed 4 April 2011 and resigned 14 February 2017)

The following persons were alternate directors during the financial year end and up to the date of this report:

Rodney Jones

James Hann (appointed 25 February 2015 for Julian Widdup and resigned 14 February 2017)

The following persons were company secretary during the financial year end and up to the date of this report:

Daniele Agnoletto (appointed 30 June 2017)

Ian Gregory (appointed 20 May 2014 and resigned 30 June 2017)

Principal activities

The group's principal activity is the operation of an 82 Megawatts ("MW") reserve capacity power station at Robertson Road, Merredin, Western Australia with the purpose of being available for use when shortfalls occur within the current operating electricity network.

There were no significant changes in the nature of this activity during the year.

Dividends

Dividends paid to members during the financial year were as follows:

	2017	2016
	\$ '000	\$ '000
Unfranked dividend for the year ended 30 June 2015 of 0.7 cents per fully paid share paid on 7 August 2015		164
	<u>-</u>	<u>164</u>

Operating and financial review

The profit of the group for the year ended 30 June 2017 after providing for income tax amounted to \$2,219,000 (30 June 2016: loss of \$73,000).

Events subsequent to reporting date

Refinancing of the existing term debt and swap interest facility occurred on 15 November 2017. Merredin Energy Pty Ltd issued \$44,000,000 in fixed rate amortising notes allowing the existing facility to be repaid in full. Notes are issued on a 5 year term maturing 15 November 2022.

Other than as stated above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the group, to affect significantly 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 commenced in 2017.

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

Directors' report
30 June 2017
(continued)

Environmental regulation

The group is subject to a range of environmental legislation and regulations. During the financial year, no member of the group was prosecuted nor was any fine imposed on it for a breach of environmental laws in any jurisdiction.

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 operation in the year ended 30 June 2017.

Indemnification and insurance of officers and auditors

No indemnities have been given during the financial year for any person who is or has been an officer or auditor of the group. An insurance premium for directors' and officers' insurance of \$7,000 was paid during the year (30 June 2016: \$8,000).

Proceedings on behalf of the company

No proceedings have been brought or intervened in on behalf of the company with leave of the court under section 237 of the *Corporations Act 2001*.

Rounding off

The group is of a kind referred to in ASIC Legislative Instrument 2016/191 dated 24 March 2016 and in accordance with that Legislative Instrument, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made in accordance with a resolution of the directors.



Jon Biesse
Director
11 December 2017

Consolidated statement of financial position
As at 30 June 2017

Assets	Note	2017	2016
		\$'000	\$'000
Cash and cash equivalents	9a	1,162	1,262
Trade and other receivables	10	1,092	1,126
Inventories	11	1,057	983
Prepayments		106	99
Total current assets		<u>3,417</u>	<u>3,470</u>
Property, plant and equipment	12	62,160	65,200
Deferred tax assets	13	2,732	3,683
Bond deposits on trust		130	137
Goodwill	14	561	561
Total non-current assets		<u>65,583</u>	<u>69,581</u>
Total assets		<u>69,000</u>	<u>73,051</u>
Liabilities			
Trade and other payables	15	614	575
Borrowings	16	37,675	4,401
Derivative financial instruments	17	1,323	1,373
Total current liabilities		<u>39,612</u>	<u>6,349</u>
Borrowings	16	2,037	39,898
Derivative financial instruments	17	3,430	5,102
Total non-current liabilities		<u>5,467</u>	<u>45,000</u>
Total liabilities		<u>45,079</u>	<u>51,349</u>
Net assets		<u>23,921</u>	<u>21,702</u>
Equity			
Share capital	18	31,147	31,147
Accumulated losses		(7,226)	(9,445)
Total equity attributable to the owners of Merredin Energy Holdings Pty Ltd		<u>23,921</u>	<u>21,702</u>

The consolidated statement of financial position is to be read in conjunction with the accompanying notes.

Consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2017

	Note	2017 S'000	2016 S'000
Revenue	3	9,921	9,889
Cost of sales	4	(1,019)	(1,224)
Gross profit		8,902	8,665
Depreciation	5	(3,054)	(3,241)
Other operating expenses	6	(1,855)	(1,860)
Operating profit		3,993	3,564
Finance income		1,750	60
Finance expense		(2,573)	(3,730)
Net finance expense	7	(823)	(3,670)
Profit/(loss)before income tax		3,170	(106)
Income tax (expense)/benefit	8	(951)	33
Net profit/(loss) for the year		2,219	(73)
Other comprehensive income			
Total comprehensive income/(expense) for the year		2,219	(73)

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying notes.

**Consolidated statement of changes in equity
For the year ended 30 June 2017**

	Share capital	Accumulated losses	Total equity
	\$'000	\$'000	\$'000
Balance at 1 July 2015	31,147	(9,208)	21,939
Loss for the year	-	(73)	(73)
Total comprehensive expense for the year	-	(73)	(73)
Transactions with owners in their capacity as owners			
Dividends paid	-	(164)	(164)
Balance at 30 June 2016	31,147	(9,445)	21,702
	Share capital	Accumulated losses	Total equity
	\$'000	\$'000	\$'000
Balance 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
Transactions with owners in their capacity as owners			
Balance at 30 June 2017	31,147	(7,226)	23,921

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

Consolidated statement of cash flows
For the year ended 30 June 2017

	Note	2017	2016
		\$'000	\$'000
Cash flows from operating activities			
Receipts from customers and net fuel tax credits		9,960	9,879
Payments to suppliers including GST		(2,907)	(3,076)
Interest and finance costs paid		(2,238)	(2,503)
Interest received		30	61
Net cash inflow from operating activities	9b	<u>4,845</u>	<u>4,361</u>
Cash flows from investing activities			
Return/(lodgement) of bond deposits on trust		7	(137)
Payments for property, plant and equipment		(14)	(23)
Net cash outflow from investing activities		<u>(7)</u>	<u>(160)</u>
Cash flows from financing activities			
Repayment of advance		(673)	(739)
Borrowing cost		(51)	(9)
Repayments of borrowings		(4,214)	(4,713)
Dividends paid		-	(164)
Net cash outflow from financing activities		<u>(4,938)</u>	<u>(5,625)</u>
Net decrease in cash and cash equivalents		(100)	(1,424)
Cash and cash equivalents at the beginning of the year		1,262	2,686
Cash and cash equivalents at the end of the year	9a	<u>1,162</u>	<u>1,262</u>

The consolidated statement of cash flows are to be read in conjunction with the accompanying notes.

Notes to the financial statements

Note 1: Reporting entity

Merredin Energy Holdings Pty Ltd is a company domiciled in Australia. The address of the group's registered office is Level 19, 15 William Street, Melbourne, VIC, 3000. The consolidated financial statements of the group as at and for the year ended 30 June 2017 comprise of Merredin Energy Holdings Pty Ltd and its subsidiary.

In the opinion of the directors, the group is not a reporting entity because there are no users dependent on general purpose financial reports. This financial report of the group have been drawn up as a special purpose financial report to satisfy directors request for audited financial statements.

The group is primarily involved in the operation of a reserve capacity power station at Robartson Road, Merredin, Western Australia.

Note 2: Significant accounting policies

(a) Basis of preparation

(i) Statement of compliance

The special purpose financial report has been prepared in accordance with the recognition and measurement aspects of Australian Accounting Standards ("AASB's") adopted by the Australian Accounting Standards Board ("AASB"). It contains the disclosures that are mandatory under the Accounting Standards and only those disclosures considered necessary by the directors to meet the needs of the users of this report.

(ii) Going concern basis

The financial statements have been prepared on a going concern basis which contemplates the realisation of assets and the payment of liabilities in the normal course of business.

(iii) Basis of measurement

The financial statements have been prepared on the historic cost basis except for derivatives measured at fair value through profit or loss.

(iv) Functional and presentation currency

The special purpose financial statements are presented in Australian dollars, which is also the group's functional currency.

The group is a kind referred to in ASIC Legislative Instrument 2016/191 dated 24 March 2016 and in accordance with that Legislative Instrument, amounts in the financial statements and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The accounting policies have been applied consistently to all periods presented in these financial statements.

(b) Critical accounting estimates and judgements

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(i) Property, plant and equipment impairment

Property, plant and equipment is assessed at each year end for any indications of impairment. These indicators include significant changes in asset usage, decline in market value, obsolescence or physical damage, significant under performance relative to future operating results and significant negative industry or economic trends.

An impairment assessment was performed as described in note 2(i) and 2(k). While there were impairment indicators present, the valuation performed included no impairment required. No impairment loss was recognised for the year ended 30 June 2017.

Notes to the financial statements

Note 2: Significant Accounting Policies (continued)

(b) Critical accounting estimates and judgements (continued)

(ii) Goodwill impairment

It is mandatory for the group to review whether goodwill requires impairment at each reporting date. Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash generating units to which goodwill is allocated. The value-in-use calculation requires the directors to estimate the future cash flows expected to arise from the power station assets and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at 30 June 2017 was \$561,000 (30 June 2016: \$561,000) and no impairment loss was recognised for the year ended 30 June 2017.

(iii) Useful life of power station assets

The useful lives of depreciable assets is based on the expected utility of the assets to the group. Actual results, however, may vary due to corrosion or wear and tear and technical obsolescence.

(iv) Going concern

The accounts have been prepared on the basis the group is a going concern. Management investigated other indicators of impairment, including future reserve capacity pricing, impact from potential amendments to the WEM rules and the Electricity Market Review ("EMR") and conclude there is no impairment at 30 June 2017 for its power station assets. Management have reviewed the net current asset/ liability position, compliance with debt covenants and refinancing of debt facility on 15 November 2017 and believe the Group will be able to pay its debts as and when they become due and payable. Management can conclude that based on above discussions the Group is a Going Concern as at 30 June 2017.

(v) Tax losses

At 30 June 2017 the group has \$8,810,000 unused tax losses (30 June 2016: \$10,564,000).

At each reporting date the group assesses the probability that future taxable profit will be available to utilise tax losses. At 30 June 2017 the group estimate tax losses to be utilised by the year ending 30 June 2023. This shows strong support for the group having future taxable profits in which to offset against carried forward tax losses. The group has also performed and passed the continuity of ownership test ("COT") required for accessing these tax losses. Therefore, the group conclude that the carried forward tax losses can be utilised and the balance can be recognised as at 30 June 2017.

(c) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of the company and its subsidiary Merredin Energy Pty Ltd ("the subsidiary") as at 30 June 2017 and the results of the group for the year then ended.

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Intercompany balances, and any unrealised income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Notes to the financial statements

Note 2: Significant Accounting Policies (continued)

(d) Foreign currency transactions

Transactions in foreign currencies are translated at foreign exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised on profit and loss. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date the fair value was determined.

(e) Financial instruments

(i) Non-derivative financial assets

The group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the group becomes a party to the contractual provisions of the instrument.

The group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The group has the following non-derivative financial assets:

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less and can be classified under either cash and bank balances or restricted cash.

Restricted cash is interest bearing and its use is mainly restricted as a requirement of the group's financing agreements and market rules. Amounts may be released for defined purposes if specified requirements are met to facilitate establishing reserve accounts for debt repayments, meeting the cost of future interest payments and capital expenditure, or as a deposit supporting a letter or credit or guarantee issued on behalf of the group.

(ii) Non-derivative financial liabilities

The group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the group becomes a party to the contractual provisions of the instrument.

The group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The group has the following non-derivative financial liabilities: loans and borrowings, trade and other payables. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method.

Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Notes to the financial statements

Note 2: Significant Accounting Policies (continued)

(f) Revenue recognition

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.

(g) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of a previous period.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

The company and its wholly-owned Australian resident entity are part of a tax-consolidated group with Merredin Energy Holdings Pty Ltd as the head entity.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries (except those from pre acquisition) are assumed by the head entity of the tax-consolidated group and are recognised as amounts payable (or receivable) to other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below).

Notes to the financial statements

Note 2: Significant Accounting Policies (continued)

(g) Income tax (continued)

The company recognises deferred tax assets arising from unused tax losses to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the assets can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability are recognised by the head entity only.

Current tax expense (benefit), deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach. Deferred tax assets and deferred tax liabilities are measured by reference to the carrying amounts of the assets and liabilities in the separate financial statements of each entity company's balance sheet and their tax values applying under tax consolidation.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity and subsidiary's obligation to make payments for tax liabilities to the relevant authorities.

The company, in conjunction with other members of the tax-consolidated group, has also entered into a tax-sharing agreement. The tax sharing agreement will provide for the determination of the allocation of income tax liabilities to the subsidiary should the head entity default on its tax payment obligations.

(h) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing cost can be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured at fair value with changes in fair value recognised in profit or loss.

Notes to the financial statements

Note 2: Significant Accounting Policies (continued)

(i) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

(ii) Non-financial assets

The carrying amounts of the group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

(j) Derivative financial instruments

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

(i) Other non-trading derivatives

When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedging relationship, all changes in its fair value are recognised immediately in profit or loss.

(k) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Assessing whether an asset is impaired involves estimating the future cash flows that the asset is expected to generate. The major inputs and assumptions that are used in the impairment assessments that require judgement include projections of future revenues, sales volumes, operational capital investment and expenditure profiles, capacity, life assumptions, terminal values for each asset, and the application of discount rates. The key inputs and assumptions are reassessed at each balance date between impairment assessments to ensure there has been no significant change that may impact the impairment assessment. Key assumptions are described in note 12.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Cost may also include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within profit and loss.

Notes to the financial statements

Note 2: Significant Accounting Policies (continued)

(k) Property, plant and equipment (continued)

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives for the current and comparative years are as follows:

	2017	2016
Reserve capacity power station assets	3 - 30 years	3 - 30 years

(l) Goodwill

Goodwill is measured as described in note 2(h). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is not amortised but it 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 accumulated impairment losses. Gains and losses on the disposal of the entity include the carrying amount of goodwill relating to the entity sold.

(m) Trade and other payables

Trade and other payables are measured at amortised cost using the effective interest rate method. Trade payables are non interest bearing and normally settled on 30 day terms.

(n) Borrowings

Borrowings are recognised at face value less amortised borrowing costs and any principal repayments made during the term of the loan.

(o) Share capital

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction in comprehensive income, net of any tax. Dividends on ordinary shares are recognised as a liability in the period in which they are declared.

(p) Goods and services tax

Expenses and assets are recognised net of the amount of goods and services tax ("GST"), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Tax Office ("ATO") is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Notes to the financial statements

Note 2: Significant Accounting Policies (continued)

(q) Finance income and finance expenses

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, impairment losses recognised on financial assets, and losses on derivatives that are recognised in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

(r) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 reporting periods and have not been early adopted by the group. The group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 15 Revenue from Contracts with Customers

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer - to the notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application (eg 1 July 2017), ie without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.

This standard has not yet been assessed. The standard is mandatory for financial years commencing on or after 1 January 2018. The group is expected to adopt on 1 July 2018.

(ii) AASB 9 Financial Instruments

The AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below:

Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.

Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.

Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:

- The change attributable to changes in credit risk are presented in other comprehensive income (OCI); and
- The remaining change is presented in profit or loss.

This standard has not yet been assessed. The Standard is mandatory for financial years commencing on or after 1 January 2018. The group is expected to adopt on 1 July 2018.

(iii) AASB 16 Leases

The AASB 16 primarily affects the accounting for lessees and will result in the recognition of almost all leases on the Consolidated statement of financial position. The standard removes the current distinction between operating and financing leases and requires a recognition of an asset and a financial liability. AASB 16 is not mandatory until 1 July 2019 for the group and the impact on the group's results have not yet been assessed.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Notes to the financial statements

Note 3:	Revenue		
		2017	2016
		\$'000	\$'000
	Reserve capacity revenue	9,921	9,889
Note 4:	Cost of sales		
		2017	2016
		\$'000	\$'000
	Network access charges	635	711
	Diesel costs	125	258
	Other cost of sales	259	255
		1,019	1,224
Note 5:	Depreciation		
		2017	2016
		\$'000	\$'000
	Property, plant and equipment	3,054	3,241
Note 6:	Other operating expenses		
		2017	2016
		\$'000	\$'000
	Audit services	38	34
	Taxation and other services	13	14
	Legal fees	28	18
	Corporate advisory fees	155	92
	Contractor fees	969	964
	Insurance expense	231	239
	Maintenance and other expense	421	499
		1,855	1,860
Note 7:	Finance income and expense		
		2017	2016
		\$'000	\$'000
	Fair value gain on derivatives	1,721	-
	Interest income on bank deposits	29	60
	Finance income	1,750	60
	Interest expense on loans and borrowings	2,223	2,470
	Interest expense other	4	1
	Amortisation of borrowings costs	346	344
	Fair value loss on derivatives	-	915
	Finance expense	2,573	3,730
	Net finance expense recognised in profit or loss	823	3,670
Note 8:	Income tax expense/(benefit)		
		2017	2016
		\$'000	\$'000
	Current tax expense	-	-
	Deferred tax expense		
	Origination and reversal of temporary differences	951	(33)
	Total income tax expense/(benefit)	951	(33)

Notes to the financial statements

Note 9a:	Cash and cash equivalents		
		2017	2016
		\$'000	\$'000
	Cash and bank balances	1,162	1,262

Note 9b:	Reconciliation of cash flows from operating activities		
		2017	2016
		\$'000	\$'000
	Cash flows from operating activities		
	Profit/ (loss) for the year	2,219	(73)
	Adjustments for:		
	Depreciation	3,054	3,241
	Recognition of fair value (gain)/ loss on derivatives	(1,721)	915
	Net finance expense	2,544	2,776
	Income tax expense/(benefit)	951	(33)
	Operating profit before changes in working capital	7,047	6,826
	Decrease/(increase) in trade and other receivables	39	(10)
	Increase/(decrease) in trade and other payables	48	(59)
	Increase/(decrease) in inventories	(74)	61
	Increase in prepayments	(7)	(15)
	Cash generated from operating activities	7,053	6,803
	Interest received	30	61
	Interest and finance costs paid	(2,238)	(2,503)
	Net cash from operating activities	4,845	4,361

Note 10:	Trade and other receivables		
		2017	2016
		\$'000	\$'000
	Trade receivables	1,092	1,090
	Other receivables	-	36
		1,092	1,126

The aging of trade and other receivables at the reporting date was:			
Less than 90 days		1,092	1,126

Note 11:	Inventories		
		2017	2016
		\$'000	\$'000
	Spare parts and consumables	774	764
	Fuel - diesel	283	219
		1,057	983

Notes to the financial statements

Note 12: Property, plant and equipment

Cost	Land	Construction work in progress	Plant and equipment	Total
	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2015	205	56	79,208	79,469
(Reversals)/additions	-	(40)	55	15
Balance at 30 June 2016	205	16	79,263	79,484
Accumulated depreciation				
Balance at 1 July 2015	-	-	11,043	11,043
Depreciation for the year	-	-	3,241	3,241
Balance at 30 June 2016	-	-	14,284	14,284
Carrying amount				
At 1 July 2015	205	56	68,165	68,426
At 30 June 2016	205	16	64,979	65,200
Cost	Land	Construction work in progress	Plant and equipment	Total
	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2016	205	16	79,263	79,484
(Reversals)/additions	-	(16)	30	14
Balance at 30 June 2017	205	-	79,293	79,498
Accumulated depreciation				
Balance at 1 July 2016	-	-	14,284	14,284
Depreciation for the year	-	-	3,054	3,054
Balance at 30 June 2017	-	-	17,338	17,338
Carrying amount				
At 1 July 2016	205	16	64,980	65,200
At 30 June 2017	205	-	61,955	62,160

Construction work in progress refers to post commissioning enhancements or improvements made to the power station.

The directors performed a valuation at 30 June 2017. The result of the valuation was \$37,700,000 fair value less costs to dispose ("FVLCTD") (30 June 2016: \$37,500,000) and \$74,800,000 Enterprise Value (30 June 2016: \$79,200,000).

As per the valuation report, page 26 "On 31 May 2017 amendments to the WEM were made by the Minister for Energy to introduce the transitional arrangements. These new rules changed the way in which the Reserve Capacity Mechanism operates pending the development of the final action design. The transitional rules will apply up to the occurrence of the first capacity auction."

As per valuation report, page 27 "Although the WA state government has not publicly stated its policy position in relation to the procurement and pricing of reserve capacity in the WA electricity market, Merredin have been advised that privately the Government's position is that the policy change to implement the auction process will not proceed."

The key assumptions that have been included in the valuation include:

- (i) No terminal value for the power station due to future uncertainty of the energy market
- (ii) No revenue from the short term energy market ("STEM")
- (iii) No distributions to shareholders until the year ended 30 June 2022
- (iv) Risk associated with the changes to the RCPM have been reflected in the RCP rather than the Discount Rate
- (v) Discount Rate applied is 11.4%
- (vi) A theta (utilisation rate) of 0.8 has been used to value the imputation credits

Notes to the Financial Statements

Note 13: Deferred tax assets and liabilities

Movement in temporary differences during the year 1 July 2015 to 30 June 2016

Consolidated	Balance 1 July 2015 \$'000	Recognised in profit or loss \$'000	Recognised in equity \$'000	Balance 30 June 2016 \$'000
Property, plant and equipment	(1,308)	(96)	-	(1,404)
Derivatives	1,668	274	-	1,942
Other	(39)	15	-	(24)
Tax losses carried forward	3,329	(160)	-	3,169
Deferred tax assets	<u>3,650</u>	<u>33</u>	<u>-</u>	<u>3,683</u>

Movement in temporary differences during the year 1 July 2016 to 30 June 2017

Consolidated	Balance 1 July 2016 \$'000	Recognised in profit or loss \$'000	Recognised in equity \$'000	Balance 30 June 2017 \$'000
Property, plant and equipment	(1,404)	107	-	(1,297)
Derivatives	1,942	(516)	-	1,426
Other	(24)	(16)	-	(40)
Tax losses carried forward	3,169	(526)	-	2,643
Deferred tax assets	<u>3,683</u>	<u>(951)</u>	<u>-</u>	<u>2,732</u>

The group operates in one tax jurisdiction.

	2017 \$'000	2016 \$'000
Deferred tax assets expected to be recovered within 12 months	735	481
Deferred tax assets expected to be recovered after more than 12 months	<u>3,381</u>	<u>4,673</u>
	<u>4,116</u>	<u>5,154</u>

Note 14: Goodwill

	2017 \$'000	2016 \$'000
Goodwill	<u>561</u>	<u>561</u>

Note 15: Trade and other payables

	2017 \$'000	2016 \$'000
Trade payables	78	85
Interest payable	112	124
Contractor fee payable	81	80
Other payables and accruals	<u>343</u>	<u>286</u>
	<u>614</u>	<u>575</u>

Notes to the Financial Statements

Note 16: Borrowings

	2017 \$'000	2016 \$'000
<u>Current liabilities</u>		
Current portion of secured bank loan (i)	37,202	3,770
Less: Borrowing cost	(138)	(39)
Advance on interest (ii)	611	670
	<u>37,675</u>	<u>4,401</u>
<u>Non-current liabilities</u>		
Secured bank loan (i)	-	37,645
Less: Borrowing cost	-	(394)
Advance on interest (ii)	2,037	2,647
	<u>2,037</u>	<u>39,898</u>

(i) The group entered into a 3 year \$50,200,000 term facility in year ended 30 June 2014. Interest rates are per the applicable interest period plus a margin of 1.85%. Interest rates during the year ranged from 1.76% to 2.05% (30 June 2016: from 2.05% to 2.40%). As at 30 June 2017 \$4,213,000 had been repaid (30 June 2016: \$4,713,000 repaid).

(ii) During the year ended 30 June 2014 the group obtained an advance of \$4,900,000 from a financial institution at the inception of a new interest rate swap. The advance will be repaid over the life of the swap which expires on 16 September 2022. As at 30 June 2017 \$673,000 had been repaid (30 June 2016: \$739,000 repaid).

(iii) During the 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.

(iv) Refinancing of the existing facility occurred on 15 November 2017 via a 5-year bond for a total value of \$44,000,000. Notes are issued on a fixed 7.5% per annum rate maturing 15 November 2022. The existing facility was repaid in full on refinance date.

Note 17: Derivative financial instruments

	2017 \$'000	2016 \$'000
Current	1,323	1,373
Non-current	3,430	5,102
	<u>4,753</u>	<u>6,475</u>

The loan facility for \$50,200,000 entered into on 13 June 2014 requires interest rate hedging of 75% of the floating rate exposure under the total aggregate amount of all advances, until September 2022. To satisfy this requirement an interest rate swap for the notional amount of \$37,650,000 was entered into, effective 13 June 2014 and terminating 16 September 2022, with a fixed rate of 6.25%. Floating interest rates during the year ranged from 1.76% to 2.05% (30 June 2016: from 2.05% to 2.40%).

The fair value adjustment of the swap amounting to \$1,721,000 profit has been taken to the profit or loss as at 30 June 2017 (30 June 2016: loss of \$915,000).

The market value of the swap was repaid in full on 15 November 2017 as part of the refinance transaction (refer Note 16 (iv)).

Note 18: Share capital

	2017 \$'000	2016 \$'000
22,993,901 (2016: 22,993,901) fully paid ordinary shares	32,345	32,345
Cost of equity	(1,198)	(1,198)
	<u>31,147</u>	<u>31,147</u>

As at 30 June 2017 the company has issued shares held with the respective shareholding percentage by the following companies:

	2017 Holding	2016 Holding	Principal Activity
<i>Australia</i>			
Hoperidge Enterprises Pty Ltd as Trustee for Jones Family Trust	17%	17%	Investor
Remjay Investments Pty Ltd	22%	22%	Investor
Wonder Holdings Pty Limited as Trustee for Benjamin Chew Family Trust	15%	15%	Investor
AWT Investments 1 Pty Limited as Trustee for Palisade (LG) Investment Trust	23%	23%	Investor
RBC Investor Services Australia Nominees Pty Limited	23%	23%	Investor services

Notes to the Financial Statements

Note 19: Related Parties

(a) Parent entity

The parent entity within the group is Merredin Energy Holdings Pty Ltd.

(b) Subsidiary

The interest in the subsidiary is set out in note 21.

Besides the directors of the group, Merredin Energy Holdings Pty Ltd uses the services of Perth Energy Pty Ltd's key management personnel for the group's management under a contract services agreement and therefore does not have any key management personnel to report on.

(c) Transactions with related parties

	2017	2016
	\$'000	\$'000
The following transactions occurred with other related parties:		
Perth Energy Pty Ltd		
- contractor services	969	964
- trading fee	215	214
- reserve capacity revenue	7,932	7,849
Perth Energy Pty Ltd has common directors with the group, Shane Jones and Jon Biesse, and is therefore a related party.		
Shane Jones		
- corporate advisory fees	28	27
Shane Jones is a director with the group, and is a related party.		
Lindsay Ward		
- contractor services	7	31
- corporate advisory fees	28	27
- reimbursable expenses	5	2
Lindsay Ward is a director with the group, and is a related party.		
Hoperidge Engineering Pty Ltd		
- consulting services	-	17
- reimbursable expenses	-	3
Hoperidge Engineering Pty Ltd has a common director with the group, Shane Jones, and is therefore a related party.		
Palisade Asset Management Ltd		
- contractor services	95	25
- reimbursable expenses	20	7
Palisade Asset Management Ltd is related to AWT Investments 1 Pty Limited.		
Palisade Investment Partners Ltd		
- reimbursable expenses	-	13
Palisade Investment Partners Ltd is related to AWT Investments 1 Pty Limited.		

Notes to the Financial Statements

Note 20: Remuneration of auditors

(a)	PwC		2017	2016
			\$'000	\$'000
	Audit of financial statements		38	34

Note 21: Subsidiary

The consolidated financial statements incorporates the assets, liabilities and results of the following subsidiary in accordance with the accounting policy described in note 2(c).


Name of entity	Country of incorporation	Class of shares	Equity Holding 2017	Equity Holding 2016
			%	%
Merredin Energy Pty Ltd	Australia	Ordinary	100	100

Directors' declaration

In the opinion of the directors of Merredin Energy Holdings Pty Ltd ("the company"):

- (a) the company is not a reporting entity because there are no users dependent on general purpose financial reports;
- (b) the financial statements and notes, set out on pages 5 to 23,
 - (i) give a true and fair view of the financial position of the group as at 30 June 2017 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date in accordance with the statement of compliance and basis of preparation described in Notes 1 and 2; and
 - (ii) comply with Australian Accounting Standards and other mandatory professional reporting requirements to the extent described in Notes 1 and 2; and
 - (c) there are reasonable grounds to believe that the company and the group will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors.



Jon Dresse
Director
Perth
11 December 2017



Independent auditor's report

To the members of Merredin Energy Holdings Pty Ltd

Our opinion

In our opinion the accompanying financial report presents fairly, in all material respects, the financial position of Merredin Energy Holdings Pty Ltd (the Company) and its controlled entities (together the Group) as at 30 June 2017 and its financial performance and its cash flows for the year then ended in accordance with accounting policies described in Note 2 of the financial statements.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2017
- 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 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.

Emphasis of matter - basis of accounting and restriction on distribution and use

We draw attention to Note 2 in the financial report, which describes the basis of accounting. The financial report has been prepared by the directors for the members of the company. 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 should not be distributed to or used by parties other than Merredin Energy Holdings Pty Ltd. Our opinion is not modified in respect of this matter.

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Other information

The directors are responsible for the other information. The other information obtained at the date of this auditor's report comprises the Directors' Report included in the special purpose financial 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 and fair presentation of the financial report in accordance with accounting policies described in Note 2 of the financial statements, and for such internal control as the directors determine is necessary to enable the preparation of the financial report that 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

Ben Gargett
Partner

Perth
11 December 2017