



ASX Announcement

Tuesday 2 July 2013

SubZero Group Limited (SZG) – FY2013 & FY2014 Earnings Guidance

Following review of an unaudited management forecast, SZG advises that proforma EBITDA (after normalisations) for FY2013 is expected to be in the range of \$6 million to \$7 million.

SZG has maintained a relatively strong contract pipeline and base workload of repair, maintenance and refurbishment work but the FY2013 earnings have been negatively impacted by:

- (a) Unrecovered personnel costs incurred in maintaining a labour pool in anticipation of normally scheduled labour hire requirements.
- (b) Delays in occupying the new workshop at Muswellbrook due to sewerage and water mains issues which impacted SZG's ability to carry out mining equipment refurbishment and maintenance works at the new purpose built 10,000m² facility.
- (c) Deferral of start dates of planned contract works by customers which has led to underutilisation of SZG people and plant.
- (d) Delays in the corporate restructuring, refinancing and ASX listing process.

SZG is reducing its operational work force numbers, restructuring head office roles and reducing head office personnel to better manage the overhead structure.

SZG is uniquely placed amongst mining services operators in the Hunter Valley by offering:

- (a) High value maintenance and structural support services;
- (b) Facilities in three key locations, Muswellbrook, Mt Thorley and Rutherford;
- (c) A one-stop shop for onsite and offsite mine infrastructure, vehicle and equipment repairs, maintenance and refurbishment which enables SZG customers to streamline operations and achieve cost reductions by consolidating services currently provided by multiple contractors.
- (d) Recent occupancy of a state of the art maintenance facility at Muswellbrook directly adjacent to the BHP Mt Arthur coal mine.

In addition, SZG:

- (a) has a diversity of clients, locations and services;
- (b) maintains excellent client relationships and continues to forge mutually profitable long term arrangements with its customers;
- (c) has over the last 5 months, at considerable cost, implemented a series of productivity and efficiency initiatives to reduce its cost base and achieve greater capacity with less cost;
- (d) has regular, recurring work and the current tendering pipeline remains strong, with negotiations continuing for new mining equipment and vehicle repair, maintenance and refurbishment work; and

- (e) has revenues which relate to necessary repair and maintenance of mine infrastructure, equipment and vehicles in the Hunter Valley region where coal production levels are underpinned by the take or pay rail and port arrangements which have been entered into by the mine operators.

Evidence of these factors includes the following recent announcements by SZG:

- Infrastructure and poly contract at BHP Billiton's Mt Arthur coal mine- \$5.9 million;
- Dozer bulk push operations at BHP Billiton's Mt Arthur coal mine – initial contract \$2 million;
- Bucket, dippers and dozer blade offsite repair contract with Rio Tinto's mines – up to \$40 million over 3 years;
- Supplementary labour hire contract with Bengalla Mining Company – up to \$5.2 million, in 7 months;
- Light vehicle service contract with BHP Mt Arthur coal mine - \$3.8 million over 13 months.

In addition, SZG is at an advanced stage of finalising other major mining equipment repair maintenance and refurbishment contracts.

While it is difficult to provide earnings guidance for FY2014 due to uncertainty in the resources sector SZG currently expects EBITDA for FY2014 in the range of \$12 million to \$15 million. This is based on existing and recurrent contract works, contracts signed but yet to be implemented and contracts in the pipeline.

ENDS

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About SubZero Group Limited

The SubZero Group carries on an established and profitable mining service business based in the Hunter Valley, New South Wales. Its clients are almost exclusively involved in the Hunter Valley thermal coal mining industry. SubZero Group's services include mining project support, equipment hire, offsite engineering and fabrication, onsite machining, field services and heavy machinery repairs. SubZero has a presence in over 25 coal mines and over 90 clients including Rio Tinto, BHP Billiton and Xstrata. Further information can be found at the SubZero website: <http://subzeroservices.com.au>