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Windlab Limited Results Call Script – 10am 6 March 2020
Roger Price, Executive Chairman and CEO
Rob Fisher, Chief Financial and Operating Officer

[Rob]

Good morning everyone. My name is Rob Fisher and I am Windlab's Chief Financial and Operating Officer. I am joined this morning by Roger Price, Windlab's Executive Chairman and CEO

On today's call, I will provide an overview of our recently released financial results, then Roger will discuss operations and Wednesday's announcements regarding Federation Asset Management and Squadron Energy. We will then be happy to take some questions.

I note that the results we have released are preliminary and unaudited. We expect to finalise our work with Grant Thornton and release fully audited financials later this month.

Windlab's results for 2019 show a 16% increase in revenues from ordinary activities to $4.04m. This increase comes principally from our asset management business, where revenue grew 26%. Profit from that business grew from $0.6m to $1m in 2019. Overall loss for the year was $11.7m, including the impact of significant items at Kennedy Energy Park, which I will discuss in some detail shortly.

Project expenses and employment expenses increased relative to the prior year. This reflected increased spending in the East African business, funded from the US$10m investment received from Eurus Energy in early 2019, most of which relates to early stage projects and hence is expensed rather than capitalised to the balance sheet. Capitalisation rates of both employee time and project costs were lower in 2019 than the prior year in the Australian business as well, as the business pursued new early stage project opportunities alongside existing projects.

Our results are clouded by the impact of ongoing delays and the dispute with our contractor at Kennedy Energy Park. As previously announced the project received an adjudication determination under the Queensland Building Industry Fairness Act after balance date, and we have treated this as an adjusting event in accordance with the Accounting Standards. It is important to note that the adjudication is an interim payment order and not a final determination of the parties' rights under contract or law.

The adjudication decision required us to reverse delay liquidated damages that were previously invoiced to our contractor, though not paid. Windlab's share of this reversal is $6.8m and reported within the share of loss of joint venture on our profit and loss statement. Despite that reversal Kennedy maintains a legal right to these claims and has included a contingent asset in its own financials to reflect that.

Also included in the share of loss of joint venture is an impairment charge relating to Kennedy Energy Park. The project faces some uncertainty in relation to the ongoing dispute with its EPC contractor and that contractor is still working through the process of registering the project as a generator, which is a requirement for full commercial operations. I will talk a little more about Kennedy's status later in the call and for now we will concentrate on the financial side.

The ongoing dispute and delays create a wide range of potential valuations for Kennedy, some of which would not require an impairment. However out of prudence and conservatism and to reflect uncertainty, the Board increased the discount rate used to calculate the project's NPV, and thereby impairing the project by $29.4m, with Windlab's share being $14.7m. Future changes in discount rates, power price forecasts and any recognition of contingent assets may result in this amount being reversed in the future, or in further full or partial impairment of the project.

We noted in the 4E that we expect that our auditors will include a qualification to their report on the financials, drawing attention to the uncertainties that I have just talked about.

Of course, our business is much broader than just Kennedy. Turning to other matters:

Net cash used in operating activities increased from $9.24m to $10.26m, reflecting increased receipts from customers offset by additional project spending (up $1.45m), particularly in East Africa, and interest on the refinanced and fully drawn $10m senior debt facility (increase of $0.43m) and payment of income tax relating to the 30 June 2018 tax year of $0.50m.

Distributions from associate fell $1.03m due to Kiata Wind Farm first full year of operation under a PPA, reducing the project's revenues, but increasing their certainty. Kiata's performance was also negatively affected by one-off curtailments due to network maintenance and upgrades in Western Victoria, and reductions in the project's marginal loss factor. It should also be noted that 2018 included larger than normal distributions from Kiata due to unused contingency allowances paid out on commercial operation.

During the year the company raised $14.01m(US$10m) from the issue of new equity in Windlab East Africa Pty Ltd to Eurus Energy Holdings. Eurus now holds 25% of the issued capital of that entity. The cash raised is restricted for use by Windlab East Africa, although Windlab Limited provides services to that entity in return for cash service fees.

The company also refinanced its senior debt facility with the Clean Energy Finance Corporation, drawing an additional $7m in June 2019.

Cash at the end of 2019 was $15.54m, up from $4.68m in the prior period. Of this, $12.04m is restricted for use in East Africa.

In our Appendix 4E release we referred to the possibility that our auditors will include a Going Concern qualification in their report. That reflected the state of play as of last Friday, but the matter is under discussion with Grant Thornton in light of Wednesday's announcements.

[Roger]

Good morning everyone. In the early hours of Wednesday morning we executed a binding scheme implementation agreement with a consortium consisting of Federation Asset Management and Squadron Energy, after a period of extensive due diligence and negotiation. The consortium seeks to acquire 100% of the shares of Windlab for $1 per share via a scheme of arrangement. The directors intend to unanimously recommend the acceptance of the

buyout offer., in the absence of a Superior Proposal and subject to the Independent expert's report concluding that scheme is in the best interest of shareholders. Further information, in the form of a scheme booklet and the independent expert's report will be provided to shareholders in late April or early May this year. In the mean-time shareholders are reminded that there is no need for any immediate action. The Consortium have offered to provide working capital support to the business in the form of a $20,000,000 loan facility. A detailed term sheet has been executed and work has commenced on long form documentation. It is important to note that this facility is not dependent on shareholders voting for the scheme of arrangement and therefore removes liquidity risk from the business as we progress through the scheme process.

Now moving to the operation of the business; I think it is fair to say 2019 was a year of frustration, characterise by delay across several of our projects. Kennedy energy park has encountered further delays as advised. Rob will provide a little more detail on this shortly. Across the Australian market, investment in renewable energy has collapsed in 2019, caused by regulatory uncertainty and dramatic increases in the technical and process requirements related to grid connection and registration. These issues have affected the Lakeland Wind Farm project and slowed progress. The significant changes in grid code has also motivated a re-optimisation of the project design to minimise grid cost and improve the overall economics of the project. This has resulted in the project being re-sized from around 100MW to 70MW. The project is now well advance and in the final stages of Generator Performance evaluation and the grid connection process. We are hopeful that the project will progress through these final stages of the grid connection process quickly and move towards financial close over the coming few months.

In the US, both of our late stage projects have experienced further delay and in part contributed to our decision late last year to close our US operation. This has been completed with very small on-off costs.

In South Africa, the need for more generating capacity could not be clearer. The country is enduring blackouts and rolling load shedding caused by the unpredictable operation of its old coal fleet. There is a clear stated intention to procure significantly more renewable energy generation both from statements by the President and via the release of the countries new integrated resource plan, which calls for a further 14 gigawatts of wind energy by 2030. We believe there is an intention to re-commence the previously success REIPPPP reverse auction processes to support procurement of this additional generation capacity later in 2020. If called, Windlab should be well placed to participate as we currently have 640 megawatts of approved capacity across five different projects, plus a number of earlier stage projects in the country.

Since the Eurus investment in our East African subsidiary in early 2019, we have grown the team and advance a number of our project opportunities. Most notably, Miombo Hewani in Tanzania and Meru County Energy Park in Kenya. Miombo is fully developed and is participating in a Tanesco RFP process to procure output from up to 200MW of new wind energy capacity across three regions of the country. Our response to this RFP was submitted in early February and we await adjudication. Meru County Energy Park is also progressing well, and we are currently in discussions to procure a PPA.

In 2019 Windlab Asset Management secured a contract for its first stand-alone, third party solar project; Nevertire Solar farm. Windlab is actively pursuing additional opportunities and is currently working on a number of proposals. We expect that our asset management business will continue to grow in 2020.

I'll ask Rob to provide an update on the status of Kennedy Energy Park

[Rob]

Kennedy remains connected and operating at a 5MW limit. Advancing beyond that level requires the project to be registered as a generator with AEMO. That registration requires completion of modelling that demonstrates that the plant will operate within the proposed Generator Performance Standards previously agreed to by AEMO and Ergon, the network service provider. Our contractor has struggled for some time to produce a model that demonstrates compliance and is awaiting information from OEMs that supplied certain components to the project. This is expected shortly, and our contractor must then make changes to its model to incorporate that information. It is uncertain at this point how substantial those changes will be and what level of delay, if any, they will cause. There remains further risk that once the project is registered, it does not behave as modelled and is delayed in progressing through hold point testing.

In parallel the contractor is working with Windlab and Ergon to implement changes to physical equipment and operating procedures at substations in the Ergon network that were constructed by KEP and handed over to Ergon last year. These changes will allow the transformers at those substations to be energised and thereby allow full export from Kennedy once it is registered. Design and approvals for these changes are underway. It is not expected that this will delay full export, but implementation of the solution may require minor outages in the future.

Our dispute with the EPC contractor has been disclosed in the past and remains subject to a stand-still agreement, but is ongoing. The priority and intent of all parties is to successfully complete the project as soon as possible. The market will be kept informed of any developments as they occur.

[Rob]

Now we'll open the call up for questions. Could I please request that you state your name and organisation before your question?

<Questions>

[Nick McNaughton Shareholder]

I would just like you to give a bit more colour on the asset management business; have we had any contract losses that have not been disclosed?

[Roger]

No, the answer is that all of the contracts that the asset management business have secured are still on foot.

[Nick]

That's the first part of my question. The second part is, you mentioned that you are expecting that to grow, are you willing to give us any idea as to what the growth is forecast to be?

[Roger]

Not numerically, what I can say is that we expect the business to grow in two ways. One, obviously it has the opportunity to grow from every project that Windlab completes so as Lakeland moves through financial closing and in to construction, Windlab Asset Management will pick up a long term asset management contract and that will be the case, I believe, for all other projects that we complete in Australia. It is also our intent to develop that business division in Southern Africa as well, so as we progress we have a natural flow, if you like, of new contracts that will come to Windlab Asset Management.

The second element is third party projects. We believe the market is still very new and still very fragmented with many players and many projects and many owners and we're just starting to see I think the first signs of interest by those passive equity owners in trying to find professional third party outfits to manage their assets. We are quite hopeful that we will be able to compete in that market successfully and win a market share through that process.

[Nick]

Thank you. I'd like if you may, to give us some commentary around costs, do you see the cost base remaining roughly static going forward?

[Roger]

Yes, I think that's right, I think that is relatively stable. As Rob said, we saw a little bit of an uptick in costs once the Eurus investment in East Africa was made and that was obviously very deliberate and part of the reason why we went out and sourced that funding, at what we think a very good valuation which was non-dilutive to the shareholders of Windlab, but where we sit at the moment, I think at least for the near term, the cost base will be relatively static.

[Nick]

My final question, Roger is just around the process that the board went through to consider the corporate future of the company. We haven't had any sort of colour on the process that you went through. Would you be willing to talk to the participants on the call through the process that you went through and whether there were other paths that were decided not to be pursued and if they were not pursued ,why did the board decided not to pursue them.

[Roger]

We will provide a bit more information about that in the scheme booklet, in short, as the market is aware, we engaged Moelis back in late August or early September last year to help us conduct a strategic review. Through that process we looked at a number of things both operationally and regarding the capital base of the business. We did explore a number of different approaches and in doing that we spoke to quite a significant number of financial and industry players. That process ultimately generated some interest, but that interest was not as fully formed as the interest that was displayed by Federation Asset Management and obviously they were able to act in such a way that they sought exclusivity, the board considered their proposal versus the other proposal on the table, plus a number of other factors and inputs and ultimately decided that providing Federation with an opportunity to affirm their offer was the best course forward for the business.

[Rob]

Any other questions across the call.

If there is nothing further than we will wrap the call up and provide a transcript through the usual channels.