Results for announcement to the market

Appendix 4E

Energy Resources of Australia Ltd

ABN 71 008 550 865
ASX Preliminary final report – 31 December 2018
Lodged with the ASX under Listing Rule 4.3A

Contents

Results for announcement to the market

	Change		2018 $000	2017 $000
Revenue from sales of uranium	-5%	to	201,203	211,150
Revenue from continuing operations	-10%	to	215,612	240,471
Profit/(loss) from continuing operations after tax attributable to members	-900%	to	(435,274)	(43,532)
Net Cash flow from operating activities	-1,074%	to	(76,336)	7,838
Earnings before Interest, Tax, Depreciation and Amortisation	-782%	to	(466,616)	(52,925)
EPS (cents)	-900%	to	(84.1)	(8.4)

These financial results have been prepared in accordance with the Australian accounting standards.

Review of operations
Energy Resources of Australia Ltd (**ERA** or the **Company**) generated negative cash flow from operating activities of $76 million in 2018 compared to positive $8 million in 2017. This was largely due to an increased rehabilitation spend on the Ranger Project Area and lower sales receipts compared to the prior period. Despite negative cash flow ERA continued to generate a positive cash margin from the sale of uranium oxide, with production inventories being built for sales in future periods.

ERA held total cash resources of $388 million at 31 December 2018. Total cash resources at 31 December 2018 comprised $313 million in cash at bank and $75 million of cash held by the Commonwealth Government as part of the Ranger Rehabilitation Trust Fund. The Company has no debt.

ERA recorded a net loss after tax of $435 million compared to a net loss after tax of $44 million in 2017. This loss was principally driven by two non-cash charges during the year. The first was a $343 million non-cash charge recorded in December 2018 for an increase to the rehabilitation provision following the completion of the Ranger Project Area closure feasibility study (**Feasibility Study**). The second, an impairment charge at 30 June of $90 million (after tax) to the Jabiluka Undeveloped Property, resulted from a material decline in long-term forecast consensus uranium prices and an increase in the asset-specific discount rate reflecting recent uranium equity market volatility.

Uranium oxide produced for the year ended 31 December 2018 was 1,999 tonnes, 13 per cent lower than 2017 production of 2,294 tonnes. Production was impacted by completion of the laterite ore processing early in the June 2018 quarter and the impact of declining ore grades from existing stockpiles.

Revenue from the sale of uranium oxide was $201 million (2017: $211 million). Revenue was impacted by a decrease in sales volume and an unfavourable movement in the Australian/US dollar exchange rate. This was partially offset by a higher average realised sales price.

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Sales volume for 2018 was 1,467 tonnes compared with 2,089 tonnes for 2017. The average realised sales price that ERA received for uranium oxide in 2018 was US$47.67 per pound compared to US$34.75 per pound in 2017. The increase to the average realised sales price is a result of the structure of the ongoing contract portfolio and no spot sales occurring in the current year. This compares favourably against the average spot price for 2018 of US$24.59 per pound.

With uranium oxide sales denominated in US dollars, the strengthening of the Australian dollar had a negative impact on ERA's financial results. With sales weighted towards the first half, the average exchange rate was 0.77 US cents, compared with 0.76 US cents for 2017.

Cash costs for 2018 were higher than the corresponding period in 2017. This was driven by higher consumable prices and consultancy costs.

During the second half of the year, ERA implemented a business transformation program to increase cash flow from cost saving and productivity initiatives. The program aims to generate additional cash whilst maintaining the core values of health and safety and continued environmental protection.

No depreciation has been recorded in 2018 due to ERA fully impairing the Ranger Cash Generating Unit in 2016.

Capital expenditure for the year was $4 million compared to $7 million in 2017. All expenditure in 2018 related to sustaining capital activities. In 2018, capital expenditure was immediately written off to the Statement of Comprehensive Income and recorded in other expenses. This is a result of the Ranger Cash Generating Unit being fully impaired in 2016.

Rehabilitation – Feasibility Study finalised
Progressive rehabilitation of the Ranger Project Area continued with expenditure of $59 million incurred during 2018. Expenditure was primarily associated with the dredge operating to transfer tailings from the Tailings Storage Facility to Pit 3, the backfill of waste material into Pit 1, the Feasibility Study and other studies.

As noted in the Company's 2017 full year and 2018 half-year results, ERA commenced the Feasibility Study in the final quarter of 2017.

Following further evaluation of the preliminary findings announced on 6 December 2018, the ERA Board has now approved the Feasibility Study and confirmed the continued implementation of the rehabilitation program.

The approval and implementation of the Feasibility Study results in an increase in the rehabilitation provision as at 31 December 2017 of $526 million to $830 million[1] at 31 December 2018 (previously estimated to be $808 million in the 6 December 2018 announcement based on the preliminary findings). This will be recorded in the 2018 full year financial statements. The movement is largely due to:

- costs associated with tailings transfer to Pit 3, additional water treatment and related infrastructure, and revegetation requirements;
- higher forecast costs relating to site services and owners' costs; and
- an increase in contingency.

[1] 31 December 2018 provision discounted at 2 per cent and presented in real terms ($896 million undiscounted in real terms).

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The findings of the Feasibility Study further increase confidence to stakeholders that ERA's planned rehabilitation strategy will satisfy regulatory obligations, including the January 2026 milestone.

Funding
As a result of the increase in rehabilitation provision, ERA is continuing to review all funding options. An inability to obtain sufficient funding would have a material impact on ERA's business, financial performance and assessment as a going concern. Rio Tinto has advised ERA, that it will work with ERA and its other shareholders and stakeholders with the objective of ensuring that ERA is in a position to meet in full the likely future rehabilitation requirements of the Ranger Project Area. ERA and Rio Tinto are continuing to engage in active discussions regarding a funding solution.

Ranger 3 Deeps
Given the current uranium market environment, the Ranger 3 Deeps project continues to face material barriers to development. Without a sustained and rapid recovery of the uranium market, the project is not economically viable.

As a result of this, ERA plans for a reduced care and maintenance program for the Ranger 3 Deeps exploration decline to be implemented on receipt of final regulatory approval.

The implementation of this reduced program will maintain project optionality, however amendments to legislation to effect an extension of the Ranger Authority, which requires processing to cease in January 2021, would be required.

At present, no work is being conducted on further development options for the Ranger 3 Deeps deposit.

Outlook
The uranium spot price has increased with a closing December spot price of US$28.82 per pound approximately 21 per cent higher than 2017.

The market surplus is continuing to decline with China-led demand growth supporting a rebalancing of the market over time as China and other Asian countries continue to progress their nuclear power programs in accordance with long-term energy policy objectives.

However, with considerable market surplus remaining, ERA expects that the uranium market will remain challenging in the near term.

At this time, ERA expects uranium production for 2019 to be within the range of 1,400 tonnes to 1,800 tonnes. Production will be drawn from existing stockpiles. ERA's forecast sales are substantially contracted, with the average realised selling price for 2019 contracted sales currently expected to be between US$45 and US$51 per pound.

Dividends
ERA has decided not to declare a final dividend for the 2018 financial year. No final dividend was paid in respect to the 2017 financial year.

Exploration
There was no exploration expenditure for the year ended 2018. The Ranger 3 Deeps exploration decline remains under care and maintenance.

Preliminary statement of comprehensive income

	2018 $000	2017 $000
Revenue from continuing operations	215,612	240,471
Changes in inventories	30,799	(22,193)
Materials and consumables used	(79,877)	(71,130)
Employee benefits and contractor expenses	(109,953)	(111,824)
Government and other royalties	(10,724)	(11,215)
Commission and shipping expenses	(3,453)	(4,890)
Non-cash impairment charge	(113,776)	-
Changes in estimate of rehabilitation provision	(343,199)	(21,135)
Financing costs	(22,539)	(22,072)
Statutory and corporate expense	(14,205)	(11,046)
Other expenses	(5,008)	(8,498)
Profit/(Loss) before income tax	**(456,323)**	**(43,532)**
Income tax benefit/(expense)	**21,049**	**-**
Profit/(Loss) for the year	**(435,274)**	**(43,532)**
Other comprehensive income for the year, net of tax	**-**	**-**
Total comprehensive income for the year	**(435,274)**	**(43,532)**
Profit is attributable to:		
Owners of Energy Resources of Australia Ltd	**(435,274)**	**(43,532)**
Total comprehensive income for the year is attributable to:		
Owners of Energy Resources of Australia Ltd	**(435,274)**	**(43,532)**

Preliminary balance sheet

	2018 $000	2017 $000
Current assets		
Cash and cash equivalents	313,736	395,477
Trade and other receivables	10,519	8,903
Inventories	115,352	115,926
Other	1,484	473
Total current assets	**441,091**	**520,779**
Non-current assets		
Inventories	30,104	-
Undeveloped properties	89,856	203,632
Property, plant and equipment	-	-
Investment in trust fund	74,715	72,901
Total non-current assets	**194,675**	**276,533**
Total assets	**635,766**	**797,312**
Current liabilities		
Payables	37,877	36,777
Provisions	102,233	80,930
Income received in advance	34,561	45,981
Total current liabilities	**174,671**	**163,688**
Non-current liabilities		
Provisions	741,885	457,688
Deferred tax liabilities	-	21,049
Total non-current liabilities	**741,885**	**478,737**
Total liabilities	**916,556**	**642,425**
Net assets	**(280,790)**	**154,887**
Equity		
Contributed equity	706,485	706,485
Reserves	388,897	389,300
Accumulated losses	(1,376,172)	(940,898)
Total equity	**(280,790)**	**154,887**

Preliminary statement of changes in equity

	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2017	**706,485**	**389,440**	**(897,366)**	**198,559**
Loss for the year	-	-	(43,532)	(43,532)
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**(43,532)**	**(43,532)**
Transactions with owners in their capacity as owners:				
Employee share options - value of employee services	-	(140)	-	(140)
	-	(140)	-	(140)
Balance at 31 December 2017	**706,485**	**389,300**	**(940,898)**	**154,887**
Loss for the year	-	-	(435,274)	(435,274)
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**(435,274)**	**(435,274)**
Transactions with owners in their capacity as owners:				
Employee share options - value of employee services	-	(403)	-	(403)
	-	(403)	-	(403)
Balance at 31 December 2018	**706,485**	**388,897**	**(1,376,172)**	**(280,790)**

Preliminary statement of cash flows

	2018 $000 inflows/ (outflows)	2017 $000 inflows/ (outflows)
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	215,290	259,070
Payments to suppliers and employees (inclusive of goods and services tax)	(239,089)	(229,563)
	(23,799)	**29,507**
Payments for rehabilitation	(58,946)	(27,025)
Interest received	8,479	7,281
Financing costs paid	(2,070)	(1,925)
Net cash inflow/(outflow) from operating activities	**(76,336)**	**7,838**
Cash flows from investing activities		
Payments for property, plant and equipment	(4,334)	(7,295)
Proceeds from sale of property, plant and equipment	-	169
Net cash inflow/(outflow) from investing activities	**(4,334)**	**(7,126)**
Cash flows from financing activities		
Employee share option payments	(1,068)	(837)
Net cash inflow/(outflow) from financing activities	**(1,068)**	**(837)**
Net increase/(decrease) in cash held	(81,738)	(125)
Cash at the beginning of the financial year	395,477	395,598
Effects of exchange rate changes on cash	(3)	4
Cash at the end of the financial year	**313,736**	**395,477**

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Inventories	**2018 $'000**	**2017 $'000**
Inventories - current		
Stores and spares	15,913	17,182
Ore stockpile at cost	-	8,863
Work in progress at cost	1,879	3,737
Finished product U_3O_8 at cost	97,560	86,144
Total current inventory	115,352	115,926
Inventories – non-current		
Finished product U_3O_8 at cost	30,104	-

The calculation of net realisable value is sensitive to key assumptions about the future including: uranium price, Australia/US dollar exchange rate and where applicable costs to complete. The sales price of uranium oxide is denominated in US dollars, so fluctuations in the Australia/US dollar exchange rate will affect the proceeds received from sales and consequently the recoverable amount.

Inventories are carried at the lower of cost or net realisable value in accordance with AASB 102. When necessary, a net realisable value adjustment is included in 'Changes in inventories' in the statement of comprehensive income.

No net realisable value adjustment was recorded at 31 December 2018 (Nil: 2017).

Provisions	**2018 $'000**	**2017 $'000**
Provisions - current		
Employee benefits	10,357	9,290
Rehabilitation	91,876	71,640
Total current provisions	102,233	80,930
Movement in current rehabilitation provision		
Carrying value at the start of the year	71,640	48,711
Payments	(58,946)	(27,025)
Transfers from non-current provisions	79,182	49,954
Carrying amount at the end of the year	91,876	71,640
Provisions – non-current		
Employee benefits	3,350	3,639
Rehabilitation	738,535	454,049
Total non-current provisions	741,885	457,688
Movement in non-current rehabilitation provision		
Carrying value at the start of the year	454,049	462,720
Unwind of discount	20,469	20,148
Change in estimate	343,199	21,135
Transfers to current provisions	(79,182)	(49,954)
Carrying amount at the end of the year	738,535	454,049

The calculation of the rehabilitation provision relies on estimates of costs and their timing to rehabilitate and restore disturbed land to original condition.

The costs are estimated on the basis of a closure model, taking into account considerations of the technical closure options available to meet ERA's obligations. The provision for rehabilitation represents the net present cost at 31 December 2018 of the preferred plan within

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the requirements of the Ranger Authority. The Ranger Authority requires ERA to cease mining and processing activities by January 2021 and complete rehabilitation of the Ranger Project Area by January 2026.

The closure model is based on the recently completed Feasibility Study which expanded on the previous prefeasibility study completed in 2011. Key packages of work completed since 2012 include preliminary Pit 3 backfill, Pit 1 capping and design, construction and commissioning of the tailings dredging system.

The Feasibility Study has increased the level of certainty regarding forecast rehabilitation expenditure. The study continues to support the strategy that was identified and progressed in the 2011 prefeasibility study.

Major activities to complete the rehabilitation plan include: material movements, water treatment, tailings transfer, demolition and revegetation. Major cost sensitivities include material movements, water treatment and tailings transfer costs.

Finalisation of the Feasibility Study identified a net increase in the provision of $305 million[2] compared to December 2017. Whilst the strategy remains unchanged a greater level of engineering design and technical understanding identified expected increases in costs associated with:

- costs associated with tailings transfer to Pit 3, additional water treatment and related infrastructure, and revegetation requirements;
- higher forecast costs relating to site services and owners' costs; and
- an increase in contingency.

The ultimate cost of rehabilitation is uncertain and can vary in response to many factors including legal requirements, technological change, weather events and market conditions. It is reasonably possible that outcomes from within the next financial year that are different from the current cost estimate could require material adjustment to the rehabilitation provision for the Ranger Project Area.

Selected downside sensitivities on the Ranger rehabilitation provision are detailed below.

Process water
Additional process water volumes are sensitive to many factors and any additional water would require treating through ERA's process water treatment infrastructure, primarily the brine concentrator. Water volumes can vary due to:

- additional rainfall above an average wet season;
- the performance of water treatment plants, including new smaller scale plants that are yet to be commissioned;
- the timing of closure of which water catchments occurs; and
- the volume of water expressed from tailings.

If water treatment volumes exceed the available capacity, it may be necessary to expand treatment capacity. This may involve the construction of an additional brine concentrator plant or other alternate technology. This has not been allowed for in the estimate and would come at significant additional cost. Furthermore, any significant delay may further compress the schedule requiring alteration to other closure activities.

Bulk material movement
Pit 3 bulk material movements are sensitive to the volume of material which is to be moved and the schedule of movement.

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[2] Differences may occur due to rounding.

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Tailings transfer
Tailings transferred from the Tailings Storage Facility to Pit 3 are principally sensitive to the characteristics of the tailings being moved. It is planned that in quarter 3, 2019 an additional dredge will be commissioned to derisk this process and maintain the schedule.

Other factors
In addition to the factors identified above there are many additional items that the estimate is sensitive to, including: evaporation rates, stakeholder requirements, brine salt disposal, engineering studies, tailings consolidation rates, plant mortality and project support costs.

In estimating the rehabilitation provision a risk-free discount rate is applied to the underlying cash flows. At 31 December 2018, the real discount rate was 2.00 per cent.

Deferred tax	**2018 $'000**	**2017 $'000**
Deferred tax asset/(liability)	-	(21,049)

ERA has approximately $191 million tax losses (at 30 per cent) that are not recognised as deferred tax assets due to uncertainty regarding ERA's ability to generate adequate levels of future taxable profits. This treatment is reviewed periodically. Should future taxable profits eventuate this treatment will not impact ERA's ability to utilise available tax losses in future periods.

Judgement is required in regard to the application of income tax legislation. There is an inherent risk and uncertainty in applying these judgements and a possibility that changes in legislation will impact the carrying amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet.

Share capital	**2018 '000**	**2017 '000**
Share capital at the end of the financial year	517,725	517,725

Retained earnings	**2018 $'000**	**2017 $'000**
Retained earnings at the beginning of the financial year	(940,898)	(897,366)
Net profit/(loss) attributable to members of Energy Resources of Australia	(435,274)	(43,532)
Retained profits at the end of the financial year	(1,376,172)	(940,898)

Asset Carrying Values

ERA has two cash generating units (**CGUs**), the Ranger Project Area and the Jabiluka Mineral Lease. The Ranger CGU includes all assets and liabilities related to activities on the Ranger Project Area, including the rehabilitation provision. The Jabiluka Undeveloped Property relates to the Jabiluka Mineral Lease which is currently under a Long Term Care and Maintenance Agreement with Traditional Owners.

At 31 December 2018, the property, plant and equipment in the Ranger CGU continues to be fully impaired. When capital expenditure is incurred it is immediately expensed to the Statement of Comprehensive Income. For the year ended 31 December 2018, $4 million in capital expenditure was expensed.

At the end of each reporting period, ERA assesses whether there are any indications that ERA's CGUs may be impaired or circumstances have changed to indicate reversal of prior

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impairments. This requires judgment in analysing possible impacts caused by factors such as the price of uranium oxide, foreign exchange movements, discount rate, operating and capital estimates, project progression, Traditional Owner relationships and weather impacts on process water inventories.

ERA assessed the recoverable amount using a fair value less costs of disposal (**FVLCD**) method. ERA conducts impairment testing using a probability-weighted discounted cash flow model.

Undeveloped Properties

Undeveloped properties are considered assets not yet ready for use. In reporting periods where impairment testing is required, the recoverable amount of the undeveloped properties is determined using the fair value less costs of disposal method. Undeveloped properties consist of the Jabiluka Mineral Lease.

The Jabiluka Mineral Lease is currently subject to a Long Term Care and Maintenance Agreement with Traditional Owners. This agreement ensures the Jabiluka deposit will not be developed without the consent of the Mirarr Traditional Owners. It is uncertain that this consent will be forthcoming and, by extension, that the Jabiluka deposit will be developed. Should this consent not eventuate in the future, the Jabiluka Undeveloped Property would face full impairment.

The valuation of the Jabiluka Mineral Lease requires a high degree of judgment. To determine the fair value, ERA uses a probability weighted discounted cash flow model, based on post-tax cash flows expressed in real terms, estimated until the end of the life of mine plan and discounted using an asset-specific post-tax real discount rate. Results are cross checked against market valuations of other undeveloped mining projects in the uranium industry and the broader mining sector, including market valuations of mining assets subject to long term approval constraints. The approach has been reviewed by an external valuation expert.

ERA regularly reviews and updates these assumptions and assesses potential impairment indicators. In the June 2018 half-year, the review identified indicators that the carrying amount of the Jabiluka Undeveloped Property may not be recovered in full from successful development or sale, following a reduction in the forecast long-term consensus uranium price.

As a result, the Company, as required by the Australian Accounting Standard AASB 136 Impairment of Assets, completed a full impairment test. ERA commissioned an external assessment of the forecast long-term uranium oxide price. ERA concluded that the fair value of the Jabiluka Undeveloped Property amounted to $90 million, resulting in an after tax impairment charge of $90 million, comprising impairment charge of $114 million, partially offset by the release of a deferred tax liability of $23 million as at June 2018.

The reduction in fair value and resulting impairment charge were primarily driven by external factors including a material decline in long-term broker consensus uranium price and an increase in the asset-specific discount rate, reflecting recent volatility in the uranium equity market.

At 31 December 2018, no further impairment indicators were identified.

Key assumptions to which the Jabiluka model is sensitive include: the probability of future development, uranium oxide prices (including term contract price premiums in the future), foreign exchange rates, production and capital costs, discount rate, ore reserves and mineral resources, lease tenure renewal and development delays. A change in these assumptions may result in further impairment.

Selected downside sensitivities to the fair value of the Jabiluka CGU and the potential further impact on impairment testing at 31 December 2018 are summarised below:

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Sensitivity	Potential further impairment
-10 per cent change in the forecast uranium oxide prices	$83 million further impairment
+20 per cent change in development capital	$84 million further impairment
+5 per cent change in forecast Australian/US dollar exchange rates	$33 million further impairment
+1 per cent change in discount rate	$32 million further impairment

Notwithstanding the impact on the carrying value, ERA's view remains that Jabiluka is a large, high quality uranium ore body of global significance.

Liquidity

The future liquidity and capital requirements of ERA will depend on many factors. As a result of the likely rehabilitation provision increase, ERA is continuing to review all funding options. An inability to obtain sufficient funding would have a material impact on ERA's business, financial performance and assessment as a going concern. Rio Tinto has advised ERA it will work with ERA and its other shareholders and stakeholders with the objective of ensuring that ERA is in a position to meet in full the likely future rehabilitation requirements of the Ranger Project Area. ERA and Rio Tinto are engaged in active discussions regarding a funding solution.

In April 2016, ERA entered into a $100 million credit facility agreement with Rio Tinto. This agreement, whilst still in place, is now insufficient to meet ERA's funding shortfall.

Each year, ERA is required to prepare and submit to the Commonwealth Government an Annual Plan of Rehabilitation. Once accepted by the Commonwealth Government, the annual plan is then independently assessed and costed and the amount to be provided by ERA into the Ranger Rehabilitation Trust Fund (Trust Fund) is then determined. The Trust Fund includes both cash and financial guarantees.

ERA's ability to continue to access these financial guarantees can be influenced by many factors including future cash balance, cash flows and shareholder support. Guarantees are subject to periodic review by the banks. Should the Company at any point be unable to access financial guarantees, substantial additional cash would be required to be deposited into the Trust Fund. In the scenario where this occurs ERA's cash reserves available to fund operations would reduce.

ERA currently has no debt and $388 million in total cash resources (comprising $313 million of cash on hand or at call and $75 million invested as part of the Trust Fund).

Net Tangible Asset Backing	2018 $	2017 $
Net tangible asset backing per ordinary share	(0.5)	0.3

Audit

This report is based on accounts which are in the process of being audited. As noted in the liquidity section of the announcement there is disclosure of a material impact on the assessment of going concern. Accordingly it is likely the 31 December 2018 financial report, when audited, will contain an independent auditor's report which includes a material uncertainty related to going concern paragraph.