Energy Resources of Australia Ltd

ABN 71 008 550 865
A member of the Rio Tinto Group

**Head office** Level 3, Energy House,
18-20 Cavenagh St, Darwin NT 0800
GPO Box 2394, Darwin NT 0801, Australia
**T** +61 8 8924 3500 **F** +61 8 8924 3555

**Ranger mine** Locked Bag 1,
Jabiru NT 0886 Australia
**T** +61 8 8938 1211 **F** +61 8 8938 1203

www.energyres.com.au

# ASX Interim report – 30 June 2019

## Lodged with the ASX under Listing Rule 4.2A

This information should be read in conjunction with the
31 December 2018 financial report

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# Directors' Report

*for the half-year ended 30 June 2019*

The Directors of Energy Resources of Australia Ltd (**ERA or the Company**) present their report together with the financial report of the Company, for the half-year ended 30 June 2019.

## Directors

The Directors of the Company at any time during the half-year or since the end of the financial period were:

| ***Name*** | ***Period of Directorship*** |
|---|---|
| Mr P Mansell (Chairman) | Appointed October 2015 |
| Mr P Arnold | Appointed Chief Executive and Managing Director August 2017 |
| Mr S Charles | Appointed October 2015 |
| Mr P Dowd | Appointed October 2015 |
| Ms Z Fisher | Appointed August 2016 |
| Ms A Sutton | Appointed October 2018 |

## Results for announcement to the market

A summary of revenues and results for the half-year is set out below:

| | | | **June 2019 $000** | **June 2018 $000** |
|---|---|---|---|---|
| **Cash flow** from operating activities | +519% | to | 35,816 | (8,554) |
| **Revenue** from sales of uranium oxide | +6% | to | 170,148 | 160,187 |
| **Revenue** from ordinary activities | +12% | to | 190,477 | 169,647 |
| **Profit / (Loss)** from ordinary activities before tax attributable to members | +150% | to | 49,270 | (99,371) |
| **Profit / (Loss)** from ordinary activities after tax attributable to members | +163% | to | 49,270 | (78,322) |
| **Net Profit / (Loss)** for the period attributable to members | +163% | to | 49,270 | (78,322) |
| **Earnings per share** (cents) | +163% | to | 9.5 | (15.1) |

These financial results have been prepared in accordance with Australian Accounting Standards. All dollars in this report are Australian dollars, unless otherwise stated.

# Directors' Report

*for the half-year ended 30 June 2019*

## Review of operations

ERA generated positive cash flow from operating activities of $36 million for the half-year ended 30 June 2019 as a result of higher sales receipts and lower payments to suppliers in aggregate, offset by increased expenditure on rehabilitation activities. This compares to cash outflow from operating activities of $9 million for the same period in 2018.

ERA had total cash at bank of $349 million at 30 June 2019 compared to $313 million on 31 December 2018. In addition to cash at bank, ERA had $76 million of cash held by the Commonwealth Government as part of the Ranger Rehabilitation Trust Fund, bringing total cash resources to $425 million.

ERA's net profit after tax for the half-year ended 30 June 2019 was $49 million compared with a net loss of $78 million for the same period in 2018. The 2018 net loss was a result of ERA recognising an impairment charge of $90 million (after tax) on the Jabiluka Undeveloped Property.

Uranium oxide production for the half-year ended 30 June 2019 was 937 tonnes. This compares to 842 tonnes of uranium oxide production for the same period in 2018, which was negatively impacted by mill maintenance. In accordance with the Company's mine plan, continued uranium production is based on the processing of existing primary ore stockpiles, applying a declining grade strategy.

Revenues from sales of uranium oxide were higher at $170 million for the half year compared to $160 million for the same period in 2018. Revenue was impacted by a higher average realised sales price and a favourable movement in the Australian/US dollar exchange rate. This was partially offset by a marginal decrease in sales volume.

Sales volume for the period was 1,123 tonnes, compared to 1,186 tonnes for the June 2018 half-year. As a result of timings within the contract portfolio, sales volumes in 2019 are weighted towards the first half of the year, with ERA having substantially fulfilled its contracted sales for the year.

During the second half of 2019, ERA expects to produce sufficient drummed inventory to meet supply commitments under its existing long term contract portfolio. As a result, a greater proportion of future sales will be exposed to the spot market.

The average realised sales price of uranium oxide for the half-year ended 30 June 2019 was US$48.73 per pound compared with US$47.56 per pound for the same period in 2018. The increase to the average realised sales price is a result of the structure of the Company's long term contract portfolio. The average uranium oxide spot price was US$26.56 per pound and long-term price indicator was US$32.00 per pound for the first half of 2019. This compares to US$21.78 per pound and US$29.25 per pound, respectively, for the same period in 2018.

As sales of uranium oxide are denominated in US dollars, the weakening of the Australian dollar has had a favourable impact on revenue when compared to 2018. The average Australian/US dollar exchange rate for the first half of 2019 was US71 cents compared to US78 cents in the first half of 2018.

Cash costs for the June 2019 half-year were lower than the corresponding period in 2018. This was mainly driven by successful ongoing delivery of ERA's business transformation program. This program has delivered significant savings across the business.

Following the increase in the estimated cost of rehabilitation of the Ranger Project Area in February 2019, there has been a comparative increase in non-cash financing costs attributed to unwinding the discount rate applied to rehabilitation spend during the first half.

No depreciation has been recorded in 2019 due to ERA fully impairing the Ranger Cash Generating Unit in 2016.

Capital expenditure for the June 2019 half-year was marginally lower at $1.1 million when compared to the comparative period in 2018. Capital expenditure relates to sustaining capital activities. Capital expenditure was immediately written off to the Statement of Comprehensive Income as a result of the Ranger Cash Generating Unit being fully impaired in 2016.

## Rehabilitation

ERA finalised the Ranger Project Area closure feasibility study (**Feasibility Study**) in February 2019. Following completion of the study, ERA has a consolidated, executable plan (inclusive of progressive rehabilitation activities and post closure activities) to meet the obligations of the Ranger Authority. Rehabilitation activities continued to progress in line with this study during the first half of 2019.

Progressive rehabilitation of the Ranger Project Area in the first half of 2019 focused on the dredge transferring tailings from the Tailings Storage Facility to Pit 3. Additional dredging capacity was launched in the second quarter, with full commissioning expected in quarter 3. This additional capacity is necessary to complete rehabilitation activities within the regulated timeframe.

In addition, construction and commissioning activities continued on alternative process water treatment capacity to complement the existing brine concentrator.

At 30 June 2019, the ERA rehabilitation provision is $799 million.[1] The strategy and estimate remain consistent with 31 December 2018, with $48 million spent on rehabilitation activities in the first half of 2019.

## Funding

On 8 February 2019, ERA confirmed the approval and implementation of the Feasibility Study for the rehabilitation of the Ranger Project Area, resulting in an increase in the rehabilitation provision. Following this increase, ERA identified that it will require additional funding to meet its future obligations and business needs. ERA continues its assessment of available funding options.

As part of this process, ERA and Rio Tinto continue to engage in active discussions regarding a funding solution for ERA, with the objective of ensuring that ERA is able to meet in full its likely future rehabilitation obligations for the Ranger Project Area. Responsibility for this engagement has been delegated by the ERA Board to a committee comprised only of Independent Directors.

Following extensive discussions regarding a number of potential funding options, Rio Tinto has advised ERA that it is only willing to provide additional financial support to ERA via a renounceable entitlement offer undertaken by ERA. In that event, subject to the offer's terms, Rio Tinto has indicated it would subscribe for its 68.4% entitlement of new shares. Rio Tinto has also offered to underwrite the balance of a renounceable entitlement offer (on terms to be agreed) if an alternative underwriting solution is not available to ERA. ERA is considering the size, structure and terms of any potential renounceable entitlement offer, having regard to the interests of ERA as a whole.

In parallel, ERA continues to investigate whether there are other potential funding sources. ERA will provide a further update in due course.

## Ranger 3 Deeps

ERA has implemented a reduced care and maintenance program for the Ranger 3 Deeps exploration decline. Whilst the implementation of this reduced program maintains project optionality, a rapid and sustained recovery of the uranium market is required for the Ranger 3 Deeps Project to be economically viable. Amendments to legislation to effect an extension of the Ranger Authority would be required to manage a gap between the cessation of processing in January 2021 and the commencement of Ranger 3 Deeps production at a later point. This gap, together with an extensive care and maintenance program for the mill and a required pause on rehabilitation activities, would add fixed cost to the operation, further challenging the Ranger 3 Deeps Project's viability.

With the current Ranger Authority requiring processing to cease in January 2021 and with decommissioning and rehabilitation of the Ranger Project Area continuing through to January 2026, the prospect of any development is remote and further compromised once the Ranger mine infrastructure begins decommissioning.

[1] 30 June 2019 provision discounted at 2 per cent and presented in real terms ($857 million undiscounted in real terms).

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

## Exploration

There was no exploration expenditure for the half-year ended 30 June 2019.

## Dividends

ERA has decided not to declare an interim dividend in respect of the 2019 half-year. No final dividend was paid in respect to the 2018 financial year.

## Outlook

The uranium spot price remained volatile in the first half of 2019. At 30 June 2019, the spot price was US$24.55 per pound and the long-term price indicator was US$32.00 per pound.

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, given a considerable market surplus remains, ERA expects that the uranium market will remain challenging in the near term.

ERA continues to expect uranium production for 2019 to be within the range of 1,400 tonnes to 1,800 tonnes. Production will continue to draw from existing stockpiles. During the second half of 2019, ERA expects to produce sufficient drummed inventory to meet supply commitments under its existing long term contract portfolio. As a result, a greater proportion of future sales will be exposed to the spot market.

## Auditor's review report

The attached financial report for the half year ended 30 June 2019 contains an independent auditor's review report which highlights the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. For further information, refer to Notes 1 and 10 to the financial statements, together with the auditor's review report.

## Rounding of amounts

The Company is of a kind referred to in ASIC Corporations Instrument 2016/191 and in accordance with that Class Order, amounts in this Directors' Report and the financial report have been rounded off to the nearest thousand dollars, unless otherwise indicated.

# Directors’ Report

*for the half-year ended 30 June 2019*

## Auditors’ independence declaration

A copy of the auditors’ independence declaration as required under section 307C of the *Corporations Act 2001* (Cth) is set out on page 7.

Signed at Darwin this 25th day of July 2019 in accordance with a resolution of the Directors.

Mr P Mansell
**Chairman**

**Competent Person**

The information in this announcement that relates to Exploration Results, Mineral Resources or Ore Reserves is extracted from the ERA 2018 Annual Statement of Reserves and Resources which was released to the market on 8 February 2019 and is available to view at https://www.asx.com.au/asxpdf/20190208/pdf/442gq6rxwywcpj.pdf. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and, in the case of estimates of Mineral Resources or Ore Reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person’s findings are presented have not been materially modified from the original market announcement.

# Auditor's Independence Declaration

As lead auditor for the review of Energy Resources of Australia Ltd for the half-year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been:

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

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

Charles Christie
Partner
PricewaterhouseCoopers

Darwin
25 July 2019

***PricewaterhouseCoopers, ABN 52 780 433 757***
*2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001*
*T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au*
Liability limited by a scheme approved under Professional Standards Legislation.

| | Notes | Half-year ended 30 June 2019 $'000 | 30 June 2018 $'000 |
|---|---|---|---|
| **Revenue from continuing operations** | 4 | 190,477 | 169,647 |
| Changes in inventories | | (14,775) | (29,809) |
| Materials and consumables used | | (38,319) | (38,300) |
| Employee benefits and contractor expense | | (53,169) | (59,699) |
| Government and other royalties | | (9,150) | (8,631) |
| Commission and shipping expenses | | (2,679) | (1,699) |
| Financing costs | | (17,339) | (8,946) |
| Non-cash impairment charge | 3 | - | (113,776) |
| Statutory and corporate expenses | | (4,566) | (5,997) |
| Other expenses | | (1,210) | (2,161) |
| **Profit/(loss) before income tax** | | 49,270 | (99,371) |
| Income tax benefit/(expense) | 3 | - | 21,049 |
| **Profit/(loss) for the half-year** | | 49,270 | (78,322) |
| **Other comprehensive income for the half-year, net of tax** | | - | - |
| **Total comprehensive income for the half-year** | | 49,270 | (78,322) |
| Profit/(loss) is attributable to: | | | |
| Owners of Energy Resources of Australia Ltd | | 49,270 | (78,322) |
| | | 49,270 | (78,322) |
| Total comprehensive income for the half-year is attributable to: | | | |
| Owners of Energy Resources of Australia Ltd | | 49,270 | (78,322) |
| | | 49,270 | (78,322) |
| | | Cents | Cents |
| **Earnings per share for profit/(loss) attributable to the ordinary equity holders of the Company:** | | | |
| Basic earnings per share | 9 | 9.5 | (15.1) |
| Diluted earnings per share | 9 | 9.5 | (15.1) |

*The above statement of comprehensive income should be read in conjunction with the accompanying notes.*

| | Notes | **Half-year ended** **30 June 2019 $'000** | 31 Dec 2018 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | 348,933 | 313,736 |
| Trade and other receivables | | 7,032 | 10,519 |
| Inventories | 5 | 132,233 | 115,352 |
| Other | | 1,821 | 1,484 |
| Total current assets | | 490,019 | 441,091 |
| **Non-current assets** | | | |
| Inventories | 5 | - | 30,104 |
| Undeveloped properties | | 89,856 | 89,856 |
| Property, plant and equipment | | - | - |
| Investment in trust fund | | 75,651 | 74,715 |
| Total non-current assets | | 165,507 | 194,675 |
| **Total assets** | | 655,526 | 635,766 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Payables | | 53,136 | 37,877 |
| Income received in advance | | 21,250 | 34,561 |
| Provisions | 6 | 98,642 | 102,233 |
| Total current liabilities | | 173,028 | 174,671 |
| **Non-current liabilities** | | | |
| Provisions | 6 | 714,018 | 741,885 |
| Total non-current liabilities | | 714,018 | 741,885 |
| **Total liabilities** | | 887,046 | 916,556 |
| **Net assets** | | (231,520) | (280,790) |
| **EQUITY** | | | |
| Contributed equity | | 706,485 | 706,485 |
| Reserves | | 388,897 | 388,897 |
| Accumulated Losses | | (1,326,902) | (1,376,172) |
| **Total equity** | | (231,520) | (280,790) |

*The above balance sheet should be read in conjunction with the accompanying notes.*

| | Contributed equity $'000 | Reserves $'000 | Retained earnings $'000 | Total $'000 |
|---|---|---|---|---|
| **Balance at 1 January 2019** | **706,485** | **388,897** | **(1,376,172)** | **(280,790)** |
| Profit for the half-year | - | - | 49,270 | 49,270 |
| Other comprehensive income | - | - | - | - |
| **Total comprehensive income for the half-year** | - | - | **49,270** | **49,270** |
| **Transactions with owners in their capacity as owners:** | | | | |
| Employee share options – value of employee services | - | - | - | - |
| | - | - | - | - |
| **Balance at 30 June 2019** | **706,485** | **388,897** | **(1,326,902)** | **(231,520)** |

| | Contributed equity $'000 | Reserves $'000 | Retained earnings $'000 | Total $'000 |
|---|---|---|---|---|
| **Balance at 1 January 2018** | **706,485** | **389,300** | **(940,898)** | **154,887** |
| Loss for the half-year | - | - | (78,322) | (78,322) |
| Other comprehensive income | - | - | - | - |
| **Total comprehensive income for the half-year** | - | - | **(78,322)** | **(78,322)** |
| **Transactions with owners in their capacity as owners:** | | | | |
| Employee share options – value of employee services | - | - | - | - |
| | - | - | - | - |
| **Balance at 30 June 2018** | **706,485** | **389,300** | **(1,019,220)** | **76,565** |

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

| | Half-year ended | |
|---|---|---|
| | **30 June 2019 $'000** | 30 June 2018 $'000 |
| **Cash flows from operating activities** | | |
| Receipts from customers (inclusive of goods and services tax) | 188,127 | 131,025 |
| Payments to suppliers and employees (inclusive of goods and services tax) | (107,145) | (121,566) |
| Payments for rehabilitation | (47,883) | (21,471) |
| | 33,099 | (12,012) |
| Interest received | 3,754 | 4,486 |
| Financing costs paid | (1,037) | (1,028) |
| **Net cash inflow / (outflow) from operating activities** | 35,816 | (8,554) |
| | | |
| **Cash flows from investing activities** | | |
| Payments for property, plant and equipment | (1,118) | (1,868) |
| Proceeds from sale of property, plant and equipment | 500 | - |
| **Net cash outflow from investing activities** | (618) | (1,868) |
| | | |
| **Net increase / (decrease) in cash and cash equivalents** | 35,198 | (10,422) |
| Cash and cash equivalents at the beginning of the half-year | 313,736 | 395,477 |
| Effects of exchange rate changes on cash and cash equivalents | (1) | (7) |
| **Cash and cash equivalents at end of the half-year** | 348,933 | 385,048 |

*The above statement of cash flows should be read in conjunction with the accompanying notes.*

## 1 Summary of significant accounting policies

This general purpose financial report for the interim half-year reporting period ended 30 June 2019 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001* (Cth).

The interim financial statements have been drawn up on the basis of accounting policies, consistent with those applied in the financial statements for the year ended 31 December 2018, and in the corresponding interim period, except for the change in accounting requirements set out below, all of which were effective as at 1 January 2019 without restatement of prior years.

The new accounting standards and interpretations adopted on 1 January 2019 were AASB 16 “Leases” and IFRIC 23 “Uncertainty over Income Tax Treatments”. AASB 17 “Insurance Contracts” is mandatory in 2021. There was no impact relating to the implementation of IFRIC 23. The impact of the transition to AASB 16 Leases and new accounting policy is disclosed below.

The Company has not early adopted any amendments, standards or interpretations that have been issued but are not yet effective.

The critical accounting judgments and key sources of estimation uncertainty for the half year are the same as those disclosed in the Company's financial statements for the year ended 31 December 2018.

**Going Concern**

As at 30 June 2019, ERA has a deficiency of capital and reserves of $232 million.

The continuing viability of ERA and its ability to continue as a going concern and meet its debts and commitments as they fall due are dependent upon it being successful in obtaining additional funding support from its shareholders. Following extensive discussions regarding a number of potential funding options, Rio Tinto has advised ERA that it is only willing to provide additional financial support to ERA via a renounceable entitlement offer undertaken by ERA. In that event, subject to the offer’s terms, Rio Tinto has indicated it would subscribe for its 68.4% entitlement of new shares. Rio Tinto has also offered to underwrite the balance of a renounceable rentitlement offer (on terms to be agreed) if an alternative underwriting solution is not available to ERA. ERA is considering the size, structure and terms of any potential renounceable entitlement offer, having regard to the interests of ERA as a whole.

In parallel, ERA is continuing to investigate whether there are other potential funding sources. ERA will provide a further update in due course.

As a result of these matters, there is a material uncertainty that may cast significant doubt on ERA’s ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

However, the directors believe that ERA will be successful in the above matters and, accordingly, have prepared the financial report on a going concern basis.

## 2 Changes in accounting policies

This note explains the impact of the adoption of AASB 16 Leases on the Company’s interim financial report and discloses the new accounting policy applied from 1 January 2019, where these differ from those applied in prior periods.

There was no impact on equity attributable to owners of ERA as at 1 January 2019 from the adoption of AASB 16.

**AASB 16 “Leases” – Accounting policy applied from 1 January 2019**
The standard, which replaces AASB 117 “Leases”, removes the concept of operating and finance leases for lessees, replacing it with a single accounting model under which lessees must recognise all leases (including property and equipment) on the balance sheet as a new ‘right of use asset’ and ‘lease liability’.

Low value assets (below $5,000), short term leases (less than twelve months) and mineral leases are excluded from the standard.

The Company has used the modified retrospective approach in transitioning to the standard. At the end of December 2018, no leases had been identified that are required to be recognised under the standard. In accordance with the

Standard, this was determined because the accounting for operating leases with a remaining lease term of less than twelve months as at 1 January 2019 are treated as short-term leases.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is shown as a non-current asset and depreciated over the shorter of its useful life and the lease terms on a straight line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the incremental borrowing rate is used.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised as an expense in profit or loss. Short-term leases are leases with a lease term of twelve months or less.

**Treatment of lease agreements recognised in the rehabilitation provision**

Lease payments have been contemplated in the rehabilitation provision. However, once a lease for equipment to be used in rehabilitation activities is entered into, a separate lease liability and right-of-use asset is recognised. The rehabilitation obligation is not extinguished by entering into a lease, instead, the rehabilitation obligation is extinguished over time as the leased asset is put to use in executing the rehabilitation program.

Lease payments are allocated to the lease liability, with the interest component allocated to financing cost in the Statement of Comprehensive Income.

Where the right-of-use asset resulting from the lease arrangement is to be used exclusively for rehabilitation, it represents an economic resource which will have a future use in the completion of rehabilitation activity. As such the right-of-use asset is not impaired as is the case for other Ranger Cash Generating Unit (**CGU**) assets.

When the right-of-use asset is depreciated, the depreciation charge is allocated to the rehabilitation provision to reduce the outstanding amount provided for in the rehabilitation provision.

As at 30 June 2019, no leases have yet been recognised, however lease agreements are in place which will be recorded post balance date when the leased assets are available for use. Details regarding the leases are disclosed separately in Note 7.

## 3 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Company and that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**Rehabilitation provision**

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 30 June 2019 of the preferred plan within 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.

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.

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 fully 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.

*Tailings transfer*
Tailings transferred from the Tailings Storage Facility to Pit 3 are principally sensitive to the characteristics of the tailings being moved. An additional dredge has been launched and will be fully commissioned in quarter 3, 2019 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 30 June 2019, the real discount rate was 2.00 per cent.

**Asset carrying values**

ERA has two 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 Undeveloped Property relates to the Jabiluka Mineral Lease which is currently held subject to a Long Term Care and Maintenance Agreement with Traditional Owners.

At 30 June 2019, 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. In the half-year ended 30 June 2019, $1.1 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 impairments. This requires judgment in analysing possible impacts caused by factors such as the price of uranium oxide, foreign exchange movements, operating and capital estimates, project progression, Traditional Owner relationships and weather impacts on process water inventories.

ERA assesses 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 held subject to a Long Term Care and Maintenance Agreement with the Mirarr Traditional Owners. This agreement ensures the Jabiluka deposit will not be developed without the consent of the 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 2019 half-year, the review did not identify any indicators that the carrying amount of the Jabiluka Undeveloped Property may not be recovered in full from successful development or sale. This review primarily considered the following key factors:

- uranium consensus price changes based on a set of brokers that regularly provide a view on the long term uranium oxide price and the ongoing presence of a contract price premium;
- long term consensus forecast Australian/US dollar exchange rates;
- probability and timing of development and ongoing stakeholder relations; and
- applicable discount rate.

The review of these factors did not identify any material changes that would warrant a full impairment review to be conducted. As a result the carrying value of the Jabiluka Undeveloped Property remains at $90 million.

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 impact on impairment testing at 30 June 2019 are summarised below:

| Sensitivity | Potential outcome |
|---|---|
| -10 per cent change in the forecast uranium oxide prices | $88 million impairment |
| +20 per cent change in forecast development cost | $75 million impairment |
| +5 per cent change in forecast Australian/US dollar exchange rates | $36 million impairment |
| 1 per cent increase in discount rate | $35 million impairment |

ERA's view remains that Jabiluka is a large, high quality uranium ore body of global significance.

**Taxation**

ERA recognised certain deferred tax assets for temporary differences. ERA has approximately $183 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.

Judgment is required in regard to the application of income tax legislation. There is an inherent risk and uncertainty in applying these judgments 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.

## 4 Segment information

**Description of Segment**

Management has determined the operating segment based on the reports reviewed by the Chief Executive that are used to make strategic decisions.

The Chief Executive considers the business from a product prospective and has identified only one operating and reportable segment in the half-year ended 30 June 2019, being the mining, processing and selling of uranium oxide. There are no other unallocated operations.

**Segment Revenue**

The revenue from external parties reported to the Chief Executive is measured in a manner consistent with that in the Statement of Comprehensive income.

Revenues from customers are derived from the sale of uranium oxide. Segment revenue reconciles to total revenue from continuing operations with the addition of other income, which includes interest revenue and rent received.

ERA is domiciled in Australia. The profile of its revenue from external customers is outlined in the table below:

| | **Half-year ended** | |
|---|---|---|
| | **30 June 2019 $'000** | 30 June 2018 $'000 |
| **Sales to customers** | | |
| Asia | 170,148 | 160,187 |
| Total Sale of Goods | 170,148 | 160,187 |
| Compensation | 14,071 | - |
| Other revenue | 6,258 | 9,460 |
| Total Other Revenue | 20,329 | 9,460 |
| Total revenue from continuing operations | 190,477 | 169,647 |

In February 2019, the Company received compensation of US$10.2 million (A$14.1 million) in connection with the commissioning and operation of certain mine infrastructure. This has been recognised in the 2019 Financial Statements as other revenue.

Segment revenues are allocated based on the country in which the customer is based. ERA places all sales through a marketing agreement with Rio Tinto Uranium based in Asia.

## 5 Inventories

| | **30 June 2019 $'000** | 31 Dec 2018 $'000 |
|---|---|---|
| **(a) Inventories – current** | | |
| Stores & spares | 17,465 | 15,913 |
| Work in progress at cost | 2,690 | 1,879 |
| Finished product $U_3O_8$ at cost | 112,078 | 97,560 |
| Total current Inventory | 132,233 | 115,352 |

### (b) Inventories – non-current

| | | |
|---|---|---|
| Finished product $U_3O_8$ at cost | - | 30,104 |

## 6 Provisions

### (a) Provisions – current

| | | |
|---|---|---|
| Employee benefits | 10,653 | 10,357 |
| Rehabilitation | 87,989 | 91,876 |
| Total current provisions | 98,642 | 102,233 |

| **Movement in current rehabilitation provisions** | |
|---|---|
| Carrying value at the start of the year | 91,876 |
| Payments | (47,883) |
| Transfers from non-current provision | 43,996 |
| Carrying amount at the end of the half-year | 87,989 |

### (b) Provisions – non-current

| | | |
|---|---|---|
| Employee benefits | 3,178 | 3,350 |
| Rehabilitation | 710,840 | 738,535 |
| Total non-current provisions | 714,018 | 741,885 |

| **Movement in non-current rehabilitation provisions** | |
|---|---|
| Carrying value at the start of the year | 738,535 |
| Unwind of discount | 16,301 |
| Change in estimate | - |
| Transfers to current provision | (43,996) |
| Carrying amount at the end of the half-year | 710,840 |

## 7 Leases

### (a) Lease arrangements recognised in the Rehabilitation Provision

**Power station lease**

During the first half of 2019, the Company signed a lease for the hire of power generation capacity equipment to meet process water return operations as part of the rehabilitation of the Ranger Project Area.

The lease is for a non-cancellable term of two years and the total fixed cost over the lease term is $4,290,633. No cash repayments on the lease have been made and the leased assets are not yet available for use by the Company therefore the lease liability and right-of-use asset have not been recorded at 30 June 2019. The present value of $4,210,817 will be recognised on the balance sheet when the leased asset becomes available for use in the second half of 2019. Variable charges and mobilisation and demobilisation costs have not been included in the total cost

The total cost relating to this leased equipment, including fixed and variable costs, continues to be recognised in the rehabilitation provision.

**(b) Lease arrangement not commenced at period end**

The Company has signed a lease for the rental of property (office floor in Darwin) which commenced on 1 July 2019 and has total lease payments of $1,870,674. The lease is for a term of three years expiring 30 June 2022. It includes two twelve month options to extend after the date of expiry, which are assumed to be exercised.

The present value of $1,761,406 will be recognised on the balance sheet on 1 July 2019. The lease is not provided for in the rehabilitation provision.

**(c) New short term and low value asset leases**

The Company signed a non-cancellable four month contract for the hire of a crawler crane for dredge assembly and launch as part of rehabilitation of the Ranger Project Area. It was commissioned on 1 June 2019 for a contract price of $1,421,150.

An assessment of the contract in accordance with the standard identified that the Company has the right to direct and obtain the economic benefits from the use of the asset. However the term of the lease is less than 12 months and is thus exempted from being reported on the balance sheet. The liability is recognised in the rehabilitation provision.

The Company has no other new leases that are identified as short term and/or low value asset leases.

## 8 Contingencies

**Legal actions against ERA**

Unresolved legal action commenced (in 1999) by the Mirarr Traditional Owners in the Federal Court against the former Federal Minister for Resources and ERA, claiming that due process was not followed in granting approvals for the Jabiluka Mill Alternative, is dormant. Should ERA proceed with the Jabiluka Mill Alternative, notice will be given to the applicant who may or may not wish to pursue the argument further. No material losses are anticipated in respect of this legal dispute.

## 9 Earnings per share

| | **Half-year ended** | |
|---|---|---|
| | **30 June 2019 Cents** | 30 June 2018 Cents |
| Basic earnings per share | 9.5 | (15.1) |
| Diluted earnings per share | 9.5 | (15.1) |

Weighted average number of ordinary shares on issue used in the calculation basic earnings per share 2019: 517,725,062 (2018: 517,725,062).

## 10 Liquidity and capital risk

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The future liquidity and capital requirements of ERA will depend on many factors. As a result of the increase to the rehabilitation provision as at 31 December 2018 following the completion of the Ranger Project Area closure Feasibility Study, 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. Following extensive discussions regarding a number of potential funding options, Rio Tinto has advised ERA that it is only willing to provide additional financial support to ERA via a renounceable entitlement offer undertaken by ERA. In that event, subject to the offer's terms, Rio Tinto has indicated it would subscribe for its 68.4% entitlement of new shares. Rio Tinto has also offered to underwrite the balance of a renounceable entitlement offer (on terms to be agreed) if an alternative underwriting solution is not available to ERA. ERA is considering the size, structure and terms of any potential renounceable entitlement offer, having regard to the interests of ERA as a whole.

In parallel, ERA is continuing to investigate whether there are other potential funding sources. ERA will provide a further update in due course.

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 $425 million in total cash resources (comprising $349 million of cash on hand or at call and $76 million invested as part of the Trust Fund).

## 11 Events occurring after the reporting period

Other than entering into a new lease agreement, as disclosed in Note 7, no events or circumstances have arisen since the end of the half-year that have significantly affected, or may significantly affect, the operations or state of affairs of the Company in subsequent financial years.

In the Directors' opinion:

(a) the financial statements and notes set out on pages 8 to 19 are in accordance with the *Corporations Act 2001* (Cth), including:
   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
   (ii) giving a true and fair view of the Company's financial position as at 30 June 2019 and of its performance for the half-year ended on that date; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Mr P Mansell
**Chairman**
Darwin
25 July 2019

pwc

# Independent auditor's review report to the members of Energy Resources of Australia Ltd

## Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Energy Resources of Australia Ltd (the Company), which comprises the balance sheet as at 30 June 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected other explanatory notes and the directors' declaration.

### *Directors' responsibility for the half-year financial report*

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

### *Auditor's responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 30 June 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Energy Resources of Australia Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001.*

### *Conclusion*

We draw attention to Note 1 in the financial report, which indicates that the Company has a deficiency of capital and reserves of $232 million as at 30 June 2019. As a result the continuing viability of the Company and its ability to continue as a going concern and meet its debt and commitments as they fall due is dependent upon it being successful in obtaining additional funding support from its shareholders. These conditions, along with other matters set forth in Note 10, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our review report is not modified in respect of this matter.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Energy Resources of Australia Ltd is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Company's financial position as at 30 June 2019 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

Charles Christie
Partner

Darwin
25 July 2019