Results for announcement to the market

Appendix 4E

Energy Resources of Australia Ltd

ABN 71 008 550 865

ASX Preliminary final report – 31 December 2019

Lodged with the ASX under Listing Rule 4.3A

Contents

Results for announcement to the market

	Change		2019 $000	2018 $000
Revenue from sales of uranium	4%	To	209,636	201,203
Revenue from continuing operations	9%	To	235,929	215,612
Profit/(loss) from continuing operations after tax attributable to members	101%	To	6,252	(435,274)
Net Cash flow from operating activities	-30%	To	(99,500)	(76,336)
Earnings before Interest, Tax, Depreciation and Amortisation	100%	To	(1,103)	(466,616)
EPS (cents)[1]	101%	To	1.2	(84.1)

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**) incurred negative cash flow from operating activities of $100 million in 2019 compared to negative $76 million in 2018. This was largely due to an increased rehabilitation spend on the Ranger Project Area of $92 million and the continuing build-up of production inventories for sale into future periods. Despite negative cash flow ERA continued to generate a positive cash margin[2] from the sale of uranium oxide.

ERA held total cash resources of $285 million at 31 December 2019, comprised of $209 million in cash at bank and $76 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 profit after tax of $6 million compared to a net loss after tax of $435 million in 2018. The 2018 earnings were adversely impacted by a change in the rehabilitation estimate and impairment charge of $433 million after tax. The 2019 results were supported by the settlement of a dispute regarding the design, manufacture and supply of certain infrastructure and the successful execution of the ongoing “Transforming ERA Safely Together” program.

Uranium oxide produced for the year ended 31 December 2019 was 1,751 tonnes, 12 per cent lower than 2018 production of 1,999 tonnes. Production was impacted by the declining ore grades recovered from existing stockpiles.

Revenue from the sale of uranium oxide was $210 million (2018: $201 million). Revenue was favourably impacted by higher sales volumes and a favourable movement in the

[1] Earnings per share has been calculated on the basis of the Company’s issued share capital prior to the issue of shares under the pro-rata renounceable entitlement offer announced on 15 November 2019.
[2] Comparing the marginal production cost to the uranium spot price.

Results for announcement to the market

Australian/US dollar exchange rate. This was partially offset by a lower average realised sales price.

Sales volume for 2019 was 1,597 tonnes compared with 1,467 tonnes for 2018. The average realised sales price on contracted sales in 2019 was US$48.53 per pound compared to US$47.67 per pound in 2018. The average realised price on all sales (including uncontracted material sold into the spot market) in 2019 was US$41.89. The average realised price compares favourably against the average spot price for 2019 of US$25.90 per pound.

With uranium oxide sales denominated in US dollars, the weakening of the Australian dollar had a positive impact on ERA's financial results. With sales weighted towards the first half, the average exchange rate was 70 US cents, compared with 77 US cents for 2018.

Costs for 2019 were lower than the corresponding period in 2018. This result has benefited from the successful execution of a business transformation program. The program has realised savings by increasing efficiencies and lowering input prices. However, these savings have largely been offset by the recognition of an additional provision for payment of employee benefits on termination.

Minor depreciation has been recorded in 2019 due to implementation of Australian Accounting Standard 16 “Leases” for leased assets. No other depreciation was recorded due to the Ranger Cash Generating Unit remaining fully impaired.

Capital expenditure for the year was consistent with 2018 at $4 million. All expenditure in 2019 related to sustaining capital activities. In 2019, 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 remaining fully impaired.

Rehabilitation

ERA approved and implemented 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 2019.

The Ranger Project Area continued to be progressively rehabilitated during 2019, with expenditure of $92 million. Expenditure was primarily associated with the dredge operating to transfer tailings from the Tailings Storage Facility to Pit 3, construction and commissioning of water treatment capacity, the backfill of waste material to Pit 1 and various studies. Additional dredging capacity was launched in the second quarter, with full commissioning completed during the third quarter.

At 31 December 2019, the ERA rehabilitation provision is $770 million.[3] The strategy and estimate remain consistent with 31 December 2018.

Funding

On 15 November 2019, the Company announced a pro-rata renounceable entitlement offer of 6.13 new fully paid ERA ordinary shares for each fully paid ordinary share, raising

[3] 31 December 2019 provision discounted at 2 per cent and presented in real terms (undiscounted in real terms of $818 million and $874 million undiscounted in nominal terms).

Results for announcement to the market

approximately $476 million, to fund its rehabilitation obligations for the Ranger Project Area (**Entitlement Offer**).

The Entitlement Offer was fully underwritten by North Limited (the **Underwriter** or **North**), a wholly-owned subsidiary of Rio Tinto, pursuant to an Underwriting Agreement dated 15 November 2019 (**Underwriting Agreement**).

On 11 December 2019, the Takeovers Panel (**Initial Panel**) made a declaration of unacceptable circumstances and orders in relation to an application dated 18 November 2019 by Zentree Investments Limited in relation to the affairs of ERA.[4] On 13 December 2019, Rio Tinto lodged an application for a review of the Initial Panel's decision. On 20 January 2020, the review Panel (**Review Panel**) affirmed the decision of the Initial Panel to make a declaration of unacceptable circumstances and varied the Initial Panel's orders.[5]

New shares under the Entitlement Offer were issued on 25 February 2020. Following the issue of new shares to Rio Tinto under the Entitlement Offer and Underwriting Agreement, Rio Tinto's relevant interests increased from 68.4 per cent to 86.3 per cent.

Outlook

The strategic priority for ERA is the successful rehabilitation of the Ranger Project Area, which ERA believes will demonstrate ERA's commitment to long-term sustainable operations in the region, create a sustainable, positive legacy and underpin potential future growth opportunities.

The uranium spot price remained volatile in 2019 with a closing December spot price of US$24.82 per pound, approximately 14 per cent lower than the closing December 2018 price.

The market surplus is expected to continue into the medium term. China-led demand growth is expected to support a rebalancing of the market over the longer term 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 2020 to be within the range of 1,200 tonnes to 1,600 tonnes. The average realised selling price for contracted sales for 2020 is expected to be between US$50 and US$55 per pound. However, as at the end of 2019, ERA had sufficient drummed inventory to meet supply commitments under its existing long term contract portfolio. Therefore 2020 production and future sales volumes will have a greater exposure to the spot market than in 2019.

Dividends

ERA has decided not to declare a final dividend for the 2019 financial year. No final dividend was paid in respect to the 2018 financial year.

---

[4] Copies of the Initial Panel's declaration and orders are reproduced on the Panel's website at: http://www.takeovers.gov.au/content/Media_Releases/2019/downloads/MR19-078.pdf.

[5] Copies of the Review Panel's declaration and the variations ordered by the Review Panel are reproduced on the Panel's website at: https://www.takeovers.gov.au/content/Media_Releases/2020/downloads/MR20-005.pdf.

Results for announcement to the market

Exploration

There was no exploration expenditure for the year ended 2019.

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.

At present, no work is being conducted on further development options for the Ranger 3 Deeps deposit. The Ranger 3 Deeps exploration decline remains under care and maintenance.

Preliminary statement of comprehensive income

	2019 $000	2018 $000
Revenue from continuing operations	235,929	215,612
Changes in inventories	26,642	30,799
Materials and consumables used	(81,499)	(79,877)
Employee benefits and contractor expenses	(108,821)	(109,953)
Government and other royalties	(11,085)	(10,724)
Commission and shipping expenses	(5,589)	(3,453)
Depreciation and amortisation expenses	(176)	-
Non-cash impairment charge	-	(113,776)
Changes in estimate of rehabilitation provision	-	(343,199)
Financing costs	(34,580)	(22,539)
Statutory and corporate expense	(9,055)	(14,205)
Other expenses	(5,514)	(5,008)
Profit/(Loss) before income tax	**6,252**	**(456,323)**
Income tax benefit/(expense)	**-**	**21,049**
Profit/(Loss) for the year	**6,252**	**(435,274)**
Other comprehensive income for the year, net of tax	**-**	**-**
Total comprehensive income for the year	**6,252**	**(435,274)**
Profit is attributable to:		
Owners of Energy Resources of Australia Ltd	**6,252**	**(435,274)**
Total comprehensive income for the year is attributable to:		
Owners of Energy Resources of Australia Ltd	**6,252**	**(435,274)**

Preliminary balance sheet

	2019 $000	2018 $000
Current assets		
Cash and cash equivalents	208,591	313,736
Trade and other receivables	9,400	10,519
Inventories	144,281	115,352
Other	5,785	1,484
Total current assets	**368,057**	**441,091**
Non-current assets		
Inventories	28,118	30,104
Undeveloped properties	89,856	89,856
Property, plant and equipment	4,213	-
Investment in trust fund	76,333	74,715
Total non-current assets	**198,520**	**194,675**
Total assets	**566,577**	**635,766**
Current liabilities		
Payables	41,465	37,877
Provisions	137,351	102,233
Lease liabilities	2,408	-
Income received in advance	-	34,561
Total current liabilities	**181,224**	**174,671**
Non-current liabilities		
Provisions	658,270	741,885
Lease liabilities	1,770	-
Total non-current liabilities	**660,040**	**741,885**
Total liabilities	**841,264**	**916,556**
Net assets	**(274,687)**	**(280,790)**
Equity		
Contributed equity	706,485	706,485
Reserves	388,748	388,897
Accumulated losses	(1,369,920)	(1,376,172)
Total Equity	**(274,687)**	**(280,790)**

Preliminary statement of changes in equity

	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 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)**
Profit for the year	-	-	6,252	6,252
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**6,252**	**6,252**
Transactions with owners in their capacity as owners:				
Employee share options - value of employee services	-	(149)	-	(149)
	-	(149)	-	(149)
Balance at 31 December 2019	**706,485**	**388,748**	**(1,369,920)**	**(274,687)**

Preliminary statement of cash flows

	2019 $000 inflows/ (outflows)	2018 $000 inflows/ (outflows)
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	219,197	215,290
Payments to suppliers and employees (inclusive of goods and services tax)	(230,704)	(239,089)
	(11,507)	**(23,799)**
Payments for rehabilitation	(91,965)	(58,946)
Interest received	5,953	8,479
Financing costs paid	(1,981)	(2,070)
Net cash inflow/(outflow) from operating activities	**(99,500)**	**(76,336)**
Cash flows from investing activities		
Payments for property, plant and equipment	(3,623)	(4,334)
Proceeds from sale of property, plant and equipment	500	-
Net cash inflow/(outflow) from investing activities	**(3,123)**	**(4,334)**
Cash flows from financing activities		
Employee share option payments	(1,418)	(1,068)
Payment of lease liabilities	(1,087)	-
Net cash inflow/(outflow) from financing activities	**(2,505)**	**(1,068)**
Net increase/(decrease) in cash held	(105,128)	(81,738)
Cash at the beginning of the financial year	313,736	395,477
Effects of exchange rate changes on cash	(17)	(3)
Cash at the end of the financial year	**208,591**	**313,736**

Additional information for announcement to the market

Inventories	**2019 $'000**	**2018 $'000**
Inventories - current		
Stores and spares	16,214	15,913
Work in progress at cost	3,808	1,879
Finished product U_3O_8 at cost	124,259	97,560
Total current inventory	144,281	115,352
Inventories – non-current		
Finished product U_3O_8 at cost	28,118	30,104

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 2019 (Nil: 2018).

Provisions	**2019 $'000**	**2018 $'000**
Provisions - current		
Employee benefits	13,856	10,357
Rehabilitation	123,495	91,876
Total current provisions	137,351	102,233
Movement in current rehabilitation provision		
Carrying value at the start of the year	91,876	71,640
Payments	(91,965)	(58,946)
Right of Use assets depreciation	(877)	-
Transfers from non-current provisions	124,461	79,182
Carrying amount at the end of the year	123,495	91,876
Provisions – non-current		
Employee benefits	11,598	3,350
Rehabilitation	646,672	738,535
Total non-current provisions	658,270	741,885
Movement in non-current rehabilitation provision		
Carrying value at the start of the year	738,535	454,049
Unwind of discount	32,598	20,469
Change in estimate	-	343,199
Transfers to current provisions	(124,461)	(79,182)
Carrying amount at the end of the year	646,672	738,535

Employee Benefits

During the year ended 2019, the company continued to develop and plan for the restructure of the work force post production. This has now reached a level of detail where a provision for benefits payable on termination has been recognised in line with Australian Accounting Standards. The total provision recognised is $10 million. This is split between current liabilities and non-current liabilities based on whether the balance is forecast to be payable within one year.

Potential termination payments beyond 2021 are yet to be recognised due to the level of uncertainty regarding quantum and timing.

Additional information for announcement to the market

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 31 December 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 progressed 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 and timing 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 and unit cost of the 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 is now fully commissioned to reduce the risk underpinning this process and maintain the schedule.

Additional information for announcement to the market

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 2019, the real discount rate was 2.00 per cent.

Share capital	**2019 ’000**	**2018 ’000**
Share capital at the end of the financial year	517,725	517,725

Retained earnings	**2019 $’000**	**2018 $’000**
Retained earnings at the beginning of the financial year	(1,376,172)	(940,898)
Net profit/(loss) attributable to members of Energy Resources of Australia	6,252	(435,274)
Retained profits at the end of the financial year	(1,369,920)	(1,376,172)

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 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. For the year ended 31 December 2019, $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 impairments. This requires judgment in analysing possible impacts caused by factors such as the price of uranium oxide, foreign exchange movements, discount rate, 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.

Additional information for announcement to the market

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 these assumptions and assesses potential impairment indicators. In 2019, 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 (which includes an assessment of obtaining any required approval and/or support of various stakeholders, including the Traditional Owners, regulatory bodies and shareholders), 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 31 December 2019 are summarised below:

Sensitivity	**Potential further impairment**
-10 per cent change in the forecast uranium oxide prices	$76 million further impairment
+20 per cent change in development capital	$76 million further impairment
+5 per cent change in forecast Australian/US dollar exchange rates	$20 million further impairment
+1 per cent change in discount rate	$19 million further impairment

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

Taxation

ERA has approximately $195 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.

Additional information for announcement to the market

Liquidity

The future liquidity and capital requirements of ERA will depend on many factors. As a result of the increase in the rehabilitation provision in 2018, ERA has undertaken an Entitlement Offer to raise approximately $476 million. Following the finalisation of the Entitlement Offer, ERA considers that it has adequate cash available to rehabilitate the Ranger Project Area. As a result, no material uncertainty exists over ERA's ability to continue as a going concern.

In April 2016, ERA entered into a $100 million credit facility agreement with Rio Tinto. This agreement remains in place.

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. The balance of bank guarantees, and Trust Fund cash held is currently $410 million. In late January 2020, the independent assessor notified ERA that the estimated Annual Plan of Rehabilitation would increase to $671 million. ERA is questioning certain elements of that assessment, but does not expect the final amount to be materially different to the independent assessment. ERA anticipates that the relevant Commonwealth Minister will finally determine the revised security amount and require ERA to provide the additional security into the Trust Fund later in quarter 1 2020. At this time, ERA will evaluate the appropriate mix of bank guarantees and Trust Fund Cash held. This may result in a significant increase in Trust Fund Cash held.

ERA places cash deposits with a mix of approved financial institutions. These institutions are evaluated to have credit ratings of not less than A-. ERA monitors these deposits periodically with a view of maximising interest revenue, minimising risk and exposures to any one financial institution and cash liquidity. Consequently, ERA holds a variety of term deposits and at call cash accounts.

ERA currently has no debt and $285 million in total cash resources (comprising $209 million of cash on hand or at call and $76 million invested as part of the Trust Fund).

Net Tangible Asset Backing	**2019 $**	**2018 $**
Net tangible asset backing per ordinary share	(0.5)	(0.5)

Audit

This report is based on accounts which are in the process of being audited.