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## CHAIRMAN'S ADDRESS

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### Annual General Meeting

**11 April 2012**

I would like to begin today by acknowledging the Larrakia people, custodians of the land on which we meet, and the Mirarr people, custodians of the land on which we operate the Ranger mine.

#### General Overview

When I reflect on 2011 it is with a sense of déjà vu. After the excellent year ERA enjoyed in 2009, the following year, 2010, was much more difficult with significant production problems due to the extended wet season and the effects of geotechnical instability in the south wall of Pit 3. This decreased production which, combined with the strong Australian dollar, significantly affected profitability in 2010.

And, disappointingly, so it was again in 2011.

The year did not start well. There was extreme rainfall and extensive flooding across much of northern and eastern Australia. You will remember the devastating floods in Queensland and Victoria. In the Northern Territory the 2010/2011 wet season started with record rainfall. Facing the prospect that the wet season would continue with such heavy falls, ERA took the proactive although difficult decision in January to halt ore processing so that the Tailings Storage Facility did not exceed the statutory operating limits.

That decision proved sensible indeed. As the extraordinary wet season continued, the heavy rains were successfully contained with no harm to the environment and no breach of our operating limits.

The suspension of processing operations continued through until June. Once up and running again, the Ranger processing plant performed extremely well for the remainder of the year. This was due in large part to the significant program of maintenance work which was undertaken during the plant suspension.

In the first quarter of 2011, we also witnessed the catastrophic tsunami in Japan. The overriding concern at that time was for the Japanese people as they dealt with the tragic loss of life and the devastation of their homes, their communities, and their businesses.

As has been much reported on over the past year, the tsunami also caused critical damage to the Fukushima nuclear power plant. The nuclear industry



and many governments around the world are, quite properly, looking at the lessons to be learned from this accident, particularly in regard to the older generation of nuclear power plants.

Following the Fukushima accident there was a significant weakening in the uranium price. In recent months prices have stabilised but remain low.

On a more positive note, ERA's strategy for long term supply contracts has ensured ongoing demand for ERA's product. The shortfall between these sales commitments and Ranger production in 2011 was met through a combination of purchased material, loans and alternative arrangements with customers. All commitments were met, thus maintaining ERA's market reputation as a reliable supplier built up over the many years of its operations.

I am also pleased to report the strong performance of ERA in two critical aspects. Despite a very challenging year, the workforce at ERA once again achieved another excellent performance in health and safety. And very importantly, the Commonwealth Government's Supervising Scientist once again confirmed, in his latest report, that the surrounding environment including Kakadu National Park remains protected. The Chief Executive will have more to say on these matters in a moment.

In regard to ERA's environmental performance, I particularly want to note the work that has been undertaken in the area of water management. Building on work undertaken in the previous year, ERA dedicated significant resources in 2011 to such projects as the Tailings Storage Facility wall lift; a feasibility study into a Brine Concentrator, construction of which will commence later this year; development of an additional 80 groundwater monitoring bores around the Tailings Storage Facility; and installation of additional pond water treatment capacity.

Whilst water management remains one of our greatest challenges, we can be proud of the measures we are taking to ensure that the environment in which we operate does remain protected.

During 2011, ERA completed the feasibility study into the proposed Ranger Heap Leach Facility. Whilst the study did indicate that the Facility was technically feasible, high capital costs and economic assumptions limited its value. It was also clear that ERA did not have full stakeholder support for the project. Accordingly the Board decided not to proceed with the project.

Against this disappointment, a great deal of work was undertaken in 2011 to strategically position ERA for the future. This included initiatives to improve our environmental performance and reputation particularly in regard to water management, further exploration on the Ranger Project Area, Traditional



Owner relationships, a capital raising to fund strategic projects, and a comprehensive business review. I will return to these areas of strategic focus shortly.

### **Financial Results**

The suspension of processing operations inevitably restricted production for the year to 2,641 tonnes compared to 3,793 tonnes achieved in 2010. Sales for 2011 totalled 5,167 tonnes with sales revenue for 2011 amounting to \$649 million.

In 2011, ERA recorded a net loss after tax of \$154 million, down from a net profit after tax of \$47 million in 2010. This variance was predominately due to the impact of the suspension of processing operations, a \$99 million negative adjustment to the value of stockpiled ore following the decision not to proceed with the Ranger Heap Leach Facility, and a significant increase in non cash costs, predominantly depreciation driven by the reduction of Ranger ore reserves from 29,848 tonnes at 31 December 2010 to 13,484 tonnes at 31 December 2011.

In the first half of 2011, ERA undertook a detailed desktop review of costs associated with rehabilitation of the Ranger Project Area. This resulted in the provision for rehabilitation increasing from \$314 million to \$550 million as at 30 June on a net present cost basis. This was further adjusted to \$565 million as at 31 December to account for land disturbance during the second half of 2011.

The average realised sales price for uranium oxide through ERA's diversified portfolio of contracts increased markedly from US\$48.16 per pound in 2010 to US\$59.32 in 2011. A long term legacy contract, entered into several years ago when the uranium price was considerably lower, was completed in 2010. The higher long term contract price enjoyed by ERA in 2011 and increased sales volume resulted in a thirteen per cent increase in sales revenue.

Capital spending increased to \$97 million in 2011 compared to \$45 million in 2010. The majority of this expenditure related to water management projects including successful completion of the four metre Tailings Storage Facility wall lift, increased pond water treatment capacity and progress on the Brine Concentrator Project.

ERA remained debt free in the course of 2011. In late 2011 ERA raised approximately \$500 million through a rights issue. The success of this raising demonstrated the confidence that shareholders have in ERA's strategic plan, including strong support from the major shareholder Rio Tinto. The proceeds of this capital raising will be used to progress implementation of ERA's water



management initiatives, particularly the brine concentrator, construct the Ranger 3 Deeps exploration decline and undertake further studies into a possible underground mine and conduct extensive exploration of highly prospective, yet under-explored, areas of the Ranger Project Area.

Having regard to the significant capital investment required to fund these developments, the Board determined that a final dividend for 2011 would not be paid. The Board expects this position on dividends will be maintained for the foreseeable future.

### **Outlook for 2012**

ERA has recently increased its forecast production of uranium oxide from Ranger which is now expected to be between 3,200 and 3,700 tonnes. Sales of uranium oxide are expected to be broadly in line with production.

One year on from Fukushima the impact still weighs on market sentiment, particularly in Japan where only one out of 54 reactors is currently operational. Other countries such as Germany and Switzerland have also indicated a move away from their nuclear energy programmes. Consequently the spot market is mostly flat with limited transactions. Prices are expected to remain relatively static in the near term as surplus Japanese material clears the market.

Despite the impacts of the Fukushima accident on the uranium market in the short term, and the suspension of nuclear plants in Japan, it should not be forgotten that during 2011 there were 432 reactors continuing to operate worldwide. While prices in the near term are expected to remain soft, term prices which are currently around US\$60 should continue to trade at a premium to spot prices as has historically been the case.

In the longer term the outlook remains positive. With the reduced Japanese demand and the slowing in Chinese growth in the short to medium term, the effect of this will be to delay new projects thus constraining supply and leading to upward pressure on uranium prices.

Demand is expected to grow over the long term as concerns about climate change and energy security encourage further development of nuclear power. For developing countries such as China, electricity supply is a key to growing economic activity and improving living standards. As living standards do improve, so demand for electrical power grows further. This is placing pressure on the need for clean reliable energy sources. As a low carbon emitting technology capable of meeting large scale base load requirements, demand for nuclear generated power will only grow in the future. Nuclear power will be an important part of the energy mix for decades to come. This remains very



evident in China where, despite a temporary slowing, growth is still expected to result in long term demand exceeding supply.

Despite some media reports suggesting otherwise, this positive long term outlook is evident in the ongoing planning and construction of new reactors. The World Nuclear Association reported recently that over 80 new reactors are expected to be commissioned by 2017, and that at March 2012, just last month, there were 489 new reactors planned or proposed. This is seven more than the 482 planned or proposed at the time of the Fukushima accident.

ERA's pipeline of development projects and the prospectivity of our tenements will position us very well to participate in this longer term improvement in market conditions.

It is important for me to note that the Ranger Pit 3 mine is nearing the end of its life and will cease operations in late 2012 or early 2013. It is our intention to extract as much of the ore remaining in the pit as weather and geotechnical constraints allow before bringing this important phase of operations to a close.

### **Long Term Outlook**

You will all be aware of the sharp fall in uranium equity prices in 2011 following the Fukushima accident. There were also some specific causes for further weakening in ERA's share price, including the suspension of plant production at Ranger for almost five months, and ERA's successful rights issue which resulted in a proportionate discounting of the share price. As ERA continues to respond to its water management challenges and to develop new resources, we are rebuilding confidence in ERA's value.

With the decision in August 2011 not to proceed with the Ranger Heap Leach Facility, focus has shifted to the Ranger 3 Deeps resource. With an estimated mineral resource of 34,000 tonnes of uranium oxide, this is one of the most promising undeveloped uranium deposits in the world. In August last year, the ERA Board approved \$120 million for construction of an exploration decline to conduct closed space exploration drilling and to explore areas adjacent to the Ranger 3 Deeps resource. Excavation of the box cut will commence in May 2012, with construction of the exploration decline scheduled to commence in October 2012. An additional \$55 million has been allocated for further studies into the development of a Ranger 3 Deeps underground mine.

The Ranger Project Area as a whole remains one of the most highly prospective uranium provinces in the world. ERA has scheduled a three year drilling program at an estimated cost of \$40 million commencing this year to determine potential additional resources on the Ranger Project Area.



In addition to the successful capital raising, ERA has responded to the challenging, and changing, business circumstances with a comprehensive Business Review which has identified targeted cumulative savings of \$150 million to be achieved by the end of 2014. These savings have been locked into the respective operating budgets.

Two critical elements for ERA's long term success are our environmental bona fides and the support of the Mirarr traditional owners. We have a fundamental obligation to protect the surrounding environment for the current and future generations. We take this responsibility very seriously and we understand full well that traditional owner and regulator support is crucial to our future. I am pleased to note the positive steps ERA has taken in this regard and to express our commitment to make the necessary investment in the coming years to earn and sustain this support.

ERA also holds the world-class Jabiluka deposit. Under the long term care and maintenance agreement for this deposit we have committed that development will not proceed without the agreement of the Mirarr Traditional Owners.

So what will the future ERA look like and what is the ERA Board focussed on achieving? I anticipate that our future will be as an underground miner with a smaller surface footprint. There will be ample evidence of progressive rehabilitation and demonstration of our environmental credentials in every aspect of how we operate. We will be working closely with the Mirarr traditional owners, respecting their culture and supporting their future. We will capitalise on our established markets, our long-standing reputation as a reliable supplier, and our relationships with key utility customers to remain one of the leading suppliers of uranium in the world.

If we are able to achieve this, if we develop the resources entrusted to us in a responsible and sustainable manner, we will be able to add significant long term value for our shareholders, local communities and the Northern Territory.

## **Conclusion**

In conclusion, 2011 was a difficult year for ERA and its shareholders, and 2012 is expected to be no less challenging with water management continuing to be the key to ERA's future, although this wet season has not been as intense as originally predicted after the heavy rains in December.

However, as the long standing Ranger Pit 3 mine nears the end of its life, ERA stands on the verge of an exciting transition. The mineral endowment of our leases is outstanding and while the next few years hold uncertainty and will undoubtedly throw up their challenges, ERA has the opportunity, the



**ERA**

commitment and the resources to continue as one of the world's premier suppliers of uranium.

I would like to express my appreciation to the staff of ERA for their efforts and contributions in the course of the past year.

I will now hand over to the Chief Executive Rob Atkinson to address you further on ERA's operational performance.

Thank you.

**David Klingner**  
**Chairman**