

**Results for announcement to the market**

# **Appendix 4E**

## **Energy Resources of Australia Ltd**

ABN 71 008 550 865

ASX Preliminary final report – 31 December 2012

Lodged with the ASX under Listing Rule 4.3A

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				<b>2012</b>	<b>2011</b>
				<b>\$000</b>	<b>\$000</b>
<b>Revenue</b> from sales of uranium	<b>down</b>	39%	to	395,399	649,213
<b>Revenue</b> from continuing operations	<b>down</b>	37%	to	422,849	667,849
<b>Profit/(loss)</b> from continuing operations after tax attributable to members	<b>down</b>	42%	to	(218,759)	(153,599)
<b>Net profit/(loss)</b> for the period attributable to members	<b>down</b>	42%	to	(218,759)	(153,599)
<b>EPS</b> (cents)	<b>down</b>	42%	to	(42.3)	(29.7)
<b>Net Cash inflow/(outflow)</b> from operating activities	<b>down</b>	106%	to	(3,324)	54,916
<b>Underlying earnings</b>	<b>down</b>	178%	to	(150,715)	(54,156)
<b>Earnings</b> before Interest, Tax, Depreciation & Amortisation	<b>up</b>	63%	to	(34,615)	(94,790)

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

**Reconciliation of net earnings to underlying earnings**

*All after tax figures in \$ million*

	<b>2012</b>	<b>2011</b>
Profit/(Loss) for the year	(218,759)	(153,599)
Non-cash Impairment Charge	68,044	-
Low Grade Inventory Adjustment	-	99,443
Underlying earnings	<u>(150,715)</u>	<u>(54,156)</u>

**Review of operations**

Energy Resources of Australia Ltd's (**ERA**) net loss after tax for the year ended 31 December 2012 was \$219 million, which included a non-cash impairment charge of \$68 million. This compares to a net loss after tax for the year ended 31 December 2011 of \$154 million which included a \$99 million post tax inventory adjustment resulting from low grade stockpiled material being reclassified from Ore Reserves to Mineral Resources.

Underlying earnings in 2012 were a loss of \$151 million compared to underlying earnings in 2011 of a loss of \$54 million. The variance was predominately related to a significant increase in depreciation.

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In light of the decline in the spot and long term uranium price during the second half of 2012 and its consequential impact on the uranium price outlook, coupled with the continuing strength of the Australian dollar and the increase in the asset base (primarily related to water management initiatives and rehabilitation) over the last two years, the ERA Board has recognised a non-cash impairment charge of \$68 million.

Revenue from the sale of uranium oxide in 2012 was \$395 million (2011: \$649 million). Sales of uranium oxide were 3,223 tonnes, down from 5,167 tonnes achieved in 2011. The average realised sale price of uranium oxide achieved by ERA in 2012 was US\$58.33 per pound (2011: US\$59.32 per pound).

ERA's sales strategy focuses on ensuring a long term reliable supply of uranium oxide to customers, with a corresponding pricing strategy that focuses on the long term price rather than the spot price. The spot price weakened considerably during 2012 and finished the year at US\$43.38 per pound (US\$51.88 per pound at 31 December 2011). The long term price declined in the second half of the year and ended 2012 lower at US\$56.50 per pound (US\$62.00 per pound at 31 December 2011).

Sales of uranium oxide are denominated in US dollars. In 2012, the continued strength of the Australian dollar compared to the US dollar had a negative impact on ERA's financial results. ERA does not presently conduct hedging activities to mitigate the impact of movements in the Australian currency relative to the US dollar.

Production of uranium oxide in 2012 was 3,710 tonnes compared to 2,641 tonnes in 2011. Uranium oxide production in the second half of 2012 benefited from access to higher grade ore located at the bottom of the pit, which helped to maintain higher mill head grade. Full year mill throughput and plant utilisation achieved record levels in 2012. Uranium oxide produced in 2011 was significantly impacted by the suspension of processing operations from 28 January 2011 until 15 June 2011.

In November 2012, ERA completed mining in Pit 3 ahead of schedule, following the earlier than expected completion of dewatering of the pit in May 2012 and strong operational performance by the mining and maintenance teams.

In December 2012, ERA commenced the backfilling of Pit 3 utilising its existing mining fleet. This is an important step in ERA's rehabilitation programme.

In 2012, total costs were adversely impacted by the requirement to purchase a total of 501 tonnes of uranium oxide on the spot market. This material was required to meet ERA's 2012 sales schedule following the record level of rainfall in December 2011 which prevented access to the high grade ore located at the bottom of the pit in early 2012. A further contribution was the significant increase in non-cash costs and expenditure on construction of the Ranger 3 Deeps exploration decline. Savings in consumable costs were realised as a result of the processing plant continuing to be optimised for milling lower grades.

Non-cash costs associated with depreciation increased significantly during the year. The majority of depreciation is calculated on Ranger Ore Reserves. A reclassification of low grade stockpiles from Ore Reserves to Mineral Resources occurred in August 2011, accelerating the depreciation of a significant portion of the company's assets. Further contributions to the increase in depreciation were the significant investment in water management infrastructure and increases in the rehabilitation costs estimate since 2010.

Employee benefit and contractor costs remained in line with 2011 despite the increase in costs associated with the construction of the Ranger 3 Deeps exploration decline. These

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costs were largely offset by reduced use of consultants on studies and a continued focus on minimising the use of contractors.

Materials and consumables used rose in 2012 due to higher milling rates in 2012 compared to 2011. This increase was partially offset by savings achieved through the optimisation of the processing plant for the processing of low grade ore. In 2011, materials and consumables used were significantly impacted by the suspension of processing operations in the first half of that year.

Royalties increased despite lower sales volumes as a result of the repayment of uranium loans using Ranger material. Repayment of uranium loans with Ranger material attracts the payment of royalty at the time of repayment of the loan.

Capital expenditure increased in 2012 to \$161 million (2011: \$97 million). The majority of expenditure related to water management initiatives, including the 2.3 metre Tailings Storage Facility lift and construction of the Brine Concentrator.

### **Rehabilitation Provision**

In 2012, ERA commenced the Integrated Tailings, Water and Closure (ITWC) Prefeasibility Study to develop the optimal rehabilitation plan for the Ranger Project Area. This study has confirmed the timing and technology necessary to deliver a best practice rehabilitation plan in line with the current Ranger Authority. The provision for rehabilitation represents the net present cost at 31 December, based on current disturbance, of the preferred rehabilitation plan.

As a result of the work undertaken to date as part of the ITWC Prefeasibility Study, the rehabilitation cost estimate for the Ranger Project Area has been revised which has led to an increase of \$22 million in the rehabilitation provision.

Further, ERA has reviewed the discount rate used in determining the rehabilitation provision and reduced the real discount rate by 0.5 per cent to 2.5 per cent. This is a result of reduced yields being achieved on risk free investments. This has resulted in the rehabilitation provision being increased by a further \$19 million.

Other recurring adjustments such as the unwinding of discount, additional disturbance due to operational activities and rehabilitation work undertaken has resulted in a net increase of \$34 million in the rehabilitation provision.

At 31 December 2012, the total rehabilitation provision has been increased to \$640 million (2011: \$565 million). Further details are provided on pages 11 and 12 of this report.

### **Dividends**

In light of investments currently being undertaken by ERA and the challenging market conditions faced, the ERA directors have decided not to declare a final dividend for the 2012 financial year (2011: Nil).

### **Mining Agreement**

A suite of agreements covering the Ranger Project Area were executed by ERA, the Mirarr Traditional Owners, the Northern Land Council (NLC), and the Commonwealth Government on 24 January 2013. This was a significant achievement and reflects a strengthening in the relationship between ERA and the Gundjeihmi Aboriginal Corporation (GAC). The GAC

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played a pivotal role in representing the interests of the Mirarr Traditional Owners during these negotiations.

Key features of the agreements include:

- Mirarr Traditional Owners will receive an increased share of the financial benefits from the Ranger mine;
- a regional Sustainability Trust to be established to deliver social initiatives in the local region - the GAC and ERA are represented on the Trust and will each contribute funds on an annual basis;
- a Relationship Committee will be immediately established to ensure effective information sharing and review processes between ERA and GAC; and
- An agreed approach to increasing opportunities for local Aboriginal participation in business development, training and employment.

### Ranger 3 Deeps exploration decline

On 1 May 2012, ERA commenced construction of the Ranger 3 Deeps exploration decline at the Ranger mine. Construction continues to progress with the backfill of the box cut now complete and construction of the underground decline well under way. At the end of December 2012, approximately 57 meters of underground decline had been constructed with underground progress to date slightly slower than scheduled due to poor ground conditions.

The current estimated cost to complete this work is \$120 million. The Ranger 3 Deeps resource currently contains an estimated 34,000 tonnes of uranium oxide. The overall project remains on time and within budget.

### Ranger 3 Deeps underground mine prefeasibility study

In 2012, the ERA Board approved the Ranger 3 Deeps mine prefeasibility study at an estimated cost of \$57 million. The study is progressing well and remains on schedule and within budget.

In parallel to the study, in January 2013, ERA formally commenced the statutory approval process for the proposed Ranger 3 Deeps underground mine with the submission of a referral to the Commonwealth Department of Sustainability, Environment, Water, Population and Communities under the *Environment Protection and Biodiversity Conservation Act 1999*. At the same time, ERA separately lodged a notice of intent with the Northern Territory Environment Protection Authority under the *Environmental Assessment Act*.

### Brine Concentrator

On 1 February 2012, the ERA Board approved the design, construction and commissioning of a Brine Concentrator at the Ranger mine with the nominal capacity to produce 1.83 gigalitres of clean water per annum through the treatment of process water. The estimated total capital expenditure for the Brine Concentrator project is \$220 million, which includes an amount of \$65 million for the procurement of long lead time items previously approved by the Board.

Construction of the Brine Concentrator has progressed with major components now erected on site. Commissioning is anticipated to be during the second half of 2013. The overall project remains on time and within budget.

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### Exploration and evaluation

ERA resumed its surface exploration programme during the second quarter of 2012 following the 2011/12 wet season. A summary of significant intercepts are detailed below.

PROSPECT	HOLEID	INTERVAL NO	FROM	LENGTH (M)	U <sub>3</sub> O <sub>8</sub> %
Ranger 19	R19PD52	1	647	1	0.159
		2	655	5	0.102
		3	668	10	0.243
Ranger 3 Deeps	R3D35	4	318	3	0.130*
		5	329	44	0.198*
		6	378	1	0.115*
	R3D37	2	257	3	0.186*
		3	276	23	0.645*
Ranger 4	A4D27	1	53	3	0.085
		2	61	3	0.123
		3	77	1	0.287
Ranger 18	R18PD185	1	926	1	0.374
		2	930	1	0.218
		3	942	2	0.147
		4	949	6	0.132

*NB: All intersections were determined using a 0.08% U<sub>3</sub>O<sub>8</sub> cut-off at a minimum one metres composite. Intersections are down-hole lengths and the true width of the intersections has not been calculated. (\* denoted eU<sub>3</sub>O<sub>8</sub>)*

In 2013, the expanded surface exploration programme on the Ranger Project Area will continue, however, due to the current market conditions will be undertaken over a longer period of time than initially communicated.

### Outlook

ERA expects that the uranium market will remain challenging in the near term, however, the long term outlook is still very encouraging for established producers.

Following the completion of mining in Pit 3 in November 2012, the mill will now be fed from stockpiled material, which includes some high grade ore mined in 2012. At this time, ERA expects uranium production for 2013 to be within the range of 2,700 tonnes to 3,300 tonnes.

ERA expects that sales of uranium oxide in 2013, combined with the repayment of outstanding uranium loans, to be broadly in line with production.

In 2013, ERA will continue to reduce the costs of its operations to reflect expected production levels. At the same time, the company will vigorously pursue the continued exploration of underground resources and development opportunities.

### Competent Person

The information in this report relating to exploration results is based on information compiled by Greg Rogers, who is a member of the Australasian Institute of Mining and Metallurgy. Greg Rogers is a full-time employee of the company and he has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Greg Rogers consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

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**Preliminary consolidated statement of comprehensive income**

	2012 \$000	2011 \$000
Revenue from continuing operations	422,849	667,849
Changes in inventories	108,169	(110,430)
Purchased materials (uranium oxide)	(55,595)	(244,064)
Materials and consumables used	(128,851)	(111,192)
Employee benefits and contractor expenses	(212,415)	(211,353)
Government and other royalties	(20,639)	(16,153)
Commission and shipping expenses	(7,228)	(5,611)
Depreciation and amortisation expenses	(243,651)	(125,925)
Non-cash impairment charge	(68,044)	-
Financing costs	(29,465)	(27,132)
Statutory and corporate expense	(14,869)	(13,675)
Other expenses	(5,046)	(8,654)
<b>Profit/(Loss) before income tax</b>	<b>(254,785)</b>	<b>(206,340)</b>
Income tax benefit/(expense)	36,026	52,741
<b>Profit/(Loss) for the year</b>	<b>(218,759)</b>	<b>(153,599)</b>
<b>Other comprehensive income for the year, net of tax</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>	<b>(218,759)</b>	<b>(153,599)</b>
Profit is attributable to:		
Owners of Energy Resources of Australia Ltd	(218,759)	(153,599)
Total comprehensive income for the year is attributable to:		
Owners of Energy Resources of Australia Ltd	<b>(218,759)</b>	<b>(153,599)</b>

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**Preliminary consolidated balance sheet**

	2012 \$000	2011 \$000
<b>Current assets</b>		
Cash and cash equivalents	467,345	632,584
Trade and other receivables	42,154	67,200
Current tax assets	-	3,698
Inventories	208,374	126,049
Other	516	381
<b>Total current assets</b>	<b>718,389</b>	<b>829,912</b>
<b>Non-current assets</b>		
Inventories	137,884	112,801
Undeveloped properties	203,632	203,632
Property, plant and equipment	666,167	741,254
Deferred tax assets	38,155	2,154
Investment in trust fund	62,048	59,219
<b>Total non-current assets</b>	<b>1,107,886</b>	<b>1,119,060</b>
<b>Total assets</b>	<b>1,826,275</b>	<b>1,948,972</b>
<b>Current liabilities</b>		
Payables	100,242	80,238
Provisions	78,005	37,019
<b>Total current liabilities</b>	<b>178,247</b>	<b>117,257</b>
<b>Non-current liabilities</b>		
Provisions	578,409	543,179
<b>Total non-current liabilities</b>	<b>578,409</b>	<b>543,179</b>
<b>Total liabilities</b>	<b>756,656</b>	<b>660,436</b>
<b>Net assets</b>	<b>1,069,619</b>	<b>1,288,536</b>
<b>Equity</b>		
Contributed equity	706,485	706,485
Reserves	390,301	390,459
Retained profits	(27,167)	191,592
<b>Total equity</b>	<b>1,069,619</b>	<b>1,288,536</b>

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**Preliminary consolidated statement of changes in equity**

	Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	Total \$'000
<b>Balance at 1 January 2011</b>	<b>214,585</b>	<b>391,300</b>	<b>345,191</b>	<b>951,076</b>
Profit/(Loss) for the year	-	-	(153,599)	(153,599)
Other comprehensive income	-	-	-	-
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>(153,599)</b>	<b>(153,599)</b>
<b>Transactions with owners in their capacity as owners:</b>				
Contributions of equity	491,900	-	-	491,900
Employee share options - value of employee services	-	(841)	-	(841)
	491,900	(841)	-	491,059
<b>Balance at 31 December 2011</b>	<b>706,485</b>	<b>390,459</b>	<b>191,592</b>	<b>1,288,536</b>
Profit/(Loss) for the year	-	-	(218,759)	(218,759)
Other comprehensive income	-	-	-	-
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>(218,759)</b>	<b>(218,759)</b>
<b>Transactions with owners in their capacity as owners:</b>				
Contributions of equity	-	-	-	-
Employee share options - value of employee services	-	(158)	-	(158)
	-	(158)	-	(158)
<b>Balance at 31 December 2012</b>	<b>706,485</b>	<b>390,301</b>	<b>(27,167)</b>	<b>1,069,619</b>

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**Preliminary consolidated statement of cash flows**

	2012 \$000	2011 \$000
	inflows/ (outflows)	inflows/ (outflows)
<b>Cash flows from operating activities</b>		
Receipts from customers (inclusive of goods and services tax)	449,582	687,817
Payments to suppliers and employees (inclusive of goods and services tax)	(430,398)	(645,447)
Payments for exploration	(45,413)	(9,368)
	(26,229)	33,002
Interest received	22,428	12,127
Borrowing costs paid	(3,211)	(2,110)
Income taxes refunded	3,688	11,897
<b>Net cash inflow/(outflow) from operating activities</b>	<b>(3,324)</b>	<b>54,916</b>
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment	(160,750)	(97,426)
Proceeds from sale of property, plant and equipment	29	22
<b>Net cash inflow/(outflow) from investing activities</b>	<b>(160,721)</b>	<b>(97,404)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	-	500,290
Share issue transaction costs	-	(11,986)
Employee share option payments	(1,196)	(902)
<b>Net cash inflow/(outflow) from financing activities</b>	<b>(1,196)</b>	<b>487,402</b>
<b>Net increase/(decrease) in cash held</b>	<b>(165,241)</b>	<b>444,914</b>
Cash at the beginning of the financial year	632,584	187,670
Effects of exchange rate changes on cash	2	-
<b>Cash at the end of the financial year</b>	<b>467,345</b>	<b>632,584</b>

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<b>Retained earnings</b>	2012 \$'000	2011 \$'000
Retained earnings at the beginning of the financial year	191,592	345,191
Net profit/(loss) attributable to members of Energy Resources of Australia Ltd	(218,759)	(153,599)
Retained profits/(accumulated losses) at the end of the financial year	<u>(27,167)</u>	<u>191,592</u>

<b>Share capital</b>	2012 No. shares	2011 No. shares
Opening balance at the beginning of the financial year	517,725	190,738
Rights Issue (2011: 326,987,128 ordinary shares)	-	326,987
Share capital at the end of the financial year	<u>517,725</u>	<u>517,725</u>

On 12 October 2011 the company invited its shareholders to subscribe to a rights issue of 326,987,128 ordinary shares at an issue price of \$1.53 per share on the basis of 12 shares for every 7 fully paid ordinary shares held, with such shares to be issued on, and rank for dividends after, 25 October 2011 for the institutional entitlement and 21 November for the retail entitlement. The issue was fully subscribed.

<b>Provisions</b>	2012 \$'000	2011 \$'000
Provisions -current		
Employee benefits	11,778	11,891
Rehabilitation	66,227	25,128
Total current provisions	<u>78,005</u>	<u>37,019</u>
Movement in current provisions		
Carrying value at the start of the year	25,128	18,750
Payments	(28,293)	(5,382)
Transfer from non-current provisions	69,392	11,760
Carrying amount at the end of the year	<u>66,227</u>	<u>25,128</u>
Provisions – non-current		
Employee benefits	4,780	3,022
Rehabilitation	573,629	540,157
Total non-current provisions	<u>578,409</u>	<u>543,179</u>
Movement in non-current provisions		
Carrying value at the start of the year	540,157	295,882
Unwind of discount	26,254	25,022
Additional provision recognised	34,968	10,796
Change in estimate	22,356	220,217
Change in discount rate	19,286	-
Transfer from current provisions	(69,392)	(11,760)
Carrying amount at the end of the year	<u>573,629</u>	<u>540,157</u>

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

The costs are estimated on the basis of a rehabilitation model, taking into account consideration to the preferred options available to meet ERA's obligations. The cost estimates are reviewed annually during the life of the operation to reflect known developments.

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A prefeasibility study was conducted during the year and resulted in modifications to the preferred rehabilitation plan as at 31 December 2012. The provision for rehabilitation represents the net present cost at 31 December, based on current disturbance, of the preferred plan within the requirements of the Ranger Project Area Authority.

As a result of work undertaken to date as part of the prefeasibility study, the cost estimates for the Ranger Project Area has been revised. As a result of the revised rehabilitation estimate the rehabilitation provision has been increased by \$22.4 million.

A key sensitivity in estimating the rehabilitation provision is the discount rate applied to the underlying cash flows. ERA has reduced the real discount rate by 0.5 per cent to 2.5 per cent in response to reduced yield achieved on risk free investments. This has resulted in the rehabilitation provision being increased by \$19.3 million.

The ultimate cost of rehabilitation is uncertain and can vary in response to many factors such as legal requirements, technological change and experience at other sites. To the extent that ERA's future estimates of the rehabilitation costs are different to those currently estimated, ERA will adjust the provision for rehabilitation costs to reflect additional knowledge obtained.

### **Asset Carrying Values**

During the period significant events occurred within ERA's operation and across the broader market indicating the presence of impairment indicators.

ERA has two cash generating units (**CGU**) - the Ranger CGU and the Jabiluka CGU.

The Ranger CGU includes all assets and liabilities related to activities on the Ranger Project Area, including the rehabilitation provision and the associated asset capitalised within property, plant and equipment. The Jabiluka CGU relates to the Jabiluka lease which is currently under long term care and maintenance and, in accordance with the Jabiluka Long Term Care and Maintenance Agreement, will not be developed without the approval of the Mirarr Traditional Owners.

ERA assesses the recoverable amount of each CGU based on the greater of fair value less costs to sell or value in use. ERA has used the fair value less costs to sell method for the Ranger CGU which has been determined based on discounted cash flow modelling of a set of probability weighted strategic outcomes. In assessing impairment, estimates are required of resource and development potential, future market prices, discount rate, exchange rates, rehabilitation, capital and production costs in order to assist in the judgment of the recoverable amount.

When conducting this assessment, the ERA Board has adopted long term uranium price and exchange rate assumptions based on a survey of a sample of brokers and financial institutions. In 2012, the results of this survey has shown a lower market view of the long term uranium price outlook and a general strengthening of the Australian dollar when compared to the prior survey conducted in 2011.

These long term uranium price and exchange rate assumptions and the cumulative impact of increases in the rehabilitation cost estimate over the period of 2010 to 2012 has resulted in a reduction in the fair value of the Ranger CGU to the extent that a non-cash impairment charge of \$68 million has been recognised.

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In recent years ERA has placed focus on ensuring adequate provision exists to cover rehabilitation activities. When the estimate is increased by additional disturbance, change in discount rate or a change in estimate, the increase is capitalised into property plant and equipment. Since 2010 this has resulted in a significant increase in this component of property plant and equipment. ERA considers that this portion of property, plant and equipment is individually significant and one of the contributors to impairment, as such the impairment charge has been allocated completely to this component of property plant and equipment.

The non-cash impairment charge has been charged against the income statement.

ERA has concluded that the fair value of the Jabiluka CGU is in excess of its carrying value.

<b>Net Tangible Asset Backing</b>	2012	2011
Net tangible asset backing per ordinary share	2.1	2.5

**Audit**

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