

11 Financial provision for closure



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Cover photograph: Cluster Fig (*Ficus racemosa*) recruit on the trial landform

GLOSSARY

Below are key terms that are used in this section.

Key term	Definition
Annual Plan of Rehabilitation	High level plan used to determine the securities amount to be held by the Commonwealth Government for Ranger Mine rehabilitation obligations.

ABBREVIATIONS & ACRONYMS

Below are abbreviations and acronyms that are used in this section.

Abbreviation/ Acronym	Description
APR	Annual Plan of Rehabilitation
ASX	Australian Securities Exchange
ERA	Energy Resources of Australia Ltd
TSF	Tailings Storage Facility
RWD	Ranger Water Dam

11 FINANCIAL PROVISION FOR CLOSURE

11.1 Rehabilitation provision

The Energy Resources of Australia Ltd (ERA) rehabilitation provision as at 30 June 2020 was \$1,218 million. The calculation of the rehabilitation provision relies on estimates of costs and their timing to rehabilitate and restore disturbed land to establish an environment similar to the adjacent Kakadu National Park in line with the Company's statutory obligations.

The costs are estimated on the basis of a closure plan, 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 2022 of the preferred plan (subaerial capping) and represents managements best estimate of cost.

In July 2021, ERA commenced a major reforecast of cost and schedule after risks materialised post-completion of the 2019 Feasibility Study. The reforecast continued into early 2022, including an external evaluation by Bechtel of the preliminary findings. The preliminary findings by ERA from its reforecast exercise based on the Ranger rehabilitation project being completed in accordance with the methodology set out in the 2020 Mine Closure Plan indicates that:

- i. The revised total cost of completing the Ranger Project Area rehabilitation, including incurred spend from 1 January 2019, is forecast to be approximately between \$1.6 billion and \$2.2 billion (undiscounted nominal terms). The previously announced closure estimate, which was based on the Ranger Project Area Closure Feasibility Study finalised in 2019 ("Feasibility Study"), was \$973 million (undiscounted nominal terms).
- ii. The revised date for completing the Ranger Project Area rehabilitation is forecast to be between Quarter 4, 2027 and Quarter 4, 2028.

ERA notes that the above revised estimates, as to both cost and schedule, are based on the Ranger rehabilitation project being completed in accordance with the methodology set out in the 2020 Mine Closure Plan.

In determining the provision, ERA has considered the preliminary findings from the reforecast, recent work in preparation for an interim Entitlement Offer and potential optimisation of the Pit 3 capping strategy. The reforecast estimate is prepared in nominal terms, it has then been adjusted to real terms by removing the impacts of inflation. This has then been discounted at 1.5% to calculate a closure provision. The estimated closure provision at 30 June, excluding unrecognised employee termination benefits and including an allowance of \$1 million for Jabiluka rehabilitation is \$1,218 million.

Potential short term spend requirements used in preparation for an interim Entitlement Offer indicates expected costs in 2022 and 2023 may be higher than the preliminary reforecast findings, used to determine the rehabilitation provision. The preliminary reforecast findings, used to determine the rehabilitation provision, has adequate available contingency should these additional costs be realised. No adjustment to the closure provision has occurred given the available contingency and the preliminary stages of the Feasibility Study work into the alternate capping method, noting that optimisation activities have not yet commenced.

The rehabilitation project continues to be exposed to challenging conditions, including supply chain constraints and inflationary pressures being experienced across the broader industry. One example is that ERA experienced a 2-month delay in receiving the wicking barge ordered from China.

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. The 2022 Feasibility Study is underway and scheduled for completion in 2023, as such it is reasonably possible that outcomes from within the next financial year may be different from the current cost estimate and could require material adjustment to the rehabilitation provision for the Ranger Project Area.

Selected risks on the Ranger rehabilitation provision are detailed below (see *Section 7 Risk Assessment and Management* for all risks).

11.1.1 Tailings consolidation

Following the completion of the transfer of tailings to Pit 3, the wicking of Pit 3 will commence. During the final capping process the tailings in Pit 3 will consolidate and express process water, which will need to be collected and treated. The consolidation process will be aided by installing vertical wicks and the knowledge of the consolidation timeframes is backed up by a detailed model based on in situ testing of site tailings. The consolidation model predictions of rates of process water expression is impacted by many factors, including tailings density and other characteristics, deposition method and free process water volume in the pit during deposition. These impacts have been considered in the reforecast but to the extent tailings consolidation and process water expression extend further could have additional adverse impacts on cost and schedule of completing rehabilitation.

11.1.2 Process water and injection of waste brines

Management of water on the Ranger Project Area is critical to ongoing rehabilitation activities. The 2022 Feasibility Study will review the adequacy of the water infrastructure and the water model. To the extent that any of these closure aspects cost more than expected or ERA is required to implement further initiatives (such as the installation of additional water treatment infrastructure), the rehabilitation cost may increase further.

In addition, as a result of treating processed water, a waste stream of contaminated salt is generated. The salt is ultimately to be stored below tailings in Pit 3 via injecting the brine through bore holes. This technology has been used previously but the long-term performance is yet to be fully confirmed. Should the disposal of salt in this manner not prove viable, an alternate method of salt disposal would be required. This would demand additional capital expenditure which has not been allowed for in the rehabilitation estimate or resulting provision and may not be available to ERA.

11.1.3 Bulk material movement

Once capping of Pit 3 is complete, large scale bulk material backfill and landform shaping will occur. Bulk material movements are sensitive to the volume of material which is to be moved and the schedule of movement. To the extent volumes or costs of movement change, there may be a material impact on the rehabilitation cost or schedule.

11.1.4 Other factors

In addition to the factors identified above there are many additional items that the estimate could be impacted by, including: evaporation rates, stakeholder requirements, higher costs of relinquishing Jabiru township housing, engineering studies, other site contaminants, 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 2022, the real discount rate was 1.5 per cent, which remains consistent with 31 December 2021.

11.1.5 Cash flow timing

The company estimates the presentation of its rehabilitation provision between current and non-current liabilities, based on anticipated timing of expenditure from updated cash flow forecasts.

11.2 Closure Feasibility Study Update

In May 2022, ERA commenced a feasibility study update in connection with a lower technical risk rehabilitation methodology (primarily relating to the subaerial capping of Pit 3) and to further refine the Ranger Project Area rehabilitation execution scope, risks, cost and schedule. Subaerial capping, previously adopted for Pit 1, is a more traditional method and it is currently ERA's preferred methodology. The 2022 Feasibility Study is expected to take approximately 12 months to complete.

11.3 Government Agreement

Separate to this MCP, ERA is required to maintain the Ranger Rehabilitation Special Account (Trust Fund) with the Commonwealth Government. The Trust Fund is intended to provide security against the estimated costs of closing and rehabilitating the Ranger mine immediately. Each year, the Company is required to prepare and submit to the Commonwealth Government an Annual Plan of Rehabilitation (Annual Plan). Once accepted by the Commonwealth Government, the Annual Plan is then independently assessed and costed and the amount to be provided by the Company into the Trust Fund is then determined.

As at 30 June 2022, ERA had \$537 million in cash currently held by the Commonwealth Government as part of the Ranger Rehabilitation Special Account (Trust Fund). In addition, bank guarantees procured by ERA totalling \$125 million are held by the Commonwealth as additional security for ERA's Ranger rehabilitation obligations (an additional \$1 million is held as an allowance for Jabiluka rehabilitation).

These bank guarantees were provided to the Commonwealth Government based on its review in February 2020 of the 44th Annual Plan of Rehabilitation submitted by ERA (i.e. prior to the Reforecast of the cost of Ranger Project Area rehabilitation).

ERA has agreed amendments to its Government Agreement with the Commonwealth to introduce a clearer framework for managing the amount of security held by the Commonwealth and releasing funds from the Trust Fund for completed rehabilitation works. However, drawdown of funds under this framework will first require revaluation of the security following ERA's internal cost review, which is expected to occur after completion of the 2022 Feasibility Study in 2023. Given the expected increase in the cost of rehabilitating the Ranger Project Area, ERA may be required to provide additional security.

Under this new framework, ERA is entitled to submit a one-off interim payment request for the release from the Trust Fund of an amount representing a portion of the cost of rehabilitation works performed at Ranger between 8 January 2021 and 1 June 2022. An application for drawdown of \$58 million was submitted on 26 August 2022 and a response from the Commonwealth is anticipated by the end of October.