



3 December 2019

ASX Announcement

Execution of non-binding Term Sheets for the funding of the Boikarabelo Coal Project

Resource Generation Limited (ASX:RES/JSE:RSG)(**Company or ResGen**) is pleased to announce that its subsidiary, Ledjadja Coal Pty Ltd (**Ledjadja Coal**), has entered into two non-binding term sheets, being the equity and debt term sheets (**Term Sheets**) with a group of three potential funders (**Lending Syndicate**) for the funding of the Boikarabelo Coal Project (**Project**).

The Company advises that it has appointed legal advisors and that work on drafting definitive legal documentation based on the Term Sheets (conducted in tandem with finalising the Term Sheets) is well progressed. The Company will keep the market informed on progress in accordance with its continuous disclosure obligations.

Any binding commitment from the Lending Syndicate to fund the Project remains subject to, among other things, the parties finalising definitive and legally binding documentation recording the terms and conditions of the funding arrangements and subsequent satisfaction of all conditions precedent to that funding being provided, including the Company and each member of the Lending Syndicate obtaining all necessary internal, regulatory and shareholder approvals.

The Company's Interim Managing Director and Interim CEO, Leapeetse "Papi" Molotsane, commented *'this marks a significant milestone in the process of securing the funding required in order to be able to successfully bring the Boikarabelo Coal Mine into operation'*.

1. Background

On 24 June 2019, the Company announced that the third and final member of what is now the Lending Syndicate had received credit approval for their contribution to Ledjadja Coal's funding application in relation to the construction of the Project. The amount of the funding package offered by the Lending Syndicate was confirmed as being ZAR 4.2 billion (approx. A\$ 417.9 million applying an ZAR:AUD exchange rate of 10.05:1)

This funding package excludes the additional debt facility that is being arranged for ramp-up working capital of ZAR 500 million (approx. A\$ 49.7 million applying an ZAR:AUD

exchange rate of 10.05:1) and the additional debt facility that is being arranged for construction of 44km's of rail infrastructure to link the Project to the Transnet main line of ZAR 750 million (approx. A\$ 74.6 million applying an ZAR:AUD exchange rate of 10.05:1).

2. Composition of the Lending Syndicate

It can now be confirmed that the members of the Lending Syndicate are:

- Government Employees Pension Fund and the Unemployment Insurance Fund, (both managed by the Public Investment Corporation SOC Limited (**PIC**));
- Industrial Development Corporation of South Africa Limited (**IDC**); and
- Noble Resources International Pte Ltd (**Noble**).

The Term Sheets contemplate that Ledjadja Coal will be the borrower in respect of any funds advanced by the Lending Syndicate with the Company, Ledjadja Coal and a number of the Company's other subsidiaries providing security for these advances.

3. Composition of the Funding Package

The funding package contemplated by the Term Sheets has a debt component and an equity component, with each of these components being the subject of a separate Term Sheet. A summary of the key indicative terms contained in each Term Sheet is set out below:

(i) Debt Component

The debt facilities contemplated by the Term Sheets comprise a Senior Debt Facility and a Mezzanine Facility (**Debt Facilities**).

It is proposed that the Senior Debt Facility, subject to satisfaction or waiver of all conditions precedent, will be for an aggregate amount of approximately ZAR 2.34 billion, with that amount made up of the following senior loans from the members of the Lending Syndicate:

- Noble: ZAR 850 million;
- PIC: ZAR 950 million; and
- IDC: ZAR 540 million.

It is proposed that the Senior Debt Facility will be a secured debt, rank *pari passu* between the parties, rank above the Mezzanine Debt Facility for the purposes of repayment and is to be drawn down on a *pro rata* basis after all Shareholder Loans and Mezzanine Debt has been fully drawn.

It is proposed that the Mezzanine Debt Facility, subject to satisfaction or waiver of all conditions precedent, will be for an aggregate amount of approximately ZAR 1.63 billion, with that amount to be made up of the following loans from the members of the Lending Syndicate:

- Noble Mezzanine Loan: ZAR720 million;
- PIC Mezzanine Loan: ZAR550 million; and
- IDC Mezzanine Loan: ZAR360 million.

The Mezzanine Debt Facility will all rank *pari passu* between the parties and will be subordinated to the Senior Debt Facility and the Ramp-up Working Capital Facility (once fully executed).

(ii) Equity Component

The Equity Term Sheet contemplates, subject to satisfaction or waiver of all relevant conditions precedent, the PIC, IDC and Noble acquiring equity in Ledjadja Coal at a nominal value of ZAR 0.01 per share on the basis of committing to inject **New Shareholder Loans** specifically for purposes of funding the Project as follows:

- PIC Shareholder Loan: ZAR100 million;
- IDC Shareholder Loan: ZAR100 million; and
- Noble Shareholder: ZAR30 million.

It is proposed that each of the above New Shareholder Loans will:

- remain subordinated to all other financial indebtedness of Ledjadja Coal;
- be interest free and unsecured; and
- to rank ahead of all current shareholder loans to Ledjadja Coal for the purposes of repayment.

If the arrangements contemplated by the Equity Term Sheet were completed, and there were no other changes to the current equity interests held in Ledjadja Coal, then it is anticipated that the shareholder equity interests in Ledjadja Coal would be as follows:

- ResGen Africa Holdings P/L: 51%
- Fairy Wing Trading P/L: 26%
- PIC: 10%
- IDC: 10%
- Noble: 3%

It is proposed that the Original Noble Loan advanced to Ledjadja Coal of approximately \$US20 million in March 2014 under the Facility Agreement (at an interest rate of 10.75%), excluding capitalised interest, will cease to accrue interest at financial close for Project funding and be converted from a term loan to subordinated equity loan which will rank *pari passu* with the New Shareholder Loans. Accumulated interest on the Original Noble Loan up to financial close of approximately US\$17.5 million will be capitalised with this amount. The Share Pledge approved by Shareholders at the 2018 AGM as security for the Original Noble Loan will be released at financial close to allow for the grant of the security required to obtain the Debt Facilities.

All subsequent advances by Noble under the deeds of variation to the Facility Agreement totalling up to US\$26.9m, along with accrued interest totalling approximately US\$5.7 million, will be repaid under the first drawdown under the completed Project Funding Agreements.

4. Summary of the material terms of the Funding Package

Other key indicative terms included in the Term Sheets include:

- The Senior Debt Facility will have a tenor of 7 years and the Mezzanine Debt Facility will have a tenor of 12 years (with a sunset date for drawdown of 31 March 2023 unless agreed otherwise);
- Interest risk margin based on a fully debt leveraged resource project with adjustment once the construction risk has been removed;
- Commercially comparable origination and cancellation fees;
- Cashflow waterfall governing use of funds generated from operations;
- Requirement to agree a Hedging Programme with the proposed Lending Syndicate covering exchange rate, commodity and interest rate risk with Noble having the first right of refusal to manage subject to competitive market rates;
- Security to be granted by the Company and a number of its subsidiaries in support of the Debt Facilities, to include (among other things) cession of claims against third parties and cession and pledge of shares and shareholder loans held by the Company in and to Ledjadja Coal and its other subsidiaries;
- Ledjadja Coal will also provide security over certain of its assets, material contracts and property relating to the Project;
- Principal amounts advanced under the Debt Facilities must be repaid pursuant to a cash sweep and the Senior Debt Facility is subject to quarterly amortisation (with interest capitalised until Project Completion and payable quarterly thereafter);
- Cancellation fee to be applied if the proposed Debt Facilities are cancelled after the Company secures Shareholder approval;
- The PIC and IDC to have board appointment rights for Ledjadja Coal in accordance with an amended Ledjadja Coal's Shareholder Agreement however the appointment rights remain proportional to the shareholdings in Ledjadja i.e. ResGen will retain control;
- Noble to retain its right to nominate a board appointment at the Resgen level and have approval rights in respect of a board appointment at the Ledjadja Coal level as contemplated by the current Facility Agreement, which will be extinguished at financial close; and
- Participation of the PIC and IDC in the domestic coal offtake rights, with a fee to be payable to the parties if this participation is not utilised.

5. Material Conditions Precedent

A number of conditions require satisfaction or deferral or may be waived by the Lenders, subject to their respective credit committee approval processes before the finance transaction completes and becomes effective (**Financial Close**). These conditions include those customary for Lender's to request to manage risk exposures on transactions of this nature including:

- All material Project documents having been entered into and becoming unconditional;
- Shareholder approval for the arrangements set out in the Term Sheets once translated into formal binding agreements;
- Conclusion of a back to back domestic coal supply agreement between Noble and a third party to the satisfaction of the other Lenders;
- Conclusion of an unconditional fully funded Project Rail Link funding agreement and related infrastructure agreements related to the Project Rail Link with all suspensive conditions thereto fulfilled or waived by the Lending Syndicate;
- Conclusion of a Ramp-up Working Capital Facility; and
- Lender's acceptance of an Independent Technical Advisor's report relating to the technical aspects of the Project

6. Next Steps

The material next steps for progressing finalisation of the Funding Package include finalisation and execution of all binding finance and security documentation, Shareholder approval and satisfaction of all conditions precedent.

The Company is well progressed in the drafting of the binding finance and security agreements based on the Funding Package and will then be in a position to schedule an extraordinary general meeting (**EGM**) targeted for the first quarter of calendar year 2020 to provide Shareholders with the opportunity to consider and, if thought appropriate, approve the arrangements with the Lending Syndicate.

The Company's current target for satisfactorily completing these tasks and reaching Financial Close to be able to drawdown funds and issue a 'Notice to Proceed' to the EPC contractor is the end of March 2020.

7. Shareholder approvals

The Company has determined that several aspects of the arrangements contemplated by the Term Sheets once translated into binding agreements will require Shareholder approval. As noted above, while it is subject to a range of other factors including the progress that is made with finalising definitive documentation for the arrangements proposed in the Term Sheets, the Company is therefore hoping to schedule an EGM during the first quarter of calendar year 2020 to consider and, if thought appropriate,

approve the arrangements with the Lending Syndicate. Appropriate Shareholder disclosures, including preparation of any independent expert reports that may be required, will be made in advance of the EGM.

8. Further information

The Company will keep the market informed on progress in accordance with its continuous disclosure obligations.

On behalf of the Board

Lulamile Xate

Chairman

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About ResGen:

*Resource Generation Limited (**ResGen**) is an emerging ASX and JSE-listed energy company, currently developing the Boikarabelo Coal Mine in South Africa's Waterberg region. The Waterberg accounts for around 40% of the country's currently known coal resources. The Coal Resources and Reserves for the Boikarabelo Coal Mine, held through the operating subsidiary Ledjadja Coal, were recently updated based upon a new mine plan and execution strategy. The Boikarabelo Coal Resources total 995Mt and the Coal Reserves total 267Mt applying the JORC Code 2012 (ASX Announcement :23 January 2017- In accordance with Listing Rule 5.23.2 the Company confirms that it is not aware of any new information that would impact on the Reported Coal Resources and Coal Reserves). Stage 1 of the mine development targets saleable coal production of 6 million tonnes per annum. Ledjadja Coal is a Black Economic Empowerment subsidiary (BEE) operating under South Africa's Broad-based Black Economic Empowerment Act, Section 9(5): Codes of Good Practice*

Based on the information currently available to it, ResGen is aware that that PIC, Noble Group and Altius Investment Holdings each have substantial shareholdings in ResGen.

Forward looking statements

This announcement contains certain forward-looking statements. Forward-looking statements include those containing words such as “anticipate”, “believe”, “expect”, “project”, “forecast”, “estimate”, “likely”, “intend”, “should”, “could”, “may”, “target”, “plan”, “consider”, “foresee”, “aim”, “will” and other similar expressions. Any forward-looking statements, opinions and estimates provided in this announcement are based on assumptions and contingencies which are subject to change without notice and involve known and unknown risks and uncertainties and other factors which are beyond the control of ResGen. This includes any statements about the terms on which ResGen might obtain funding from the Lending Syndicate. To the maximum extent permitted by law, the directors of ResGen, ResGen and any of its related bodies corporate and affiliates, and their officers, partners, employees, agents, associates and advisers disclaim any obligations or undertaking to release any updates or revisions to the information in this announcement to reflect any change in expectations or assumptions, do not make any representation or warranty, express or implied, as to the accuracy, reliability or completeness of such information, or likelihood of fulfillment of any forward-looking statement or any event or results expressed or implied in any forward-looking statement, and disclaim all responsibility and liability for these forward-looking statements (including, without limitation, liability for negligence).

The term sheets referred to in this ASX announcement are non-binding and indicative in nature. Negotiations regarding the transactions described in those term sheets are ongoing and incomplete and there is no certainty that a transaction will be concluded based on the terms set out in those term sheets (or at all). ResGen makes no representations or warranties whatsoever as to the outcome of its engagement with the Lending Syndicate.