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## **BOARD REPORT TO SHAREHOLDERS**

Dear fellow shareholders

I am pleased to take this opportunity to update you on developments since my last report from the Board on 26<sup>th</sup> February 2016.

At its meeting in Johannesburg on 19<sup>th</sup> May 2016, your board received detailed reports from the CEO and Chairman of the Technical Committee, summarizing very satisfactory progress on all material fronts in the three months since the last meeting of the board.

### **Project**

The work of the Technical Committee, established by the Board in December 2015 to review all aspects of the project, has now been substantially completed. We have adopted a new execution strategy that will reduce the capital cost of the project and reduce risk through the appointment of established EPC contractors with good track records and substantial balance sheets. A new mining plan has been developed which will maximize recovery of the coal deposit by mining all seams and minimize out-of-pit dumping of waste resulting in increased productivity and reduced operating costs. All efforts at the mine are now being directed towards having the project ready for mobilization of the first of the EPC contractors on 1<sup>st</sup> October 2016.

### **EPC Contractors**

- As announced on 6<sup>th</sup> May we have concluded a Heads of Agreement with Sedgman Limited for the procurement and construction of the coal handling plant for a lump sum fixed price of US\$141 million. This represents a substantial saving over the previously announced estimate of US\$200 million
- A Request for Information was issued to seven established mining contract companies in March 2016. All seven have responded and a Request for Proposal will be delivered to a short list of three candidates at the beginning of June 2016 with the appointment of the mining contractor expected during July 2016

### **Chief Operations Officer**

The appointment of an experienced and talented COO has been made. A full announcement will be made to the market during June 2016 when confidentiality restrictions are lifted by the current employer.

## **Project Funding**

Further progress has been made towards securing the requisite debt funding to complete construction of the project. The base case financial model (“BCFM”) has now been completed by the lead arranger and, based on the information contained in the BCFM, the project is believed to be fundable without recourse to the shareholders for further equity. Development of a preferred capital structure is at an advanced stage and is currently being negotiated with all members of the debt club referred to in my previous updates. The board remains confident that the Company is on course to finalize the debt funding by September so that the balance of construction may commence during the last quarter of 2016.

In parallel with the proposed debt club funding we are investigating a high level offer of funding received from a source in the United States.

## **IPP**

A concept feasibility study for a 300MW coal fired power station (“IPP”) has been received and reviewed. There is a very compelling economic case for a mouth of mine IPP with sale of the electricity produced to the national utility or a private off-taker. The study does however indicate that 300MW IPP is not optimal and that 450MW or 600MW presents a more compelling economic case. We are now investigating this option.

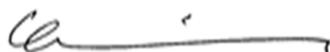
## **Infrastructure Arrangements**

Negotiations with Transnet Freight Rail concerning the tariff, access to Richards’s Bay Coal Terminal and construction of the rail link are proceeding in a very positive manner. An early resolution of these issues is expected.

## **Other**

The next scheduled board meeting is to be held on 25<sup>th</sup> August 2016 and I intend to provide you with a further report at that time.

Yours sincerely

A handwritten signature in black ink, appearing to read "Denis Gatley". The signature is fluid and cursive, with a long horizontal stroke at the end.

Denis Gatley

Chairman

For and on behalf of the Board



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