



4 May 2017

ASX Announcement

## Shareholder Update

Dear fellow shareholders

### Project Funding

A meeting of the board was held in Johannesburg on Wednesday 26 April 2017 with the Australian resident directors attending through a conference call. The CEO provided a report detailing the progress made with the project funding since my last report to shareholders on 2 March 2017. I am pleased to report that tangible progress continues to be made on most fronts. In what is a complex process, multiple contracting agreements are being negotiated in parallel thereby providing greater efficiency savings, de-risking interdependent contracts and providing greater certainty to all parties. As detailed below, most major contracts are now substantially agreed clearing the way for us to finalise outstanding matters at an all party meeting (**all party meeting**) planned for mid-May 2017.

**On this basis, we are confident that we will be in a position to report to the lenders by end May 2017 that all material contracts are sufficiently completed thereby enabling their credit approval processes to take place during June/July 2017.**

### Items completed or substantially completed

- **Base Case Financial Model (BCFM):** completed in June 2016 has been audited by Ernst & Young with no flaws identified. The BCFM will require a final update shortly before the credit approval stage commences (see below).
- **Debt Club Project Finance Term Sheet:** agreed in July 2016 and will require only minimal update in order to accommodate any changes flowing from the update of the BCFM.
- **Independent Technical Reports:**
  - Technical report completed in December 2016 (apart from commentary on material contracts promised for early May 2017)
  - Environmental report completed in September 2016
  - Marketing report completed in December 2016
  - Legal due diligence report substantially completed with a small number of issues to be resolved at an all party meeting planned for mid-May 2017.

**All of the above independent technical reports are considered to be satisfactory and meet the requirements of the project and lenders.**

- **EPC contracts:**
  - CHPP contract: the design and construction contract with Sedgman was completed in January 2017. The lenders' lawyers have now provided their comments on the contract and we do not believe they contain anything of serious impact or concern. It is intended to finalise all outstanding matters at the all party meeting.
  - CHPP Operations and Maintenance contract: the operations and maintenance contract with Sedgman was completed in January 2017. The lenders' lawyers have now provided their comments on the contract, again without anything of serious impact or concern. It is intended to finalise all outstanding matters at the all party meeting.
  
- **Logistics:**
  - Commercial terms relating to quantum, tariff and port destination (Richards Bay) have been agreed with Transnet Freight Rail (TFR).
  - Transportation of Coal Agreement was completed on schedule by 28 February 2017 and was submitted to the lenders for review shortly thereafter. The lenders' lawyers have now provided their comments on the contract and we do not believe they contain anything of serious impact or concern. It is intended to finalise all outstanding matters at the all party meeting.
  - Coal Line Service Level Agreement was completed on schedule by 28 February 2017 and was submitted to the lenders for review shortly thereafter. The lenders lawyers have now provided their comments on the contract, without anything of serious impact or concern. It is intended to finalise all outstanding matters at the all party meeting.
  - Process for the allocation of port capacity at Richards Bay Coal Terminal (**RBCT**) has been agreed with TFR and we are advised that the public process will be commenced in the very near future. To the extent our export capacity requirement cannot be accommodated at RBCT it will be channelled through Richards Bay Grindrod Terminal.
  
- **Mining Contract:**
  - **Binding Term Sheet**
    - A binding term sheet containing all of the primary commercial terms, sufficient for the lenders' credit approval processes (see below), is at an advanced stage and due for completion by end May 2017.
  - **Mining Contract**
    - A first draft of the mining contract has been prepared and commented on by the preferred mining contractor Stefanutti Stocks Mining Services. It is intended to finalise the mining contract by end July 2017 and to use the time between now and then to further optimise costs and productivity.
  
- **Ancillary Works Contract:**
  - A first draft of the contract has been prepared and submitted to the preferred contractor Sedgman for comment. Discussions are currently taking place with Sedgman with the objective of finalising the ancillary works contract by end May 2017.

- **Off-take Contracts:**

- ICML 2 million tons per annum export off-take contract completed and signed
- Valu 1 million tons per annum export off-take contract completed and signed
- Noble 500,000 tons per annum export off-take contract completed and signed
- Noble domestic off-take contract 750,000 tons per quarter completed and signed

As reported to the market on 14 March 2017 the Noble domestic off-take and marketing agreements were restated and executed as a condition precedent to the extension of the Noble facility agreement. The first draw down under this facility has been successfully completed.

### Items not yet completed (and status)

- **ESKOM:**

A number of discussions have been held with ESKOM and, as a result, we are encouraged to believe that there are solid grounds on which to conclude a coal supply agreement. Further discussions are currently on hold pending the outcome of internal enquiries taking place within ESKOM unconnected with the negotiation of this coal supply agreement.

- **Rail Link:**

- **Rail Link Funding**

- Discussions with Development Bank of South Africa (**DBSA**) concerning the funding of the rail link are now at an advanced stage with DBSA planning on submitting its application for first stage credit approval in the first week of May 2017. If approval is granted there will follow a short due diligence and, subject to a satisfactory outcome, a binding term sheet will be prepared for approval by the Board. DBSA is targeting financial close by September 2017.

- **Rail Link EPC Contract**

- Negotiations with the three preferred contractors have been concluded:
  - RCE Consultants (engineering, procurement and construction management services)
  - Stefanutti Stocks Roads and Earthworks (rail earthworks and bridges)
  - Transnet Freight Rail RME (ballast, track and signalling)

Our lawyers are currently drafting the appropriate contracts for internal review before submission to the contractors for comment. Our target date for completion of the Rail Link EPC is end July 2017.

- **Credit Approvals:**

The lenders have confirmed that they will be in a position to begin their respective credit approval processes at the point of “Contract Finalisation” (**CF**). CF has been identified as completion of all the material contracts, excepting that demonstrable progress towards a rail link funding solution and coal supply agreement will suffice for credit approval purposes. However, financial close of the rail link funding and a coal supply MOU or agreement with ESKOM will be conditions precedent to financial close of the project finance.

## IPP

Together with our advisers, Waterbourne Capital, we have been actively preparing for our submission for a 300MW IPP towards the end of 2017. In particular, we have undertaken the following since the last report to shareholders:

1. We submitted a full response to the Department of Energy's public request for information, detailing the mine's current status and the work done to date on the IPP. The Department has acknowledged our submission and has undertaken to take our comments into consideration;
2. We have concluded a beauty parade of leading law firms with the intention of making appointments as legal counsel to the bid and as legal counsel to the lenders. We have identified our preferred firms;
3. Once appointed, the first task of the legal firm appointed to advise the bid will be the preparation of the Joint Development Agreement (**JDA**);
4. In parallel with the preparation of the JDA we are identifying local partners to join our consortium, subject to board approval
5. We have invited various insurance firms to pitch for the appointment as Insurance Advisor to the bid;
6. We have invited various environmental firms to pitch for the appointment as Environmental Advisor to the bid;
7. A project information memorandum is currently being prepared and will be used to introduce the local commercial banks and developmental funding institutes to the project during meetings scheduled in May;
8. To date, Rand Merchant Bank, Investec Bank, IDC, DBSA and PIC have all verbally expressed an interest in engaging

Once the JDA has been completed, we will commence with the process of selecting an EPC partner again subject to board approval. It is expected that the partner will be Japanese or South Korean as both countries have well-established credentials that are most likely to comply with the Request for Proposal (**RFP**) when issued by the Department. We are expecting the RFP to be released towards the end of 2017.

## Other

The Board has noted with concern the recent downgrade of South Africa's foreign credit ratings and the potential in the near future for a downgrade of its domestic ratings. The Board believes these downgrades are not likely to impact the availability of funding for our project but may result in an increase in the cost of borrowing.

The next scheduled board meeting is to be held in the week commencing 19 June 2017. I intend to provide you with a further report at that time.

Yours sincerely

Denis Gately

Chairman

For and on behalf of the Board

**About Resgen:**

*Resource Generation Limited (the “Company” or “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 Coal 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). 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 Broadbased Black Economic Empowerment Act, Section 9(5): Codes of Good Practice.*

*Resgen’s primary shareholders are the Public Investment Corporation of South Africa (PIC), Noble Group and Altius Investment Holdings.*

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