
Interim Financial Report for the half year ended 31 December 2018

| Contents | Page |
|---|------|
| Directors' report | 2 |
| Auditor's independence declaration | 4 |
| Interim financial report | |
| Condensed consolidated statement of profit or loss and other comprehensive income | 5 |
| Condensed consolidated statement of financial position | 6 |
| Condensed consolidated statement of changes in equity | 7 |
| Condensed consolidated statement of cash flows | 8 |
| Notes to the condensed consolidated financial statements | 9 |
| Directors' declaration | 14 |
| Independent auditor's review report | 15 |
| Supplementary information - presentation of financial information in South African Rand | 17 |

This interim financial report does not include all of the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by Resource Generation Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules.

RESOURCE GENERATION LIMITED

Directors' report

The Board of Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Resource Generation Limited (Resgen or the Company) and the entities it controlled for the half year ended 31 December 2018 (HY19). In order to comply with the provision of the Corporations Act 2001, the Directors report as follows:

1. Directors

The following persons were Directors of Resource Generation Limited during or since the end of the half year:

| Name | Position | Length of service to 31 December 2018 | |
|------------------|---|---------------------------------------|---------------------------------------|
| Mr L Xate | Chairman and Non-executive Director | 3.25 years | (As Chair effective 22 November 2017) |
| Mr R Croll | Lead Independent Non-executive Director | 3.25 years | |
| Mr M Dahiya | Non-executive Director | 1.58 years | |
| Mr C Gilligan | Independent Non-executive Director | 3.25 years | |
| Mr L Molotsane * | Executive Director | 3.25 years | |
| Dr K Sebati | Independent Non-executive Director | 3.25 years | |
| Mr P Watson | Independent Non-executive Director | 1.00 year | (Resigned 30 November 2018) |
| Mr M Gray | Independent Non-executive Director | 1 month | (Appointed 01 December 2018) |

* Mr Molotsane was appointed Interim Managing Director and CEO effective 8 March 2018.

Mr M Meintjes has been Company Secretary since 26 November 2015.

2. Principal activities

During the half year the principal continuing activities of the Group consisted of the financing and development of the Boikarabelo Coal Mine in the Waterberg region of South Africa.

3. Review of operations

During the HY19 the Group recorded a net loss of \$6.7 million (HY18: \$1.2 million loss). The HY19 net loss of \$6.7 million includes administrative and corporate expenses of \$1.5 million, employee expenses of \$1.2 million, interest expense of \$1.3m and an unrealised foreign exchange losses of \$2.7 million.

Interest expenses of \$1.2 million (2017: nil) being the portion of interest on the Noble loan that cannot be capitalised under IAS23 and the unrealised foreign exchange loss of \$2.7 (2017: \$1.5m gain) being an unrealised loss from the translation of the amount outstanding under the Noble loan facility.

The Company announced the execution of a Bilateral Senior Loan Facility Agreement (ASX Announcement: 16 April 2018) between the Industrial Development Corporation of South Africa Ltd (IDC) and its subsidiary Ledjadja Coal (Pty) Ltd. The IDC is the first party of the alternative funding solution (comprising of a syndicate of three parties) to secure credit committee approval.

During the period, the Company updated all Independent Technical Expert Reports and submitted these to the Syndicate Lender (ASX Announcement 12 November 2018) preparing their Credit Committee submissions. The Lender's Deal Team next in line for completing approvals confirmed that this Lender remains committed to the Project from a technical, commercial and strategic perspective and that they were satisfied with the content of the updated Expert Report

Management maintained regular contact with the Lender's Deal Team over this period in anticipation that both Credit Committee and subsequent Board approval could be finalised before the Christmas break in South Africa. When it became apparent in early December 2018 that this timeline would not be met, the Company elevated the priority of progressing a mitigating strategy through an alternative funding option with a party or parties as a substitute in the current proposed Lending Syndicate. This further delay also impacted the targeted date for financial close of 31 March 2019 as disclosed in the 2018 Annual Report. The Board and Management are therefore focused on strategies to conserve cash and/or secure any required additional financial support whilst a new timetable can be determined with the appropriate level of certainty to advise Shareholders.

Subsequent to the period end the Company reaffirmed that the Lending Syndicate remained the preferred option.

Shareholders are cautioned that plans for finalising project funding involve a number of matters outside of the control of the Company, however the broad focus of activities is anticipated to be on, (i) Securing all remaining credit approvals from the Lending Syndicate for funding the mine development; (ii) On the basis that credit approvals are secured from all parties to the Lending Syndicate, harmonising the term sheets for any final matters that are raised through credit review; (iii) Finalising negotiations to secure terms for the commitment to fund the 44km rail loop and link; (iv) Updating all final inputs and assumptions for the two funding packages in the Base Case Financial Model (BCFM) for the Project and tabling these appropriately supported proposals for consideration and approval with the Board; and (v) Proceeding with plans to schedule a meeting to secure Shareholder approval for the proposed mine development funding.

The Company has been able to identify a number of parties interested in funding the required rail link for the Project. Due diligence activities and discussion continue with the objective of securing the offer of credit approved term sheets.

RESOURCE GENERATION LIMITED

Directors' report (continued)

3. Review of operations (continued)

The Company executed a further extension of the Facility Agreement of 3 March 2014 under which Noble agreed to make available additional funds of up to US\$4.7 million to LCL to fund the operations and development of the mine whilst project funding is secured. The total facility made available to the Company is now US\$41.9 million. The additional funds are to be made available on substantially the same terms as the Existing facility and are being drawn in monthly tranches over the period to 31 March 2019. The only major change to the terms of the Facility is that the total Facility is now secured by a pledge over Resgen's interest in 74% of the shares in Ledjadja, which are held by another Resgen subsidiary, Resgen Africa Holdings Limited (RAHL). Approval for granting this security to a substantial shareholder was obtained from Shareholders at the AGM held on 30 November 2018.

4. Dividends

No dividends were paid or proposed to be paid to members during the financial half year (2017: nil).

5. Events occurring after the balance sheet date

The Company and its subsidiary Ledjadja Coal (Pty) Ltd reached a conditional agreement with Noble Resources International Pte Ltd on 15 March 2019 regarding securing additional funds of up to US\$2.5 million of additional working capital and extension of the first loan repayment from 30 June 2019 to 30 September 2019. The specific conditions related to this agreement are as follows:

- * credit approvals from all members of the Lending Syndicate to be secured by 29 March 2019 and, if not forthcoming, the Company to facilitate a meeting between itself, Noble Resources International Pte Ltd, the IDC and other potential members of the Lending Syndicate to agree a way forward;
- * no later than 29 March 2019, the Company to develop a high-level plan and timetable on the potential feasibility of executing a small-scale mining operation at the Boikarabelo Coal Mine;
- * Noble Resources International Pte Ltd to have oversight of all expenditure and contracts;
- * executing full form documents effecting the necessary amendment to the Facility Agreement and additional security documents;
- * the Company and its subsidiary Ledjadja Coal (Pty) Ltd obtaining all necessary internal and regulatory approvals or waivers in respect of all documents being entered into; and
- * All costs associated with negotiation and documentation to be borne by the Company and its subsidiary Ledjadja Coal (Pty) Ltd.

6. Auditor's independence declaration

The auditors' independence declaration is included on page 4 of the interim financial report.

7. Rounding of amounts

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Instrument amounts in the Directors' report and the interim financial report have been rounded off to the nearest thousand dollars, unless otherwise indicated.

This report is made in accordance with a resolution of the Directors, pursuant to Section 306(3) of the Corporations Act 2001.

On behalf of the Directors



L Xate
Chairman

Johannesburg
15 March 2019



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DECLARATION OF INDEPENDENCE BY R M SWABY TO THE DIRECTORS OF RESOURCE GENERATION LIMITED

As lead auditor for the review of Resource Generation Limited for the half-year ended 31 December 2018, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Resource Generation Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'R M Swaby', is written over a light blue horizontal line.

R M Swaby

Director

BDO Audit Pty Ltd

Brisbane, 15 March 2019

RESOURCE GENERATION LIMITED

Condensed consolidated statement of profit or loss and other comprehensive income For the half year ended 31 December 2018

| | | Half year ended | |
|--|-------|---------------------|---------------------|
| | Notes | 31-Dec-18 \$'000 | 31-Dec-17 \$'000 |
| Other income from continuing operations | | 103 | 179 |
| Administrative, rent and corporate | | (1,539) | (1,272) |
| Depreciation of property, plant and equipment | | (149) | (187) |
| Employee benefits expense | | (1,180) | (1,231) |
| Finance expenses | | (1,264) | (3) |
| Share-based compensation expense | 3 | - | (130) |
| Unrealised foreign exchange movements - (loss)/gain | 3 | (2,684) | 1,456 |
| Loss before income tax | | (6,713) | (1,188) |
| Income tax benefit | | - | - |
| Loss for the half year | | (6,713) | (1,188) |
| Other comprehensive income | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange gain on translation of foreign operations, net of tax | 7 | 1,164 | 5,222 |
| Total comprehensive (loss)/income for the half year | | (5,549) | 4,034 |
| Loss is attributable to: | | | |
| Owners of Resource Generation Limited | | (6,713) | (1,188) |
| Total comprehensive (loss)/income for the half year is attributable to: | | | |
| Owners of Resource Generation Limited | | (5,549) | 4,034 |
| Headline loss | | (6,713) | (1,188) |
| Loss per share | | | |
| Loss per share for loss from continuing operations | | Cents | Cents |
| Basic loss per share | | (1.16) | (0.21) |
| Diluted loss per share | | (1.16) | (0.21) |
| Headline loss per share | | (1.16) | (0.21) |

The above condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

RESOURCE GENERATION LIMITED

Condensed consolidated statement of financial position
As at 31 December 2018

| | Notes | 31-Dec-18 \$'000 | 30-Jun-18 \$'000 |
|---|-------|---------------------|---------------------|
| Current assets | | | |
| Cash and cash equivalents | | 1,240 | 1,729 |
| Trade and other receivables | | 45 | 82 |
| Deposits and prepayments | | 278 | 168 |
| | | <u>1,563</u> | <u>1,979</u> |
| Non-current assets | | | |
| Property, plant and equipment | | 32,172 | 32,323 |
| Mining tenements and mining development | | 167,803 | 161,719 |
| Deposits | | 1,215 | 1,207 |
| | | <u>201,190</u> | <u>195,249</u> |
| TOTAL ASSETS | | <u>202,753</u> | <u>197,228</u> |
| Current liabilities | | | |
| Trade and other payables | | 3,844 | 6,302 |
| Provisions | | 326 | 563 |
| Borrowings | 4 | 15,376 | 19,660 |
| | | <u>19,546</u> | <u>26,525</u> |
| Non-current liabilities | | | |
| Provisions | | 2,349 | 2,150 |
| Borrowings | 4 | 62,514 | 44,420 |
| Royalties payable | | 1,579 | 1,645 |
| | | <u>66,442</u> | <u>48,215</u> |
| TOTAL LIABILITIES | | <u>85,988</u> | <u>74,740</u> |
| NET ASSETS | | <u>116,765</u> | <u>122,488</u> |
| Contributed equity | 5 | 223,622 | 223,622 |
| Reserves | 7 | (37,439) | (38,603) |
| Accumulated losses | | <u>(69,418)</u> | <u>(62,531)</u> |
| TOTAL EQUITY | | <u>116,765</u> | <u>122,488</u> |

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

RESOURCE GENERATION LIMITED

Condensed consolidated statement of changes in equity
For the half year ended 31 December 2018

| | Notes | Attributable to owners of Resource Generation Limited | | | Total equity \$'000 |
|--|-------|---|--------------------|---------------------------------|------------------------|
| | | Contributed equity \$'000 | Reserves \$'000 | Accumulated Losses \$'000 | |
| Balance at 1 July 2017 | | 223,622 | (36,910) | (52,189) | 134,523 |
| Loss for the period | | - | - | (1,188) | (1,188) |
| Other comprehensive income for the period (foreign currency translation), net of tax | | - | 5,222 | - | 5,222 |
| Total comprehensive (loss)/income for the period | | - | 5,222 | (1,188) | 4,034 |
| Transactions with owners in their capacity as owners | | - | 130 | - | 130 |
| Treasury shares to be issued - vesting 30 June 2018 | | - | 27 | - | 27 |
| | | - | 157 | - | 157 |
| Balance at 31 December 2017 | | 223,622 | (31,531) | (53,377) | 138,714 |
| Balance at 1 July 2018 | | 223,622 | (38,603) | (62,705) | 122,314 |
| Loss for the period | | - | - | (6,713) | (6,713) |
| Other comprehensive income for the period (foreign currency translation), net of tax | | - | 1,164 | - | 1,164 |
| Total comprehensive (loss)/income for the period | | - | 1,164 | (6,713) | (5,549) |
| Balance at 31 December 2018 | | 223,622 | (37,439) | (69,418) | 116,765 |

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

RESOURCE GENERATION LIMITED

Condensed consolidated statement of cash flows
For the half year ended 31 December 2018

| | Half year ended | |
|---|-----------------|----------------|
| | 31-Dec-18 | 31-Dec-17 |
| | \$'000 | \$'000 |
| Cash flows from operating activities | | |
| Payments to suppliers and employees | (5,263) | (3,254) |
| Interest received | 70 | 112 |
| Interest/finance costs paid | (22) | (3) |
| Net cash outflow from operating activities | (5,215) | (3,145) |
| Cash flows from investing activities | | |
| Payments for property, plant and equipment | - | (1) |
| Payments for mining tenements and mining development | (1,893) | (3,377) |
| Net cash outflow from investing activities | (1,893) | (3,378) |
| Cash flows from financing activities | | |
| Repayment of borrowings | (1,153) | (1,256) |
| Drawdown of borrowings | 7,772 | 4,776 |
| Net cash inflow/(outflow) from financing activities | 6,619 | 3,520 |
| Net decrease in cash and cash equivalents | (489) | (3,003) |
| Cash and cash equivalents at the beginning of the half year | 1,729 | 4,682 |
| Effects of exchange rate movements on cash and cash equivalents | - | 151 |
| Cash and cash equivalents at the end of the half year | 1,240 | 1,830 |

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation of half year financial report

This general purpose financial report for the interim half year reporting period ended 31 December 2018 (HY19) has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2018 and any public announcements made by Resource Generation Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules.

The interim financial report been prepared on the basis of historical cost, except for financial instruments which are measured at fair value. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is a Company of the kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Report) Instruments 2016/191*, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise stated.

Disclosure surrounding adoption of new or revised Standards

The interim financial report has been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2018, with exception that the group has applied for the first time the requirements of:

(a) The Company has adopted AASB 15 Revenue from Contracts with Customers. As the Company is not trading, there is no impact on the adoption of AASB 15 Revenue from Contracts with Customers, therefore there was no transition adjustment required.

(b) AASB 9: *Financial Instruments* introduces extensive changes to AASB 139 *Financial Instruments: Recognition and Measurement* guidance on the classification and measurement of financial assets and introduced a new "expected credit loss" model for the impairment of financial assets. Provisioning for financial assets and hedge accounting is not currently applicable to the Company. AASB 9 largely retains the existing requirements in AASB 139 for the classification of the financial liabilities. AASB 9 also provides new guidance on the application of hedge accounting. As the measurement basis of financial assets and liabilities measured at amortised cost is virtually the same between AASB 139 and AASB 9, there was no impact on adopting AASB 9 at reporting period.

The following new accounting standards are not yet effective but may have an impact on the Group in the financial years commencing 1 July 2019 or later:

AASB 16 *Leases* specifies how to recognise, measure and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise right-of-use assets and lease liabilities for almost all leases. AASB 16 applies to annual reporting periods beginning on or after 1 January 2019 and replaces AASB 117 *Leases* and related interpretations. The Group has not yet quantified the effect of the new standard, however the following impacts are expected:

- * the total assets and liabilities on the balance sheet will increase;
- * the straight-line operating lease expense will be replaced with a depreciation charge for the right-of-use assets and interest expense on the lease liabilities;
- * interest expenses will increase due to the unwinding of the effect interest rate implicit in the lease; and
- * repayment of the principal portion of all lease liabilities will be classified as financing activities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Significant accounting policies

The accounting policies and methods of computation adopted in the preparation of the interim financial report are consistent with those adopted and disclosed in the Company's annual financial report for the year ended 30 June 2018. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The interim financial report comprises the financial statements of Resource Generation Limited and its subsidiaries as at 31 December 2018 ("the Consolidated Entity").

Going concern

The interim financial report has been prepared on the going concern basis which presumes the realisation of assets and the discharge of liabilities in the normal course of business for the foreseeable future.

As at 31 December 2018, the Group had net current liabilities of \$18.0 million (30 June 2018: net current liabilities of \$24.5 million), made a loss for the half year of \$6.7 million (2018: \$10.3 million loss for the year) and recorded a net cash outflow from operations of \$5.2 million (2018: \$5.8 million for the year). The Group had a cash balance at 31 December 2018 of \$1.2 million (30 June 2018: \$1.7 million).

In concluding that the going concern basis is appropriate, a cash flow forecast has been prepared for the fifteen months to 31 March 2019. The forecast includes the following key assumptions:

- (a) the drawdown of the remaining US\$2.95 million from the US\$4.7 million extended Working Capital Facility agreed with Noble, which is an extension of the existing fully drawn US\$37.2 million Working Capital Facility;
- (b) securing additional funds (the "bridging funding") of up to A\$3.5 million (US\$2.5 million) before 29 March 2019 as an extension of the facility agreement dated 3 March 2014, to cover forecast operating costs for the period through to 30 June 2019;
- (c) the deferral of the loan repayments on the Noble Working Capital Facility from 30 June 2019 to 30 September 2019; and
- (d) credit approval for the funding of the Boikarabelo Coal Mine and all conditions precedent are met by 30 June 2019 so that first drawdown of project funding from the proposed Lending Syndicate would take place in July 2019 and this would permit construction of the mine to commence, with scheduled completion in October 2021. First saleable coal production would occur in the last quarter of 2021.

The Directors note the following in respect of the key assumptions:

- (a) a conditional agreement was reached between the Company, its subsidiary Ledjadja Coal (Pty) Ltd and Noble Resources International Pte Ltd on 15 March 2019 to provide additional working capital funding of up to US\$2.5 million and extending the date for loan repayment to 30 September 2019; and
- (b) if credit approvals from all members of the Lending Syndicate are not secured by 29 March 2019, the Company will submit by 29 March 2019 a high-level plan and timetable on the potential feasibility of executing a small-scale mining operation at the Boikarabelo Coal Mine, as an alternative to the current development and funding plan.

Notwithstanding this, should the Group not secure bridging funding and not receive the proceeds anticipated under the project funding referred to above, there are material uncertainties as to whether the Group will be able to continue as a going concern and, therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

The financial report does not include adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

(c) Income Tax

The Directors have not recognised any deferred tax assets in relation to carry forward unused tax losses. Given the history of operating losses, the Directors have determined that the most appropriate time to recognise deferred tax assets from carry forward unused tax losses is when the mine commences production.

2. SEGMENT INFORMATION

(a) Description of operating segments

Management has determined the segments based upon reports reviewed by the Board that are used to make strategic decisions. The Board considers the business from both a business and geographic perspective, with the Board being the chief operating decision maker.

The Group has coal interests in South Africa. The main priority is to develop its Coal Resources in the Waterberg region of South Africa. Management has determined that there is one operating segment, being mining tenements and mining development. Unallocated corporate administration reflects other corporate administration costs.

(b) Primary reporting format

Information regarding these segments is presented below. The accounting of the reportable segments is the same as the Group's accounting policies.

| Half year 31 December 2018 | Mining tenements | Corporate | |
|---|---------------------|---------------------|-----------------|
| | Africa \$'000 | Australia \$'000 | Total \$'000 |
| Total segment and consolidated other income | 103 | - | 103 |
| Loss before income tax | (6,368) | (345) | (6,713) |
| Loss for the half year | (6,368) | (345) | (6,713) |

| Half year 31 December 2017 | Mining tenements | Corporate | |
|---|---------------------|---------------------|-----------------|
| | Africa \$'000 | Australia \$'000 | Total \$'000 |
| Total segment and consolidated other income | 111 | 68 | 179 |
| Loss before income tax | (366) | (822) | (1,188) |
| Loss for the half year | (366) | (822) | (1,188) |

3. LOSS FOR THE HALF YEAR

Half year ended

31-Dec-18 31-Dec-17
\$'000 \$'000

Loss for the half year includes the following items that are unusual because of their nature, size or incidence:

Expenses

| | | |
|---------------------------------------|-------|---------|
| Share-based compensation expense | - | 130 |
| Unrealised foreign exchange movements | 2,684 | (1,456) |

4. BORROWINGS

| | 31-Dec-18 \$'000 | 30-Jun-18 \$'000 |
|--|---------------------|---------------------|
| Current liabilities - EHL loan (unsecured) | 1,552 | 2,076 |
| Current liabilities - Noble loan (secured) | 13,824 | 17,584 |
| | <u>15,376</u> | <u>19,660</u> |
| Non-current liabilities - EHL loan (unsecured) | - | 508 |
| Non-current liabilities - Noble loan (secured) | 62,514 | 43,912 |
| | <u>62,514</u> | <u>44,420</u> |

4. BORROWINGS (continued)

Noble loan

US\$20 million was drawn down as an unsecured loan from Noble Resources International Pte Ltd (Noble) in March 2014. The Company signed a further extension of the Facility Agreement on 29 March 2018, under which Noble agreed to make available additional funds up to US\$2.5 million to the Company's subsidiary, Ledjadja Coal (Pty) Ltd (LCL), to fund the operations and development of the Boikarabelo Coal Mine project being undertaken in South Africa, while project funding is secured. The total Facility made available to the Company is now \$59.4 million (US\$41.9 million). \$52.7 million (US\$37.2 million) has been drawn down as at 31 December 2018. \$21.1 million of interest has been capitalised on the loan as at 31 December 2018. It is repayable in quarterly instalments of capital and interest over 78 months commencing 30 June 2019 and has an annual interest of 10.75%. The Facility is now secured by a pledge over Resgen's interest in 74% of the shares in Ledjadja, which are held by another Resgen subsidiary, Resgen Africa Holdings Limited. Approval for the security was obtained from Shareholders at the AGM held on 30 November 2018.

EHL loan

EHL Energy (Pty) Ltd completed the electricity sub-station at the Boikarabelo Coal Mine which connects the mine to the grid. The construction is subject to a deferred payment plan, with interest payable at the ABSA Bank prime lending rate plus 3%. The loan amounted to \$8.6 million (R82.5 million), is unsecured and repayable in 16 quarterly instalments from November 2015. There were 3 quarterly instalments remaining to be paid as at 31 December 2018, amounting to \$1.5 million (R16.8 million).

LCL is the borrower under both of the above loan facilities. The Company has provided a guarantee to the respective lenders.

5. CONTRIBUTED EQUITY

| | 31-Dec-18 Shares | 30-Jun-18 Shares | 31-Dec-18 \$'000 | 30-Jun-18 \$'000 |
|---------------------------|---------------------|---------------------|---------------------|---------------------|
| Opening balance | 581,380,338 | 581,380,338 | 223,622 | 223,622 |
| Issues of ordinary shares | - | - | - | - |
| Closing balance | 581,380,338 | 581,380,338 | 223,622 | 223,622 |

6. DEVELOPMENT PARTNERS

| | 31-Dec-18 Interest % | 30-Jun-18 Interest % |
|------------------------------|----------------------------|----------------------------|
| Waterberg One Coal (Pty) Ltd | 74 | 74 |
| Ledjadja Coal (Pty) Ltd | 74 | 74 |

The minority interest in Ledjadja Coal (Pty) Ltd and Waterberg One Coal (Pty) Ltd is held by Fairy Wing Trading 136 (Pty) Ltd (Fairy Wing), the Group's black economic empowerment (BEE) partner. Pursuant to the terms of a loan from the Group to facilitate the acquisition of the shares, Fairy Wing only nominally holds the minority interest and is not currently entitled to a share in the residual interest of the subsidiaries. For this reason, a non-controlling interest is not presented in the interim financial report.

7. RESERVES

| | 31-Dec-18 \$'000 | 30-Jun-18 \$'000 |
|--------------------------------------|---------------------|---------------------|
| Reserves | | |
| Other contributed equity | 1,085 | 1,085 |
| Share-based payment reserve | 1,026 | 1,026 |
| Treasury shares | (2,079) | (2,079) |
| Foreign currency translation reserve | (37,471) | (38,635) |
| | <u>(37,439)</u> | <u>(38,603)</u> |
| Movements in reserves | | |
| Share-based payment reserve | | |
| Opening balance | 1,026 | 910 |
| Employee share plan expense | - | 116 |
| Closing balance | <u>1,026</u> | <u>1,026</u> |

RESOURCE GENERATION LIMITED

Notes to the condensed consolidated financial statements For the half year ended 31 December 2018

7. RESERVES (continued)

| | 31-Dec-18 \$'000 | 30-Jun-18 \$'000 |
|---|---------------------|---------------------|
| Treasury shares | | |
| Opening balance | (2,079) | (2,124) |
| Share-based compensation | - | 87 |
| Share-based compensation (shares to be issued, vesting on 30 June 2018) | - | (42) |
| Closing balance | (2,079) | (2,079) |
| Foreign currency translation reserve | | |
| Opening balance | (38,635) | (36,781) |
| Movement | 1,164 | (1,854) |
| Closing balance | (37,471) | (38,635) |

Foreign currency translation reserve movement for the current half year relates to 0% of the Rand against the Australian Dollar during the half year ended 31 December 2018 (30 June 2018: 1% depreciation).

8. COMMITMENTS

Capital commitments

The Group has no commitments in respect of the development of the Boikarabelo Coal Mine, as the construction contract signed with Sedgman (ASX Announcement: 1 August 2018) is subject to concluding a project financing arrangement.

There are potential property acquisitions of \$9.7 million (30 June 2018: \$11.3 million) contingent to events subsequent to the commencement of mine production.

9. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

The Company and its subsidiary Ledjadja Coal (Pty) Ltd reached a conditional agreement with Noble Resources International Pte Ltd on 15 March 2019 regarding securing additional funds of up to US\$2.5 million of additional working capital and extension of the first loan repayment from 30 June 2019 to 30 September 2019. The specific conditions related to this agreement are as follows:

- * credit approvals from all members of the Lending Syndicate to be secured by 29 March 2019 and, if not forthcoming, the Company to facilitate a meeting between itself, Noble Resources International Pte Ltd, the IDC and other potential members of the Lending Syndicate to agree a way forward;
- * no later than 29 March 2019, the Company to develop a high-level plan and timetable on the potential feasibility of executing a small-scale mining operation at the Boikarabelo Coal Mine;
- * Noble Resources International Pte Ltd to have oversight of all expenditure and contracts;
- * executing full form documents effecting the necessary amendment to the Facility Agreement and additional security documents;
- * the Company and its subsidiary Ledjadja Coal (Pty) Ltd obtaining all necessary internal and regulatory approvals or waivers in respect of all documents being entered into; and
- * All costs associated with negotiation and documentation to be borne by the Company and its subsidiary Ledjadja Coal (Pty) Ltd.

10. CONTINGENT LIABILITIES

Environmental rehabilitation

Legislation stipulates that all mining operations within South Africa are required to make provision for environmental rehabilitation during the life of the mine and at closure. In line with this requirement, the Company entered into policies with a reputable insurance broker to set aside funds for aforementioned purposes. On the back of these policies the insurance broker provides the required mining rehabilitation guarantees which are accepted by the Department of Mineral Resources. The Company makes annual premium payments towards structured products that will allow the matching of the environmental rehabilitation liability against Company assets over a period of time.

| | 31-Dec-18 \$'000 | 30-Jun-18 \$'000 |
|---|---------------------|---------------------|
| Guarantees for rehabilitation | 2,349 | 2,216 |
| Less: Funds available on Guardrisk Policy | (1,287) | (1,119) |
| Contingent liability | 1,062 | 1,097 |

RESOURCE GENERATION LIMITED

Directors' declaration

In the Directors' opinion:

(a) there are reasonable grounds to believe that Resource Generation Limited will be able to pay its debts as and when they become due and payable; and

(b) the financial statements and notes set out on pages 5 to 13 are in accordance with the Corporations Act 2001, including compliance with accounting standards, including AASB 134 Interim Financial Reporting and giving a true and fair view of the financial position as at 31 December 2018 and of the performance of the consolidated entity for the half year ended on that date.

This declaration is made in accordance with a resolution of the Directors, pursuant to Section 303(5) of the Corporations Act 2001.



L Xate
Chairman

Johannesburg
15 March 2019

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Resource Generation Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Resource Generation Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Emphasis of matter - Material uncertainty relating to going concern

We draw attention to Note 1 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

Directors' responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2018 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO Audit Pty Ltd



Richard M Swaby

Director

Brisbane, 15 March 2019

RESOURCE GENERATION LIMITED

Supplementary Information - presentation of financial information in South African Rand

The presentation currency used in the preparation of the financial statements is the Australian dollar (A\$). The Group has translated the financial statements to the South African Rand (ZAR) because the Boikarabelo Coal Mine, which represents the Group's most significant activity, is located in this region. This supplementary information has restated the financial statements in Rand. Assets and liabilities were translated to Rand using the relevant closing rate of exchange and income and expense items were translated using the relevant cumulative average rate of exchange. The applicable rates used in the restatement of information are as follows:

| | Dec-18 | Jun-18 | Dec-17 |
|-----------------------------------|---------|---------|---------|
| Average rate of exchange \$A/Rand | 10.2553 | 9.9494 | 10.4310 |
| Closing rate of exchange \$A/Rand | 10.1427 | 10.1426 | 9.6430 |

Consolidated statements of comprehensive income - ZAR Convenience Translation (Supplementary Information) For the half year ended 31 December 2018

| | Half year ended | |
|---|--------------------|--------------------|
| | 31-Dec-18 R'000 | 31-Dec-17 R'000 |
| Other income from continuing operations | 1,056 | 1,867 |
| Administration, rent and corporate | (15,784) | (13,269) |
| Depreciation of property, plant and equipment | (1,528) | (1,951) |
| Employee benefits expense | (12,101) | (12,841) |
| Finance expenses | (12,963) | (31) |
| Share-based compensation expense | - | (1,356) |
| Unrealised foreign exchange movements | (27,525) | 15,188 |
| Loss before income tax | (68,845) | (12,393) |
| Income tax benefit | - | - |
| Loss for the half year | (68,845) | (12,393) |
| Other comprehensive loss/income | | |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange gain on translation of foreign operations, net of tax | 11,937 | 54,471 |
| Total comprehensive loss/income for the half year | (56,908) | 42,078 |
| Loss is attributable to: | | |
| Owners of Resource Generation Limited | (68,845) | (12,393) |
| Total comprehensive income for the half year is attributable to: | (56,908) | 42,078 |
| Owners of Resource Generation Limited | (56,908) | 42,078 |
| Headline loss | (68,845) | (12,393) |
| Loss per share | Rand | Rand |
| Loss per share for loss from continuing operations | | |
| Basic loss per share | (11.9) | (2.1) |
| Diluted loss per share | (11.9) | (2.1) |
| Headline loss per share | (11.9) | (2.1) |

RESOURCE GENERATION LIMITED

Consolidated statements of financial position - ZAR Convenience Translation (Supplementary Information)

As at 31 December 2018

| | 31-Dec-18 R'000 | 30-Jun-18 R'000 |
|---|--------------------|--------------------|
| Current assets | | |
| Cash and cash equivalents | 12,577 | 17,538 |
| Trade and other receivables | 456 | 832 |
| Deposits and prepayments | 2,820 | 1,704 |
| | <u>15,853</u> | <u>20,074</u> |
| Non-current assets | | |
| Property, plant and equipment | 326,311 | 327,840 |
| Mining tenements and mining development | 1,701,973 | 1,640,256 |
| Deposits | 12,323 | 12,242 |
| | <u>2,040,607</u> | <u>1,980,338</u> |
| TOTAL ASSETS | <u>2,056,460</u> | <u>2,000,412</u> |
| Current liabilities | | |
| Trade and other payables | 38,988 | 63,914 |
| Provisions | 3,307 | 5,710 |
| Borrowings | 155,954 | 199,404 |
| | <u>198,249</u> | <u>269,028</u> |
| Non-current liabilities | | |
| Provisions | 23,825 | 21,807 |
| Borrowings | 634,060 | 450,536 |
| Royalties payable | 16,015 | 16,685 |
| | <u>673,900</u> | <u>489,028</u> |
| TOTAL LIABILITIES | <u>872,149</u> | <u>758,056</u> |
| NET ASSETS | <u>1,184,311</u> | <u>1,242,356</u> |
| Equity | | |
| Contributed equity | 2,268,128 | 2,229,377 |
| Reserves | (379,728) | (352,798) |
| Accumulated losses | (704,085) | (634,223) |
| TOTAL EQUITY | <u>1,184,315</u> | <u>1,242,356</u> |

RESOURCE GENERATION LIMITED

Consolidated statement of cash flows - ZAR Convenience Translation (Supplementary Information) For the half year ended 31 December 2018

| | Half year ended | |
|---|-----------------|-----------------|
| | 31-Dec-18 | 31-Dec-17 |
| | R'000 | R'000 |
| Cash flows from operating activities | | |
| Payments to suppliers and employees | (53,974) | (33,942) |
| Interest received | 718 | 1,168 |
| Interest paid | (226) | (31) |
| Net cash outflow from operating activities | (53,482) | (32,805) |
| Cash flows from investing activities | | |
| Payments for property, plant and equipment | - | (11) |
| Payments for mining tenements and mining development | (19,418) | (35,225) |
| Net cash outflow from investing activities | (19,418) | (35,236) |
| Cash flows from financing activities | | |
| Repayment of borrowings | (11,823) | (13,101) |
| Drawdown of borrowings | 79,706 | 49,818 |
| Net cash inflow/(outflow) from financing activities | 67,883 | 36,717 |
| Net decrease in cash and cash equivalents | (5,017) | (31,324) |
| Cash and cash equivalents at the beginning of the half year | 17,538 | 46,935 |
| Effects of exchange rate movements on cash and cash equivalents | 54 | 2,036 |
| Cash and cash equivalents at the end of the half year | 12,575 | 17,647 |