THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about any of the contents of this circular or as to what action to take in relation to this circular, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Yanzhou Coal Mining Company Limited**, you should at once hand this circular and the enclosed form of proxy and reply slip to the purchaser(s) or transferee(s) or to the bank, or a licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

This circular is for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities in the Company.

兗 州 煤 業 股 份 有 限 公 司

YANZHOU COAL MINING COMPANY LIMITED

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1171)

(1) PROPOSED APPOINTMENT OF DIRECTORS AND INDEPENDENT DIRECTORS; (2) PROPOSED APPOINTMENT OF NON-STAFF REPRESENTATIVE SUPERVISORS; (3) PROPOSED RENEWAL OF LIABILITY INSURANCE FOR DIRECTORS, SUPERVISORS AND SENIOR OFFICERS; (4) PROPOSAL FOR APPOINTMENT OF EXTERNAL AUDITING FIRM FOR THE YEAR 2017; (5) DISCLOSEABLE AND CONNECTED TRANSACTION – ACQUISITION OF 65% EQUITY INTEREST IN YANKUANG GROUP FINANCE; (6) MAJOR AND CONTINUING CONNECTED TRANSACTION – PROVISION OF FINANCIAL SERVICES TO YANKUANG GROUP; (7) VERY SUBSTANTIAL ACQUISITION – ACQUISITION OF COAL & ALLIED FROM RIO TINTO; (8) PROPOSED APPLICATION FOR THE ISSUE OF NOT MORE THAN 647,000,000 A SHARES IN THE PRC; (9) PROPOSAL TO AUTHORIZE THE COMPANY TO CARRY OUT DOMESTIC AND OVERSEAS FINANCING ACTIVITIES; (10) PROPOSAL FOR THE PROVISION OF FINANCIAL GUARANTEES TO THE SUBSIDIARIES AND GRANTING OF AUTHORIZATION TO YANCOAL AUSTRALIA AND ITS SUBSIDIARIES TO PROVIDE GUARANTEES FOR THE DAILY OPERATION OF THE SUBSIDIARIES OF THE COMPANY IN AUSTRALIA; AND (11) PROPOSAL FOR THE GENERAL MANDATES TO ISSUE H SHARES AND REPURCHASE H SHARES

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

Donvex 富域資本

Donvex Capital Limited
富域資本有限公司

The notices convening the AGM, the A Shareholders' Class Meeting and the H Shareholders' Class Meeting to be held at the headquarters of the Company, 298 South Fushan Road, Zoucheng, Shandong Province 273500, the PRC at 9:00 a.m., 11:00 a.m., and 11:30 a.m. respectively on Friday, 23 June 2017 were published on 8 May 2017.

Whether or not you are able to attend the respective meetings in person, you are strongly advised to complete and sign the form of proxy in accordance with the instructions printed thereon. For holders of H Shares of the Company, the proxy form shall be lodged with the Company's H Share Registrar, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. For holders of A Shares, the proxy form shall be lodged at the Office of the Secretary to the Board at 298 South Fushan Road, Zoucheng, Shandong Province 273500, the PRC as soon as possible but in any event not later than 24 hours before the time appointed for the holding of the relevant meeting(s) or any adjourned meeting(s) (as the case may be).

Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting(s) or any adjourned meeting(s) should you so wish.

2 June 2017

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In this circular, unless the context requires otherwise, the following expressions have the following meaning:

"A Share(s)"	domestic shares in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and fully paid in RMB and are listed on the Shanghai Stock Exchange;
"A Shareholders"	holders of A Shares;
"A Shareholders' Class Meeting"	the 2017 second class meeting of the holders of A Shares to be held at the headquarters of the Company, 298 South Fushan Road, Zoucheng, Shandong Province 273500, the PRC at 11:00 a.m. on Friday, 23 June 2017 to consider and, if thought fit, approve, among other things, the specific mandate relating to the Additional A Shares Issue and the Repurchase Mandate;
"ACH"	Australian Coal Holdings Pty. Limited (ACN 000 066 491), a company with limited liability incorporated under the laws of Australia and holder of 65,555,831 ordinary shares in the capital of C&A, being 75.71% of the total issued share capital of C&A, and one of the Vendors;
"Acquisition"	the proposed acquisition of the Sale Shares from the Vendors by the Purchaser, pursuant to the terms and conditions of the SPA;
"Additional A Shares Issue"	the proposed issuance of not more than 647,000,000 new A Shares in the PRC, which shares are proposed to be listed and traded on the Shanghai Stock Exchange;
"AGM"	the 2016 annual general meeting of the Company to be held at the headquarters of the Company, 298 South Fushan Road, Zoucheng, Shandong Province 273500, the PRC at 9:00 a.m. on Friday, 23 June 2017;
"Articles of Association"	the articles of association of the Company;
"associates"	has the meaning ascribed thereto under the Hong Kong Listing Rules;
"ASX"	Australian Securities Exchange;
"AUD"	Australian dollars, the lawful currency of Australia;
"Australian GAAP"	Australian Generally Accepted Accounting Principles;

"Bee Creek Contract"	a contract to be entered into by YAS and Hail Creek Marketing Pty Limited, a company controlled by the Rio Tinto Group, pursuant to which YAS may purchase coal from Hail Creek Marketing Pty Limited;
"Benchmark Price Determination Date"	the first day of the period of the Additional A Shares Issue;
"BLCP"	BLCP Power Limited, an owner of a 400 MW coal-fired power station located in Map Ta Phut, Thailand;
"BLCP Agreement"	a coal supply and transportation agreement dated 13 June 2003 entered into between ACH and BLCP;
"Board"	the board of Directors of the Company;
"Business Day"	a day which is not a Saturday, Sunday or a public holiday in Brisbane, Queensland, Australia;
"C&A" or "Target Company"	Coal & Allied Industries Limited (ACN 008 416 760), the target company of the SPA;
"CAOP"	Coal & Allied Operations Pty Ltd (ACN 000 023 656), a wholly-owned subsidiary of C&A and one of the participants holding an interest in the HVO Joint Venture;
"CBRC"	China Banking Regulatory Commission;
"Class Meetings"	the A Shareholders' Class Meeting and the H Shareholders' Class Meeting;
"close associate(s)"	has the meaning ascribed thereto under the Hong Kong Listing Rules;
"Closing Date of Yankuang Group Finance Acquisition"	the last day of the month (calendar month) in which the effective date of the Yankuang Group Finance Equity Transfer Agreement falls (where the date falls on a non-working day, it shall be postponed to the first following working day);
"Coal Mine Assets"	coal mine operations comprised of Hunter Valley Operations, Mount Thorley and Warkworth in the Hunter Valley region, New South Wales, Australia;

"Coal Supply and Transportation Agreement"	a long-term Coal Supply and Transportation Agreement which may be entered into by ACH and YAS, pursuant to which YAS will supply coal, meeting agreed specifications, to ACH and be responsible for the transportation of such coal from Australia to Thailand;
"Company" or "Yanzhou Coal"	兗州煤業股份有限公司, Yanzhou Coal Mining Company Limited, a joint stock limited company incorporated in the PRC and the H Shares and A Shares of which are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange, respectively;
"Company Law"	Company Law of the People's Republic of China;
"Competent Evaluator"	has the meaning ascribed to it under Chapter 18 of the Listing Rules;
"Competent Person"	has the meaning ascribed to it under Chapter 18 of the Listing Rules;
"Competent Person's Report"	the report prepared and/or supervised by Doug Sillar on the Coal Mine Assets in compliance with Chapter 18 of the Listing Rules, the text of which is set out in Appendix V to this circular;
"Completion"	the completion by the parties of the sale and purchase of the Sale Shares under the SPA;
"Completion Date"	the date on which Completion occurs;
"connected person(s)"	has the meaning ascribed thereto under the Hong Kong Listing Rules;
"CSRC"	China Securities Regulatory Commission;
"Directors"	the directors of the Company;
"Enlarged Group"	the Company and its subsidiaries as enlarged by the Acquisition upon Completion;
"General Commercial Banks"	general commercial banks which provide deposit services, comprehensive credit facility services and miscellaneous financial services;
"Group"	the Company and its subsidiaries;
"H Share(s)"	overseas listed foreign invested shares in the ordinary share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange;

"H Shareholders"	holders of H Shares;
"H Shareholders' Class Meeting"	the 2017 second class meeting of the holders of H Shares to be held at the headquarters of the Company, 298 South Fushan Road, Zoucheng, Shandong Province 273500, the PRC at 11:30 a.m. on Friday, 23 June 2017 to consider and, if thought fit, approve, among other things, the specific mandate relating to the Additional A Shares Issue and the Repurchase Mandate;
"hectare"	a metric unit of square measure, equal to 10,000 square metres;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"Hong Kong Listing Rules" or "Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange;
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Hua Ju Energy"	Shandong Hua Ju Energy Company Limited, a company with limited liability incorporated under the laws of the PRC in 2002 and a 95.14% owned subsidiary of the Company, mainly engages in thermal power generation with gangue and slurry, and heating supply;
"HVO"	Hunter Valley Operations;
"HVO Joint Venture"	unincorporated joint venture known as the "Hunter Valley Operations Joint Venture" established pursuant to the HVO Joint Venture Agreement;
"HVO Joint Venture Agreement"	the Joint Venture Agreement – Hunter Valley Operations dated 3 February 2016 entered into among CAOP, HVOR and HVOP;
"HVOP"	HV Operation Pty Ltd (ACN 606 478 399), the manager of the HVO Joint Venture;
"HVOR"	HVO Resources Pty Ltd (ACN 608 108 952), a related body corporate of Mitsubishi and one of the participants holding interests in HVO Joint Venture;

"HVR"	Hunter Valley Resources Pty Ltd (ACN 151 471 242), a company with limited liability incorporated under the laws of Australia and holder of 21,028,904 ordinary shares in the capital of C&A, being 24.29% of the total issued share capital of C&A, and one of the Vendors;
"Independent Board Committee"	committee of the Board established for the purpose of considering (i) the transactions contemplated under the Yankuang Group Finance Equity Transfer Agreement and (ii) the provision of comprehensive credit facility service transaction under the New Financial Services Agreement and proposed annual caps for the three financial years ending 31 December 2017, 31 December 2018 and 31 December 2019, comprised of independent non-executive Directors who are independent in respect of the Yankuang Group Finance Equity Transfer Agreement, the New Financial Services Agreement and the transactions contemplated thereunder;
"Independent Financial Adviser"	Donvex Capital Limited, a corporation licensed to carry on type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the transactions contemplated under the Yankuang Group Finance Equity Transfer Agreement and (ii) the provision of comprehensive credit facility service transaction under the New Financial Services Agreement and proposed annual caps for the three financial years ending 31 December 2017, 31 December 2018 and 31 December 2019;
"Independent Shareholders"	Shareholders other than Yankuang Group and its associates, and who are not involved in, or interested in the Yankuang Group Finance Equity Transfer Agreement and the transactions contemplated thereunder, the provision of comprehensive credit facility service transaction under the New Financial Services Agreement;
"JORC Code"	the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2012 edition) as published by the Joint Ore Reserves Committee, as amended from time to time;

"KBCM"	one thousand banked cubic meters. A banked cubic metre is a volumetric term used in coal mining to define one cubic metre of rock or material in situ before it is drilled and blasted, or moved by means of a mechanical mining method;
"kt"	thousand metric tonnes;
"Latest Practicable Date"	26 May 2017, being the latest practicable date of ascertaining certain information contained in this circular before the issuing of this circular;
"life of mine"	the economic life of a coal deposit's reserves, or such reasonable extension of coal reserves as geological analysis may justify, at a given annual production rate, usually expressed in years;
"Mitsubishi"	Mitsubishi Development Pty Ltd (ACN 009 779 873), a wholly-owned subsidiary of Mitsubishi Corporation, and is the holding company of Mitsubishi's coal investments in Australia;
"Mt Thorley Co Venture"	unincorporated joint venture established pursuant to the Mt Thorley Project Co-Venture Deed executed on 10 November 1981;
"Mt"	million tonnes;
"MTW"	Mount Thorley and Warkworth;
"MTW Joint Venture"	Mt Thorley Co Venture and Warkworth Joint Venture;
"New Financial Services Agreement"	the "Financial Services Agreement" entered into between Yankuang Group Finance and Yankuang Group on 28 April 2017;
"New South Wales" or "NSW"	the state of New South Wales, Australia;
"Ordos Neng Hua"	Yanzhou Coal Ordos Neng Hua Company Limited, a company incorporated under the laws of the PRC in 2009 and a wholly-owned subsidiary of the Company, mainly engages in the development of coal resources and coal chemical projects of the Company in the Inner Mongolia Autonomous Region;
"Original Financial Services Agreement"	the "Financial Services Agreement" entered into between the Company and Yankuang Group Finance on 31 March 2017;

"overburden"	material of any nature, consolidated or unconsolidated, that overlies a deposit of coal;
"PRC"	the People's Republic of China, excluding, for the purposes of this circular only, Hong Kong, Macau Special Administrative Region and Taiwan Region;
"Price Determination Period"	the period of 20 A Shares trading days on the Shanghai Stock Exchange immediately prior to the Benchmark Price Determination Date;
"prime waste"	overburden of the uneconomic part of the deposit of coal at the time of mining;
"Proceeds"	the proceeds from the Additional A Shares Issue;
"Project"	the project proposed for the use of Proceeds described in the section headed "Use of Proceeds" in this circular;
"Purchaser" or "Yancoal Australia"	Yancoal Australia Limited (ACN 111 859 119), a company with limited liability incorporated under the laws of Australia in 2004 and an approximately 78% owned subsidiary of the Company. The shares of Yancoal Australia are traded on the ASX;
"Purchase Price"	the purchase price of US$2.45 billion (approximately HK$19.01 billion), subject to adjustments as set forth in the SPA, payable by the Purchaser to the Vendors for the Acquisition pursuant to the SPA, details of which are set out in the paragraph headed "2.4 Consideration" in the section headed "Letter from the Board" of this circular;
"rehandle waste"	prime waste that has been moved, mined, handled or stockpiled again after initial removal during the mining process;
"Repurchase Mandate"	subject to the conditions set out in each of the proposed special resolution approving the Repurchase Mandate at the AGM, the A Shareholders' Class Meeting and the H Shareholders' Class Meeting, the general mandate given to the Board to exercise the power to repurchase H Shares not exceeding 10% of the aggregate nominal value of H Shares of the Company in issue as at the date of the passing of the resolution;

"Rio Tinto Group"	Rio Tinto plc and each of its subsidiaries, together with Rio Tinto Limited and each of its subsidiaries, and includes any entity that would be considered to be a subsidiary of Rio Tinto plc and/or Rio Tinto Limited if they were treated as one company (and **Rio Tinto Group member** and **member of the Rio Tinto Group** mean each entity that is part of the Rio Tinto Group);
"RMB"	Renminbi, the lawful currency of the PRC;
"run of mine coal" or "ROM coal"	in situ coal that has been mined and includes coal losses and waste dilution incurred during the mining; process
"SAFE"	State Administration of Foreign Exchange of the PRC;
"Sale Shares"	86,584,735 ordinary shares in the capital of C&A, being 100% of the total issued share capital of C&A;
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
"Shareholder(s)"	holders of Shares of the Company;
"Shares"	A Shares and H Shares;
"SPA"	the Sale and Purchase Agreement entered into by the Purchaser and the Vendors on 24 January 2017 (local time in London, United Kingdom) in respect of the Acquisition;
"stripping ratio"	the volume of waste required to be removed to extract one metric tonne of coal. It is typically expressed as Banked Cubic Metres per ROM tonne or Banked Cubic Metres per Product tonne;
"subsidiary(ies)"	has the meaning ascribed thereto under the Hong Kong Listing Rules;
"Supervisor(s)"	supervisor(s) of the Company;
"Supervisory Committee"	supervisory committee of the Company;
"Takeovers Code"	the Code on Takeovers and Mergers of Hong Kong;
"Target Company Group"	Target Company and its subsidiaries;

"Transitional Services Agreement"	the agreement to be entered into between Rio Tinto Services Limited and C&A in the form set out in the schedule of SPA;
"US" or "United States"	United States of America;
"US$", "USD" or "US dollars"	United States dollars, the lawful currency of the United States of America;
"Vendors"	ACH and HVR;
"Warkworth Joint Venture"	unincorporated joint venture established pursuant to the Warkworth Joint Venture Agreement executed on 15 March 1977, as amended from time to time;
"Yankuang Group"	兗礦集團有限公司, Yankuang Group Company Limited, a state-controlled limited liability company, is the controlling shareholder of the Company holding directly and indirectly approximately 56.59% of the total issued share capital of the Company as at the Latest Practicable Date;
"Yankuang Group Finance"	Yankuang Group Finance Co., Ltd., a limited liability company incorporated in the PRC, which is owned as to 70%, 25% and 5% by Yankuang Group, the Company and China Credit Trust Co., Ltd., an independent third party, respectively as at the Latest Practicable Date. Yankuang Group Finance is a non-banking financial institution legally established with the approval of the CBRC and is a professional institution engaging in corporate financial services;
"Yankuang Group Finance Acquisition"	the transfer of the Yankuang Group Finance Target Interest by Yankuang Group to the Company under the terms of the Yankuang Group Finance Equity Transfer Agreement and the Company accepting such transfer under the terms of the Yankuang Group Finance Equity Transfer Agreement;
"Yankuang Group Finance Equity Transfer Agreement"	the agreement entered into between Yankuang Group and the Company in relation to the transfer of the Yankuang Group Finance Target Interest on 28 April 2017;
"Yankuang Group Finance Equity Transfer Agreement PRC Valuer"	Beijing China Enterprise Appraisals Co. Ltd.（北京中企華資產評估有限責任公司）, an independent qualified valuer in the PRC;

"Yankuang Group Finance Equity Transfer Agreement Valuation"	the entire equity value of Yankuang Group Finance as at 31 December 2016 valued at RMB1,729,580,700 as shown in the valuation report on Yankuang Group Finance prepared by the Yankuang Group Finance Equity Transfer Agreement PRC Valuer;
"Yankuang Group Finance Equity Transfer Agreement Valuation Report"	the valuation report dated 2 March 2017 on Yankuang Group Finance prepared by the Yankuang Group Finance Equity Transfer Agreement PRC Valuer;
"Yankuang Group Finance Target Interest"	the 65% equity interest in Yankuang Group Finance held by Yankuang Group;
"Yankuang Group Members"	Yankuang Group, its subsidiaries and associates (excluding the Company and its subsidiaries);
"YAS"	Yancoal Australia Sales Pty Ltd (ACN 167 884 460), a wholly-owned subsidiary of Yancoal Australia;
"YAL Rights Issue"	a capital raising and pro rata rights issue of ordinary shares to be undertaken by Yancoal Australia for the purpose of funding all or part of the Purchase Price which is expected to be launched around early third quarter of 2017;
"Yulin Nenghua"	Yanzhou Coal Yulin Neng Hua Company Limited, a company with limited liability incorporated under the laws of the PRC in 2004 and a wholly-owned subsidiary of the Company, mainly engages in the production and operation of the 0.6 million-tonne-capacity methanol project in Shanxi province;
"%"	per cent.

The terms "associate", "connected person", "controlling shareholder", "subsidiary" and "substantial shareholder" have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

For the purpose of this circular, unless otherwise indicated, the exchange rate of US$1.00 = HK$7.76 and AUD$1.00 = HK$5.59 have been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged at such rate or any other rate or at all on the date or dates in question or any other date.

兗州煤業股份有限公司

YANZHOU COAL MINING COMPANY LIMITED

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1171)

Directors:
Li Xiyong
Li Wei
Wu Xiangqian
Wu Yuxiang
Zhao Qingchun
Guo Dechun
Guo Jun

Independent non-executive Directors:
Kong Xiangguo
Jia Shaohua
Wang Xiaojun
Qi Anbang

Registered office:
298 South Fushan Road
Zoucheng
Shandong Province
PRC
Postal Code: 273500

Principal place of business in Hong Kong:
Rooms 2008-12
20/F., The Center
99 Queen's Road Central
Hong Kong

2 June 2017

To the Shareholders

Dear Sir or Madam,

**(1) PROPOSED APPOINTMENT OF DIRECTORS AND INDEPENDENT DIRECTORS;
(2) PROPOSED APPOINTMENT OF NON-STAFF REPRESENTATIVE SUPERVISORS;
(3) PROPOSED RENEWAL OF LIABILITY INSURANCE FOR DIRECTORS, SUPERVISORS AND SENIOR OFFICERS;
(4) PROPOSAL FOR APPOINTMENT OF EXTERNAL AUDITING FIRM FOR THE YEAR 2017;
(5) DISCLOSEABLE AND CONNECTED TRANSACTION – ACQUISITION OF 65% EQUITY INTEREST IN YANKUANG GROUP FINANCE;
(6) MAJOR AND CONTINUING CONNECTED TRANSACTION – PROVISION OF FINANCIAL SERVICES TO YANKUANG GROUP;
(7) VERY SUBSTANTIAL ACQUISITION – ACQUISITION OF COAL & ALLIED FROM RIO TINTO;
(8) PROPOSED APPLICATION FOR THE ISSUE OF NOT MORE THAN 647,000,000 A SHARES IN THE PRC;
(9) PROPOSAL TO AUTHORIZE THE COMPANY TO CARRY OUT DOMESTIC AND OVERSEAS FINANCING ACTIVITIES;
(10) PROPOSAL FOR THE PROVISION OF FINANCIAL GUARANTEES TO THE SUBSIDIARIES AND GRANTING OF AUTHORIZATION TO YANCOAL AUSTRALIA AND ITS SUBSIDIARIES TO PROVIDE GUARANTEES FOR THE DAILY OPERATION OF THE SUBSIDIARIES OF THE COMPANY IN AUSTRALIA; AND
(11) PROPOSAL FOR THE GENERAL MANDATES TO ISSUE H SHARES AND REPURCHASE H SHARES**

I. INTRODUCTION

The purpose of this circular is to provide you with information relating to (1) the proposed appointment of Directors and independent Directors; (2) the proposed appointment of non-staff representative Supervisors; (3) the proposed renewal of liability insurance for Directors, Supervisors and senior officers; (4) the proposal for appointment of external auditing firm for the year 2017; (5) discloseable and connected transaction – acquisition of 65% equity interest in Yankuang Group Finance; (6) major and continuing connected transaction – provision of financial services to Yankuang Group; (7) very substantial acquisition – acquisition of Coal & Allied from Rio Tinto; (8) proposed application for the issue of not more than 647,000,000 A Shares in the PRC; (9) the proposal to authorize the Company to carry out domestic and overseas financing activities; (10) the proposal for the provision of financial guarantees to the subsidiaries and granting of authorization to Yancoal Australia and its subsidiaries to provide guarantees for the daily operation of the subsidiaries of the Company in Australia; and (11) the proposal for the general mandates to issue H shares and repurchase H shares.

II. PROPOSED APPOINTMENT OF DIRECTORS AND INDEPENDENT DIRECTORS

In accordance with the provisions of the Articles of Association, Mr. Li Xiyong, Mr. Li Wei, Mr. Wu Xiangqian, Mr. Wu Yuxiang, Mr. Zhao Qingchun, Mr. Guo Dechun, Mr. Kong Xiangguo, Mr. Jia Shaohua and Mr. Qi Anbang will retire by rotation at the conclusion of the AGM and being eligible, offer themselves for re-election as Directors of the seventh session of the Board. Mr. Wang Xiaojun will retire upon the conclusion of the AGM. The Board would like to thank the retiring Directors for their valuable contributions to the Company during their terms of service.

At the 30th meeting of the sixth session of the Board held on 31 March 2017, Mr. Li Xiyong, Mr. Li Wei, Mr. Wu Xiangqian, Mr. Wu Yuxiang, Mr. Zhao Qingchun and Mr. Guo Dechun were nominated as Directors of the seventh session of the Board; Mr. Kong Xiangguo, Mr. Jia Shaohua and Mr. Qi Anbang were nominated as independent non-executive Directors of the seventh session of the Board; Mr. Poon Chiu Kwok was nominated as independent non-executive Director of the seventh session of the Board upon retirement of Mr. Wang Xiaojun.

The biographical details of the Directors proposed to be re-elected and the new Directors proposed to be elected are set out in Appendix II to this circular. Ordinary resolutions to approve their respective re-elections and elections will be proposed at the AGM.

The staff Directors for the seventh session of the Board of the Company shall be elected by the staff of the Company in the staff representative meeting or by other ways democratically. The staff representative meeting of the Company has elected Mr. Guo Jun as the staff representative Director of the seventh session of the Board on 29 April 2017 with the term of service being the same as the seventh session of the Board.

III. PROPOSED APPOINTMENT OF NON-STAFF REPRESENTATIVE SUPERVISORS

In accordance with the provisions of the Articles of Association, Mr. Gu Shisheng and Mr. Meng Qingjian will retire by rotation at the conclusion of the AGM and being eligible, offer themselves for re-election as Supervisors of the seventh session of the Supervisory Committee. Mr. Zhang Shengdong and Mr. Xue Zhongyong will retire upon the conclusion of the AGM. The Supervisory Committee would like to thank the retiring Supervisors for their valuable contributions to the Company during their terms of service.

At the 15th meeting of the sixth session of the Supervisory Committee held on 31 March 2017, Mr. Gu Shisheng and Mr. Meng Qingjian were nominated for re-appointment as non-staff representative Supervisors of the seventh session of the Supervisory Committee; Mr. Zhou Hong and Mr. Zhang Ning were nominated as non-staff representative Supervisors of the seventh session of the Supervisory Committee upon retirement of Mr. Zhang Shengdong and Mr. Xue Zhongyong.

The biographical details of the Supervisors proposed to be re-elected and the new Supervisors to be elected are set out in Appendix II to this circular. Ordinary resolutions to approve their respective re-elections and elections will be proposed at the AGM.

The staff Supervisors for the seventh session of the Supervisory Committee of the Company shall be elected by the staff of the Company in the staff representative meeting or by other ways democratically. The staff representative meeting of the Company has elected Mr. Jiang Qingquan and Mr. Chen Zhongyi as the staff representative Supervisors of the seventh session of the Supervisory Committee on 29 April 2017 with a term of service being the same as the seventh session of the Supervisory Committee.

IV. PROPOSED RENEWAL OF LIABILITY INSURANCE FOR DIRECTORS, SUPERVISORS AND SENIOR OFFICERS

It is proposed that the Company will renew the liability insurance for the Directors, Supervisors and senior officers of the Company for a maximum insured amount of USD15 million.

V. PROPOSAL FOR APPOINTMENT OF EXTERNAL AUDITING FIRM FOR THE YEAR 2017

It is proposed that ShineWing Certified Public Accountants (special general partnership) and SHINEWING (HK) CPA Limited be appointed as the Company's domestic and international auditors for the year 2017, respectively, until the conclusion of the next annual general meeting of the Company, and arrangements in respect of their remuneration be approved.

It is proposed that the remuneration to be paid to the auditors in 2017 is as follows:

1. the aggregated auditing fees for the domestic business would be RMB4.65 million;

2. the auditing fees for the overseas business would be RMB1.60 million. The Company shall be responsible for the auditors' accommodation expenses incurred during the course of work but shall not be responsible for the travel expenses and other expenses;

3. the overseas subsidiaries shall be responsible for the auditing fees of AUD1.35 million for the business in Australia. The Company shall not be responsible for the auditors' accommodation, travel expenses and other expenses incurred during the course of work; and

4. to authorize the Board to decide the payment for increased follow-up auditing, internal control audit and other services resulted from the Company's new subsidiaries or changes of regulations.

VI. DISCLOSEABLE AND CONNECTED TRANSACTION – ACQUISITION OF 65% EQUITY INTEREST IN YANKUANG GROUP FINANCE

This proposal is hereby submitted to the Shareholders for approval at the AGM by way of ordinary resolution.

Reference is made to the announcement of the Company dated 28 April 2017. On 28 April 2017, the Company and Yankuang Group entered into the Yankuang Group Finance Equity Transfer Agreement. Pursuant to the Yankuang Group Finance Equity Transfer Agreement, the Company agreed to acquire and Yankuang Group agreed to sell its 65% equity interest in Yankuang Group Finance at a consideration of RMB1,124,227,500.

Yankuang Group Finance Equity Transfer Agreement

Date

28 April 2017

Parties

(i) The Company; and

(ii) Yankuang Group.

Equity Interest to be Acquired

Pursuant to the Yankuang Group Finance Equity Transfer Agreement, the Company agreed to acquire and Yankuang Group agreed to sell its 65% equity interest in Yankuang Group Finance. As at the Latest Practicable Date, the equity interests of Yankuang Group Finance is owned as to 70% by Yankuang Group, 25% by the Company and 5% by China Credit Trust Co., Ltd., an independent third party. After the Closing Date of Yankuang Group Finance Acquisition, Yankuang Group Finance will become a subsidiary of the Company and its financial results will be consolidated into the accounts of the Company.

Consideration

Pursuant to the Yankuang Group Finance Equity Transfer Agreement, the consideration for the Yankuang Group Finance Acquisition payable by the Company is RMB1,124,227,500, which was determined based on the entire equity value of Yankuang Group Finance as at 31 December 2016 valued at RMB1,729,580,700 as shown in the Yankuang Group Finance Equity Transfer Agreement Valuation Report on Yankuang Group Finance prepared by the Yankuang Group Finance Equity Transfer Agreement PRC Valuer. The consideration shall be paid by the Company to the bank account designated by Yankuang Group in a lump sum in cash on the Closing Date of Yankuang Group Finance Acquisition. The consideration will be funded from the Company's internal resources.

During the period from 1 January 2017 to the Closing Date of Yankuang Group Finance Acquisition (excluding the day), the profit and loss attributable to the 65% equity interest of Yankuang Group Finance was jointly owned and assumed by the three shareholders of Yankuang Group Finance according to their respective shareholding prior to the Closing Date of Yankuang Group Finance Acquisition (i.e. 70% by Yankuang Group, 25% by the Company and 5% by China Credit Trust Co., Ltd.).

The Yankuang Group Finance Equity Transfer Agreement Valuation Report was prepared by the Yankuang Group Finance Equity Transfer Agreement PRC Valuer, which is an independent qualified PRC valuer engaged by Yankuang Group for the purpose of determining the equity value of Yankuang Group Finance. As the Yankuang Group Finance Equity Transfer Agreement Valuation above was valued based on the income approach, the Yankuang Group Finance Equity Transfer Agreement Valuation constitutes a profit forecast under Rule 14.61 of the Hong Kong Listing Rules and Rules 14.60A and 14.62 of the Hong Kong Listing Rules are applicable. Pursuant to Rule 14.62(1) of the Hong Kong Listing Rules, the following are the details of the principal assumptions, including commercial assumptions, upon which the Yankuang Group Finance Equity Transfer Agreement Valuation Report was issued:

(i) General assumptions:

(a) the valued enterprise operates continuously after the valuation date;

(b) there is no material change to the political, economic and social environment of the state and region in which the valued enterprise is located after the valuation date;

(c) there is no material change to the national macro-economic, industrial and regional development policies after the valuation date;

(d) there is no material change to the relevant interest rates, exchange rates, tax base and tax rates and policy-based levies after the valuation date;

(e) the management of the valued enterprise is responsible and stable, and is capable of its undertakings after the valuation date;

(f) the valued enterprise fully complies with all relevant laws and regulations;

(g) there is no force majeure which has material adverse effects to the valued enterprise after the valuation date.

(ii) Special assumptions:

(a) the accounting policies adopted by the valued enterprise after the valuation date maintain the same in material aspects as those adopted when composing the valuation report;

(b) the valued enterprise maintain the same business scope and operation method based on the existing management method and management levels after the valuation date;

(c) both the cash inflow and the cash outflow of the valued enterprise is average after the valuation date;

(d) it is assumed that the valued enterprise would maintain the existing situation for market competition after the valuation date;

(e) as at the valuation date, Yankuang Group Finance leased a house of 810 square meters from Yankuang Cinda Hotel Management Co. Ltd（兗礦信達酒店管理有限公司）as places for office and operation for a long lease term. It is assumed that the valued enterprise would be able to lease such house constantly after the valuation date;

(f) it is assumed that the levels of the future deposit reserve rate (1.62%), percentage of provision for loss of general loans (2.5%) and capital adequacy ratio (25%) would remain the same as those in 2016.

(iii) Quantitative assumptions:

(a) Forecasted revenue

The estimated growth rate for the amount of loans granted by Yankuang Group Finance for the period from the year 2017 to 2021 is 4.0%, 4.0%, 4.0%, 4.0%, 0%, respectively. The forecasted revenue for each of the year from 2017 to 2021 amounts to approximately RMB253.8870 million, RMB263.7933 million, RMB274.2721 million, RMB285.0652 million and RMB285.0502 million respectively, assuming that the estimated profits rate will remain above 67% and the capital adequacy ratio will remain above 25% for the same period.

As advised by the Yankuang Group Finance Equity Transfer Agreement PRC Valuer, the Yankuang Group Finance Equity Transfer Agreement PRC Valuer has adopted the annual growth rate of 4%, being the historical average growth rate from the year 2012 to 2016, for the deposit taking from Yankuang Group Finance's customers. The Yankuang Group Finance Equity Transfer Agreement PRC Valuer also advised that they considered the gross domestic product ("**GDP**") growth rate of the PRC was positively correlated to the growth rate of the loans. According to the statistics of National Bureau of Statistics of China, the preliminary assessment of the PRC's GDP recorded a year-to-year growth of approximately 6.7% in 2016. The Yankuang Group Finance Equity Transfer Agreement PRC Valuer has adopted the interest rate for the loans by Yankuang Group Finance as 4.35%, being the latest People's Bank of China benchmark one-year lending rate proposed on 31 December 2016.

Having considered the above, the Directors consider that this assumption adopted by the Yankuang Group Finance Equity Transfer Agreement PRC Valuer in the valuation was fair and reasonable.

The future revenue between the Group and Yankuang Group Finance was included in the forecasted revenue of the Yankuang Group Finance Equity Transfer Agreement Valuation. The Yankuang Group Finance Equity Transfer Agreement PRC Valuer advised that the valuation under the adoption of the income-based approach should be prepared on the existing business model of target when determining what a business of target is worth on its individual case. As such, when considering the business value of Yankuang Group Finance, in order to reflect the overall business model of Yankuang Group Finance when it is operated at its own cost, the future revenue between the Group and Yankuang Group Finance should be included in the forecasted revenue between the Group and Yankuang Group Finance. Having considered the above, the Directors consider that it is fair and reasonable to include future revenue between the Group and Yankuang Group Finance in the forecasted revenue.

(b) Forecasted cost of sales

The cost of sales represented the interest expenses for the deposit taking from Yankuang Group Finance and the Group. Based on the positive correlation of the PRC's GDP and the historical average growth rate of deposit takings as mentioned above, The historical average growth rates of Yankuang Group Finance from the year 2012 to 2016 were 10.1%, -24.3%, 1.9%, 25.6% and 6.7% respectively. The Yankuang Group Finance Equity Transfer Agreement PRC Valuer has adopted the annual growth rate of 4.0%, for the deposit taking for the five years ending 31 December 2021. Relevant interest rates for the deposit are adopted according to relevant regulations of People's Bank of China. The forecasted deposit taking from the year 2017 to 2021 is RMB7,562.3665 million, RMB7,864.8611 million, RMB8,179.4556 million, RMB8,506.6338 million and RMB8,506.6338 million. The interest rates for short-term loan and long-term loan adopt the historical data of Yankuang Group Finance.

Having considered the above, the Directors consider that this assumption adopted by the Yankuang Group Finance Equity Transfer Agreement PRC Valuer in the Yankuang Group Finance Equity Transfer Agreement Valuation was fair and reasonable.

The future cost of sales between the Group and Yankuang Group Finance was included in the forecasted cost of sales of the Yankuang Group Finance Equity Transfer Agreement Valuation. The Yankuang Group Finance Equity Transfer Agreement PRC Valuer advised that the valuation under the adoption of the income-based approach should be prepared on the existing business model of target when determining what a business of target is worth on its individual case. As such, when considering the business value of Yankuang Group Finance, in order to reflect the overall business model of Yankuang Group Finance when it is operated at its own cost, the future cost of sales between the Group and Yankuang Group Finance should be included in the forecasted cost of sales between the Group and Yankuang Group Finance. Having considered the above, the Directors consider that it is fair and reasonable to include future cost of sales between the Group and Yankuang Group Finance in the forecasted cost of sales.

(c) Discount rate

The discount rate adopted by the Yankuang Group Finance Equity Transfer Agreement PRC Valuer in the Yankuang Group Finance Equity Transfer Agreement Valuation is 10.21%.

As advised by the Yankuang Group Finance Equity Transfer Agreement PRC Valuer, the cost of equity is considered relevant to the Yankuang Group Finance Equity Transfer Agreement Valuation of Yankuang Group Finance as the regulatory requirements and return on equity is fundamental to financial institution. In estimating the cost of equity, the Yankuang Group Finance Equity Transfer Agreement PRC Valuer has adopted the capital asset pricing model which is a commonly used model to compute the cost of equity as discount rate. Having considered the above, the Directors consider that this assumption adopted by the Yankuang Group Finance Equity Transfer Agreement PRC Valuer in the Yankuang Group Finance Equity Transfer Agreement Valuation was fair and reasonable.

The forecasted transaction between the Group and Yankuang Group Finance were included in the forecast. The Yankuang Group Finance Equity Transfer Agreement PRC Valuer advised that the valuation was prepared on a market value basis, which represents the market value of Yankuang Group Finance as at the valuation date to any potential acquirer on a rational and voluntary basis.

Accordingly, the forecast was conducted based on the existing business of Yankuang Group Finance as at the valuation date. Accordingly, the Director consider that the application of the valuation methodology is fair and reasonable.

SHINEWING (HK) CPA Limited, the auditor of the Company, has conducted its work in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and has reviewed the arithmetical calculations and compilation of the profit forecast in accordance with the bases and assumptions adopted by the Directors in preparing the Yankuang Group Finance Equity Transfer Agreement Valuation Report.

The Board confirms that the forecast has been made by the Directors after due and careful enquiry.

A letter from the Board and a letter from SHINEWING (HK) CPA Limited are included in Appendix VII to this circular for the purpose of Rule 14.62 of the Hong Kong Listing Rules.

As at the Latest Practicable Date, SHINEWING (HK) CPA Limited does not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate a person to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, SHINEWING (HK) CPA Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or statements and references to its name in the form and context in which it appear.

Yankuang Group Finance began official operation on 12 November 2010, with the registered capital being RMB500 million (including US$10 million), of which, RMB350 million (including US$10 million) is contributed by Yankuang Group, accounting for 70% of the registered capital; RMB125 million is contributed by the Company, representing 25% of the registered capital; and RMB25 million is contributed by China Credit Trust Co., Ltd., representing 5% of the registered capital. In June 2014, the general meeting of Yankuang Group Finance approved to increase the registered capital to RMB1 billion (including US$10 million) based on the original shareholding proportion of shareholders, after which, RMB700 million (including US$10 million) is contributed by Yankuang Group, representing 70% of the registered capital; RMB250 million is contributed by the Company, representing 25% of the registered capital; and RMB50 million is contributed by China Credit Trust Co., Ltd., representing 5% of the registered capital.

Effectiveness

The Yankuang Group Finance Equity Transfer Agreement shall become effective on the date on which (i) it has been executed by the parties; and (ii) the Yankuang Group Finance Acquisition has obtained all necessary consent or approval, including (a) completion of the filing procedures of Yankuang Group Finance Equity Transfer Agreement Valuation with relevant authorities; (b) the internal approvals from the Company and Yankuang Group on the Yankuang Group Finance Acquisition (including the Independent Shareholders' approval); (c) the approval on the Yankuang Group Finance Acquisition from the shareholders of Yankuang Group Finance; (d) the right of first refusal having been waived by other shareholders of Yankuang Group Finance; and (e) the approval from the local branch of the CBRC.

As at the Latest Practicable Date, all conditions for the effectiveness of the Yankuang Group Finance Equity Transfer Agreement have been fulfilled except for the Independent Shareholders' approval and the approval from the local branch of the CBRC. Having considered that (i) the AGM will be held on 23 June 2017; and (ii) it will take up to four months to obtain the approval from the local branches of the CBRC, the Yankuang Group Finance Equity Transfer Agreement is expected to take effect in October 2017.

Closing

The Closing Date of Yankuang Group Finance Acquisition shall be the last day of the month (calendar month) in which the effective date of the Yankuang Group Finance Equity Transfer Agreement falls (if the date falls on a non-working day, it shall be postponed to the first following working day).

Completion

After the Yankuang Group Finance Equity Transfer Agreement becomes effective, both parties shall perform their respective obligations under the Yankuang Group Finance Equity Transfer Agreement to complete the Yankuang Group Finance Acquisition thereunder. All relevant matters of the Yankuang Group Finance Acquisition shall be deemed to be completed on the date on which (i) the registration of changes of the equity interest in Yankuang Group Finance with the registration authority has been completed; and (ii) the revised articles of association of Yankuang Group Finance reflecting such changes have been filed and registered with the registration authority and the new business license of Yankuang Group Finance has been issued by the registration authority (if needed). Completion of the Yankuang Group Finance Acquisition is not conditional upon the New Financial Services Agreement becoming effective. Having considered the effective date of the Yankuang Group Finance Equity Transfer Agreement and the required time for completing relevant registration procedures, the Company expects that the Yankuang Group Finance Acquisition will be completed in November 2017.

Reasons for and Benefits of Entering into the Yankuang Group Finance Equity Transfer Agreement

The reasons for the Company to enter into the Yankuang Group Finance Equity Transfer Agreement with Yankuang Group are as follows:

(i) The Yankuang Group Finance Acquisition will allow the Group to (a) utilise and manage its idle financial resources by Yankuang Group Finance; (b) establish a finance resources sharing platform to optimize the capital allocation and control the capital operation from a general perspective; and (c) enhance the efficiency of capital utilization, reduce financial costs and strengthen the capability in managing and controlling the capital of members of the Group;

(ii) The Yankuang Group Finance Acquisition will enable the Group to provide professional and high-quality financial services to its members so as to guarantee the smooth operation of local companies and the on-schedule commencement of construction projects in different regions, which will promote the cross-region and cross-industry development of the Company;

(iii) Upon closing of the Yankuang Group Finance Acquisition, the Group can develop its diversified financial business through Yankuang Group Finance, make its finance industry larger and stronger, and promote the collaborative development of industry and finance; and

(iv) Yankuang Group Finance has been recording a stable profit in the past several years. After the Closing Date of Yankuang Group Finance Acquisition, the financial results of Yankuang Group Finance will be consolidated into the Group's financial statement. As such, the Yankuang Group Finance Acquisition will immediately increase the profitability of the Group, which is in the interests of the Company and the Shareholders as a whole.

The Directors (including the independent non-executive Directors, whose opinion on the matter is formed after taking into account the advice of the Independent Financial Adviser in this regard) consider that the terms and conditions of the Yankuang Group Finance Acquisition (including consideration) are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Mr. Li Xiyong, Mr. Li Wei and Mr. Wu Yuxiang, Directors, also directors or senior management of Yankuang Group, are regarded as having a material interest in the aforesaid connected transactions. Therefore, Mr. Li Xiyong, Mr. Li Wei and Mr. Wu Yuxiang have abstained from voting at the meeting of the Board convened for the purpose of approving such transactions. Save as disclosed above, none of the other Directors has a material interest in such transactions.

Implication under the Hong Kong Listing Rules

As the highest applicable percentage ratio set out in the Hong Kong Listing Rules in respect of the Yankuang Group Finance Acquisition under the Yankuang Group Finance Equity Transfer Agreement exceeds 5% but is less than 25%, the Yankuang Group Finance Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Hong Kong Listing Rules and thus is subject to reporting and announcement requirements under the Hong Kong Listing Rules. In addition, Yankuang Group is a controlling Shareholder of the Company, holding directly or indirectly approximately 56.59% of the issued share capital of the Company as at the Latest Practicable Date and thus is a connected person of the Company under the Hong Kong Listing Rules. Therefore, the Yankuang Group Finance Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules and is subject to the reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Information of the Parties

The Company

The Company is principally engaged in the business of mining, preparation, processing and sales of coal and coal chemicals. The Company's main products are steam coal for use in large-scale power plants, coking coal for metallurgical production and coal for pulverized coal injection.

Yankuang Group

Yankuang Group is a wholly state-controlled limited liability company with a registered capital of RMB3,353,388,000 and is principally engaged in businesses such as manufacture of coal, coal chemicals, coal aluminum, complete sets of electromechanical equipment and management of foreign investment. As at the Latest Practicable Date, Yankuang Group is the controlling Shareholder of the Company, holding directly or indirectly approximately 56.59% of the issued share capital of the Company, and is hence a connected person of the Company.

Yankuang Group Finance

Yankuang Group Finance is a non-banking financial institution legally established in September 2010 by Yankuang Group, the Company and China Credit Trust Co., Ltd., an independent third party, with the approval of the CBRC and is a professional institution engaged in the provision of corporate financial services. The initial registered capital of Yankuang Group Finance was RMB500 million (including US$10 million) which was contributed by Yankuang Group, the Company and China Credit Trust Co., Ltd as to RMB350 million (including US$10 million), RMB125 million and RMB25 million, respectively. The shareholders of Yankuang Group Finance increased its registered capital by RMB500 million in June 2014 on a pro rata basis. Prior to completion of the Yankuang Group Finance Acquisition, the registered capital of

Yankuang Group Finance was RMB1,000 million (including US$10 million), which was contributed by Yankuang Group, the Company and China Credit Trust Co., Ltd. as to RMB700 million (including US$10 million), RMB250 million and RMB50 million, respectively.

The business scope of Yankuang Group Finance includes provision of financial services and financing consultancy services, credit certification and related consultancy and agency services to member companies; provision of assistance to member companies in payment and receipt of transaction proceeds; provision of approved insurance agency services; provision of guarantees to member companies; provision of intra-group entrusted loan and entrusted investment; provision of bill acceptance and discounting services to member companies; provision of intra-group transfer and settlement services and design of related clearing and settlement schemes; provision of deposit-taking services to member companies; provision of loans and finance lease to member companies; provision of inter-bank loans; other businesses approved by CBRC.

The audited net profit before and after tax and extraordinary items of Yankuang Group Finance for the two years ended 31 December 2015 and 2016 respectively were as follows:

Unit: RMB

	Year ended 31 December 2015	**Year ended 31 December 2016**
Net Profit (before tax and extraordinary items)	228,244,013	199,931,509
Net Profit (after tax and extraordinary items)	171,259,795	149,777,510

The audited net assets of Yankuang Group Finance as at 31 December 2016 amounted to RMB1,580,033,950. The appraised value of entire equity interest of Yankuang Group Finance as at 31 December 2016 as set out in the Yankuang Group Finance Equity Transfer Agreement Valuation Report prepared by an independent Yankuang Group Finance Equity Transfer Agreement PRC Valuer is RMB1,729,580,700.

The audited financial information of Yankuang Group Finance set out above is prepared in accordance with China Accounting Standards for Business Enterprises.

Effectiveness of the Yankuang Group Finance Equity Transfer Agreement is conditional upon the satisfaction of the conditions precedent set out in the Yankuang Group Finance Equity Transfer Agreement. Accordingly, the Yankuang Group Finance Acquisition may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the securities of the Company. If the Shareholders and potential investors of the Company are in any doubt about their position, they should consult their professional advisors.

VII. MAJOR AND CONTINUING CONNECTED TRANSACTION – PROVISION OF FINANCIAL SERVICES TO YANKUANG GROUP

This proposal is hereby submitted to the Shareholders for approval at the AGM by way of ordinary resolution.

Reference is made to the announcement of the Company dated 31 March 2017 in relation to, among others, the entering into of the Original Financial Services Agreement with Yankuang Group Finance. Pursuant to the Original Financial Services Agreement, Yankuang Group Finance provides deposit services, comprehensive credit facility services and miscellaneous financial services (including note discounting services and settlement services) to the Group in accordance with the terms and conditions set out thereunder.

After the Closing Date of Yankuang Group Finance Acquisition, Yankuang Group Finance will become a subsidiary of the Company. Accordingly, the Original Financial Services Agreement and the transactions contemplated thereunder will no longer be continuing connected transactions of the Company in accordance with the Hong Kong Listing Rules.

Reference is made to the announcement of the Company dated 28 April 2017. On 28 April 2017, Yankuang Group Finance entered into the New Financial Services Agreement with Yankuang Group, pursuant to which, after the Closing Date of Yankuang Group Finance Acquisition, Yankuang Group Finance agreed to provide deposit services, comprehensive credit facility services and miscellaneous financial services to Yankuang Group Members in accordance with the terms and conditions set out in the New Financial Services Agreement.

According to Chapter 14A of the Hong Kong Listing Rules, the New Financial Services Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company.

The New Financial Services Agreement

Date

28 April 2017

Parties

(1) Yankuang Group Finance; and

(2) Yankuang Group.

Effective Date and Term

The New Financial Services Agreement shall become effective upon (1) execution by the legal representatives or authorized representatives of the parties; (2) closing of the Yankuang Group Finance Acquisition; and (3) the approval from Independent Shareholders' at the AGM, with effect from the Closing Date of Yankuang Group Finance Acquisition and will expire on 31 December 2019.

Major Terms and Pricing

Pursuant to the New Financial Services Agreement, Yankuang Group Finance shall provide the following financial services to Yankuang Group Members:

(i) Deposit services:

Yankuang Group Finance shall provide deposit services to Yankuang Group Members. The maximum daily balance (including accrued interests) of Yankuang Group Members on the settlement account with Yankuang Group Finance shall not exceed RMB9.4 billion, RMB10.0 billion and RMB10.7 billion respectively for each of the year from 2017 to 2019 during the term of the New Financial Services Agreement.

The interest rate for Yankuang Group Members' deposit with Yankuang Group Finance shall comply with relevant regulations of the People's Bank of China and be determined on normal commercial terms by reference to the deposits benchmark interest rate promulgated by the People's Bank of China periodically (if any), and the interest rate offered by General Commercial Banks for the provision of same type of deposit service.

(ii) Comprehensive credit facility services:

Yankuang Group Finance shall provide comprehensive credit facilities (including but not limited to loans, trade financing, bill acceptance and discounting, overdraft, factoring, guarantee, loan commitment, opening of letter of credit, etc.) with a maximum daily balance (including accrued interests) of loans of not exceeding RMB7.1 billion, RMB7.5 billion and RMB8.0 billion to Yankuang Group Members for each of the year from 2017 to 2019 during the term of the New Financial Services Agreement.

The interest rate for the loan to be provided by Yankuang Group Finance to Yankuang Group Members' shall comply with relevant regulations of the People's Bank of China and be determined on normal commercial terms by reference to the loan benchmark interest rate promulgated by the People's Bank of China periodically (if any), and the interest rate offered by General Commercial Banks for the provision of same type of loan service.

(iii) Miscellaneous financial services:

Yankuang Group Finance shall provide miscellaneous financial services to Yankuang Group Members which include but are not limited to, bill acceptance and discounting services, financial and financing consultation, credit certification and related consultation, agency services, fund payment and receipt, entrusted loans services, guarantee business services as well as other ancillary services relating to settlement services. The total annual fees charged by Yankuang Group Finance for the provision of miscellaneous financial services to Yankuang Group Members shall not exceed RMB3.7 million, RMB3.9 million and RMB4.0 million respectively for each of the year from 2017 to 2019 during the term of the New Financial Services Agreement.

The fees for the provision of miscellaneous financial services to Yankuang Group Members shall be charged by Yankuang Group Finance according to the prescribed rates if the People's Bank of China or the CBRC has determined relevant prescribed rates. If no such standard rates are available, the services fees shall be determined on normal commercial terms by reference to the fees charged by General Commercial Banks for the provision of the same type of financial services.

Payment

The payment of the relevant interests, expenses and service fees for the above services can be settled by the parties on a one-off basis or by installment in accordance with specific circumstances. Yankuang Group Finance will use internal resources to pay the relevant interests to Yankuang Group Members for the provision of deposit services.

Historical Amount, Proposed Annual Caps and Reasons

Before the entering into of the Yankuang Group Finance Equity Transfer Agreement, Yankuang Group Finance had entered into a number of agreements with fixed terms with various Yankuang Group Members for principal businesses including deposit, loan and bills acceptance service. As at 31 December 2016, the deposit balance amounted to approximately RMB6.475 billion, the loan balance amounted to approximately RMB5.005 billion, and the balance of bills acceptance amounted to approximately RMB0.622 billion. Yankuang Group Finance will continue to make relevant transactions under such agreements, and the Company will comply with the requirements of annual review and annual reporting in accordance with the Hong Kong Listing Rules, and comply with the requirements in relation to connected transactions under the Hong Kong Listing Rules upon renewal of such agreements or amendments to terms of such agreements.

Having considered (i) the historical balance amount of loans provided by Yankuang Group Finance to Yankuang Group Members in the year 2016 as at RMB5.0 billion; and (ii) the increasing fund demands of Yankuang Group Members to purchase raw materials driven by their projects construction and operation, the Board proposed that the maximum daily balance (including accrued interests) of loans to be provided Yankuang Group Finance to Yankuang Group Members under the comprehensive credit facility services under the New Financial Services Agreement shall not exceed RMB7.1 billion, RMB7.5 billion and RMB8.0 billion for each of the three financial years ending 31 December 2017, 31 December 2018 and 31 December 2019.

Having considered Yankuang Group Members' demand for the miscellaneous financial services, the Board proposed that the maximum annual fees payable for such miscellaneous financial services under the New Financial Services Agreement shall not exceed RMB3.7 million, RMB3.9 million and RMB4 million respectively for each of the three financial years ending 31 December 2017, 31 December 2018 and 31 December 2019.

Internal Control Procedures

The following procedures has been adopted by the Company to ensure that the continuing connected transactions will be conducted in accordance with the terms (including pricing policy) provided under the New Financial Services Agreement and on normal commercial terms and in the interests of the Company and the Shareholders as a whole:

(a) The financing plan department of Yankuang Group Finance will (i) update the relevant interest rates in relation to similar deposit and comprehensive credit facility services when being informed by the People's Bank of China for any changes in such interest rates; (ii) update the standard fees for similar financial services when being informed by the People's Bank of China or the CBRC (if applicable) for any changes in such standard fees; (iii) directly collect, on a weekly basis, the relevant interest rates offered by at least two General Commercial Banks in the PRC which operate at the same or nearby area for deposit and similar comprehensive credit facility services; and (iv) directly collect, on a weekly basis, the service fees charged by at least two General Commercial Banks in the PRC which operate at the same or nearby area for similar financial services;

(b) Prior to each financial service provided to Yankuang Group, the price management committee, consisting of the management of Yankuang Group Finance, will review and compare the interest rates or services fees collected by the financing plan department. As such, the price management committee will (i) make sure the pricing policies as described above are properly complied with, and (ii) approve the final interest rates or services fess provided to Yankuang Group;

(c) The audit committee of the Company will review the continuing connected transactions between Yankuang Group Finance and Yankuang Group Members quarterly;

(d) In addition, according to requirements of the New Financial Services Agreement, if Yankuang Group Members have not repaid such loan upon the expiry of term of such loan and in 10 working days from receiving the written repayment notice from Yankuang Group Finance, Yankuang Group Finance can convert directly the corresponding amounts of deposits of such Yankuang Group Member with Yankuang Group Finance as repayment of principal of such loan together with interest. If Yankuang Group Members have funding difficulty, and as a result of which can not repay the principal of loan of Yankuang Group Finance or its interest, Yankuang Group shall assume the joint liability for repayment of the principal of such loan together with interest;

(e) In risk management, Yankuang Group Finance has established the aggregation of 151 systems in business and internal risk control, such as Administrative Measures for Settlement Business, Administrative Measures for Unit Deposit, Administrative Measures for Comprehensive Risk, to ensure that all businesses are complied with rules, the responsibility of risk body is implemented to ensure the operation of Yankuang Group Finance is complied such systems and rules;

(f) In information transparency, according to the requirements of China National Association of Finance Companies, Yankuang Group Finance will report data of key operating indicators and the financial statements to the association on monthly, quarterly and annual basis. China National Association of Finance Companies publishes periodically the basic operating data for finance companies sector on its official website, announces periodically the operating data and indicator ranking of finance companies to member units. Furthermore, under regulatory requirements of the CBRC and the People's Bank of China, Yankuang Group Finance reports and sends its financial statements to the regulators on a monthly basis. After the Closing Date of Yankuang Group Finance Acquisition, the Company will disclose the quarterly balance sheet and income statement of Yankuang Group Finance separately; and disclose the operating information of Yankuang Group Finance in its regular reports;

(g) Upon closing, under the premise of meeting regulatory requirements, the Company will appoint an additional director to Yankuang Group Finance.

Reasons for and Benefits of Entering Into the New Financial Services Agreement

The reasons for Yankuang Group Finance to enter into the New Financial Services Agreement with Yankuang Group are as follows:

According to the relevant PRC laws, Yankuang Group Finance, as a non-banking financial institution, can only provide the financial services to Yankuang Group Members and the Group. The revenue generated from the transactions between Yankuang Group Members and Yankuang Group Finance represents approximately 68.6% of the total revenue of Yankuang Group Finance for the year ended 31

December 2016, therefore Yankuang Group Members is the largest customer of Yankuang Group Finance for the year ended 31 December 2016. Yankuang Group Members is expected to be the largest customer of Yankuang Group Finance after completion of the Yankuang Group Finance Acquisition. Having considered that Yankuang Group Finance can enlarge its capital size for the purpose of the development of its financial business and capital operation through absorbing capitals from Yankuang Group Members and can also increase profits of the Group through providing loan and settlement services to Yankuang Group Members by means of charging loan interests or other service fees, the Directors consider that the entering into the New Financial Services Agreement is in the interests of the Company and its Shareholders as a whole.

Due to the long history and close working relationship between the Group and Yankuang Group, Yankuang Group Finance has a clear understanding of the financial conditions of Yankuang Group Members, thus the risk of Yankuang Group Finance in providing loans to Yankuang Group Members is low. There is also a low possibility of any dispute or litigation between Yankuang Group Finance and Yankuang Group Members regarding repayment terms of the loans as all the companies within Yankuang Group are familiar with terms and practice of loans provided by Yankuang Group Finance. In order to minimize the credit risk of the provision of the comprehensive credit facility services to Yankuang Group Members under the New Financial Services Agreement, the Company takes the following procedures: (a) the credit approval committee of Yankuang Group Finance will review the amount of the total facilities to be granted to Yankuang Group Members and the relevant terms; (b) the senior management of Yankuang Group Finance will review the decisions and approvals of its internal credit approval committee before providing comprehensive credit facility services to Yankuang Group Members; (c) the audit committee of the Company will review the comprehensive credit facility services between Yankuang Group Finance and Yankuang Group Members quarterly; (d) in order to assess the financial position and credit status of Yankuang Group Members, the financing plan department of Yankuang Group Finance requests for financial statements from Yankuang Group on a quarterly basis and also requests for monthly management account immediately before granting any loan to Yankuang Group Members. Therefore, the Directors consider that there is sufficient risk control measures in place and the provision of the comprehensive credit facility services transactions under the New Financial Services Agreement are in the interest of the Company and its Shareholders as a whole.

The Directors (including the independent non-executive Directors) consider that the transactions under the New Financial Services Agreement (excluding the provision of comprehensive credit facility services) are entered into after arm's length negotiations and based on normal commercial terms, and therefore the terms of such transactions and the proposed caps of the annual service fees for the provision of each of the miscellaneous financial services are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The Directors (including the independent non-executive Directors, whose opinion on the matter is formed after taking into account the advice of the Independent Financial Adviser in this regard) consider that the provision of comprehensive credit facility services under the New Financial Services Agreement are entered into after arm's length negotiations and based on normal commercial terms, and therefore the terms of such transactions and the proposed annual caps are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Mr. Li Xiyong, Mr. Li Wei and Mr. Wu Yuxiang, Directors, also directors or senior management of Yankuang Group, are regarded as having a material interest in the aforesaid continuing connected transaction. Therefore, Mr. Li Xiyong, Mr. Li Wei and Mr. Wu Yuxiang have abstained from voting at the meeting of the Board convened for the purpose of approving such transactions. Save as disclosed above, none of the other Directors has a material interest in such transactions.

Implication under the Hong Kong Listing Rules

Yankuang Group is a controlling Shareholder of the Company holding directly or indirectly approximately 56.59% of the issued share capital of the Company as at the Latest Practicable Date and thus a connected person of the Company under the Hong Kong Listing Rules.

(1) Deposit services

As the deposit services to be provided by Yankuang Group Finance to Yankuang Group Members are on normal commercial terms, and no security over the assets of the Group is or will be granted in respect of such services, the deposit services to be provided by Yankuang Group Finance to Yankuang Group Members under the New Financial Services Agreement are fully exempt from reporting, announcement, annual review and Independent Shareholders' approval requirements under Rule 14A.90 of the Hong Kong Listing Rules, and no annual cap is required to be set for the provision of such services.

(2) Comprehensive credit facility services

As the highest applicable percentage ratio as set out in the Hong Kong Listing Rules with respect to the proposed annual cap in relation to the comprehensive credit facility services under the New Financial Services Agreement is more than 25% but less than 75%, such transactions, together with the proposed annual cap are subject to reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. Such transactions also constitute a major transaction under Rule 14.06(3) of the Hong Kong Listing Rules and are subject to the relevant requirements for major transactions under Chapter 14 of the Hong Kong Listing Rules.

(3) Miscellaneous financial services

As the highest applicable percentage ratio as set out in the Hong Kong Listing Rules with respect to the total services fees in relation to the provision of miscellaneous financial services by Yankuang Group Finance to Yankuang Group

Members under the New Financial Services Agreement is less than 0.1%, such transactions are fully exempt from reporting, announcement, annual review and the Independent Shareholders' approval requirements.

Information of the Parties

The Company

The Company is principally engaged in the business of mining, preparation, processing and sales of coal and coal chemicals. The Company's main products are steam coal for use in large-scale power plants, coking coal for metallurgical production and coal for use in pulverized coal injection.

Yankuang Group

Yankuang Group is a wholly state-controlled limited liability company with a registered capital of RMB3,353,388,000 and is principally engaged in businesses such as manufacture of coal, coal chemicals, coal aluminum, complete sets of electromechanical equipment and management of foreign investment. As at the Latest Practicable Date, Yankuang Group is the controlling Shareholder of the Company, holding directly or indirectly approximately 56.59% of the issued share capital of the Company, and is hence a connected person of the Company.

Yankuang Group Finance

Yankuang Group Finance is a non-banking financial institution legally established in September 2010 by Yankuang Group, the Company and China Credit Trust Co., Ltd., an independent third party, with the approval of the CBRC and is a professional institution engaged in the provision of corporate financial services. The initial registered capital of Yankuang Group Finance was RMB500 million (including US$10 million) which was contributed by Yankuang Group, the Company and China Credit Trust Co., Ltd as to RMB350 million (including US$10 million), RMB125 million and RMB25 million, respectively. The shareholders of Yankuang Group Finance increased its registered capital by RMB500 million in June 2014 on a pro rata basis. Prior to completion of the Yankuang Group Finance Acquisition, the registered capital of Yankuang Group Finance was RMB1,000 million (including US$10 million), which was contributed by Yankuang Group, the Company and China Credit Trust Co., Ltd. as to RMB700 million (including US$10 million), RMB250 million and RMB50 million, respectively.

The business scope of Yankuang Group Finance includes provision of financial services and financing consultancy services, credit certification and related consultancy and agency services to member companies; provision of assistance to member companies in payment and receipt of transaction proceeds; provision of approved insurance agency services; provision of guarantees to member companies; provision of intra-group entrusted loan and entrusted investment; provision of bill acceptance and discounting services to member companies; provision of intra-group transfer and settlement services and design of related clearing and settlement schemes; provision of deposit-taking services to member companies; provision of loans and finance lease to member companies; provision of inter-bank loans; other businesses approved by CBRC.

The audited net profit before and after tax and extraordinary items of Yankuang Group Finance for the two years ended 31 December 2015 and 2016 respectively were as follows:

Unit: RMB

	Year ended 31 December 2015	Year ended 31 December 2016
Net Profit (before tax and extraordinary items)	228,244,013	199,931,509
Net Profit (after tax and extraordinary items)	171,259,795	149,777,510

The audited net assets of Yankuang Group Finance as at 31 December 2016 amounted to RMB1,580,033,950. The appraised value of entire equity interest of Yankuang Group Finance as at 31 December 2016 as set out in the Yankuang Group Finance Equity Transfer Agreement Valuation Report prepared by an independent Yankuang Group Finance Equity Transfer Agreement PRC Valuer is RMB1,729,580,700.

The audited financial information of Yankuang Group Finance set out above is prepared in accordance with China Accounting Standards for Business Enterprises.

VIII. VERY SUBSTANTIAL ACQUISITION – ACQUISITION OF COAL & ALLIED FROM RIO TINTO;

1. INTRODUCTION

Reference is made to the announcement of the Company dated 24 January 2017.

On 24 January 2017 (in London, United Kingdom), Yancoal Australia, a subsidiary of the Company, entered into the SPA with the Vendors in respect of the Acquisition. Pursuant to the SPA, Yancoal Australia, as the Purchaser, has conditionally agreed to acquire and the Vendors have conditionally agreed to sell all of the Sale Shares, free from all security interests, at a Purchase Price of US$2.45 billion (approximately HK$19.01 billion), subject to adjustments in accordance with the SPA.

2. THE SPA

Set out below are the principal terms of the SPA:

2.1 Signing Date

Signing Date: 24 January 2017 (in London, United Kingdom)

2.2 Parties

(1) the Purchaser

(2) the Vendors

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Vendors and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

2.3 Sale Shares

The Vendors, as legal and beneficial owners, agree to sell to the Purchaser, and the Purchaser agrees to purchase and acquire from the Vendors with effect from Completion all of the Sale Shares in C&A, free from all security interests on the terms set out in the SPA.

2.4 Consideration

Unless the Purchaser elects an alternative purchase price structure of a Single Payment Purchase Price (as outlined below), the total Purchase Price for the Acquisition is US$2.45 billion (approximately HK$19.01 billion), where the Purchaser will pay US$1.95 billion upon Completion (the "**Purchase Price Completion Payment**") plus five deferred payments of US$100 million ("**Deferred Payment Amount**" or collectively, the "**Deferred Payment Amounts**") each payable on the first, second, third, fourth and fifth anniversary of the Completion Date.

To secure payment of the Deferred Payment Amounts, upon Completion, the Purchaser shall provide, at the Purchaser's election, an instrument creating a security interest, or five letters of credit each for an amount equal to a Deferred Payment Amount.

If the Purchaser elects to pay the Purchase Price as a single upfront payment, the total Purchase Price is reduced to US$2.35 billion (approximately HK$18.24 billion) (the "**Single Payment Purchase Price**"), which must be paid as a single payment at Completion. The Purchaser's election must be made by no later than 28 April 2017 (or such later date that the Vendors and the Purchaser agree in writing). The Purchaser has notified the Vendors that it will not elect the alternative purchase price structure of a Single Payment Purchase Price. As such, the total Purchase Price remains as US$2.45 billion (approximately HK$19.01 billion).

The Purchase Price is payable in cash to ACH and HVR on a pro rata basis (which is 75.71% and 24.29% respectively) and is subject to adjustments in accordance with the SPA. Please refer to the section headed "2.8(d) Estimated Purchase Price Adjustment" in this letter for more details.

The Purchase Price (including the applicable adjustments) was agreed after arm's length negotiations between the Purchaser and the Vendors on normal commercial terms and taking into account, among other things, the following factors:

(a) results of the due diligence and financial analysis conducted by the Purchaser and its professional advisers, based on information provided by the Vendors and C&A;

(b) the coal reserves and quality of the Coal Mine Assets; and

(c) consideration of the financial performance, financial ratios and evaluation of market comparable companies which have a similar business and scale to the Target Company.

In view of the above, the Directors consider that the Purchase Price (including the applicable adjustments) is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Purchaser intends to fund payment of the Purchase Price under the SPA (including any actual upward adjustment as set out in the sub-section headed "(d) Purchase Price Adjustment" under the section headed "2.9 – Completion" below (if applicable)), using proceeds from the YAL Rights Issue. Please refer to the section headed "6. The Company's support of the YAL Rights Issue" below in this letter for further details regarding the Company's support of the YAL Rights Issue.

2.5 Conditions Precedent

Completion will not proceed unless and until the following conditions (the "**Conditions Precedent**") are fulfilled in accordance with the SPA:

(a) the Minister responsible for the *Mining Act 1992* (NSW) approves or consents, in writing, to the Acquisition as required under the conditions of the exploration licences held by the Target Company Group that contain a condition that requires the responsible Minister's consent to a change in effective control and to a foreign acquisition of substantial control in the licence-holder;

(b) the receipt of the following regulatory approvals, including:

(i) the Australian Foreign Investment Review Board issuing a notice by, or on behalf of the Treasurer of the Commonwealth of Australia, stating that the Commonwealth Government does not object to the Acquisition;

(ii) PRC outbound approvals from

(1) the State-owned Asset Supervision and Administration Commission of Shandong Provincial Government（山東省人民政府國有資產監督管理委員會）,

(2) the National Development and Reform Commission（國家發展與改革委員會）,

(3) the Ministry of Commerce of the PRC（中華人民共和國商務部）and

(4) the State Administration of Foreign Exchange of the PRC（國家外匯管理局）; and

(iii) offshore merger clearance for the Acquisition from

(1) the Korea Fair Trade Commission and

(2) the Anti-monopoly Bureau of the Ministry of Commerce of the PRC

or the Acquisition is deemed to be cleared because the applicable review or waiting period has expired;

(c) the Shareholders approving the Acquisition;

(d) the shareholders of each of Rio Tinto plc and Rio Tinto Limited, voting as a joint electorate, approving the Acquisition; and

(e) BLCP consenting to a novation of the BLCP Agreement from ACH to YAS (the "**Novation CP**").

If all of the Conditions Precedent are unlikely to be satisfied within nine months after the date of the SPA (the "**Long Stop Date**"), the Vendor or the Purchaser may, by giving notice to the Vendor or the Purchaser (as applicable), extend the Long Stop Date by another 30 days. The Vendor and the Purchaser may each issue a notice extending the Long Stop Date (such that the total extension to the Long Stop Date is 60 days).

Either party may terminate the SPA if the Conditions Precedent (other than the Novation CP) are not satisfied before the Long Stop Date.

ACH may terminate the SPA prior to the Long Stop Date if the Novation CP has not been fulfilled and ACH considers (acting reasonably) that the Novation CP is not capable of being fulfilled and the failure to satisfy the Novation CP would have a material effect on the Rio Tinto Group if the Acquisition is completed without the Novation CP being satisfied.

None of the Conditions Precedent (except the Novation CP which may be waived by the Vendors) may be waived by any party to the SPA.

As at the Latest Practicable Date, the Conditions Precedent set out in paragraphs (b)(i), b(ii)(1) and b(iii)(1) above have been satisfied. Status of each of the regulatory approvals set out in paragraphs (a) and (b) above which have not been obtained as at the Latest Practicable Date are as follows:

- Condition Precedent set out in paragraph (a) – The Company does not anticipate any difficulties in obtaining those consents from the Minister and expects to receive the same by end of June 2017.

- Conditions Precedent set out in paragraphs (b)(ii)(2) and (b)(ii)(3) – The Company preliminarily estimates to receive the approvals by early June and does not expect any difficulties in obtaining such approvals.

- Condition Precedent set out in paragraph (b)(ii)(4) – The application will be made after the approvals in paragraphs (b)(ii)(2) and (b)(ii)(3) are obtained. The Company does not expect any difficulties in obtaining such approval.

- Condition Precedent set out in paragraph (b)(iii)(2) – The Company is addressing comments raised by the authority and expects to obtain the approval in June 2017.

2.6 Exclusivity

Subject to certain exceptions as set out in the SPA (if the board of directors of Rio Tinto determines that a competing proposal is (or is reasonably likely to become) a superior proposal available to Rio Tinto and that compliance with exclusivity would constitute a breach of their fiduciary or statutory duties), during the period from the date of SPA until the earlier of Completion or termination of SPA, the Vendor must not, and must ensure that its related persons do not, except with the prior written consent of the Purchaser, directly or indirectly (i) solicit, invite, initiate or encourage any competing proposal or any inquiry, expression of interest, offer, proposal, negotiations or discussions by or with any person other than members of the Group (the "**Third Party**") in relation to, or that may reasonably be expected to encourage or lead to the making of a competing proposal, or communicate any intention to any person to do any of those things; (ii) directly or indirectly enter into, continue or participate in, negotiations or discussions with, or accept or enter into, or offer to accept or enter into, any agreement, arrangement or understanding with any Third Party in relation to, or that may reasonably be expected to lead to, a competing proposal; or (iii) directly or indirectly, make available to any Third Party, or permit any Third Party to receive, any non-public information relating to C&A in connection with such Third Party formulating, developing or finalization, or assisting in the formulation, development or finalization of, a competing proposal.

2.7 Termination for material change

If a Material Adverse Change occurs before the earlier of the Purchaser's good faith estimate of the launch date for the YAL Rights Issue or the Long Stop Date (the "**MAC Cut-off Date**"), ACH has a reasonable opportunity to investigate and cure the Material Adverse Change.

If a Material Adverse Change occurs before the MAC Cut-off Date and:

(i) the Vendor does not give notice that it intends to cure the Material Adverse Change under, and within the time required by, the SPA then, from the expiry of that time; or

(ii) the Vendor gives notice under the SPA that it intends to cure the Material Adverse Change, but the Material Adverse Change is not cured or has not otherwise ceased to exist on or before the MAC Cut-off Date,

until Completion, the Purchaser may, by written notice to the Vendors, terminate the SPA.

If a Material Adverse Change occurs on or after the MAC Cut-off Date, the Purchaser may, until Completion, by written notice to the Vendors, terminate the SPA.

"**Material Adverse Change**" means an event, change, condition, matter, circumstance or things occurring on or after the date of the SPA (each a "**Specific Event**"), which, whether individually or when aggregated with all such events, changes, conditions, matters, circumstances or things of a like kind that:

(a) has resulted, or would be reasonably likely to result, in, for a continuous period of at least 18 months following the Completion, the quantity of the Target Company Group's production share of saleable coal extracted and processed being less than 10 million tonnes per annum;

(b) has sterilised, or would be reasonably likely to sterilise, more than 7.5% of the stated reserves of the Target Company Group as set out in the *HVO 2015 Competent Persons Resources and Reserves Report* and the *MTW 2015 Competent Persons Resources and Reserves Report*, as reduced by depletion for actual mining since the reserves estimation date and increased by accretion for any new published reserves since the reserves estimation date; or

(c) has caused, or would be reasonably likely to cause, a diminution in the market value of the consolidated net assets of the Target Company Group, taken as a whole, by at least US$250 million against what that value would reasonably be expected to be at the Completion Date but for the Specific Event, other than to the extent that such event occurs because of the Vendors complying with the terms of the SPA or a request of the Purchaser or any change in law or any general economic, political business or financial change, or other specified matters set out in the SPA.

The SPA is also subject to termination on other customary grounds as specified in the SPA.

2.8 Termination Fee

The Purchaser may terminate the SPA if funding is not available on reasonably acceptable terms to fund the Purchase Price under the SPA. The termination fee payable by the Purchaser if the Purchaser terminates the SPA pursuant to this right is US$ 23.5 million.

2.9 Completion

(a) Completion Date

The Completion Date is the latest to occur of:

(i) the first Business Day of the first month immediately following the month in which all of the Conditions Precedent have been satisfied;

(ii) if the YAL Rights Issue has not completed or occurred by the Completion Date determined in accordance with the above, the first Business Day of the second month immediately following the month in which all of the Conditions Precedent have been satisfied (whether or not the YAL Rights Issue has completed or occurred by that date); and

(iii) such other date as the Vendors and the Purchaser may agree in writing.

Completion is expected to take place around third quarter of 2017.

(b) Completion Place

Completion of the sale and purchase of the Sale Shares will take place on the Completion Date at the offices of the Vendor's solicitors or at any other place as agreed.

(c) Obligation of the Purchaser on Completion

On the Completion Date, the Purchaser must deliver certain documents to ACH, including, but not limited to:

(i) if the Novation CP is not satisfied and is waived by the Vendors, an original counterpart of the Coal Supply and Transportation Agreement and a duly executed original undertaking by the Purchaser in relation to the Coal Supply and Transportation Agreement. Please refer to the section headed "2.12 – Other Agreements" below in this letter for further details;

(ii) if the Novation CP is satisfied, two original counterparts of the deed of novation in relation to the BLCP Agreement duly executed by YAS;

(iii) an original counterpart of the Coal Supply Transfer Deed duly executed by YAS, which is to be entered into between HVO Coal Sales Pty Ltd, which is the marketing entity for HVO and indirectly owned by C&A as to 67.6% and directly owned by HVOR as to 32.4%, YAS and ACH for assignment and transfer to YAS of ACH's rights and obligations under the Coal Supply Agreement dated 3 February 2016 between ACH and HVO Coal Sales Pty Ltd, which is a back to back coal sale agreement for the supply of coal to BLCP;

(iv) two original counterparts of the Freight Transfer Deed duly executed by YAS, which is a novation deed to be entered into between ACH, YAS and Rio Tinto Shipping (Asia) Pte Limited for the transfer and novation to YAS of the Freight Agreement between ACH and Rio Tinto Shipping (Asia) Pte Limited for the purpose of the transportation of coal under the Coal Supply and Transportation Agreement;

(v) original counterparts of the Bee Creek Contract and a side letter in relation to the Bee Creek Contract each duly executed by YAS;

(vi) if the Purchaser is to pay in the form of deferred payments, either:

(i) the instrument creating security interest or other payment arrangement acceptable to ACH to secure or ensure the payment of the Deferred Payment Amounts; or

(ii) five letters of credit for each Deferred Payment Amount; and

(vii) either:

(i) if the Purchaser elects to pay the Purchase Price on the Completion Date, pay the Single Payment Purchase Price as adjusted by an estimated adjustment amount based on the estimated net debt and working capital position of C&A to be provided by the Vendors at least 3 Business Days prior to Completion (the "**Estimated Adjustment Amount**"); or

(ii) if the Purchaser is to pay in the form of deferred payments, pay the Purchase Price Completion Payment as adjusted by the Estimated Adjustment Amount,

to ACH (or as it directs), without deduction or withholding of any tax.

As set out above in the section headed "2.9 – Completion" in this letter, the Purchaser has notified the Vendors that it will not elect the alternative purchase price structure of a Single Payment Purchase Price. Accordingly, paragraph (viii)(i) above does not apply.

(d) Purchase Price Adjustment

After Completion, the Purchase Price is adjustable based on the actual net debt and working capital position of C&A as at the final calendar date of the month immediately preceding the month in which the Completion Date occurs (the "**Effective Date**"). The Purchase Price will be adjusted for (i) the net debt of C&A as at the Effective Date (as the Purchase Price was agreed by the parties on the assumption that C&A will have nil net debt as at the Effective Date, i.e. a cash free and debt free basis); and (ii) the difference between the actual working capital of C&A as at the Effective Date ("**Actual Working Capital Value**") and an agreed level of base working capital (being AUD(161) million subject to correction in the event of manifest error) ("**Agreed Working Capital Value**") (as the Purchase Price was agreed by the parties on the assumption that C&A will have a level of working capital as at the Effective Date equal to the Agreed Working Capital Value).

In other words, the Purchase Price will be (i) increased for any cash as at the Effective Date; (ii) reduced for any debt as at the Effective Date; and (iii) increased (or reduced) for working capital as at the Effective Date to the extent that the Actual Working Capital Value is higher (or less) than the Agreed Working Capital Value respectively.

The adjusted Purchase Price as determined above is then further adjusted for the Estimated Adjustment Amount applied at Completion to determine a final amount to be payable by the Purchaser or Vendors, as applicable.

After the abovementioned adjustments are settled, there may be a downward adjustment to the Purchase Price if certain outstanding subordinate approvals relating to mining operations are not obtained.

2.10 Employees

The Purchaser must procure that for at least 12 months following Completion, the terms and conditions of employment of employees of the Target Company Group remain, when considered on an overall basis, to be no less favourable than the Target Company employee's terms and conditions of employment under which he or she is employed immediately prior to the Completion Date.

At least 2 months before the expected Completion Date, the Purchaser must make or procure an offer of employment to certain New South Wales based employees of the Rio Tinto Group (other than the Target Company Group) or give notice to the Vendors if it elects not to make an offer of employment to the employee.

2.11 Rio Tinto Group Contracts

Before Completion, if reasonably practicable, and within three months after the Completion Date, ACH must use reasonable endeavours to obtain, and assist the Purchaser to obtain, the consent of the parties to certain procurement contracts ("**Rio Tinto Group Contracts**") to the novation of all of the rights and obligations of each member of the Rio Tinto Group that is a party to a Rio Tinto Group Contract under these contracts, to the Purchaser or a member of the Target Company Group nominated by the Purchaser.

2.12 Other Agreements

As part of the Acquisition, the following agreements are to be entered into and delivered to the Purchaser on the Completion Date:

(a) Transitional Services Agreement

The Transitional Services Agreement is to be entered into by Rio Tinto Services Limited and C&A, pursuant to which Rio Tinto Services Limited shall provide certain transition services to C&A for maximum service terms between one and six months after Completion. The services to be provided shall include ad hoc services that may be required post Completion. The price for the services shall be calculated on the basis of the actual cost incurred by Rio Tinto Services Limited plus 7.5%. C&A may terminate the Transitional Services Agreement on 5 business days' prior notice.

(b) Coal Supply and Transportation Agreement

If the Novation CP is not satisfied and is waived by the Vendors, the Coal Supply and Transportation Agreement is to be entered into by ACH and YAS, pursuant to which YAS shall supply coal to ACH and be responsible for the transportation of the coal from Australia to Thailand. The coal to be supplied must be sourced from C&A or agreed third party suppliers. ACH will use the coal sourced under the agreement to fulfil its obligations under the BLCP Agreement. The term of the Coal Supply and Transportation Agreement shall be the same as the term of the BLCP Agreement, which is until January 2032. YAS is required to supply up to a maximum of 3,627,000 tonnes (on an equivalent calorific value basis) per year and ACH is required to purchase a minimum of 2,560,000 tonnes (on an equivalent calorific value basis) per year on a take or pay basis. The quantity and scheduling of coal delivered by YAS under the Coal Supply and Transportation Agreement is as nominated by ACH but must be back-to-back with ACH's delivery obligations to BLCP under the BLCP Agreement.

(c) Bee Creek Contract

The Bee Creek Contract is to be entered into between YAS and Hail Creek Marketing Pty Limited, a company controlled by Rio Tinto Group, pursuant to which YAS may purchase up to 800,000 tonnes per annum of coal from Hail

Creek Marketing Pty Limited until 31 December 2020 on arms-length terms, for the purpose of supporting the obligations of Yancoal Australia under the Coal Supply and Transportation Agreement. YAS can nominate, at its option, in the month of September of each year the amount of coal it wishes to purchase for the following year.

(d) Royalty Deeds

Certain subsidiaries wholly-owned by C&A which are participants holding interests in the HVO Joint Venture and the MTW joint ventures will each enter into a royalty deed (each a "**Royalty Deed**", and together, the "**Royalty Deeds**") with ACH, pursuant to which each of those entities agrees to pay royalties to ACH for the coal mined and sold from HVO and MTW, respectively, if the benchmark coal price for all coal produced from the HVO tenements or MTW tenements (as applicable) for the quarter (the thermal coal index figure (in US$) known as the globalCOAL Weekly NEWC Index, and published weekly on the website of globalCOAL) is greater than US$75 per tonne, with escalation annually based on inflation. The royalty period is 10 years commencing from the day after the third anniversary of Completion (the "**Royalty Period**") and the initial royalty amount is US$2 per tonne payable quarterly, with escalation annually based on inflation. The royalty is payable on C&A's share of all coal mined and sold from the specified tenements at MTW and HVO during the Royalty Period, other than coal supplied under the BLCP Agreement and coal extracted from any future underground mine. The aggregate amount of royalties payable by those C&A subsidiaries under all of the Royalty Deeds is capped at US$ 650 million.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of Rio Tinto Services Limited, BLCP, Hail Creek Marketing Pty Limited and ACH and its respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

Further announcement(s) will be made by the Company as and when required in accordance with the Listing Rules.

3. TAG-ALONG OFFER OF HVO JOINT VENTURE

Pursuant to the Joint Venture Agreement – Hunter Valley Operations dated 3 February 2016 between CAOP, HVOR and HVOP (the "**HVO Joint Venture Agreement**"), HVOR has tag-along rights (the "**Tag-along Rights**") to sell its 32.4% interests (the "**Participating Interest**") in HVO Joint Venture, which will be triggered as a result of the change in upstream ownership of CAOP as a result of the Acquisition.

Pursuant to the SPA, the Purchaser acknowledges the Tag-along Rights and is required to make an irrevocable offer (the "**Tag-along Offer**") to HVOR to acquire the Participating Interest subject to and in accordance with terms of the HVO Joint Venture Agreement. Under the HVO Joint Venture Agreement, CAOP is required to procure that the Purchaser makes the Tag-along Offer and under the SPA, the Purchaser undertakes (in favour of the Vendor) to do everything necessary to ensure that CAOP complies with this requirement of the HVO Joint Venture Agreement, including entering into discussions with HVOR regarding the future management and marketing arrangements for the HVO Joint Venture prior to the Completion as contemplated by the relevant provisions of the HVO Joint Venture Agreement. On and from Completion, the Purchaser must comply, and procure that CAOP and HVOR comply, with their respective obligations under the HVO Joint Venture Agreement, including executing any documents. The SPA includes an acknowledgement that HVOR and the Purchaser may agree to vary the arrangements described in this section (in which case the obligation of the Purchaser under the SPA to make the Tag-along Offer and engage in discussions with HVOR would cease to the extent of any inconsistency between those obligations and the varied arrangement agreed between HVOR and the Purchaser).

The HVO Joint Venture Agreement has an agreed mechanism for negotiating and agreeing on a fair market value of any Tag-along Offer, including determination by an independent expert if required. The Purchaser and HVOR are obliged to try to agree on the fair market value of HVOR's Participating Interest (taking into account the expected future performance of HVO, market conditions etc.) and if no mutual agreement is reached, the parties must nominate their assessment of the fair market value of the Participating Interest and exchange their valuation with the other party. If those values are within 10% of each other then the fair market value will be the average of the two values, otherwise, an independent valuer shall be appointed who must choose between the two values. Following extensive negotiations between the Purchaser and HVOR, the fair market value has been mutually agreed as US$710 million and an irrevocable Tag-along Offer to acquire HVOR's Participating Interest for a cash price equal to such fair market value has been made on 24 May 2017, as disclosed in the announcement of the Company dated 24 May 2017. Pursuant to the terms of the Tag-along Offer, HVOR has until 23 June 2017 to accept or reject the Tag-along Offer. If HVOR accepts the Tag-along Offer, Yancoal Australia and HVOR will sign a binding agreement and the Purchaser will acquire HVOR's Participating Interest on the terms of the Tag-along Offer set out below (the "**Tag Transaction**").

3.1 Parties to the Tag Transaction

(1) Yancoal Australia (either as buyer, or as buyer guarantor if Yancoal Australia nominates a related body corporate of Yancoal Australia as the buyer of the Participating Interest);

(2) (if Yancoal Australia nominates a related body corporate of Yancoal Australia as the buyer of the Participating Interest) such nominee (as buyer);

(3) HVOR (as seller); and

(4) Mitsubishi Development Pty Ltd, as seller guarantor.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, HVOR and Mitsubishi Development Pty Ltd and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

3.2 Subject of the Tag Transaction

If the Tag Transaction proceeds, the Participating Interest in HVO Joint Venture will be sold by HVOR free from all security interests on the terms set out in the Tag-along Offer.

3.3 Tag Purchase Price

The value of the Tag-along Offer is US$710 million (the "**Tag Purchase Price**"). The Tag Purchase Price is payable as a single payment of US$ 710 million at completion of the Tag Transaction.

Interest is payable to HVOR on the Tag Purchase Price for the period from Completion of the Acquisition to completion of the Tag Transaction at a rate of 4.2% per annum.

Subject to completion of the Tag Transaction, Yancoal Australia will receive the economic benefit of the Participating Interest, subject to the burden from the date of Completion of the Acquisition (i.e Yancoal Australia will be entitled to the revenue and income net of costs and liabilities of HVO Joint Venture attributable to the Participating Interest from the date of Completion of the Acquisition; where this amount will be an adjustment to the Tag Purchase Price).

In addition, the Tag Purchase Price will be adjusted for the actual working capital (including cash and debt) of the HVO Joint Venture attributable to the Participating Interest as at the Completion Date of the Acquisition

Thus, the Tag Purchase Price will be (i) decreased for any net economic benefit of the HVO Joint Venture attributable to the Participating Interest from the date of Completion of the Acquisition to the date of completion of the Tag Transaction; (ii) increased for any net loss/liability of the HVO Joint Venture attributable to the Participating Interest from the date of Completion of the Acquisition to the date of completion of the Tag Transaction; and (iii) increased (or reduced) for the actual net working capital (including cash and debt) value of the HVO Joint Venture attributable to the Participating Interest as at the Completion Date of the Acquisition.

The Tag Purchase Price (including the applicable adjustments) was agreed after arm's length negotiations between the Purchaser and HVOR on normal commercial terms and taking into account, among other things, the following factors:

(a) results of the due diligence and financial analysis conducted by the Purchaser and its professional advisers based on information provided by the Vendors and C&A;

(b) the coal reserves and quality of the Participating Interest; and

(c) consideration of the financial performance, ratios and evaluations of market comparable companies which have a similar business and scale as the Target Company and the Participating Interest.

In view of the above, the Directors consider that the Tag Purchase Price (including the applicable adjustments) is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

3.4 Conditions Precedent

Completion of the Tag Transaction will not proceed unless and until the following conditions (the **"Tag Conditions Precedent"**) are fulfilled in accordance with the Tag-along Offer:

(a) Completion of the Acquisition;

(b) the Minister responsible for the Mining Act 1992 (NSW) approves or consents in writing to the transfer of HVOR's interest in mining tenements held by or on behalf of the participants in the HVO Joint Venture to the Purchaser in accordance with the Mining Act 1992 (NSW);

(c) the receipt of all regulatory approvals, comprising:

i. the Australian Foreign Investment Review Board issuing a notice by, or on behalf of the Treasurer of the Commonwealth of Australia, stating that the Commonwealth Government does not object to the Tag Transaction; and

ii. PRC outbound approvals from the State-owned Asset Supervision and Administration Commission of Shandong Provincial Government（山東省人民政府國有資產監督管理委員會）, the National Development and Reform Commission（國家發展與改革委員會）, the Ministry of Commerce of the PRC（中華人民共和國商務部）and the State Administration of Foreign Exchange of the PRC（國家外匯管理局）; and

(d) the Shareholders approving the Tag Transaction as part of their approval of the Acquisition.

3.5 Completion of the Tag Transaction

The completion of the Tag Transaction is the latest to occur of:

(i) the date which is 6 months after the date of Completion of the Acquisition or such earlier date specified by Yancoal Australia;

(ii) the date that is 10 business days after all Tag Conditions Precedent have been satisfied or waived; and

(iii) such other date as HVOR and Yancoal Australia may agree in writing.

The completion of the Tag Transaction is expected to take place around early first quarter of 2018.

The Tag-along Offer runs in parallel with, but independent of, the Acquisition. Completion of the Acquisition is not conditional on HVOR accepting or not accepting the Tag-along Offer.

4. INFORMATION ON THE TARGET

4.1 Overview

C&A is a leading Australian producer of high quality thermal coal and semi-soft coking coal, indirectly owning majority interests in three coal mine operations, namely Hunter Valley Operations ("**HVO**"), Mount Thorley and Warkworth (together, "**MTW**") and associated assets. HVO and MTW are operated under a series of mining and exploration licenses, see "Further Information on the Target Company Group – VI. Other Matters Concerning the Target Company Group – B. Operation permits for the Target Company Group required under the laws of Australia" below. Coal mining operations are carried out in HVO and MTW via conventional, large scale, open pit mining methods as coal appears in multiple near surface, highly continuous seams (on average 30 degree dipping). Run of mine coal is washed and sorted at the coal handling process plants on site, and then directly loaded on trains via rail link to the deep water port of Newcastle, which is approximately 100 kilometres from HVO and MTW.

HVO is an open cut mine located 24 kilometres north west of Singleton in the Hunter Valley Basin, which covers an area of approximately 11,000 hectares. HVO is operated as an unincorporated joint venture. It is currently owned by C&A as to 67.6% and by HVOR as to 32.4%. HVO commenced operation since 1949. The major products of HVO comprise thermal coal and semi-soft coking coal. HVO has underground operation potential.

MTW comprises two open cut mines, namely Mount Thorley and Warkworth, located 14 kilometres north west of Singleton in the Hunter Valley Basin, which covers an aggregated area of approximately 6,000 hectares. MTW has been operating as a combined operation of Mount Thorley Co-Venture and the Warkworth Joint Venture since 2004. Mount Thorley Co-Venture is owned by C&A as to 80% and POSCO as to 20%, while Warkworth Joint Venture is owned by C&A as to 55.6%, HVOR as to 28.9%, Mitsubishi Material as to 6.0% and Nippon Steel as to 9.5%. C&A manages Mount Thorley Co-Venture and Warkworth Joint Venture as one integrated operation pursuant to an operational integration agreement (the "OIA") entered into among participants of Mount Thorley Co-Venture and Warkworth Joint Venture on 4 March 2004 (as amended by a deed of amendment dated 24 March 2010 and a contribution and amend agreement dated 12 December 2014). According to the OIA, exported coal can be produced from either area (subject to a commitment to extract a minimum proportion of coal from the areas of each joint venture) and is allocated between the two joint ventures based on a tonnage commitment ratio, which has been 65% for Warkworth and 35% for Mount Thorley since the date of the OIA. As a result, C&A is entitled to receive 64.1% of total production from the combined MTW operation based on its interests in both the Warkworth Joint Venture and Mount Thorley Co-Venture. The major products of MTW are thermal coal and semi-soft coking coal. MTW has potential for the development of an underground longwall expansion to support continued use of site infrastructure.

C&A also owns, among other associated assets, a 36.5% interest in Port Waratah Coal Services Limited ("**PWCS**") (the operator of the Kooragang and Carrington coal terminals located in Newcastle). PWCS leases and manages the Kooragang and Carrington coal terminals on behalf of its shareholders. C&A does not have control over PWCS hence its minority investment in PWCS is accounted for as an associate and it is not consolidated into C&A's financial results. Under normal circumstances, C&A usually receives an annual dividend from PWCS.

The Company confirms that, to the best of its information and belief, as of the Latest Practicable Date, no legal proceedings with the relevant government authorities and/or to which the Coal Mine Assets are subject or non-compliance to the relevant rules and regulations committed in relation to the operation of the Coal Mine Assets, which in the view of Yancoal Australia might have material impact on the Coal Mine Assets, has been identified by Yancoal Australia or reported or notified by C&A or the Vendors.

For further information on the Coal Mine Assets, please refer to Appendix XI for the Competent Person's Report and Appendix XII for the Valuation Report.

4.2 Reserves of the Coal Mine Assets

According to the Competent Person's Report, it is estimated that the total coal reserve of the Coal Mine Assets, which is calculated on a 100% basis, is approximately 1,172 million tonnes, consisting of 824 million tonnes in HVO and 348 million tonnes in MTW. HVO will have a life of mine of approximately 44 years, during which the stripping ratio is average 5.8 bank cubic metres of prime waste per tonne of ROM coal, while MTW will have a life of mine of over 24 years, during which the stripping ratio is an average 6.7 bank cubic metres of prime waste per tonne of ROM coal.

For details on the reserves and resources of Coal Mine Assets, please refer to Appendix XI for the Competent Person's Report.

4.3 Financial Information relating to the Target Company

Set out below is the consolidated financial information of C&A and its subsidiaries after the adjustment made to reflect the disposal/divestment of material operations during the year ended 31 December 2016 as extracted from the audited consolidated financial statements of C&A and its subsidiaries for each of the financial years ended 31 December 2014, 2015 and 2016, prepared based on the International Financial Reporting Standards.

	For the year ended		
	2014	**2015**	**2016**
	(AUD million)	*(AUD million)*	*(AUD million)*
Revenue	1,505.5	1,497.6	1,599.3
Profit before tax	65.0	138.2	347.2
Profit after tax	16.6	94.1	246.9

As at 31 December 2016, the audited consolidated net asset of the Target Company after the adjustment made to reflect the disposal/divestment of material operations during the year ended 31 December 2016 amounted to approximately AUD1,311.9 million. Please refer to Appendix VIII for the consolidated financial statements of the Target Company Group.

Upon Completion, Yancoal Australia will hold 100% of the total issued share capital of C&A and therefore C&A will become a non-wholly owned subsidiary of the Company and C&A's financial results will be consolidated into the financial statements of the Company.

4.4 Financial Information relating to the Participating Interest under the Tag-along Offer

Set out below is the unaudited financial information of the Participating Interest under the Tag-along Offer as extracted from the Appendix X – Unaudited Pro Forma Financial Information of the Enlarged Group for the financial years ended 31 December 2016.

	For the year ended 31 December 2016
	(RMB million)
Revenue	2,066.4
Profit before tax	1,509.6
Profit after tax	1,395.7

As at 31 December 2016, the unaudited net asset of the Participating Interest under the Tag-along Offer amounted to approximately RMB1,186.8 million. Please refer to Appendix X – Unaudited Pro Forma Financial Information of the Enlarged Group.

5. REASONS FOR AND BENEFITS OF THE ACQUISITION

The Acquisition represents a compelling fit with the Company's strategy to develop and expand its high quality and low cost coal portfolio.

It is expected that the Acquisition will enhance the Group's business and performance in the following aspects:

Adds to the Group's portfolio a scarce, superior quality producing coal mine

The Board believes that C&A represents a world-class producing coal asset, given its large scale, long life and low cost attributes. The operation of the Coal Mine Assets commenced in the 1960's and has continued to the present day, with approximately 44 years and 24 years LOM remaining for HVO and MTW, respectively. The Coal Mine Assets have abundant reserve and resources, which would be able to support the Group's future revenue generation. As of 31 December 2016, the Coal Mine Assets, which are calculated on 100% basis, have approximately 1,172 million tonnes of coal reserves and 4,906 million tonnes resources, respectively. HVO currently produces thermal and semi-soft coking coal via five pits and produced approximately 18 million tonnes of ROM coal for 13.6 million tonnes of product coal in 2016. MTW produces thermal coal and semi-soft coking coal from four active pits and produced approximately 12.3 million tonnes of product coal from 18.1 million tonnes ROM coal. Besides its large-scale production, C&A's thermal coal production is characterised as high energy, low ash and low sulphur, whilst its semi-soft coking coals are well regarded by steel mills due to their favourable blending properties including low sulphur, low phosphorus and very low ash alkalinity. Additionally, each operation of the Coal Mine Assets allows flexibility in optimizing the product blends to tailored market needs.

Transforms Yancoal into Australia's largest pure-play coal producer and thus, increases the Company's overall competitiveness

The Group is principally engaged in coal mining, coal washing and processing, and coal sales in China and Australia. Through Yancoal Australia, the Group owned and operated nine coal mines in Australia as at the Latest Practicable Date, primarily selling coal to export markets in Asia. Selectively making strategic acquisitions of coal mines in Australia to expand the operation in Australia is one of the business strategies of the Group, which is an important driver for growth and shareholder value enhancement.

The Acquisition, in the view of the Board, is an opportune investment for the Group to develop, expand and diversify its high quality and low cost coal portfolio in Australia. Post-acquisition, Yancoal Australia would increase its equity based marketable coal reserves from 273 million tonnes to over 830 million tonnes, and resources from 1,699 million tonnes to 3,700 million tonnes. Its equity based annual saleable production would increase from 16.0 million tonnes to 33.1 million tonnes, transforming it into Australia's largest pure-play coal producer.

Enhances the Company's earnings and cash flow, given the Target's highly competitive cost structure and coal products sold at premium prices

Due to the low cost nature of the Coal Mine Assets, the Board expects the Acquisition to significantly enhance the earnings and cash flow generation of the Company. For the twelve months ended 31 December 2016, the operating cash flow of the Company was RMB11,220.7 million. Pro forma for the Acquisition, for the twelve months ended 31 December 2016, the operating cash flow would be RMB14,190.4 million, which represents a 26.5% increase to the actual operating cash flow of the Company. Even in 2015 when the coal industry experienced its cycle trough, the Coal Mine Assets were able to stay profitable, generating RMB3,186.4 million of net profit and RMB100.3 million of operating cash flow.

Historically, the Coal Mine Assets' cash costs have been consistently low, with lowest-quartile cost position for coking coal and mid-to-low cost position for thermal coal. Besides its competitive cost structure, the Coal Mine Assets' coal products were able to be sold at a market premium given its high energy content and low ash content. Therefore, the Acquisition would help enhance the Company's earnings and cash flow.

Post-acquisition, Yancoal Australia's balance sheet and cash flow generation will be materially strengthened, providing a strong platform for ongoing growth and value accretion.

Significant potential synergies, including tax, product blending, infrastructure and port sharing and etc.

The Board also expects that the Acquisition will create synergies with its existing operation in Australia and further expand its coal production. Firstly, Yancoal Australia would be able to benefit from potential blending opportunities with existing product mix and the premium quality products of the Coal Mine Assets, which will enable it to improve overall product quality and sales revenue. Secondly, C&A owns 36.5% of PWCS and Yancoal Australia owns 27% in Newcastle Coal Infrastructure Group, which is one of the Australian major coal export terminals at the port of Newcastle with over 50 million tonnes of coal throughput for the year ended 30 June 2016. The greater allocation of port capacity available to Yancoal Australia from the Enlarged Group could potentially deliver a benefit by increasing flexibility in Yancoal Australia's use of its own port resource allocation and by providing opportunities to optimise its Take-or-Pay liability by utilising that increased capacity across its enlarged portfolio of NSW based mines. Thirdly, the Enlarged Group would be able to streamline its procurement and operations, which may further reduce operating costs post-acquisition. Finally, Yancoal Australia has sizable deferred tax assets resulting from its operating losses since 2013. This would be utilised to offset the tax duties associated with the Enlarged Group's earnings post-acquisition.

The Acquisition supports an ordinary share equity raising and improves the financial position of Yancoal Australia

Yancoal Australia currently has a high gearing ratio. As a result of the high quality assets of the Target Company and its strong financial performance, the Board believes the Acquisition will have a positive impact on Yancoal Australia to enable it to form a platform for undertaking further capital raisings through ordinary shares. This will thus reduce its gearing and strengthen its financial position.

Given the above mentioned, the Board believes that the Acquisition represents a compelling fit to the Group's business strategy and provides valuable opportunities to enhance the Group's business and performance; the terms of the SPA are on normal commercial terms, which are fair and reasonable; and the Acquisition is in the interests of the Company and the Shareholders as a whole.

6. THE COMPANY'S SUPPORT OF THE YAL RIGHTS ISSUE

As set out in the section headed "Reasons for and Benefits of the Acquisition" above in this letter, the Board is of the view that the Acquisition is an opportune investment for the Group to develop, expand and diversify its high quality and low cost coal portfolio in Australia. Therefore, the Company intends to subscribe for around US$1 billion of its entitlement in the YAL Rights Issue. Since the Company's intention is to maintain at least 51% shareholding in Yancoal Australia, the Company may adjust its subscription amount in the YAL Rights Issue and may also convert certain amount of convertible hybrid bonds issued by Yancoal Australia on 31 December 2014 (please refer to the announcements dated 9 November 2014, 12 November 2014, 22 December 2014, 23 December 2014, 30 December 2014 and 31 December 2014 and the circular dated 27 November 2014 of the Company for more details in relation to the convertible hybrid bonds) at the time of its subscription of the YAL Rights Issue. Further announcement(s) setting out the details of the Company's subscription under the YAL Rights Issue will be made by the Company as and when appropriate or required in accordance with the Listing Rules.

7. EFFECTS OF ACQUISITION

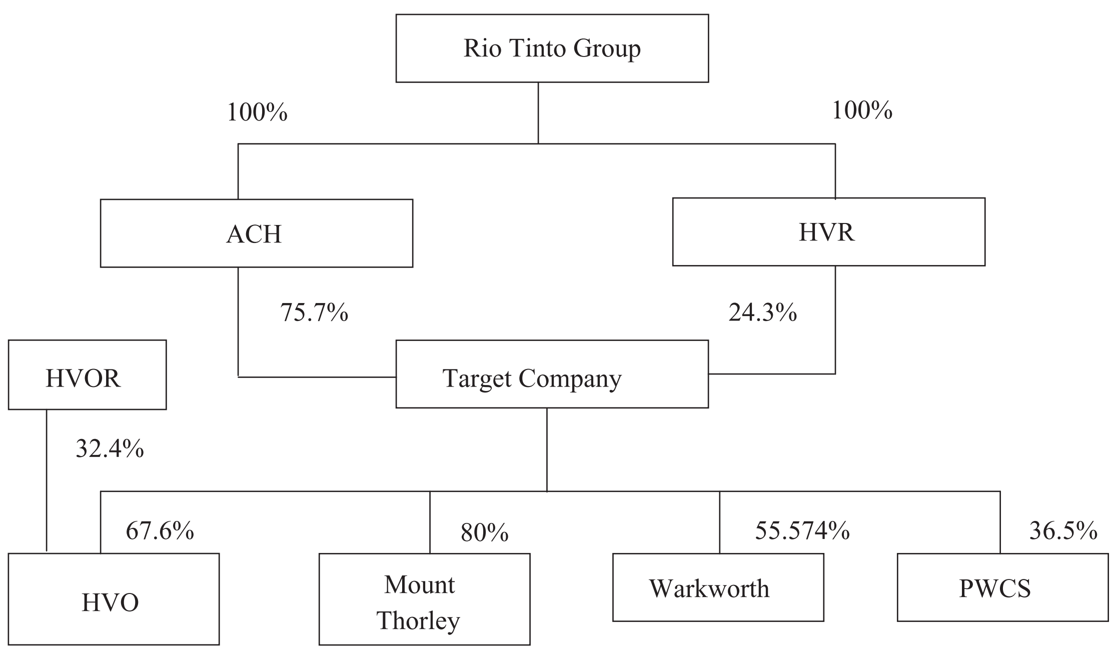
7.1 Shareholding Structure

The Directors confirm that there will be no change in control of the Company as a result of the Acquisition.

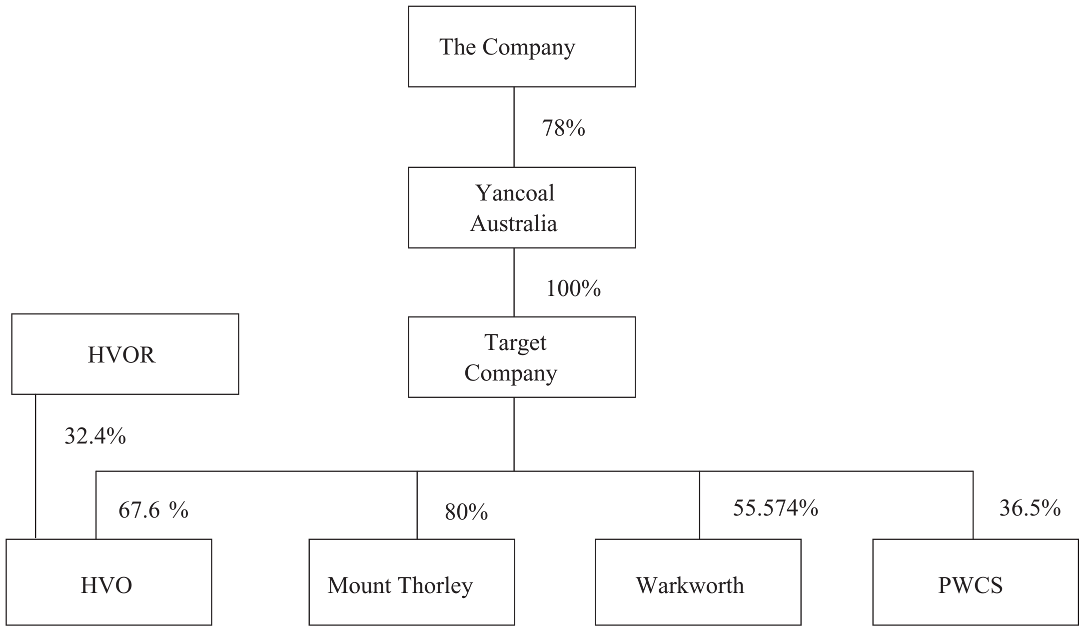
7.2 Structure of the Target Company

Assuming there are no changes in the Company's shareholding in Yancoal Australia between the Latest Practicable Date and the Completion Date, the simplified structure of the Company and the Target Company as at the Latest Practicable Date and immediately after Completion with different outcomes of the Tag-along Offer are illustrated as follows:

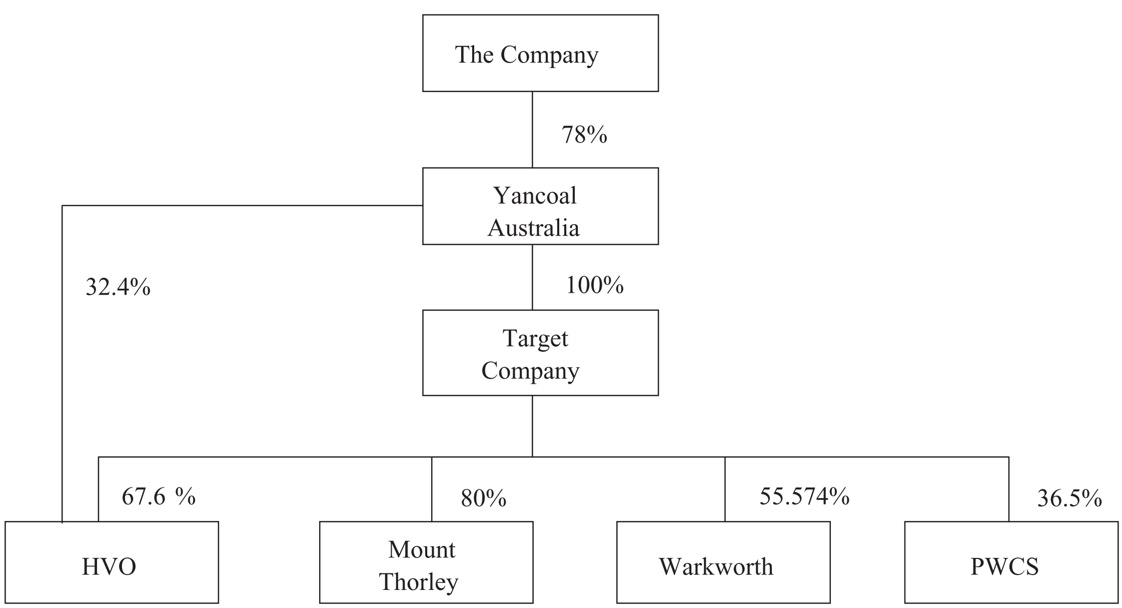
As at the Latest Practicable Date:



Immediately after Completion but before Yancoal Australia's acquisition of the Participating Interest (if HVOR exercises the Tag-along Rights) or immediately after Completion and HVOR does not exercise the Tag-along Rights:



Immediately after Completion and Yancoal Australia's acquisition of the Participating Interest (if HVOR exercises the Tag-along Rights):



7.3 Financial Effects

Upon completion of the Acquisition, C&A will become a 100%-owned subsidiary of Yancoal Australia and thus a consolidated subsidiary of the Company (the "Scenario I"). In addition to the Acquisition, if Yancoal Australia acquires the Participating

Interest of HVOR, Yancoal Australia will own additional 32.4% interests in HVO upon completion of the Tag-Along Offer (the "Scenario II"). The table below sets forth, for illustrative purposes only, the key financials of the Group and the pro forma financial information of the Enlarged Group under each of Scenario I and II, assuming that the completion of the Acquisition under the Scenario I and Tag-Along Offer under the Scenario II, had occurred as at December 31, 2016 (for unaudited pro forma consolidated statement of financial position) or January 1, 2016 (for unaudited pro forma consolidated statement of profit or loss).

Unaudited Pro Forma Consolidated Statement of Financial Position

	Audited Consolidated Financial Position of the Group	Unaudited pro forma consolidated statement of financial position of the Enlarged Group	
	As of December 31, 2016		
	Actual	Scenario I	Scenario II
	(RMB in millions)		
Total current assets	41,511.4	30,130.1	26,055.3
Total non-current assets	105,944.1	136,898.4	144,778.7
Total assets	**147,455.5**	**167,028.5**	**170,834.0**
Total current liabilities	51,383.8	54,892.6	55,591.6
Total non-current liabilities	42,668.1	53,842.5	56,024.3
Total liabilities	**94,051.9**	**108,735.1**	**111,615.9**
Equity	**53,403.6**	**58,293.3**	**59,218.0**

Unaudited Pro Forma Consolidated Statement of Profit or Loss

	Audited Consolidated Statement of Profit/Loss of the Group	Unaudited pro forma consolidated statement of Profit/Loss of the Enlarged Group	
	For the year ended December 31, 2016		
	Actual	Scenario I	Scenario II
	(RMB in millions)		
Total revenue	33,272.4	41,357.0	43,423.4
Total cost of sales	(23,808.4)	(30,804.8)	(32,037.8)
Gross profit	**9,464.0**	**10,552.3**	**11,385.5**
Profit before tax	2,695.1	8,380.5	9,628.1
Profit for the year	**1,878.2**	**7,276.3**	**8,410.0**

Please see “Appendix X – Unaudited Pro Forma Financial Information of the Enlarged Group” for more details.

7.4 Financial and Trading Prospects of the Enlarged Group

The Enlarged Group will continue to focus on its goal of becoming a leading regional coal producer. The Group will focus on effective management of its asset portfolio and on extracting operational efficiencies to maximise profitability throughout the cycle. The Enlarged Group will seek to deliver operational efficiencies through streamlining its procurement function, mining operations, and transportation and port allocations. In addition, the Group will continue to evaluate opportunities for further project development and expansion of existing resources, in particular its premium assets, subject to supportive market conditions.

Yancoal Australia would become the largest pure play coal producer in Australia post-acquisition creating stronger relations with a broader customer base. Further, the Enlarged Group will have a broader range of coal types, including a higher percentage of premium low ash coals, creating coal blending opportunities which better match market needs.

Finally, the Enlarged Group would further explore opportunities to acquire further high quality, long-life assets, expecting to capture the uptrends in the industry cycle to further improve its revenue and support profitable growth.

8. INFORMATION OF THE PARTIES

8.1 Information of the Company and Yancoal Australia

The Company is one of the main coal producers and sellers in China and Australia. Currently the Company’s business operated under four major segments, namely coal business, coal chemical business, equipment manufacturing and power generation and heat business. As one of the main coal producers and coal sellers in China and Australia, the coal business primarily includes coal mining, coal washing and process and coal sales. The products mainly include thermal coal, semi-hard coking coal, semi-soft coking coal and PCI coal, which are applicable to electric power, metallurgy and the chemical industry.

Yancoal Australia is a subsidiary of the Company, through which the Company conducts its investment and coal business in Australia. As at the Latest Practicable Date, Yancoal Australia operated nine coal mines in Australia.

8.2 Information of the Vendors

The Vendors, ACH and HVR, are wholly-owned members of the Rio Tinto Group. Rio Tinto Group is a leading global mining and metals group which focuses on the exploration, mining, processing and marketing of mineral resources.

8.3 Information of HVOR

HVOR is a related body corporate of Mitsubishi Development, a wholly-owned subsidiary of Mitsubishi Corporation and the holding company of Mitsubishi's mineral resources investments in Australia. Mitsubishi Development specializes in developing coking coal assets for use in making steel, and thermal coal for use in generating electrical power. In addition to Mitsubishi Development's interests in HVO and Warkworth, it also holds interest in the Hay Point Coal Terminal and Clermont Coal Mine in Queensland, Australia.

Mitsubishi Development Pty Ltd is ultimately part of Mitsubishi Corporation, a global integrated business enterprise that develops and operates businesses across many industries, including industrial finance, energy, metals, machinery, chemicals, and daily living essentials.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, HVOR and its ultimate beneficial owner is a third party independent of the Company and its connected persons.

9. IMPLICATIONS UNDER THE LISTING RULES

Very Substantial Acquisition

As the Acquisition and the Tag-along Offer constitute a series of transactions involving the acquisition of parts of one asset, the percentage ratios (as defined in Rule 14.07 of the Listing Rules) are calculated on an aggregated basis. As the highest applicable percentage ratio in respect of the Acquisition and the Tag-along Offer on an aggregated basis exceeds 100%, the Acquisition and the Tag-along Offer constitute a very substantial acquisition of the Company under Chapter 14 of the Listing Rules. Therefore, the Acquisition and the Tag-along Offer are subject to the reporting, announcement and Shareholders' approval requirements under the Listing Rules.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder has a material interest in the Acquisition and the Tag-along Offer. Therefore, no Shareholder is required to abstain from voting on the relevant resolution to be proposed at the AGM to approve the SPA and the transactions contemplated thereunder.

The controlling shareholder of the Company, Yankuang Group, which holds directly or indirectly approximately 56.59% of the total issued share capital of the Company as at the Latest Practicable Date, has undertaken to vote in favour of the resolution to approve the SPA and the transactions contemplated thereunder and the Tag-along Transaction at the AGM.

Waiver from strict compliance with Rule 4.03 of the Listing Rules

In accordance with Rule 4.03 of the Listing Rules, an accountant's report on the Target Company Group which is included in this circular must be prepared by certified public accountants who are qualified under the Professional Accountants Ordinance (Cap. 50 of the Laws of Hong Kong). Rule 4.03 of the Listing Rules also provides that, in the case of a circular issued by a listed issuer in connection with the acquisition of an overseas company, the Stock Exchange may be prepared to permit the accountant's report to be prepared by a firm of practicing accountants which is not so qualified but which is acceptable to the Stock Exchange. Such a firm must normally have an international name and reputation and be a member of a recognized body of accountants.

As the Target Company is incorporated under the laws of Australia and is situated in New South Wales, Australia, the accounting records of the Target Company are maintained under the Australian equivalent of International Financial Reporting Standards ("IFRS") of the Australian Accounting Standards Board. ShineWing Australia is engaged by the Company to conduct an audit on the financial information on the Target Company Group for the three preceding years ended 31 December 2016 prepared in accordance with IFRS. ShineWing Australia was engaged by the Purchaser to perform financial due diligence review on the Target Company Group. Given the geographical proximity, ShineWing Australia's pre-existing knowledge about the Target Company Group and the relevant local rules and regulations in Australia, and the tight timetable as agreed between the Vendors and the Purchaser as part of the competitive bidding process, it is therefore more cost and time effective to engage ShineWing Australia to issue the accountants' report of the Target Company Group in accordance with IFRS.

Although ShineWing Australia is not registered under the Professional Accountants Ordinance, it is registered under the applicable laws of Australia and is a member of the Chartered Accountants Australia and New Zealand, which in turn is a member of the International Federation of Accountants. ShineWing Australia is regulated by the Australian Investments and Securities Commission, set up under the Australian Securities and Investments Commission Act 2001. ShineWing Australia is a member firm of a reputable international accounting practice, ShineWing International.

The Board is of the view that it is more appropriate to appoint ShineWing Australia instead of professional accountants who are qualified under the Professional Accountant Ordinance as reporting accountants for the purpose of issuing the accountants' report of the Target Company Group to be included in this circular. The Company has therefore applied to the Stock Exchange for a waiver from strict compliance with Rule 4.03 of the Listing Rules to allow ShineWing Australia to prepare the accountants' report of the Target Company Group for the inclusion in this circular. Such waiver has been granted by the Stock Exchange on 8 March 2017.

10. WARNING

Completion is conditional upon the satisfaction of the Conditions Precedent set out in the SPA. Accordingly, the Acquisition may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the securities of the Company. If the Shareholders and potential investors of the Company are in any doubt about their position, they should consult their professional advisors.

IX. PROPOSED APPLICATION FOR THE ISSUE OF NOT MORE THAN 647,000,000 A SHARES IN THE PRC

Reference is made to the announcement of the Company dated 24 January 2017 and the announcement of the Company dated 31 March 2017.

At the Board meeting held on 31 March 2017, the Board resolved to propose the issue of not more than 647,000,000 new A Shares, representing approximately 21.86% and 13.17% of the total number of A Shares and the total number of shares of the Company respectively, assuming that no other change occurs to the shareholding structure of the Company before completion of the Additional A Shares Issue, and to submit the resolution to the AGM, A Shareholders Class Meeting and H Shareholders Class Meeting for the Shareholders' approval.

Additional A Shares Issue

The Company proposes to issue not more than 647,000,000 new A Shares, representing approximately 21.86% and 13.17% of the total number of A Shares and the total number of shares of the Company respectively, assuming that no other change occurs to the shareholding structure of the Company before completion of the Additional A Shares Issue. The Company will seek a specific mandate in respect of the Additional A Shares Issue from the Shareholders which will be valid for 12 months from the passing of the relevant resolutions at the AGM, A Shareholders Class Meeting and H Shareholders Class Meeting. The proceeding of the Additional A Shares Issue is subject to, among other things, the necessary approval from the CSRC being obtained. As at the Latest Practicable Date, the Company has not made the relevant application to the CSRC. The formal application to the CSRC can only be made after obtaining relevant approvals from the Shareholders at the AGM, A Shareholders Class Meeting and H Shareholders Class Meeting. Specific terms of the Additional A Shares Issue will be determined in accordance with the approval from the CSRC.

The new A Shares under the Additional A Shares Issue are proposed to be issued to not more than ten specific investors, including securities investment fund management companies, securities companies, trust investment companies, finance companies, insurance institutional investors, qualified foreign institutional investors, other local legal entity institutional investors and individual investors that satisfy the requirements stipulated by the CSRC. A securities investment fund management company subscribing through more than one fund managed by it will be regarded as one subscriber. Subscribers who are trust investment companies may only pay the subscription money with their own funds. To the best knowledge, information and belief of the Directors, the target subscribers are third parties independent of the Company and its connected persons.

The final list of target subscribers will be determined under the principle of price priority based on the offers made by the subscribers after the Company obtains the approval in respect of the Additional A Shares Issue from the CSRC. A proposal will be submitted to the AGM to authorize the Board to determine the specific target subscribers.

1. General Information of the Additional A Shares Issue

1.1 Class and nominal value of shares to be issued

The shares of the Company to be issued under the Additional A Shares Issue are A Shares with the nominal value of RMB1.00 per A Share.

1.2 Method and time of the issue

All new A Shares under the Additional A Shares Issue will be offered to specific investors by way of non-public issuance, which shall be implemented as appropriate within six months from the date of obtaining the approval from the CSRC in respect of the Additional A Shares Issue.

1.3 Issue price and pricing principle

The Benchmark Price Determination Date of the new A Shares under the Additional A Shares Issue is the first day of the issue period of the Additional A Shares Issue. The issue price of the new A Shares under the Additional A Shares Issue will be no less than 90% of the average trading price per A Share as quoted on the Shanghai Stock Exchange during the Price Determination Period (which is calculated by dividing the total turnover of the A Shares during the Price Determination Period by the total trading volume of the A Shares during the same period).

The base issue price of the new A Shares to be issued under the Additional A Shares Issue will be adjusted in case of any other ex-rights or ex-dividend matters during the period from the Benchmark Price Determination Date to the date of issuing such new A Shares. After necessary approvals for the Additional A Shares Issue from the CSRC are obtained and in accordance with the provisions of relevant laws and regulations and the requirements from the regulatory authorities, the final actual issue price will be determined by the Board pursuant to the authorization to be granted by the Shareholders in consultation with the sponsor (lead underwriter) and having regard to the offers made by the subscribers.

The net price to the Company of each new A Share to be issued under the Additional A Shares Issue will be determined and disclosed in accordance with the requirements of the Listing Rules upon completion of the Additional A Shares Issue and the determination of the relevant expenses incurred or to be incurred in relation to the Additional A Shares Issue.

As at 31 March 2017, being the date of announcement of the Company in relation to the Additional A Shares Issue, the closing price of H Shares was HK$6.04 per H Share and the closing price of A Shares was RMB11.40 per A Share. As at the Latest Practicable Date, the closing price of H Shares was HK$6.04 per H Share and the closing price of A Shares was RMB10.6 per A Share.

Besides the abovementioned average trading price during the Price Determination Period, the final issue price is also subject to the requirement under the Company Law in the PRC, which stipulates that issue price of Shares cannot be less than its nominal value (i.e. RMB1.00); for reference only, the 2016 audited net asset value per Share of the Company was RMB7.56 (calculated based on the audited net asset value of the Company as at 31 December 2016 as disclosed in the 2016 annual report of the Company and rounded to the nearest two decimal places).

The Company expects that the final issue price of the new A Shares under the Additional A Shares Issue will not be less than 20% discount to the closing price of H shares as at the Latest Practicable Date (i.e. HK$4.832). Further announcement regarding the final issue price will be made by the Company as and when appropriate.

1.4 Number of new A shares to be issued

The Company proposes to issue not more than 647,000,000 new A Shares (inclusive) with an aggregate nominal value of not more than RMB647,000,000, representing (i) approximately 13.17% and 21.86% of the total number of shares and the total number of A Shares of the Company respectively as at the Latest Practicable Date, assuming that no other change occurs to the shareholding structure of the Company before completion of the Additional A Shares Issue and (ii) approximately 11.64% and 17.94% of the total number of shares and the total number of A Shares as enlarged by the number of new A Shares to be issued pursuant to the Additional A Shares Issue (assuming that the maximum number of 647,000,000 new A Shares are issued and subscribed for and no other change occurs to the shareholding structure of the Company before completion of the Additional A Shares Issue).

The maximum number of new A Shares to be issued under the Additional A Shares Issue will be adjusted in case of ex-rights matters such as distribution of dividends and issue of shares by conversion of capital reserve during the period from the date of the board resolutions approving the Additional A Shares Issue (i.e. 31 March 2017) to the date of issuance. Within the abovementioned scope, the actual number of new A Shares to be issued will be determined by the Board pursuant to the authorization to be granted by the Shareholders and in consultation with the sponsor (lead underwriter) and having regard to the market conditions at the time of issue.

1.5 Use of Proceeds

The amount of gross Proceeds from the Additional A Shares Issue is expected to be not more than RMB7,000,000,000. The Company intends to use such Proceeds (after deducting the expenses for the issuance) for the following purpose:

Intended use of Proceeds	**Total amount of capital required** *(RMB)*	**Proposed amount of Proceeds to be applied** *(RMB)*
Acquisition of 100% of the share capital of Coal & Allied Industries Limited ("**C&A**")	17,150,000,000 *(Note)*	7,000,000,000

Note: The total investment amount for the acquisition of 100% of the share capital of C&A will be US$2.45 billion. The total amount of capital required in this table is calculated based on an exchange rate of US$1.00 = RMB7.00.

The net Proceeds will not exceed the amount of capital required by the abovementioned Project. In the event that the actual amount of Proceeds is less than the amount of capital required by the Project, the Company will fund the shortfall with its self-raised funds. In the event that the availability of the Proceeds is inconsistent with implementation schedule of the Project, the Company may fund the Project with other funds according to actual situation in advance, which capital shall then be exchanged with the Proceeds when they are available in compliance with the requirements and procedures as prescribed by the relevant laws and regulations.

As disclosed in the announcement of the Company dated 24 January 2017 in relation to the Acquisition, the abovementioned Project of the acquisition of 100% of the share capital of C&A will be implemented by Yancoal Australia, a subsidiary controlled by the Company. The Company intends to subscribe for the rights issue proposed to be undertaken by Yancoal Australia and inject the funds into Yancoal Australia.

1.6 Lock-up period

The subscribers who subscribe for the new A Shares under the Additional A Shares Issue shall not dispose any of such A Shares within a period of 12 months from the date of completion of the issuance (the "**Lock-up Period**"). The Company will apply for listing of and permission to deal in the new A Shares under the Additional A Shares Issue on the Shanghai Stock Exchange after the expiration of the Lock-up Period.

1.7 Arrangement relating to the accumulated undistributed profits

Upon completion of the Additional A Shares Issue, holders of the new A Shares, together with all existing Shareholders, will be entitled to all undistributed profits of the Company accumulated prior to completion of the Additional A Shares Issue.

1.8 Validity of resolution

The resolution regarding the Additional A Shares Issue will be valid for 12 months following the approval of the Additional A Shares Issue at the AGM, A Shareholders Class Meeting and H Shareholders Class Meeting.

1.9 Place of listing

The new A Shares to be issued under the Additional A Shares Issue will be listed and traded on the Shanghai Stock Exchange upon expiration of the Lock-up Period.

1.10 Method of subscription

All new A Shares to be issued under the Additional A Shares Issue shall be subscribed for in cash.

2. *Effect of the Additional A Shares Issue on the Company's Shareholding Structure*

The following table sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately after completion of the Additional A Shares Issue, assuming that 647,000,000 new A Shares in aggregate will be issued under the Additional A Shares Issue and no other change to the shareholding structure of the Company before completion of the Additional A Shares Issue:

Name of Shareholder	As at the Latest Practicable Date		Immediately following completion of the Additional A Shares Issue	
	Number of Shares in issue	*%(Note 2) (approx.)*	*Number of Shares in issue*	*%(Note 2) (approx.)*
Yankuang Group and its associates(Note 1)	2,780,000,000	56.59%	2,780,000,000	50.01%
Including: A Shares	2,600,000,000	52.93%	2,600,000,000	46.77%
H Shares	180,000,000	3.66%	180,000,000	3.24%
Other Shareholders	2,132,016,000	43.41%	2,779,016,000	49.99%
Including: A Shares	360,000,000	7.33%	1,007,000,000	18.11%
H Shares	1,772,016,000	36.08%	1,772,016,000	31.88%
Total	4,912,016,000	100%	5,559,016,000	100%

Notes:

1. As at the Latest Practicable Date, Yankuang Group directly held 2,600,000,000 A Shares, representing 52.93% of the total issued share capital of the Company; the wholly-owned subsidiary of Yankuang Group incorporated in Hong Kong held 180,000,000 H Shares, representing 3.66% of the total issued share capital of the Company. Yankuang Group and its wholly-owned subsidiary incorporated in Hong Kong held in aggregate 2,780,000,000 Shares, representing 56.59% of the total issued share capital of the Company.

2. The percentages are subject to rounding differences, if any.

The Additional A Shares Issue will not lead to any change in the control over the Company and Yankuang Group will remain as the controlling Shareholder of the Company upon completion of the Additional A Shares Issue.

3. *Fund Raising in the Past 12 Months*

Save as disclosed below, the Company has not engaged in any fund raising activity involving issue of equity securities in the 12 months preceding the Latest Practicable Date.

Reference is made to the announcements of the Company dated 16 June 2016, 19 August 2016, 30 December 2016 and 10 March 2017 and the circulars of the Company dated 25 July 2016 and 24 January 2017.

The "Proposal regarding the Company's non-public issuance of shares to specific persons" and related resolutions involving the non-public issuance of A Shares have been considered and approved by the Company at the twenty-second meeting of the sixth session of the Board held on 16 June 2016, and the related resolutions with respect to the non-public issuance of A Shares set out above have been considered and approved at the 2016 first extraordinary general meeting and the 2016 second A Shareholders class meeting and H Shareholders class meeting held on 19 August 2016. For the reasons disclosed in the aforesaid announcements and circulars, the "Proposal in relation to non-proceeding of the non-public issuance of A Shares" has been considered and approved by the Board at the twenty-seventh meeting of the sixth session of the Board held on 30 December 2016 and the relevant resolution has been considered and approved in the 2017 first extraordinary general meeting and the 2017 first A Shareholders class meeting and H Shareholders class meeting held on 10 March 2017.

4. Reasons for and Benefits of the Additional A Shares Issue

The Proceeds from the Additional A Shares Issue will mainly be used for the acquisition of 100% of the share capital of C&A. Coal & Allied Industries Limited owns majority interests in the coal mine operations of Hunter Valley Operations, Mount Thorley and Warkworth in Hunter Valley Basin, New South Wales, Australia, with an aggregate area coverage of approximately 17,000 hectares. Such coal mine operations are of world class quality and can produce high quality thermal coal and coking coal products with their tremendous operation scales and the resources and reserves that are available for mining in the long term.

Following the abovementioned acquisition, Yancoal Australia will become the largest independent coal producer in Australia. C&A will coordinate with the existing mineral resource operations of Yancoal Australia and synergies can be created in various areas such as operational management, coal matching business, mining districts, ports and taxation. In addition, the asset-liability structure and cash flow of Yancoal Australia will realize optimization and its profitability will be strengthened significantly. The acquisition will also help Yancoal Australia to regain independent financing ability in the capital market and form a solid platform for the continuing growth and value-adding of the Company and Yancoal Australia.

Meanwhile, the Company will also benefit from the Additional A Shares Issue by optimizing its capital structure and further reducing its debt-to-asset ratio, which will provide the Company with the necessary capital profile for development of its strategic plans, help alleviate the funding pressure of the Company, improve the Company's financial situation and increase the Company's ability to resist risks. Meanwhile, the benefits arising from the Project after the acquisition will also improve the cash flow position related to the operating activities of the Company so that its financial strength will be strengthened.

Therefore, the Directors (including the independent non-executive Directors) are of the view that the Additional A Shares Issue is fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

In addition, the following resolutions will also be proposed at the AGM and/or the Class Meetings (as the case may be) for the Shareholders to consider and, if thought fit, approve, in accordance with the relevant PRC regulatory requirements:

a) Proposal in relation to the Company in compliance with the requirements of non-public issuance of shares《關於公司符合非公開發行股票條件的議案》will be proposed at the AGM for the Shareholders to consider and approve. The main content of the aforesaid proposal is that the Company has satisfied the requirements under the existing relevant laws and regulations and meets the substantive conditions in relation to the non-public issuance of A shares;

b) Proposal in relation to the non-public issuance of A Shares to the specific investors by the Company《關於公司向特定對象非公開發行股票方案的議案》will be proposed at the AGM, the A Shareholders Class Meeting and the H Shareholders Class Meeting, respectively, for the Shareholders to consider and approve. The major details of the aforesaid proposal are set out in this circular;

c) Proposal in relation to the feasibility analysis report of utilizing the proceeds raised from the non-public issuance of A Shares in 2017 by Yanzhou Coal Mining Company Limited《關於<兗州煤業股份有限公司2017年度非公開發行人民幣普通股股票募集資金運用的可行性分析報告>的議案》will be proposed at the AGM for the Shareholders to consider and approve, the text of which is set out in Appendix XIII to this circular. Details of the aforesaid proposal were contained in the overseas regulatory announcement of the Company published on the website of the Stock Exchange on 31 March 2017 and 28 April 2017;

d) Proposal in relation to the non-public issuance of A Shares in 2017 by Yanzhou Coal Mining Company Limited《關於<兗州煤業股份有限公司2017年度非公開發行A股股票預案>的議案》will be proposed at the AGM, the A Shareholders Class Meeting and the H Shareholders Class Meeting, respectively, for the Shareholders to consider and approve. Details of the aforesaid proposal were contained in the overseas regulatory announcements of the Company published on the website of the Stock Exchange on 31 March 2017 and 28 April 2017. The major details of the aforesaid proposal were contained in the section headed "Additional A Shares Issue" in this

Letter from the Board, the Notice of 2016 AGM of the Company published on the website of the Stock Exchange on 8 May 2017 and Appendices XIII to XV to this circular;

e) Proposal in relation to the dilution of immediate return and remedial measures upon the non-public issuance of shares in 2017 by the Company 《關於<公司2017年度非公開發行股票攤薄即期回報及填補措施>的議案》will be proposed at the AGM for the Shareholders to consider and approve, the text of which is set out in Appendix XIV to this circular. Details of the aforesaid proposal were contained in the overseas regulatory announcement of the Company published on the website of the Stock Exchange on 31 March 2017; and

f) Proposal in relation to certain commitments by the controlling shareholder, directors and senior management of the Company on the recovery of immediate return《關於<公司控股股東、董事和高級管理人員就填補即期回報採取事項作出的若干承諾>的議案》 will be proposed at the AGM for the Shareholders to consider and approve, the text of which is set out in Appendix XV to this circular. Details of the aforesaid proposal were contained in the overseas regulatory announcement of the Company published on the website of the Stock Exchange on 31 March 2017.

PROPOSED AUTHORIZATION TO THE BOARD TO HANDLE MATTERS RELATING TO THE ADDITIONAL A SHARES ISSUE AT FULL DISCRETION

For the purposes of the Additional A Shares Issue, a resolution will be proposed by the Board at the AGM and the Class Meetings to authorize the Board to handle the matters relating to the Additional A Shares Issue at its full discretion.

The authorization proposed to be granted to the Board shall include without limitation:

(1) To amend, adjust and supplement the proposal of the Additional A Shares Issue (including but not limited to the target subscribers, number of shares to be issued and issue price etc.) and to make decisions on various matters including but not limited to the timing of the Additional A Shares Issue, the opening of a special account for the Proceeds, the signing of tripartite agreement with respect to monitoring the savings in the special account for the Proceeds, and all other matters related to the Additional A Shares Issue in compliance with the laws, regulations and the Articles of Association and in accordance with the requirements of the regulatory authorities and subject to the actual circumstances facing the Company;

(2) To engage intermediaries to deal with matters relating to the application for the Additional A Shares Issue and the listing; to prepare, amend and deliver the application materials relating to the Additional A Shares Issue and the listing in accordance with the requests of the regulatory authorities; to

communicate with and respond to the regulatory authorities and the other government departments in the review process, and to study and prepare the undertaking and declaration and disclose the relevant information, etc. in relation to the Additional A Shares Issue in accordance with the requests of the regulatory authorities;

(3) To amend, supplement, sign, submit, report and execute all agreements, contracts and documents arising from the Additional A Shares Issue, including but not limited to underwriting and sponsor agreements and the agreements for engagement of intermediaries, etc.;

(4) To adjust or determine the specific arrangements for the use of Proceeds in accordance with the actual progress and capital needs of the investment Project for the Proceeds from the Additional A Shares Issue within the scope of the use of Proceeds as approved by the Shareholders; to make necessary adjustments to the investment Project for the Proceeds pursuant to the relevant laws and regulations, the requirements stipulated by the regulatory authorities and the market conditions;

(5) In the event of any change to the market conditions or the regulatory authorities' policies in relation to non-public issuance of share by listed companies, to authorize the Board to make corresponding adjustments or amendments to specific plans of the Additional A Shares Issue and the terms of the conditional share subscription agreement etc., except for matters which should be re-voted by the Shareholders in compliance with the relevant laws, regulations and the Articles of Association;

(6) To determine to postpone or terminate the implementation of the Additional A Shares Issue at its discretion in the event of force majeure or under circumstances which make the Additional A Shares Issue impossible to be implemented or, if implementation is possible, may adversely affect the Company or if there is any change to the policies in relation to non-public issuance of shares;

(7) To amend the relevant provisions of the Articles of Association as appropriate and to deal with matters such as filings with the administration for industry and commerce and the registration for the change in registered capital in accordance with the actual circumstances arising as a result of the Additional A Shares Issue;

(8) To deal with matters such as application for registration, lock-up and listing of the new A Shares to be issued under the Additional A Shares Issue at China Securities Depository and Clearing Co., Ltd Shanghai Branch and the Shanghai Stock Exchange;

(9) To deal with other matters related to the Additional A Shares Issue; and

(10) The authorization will be effective for 12 months commencing from the date on which it is approved at the AGM.

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

As a result of the issue of new A Shares pursuant to the Additional A Shares Issue, the shareholding structure of the Company will change upon completion of the Additional A Shares Issue and as such, the Articles of Association will then need to be amended to reflect the relevant changes. The Board will make necessary amendments to the provisions of the Articles of Association which relate to the Company's shareholding structure (including but not limited to articles 19, 20 and 23 of the Articles of Association) upon completion of the Additional A Shares Issue pursuant to the authorization to be granted by the Shareholders. The exact amendments to the Articles of Association cannot be confirmed unless and until the Additional A Shares Issue is completed.

It should be noted that in addition to the approvals being sought from the Shareholders at the AGM, A Shareholders Class Meeting and H Shareholders Class Meeting, the Additional A Shares Issue is also subject to approval by the CSRC and relevant PRC authorities. There is no assurance that the Additional A Shares Issue will proceed. Investors are advised to exercise caution when dealing in H Shares. Further details of the Additional A Shares Issue will be disclosed by the Company when the Additional A Shares Issue materializes.

X. PROPOSAL TO AUTHORIZE THE COMPANY TO CARRY OUT DOMESTIC AND OVERSEAS FINANCING ACTIVITIES

In order to optimise the Company's debt structure, reduce the debt ratio of the Company and satisfy the capital requirements of the Company's production and operations and projects, subject to the relevant laws, regulations as well as listing rules in places where the Company's securities are listed, the Board proposed:

1. to approve the Company or controlled subsidiaries to carry out financing activities of aggregate amount not exceeding the equivalent of RMB80 billion and to determine the financing currency and methods based on merits of market conditions, which are restricted to the following financing methods only: bank loans, corporate bonds, medium-term notes, short-term commercial paper, super short-term commercial paper, renewable bonds, perpetual bonds, perpetual renewable medium-term notes, private placement bonds, operating lease, financing lease, asset securitization, asset-backed notes, transfer of right of return over assets financing, private placement of industry funds, acceptance of insurance, the equity investment and bonds investment in the controlled subsidiaries by the subsidiaries of the trust and public offering funds.

2. to authorize the chairman of the Board of the Company to, in accordance with the relevant requirements, deal with all matters in respect of the above financing activities, which include but not limited to the following matters:

(1) in light of the Company's and specific market circumstances, and according to the relevant laws and rules and the requirements of regulatory authority to develop and adjust specific plan in relation to such financing activities, including but not limited to the determination of suitable entity to carry out the financing activities, the amounts, methods, term and other matters related to financing activities;

(2) to determine the engagement of intermediaries and to sign and implement all agreements and documents in respect of the financing activities and disclose the relevant information;

(3) to deal with the reporting, registration, approval of materials and other relevant matters in respect of the financing activities necessary provided to domestic and overseas regulatory authorities and other relevant authorities; and

(4) the aforementioned authorization shall become valid after the proposal is approved by the Shareholders at the annual general meeting until the date of convening of the next annual general meeting, except where the circumstances require the person(s) so authorized to exercise his powers after the expiry of the term of authorization in relation to any contracts, agreements or decisions regarding the financing activities that have been made within the term of authorization.

XI. PROPOSAL FOR THE PROVISION OF FINANCIAL GUARANTEES TO THE SUBSIDIARIES AND GRANTING OF AUTHORIZATION TO YANCOAL AUSTRALIA AND ITS SUBSIDIARIES TO PROVIDE GUARANTEES FOR THE DAILY OPERATION OF THE SUBSIDIARIES OF THE COMPANY IN AUSTRALIA

The Board proposed:

1. that in order to reduce financing costs of the subsidiaries and ensure the normal operation funding needs of the subsidiaries, to approve the provision of financial guarantee(s) of an aggregate amount not exceeding US$4 billion by the Company to its wholly-owned and controlled subsidiaries;

2. that in order to satisfy the requirements of ordinary operations of the Company's assets and subsidiaries in Australia and further reduce the operating cost, in accordance with the Australian Corporate Law and relevant laws and regulations, to approve the provision of daily operation guarantees by Yancoal Australia and its subsidiaries to subsidiaries of the Company in Australia of an aggregate amount not exceeding AUD900 million.

3. to authorize the chairman of the Board of the Company to, in accordance with the relevant requirements, deal with all matters in respect of the above financial guarantees, which include but not limited to the following matters:

(1) to determine the appropriate wholly-owned or controlled subsidiaries which will be provided with the guarantees based on the financing needs;

(2) to determine the exact terms of the guarantee agreements, which include but not limited to the amount, term, scope and method of guarantee, and execute the guarantee agreement(s) and other relevant legal documents;

(3) to deal with the filing and reporting of documents and information in respect of the guarantee(s) and other matters; and

(4) the aforementioned authorization shall become valid after the proposal is approved by the Shareholders at the AGM until the date of convening of the next annual general meeting, except where the circumstances require the person(s) so authorized to exercise his powers after the expiry of the term of authorization in relation to any contracts, agreements or decisions regarding the financial guarantees that have been made within the term of authorization.

XII. PROPOSAL FOR THE GENERAL MANDATES TO ISSUE H SHARES AND REPURCHASE H SHARES

To ensure flexibility and to grant discretion to the Board to issue H Shares, the Company will put forward a resolution at the AGM to grant a general mandate to the Board to allot, issue and deal with H Shares of up to a maximum of 20% of the aggregate nominal value of H Shares of the Company in issue as at the date of passing of the resolution.

To ensure flexibility and to grant discretion to the Directors to repurchase any H Shares in appropriate circumstances (including where such repurchase may lead to an enhancement of the net asset value per Share and/or the earnings per Share), the Company will put forward a special resolution at the AGM, the A Shareholders' Class Meeting and the H Shareholders' Class Meeting, respectively, to grant the Repurchase Mandate to the Board to repurchase H Shares not exceeding 10% of the aggregate nominal value of H Shares of the Company in issue as at the date of passing of the resolution approving the Repurchase Mandate.

The Company Law (to which the Company is subject) provides that a joint stock limited company incorporated in the PRC may not repurchase its shares unless such repurchase is effected for the purpose of (a) reducing its share capital; (b) a merger with another entity that holds the shares of the Company; (c) granting shares as reward to the staff of the company; or (d) the repurchase is made at the request of its shareholders who disagree with shareholders' resolutions in connection with merger or division of the Company. The Articles of Association provide that, subject to obtaining the approval of the relevant regulatory authorities and complying with the Articles of Association, share repurchase may be effected by the Company for the purpose of reducing its share capital, in connection with a merger between itself and another entity that holds its shares, as reward to the staff of the Company or in circumstances permitted by law or administrative regulations.

The Hong Kong Listing Rules permit shareholders of a PRC joint stock limited company to grant a general mandate to the board of directors to repurchase H shares of such company that is listed on the Hong Kong Stock Exchange. Such mandate is required to be given by way of a special resolution passed by shareholders at the AGM and special resolutions passed by holders of A shares and holders of H shares in separate class meetings.

As the H Shares are traded on the Hong Kong Stock Exchange in Hong Kong dollars and the price payable by the Company for any repurchase of H Shares will, therefore, be paid in Hong Kong dollars, the approvals of SAFE and other relevant government authorities are required for any repurchase of H shares.

In accordance with the requirements of the Articles of Association applicable to capital reduction, when the Board decides to exercise the Repurchase Mandate, the Company will have to notify its creditors in writing of the passing of such special resolutions and the possible reduction of the registered capital of the Company. The Company shall notify its creditors within 10 days after the passing of such special resolutions and also by way of publication of announcement in newspaper at three occasions within 30 days after the passing of such special resolutions. Creditors then have a period of up to 30 days after the Company's written notification or if no such notification has been received, up to 45 days after the first publication of the newspaper announcement to require the Company to repay amounts due to them or to provide guarantees in respect of such amounts.

The Repurchase Mandate will be conditional upon (a) the special resolution for the grant of the Repurchase Mandate being approved at the AGM; (b) the special resolution for the grant of the Repurchase Mandate being approved at the H Shareholders' Class Meeting and the A Shareholders' Class Meeting; (c) the approvals of the SAFE and/or any other regulatory authorities (if applicable) as required by the laws, rules and regulations of the PRC being obtained; and (d) the Company not being required by any of its creditors to repay or to provide guarantee in respect of any amount due to any of them (or if the Company is so required by any of its creditors, the Company having, in its absolute discretion, repaid or provided guarantee in respect of such amount) pursuant to the provisions of the Articles of Association. If the Company determines to repay any amount to any of its creditors in circumstances described under condition (d) above, it expects to do so out of its internal resources. If the above conditions are not fulfilled, the Repurchase Mandate will not be exercised by the Board.

The Repurchase Mandate would expire on the earlier of (a) the conclusion of the next annual general meeting of the Company following the passing of the relevant special resolutions at the AGM, the A Shareholders' Class Meeting and the H Shareholders' Class Meeting; (b) the expiration of a 12-month period following the passing of the relevant special resolutions at the AGM, the A Shareholders' Class Meeting and the H Shareholders' Class Meeting; or (c) the date on which the authority conferred by the relevant resolutions is revoked or varied by a special resolution of the Shareholders at a general meeting or by H Shareholders or A Shareholders at their respective class meetings.

The total number of H Shares which may be repurchased pursuant to the Repurchase Mandate shall not exceed 10% of the aggregate nominal value of H Shares in issue as at the date of passing of the resolutions approving the Repurchase Mandate.

Details of the special resolutions to be proposed at the AGM, the A Shareholders' Class Meeting and the H Shareholders' Class Meeting in relation to the granting of the Repurchase Mandate to the Board are set out respectively in the notice of the AGM, the notice of the A Shareholders' Class Meeting and the notice of the H Shareholders' Class Meeting.

Explanatory statement

An explanatory statement containing all relevant information relating to the Repurchase Mandate is set out in Appendix I to this circular. The information in the explanatory statement is to provide you with the information reasonably necessary to enable you to make an informed decision on whether to vote for or against the resolution to grant to the Board the Repurchase Mandate.

XIII. AGM, A SHAREHOLDERS' CLASS MEETING AND H SHAREHOLDERS' CLASS MEETING

The notices convening the AGM, the A Shareholders' Class Meeting and the H Shareholders' Meeting were published on 8 May 2017.

The following resolutions will be proposed to the Shareholders at the AGM:

As ordinary resolutions:

1. To consider and approve the working report of the Board for the year ended 31 December 2016, details of which are set out in Appendix III to this circular;

2. To consider and approve the working report of the Supervisory Committee for the year ended 31 December 2016, details of which are set out in Appendix IV to this circular;

3. To consider and approve the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2016, details of which are set out in the 2016 annual report of the Company;

4. To consider and approve the proposed profit distribution plan of the Company for the year ended 31 December 2016 and to authorize the Board to distribute an aggregate cash dividend of RMB589.4 million (tax inclusive), equivalent to RMB0.12 (tax inclusive) per Share to the Shareholders;

5. To consider and approve the remuneration of the Directors and Supervisors for the year ending 31 December 2017, details of which are set out in the announcement of the Company dated 31 March 2017 regarding the resolutions passed at the 30th meeting of the sixth session of the Board;

6. To consider and approve the "Proposal in relation to the renewal of the liability insurance of Directors, Supervisors and senior officers";

7. To consider and approve the "Proposal in relation to the appointment and remuneration of external auditing firm for the year 2017";

8. To consider and approve the acquisition of 65% equity interest in Yankuang Group Finance Co., Ltd.;

9. To consider and approve the entering into the Finance Services Agreement of Yankuang Group Finance Co., Ltd. with Yankuang Group Company Limited and to approve the continuing connected transactions contemplated under the agreement and their annual caps;

10. To consider and approve the acquisition of the share capital of Coal & Allied Industries Limited by Yancoal Australia Co., Ltd. and the transactions contemplated thereunder, including but not limited to the offer made to HVO Resources Pty Ltd;

11. To consider and approve the Proposal in relation to the Company's compliance with the requirements of non-public issuance of shares;

12. To consider and approve the Proposal in relation to the feasibility analysis report of implementing the use of proceeds of the non-public issuance of RMB ordinary shares of the Company, details of which are set out in Appendix XIII to this circular;

13. To consider and approve the Proposal in relation to submission to the annual general meeting of the Company to authorize the Board to deal with matters relating to the non-public issuance of shares at its full discretion;

14. To consider and approve the Proposal in relation to dilution of immediate return and return recovery measures upon the non-public issuance of shares of the Company, details of which are set out in Appendix XIV to this circular;

15. To consider and approve the Proposals in relation to certain commitments by the controlling shareholders, directors and senior management of the Company relating to recovery of immediate return, details of which are set out in Appendix XV to this circular;

16. To consider and approve the appointment of non-independent Directors of the seventh session of the Board for a term of three years commencing from the conclusion of the AGM and ending on the date of the conclusion of the general meeting for the election of Directors of the eighth session of the Board;

17. To consider and approve the appointment of the independent Directors of the seventh session of the Board for a term of three years commencing from the conclusion of the AGM and ending on the date of the conclusion of the general meeting for the election of independent Directors of the eighth session of the Board; and

18. To consider and approve the appointment of the non-staff representative Supervisors of the seventh session of the Supervisory Committee for a term of three years commencing from the conclusion of the AGM and ending on the date of the conclusion of the general meeting for the election of the non-staff representative Supervisors of the eighth session of the Supervisory Committee;

As special resolutions:

19. To consider and approve the Proposal in relation to the Company's non-public issuance of shares to specific persons;

20. To consider and approve the Proposal of non-public issuance of A shares of the Company;

21. To consider and approve the "Proposal for the provision of financial guarantees to the Company's subsidiaries and granting of authorization to Yancoal Australia and its subsidiaries to provide guarantees for the daily operation of the subsidiaries of the Company in Australia";

22. To consider and approve the "Proposal to authorise the Company to carry out domestic and overseas financing activities";

23. To consider and approve the "Proposal regarding the general mandate authorizing the Board to issue H Shares"; and

24. To consider and approve the "Proposal regarding the general mandate authorizing the Board to repurchase H Shares".

The following resolution will be proposed to the Shareholders at the A Shareholders' Class Meeting and the H Shareholders' Class Meeting:

As special resolution:

1. To consider and approve the Proposal in relation to the Company's non-public issuance of shares to specific persons;

2. To consider and approve the Proposal of non-public issuance of A shares of the Company; and

3. To consider and approve the proposal regarding the general mandate authorizing the Board to repurchase H Shares.

Yankuang Group is the controlling Shareholder, therefore Yankuang Group and its associates are connected persons (as defined under the Hong Kong Listing Rules) of the Company. Pursuant to Rule 14A.36 of the Hong Kong Listing Rules, where independent shareholders' approval is required with regard to a connected transaction, any connected person with a material interest in such transaction and any shareholder with a material interest in such transaction and its associates will not vote on such transaction. Accordingly Yankuang Group and its associates shall abstain from voting at the AGM on the resolutions in connection with (i) discloseable transaction and connected transaction – acquisition of 65% equity interest in Yankuang Group Finance; and (ii) major and continuing connected transaction – provision of the comprehensive credit facility services to Yankuang Group, which must be taken by way of poll as required under the Hong Kong Listing Rules except where the chairman of the AGM, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands.

As at the Latest Practicable Date, Yankuang Group controlled or was entitled to exercise control over the voting rights in respect of 2,600,000,000 A Shares and 180,000,000 H Shares in the Company, representing, in aggregate, approximately 56.59% of the entire issued share capital of the Company.

To the extent that the Company is aware, having made all reasonable enquiries, as at the Latest Practicable Date:

(a) there was no voting trust or other agreement or arrangement or understanding entered into by or binding upon Yankuang Group, whereby they had or might have temporarily or permanently passed control over the exercise of the voting rights in respect of their Shares in the Company to a third party, whether generally or on a case-by-case basis;

(b) Yankuang Group was not subject to any obligation or entitlement whereby they had or might have temporarily or permanently passed control over the exercise of the voting right in respect of their Shares in the Company to a third party, whether generally or on a case-by-case basis; and

(c) it was not expected that there would be any discrepancy between Yankuang Group's beneficial shareholding interest in the Company and the number of shares in the Company in respect of which they would control or would be entitled to exercise control over the voting right at the AGM.

Whether or not you are able to attend the respective meetings in person, you are strongly advised to complete and sign the enclosed form of proxy in accordance with the instructions printed thereon. For holders of H Shares of the Company, the proxy form shall be lodged with the Company's H Share Registrar, Hong Kong Registrars Limited at 17M, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. For holders of A Shares of the Company, the proxy form shall be lodged at the Office of the Secretary to the Board at 298 South Fushan Road, Zoucheng, Shandong Province 273500, the PRC as soon as possible but in any event not later than 24 hours before the time appointed for the holding of the relevant meeting(s) or any adjourned meeting(s) (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting in person at the meeting(s) or any adjourned meeting(s) should you so wish.

XIV. CLOSURE OF H SHARE REGISTER OF MEMBERS OF THE COMPANY

1. Attending the AGM and H Shareholders' Class Meeting

The H Share register of members of the Company will be closed from Wednesday, 24 May 2017 to Friday, 23 June 2017, both days inclusive, during which period no transfer of the Company's H Shares will be registered for the purpose of ascertaining the eligibility of Shareholders to attend the AGM and the H Shareholders' Class Meeting. In order to attend AGM and the H Shareholders' Class Meeting, all share transfers, accompanied by the relevant share certificates, must be lodged for registration with the Company's H Share Registrar, Hong Kong Registrars Limited, at Shops 1712-1716, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Tuesday, 23 May 2017 for registration. H Shareholders whose names appear on the H Share register of members of the Company maintained by Hong Kong Registrars Limited on or before the above date will be eligible to attend the AGM and H Shareholders' Class Meeting.

Whether or not you are able to attend the respective meetings in person, you are strongly advised to complete and sign the enclosed form of proxy in accordance with the instructions printed thereon. For holders of H Shares, the proxy form shall be lodged with the Company's H Share Registrar, Hong Kong Registrars Limited at 17M, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. For holders of A Shares, the proxy form shall be lodged at the Office of the Secretary to the Board at 298 South Fushan Road, Zoucheng, Shandong Province 273500, the PRC as soon as possible but in any event not later than 24 hours before the time appointed for the holding of the relevant meeting(s) or any adjourned meeting(s) (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting in person at the meeting(s) or any adjourned meeting(s) should you so wish.

2. Receipt of final dividend

The Company will put forward an ordinary resolution at the AGM to approve the distribution of an aggregate cash dividend of RMB589.4 million (tax inclusive), equivalent to RMB0.12 (tax inclusive) per Share to the Shareholders.

To determine the identity of the Shareholders entitled to receive the final dividend, the Company's H Share register of members will be closed from Friday, 30 June 2017 to Friday, 7 July 2017 (both days inclusive), during which period no transfer of H Shares will be registered. In order to be entitled to the final dividend, H Shareholders who have not registered the transfer documents are required to deposit the transfer documents together with the relevant Share certificates with the H Share Registrar of the Company, Hong Kong Registrars Limited, at 17M, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on Thursday, 29 June 2017.

Details in relation to profit distribution to investors who invest in the shares of the Company listed on the Hong Kong Stock Exchange through the Shanghai Stock Exchange or vice versa under the Shanghai – Hong Kong Stock Connect program will be disclosed in the AGM poll results announcement of the Company.

XV. RECOMMENDATION

The Directors consider that the proposals relating to (1) the proposed appointment of Directors and independent Directors; (2) the proposed appointment of non-staff representative supervisors; (3) the proposed renewal of liability insurance for Directors, Supervisors and senior officers; (4) the proposal for appointment of external auditing firm for the year 2017; (5) discloseable and connected transaction – acquisition of 65% equity interest in Yankuang Group Finance; (6) major and continuing connected transaction – provision of financial services to Yankuang Group; (7) very substantial acquisition – acquisition of Coal & Allied from Rio Tinto; (8) proposed application for the issue of not more than 647,000,000 A Shares in the PRC; (9) the proposal to authorize the Company to carry out domestic and overseas financing activities; (10) the proposal for the provision of financial guarantees to the subsidiaries and granting of authorization to Yancoal Australia and its subsidiaries to provide guarantees for the daily operation of the subsidiaries of the Company in Australia; and (11) the proposal for the general mandates to issue H shares and repurchase H share are in the overall interests of the Company and its Shareholders as a whole. As such, the Board recommends that all Shareholders to vote in favour of the aforesaid resolutions to be proposed at the AGM, A Shareholders' Class Meeting and H Shareholders' Class Meeting (as the case may be).

XVI. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the other sections in and the Appendices to this circular.

XVII. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

By order of the Board
Yanzhou Coal Mining Company Limited
Li Xiyong
Chairman

兗州煤業股份有限公司

YANZHOU COAL MINING COMPANY LIMITED

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1171)

Registered office:
298 South Fushan Road
Zoucheng
Shandong Province PRC
Postal Code: 273500

Principal place of business in Hong Kong:
Rooms 2008-12
20/F., The Center
99 Queen's Road Central
Hong Kong

2 June 2017

To the Shareholders

Dear Sir or Madam,

CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTION

We refer to the announcement of the Company dated 28 April 2017 and the circular dated 2 June 2017 ("**Circular**") to the Shareholders, of which this letter forms part. Terms defined therein shall have the same meanings when used in this letter unless the context otherwise requires. We have been appointed by the Board as the Independent Board Committee to advise you as to whether, in our opinion, (i) the Yankuang Group Finance Equity Transfer Agreement and (ii) the provision of comprehensive credit facility service transaction under the New Financial Services Agreement and proposed annual caps for the three financial years ending 31 December 2017, 2018 and 2019 are fair and reasonable in so far as the Independent Shareholders are concerned.

Donvex Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee in respect of (i) the Yankuang Group Finance Equity Transfer Agreement and (ii) the provision of comprehensive credit facility service transaction under the New Financial Services Agreement and proposed annual caps for the three financial years ending 31 December 2017, 2018 and 2019. The letter from Donvex Capital Limited, which contains its advice, together with the principal factors taken into consideration in arriving at such advice, are set out on pages 80 to 100 of this Circular.

Your attention is also drawn to the "Letter from the Board" set out on pages 11 to 77 of this Circular and the additional information set out in the Appendix XVI to this Circular. Having taken into account (i) the terms of the Yankuang Group Finance Equity Transfer Agreement; and (ii) the provision of comprehensive credit facility service transaction under the New Financial Services Agreement and having considered the interests of the Independent Shareholders and the advice from Donvex Capital Limited, we consider that the (i) the Yankuang Group Finance Equity Transfer Agreement and (ii) the provision of comprehensive credit facility service transaction under the New Financial Services Agreement and proposed annual caps for the three financial years ending 31 December 2017, 2018 and 2019 are (i) fair and reasonable; (ii) on normal commercial terms or better and (iii) in the interests of the Company and the Shareholders as a whole. We also consider that (i) the provision of comprehensive credit facility service transaction under the New Financial Services Agreement was conducted in the ordinary and usual course of business of the Group; and (ii) the Yankuang Group Finance Equity Transfer Agreement was not conducted in the ordinary and usual course of business of the Group.

Accordingly, we recommend that the Independent Shareholders vote in favour of the resolutions to approve (i) the Yankuang Group Finance Equity Transfer Agreement and (ii) the provision of comprehensive credit facility service transaction under the New Financial Services Agreement and proposed annual caps for the three financial years ending 31 December 2017, 2018 and 2019.

Yours faithfully,
Yanzhou Coal Mining Company Limited
Kong Xiangguo, Jia Shaohua,
Wang Xiaojun and Qi Anbang
Independent Board Committee

The following is the full text of the letter from Donvex Capital Limited setting out their advice to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.

Donvex 富域資本
Donvex Capital Limited
富域資本有限公司

Unit 1305, 13th Floor
Carpo Commercial Building
18-20 Lyndhurst Terrace
Central
Hong Kong

2 June 2017

The Independent Board Committee and the Independent Shareholders of
Yanzhou Coal Mining Company Limited

Dear Sir/Madam,

(I) DISCLOSEABLE AND CONNECTED TRANSACTION – ACQUISITION OF 65% EQUITY INTEREST IN YANKUANG GROUP FINANCE AND (II) MAJOR AND CONTINUING CONNECTED TRANSACTION PROVISION OF COMPREHENSIVE CREDIT FACILITY SERVICES TO YANKUANG GROUP

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Acquisition and New Financial Services Agreement, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company dated 2 June 2017 to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used herein have the same meanings as those defined in the Circular unless otherwise stated.

Reference is made to the announcement dated 28 April 2017 in relation to the Acquisition and the New Financial Services Agreement.

On 28 April 2017, the Company and Yankuang Group entered into the Equity Transfer Agreement. Pursuant to the Equity Transfer Agreement, the Company has conditionally agreed to acquire, and Yankuang Group has conditionally agreed to sell, 65% of the equity interest in Yankuang Group Finance at a consideration of RMB1,124,227,500. Immediately after the Acquisition, on 28 April 2017, Yankuang Group Finance and Yankuang Group entered into the New Financial Services Agreement, pursuant to which the Yankuang Group Finance will provide a range of financial services to Yankuang Group for the three years ending 31 December 2019.

As the highest applicable percentage ratio of the Acquisition under the Equity Transfer Agreement exceeds 5% but is less than 25%, the Acquisition constitutes a discloseable transaction under Chapter 14 of the Listing Rules. Yankuang Group is the controlling shareholder of the Group and Yankuang Group Finance, holding directly and indirectly approximately 56.59% of the total number of Shares in issue of the Company and 70% of the equity interest in Yankuang Group Finance. Accordingly, Yankuang Group is a connected person of the Company under Rule 14A of the Listing Rules and the Acquisition also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

Upon the completion of the Acquisition, Yankuang Group Finance will become a non-wholly owned subsidiary of the Company and the financial results of Yankuang Group Finance will be consolidated into the financial statements of the Group. As such, the entering into the New Financial Services Agreement and the transactions contemplated thereunder constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio for the transactions of the comprehensive credit facility service under the New Financial Services Agreement is more than 25% but less than 75% on an annual basis for the three years ending 31 December 2019, the comprehensive credit facility service constitutes a major transaction under Rule14.06(3), and is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under the Chapter 14 of the Listing Rules.

Mr. Kong Xiangguo, Mr. Jia Shaohua, Mr. Wang Xiaojun and Mr. Qi Anbang, the independent non-executive Directors, have been appointed as members of the Independent Board Committee to advise the Independent Shareholders on (i) whether the Acquisition is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; (ii) whether the terms of the Equity Transfer Agreement and the New Financial Services Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned; (iii) whether the comprehensive credit facility services, including the proposed annual caps, are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, and (iv) how the Independent Shareholders should vote in respect thereof. In our capacity as the Independent Financial Adviser, our role is to advise the Independent Board Committee and the Independent Shareholders in such regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant to our independence. In addition to our engagement as the Independent Financial Adviser, Donvex Capital Limited has also acted as an independent financial adviser to the then independent board committee and independent shareholders of the Company in relation to the Wanfu mining right transfer agreement, the equity transfer agreement and new financial services agreement (details of which were set out in the circular of the Company dated 25 April 2016) in the last two years.

We are independent from and not connected with the Group pursuant to Rule 13.84 of the Listing Rules and, accordingly, are qualified to advise the Independent Board Committee and the Independent Shareholders in respect of the Equity Transfer Agreement, New Financial Services Agreement and transactions contemplated thereunder. Apart from the normal advisory fee payable to us in connection with our appointment as the Independent Financial Adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

BASIS OF OUR OPINION

In formulating our opinion, we consider that we have reviewed sufficient and relevant information and documents and have taken reasonable steps as required under Rule 13.80 of the Listing Rules to reach an informed view and to provide a reasonable basis for our recommendation. We have relied on the information, statements, opinion and representations contained or referred to in the Circular and all information and representations which have been provided by the Company, the Directors and the management of the Company, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so at the date hereof. We have also assumed that all statements of belief, opinion and intention of the Directors as set out in the Letter from the Board contained in the Circular were reasonably made after due and careful inquiry. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information provided and referred to in the Circular.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no material facts and representations the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, or its subsidiaries or associates, nor have we carried out independent verification on the information supplied.

Our opinion is based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Equity Transfer Agreement, New Financial Services Agreement and transactions contemplated thereunder and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

BACKGROUND OF THE PARTIES

1. Information on the Group

Principal business of the Group

The Group is principally engaged in the business of mining, preparation, processing and sales of coal and coal chemicals. The Group's main products are steam coals for use in large-scale power plants, coking coals for metallurgical production and coals for use in pulverized coal injection.

Historical financial information on the Group

Set out below is a summary of the financial results of the Group for the years ended 31 December 2015 and 2016 as extracted from the Company's annual report for the year ended 31 December 2016 (the "**2016 Annual Report**").

	For the year ended 31 December	
	2016	**2015**
	RMB'000	*RMB'000*
	(Audited)	*(Audited)*
Revenue	33,272,432	36,404,086
Profit/(loss) before taxation	2,695,112	622,257
Profit/(loss) after taxation	1,878,204	132,620

	As at 31 December	
	2016	**2015**
	RMB'000	*RMB'000*
	(Audited)	*(Audited)*
Cash and bank deposits	16,422,769	20,175,120
Term deposits	2,445,000	2,995,066

(i) Operating results of the Group

During the year ended 31 December 2016, the Group's revenue amounted to approximately RMB33,272.4 million, representing a decrease of approximately RMB3,131.7 million or 8.6% as compared to the year ended 31 December 2015.

However, the net profit before taxation increased significantly from RMB622.3 million for the year ended 31 December 2015 to RMB2,695.1 million for the year ended 31 December 2016, mainly due to the increase in the gross margin of the coals produced by the Group as a result of the increase in the market price of coals in the PRC for the year ended 31 December 2016.

(ii) Financial position of the Group

As at 31 December 2016, the Group has an unsecured bank balance of approximately RMB16.4 billion (31 December 2015: approximately RMB20.2 billion), which are readily available for the settlement of the consideration for the acquisition of 65% of the equity interest in Yankuang Group Finance.

2. Information on Yankuang Group

Yankuang Group is a wholly state-owned corporation and principally engaged in the business of production and sales of coal, coal chemicals, coal aluminum, complete sets of electromechanical equipment manufacture and financial investment. As at the Latest Practicable Date, Yankuang Group is the controlling shareholder of the Company, holding directly and indirectly approximately 56.59% of the number of Shares in issue of the Company.

3. Information on Yankuang Group Finance

Principal business of Yankuang Group Finance

As stated in the Letter from the Board, Yankuang Group Finance is a non-banking financial institution legally established with the approval of the China Banking Regulatory Commission ("**CBRC**"), principally engaged in the provision of corporate financial services. As at the Latest Practicable Date, Yankuang Group Finance is owned by Yankuang Group, the Company and China Credit Trust Co., Ltd. with 70%, 25% and 5% of the total equity interest respectively.

The business scope of Yankuang Group Finance includes (i) provision of finance services and financing consultancy services, credit verification and related consultancy and agency services to member companies; (ii) provision of assistance to member companies in payment and receipt of transaction proceeds; (iii) provision of approved insurance agency services; (iv) provision of guarantees to member companies; (v) provision of entrusted loans and entrusted investments to member companies; (vi) provision of draft acceptance and discounting services to member companies; (vii) provision of intra-group transfer and settlement services to member companies and planning of clearing and settlement scheme; (viii) provision of deposit services to member companies; and (ix) provision of credit loans and finance lease to member companies; (x) provision of inter-bank loans; and (xi) other financial services approved by CBRC.

Historical financial information on Yankuang Group Finance

The following is a summary of the financial information on the Yankuang Group Finance as extracted from the audited financial statements for the years ended 31 December 2015 and 2016.

	For the year ended 31 December		
	2016	**2015**	**2014**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	*(Audited)*	*(Audited)*
Revenue	305,846	314,263	300,498
Net profit before taxation	199,932	228,244	177,060

	As at 31 December	
	2016	**2015**
	RMB'000	*RMB'000*
Bank deposits	3,762,791	3,529,558
Deposit services from customers	7,271,506	6,842,385
Loans services to customers	5,088,376	4,749,036

(i) Operating results for the year ended 31 December 2015

The revenue of Yankuang Group Finance increased by 4.6% to RMB314.3 million as compared to the year ended 31 December 2014, which mainly consists of interest income from loans of approximately RMB236.0 million and from inter-bank deposits and commissions of approximately RMB74.5 million. The net profit before taxation increased by approximately 28.9% to approximately RMB228.2 million as compared to the corresponding year, which was due to the decrease in the loss of change in fair value of its financial assets.

(ii) Operating results for the year ended 31 December 2016

The revenue recorded by Yankuang Group Finance for the year ended 31 December 2016 slightly decreased by approximately 2.7% to RMB305.8 million as compared to the year ended 31 December 2015, which mainly consists of interest income from loans of approximately RMB216.0 million and from inter-bank deposits and commissions of approximately RMB88.0 million. Accordingly, the net profit before taxation decreased to approximately RMB199.9 million for the year ended 31 December 2016, as compared to the corresponding period in 2015.

(iii) Financial position as at 31 December 2016

As at 31 December 2016, Yankuang Group Finance had deposits received from the member companies amounted to approximately RMB7,271.5 million, of which the inter-bank deposits of Yankuang Group Finance was approximately RMB3,762.8 million and the loans provided to member companies was approximately RMB5,088.4 million.

PRINCIPAL FACTORS AND REASONS CONSIDERED

(I) THE EQUITY TRSANSFER AGREEMENT

1. Principal terms of the Equity Transfer Agreement

On 28 April 2017, the Company and Yankuang Group entered into the Equity Transfer Agreement pursuant to which the Company has conditionally agreed to acquire, and Yankuang Group has conditionally agreed to sell, 65% of the equity interest in Yankuang Group Finance at the consideration of RMB1,124,227,500. The Company expects that the consideration will be satisfied in cash from internal resources.

2. Reasons for and benefits of the Acquisition

As discussed with the management of the Company, we have considered the following reasons for and the benefits of the Acquisition:

(i) the Acquisition would allow the Group to take advantage of Yankuang Group Finance to utilize and manage idle financial resources of the Group, which would:

(a) improve the effectiveness of the Group's treasury management. As stated under "Historical financial information on the Group", the cash balances of the Group amounted to RMB16.4 billion and RMB20.2 billion as at 31 December 2016 and 2015. Upon the completion of the Acquisition, Yankuang Group Finance will become a member of the Group and be authorized to utilize the Group's idle cash for its business to generate revenue for the Group in an effective way; and

(b) allow Yankuang Group Finance to support the development of the Group's coal business in a more comprehensive manner. The Coal production, as the principal business of the Group, is capital-intensive for the Group's operation. In this regard, Yankuang Group Finance may provide sufficient financial supporting to the Group's members in a timely and cost-effective manner to ensure (i) the smooth daily operation of the Group and (ii) the on-schedule commencement of new construction or mining projects in different regions, which will promote the cross-region and cross-industry development of the Group;

(ii) as stated in the section headed "Financial Information on Yankuang Group Finance" above, Yankuang Group has been recording a stable profit for the three years ended 31 December 2016. Upon the completion of the Acquisition, the financial results of Yankuang Group Finance will be consolidated into the Group's financial statements. As such, the Acquisition would immediately increase the profitability of the Group, which is in the interest of the Shareholders and the Company as a whole; and

(iii) the Group may develop its financial services business through Yankuang Group Finance by leveraging the strong financial resources of Yankuang Group Finance. By combining such financial resources, the management is of the view that Yankuang Group Finance may apply for relevant licenses from the regulatory authority in the PRC to provide more diversified financial services in the future to improve the Group's revenue stream.

As such, we concur with the Director's view that the Acquisition is in the interests of the company and the Independent shareholders as a whole.

3. Consideration

The consideration of RMB1,124,227,500 was arrived at after arm's length negotiations between the Company and Yankuang Group after taking into account of (i) the net asset value of the Yankuang Group Finance; and (ii) the appraised value of the Yankuang Group Finance as evaluated by an independent and qualified valuer.

Net asset value

According to the audited financial statements of Yankuang Group Finance for the year ended 31 December 2016, the audited net asset of Yankuang Group Finance as at 31 December 2016 was amounted to approximately RMB1,580.0 million. Therefore, the Acquisition of 65% of interest in Yankuang Group Finance would represent an audited net asset value of approximately RMB1,027.0 million. However, given the net asset value approach could not capture the earning potential of Yankuang Group Finance in the future, the Board is of the view and we concur that the valuation of the Yankuang Group Finance was used as the basis for the consideration.

Equity Transfer Agreement Valuation Report

We have reviewed the Equity Transfer Agreement Valuation Report issued by the Equity Transfer Agreement PRC Valuer, as an independent and qualified valuer. We note that the 100% equity interest of Yankuang Group Finance as at 31 December 2016 was RMB1,729,580,700.

Equity Transfer Agreement PRC Valuer

We note that the Equity Transfer Agreement PRC Valuer is a well-established firm engaged in the provision of asset appraisal services and technical advisory. In addition, the responsible persons of the Equity Transfer Agreement PRC Valuer in preparing and signing off the valuation report are holders of the professional qualification in financial analysis with numerous experiences in performing business valuation. Besides, the Equity Transfer Agreement PRC Valuer confirmed that it is an independent third party to the Company, Yankuang Group Finance and their respective associates. As such, we are of the view that the Equity Transfer Agreement PRC Valuer is independent and qualified to perform the valuation.

Methodology

We have discussed with the Equity Transfer Agreement PRC Valuer regarding the assumption made and methodology adopted for the valuation of Yankuang Group Finance. We understand that the Equity Transfer Agreement PRC Valuer has considered three valuation methodologies including the market approach, asset-based approach and income-based approach.

As advised by the Equity Transfer Agreement PRC Valuer that the Yankuang Group Finance mainly provides its service to the members of the Group and Yankuang Group, as a result, there are not sufficient comparable public acquisition transactions on companies with similar business model of Yankuang Group Finance. As such, the market approach would not be feasible to be adopted for the valuation. Accordingly, the Equity Transfer Agreement PRC Valuer compared the valuation result of the asset-based approach with the income-based approach.

To assess the application of the valuation methodologies based on the income-based approach and asset-based approach, we have reviewed the working documents of the valuation.

a. Income-based approach

Under the income approach, the appraisal value of 100% equity interest of Yankuang Group Finance represents the present worth of future economic benefits expected to be generated from Yankuang Group Finance. The Equity Transfer Agreement PRC Valuer has applied the discount cash flow method ("**DCF**") to discount the future free cash flow ("**FFCF**") of Yankuang Group Finance at a discount rate (i.e. capital asset pricing model ("**CAPM**") to reflect all business risks including intrinsic and extrinsic uncertainties in relation to Yankuang Group Finance.

In our assessment of the income-based approach valuation, we have reviewed the following key quantitative assumptions in the Equity Transfer Agreement Valuation Report:

(i) Forecasted revenue

Upon the completion of the Acquisition, the revenue of Yankuang Group Finance represented the interest income from loans to Yankuang Group and the Group. As stated in the Letter from the Board, the future revenue between the Group and Yankuang Group Finance were included in the forecasted revenue. The Equity Transfer Agreement PRC Valuer advised that the valuation under the adoption of the income-based approach should be prepared on the existing business model of the target when determining the value of individual business of the target. As such, when considering the business value of Yankuang Group Finance, the future revenue between the Group and Yankuang Group Finance should be included in the forecasted revenue in order to reflect the complete business model of the Yankuang Group Finance when it is operated at its own cost. Based on the above, we concur with the Directors' view that it is fair and reasonable to include future revenue between the Group and Yankuang Group Finance in the forecasted revenue.

We note that the Equity Transfer Agreement PRC Valuer has adopted the annual growth rate of 4.0%, being the historical average growth rate from the year 2012 to 2016 for the deposit taking from its customers. As advised by the Equity Transfer Agreement PRC Valuer, they have considered the growth rate of the gross domestic product ("GDP") of the PRC was positively correlated with the growth rate of the loans. According to the National Bureau of Statistics of China, the year-to-year growth rate of the GDP recorded for the PRC was 6.7% for the year 2016.

Based on the review on the Equity Transfer Agreement Valuation Report, we understand that the Equity Transfer Agreement PRC Valuer has adopted the average interest rate for the loans in the year 2016 by Yankuang Group Finance was 4.35%, which is in line with the latest benchmark one-year lending rate of 4.35% proposed by People' Bank of China on 31 December 2016. Besides, the Equity Transfer Agreement PRC Valuer has forecasted the interest income of Yankuang Group Finance for the five years ending 31 December 2020.

(ii) Forecasted cost of sales

The cost of sales represented the interest expenses for the deposit taking from Yankuang Group and the Group. As stated in the Letter from the Board, the future cost of sales between the Group and

Yankuang Group Finance was included in the forecasted cost of sales. The Equity Transfer Agreement PRC Valuer advised that the valuation under the adoption of the income-based approach should be prepared on the existing business model of the target when determining the value of individual business of the target. As such, when considering the business value of Yankuang Group Finance, the future cost of sales between the Group and Yankuang Group Finance should be included in the forecasted cost of sales in order to reflect the overall business model of the Yankuang Group Finance when it is operated at its own cost. Based on the above, we concur with Directors' view that it is fair and reasonable to include future revenue between the Group and Yankuang Group Finance in the forecasted cost of sales.

Based on the positive correlation of the PRC's GDP and the historical average growth rate of deposit taking of Yankuang Group Finance as mentioned above, the Equity Transfer Agreement PRC Valuer has adopted an annual growth rate of 4.0% for the deposit taking for the five years ending 31 December 2021. Accordingly, the Equity Transfer Agreement PRC Valuer has forecasted the interest expenses of Yankuang Group Finance for the five years ending 31 December 2021.

(iii) Discount rate

As advised by the Equity Transfer Agreement PRC Valuer, the cost of equity ("$\mathbf{r_e}$") is considered relevant to the valuation of Yankuang Group Finance as the regulatory requirements and return on equity is fundamental to financial institution. In estimating the r_e, the Equity Transfer Agreement PRC Valuer has adopted the CAPM which is a commonly used model to compute the cost of equity as discount rate. We understand from the Equity Transfer Agreement PRC Valuer that the equation of r_e is "$r_e = r_f + MRP \times \beta + r_c$", where

– "r_f" stands for risk free rate which is based on 10-year China government bond yield of 3.0115%.

– "β" or beta, represents the sensitivity of the expected excess asset returns on the expected excess market, which is calculated from the unlevered beta of comparable listed companies in similar industry in the PRC selected by the Equity Transfer Agreement PRC Valuer as at 31 December 2016. The Equity Transfer Agreement PRC Valuer has identified seven comparable publicly listed companies and adopted the average beta of 0.8733.

– MRP stands for market risk premium which is the pro rata of return required by equity investors beyond the risk free rate. The MRP rate adopted by the Equity Transfer Agreement PRC Valuer was 7.10%.

– "r_c" refers to the individual risk premium of the valued company. The Equity Transfer Agreement PRC Valuer has advised that the rate normally ranges from 1% to 2% for financial institutions. Given that Yankuang Group is a wholly state-owned company operating the diversified business, the risk is considered relatively low. As such, the Equity Transfer Agreement PRC Valuer has adopted a lower-end of 1%.

Based on the above calculation, the discount rate adopted by the Equity Transfer Agreement PRC Valuer was 10.21% in the Equity Transfer Agreement Valuation.

Besides, as stated in the Letter from the Board, the forecasted transaction between the Group and Yankuang Group Finance has been taken into account in the forecast. As the valuation was conducted to represent the market value of Yankuang Group Finance as at the valuation date to any potential acquirer on a rational and voluntary basis, the Equity Transfer Agreement PRC Valuer's forecast was based on the existing business of Yankuang Group as at the valuation date. As such, we consider that the adoption and application of the valuation methodology is justifiable.

Based on the factors above, we are of the view that the key quantitative assumptions adopted by the Equity Transfer Agreement PRC Valuer in the valuation were fair and reasonable. Accordingly, we consider that the calculation of FFCF applied by the Equity Transfer Agreement PRC Valuer is appropriate and the DCF methodology has been properly applied in the valuation.

b. Asset-based approach

The asset-based approach is a commonly utilized method in valuation, which considers the fundamental cost to reproduce the assets appraised in accordance with the current market prices of similar assets. As advised by the Equity Transfer Agreement PRC Valuer, in arriving the valuation, they have (a) reviewed Yankuang Group Finance's financial statements; (b) performed site visits; and (c) reviewed the supporting documents for the ownership of Yankuang Group Finance's major assets.

As stated in the Equity Transfer Agreement Valuation Report, the valuation of 100% equity interest of Yankuang Group Finance as at 31 December 2016 based on the asset-based approach was approximately

RMB1,579.6 million, which was lower than the book value of Yankuang Group Finance by approximately RMB432,200 or 0.03%. Based on the review, we understand that the decrease is attributable to the valuation adjustment of Yankuang Group Finance's fixed assets.

Given that Yankuang Group Finance is a financial institution where (i) the financial industry is not asset intensive; and (ii) the asset-based approach could not measure and capture the earning potential of Yankuang Group Finance in the future, the Equity Transfer Agreement PRC Valuer has adopted the income-based approach for the conclusion of the valuation that the 100% equity interest of Yankuang Group Finance as at 31 December 2016 at RMB1,729,580,700.

Having considered that (i) the independence, qualification and experience of the Equity Transfer Agreement PRC Valuer; (ii) the reason for the adoption of the valuation methodology for Yankuang Group Finance, we are of the view that the valuation conducted by the Equity Transfer Agreement PRC Valuer is fair and reasonable.

Therefore, taking into account that (i) the valuation of Yankuang Group Finance is fair and reasonable; (ii) the consideration represents 65% of the valuation of Yankuang Group Finance; and (iii) the consideration was arrived at after arm's length negotiations between the Company and Yankuang Group, we are of the view that the consideration is fair and reasonable, and in the interests of the Shareholders and the Company as a whole.

4. Payment terms

Pursuant to the terms of the Equity Transfer Agreement, the consideration shall be settled by cash on the completion day of the Acquisition. As stated in the Letter of the Board, the consideration will be funded from the Company's internal resources.

5. Financial effects on the Acquisition

Upon completion of the Acquisition, Yankuang Group Finance will become a non-wholly owned subsidiary of the Company and the financial results of Yankuang Group Finance will be consolidated into the financial statements of the Group. As discussed under "Financial on Yankuang Group Finance" above, Yankuang Group Finance has recorded net profits for the years ended 31 December 2015 and 2016. As such, we consider that the Acquisition is expected to have a positive financial impact on the Group's recurring earnings.

In view of the terms of the Equity Transfer Agreement, the consideration shall be settled by cash on the completion day of the Acquisition. As stated in the Board Letter, the consideration will be settled by cash from the Company's internal resources, which will result in a decrease in the Group's cash and bank balance.

(II) THE NEW FINANCIAL SERVICE AGREEMENT

Incidental to the Acquisition, on 28 April 2017, Yankuang Group Finance entered into the New Financial Services Agreement with Yankuang Group, pursuant to which the Yankuang Group Finance will provide a range of financial services to Yankuang Group for the three years ending 31 December 2019.

1. Pricing terms of the New Financial Service Agreement

Pursuant to the New Finance Service Agreement, the pricing terms for the comprehensive credit facility services by Yankuang Group Finance to Yankuang Group will be determined on the following basis:

(i) Loan services

The interest rate charged by Yankuang Group Finance on the loans to Yankuang Group is determined with reference to (a) the benchmark loan interest rates published from time to time by the People's Bank of China; and (b) the interest rates offered by the General Commercial Banks in the PRC to Yankuang Group and its member companies with similar terms of services.

(ii) Bill acceptance and discounting services

The acceptance commission and discount rate to Yankuang Group Members shall be charged by Yankuang Group Finance with reference to the prescribed rate promulgated by People's Bank of China or CBRC. In the event that there is no standard rate available, the bill acceptance commission and discount rate shall be determined on normal commercial terms with reference to the fees charged by the General Commercial Banks in the PRC for the same type of financial services.

The acceptance commission and discount rate provided by Yankuang Group Finance shall be no less favourable than those offered by the General Commercial Banks in the PRC.

(iii) Guarantee services

The service fee of guarantee services to Yankuang Group Members shall be charged by Yankuang Group Finance with reference to the prescribed rate promulgated by People's Bank of China or CBRC. In the event that there is no standard rate available, the service fee shall be determined on normal commercial terms with reference to the fees charged by the General Commercial Banks in the PRC for the same type of financial services.

The service fee of guarantee services provided by Yankuang Group Finance shall be no less favourable than those offered by the General Commercial Banks in the PRC with the same or similar services in the PRC.

Views

Having considered that the pricing terms of the comprehensive credit facility services shall be no less favourable than those offered by independent third parties for same financial services, we concur with the Directors that the terms of the New Financial Service Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

2. Reasons for and benefits of the New Financial Service Agreement

To justify the reasons for and benefits of the New Financial Service Agreement, we have considered the factors as below:

(i) As discussed under "Information on Yankuang Group Finance" above, Yankuang Group Finance has recorded net profits for prior years. Upon the completion of the Acquisition, Yankaung Group Finance will become a non-wholly owned subsidiary of the Company and the financial results of Yankuang Group Finance will be consolidated into the Company's financial statements, which will immediately improve the Group's profitability;

Yankuang Group is a wholly state-owned corporation that has strong financial resources, diversified business with a minimal loan default risk. The deposit from the Yankuang Group have represented a stable source of funding for Yankuang Group Finance, which allows Yankuang Group Finance to provide loans and other financial services to the Yankuang Group to generate interest and service fee income. These interest income and service fee income provides a stable source of revenue for the Group;

(ii) The annual caps for the deposit services are RMB9,400 million, RMB10,000 million and RMB10,700 million for the years ending 31 December 2017, 2018 and 2019 respectively, which are significantly higher than the proposed annual caps of comprehensive credit facility service of RMB7,100 million, RMB7,500 million and RMB8,000 million for the years ending 31 December 2017, 2018 and 2019 respectively. The management of the Company considers that the cash inflow from the deposit taking from Yankuang Group will outweigh the cash outflow of the loans provided to its member companies. As such, it is expected to have a positive impact on the cash position of the Group by entering into the New Financial Services Agreement, and subsequently the Group may utilize idle cash for the necessary daily operation and business development; and

(iii) Yankuang Group Finance has a stable corporation and strategic business relationship with Yankuang Group by providing deposit services, credit facility services and a wide range of financial services to Yankuang Group over many years. As a result, Yankuang Group Finance has been familiar with the business operation with Yankuang Group. As an intra-group service provider, it can also facilitate to improve the efficient financial services for the Yankuang Group.

Views

Based on the above assessment, we concur with the Directors that the New Financial Service Agreement and the transactions contemplated under are conducted in the ordinary and usual course of the business of the Group, and in the interest of the Shareholders and the Company as a whole.

3. Historical transaction amounts and proposed annual caps

In determining the proposed annual caps for the comprehensive credit facility services for the three years ending 31 December 2019, the Company has taken into account (i) the historical maximum loan balance provided to Yankuang Group by Yankuang Group Finance and (ii) the expected business growth and financing demand of Yankuang Group in the forthcoming years.

The table below sets out the actual transaction values for the transactions completed under the New Financial Services Agreement for the two years ended 31 December 2016 and three months ended 31 March 2017.

	Historical Transactions Amount		
	For the year ended 31 December		**For the three months ended 31 March**
	2015	**2016**	**2017**
	RMB'000	*RMB'000*	*RMB'000*
	(Audited)	*(Audited)*	*(Unaudited)*
Comprehensive credit facility services			
– Loan services (maximum daily balance including accrued interest)	4,651,000	5,005,000	5,005,000
– Bill acceptance and discounting services	337,000	622,000	781,000
– Guarantee services	41,000	41,000	41,000
	5,029,000	5,668,000	5,827,000

	Proposed Annual Caps For the year ending 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Comprehensive credit facility services	7,100,000	7,500,000	8,000,000

To assess the proposed annual caps of the comprehensive credit facility service of RMB7,100 million, RMB7,500 million and RMB8,000 million for the years ending 31 December 2017, 2018 and 2019 respectively, we have considered the following factors:

(a) Pursuant to the New Financial Services Agreement, the maximum daily balance (including accrued interest) of deposit services provided by Yankuang Group Finance shall not exceed RMB9,400 million, RMB10,000 million and RMB10,700 million for the year ending 31 December 2017, 2018 and 2019 respectively. With reference to the loan-to-deposit ratio of 75% proposed by CBRC, the Yankuang Group Finance and Yankuang Group estimated that the maximum daily balance (including accrued interest) of comprehensive credit facility services provided by Yankuang Group Finance will be RMB7,100 million, RMB7,500 million and RMB8,000 million for the year ending 31 December 2017, 2018 and 2019 respectively.

(b) As stated in the 13th Five-Year Plan ("十三五"規劃) issued by the National Development and Reform Commission, a number of projects, including the nationwide railway construction and infrastructure construction, hydropower and nuclear power transmission, will be launched during 2016 to 2020. Those massive projects to be carried out in China will result in a foreseeable increase in the consumption of raw materials for the construction, including the steels. Given the coking coal as a necessity to be applied in the steel manufacturing, the consumption of coking coal in the PRC is expected to increase accordingly. Yankuang Group as a major coking coal supplier in the PRC market will be benefited from the increase.

(c) According to a report published by Nation Energy Administration of the PRC（中國國家能源局）on its website, the development of coal-to-liquids ("**CTL**") technology is a significant strategy to meet the increasing demand of energy in the PRC. The potential demand of CTL in the PRC is estimated to be approximately 20 million tons at the end of the 13th Five-Year Plan. As such, Yankuang Group has planned to increase the investment of up to RMB20 billion in the stage one of its GTL project, as the major project of Yankuang Group for the years from 2017 to 2019. In this regard, Yankuang Group has also planned to demand for more loan financing and bill acceptance and discounting services from Yankuang Group Finance to facilitate its CTL business development. As a result, we are of the view that it is fair and reasonable that the expected business growth of Yankuang Group will result in a higher financing demand from Yankuang Group Finance.

Based on the factors and reasons above, and after taking into account that the annual caps of deposit services from Yankuang Group of RMB9,400 million, RMB10,000 million and RMB10,700 million are significantly higher than the proposed annual caps of the comprehensive credit facility services for the three years ending 31 December 2017, 2018 and 2019 under the New Financial Services Agreement, the Directors are of the view and we concur that the proposed caps for the comprehensive credit facility services are fair and reasonable so far as the Independent Shareholders are concerned.

4. Internal control procedures

As stated in Letter from the Board, Yankaung Group Finance has a set of internal control in place to ensure the continuing connected transactions will be conducted in accordance with the terms provided under the New Financial Services Agreement including but not limited to the followings:

(1) The financing plan department of Yankuang Group Finance will (a) update the relevant interest rates in relation to similar deposit and comprehensive credit facility services when being informed by the People's Bank of China for any changes in such interest rates; (b) update the standard fees for similar financial services when being informed by the People's Bank of China or the CBRC (if applicable) for any changes in such standard fees; (c) directly collect, on a weekly basis, the relevant interest rates offered by at least two General Commercial Banks in the PRC which operate at the same or nearby area for deposit and similar comprehensive credit facility services; and (d) directly collect, on a weekly basis, the service fees charged by at least two General Commercial Banks in the PRC which operate at the same or nearby area for similar financial services;

(2) Prior to each financial service provided to Yankuang Group, the price management committee, consisting of the management of Yankuang Group Finance, will review and compare the interest rates or services fees collected by the financing plan department. As such, the price management committee will (i) make sure the pricing policies as described above are properly complied with, and (ii) approve the final interest rates or services fess provided to Yankuang Group;

(3) The audit committee of the Company will quarterly review the continuing connected transactions between Yankuang Group Finance and Yankuang Group;

(4) According to the New Financial Services Agreement, if Yankuang Group Members have not repaid the loan within 10 working days from receiving the written repayment notice from Yankuang Group Finance, Yankuang Group Finance would be able to convert directly the corresponding amounts of deposits of such Yankuang Group Member with Yankuang Group Finance as the repayment of principal of such loan together with interest.

Furthermore, if the subsidiaries of Yankuang Group have funding difficulties in repaying the principal of loan of Yankuang Group Finance or the interests, Yankuang Group shall undertake the joint liability for repayment of the principal of such loan together with interest;

(5) Yankuang Group Finance has established an aggregation of 151 systems in business and internal risk control, such as Administrative Measures for Settlement Business, Administrative Measures for Member Companies Deposit, Administrative Measures for Comprehensive Risk, to ensure that all operations are complied with rules;

(6) To improve the information transparency, Yankuang Group Finance has been reporting the key operating indicators and financial statements to China National Association of Finance Companies (中國財務公司協會, the "**CNAFC**") on monthly, quarterly and annual basis. Meanwhile, CNAFC periodically publishes the basic operating data for the finance companies sector on its official website, and announces the operating indicators and rankings of finance companies to its members. Furthermore, pursuant to the regulatory requirements of the CBRC and the People's Bank of China, Yankuang Group Finance is required to submit the financial statements to the regulators on a monthly basis. After the Closing Date, the Company will separately disclose the quarterly balance sheet and income statement of Yankuang Group Finance, and the operating summary of Yankuang Group Finance in its regular reports; and

(7) Upon closing, under the premise of meeting regulatory requirements, the Company will appoint an additional director for Yankuang Group Finance.

Based on the above, we have reviewed the risk assessment and approval report regarding the application for the financing services provided by the Yankaung Group Finance, and we are of the view that the internal control procedures disclosed above were followed by Yankuang Group Finance under the financing service transactions. In addition, we are advised by the management that Yankuang Group Finance will continue to follow those internal control procedures under the New Financial Service Agreement.

As such, we concur with the view of the Directors that the internal control measures are sufficient to safeguard the connected transactions under the New Financial Services Agreement.

5. Risk associated with the continuing connected transaction and risk management

As Yankuang Group Finance is a non-banking financial institution and its customers are limited to the Group and Yankuang Group only, Yankuang Group Finance may have a higher customer concentration risk than General Commercial Banks, whose customers are open to public. As a result, the default of any one of its customer may cause a greater negative impact to Yankuang Group Finance as compared to the default of any one of General Commercial Banks' customers. However, as an associate of the Yankuang Group, we understand that Yankuang Group Finance is able to access sufficient information, in particular the details of financial position, to conduct a credit assessment for the members of the Yankuang Group in advance to determine whether to grant a loan to loan applicants. Besides, the interest rate of such loans may vary for different member companies as a result of the assessment of credit risk. As a result, the default risk of customers is mitigated.

Based on the information available in the website of China Foreign Exchange Trade System & National Interbank Funding Center, the latest corporate credit rating of Yankaung Group is "AAA", which indicated its strong capacity to meet financial commitments and therefore the risk of default is minimal.

Having considered that:

(i) Yankuang Group Finance is able to gain access to the details of financial positions of its customers;

(ii) Yankuang Group Finance has implemented a series of comprehensive internal control procedures to assess the credit risk of the customers before approving the application; and

(iii) The audit committee of the Company and the senior management of Yankuang Group Finance will conduct relevant review on the financial position of the customers quarterly and before the grant of any loans to Yankuang Group,

we concur with the view of the Board that the risk of the Group of entering into the New Financial Services Agreement is minimal.

RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we are of the view that:

(a) the terms and conditions under the Equity Transfer Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole even though they are not conducted in the ordinary and usual course of business of the Group; and

(b) the terms and conditions under the New Financial Services Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole and in the ordinary and usual course of business of the Group upon the completion of the Acquisition.

Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders, and we also recommend the Independent Shareholders, to vote in favour of the ordinary resolution(s) to be proposed at the AGM to approve the Equity Transfer Agreement and New Financial Services Agreement.

Yours faithfully,
For and on behalf of
Donvex Capital Limited
Vily Leung
Director

Ms. Vily Leung is a person licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO and is a responsible officer of Donvex Capital Limited who has over 8 years of experience in corporate finance industry.

I. OVERVIEW

C&A is a leading Australian producer of high quality thermal coal and semi-soft coking coal, indirectly owning majority interests in three coal mine operations, namely Hunter Valley Operations ("HVO"), Mount Thorley and Warkworth (together, "MTW") and associated assets. HVO and MTW are operated under a series of mining and exploration licenses, see "VI. Other Matters Concerning the Target Company Group – B. Operation permits for the Target Company Group required under the laws of Australia" below. Coal mining operations are carried out in HVO and MTW via conventional, large scale, open pit mining methods as coal appears in multiple near surface, highly continuous seams (on average 30 degree dipping). Run of mine coal is washed and sorted at the coal handling process plants on site, and then directly loaded on trains via rail link to the deep water port of Newcastle, which is approximately 100 kilometres from HVO and MTW.

HVO is an open cut mine located 24 kilometres north west of Singleton in the Hunter Valley Basin, which covers an area of approximately 11,000 hectares. HVO is operated as an unincorporated joint venture. It is currently owned by C&A as to 67.6% and by HVOR as to 32.4%. The major products of HVO comprise thermal coal and semi-soft coking coal. HVO has underground operation potential.

MTW comprises two open cut mines, namely Mount Thorley and Warkworth, located 14 kilometres north west of Singleton in the Hunter Valley Basin, which covers an aggregated area of approximately 6,000 hectares. MTW has been operating as a combined operation of Mount Thorley Co-Venture and the Warkworth Joint Venture since 2004. Mount Thorley Co-Venture is owned by C&A as to 80% and POSCO as to 20%, while Warkworth Joint Venture is owned by C&A as to 55.6%, HVOR as to 28.9%, Mitsubishi Material as to 6.0% and Nippon Steel as to 9.5%. C&A manages Mount Thorley Co-Venture and Warkworth Joint Venture as one integrated operation pursuant to an operational integration agreement (the "OIA") entered into among participants of Mount Thorley Co-Venture and Warkworth Joint Venture on 4 March 2004 (as amended by a deed of amendment dated 24 March 2010 and a contribution and amend agreement dated 12 December 2014). According to the OIA, exported coal can be produced from either area (subject to a commitment to extract a minimum proportion of coal from the areas of each joint venture) and is allocated between the two joint ventures based on a tonnage commitment ratio, which has been 65% for Warkworth and 35% for Mount Thorley since the date of the OIA. As a result, C&A is entitled to receive 64.1% of total production from the combined MTW operation based on its interests in both the Warkworth Joint Venture and Mount Thorley Co-Venture. The major products of MTW are thermal coal and semi-soft coking coal. MTW has potential for the development of an underground longwall expansion to support continued use of site infrastructure.

In 2016, HVO produced approximately 13.6 million tonnes of product coal, from 18 million tonnes of ROM coal, while MTW produced approximately 12.3 million tonnes of product coal from 18.1 million tonnes ROM coal.

II. HISTORY OF COAL MINE ASSETS

A. Exploration History

The Coal Mine Assets have a long history of systematic exploration which has included geological mapping, geophysical and geochemical surveys as well as a large amount of surface diamond and open hole drill holes.

Prior to the acquisition and aggregation of the operations by C&A, several companies completed exploration works in MTW which include the following:

- Exploration in MTW commenced in 1949 by the Joint Coal Board (JCB) which completed a series of shallow percussion boreholes. It was not until 1976 that development of the Warkworth Mining Limited (WML) and Mount Thorley Operations (MTO) areas was considered in earnest.
- 1960's: Clutha Bargo explored the Whybrow Seam for coking coal potential.
- 1970-1975: Department of Mines conducts fully cored hole drilling program (DM Warkworth and DM Doyles Creek series).
- 1976: Warkworth Consortium formed (later established as WML) and awarded mining bid for Warkworth area. Commenced exploration program with 12 rigs drilling fully cored, HQ-size holes and large diameter (LD) core drilling in selected seams.
- 1976: Drilling program started at the Mt Thorley site – similar to Warkworth drilling program. Main concentration of drilling was in the shallower, eastern parts of the lease.
- 1980s & 1990s: The main focus at Warkworth was open-hole drilling. Mt Thorley increased open hole drilling in advance of production, and made a concerted effort at core drilling during the 1990s.

HVO is an amalgamation of three previously independent mining operations, namely: Howick, Hunter Valley, and Lemington. Each mine was developed at different times and was subject to different exploration philosophies and exploration work. Some of the initial exploration work is summarised below:

- Howick open-cut (west pit) – exploration initiated in the 1940s and 1950s completed by the Joint Coal Board and the Bureau of Mineral Resources. Drilling to 200m-300m spacing for cored holes and 50m-150m spacing for open holes.
- Hunter Valley No.1 & 2 mines – exploration initiated in the 1960s and early 1970s by the New South Wales (NSW) Department of Mines. Drilling to 212m spacing for cored holes and 100m spacing for open holes.

- Lemington South open-cut and underground mines – exploration initiated in the 1970s by the Joint Coal Board. Drilling to 200m– 800m spacing for cored holes.

B. Mining History

The Coal Assets are an amalgamation of five coal mining operations which combined have been in production for over 45 years via various large scale open pits and small bord and pillar underground operations at Lemington.

HVO comprises the Howick, Hunter Valley and Lemington Assets which include the following:

- The Lemington Mine, which began production in 1971, was acquired and merged into HVO in 2001.

- Coal production began at the Howick Coal Mine in 1968 in what is known as the West Pit at HVO. In 2000 the Howick Coal Mine became part of Rio Tinto's Hunter Valley Operations as a result of the merger with Hunter Valley Mines.

- The Hunter Valley No. 1 Mine began production in 1979.

In 2000, C&A merged the Howick and Hunter Valley mines to create the Hunter Valley Operations. The Lemington mine was acquired and merged into Hunter Valley Operations in 2001.

MTW comprises the Mt Thorley and Warkworth Assets and includes the following:

- Mount Thorley has been in operation since 1981, and after a business restructuring of mining company W. Miller, Coal & Allied became managers of the mine in 1989.

- Warkworth Mining began operations in the same year as Mount Thorley in 1981, and in 2001 Coal & Allied purchased an interest in the mine. In January 2004, the two mines were integrated to improve efficiency by operating as one business.

The table below sets for the current mining operation in HVO and MTW:

Operation	Coal Type	Unit	2014	2015	2016*
HVO	**Prime waste**	**KBCM**	93,387	104,337	88,272
	Rehandle waste	**KBCM**	13,330	10,399	12,231
	ROM Coal	**kt**	17,989	17,157	15,119
	Coal Processed	**kt**	17,977	17,297	14,986
	Semi Soft Coking Coal	**kt**	**1,901**	**2,966**	**3,125**
	Thermal Coal	**kt**	**12,245**	**10,048**	**8,239**
MTW	**Overburden**	**kt**	98,019	103,156	80,054
	Rehandle waste	**KBCM**	34,371	29,912	31,728
	ROM Coal	**kt**	17,693	17,052	15,258
	Coal Processed	**kt**	17,159	17,159	17,159
	Semi Soft Coking Coal	**kt**	**2,886**	**2,277**	**1,892**
	Thermal Coal	**kt**	**9,044**	**9,587**	**8,487**

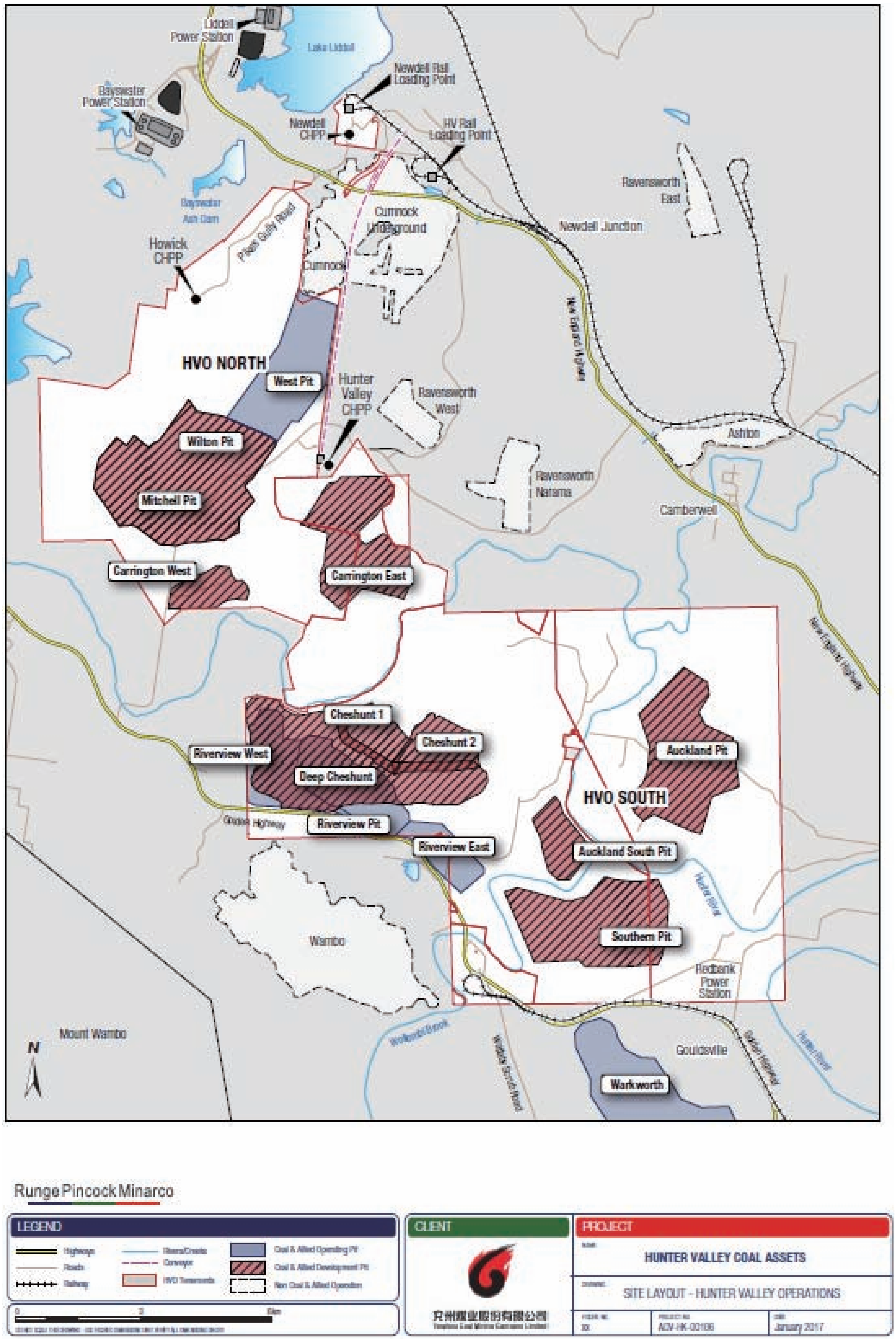
* As of End of October.
** on a 100% basis

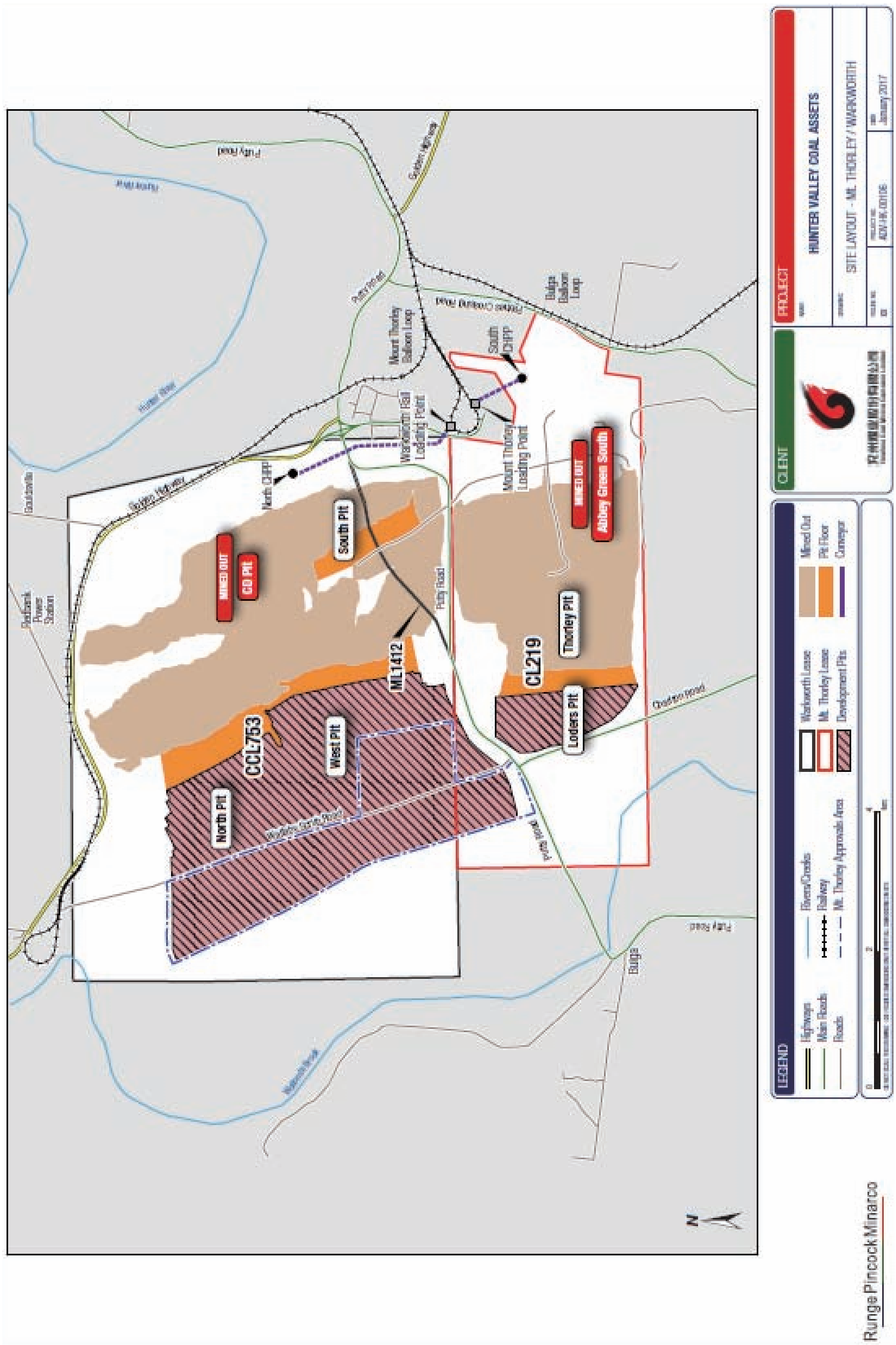
III. FURTHER INFORMATION OF COAL MINE ASSETS

A. Location and Access of Coal Mine Asset

The Coal Mine Assets are located in adjacent landholdings in the Hunter Valley region of NSW, and approximated 150 kilometres north of Sydney, Australia and 90 kilometres from Newcastle, Australia. HVO is centred 24 kilometres northwest of the regional town of Singleton, while MTW is centred approximately 14 kilometres south east of Singleton. Both HVO and MTW are accessible by a network of excellent quality regional roads from Singleton and further via national highway to port areas at Newcastle the major city of Sydney.

Below map indicates the general location of the Coal Mine Assets:





HUNTER VALLEY COAL ASSETS
SITE LAYOUT - MT. THORLEY / WARKWORTH
PROJECT
CLIENT
LEGEND
Highways
Main Roads
Roads
Rivers/Creeks
Railway
Mt. Thorley Approvals Area
Warkworth Lease
Mt. Thorley Lease
Development Pits
Mined Out
Pit Floor
Conveyor
January 2017
North Pit
West Pit
CCL753
ML1412
CL219
Thorley Pit
Loders Pit
South Pit
CD Pit
MINED OUT
Abbey Green South
North CHPP
South CHPP
Warkworth Rail Loading Point
Mount Thorley Loading Point
Mount Thorley Balloon Loop
Bulga Balloon Loop
Putty Road
Golden Highway
Hunter River
Bulga
RungePincock Minarco

B. Reserves and Resources of Coal Mine Assets

According to the Competent Person's Report, it is estimated that the total coal reserve of the Coal Mine Assets, estimated on a 100% basis, is approximately 1,172 million tonnes, which consists of 824 million tonnes in HVO and 348 million tonnes in MTW. HVO will have a life of mine of approximately 44 years, during which the average stripping ratio is 5.8 bank cubic metres of prime waste per tonne of ROM coal, while MTW will have a life of mine of over 24 years, during which the average stripping ratio is 6.5 bank cubic metres of prime waste per tonne of ROM coal.

"Coal Reserve" is defined in the JORC Code as the economically mineable part of a Measured and/or Indicated Coal Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. According to the Competent Person's Report, the table below sets forth the coal reserve estimate of the Coal Mine Assets as at 31 December 2016:

Reserves	Project	Proved (Mt)	Probable (Mt)	Total (Mt)
Coal Reserves	HVO	359	465	**824**
	MTW	149	199	**348**
Marketable Reserves	HVO	247	327	**574**
	MTW	104	139	**243**

Notes:

1. Coal reserve are reported on a 100% basis.

"Mineral Resource" is defined in the JORC Code as a concentration or occurrence of solid material of economic interest in or on the Earth's crust in such form, grade (or quality) that there are reasonable prospects for eventual economic extraction. According to the Competent Person's Report, the table below sets forth the coal resource estimate of the Coal Mine Assets as at 31 December 2016:

Operation	Type	Area	Measured (Mt)	Indicated (Mt)	Inferred (Mt)	Total (Mt)
MTW	**Open Cut**	**Warkworth**	215	500	404	1,119
		Mt Thorley	32	50	99	181
	Underground	**Warkworth**		215	124	339
		Mt Thorley	0	25	54	79
	Combined		**248**	**790**	**681**	**1,718**
HVO	**Open Cut**	**Jerry Plains Subgroup**	567	982	571	2,120
		Vane Subgroup	154	430	2,085	2,669
	Underground	**Arties Subgroup**			35	35
		Barret Subgroup			82	82
	Combined		**721**	**1,412**	**2,773**	**4,906**

Note:

1. Coal resource estimates are not precise calculations, being dependent on the interpretation of limited information on the location, shape and continuity of the occurrence and on the available sampling results. The totals contained in the above table have been rounded to reflect the relative uncertainty of the estimate. Rounding may cause some computational discrepancies.

2. Coal Resources are reported in accordance with JORC Code.

3. Coal resources are reported on a 100% basis.

C. Geology

The Coal Mine Assets are located in the Hunter Valley region on the central coast of New South Wales, which is commonly known as the Hunter Valley. This area extends approximately 120 kilometres to 310 kilometres north of Sydney, Australia, with the landforms dominated by the major regional Hunter River and its tributaries with highland areas to the north and south. The Hunter Valley is one of the largest river valleys on the NSW coast, and has rolling hills incised by river and creek systems.

D. Availability and Sources

In addition to the open pit mining and the surface processing plant and office infrastructure, there is significant regional and local infrastructure providing support to the operations and productions of C&A in HVO and MTW. The area has suitable power, water and transport logistics connecting the Coal Mine Assets to international markets to support the production of coal in HVO and MTW. The Coal Mine Assets are located close to well established good quality highways and rail infrastructure, water sources and regional towns which provide accommodation and support services for the mining operation and its personnel.

Water required for the operations is sourced by various methods, including wells and surface sumps and the Hunter River nearby. As such numerous water rights permits are required for the Assets. All permits are current in good standing to support current production.

E. Mining Operation

The mining operation in HVO commenced in the 1960s while the mining operations in MTW commenced in the 1980s. Both have continued to the present via conventional large scale dragline and truck and shovel methods. Multiple pits are currently active with each operation allowing flexibility to optimize the product blends and mining fleets to de-risk mining activities.

HVO currently produces thermal and semi-soft coking coal via five pits and produced approximately 13.6 million tonnes of product coal from 18 million tonnes of ROM coal in 2016. Mining activities are geographically divided into the HVO North and the HVO South areas, and are optimized as part of the overall blending strategy. Currently HVO has two coal processing plant, namely Hunter Valley Coal Processing Plant and Howick Coal Processing Plant, which have a combined throughput capacity of 20 million tonnes per annum. After ROM coal is exploited from the pits, they are hauled to either one of the processing plants for washing and sorting. After processing, product coal is transferred to rail loading point by haul truck from the Howick Coal Processing Plant or by conveyor from Hunter Valley Coal Processing Plant. Product coal is further blended at the rail loading points via conveyors to further optimize the quality of the products, meet the customers' specifications and add value to the products. Final products are transported via railways for 107 kilometres to the port facility in Newcastle for export.

MTW produces thermal coal and semi-soft coking coal from four active pits. Similar to HVO, MTW is separated geographically into two areas, southern Mount Thorley and the northern Warkworth areas. MTW has two plants, namely Mount Thorley Coal Processing Plant and Warkworth Coal Processing Plant, with a combined throughput capacity of 18.6 million tonnes of ROM coal. In 2016, MTW produced approximately 12.3 million tonnes of product coal. Thermal ROM coal is directly fed into the Warkworth Coal Processing Plant, whilst semi-soft coking coal is trucked to Mount Thorley Coal Processing Plant as it consists a bi-product washing facility which is able to produce semi-soft coking coal and high ash thermal coal from a single seam. The coal products are conveyed from the plant to the rail loading point of Mount Thorley. Like in HVO, product coal is further blended prior to transport for 82 kilometres via railway to the Newcastle port.

F. Financial Information

The net profits (both before and after taxation) attributable to the Target for the three years ended 31 December 2016 and the asset value of the Target as at the ended of each relevant period are set out below:

	For the year ended 31 December/As at 31 December		
	2014	**2015**	**2016**
	(AUD million)	*(AUD million)*	*(AUD million)*
Profit before tax	176.7	241.3	723.4
Profit after tax	88.8	283.8	396.9
Net asset value	1,678.9	1,866.9	1,311.9

G. Royalty Agreement

Certain subsidiaries wholly-owned by C&A which are participants holding interests in the HVO Joint Venture and the MTW joint ventures will each enter into the Royalty Deeds with ACH. Please see the section headed "Letter from the Board – 2.12 Other Agreement – Royalty Deeds" for more details.

IV. NO MATERIAL ADVERSE CHANGE

The Competent Person has confirmed that no material adverse change has occurred since the effective date of the Competent Person's Report.

V. NO LEGAL CLAIMS OR PROCEEDINGS

As at the Latest Practicable Date, except as disclosed in "Further Information on the C&A Target Company Group – D. Non-compliance incidents which may have a material adverse impact" under this Appendix, no legal claims or proceedings that may have a material influence on the exploration and operation of the Target Company Group are known to the Directors to be present, on-going, pending or threatened by any third party against the Target Company Group or vice versa.

In addition, as at the Latest Practicable Date, except as disclosed in "Further Information on the C&A Target Company Group – C. Environmental and social issues", there are no land claims of material importance known to the Directors that may exist over the land on which exploration or mining activity of the Target Company Group is being carried out.

VI. OTHER MATTERS CONCERNING THE TARGET COMPANY GROUP

A. Market Overview

The primary market for C&A's thermal coal products are in Japan, Korea, Taiwan and South East Asia. The customers in Japan, Korea and Taiwan, including power generation facilities, normally seek high energy, low ash coal to enhance the efficiency of its boiler and reduce the ash disposal. The semi-soft coking coal products of C&A are primarily sold to steel mills in North Asia for their coking coal blends.

B. Operational permits of the Target Company Group required under the laws of Australia

To develop and operate a coal mine in New South Wales, the following primary approvals are required:

- a planning approval (Development Consent) granted under the (NSW) Environmental Planning and Assessment Act 1979;
- a Mining Lease/s granted under the (NSW) Mining Act 1992; and
- an Environment Protection Licence issued under the (NSW) Protection of the Environment Operations Act 1997.

An approval granted under the (Commonwealth) Environment Protection and Biodiversity Conservation Act 1999 may also be required where it is determined there is likely to be a significant impact on a matter of national environmental significance.

All primary environmental permits are in place for the current mining areas at HVO and MTW. These operations also hold other minor permits, licences, leases and easements that allow them to operate under the relevant laws, such as water extraction licences. The table below sets forth the major mining and exploration licenses and authorizations for the operation in HVO and MTW:

Mining and exploration tenements under the (NSW) Mining Act 1992 are subject to periodic renewal. Whilst there can be no guarantee that a mining or exploration tenement will be renewed, or that the area of land over which the tenement renewed remains the same, the Directors are not aware of any issues that would compromise the likelihood of a Tenement being renewed in full.

Other licences and permits are subject to regular review and renewal, and additional conditions and/or operational requirements can be imposed.

The table below sets for the mining and exploration rights held by HVO and MTW:

HVO Tenement	Expiry Date	MTW Tenement	Expiry Date
Mining Leases (ML)/Coal Mining Leases (CML)			
ML 1324	19 August 2014	ML 1590	26 February 2028
ML 1337	9 September 2014	ML 1412	10 January 2018
ML 1359	1 November 2015	ML 1547[1]	4 April 2025
ML 1406	10 February 2027		
ML 1428	14 April 2019		
ML 1465	21 February 2021		
ML 1474	23 November 2021		
ML 1482	14 April 2019		
ML 1500	20 December 2022		
ML 1526	2 December 2023		
ML 1560	27 January 2026		
ML 1589	1 November 2027		
ML 1622	10 March 2027		
ML 1634	31 July 2030		
ML 1682	16 December 2033		
ML 1704	5 December 2035		
ML 1705	17 December 2035		
ML 1706	9 December 2035		
ML 1707	9 December 2035		
ML 1732	6 April 2037		
CML 4	3 June 2033		
Coal Leases (CL)/Consolidated Coal Leases (CCL)			
CL 398	4 June 2034	CL 219	23 September 2023
CL 327	6 March 2031	CCL 753	17 February 2023
CL0360	29 May 2032		
CL0359	21 May 2032		
CL0 378[1]	10 March 2027		
CL0584	31 December 2023		
CCL 708[1]	30 December 2023		
CCL 714	30 August 2030		
CCL 755	5 March 2030		
Mining Lease Applications (MLA)			
MLA 468	24 January 2014[2]	MLA 352	2 June 2010[2]
MLA 501	10 July 2015[2]	MLA 353	2 June 2010[2]
MLA 495	12 May 2015[2]		
MLA 496	12 May 2015[2]		
MLA 488	10 March 2015[2]		
MLA 489	10 March 2015[2]		
MLA 520	23 December 2015[2]		

HVO Tenement	Expiry Date	MTW Tenement	Expiry Date
Exploration Licences (EL)/Authorisations (AUTH)/Assessment Leases (AL)			
ML 1324	18 August 2014[2]	MLA 352	2 June 2010[2]
ML 1337	9 September 2014[2]	MLA 353	2 June 2010[2]
EL 5292	27 April 2015[2]	MLA 352	2 June 2010[2]
EL 5417	8 May 2015[2]		
EL 5291	23 September 2015[2]		
ML 1359	31 October 2015[2]		
Auth 72	24 March 2018[2]		
EL 8175	22 September 2018[2]	MLA 352	2 June 2010[2]
ML 1428	14 April 2019		
ML 1482	14 April 2019		
EL 5606	10 August 2019		
ML 1465	12 February 2021		
ML 1474	23 November 2021		
ML 1500	20 December 2022		
ML 1526	2 December 2023		
Part CCL 708	29 December 2023		
CL 584	31 December 2023		
EL 5418	8 May 2017		

1 Partially owned tenements.
2 Application date.

C. Environment and Social Issues

All of the operations of C&A are subject to stringent environmental laws and regulations due to the nature of coal mining activities, and the associated by-products, residues and tailings generated from these processes.

Environmental regulation of mining activities in New South Wales imposes significant obligations on mining companies in relation to pollution control during mining operations and rehabilitation on completion of mining. Mining activities are subject to regular inspections and audits by independent third parties and government regulatory bodies.

Mining operations are required to maintain regular dialogue with the communities in which they operate. All of the C&A's operations have established procedures to receive and handle community complaints in a transparent fashion.

Between 2011 and 2012, a number of complaints were received by MTW, which were mostly in relation to the noise created during the production. The residents of Bulga, a town in the nearby region, were the primary source of complaints, with the Bulga Millbrook Progress Association playing a key role. Following the increase in complaints, three community liaison officers were employed and additional noise monitoring equipment was installed. The noise monitoring equipment is used as an early warning mechanism and the operations are shut down if the early warning indicates that noise breaches will occur at nearby residences. Although the complaints decreased afterwards, it remains as an ongoing concern of C&A, particularly from the Bulga community, which requires careful management. In addition, C&A has well-established social investment programs, which distributes approximately AUD1 million to community organisations annually. There is likely to be an expectation amongst stakeholders that this level of investment continues.

New South Wales and Commonwealth legislation allows for the protection of aboriginal cultural heritage and sites that are significant to aboriginal custom and tradition. C&A proactively works with government regulators and local aboriginal communities to manage its impacts on cultural heritage. A review (the "**Review**") of risks and exposure associated with native title and aboriginal land claims was conducted in June 2016. The Review identified that native title has not been extinguished for some areas (including land, water ways and access roads) at the Coal Mine Assets, as such the native title may still exist. In additional, small areas at the Coal Mine Assets are also subject to incomplete aboriginal land claims. According to the Competent Person's Report, the majority of the Coal Mine Assets holdings are not covered by the native title issues and any outstanding areas and claims do not impact the current mine plan.

D. Non-compliance incidents which may have a material adverse impact

On 24 December 2015, C&A notified the Commonwealth Department of the Environment that 16.5 hectares of a critically endangered ecological community (Central Hunter Valley eucalypt forest and woodland ecological community) (**CHVEF**) was inadvertently cleared without the relevant approvals under the (Commonwealth) *Environment Protection and Biodiversity Conservation Act 1999*. C&A subsequently sought and obtained the relevant approvals under that act for future clearing of CHVEF. However, those approvals do not operate retrospectively, as a result, C&A may be subject to an enforceable undertaking, offence or penalty as a result of this matter once the Commonwealth Department of the Environment's finalises its investigation. As at the Latest Practicable Date, the investigation of the Commonwealth Department of the Environment was still undergoing and C&A is not aware of any enforcement action taken by the Commonwealth Department of the Environment.

On 15 December 2016 the Environment Protection Authority (New South Wales) commenced a prosecution against Warkworth Mining Limited for an alleged breach of section 64 of the (NSW) Protection of the Environment Operations Act 1997 (breach of a licence condition, being the failure to carry out activities in a competent manner) relating to the partial failure of a temporary sediment dam wall at MTW and the uncontrolled release of water from the dam. Warkworth Mining Limited is a joint venture company owned by each of the Warkworth Joint Venture participants in proportion to their respective joint venture shares. The company is the statutory operator of the Warkworth mine and holds the mining tenements. As operator, the Environment Protection Authority (New South Wales) would issues notices to this entity, and as such, any liability would be borne by this entity. It is difficult to estimate the potential liability at this time. However, the maximum penalty for a breach of

Section 64 of the Act, in the case of a corporation, is AUD1,000,000 and, in the case of a continuing offence, a further penalty of AUD120,000 for each day the offence continues. As of the Latest Practicable Date, the prosecution is ongoing.

The Environment Protection Authority (New South Wales) issued a 'show cause' letter in relation to an alleged discharge of saline water from a pump located on HVO on 7 December 2016. This 'show cause' letter invited Warkworth Mining Limited to provide an explanation for the alleged breach. It provides Warkworth Mining Limited with the opportunity to provide reasons why the Environment Protection Authority (New South Wales) should not proceed with further enforcement action, such as issuing a penalty notice or commencing a prosecution.

As at the Latest Practicable Date, no formal prosecution proceedings have been initiated in connection with the matter.

The Directors consider the following risks and other factors to be material for the Shareholders and potential investors of the Company in relation to the Target Company and/or the Acquisition. However, the risks listed do not purported to comprise all those risks associated with the Target Company or the Acquisition and not set out in any particular order of priority. Additional risks and uncertainties not currently known to the Directors or that the Directors currently deemed to be immaterial may also have an adverse effect on the Target Company or the Acquisition.

RISKS IN RELATION TO THE ACQUISITION

1. Risks relating to the completion of the acquisition

The completion of the Acquisition is subject to a number of conditions precedent as set out in "Letter from the Board – 2. SPA – 2.5 Conditions Precedent" of this circular. These conditions precedent include, among other things, approvals from the relevant governmental and regulatory authorities in Australia, China, Korea, as well as decisions to be made by the counter party, which are all beyond the control of the Company. There is no assurance that all the conditions precedent will be fulfilled before the Long Stop Date as stipulated in the SPA or waived by the party. If any of these occurs, the SPA may be terminated and Acquisition may not proceed as contemplated under the SPA.

In addition, Yancoal Australia intends to fund payment of the Purchase Price (including any actual upward adjustment resulting from customary working capital variances and any net debt incurred by C&A between 24 January 2017 and the Completion Date (if applicable)) by proceeds from the YAL Rights Issue. Please refer to the section headed "Letter from the Board – 6. The Company's support of the YAL Rights Issue" for more details. There is no assurance YAL Rights Issue will be carried out on the favourable terms or at all, or raise sufficient funds for payment of the Purchase Price. If any of these occurs, the Company and Yancoal Australia may need to seek additional financing means to fund the Acquisition, which may not be on an acceptable or favourable term, thus in such case, the Company and/or Yancoal Australia may incur additional financial cost or elect to terminate the SPA.

RISKS IN RELATION TO THE TARGET COMPANY

2. Risks relating to operations

C&A's operations are subject to operating risks that could result in decreased coal production which could reduce its revenues. Operational difficulties may impact the amount of coal produced, delay coal deliveries or increase the cost of mining for a varying length of time. These operating risks include (but are not limited to) industrial, mine wall collapses or other failures relating to mine infrastructure, including tailings dams, interruptions due to inclement or hazardous weather conditions, power interruption, critical equipment failure, fires, accidental mine water discharges, flooding and variations in or unusual or unexpected geological or geotechnical mining conditions. Such risks could result in damage to applicable mines, personal injury, environmental damage, delays in coal production, decreased coal production, loss of revenue, monetary losses and possible legal liability. Although C&A's insurance policies may provide coverage for some of these risks, the amount and scope of insurance cover is limited by market and economic factors and there can be no assurance that these risks would be fully covered by insurances maintained by C&A.

3. Risks relating to coal production

C&A's financial performance is partially dependent on C&A being able to sustain or increase coal production and decrease operating costs on a per tonne basis. C&A's coal production can be impacted by a number of factors, including unforeseen geological or geotechnical issues, abnormal wet weather conditions, protracted breakdown of coal handling infrastructure and other mining equipment and rail and port breakdowns and outages. Regulatory factors and the occurrence of other operating risks can also limit production.

4. Risks relating to coal sales contracts and agreements

Coal supply agreements typically require the delivery of a fixed or minimum quantity of coal at a location, at a time and over a period stipulated in the agreement. To the extent that any contracted volumes cannot be delivered as agreed, C&A may be liable to pay compensation for the resulting losses, costs and charges incurred by the customer.

As customer contracts expire, C&A's financial performance may be adversely affected if it is unable to renew those contracts or enter into replacement contracts on no less favourable terms. It is possible that the coal quality specifications required by customers and the market more broadly may evolve over time to meet import restrictions and other regulatory requirements, technology advancements and other factors. If C&A is unable to supply coal that meets those specifications, its financial performance may be adversely affected.

5. Risks relating to mining tenement, regulatory approvals, license and consents

The ability of C&A to meet its long term production target profile depends on, among other things, its ability to obtain all necessary regulatory approvals, including approvals required under applicable mining laws, environmental regulations and other laws and regulations. There is a risk that the approvals, modifications, leases, licences, permits and/or consents currently being sought or renewed, or that may need to be sought or renewed in the future, may not be granted. If C&A is unsuccessful in these applications, it may be required to curtail or cease operations and/or be subject to significantly increased compliance costs or significant costs for rehabilitation or rectification works, which have not been previously planned at one or more of its sites. In addition, C&A may need to obtain land access and address any native title issues, environmental impact and objections from parties which may have interests located close to the project assets for any future development. There is no assurance or guarantee that C&A will be able to secure any or all of the required consents, approvals and rights necessary to develop its assets in a manner which will result in profitable mining operations and thus achieve a long term production targets. If these approvals cannot be obtained in an economic viable manner, the value of the relevant assets may be impaired.

In addition, grant and renewal of mining tenements under the (NSW) Mining Act 1992 is subject to a regulatory regime and each tenement is subject to certain conditions. There is no assurance that application for tenement can be timely granted or renewed on satisfactory terms or at all. Furthermore, the conditions attached to tenements may change. The laws and regulations permitting the tenements may evolve, which may cause the holder onerous or costly fees to apply for, or renew the tenement, which may adversely affect the continuous operation and future development of the mining assets.

The future development of C&A may require to obtain a new mining lease for the land of which the native title may still exist. In such case, the (Commonwealth) Native Title Act 1993 will need to be complied with in order for the tenement to be validly granted. Compliance with the *National Title Act,* including the right to negotiate procedure, may be prolonged or delayed, and may require substantial amount of compensation to be paid for reaching the agreement. As such, the existence or declaration of native title may affect the existing or future activities of C&A and impact the ability of C&A to develop the projects and its operational and financial performance.

6. Risks relating to changes in the estimates of the mineral resources and reserves of the Coal Mine Assets

The mineral resource and mineral reserve estimates of the Coal Mine Assets in this circular and the Competent Person's Report comply with the JORC Code, but no assurance can be given that any particular level of recovery from coal reserves will in fact be realised.

The estimation of mineral resources and coal reserves involves some interpretation and is a partly subjective process. The accuracy of mineral resource and reserve estimates is a function of quantity of available data and the assumptions used and judgments made in interpreting engineering and geological information. Data used in the resource estimation may be based on historical data where the quality control methods applied to the data collection are not know to the Enlarged Group and there is a risk that the tonnage or grades are overstated.

7. Risks relating to transportation and infrastructure

Coal produced from C&A's mining operations is transported to customers by a combination of road, rail and sea. A number of factors could disrupt or restrict access to essential coal transportation and handling services, including among others:

- weather related problems;
- key equipment and infrastructure failures;
- rail or port capacity constraints;
- congestions and inter-system losses;
- industrial action;

- failure to obtain consents from third parties for access to rail or land;
- failure or delay in the construction of new rail or port capacity;
- failure to meet contractual requirements;
- access is removed or not granted by regulatory authority;
- breach of regulatory framework; and
- mismatch of below rail capacity, above rail capacity and port capacity.

all or any of which could impair the C&A's ability to supply coal to customers and/or increase costs, and consequently may have a material adverse effect on the C&A's financial position.

8. Risks relating to potential future major capital expenditures that the target company may undertake

C&A may undertake major capital expenditure projects for future business development, which could require significant amount of capital to be invested and/or lengthy developing time Such projects may not be completed within expected timeframe or budget, or at all. Economic benefits from such projects may not be sufficient to justify the capital or time invested in those projects due to a number of reasons such as changes in market conditions, technical difficulties and other constraints.

9. Risks relating to take or pay liabilities

Port and rail capacity is generally contracted via long-term take-or-pay contracts. C&A will generally be required to pay for its contracted rail or port tonnage irrespective of whether it is utilised. Unused port or rail capacity can arise as a result of circumstances including insufficient production from a given mine, a mismatch between port and rail capacity for a mine, or an inability to transfer the used capacity due to contractual limitations such as required consent of the provider of the port or rail services, or because the coal must emanate from specified source mines or be loaded onto trains at specified load points. Unused port or rail capacity will result in costs incurred and C&A's financial performance may be adversely affected.

10. Risks relating to joint ventures and reliance on third parties

C&A holds a number of joint venture interests with other parties. Decision making, management, marketing and other key aspects of each joint venture are regulated by agreements between the relevant joint venture participants.

C&A cannot control the actions of third party joint venture participants, and therefore cannot guarantee that joint ventures will be operated or managed in accordance with the preferred direction or strategy of C&A. There is a risk that the veto rights of, or consents required from, the joint venture partners will prevent the business and assets of a joint venture from being developed, operated and managed in accordance with that preferred direction or strategy. Which could in turn result in adverse impact on C&A's financial performance.

11. Mining operations have a limited life and C&A is responsible for the eventual closure and rehabilitation of the Coal Mine Assets

The Coal Mine Assets have limited life. C&A is responsible for eventual closure of the Coal Mine Assets before its anticipated mine life, which could trigger significant employee redundancy costs, closure and rehabilitation expense and other costs or loss of revenues. Many of these costs will also be incurred where mines are closed at the end of their planned mine life. If one or more of the sites are closed earlier than anticipated, closure costs will need to be funded on an expedited basis and potentially result in loss of revenues, which could have an adverse financial effect. Furthermore, claims may arise from environmental remediation upon closure of one or more of coal mine sites.

12. Risks relating to health, work safety and hazardous materials

C&A's operations may substantially impact the environment or cause exposure to hazardous materials. It will use hazardous materials and will generate hazardous waste, and may be subject to common law claims, damages due to natural disasters, and other damages, as well as the investigation and clean-up of soil, surface water, groundwater, and other media. Such claims may arise, for example, out of current or former activities at sites that it owns or operates.

There is also a risk that actions could be brought against C&A, alleging adverse effects of such substances on personal health.

There is a risk that past, present or future operations have not met, or will not meet, health and safety requirements and/or that the approvals or modifications C&A is currently seeking, or may need to seek in the future, will not be granted at all or on terms that are unduly onerous. If C&A is unsuccessful in these efforts or otherwise breaches these health and safety requirements, it may incur fines or penalties, be required to curtail or cease operations and/or be subject to increased compliance costs or costs for rehabilitation or rectification works, which have not been previously planned at one or more of its sites.

If any injuries or accidents occur in a mine, this could have adverse financial implications including legal claims for personal injury, wrongful death, amendments to approvals, potential production delays or stoppages, any of which may have a material adverse effect on the financial performance and/or financial position of C&A.

13. Risks relating to attract, train and retain key personnel

A number of key management and personnel are important to attaining the business goals of C&A. One or more of these key employees could leave their employment or cease to actively participate in the management of C&A and this may adversely affect the ability of C&A to conduct its business and, accordingly, affect its financial performance. There may be a limited number of persons with the requisite experience and skills to serve in C&A's

senior management positions if existing management leave C&A. If C&A cannot attract, train and retain qualified managers, and other personnel, C&A may be unable to successfully manage its growth or otherwise compete effectively.

14. Risk relating to compliance with local environmental protection and remediation regulations

Due to the hazardous nature of coal mining processes, and the associated by-products, residues and tailings generated from these processes, all of the operations of C&A are subject to stringent environmental laws and regulations. Environmental regulation of mining activities in New South Wales imposes significant obligations on mining companies in relation to pollution control during mining operations and rehabilitation on completion of mining. Mining activities are subject to regular inspections and audits by independent third parties and government regulatory bodies. Despite efforts to conduct its activities in an environmentally responsible manner and in accordance with all applicable laws, there is a risk of an adverse environmental event occurring which could delay the development timetable at a site and may subject C&A to substantial penalties including fines, requirements to curtail or cease operations, damages, clean-up costs or other penalties. As these laws and regulations continue to evolve and we cannot assure that a more stringent environmental protection laws won't be adopted by the legislators or authorities, in which case C&A's access to certain areas of its properties, current and proposed mining operations, cost structures and ability to its customers to use the products may be adversely affected. In addition, actions may be brought against C&A alleging adverse effects of various substances on the environment in areas surrounding its sites. Those actions brought against C&A, if not solved through negotiation, are often subject to lengthy and expensive litigation or arbitration proceedings, which may cause C&A time and costs and further adversely affect the business, results of its operation and financial condition of C&A.

Three non-compliance incidents have occurred at C&A prior to the Latest Practicable Date, which may have a material adverse impact on C&A's operation. Please see "Further Information of the Target Company Group – VI. Other Matters Concerning the Target Company Group – D. Non-compliance incidents which may have a material adverse impact" for more details. As of the Latest Practicable Date, these incidents are undergoing the process of investigation or prosecution and the results of which were unknown to C&A. There's no assurance that these non-compliance incidents will be solved to the satisfactory of C&A and there will be no criminal conviction or penalties or fines imposed. If any of these occurred, the business perspective, operation results or financial conditions of C&A may be adversely affected.

Environmental lobby groups in Australia have recently objected to approvals for and initiated litigation against coal miners in an attempt to prevent or delay new mine developments on the basis of environmental concerns, particularly the greenhouse gas emissions caused by proposed projects and coal to be produced from those mines. Increased community concern and adverse actions taken by community and environmental groups may delay or prevent new mine development or impose conditions which may adversely affect their profitability and thus the financial performance of the C&A.

15. Risks relating to litigation

C&A is exposed to the risks of litigation (either as the complainant or as the defendant), which may have a material adverse effect on the financial position of the relevant entity. C&A could become exposed to claims or litigation by persons alleging they are owed fees for services, employees, regulators, competitors or other third parties.

16. Risks relating to adverse foreign exchange rate movements

Foreign exchange risk is the risk of C&A sustaining loss through adverse movements in exchange rates. Such losses can impact C&A's financial position and performance and the level of funding required to support the C&A businesses.

The liabilities, earnings and cash flows of C&A are influenced by movements in exchange rates, especially movements in the AUD against US$ exchange rate.

Foreign currency exposure may arise in relation to coal supply contracts, which generally are priced and payable in US$, procurement of imported plant and equipment, which can be priced in US$ or other foreign currencies, and debt denominated in currencies other than AUD.

The impact of exchange rate movements will vary depending on factors such as the nature, magnitude and duration of the movements, the extent to which currency risk is hedged under forward exchange contracts and the terms of these contracts.

17. Risks relating to inclement weather

C&A's mining operations are subject to weather conditions. Inclement weather such as abnormal wet weather condition, extreme temperatures and other extreme weather conditions may cause evacuation of personnel, damage to mining equipment and transportation infrastructure, which could affect or disrupt mining operations and reduced productivity in general. Any prolonged periods of inclement weather could result in material adverse impact on C&A's business and financial performance.

RISKS IN RELATION TO THE INDUSTRY

18. Risks relating to coal prices and coal demand

C&A generates revenue from the sale of coal. In developing its business plan and operating budget, C&A would make certain assumptions regarding coal prices and demand for coal. The prices that C&A will receive for its coal depend on numerous market factors beyond its control and, accordingly, some underlying coal price assumptions relied on by C&A may materially change and actual coal prices and demand may differ materially from those expected.

The prices for coal are determined predominantly by world markets, which are affected by numerous factors, including the outcome of future sale contract negotiations, general economic activity, industrial production levels, changes in foreign exchange rates, changes in energy demand and demand for steel, changes in the supply of seaborne coal, technological changes, changes in production levels and events interfering with supply, changes in international freight rates or other transportation infrastructure and costs, the costs of other commodities and substitutes for coal, market changes in coal quality requirements, government regulations which restrict use of coal, and tax impositions on the resources industry, all of which are outside the control of C&A and may have a material adverse impact on coal prices and demand.

19. Risks relating to exploration and development

There are several risks relating to coal mining exploration and development which are common to the industry and which, if realised, have the capacity to affect operations, production, cash flow and financial performance of C&A.

Development and exploration activities may be affected by factors beyond the control of C&A, including geological conditions, seismic activity, mineralisation, consistency and predictability of coal grades, changes to law, changes to the regulatory framework applying to mining, overlapping resources tenure, and the rights of indigenous people on whose land exploration activities are undertaken.

Any discovery of a mineral deposit does not guarantee that the mining of that deposit would be commercially viable, with the size of the deposit, development and operating costs, land ownership, coal prices and recovery rates all being key factors in determining commercial viability.

20. Risks relating to changes in government policy, regulation or legislation

The resources industry is subject to extensive legislation, regulations and supervision by a number of federal and state regulatory organisations.

Any future legislation and regulatory change may affect the resources industry and may adversely affect C&A's financial performance and position, such as future laws that may limit the emission of greenhouse gases or the use of coal in power generation.

21. Risks relating to competition

The coal industry is highly competitive, and an increase in production or reduction in prices of competing coal from both Australia and overseas may adversely impact C&A's ability to sell its coal products and the price to be attained for sales. Increased competition in the future, including from new competitors, may emerge.

Further industry consolidation could result in competitors improving their scale or productivity or competitors may develop lower cost geological coal resources or develop resources in lower cost base geographies, increasing pressure on C&A's ability to maintain its margins. There is significant competition within the resources industry in Australia, the United States, China and Asia. Furthermore, new entrants to the industry may emerge in one or more of those markets, increasing the competitive pressure on C&A. This pressure could adversely affect C&A's market share and financial performance and position.

This explanatory statement contains all the information required to be given to the Shareholders pursuant to Rule 10.06(1)(b) of the Listing Rules in connection with the proposed Repurchase Mandate, which is set out as follows:

1. Hong Kong Listing Rules

The Hong Kong Listing Rules permit companies with a primary listing on the Hong Kong Stock Exchange to repurchase their securities subject to certain restrictions. Repurchases must be funded out of funds legally available for the purpose and in accordance with the company's constitutional documents and the applicable laws of the jurisdiction in which the company is incorporated or otherwise established. Any repurchase must be made out of funds which are legally available for the purpose and in accordance with the laws of the PRC and the memorandum and articles of association of the company. Any premium payable on a repurchase over the par value of the shares may be effected out of funds of the company which would otherwise be available for dividend or distribution or out of the proceeds of a new issue of shares made for the purchase of repurchase.

2. Reasons for Repurchase of H Shares

The Board believes that the flexibility afforded by the Repurchase Mandate to repurchase H Shares would be beneficial to and in the best interests of the Company and its Shareholders. Such repurchase may, depending on the market conditions and funding arrangement at the time, lead to an enhancement of the net asset value and/or its earnings per Share and will only be made when the Board believes that such a repurchase will benefit the Company and its Shareholders.

3. Registered Capital

As at the Latest Practicable Date, the registered capital of the Company was RMB4,912,016,000 comprising 1,952,016,000 H Shares of RMB1.00 each, of which 180,000,000 H Shares were held by a subsidiary of Yankuang Group and 2,960,000,000 A Shares of RMB1.00 each, of which 2,600,000,000 A Shares were held by Yankuang Group and 360,000,000 A Shares were held by other Shareholders.

4. Exercise of the Repurchase Mandate

Subject to the passing of the special resolution approving the granting of the Repurchase Mandate to the Board at the AGM, the A Shareholders' Class Meeting and the H Shareholders' Class Meeting respectively, the Board will be granted the Repurchase Mandate until the end of the Relevant Period (as defined in the special resolutions in the notice of AGM, the notice of A Shareholders' Class Meeting and the notice of H Shareholders' Class Meeting, respectively). The exercise of the Repurchase Mandate is subject to: (1) the approvals of the relevant PRC regulatory authorities as required by the laws, rules and regulations of the PRC being obtained; and (2) the Company not being required by any of its creditors to repay or to provide guarantee in respect of any amount due to any of them (or if the Company is so required by any of its creditors, the Company having, in its absolute discretion, repaid or provided guarantee in respect of such amount) pursuant to the provisions of the Articles of Association applicable to reduction of share capital.

The exercise in full of the Repurchase Mandate (on the basis of 1,952,016,000 H Shares in issue as at the Latest Practicable Date and no H Shares will be allotted and issued or repurchased by the Company on or prior to the date of the AGM, the A Shareholders' Class Meeting and the H Shareholders' Class Meeting) would result in a maximum of 195,201,600 H Shares being repurchased by the Company during the Relevant Period, being the maximum of 10% of the total H Shares in issue as at the date of passing the relevant resolutions.

5. Funding of Repurchases

In repurchasing its H Shares, the Company intends to apply funds from the Company's internal resources (which may include surplus funds and undistributed profits) legally available for such purpose in accordance with the Articles of Association and the applicable laws, rules and regulations of the PRC.

The Company is empowered by its Articles of Association to purchase its H Shares. Any repurchases by the Company may only be made out of either the funds of the Company that would otherwise be available for dividend or distribution or out of the proceeds of a new issue of shares made for such purpose, or from sums standing to the credit of the share premium account of the Company. The Company may not purchase securities on the Hong Kong Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Hong Kong Stock Exchange from time to time.

Based on the financial position disclosed in the recently published audited accounts for the year ended 31 December 2016, the Board considers that there will not be any material adverse impact on the working capital or gearing position of the Company in the event that the Repurchase Mandate is to be exercised in full at any time during the proposed repurchase period. The number of H Shares to be repurchased on any occasion and the price and other terms upon which the same are repurchased will be decided by the Board at the relevant time having regard to the circumstances then prevailing and in the best interests of the Company.

6. Status of Repurchased H Shares

The Hong Kong Listing Rules provide that the listing of all the H Shares repurchased by the Company shall automatically be cancelled and the relevant share certificates shall be cancelled and destroyed. Under the PRC laws, the H Shares repurchased by the Company will be cancelled within 10 days and the Company's registered capital will be reduced by an amount equivalent to the aggregate nominal value of the H Shares so cancelled.

7. H Shares Prices

The highest and lowest prices at which the H Shares have been traded on the Hong Kong Stock Exchange during each of the twelve months preceding the Latest Practicable Date were as follows:

	H Share Prices	
	Highest	**Lowest**
	HK$	*HK$*
2016		
May	4.52	3.80
June	5.15	4.03
July	5.49	4.59
August	5.14	4.28
September	5.39	4.38
October	6.44	5.29
November	6.27	5.31
December	6.00	5.12
2017		
January	6.15	5.18
February	6.65	5.66
March	6.60	5.81
April	7.52	6.09
May (up to the Latest Practicable Date)	6.98	5.72

8. Substantial Shareholders

As at the Latest Practicable Date, the interests of substantial shareholders of the Company were as follows:

Name	**Class of shares**	**Capacity**	**Nature of interests**	**Number of ordinary shares held in the Company**	**Percentage of total issued share capital of the Company**
Yankuang Group	A Shares (state legal person share)	Beneficial owner	Long position	2,600,000,000	52.93%
			Short position	480,000,000	9.77%
Yankuang Group *(Note)*	H Shares	Interest of controlled corporation	Long position	180,000,000	3.66%
Total				2,780,000,000	56.59%

Note: Yankuang Group's subsidiary incorporated in Hong Kong holds such H Shares in the capacity of beneficial owner.

9. General Information

(a) None of the Directors, to the best of their knowledge having made all reasonable enquiries, nor any of their associates, have any present intention to sell any H Shares to the Company or any of its subsidiaries under the Repurchase Mandate if such is approved by the Shareholders.

(b) The Directors have undertaken to the Hong Kong Stock Exchange that, so far as the same may be applicable, they will exercise the power of the Company to repurchase the H Shares pursuant to the Repurchase Mandate in accordance with the Hong Kong Listing Rules and the applicable laws of the PRC.

(c) No core connected person (as defined in the Hong Kong Listing Rules) of the Company has notified the Company that he has a present intention to sell H Shares to the Company or its subsidiaries, or has undertaken not to do so, if the Repurchase Mandate is granted and is exercised.

10. Takeovers Code

If on the exercise of the power to repurchase Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of Rule 32 of the Takeovers Code. As a result, a Shareholder or group of Shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rules 26 and 32 of the Takeovers Code.

Assuming that the substantial Shareholders do not dispose of their Shares, if the Repurchase Mandate was exercised in full, the percentage shareholdings of the substantial Shareholders before and after such repurchase would be as follows:

Substantial Shareholders	**Before repurchase**	**After repurchase**
Yankuang Group	56.59%	58.94%

On the basis of the shareholdings held by the substantial Shareholders named above, an exercise of the Repurchase Mandate in full will not have any implications for the substantial Shareholders under the Takeovers Code. Assuming that there is no issue of Shares between the Latest Practicable Date and the date of a repurchase, an exercise of the Repurchase Mandate whether in whole or in part will not result in less than the relevant prescribed minimum percentage of the Shares of the Company being held by the public as required by the Hong Kong Stock Exchange. The Directors have no intention to exercise the Repurchase Mandate to an extent which may result in the requirements under Rule 8.08 of the Listing Rules not being complied with.

The Directors are not aware of any consequences that may arise under the Takeovers Code and/or any relevant law of which the Directors are aware, if any, as a result of any share repurchases made.

11. Share Repurchases Made by the Company

The Company had not repurchased any of its H shares (whether on the Hong Kong Stock Exchange or otherwise), during the six months period preceding the Latest Practicable Date.

The biographical details of the candidates for appointment as Directors of the seventh session of the Board are set out as follows:

Mr. Li Xiyong, born in October 1963, a research fellow in applied engineering technology with an EMBA degree, is the chairman of the Company and chairman and secretary of the Party committee of Yankuang Group Company Limited. Mr. Li commenced his career in the year of 1981. He was appointed as the head of Huafeng Coal Mine of Xinwen Mining Group Co., Ltd. in May 2001. In June 2006, he was appointed as the deputy general manager of Xinwen Group. In May 2010, he was appointed as the chairman and secretary of the Party committee of Xinwen Group. In March 2011, he was appointed as the vice chairman of Shandong Energy Group Co., Ltd. and the chairman and secretary of the Party committee of Xinwen Group. In July 2013, he was appointed as the director, general manager and deputy secretary of the Party committee of Yankuang Group. In February 2015, he was appointed as the chairman and secretary of Party committee of Yankuang Group. In September 2013, he was appointed as the chairman of the Company. Mr. Li graduated from Shandong University of Science and Technology and Nankai University

Mr. Li Wei, born in September 1966, is a research fellow in engineering technique applications with a doctor degree in engineering. He is the general manager of Yankuang Group. Mr. Li joined the predecessor of the Company in 1988. He was appointed as the deputy head of Baodian Coal Mine of Yankuang Group in December 1996. He was appointed as the head of the reorganization division of the strategic resources development department of Yankuang Group in May 2002. He was appointed as the chairman, the secretary of the Party committee and the general manager of Yankuang Xilin Nenghua Company Limited in September 2002. He presided over the comprehensive Party work of Baodian Coal Mine since March 2004. He was appointed as the head and deputy secretary of the Party committee of Baodian Coal Mine in September 2004. In August 2007, he was appointed as the head and deputy secretary of the Party committee of Nantun Coal Mine. In August 2009, he was appointed as the deputy chief engineer and deputy head of the safety and supervision bureau of Yankuang Group. In April 2010, he was appointed as the deputy general manager and head of the safety and supervision bureau of Yankuang Group. In May 2015, he was appointed as a director, the general manager and the deputy secretary of the Party committee of Yankuang Group. In December 2015, he was the general manager of Yankuang Group. In June 2016, he was the vice chairman of the Company. Mr. Li graduated from Shangdong Institute of Mining and Technology and the University of Science and Technology Beijing.

Mr. Wu Xiangqian, born in February 1966, a research fellow in applied engineering technology and a doctor of engineering, is a Director and a general manager of the Company. Wu joined the predecessor of the Company in 1988. In 2003, he was appointed as a deputy head of Jining No.3 Coal Mine of the Company. In 2004, Mr. Wu was appointed as the deputy head and chief engineer of Jining No.3 Coal Mine. In 2006, he was appointed as the head of Jining No.3 Coal Mine. In March 2014, he was promoted as the chairman and general manager of Ordos Neng Hua and chairman of Inner Mongolia Haosheng Coal

Mining Co., Ltd. In May 2014, he was appointed as a Director of the Company. In January 2016, he was appointed as the general manager of the Company. Mr. Wu graduated from Shandong University of Science and Technology and China University of Mining.

Mr. Wu Yuxiang, born in January 1962, a senior accountant with a master's degree, is a Director of the Company. Mr. Wu joined the predecessor of the Company in 1981. Mr. Wu was appointed as the director of the Finance Department of the Company in 1997, and was appointed as the chief financial officer of the Company in 2002. He was appointed as the deputy chief accountant of Yankuang Group in January 2016. He was appointed as the Director of the Company in 2002. Mr. Wu graduated from the Party School of Shandong Provincial Communist Committee.

Mr. Zhao Qingchun, born in March 1968, is a senior accountant with an EMBA degree. He is the director and chief financial officer of the Company. Mr. Zhao joined the predecessor of the Company in 1989 and was appointed as the chief accountant of the finance department of the Company in 2002. He was appointed as the head of the finance and plan department of the Company in 2006. He was appointed as the vice chief financial officer and the head of the finance department of the Company in March 2011. In March 2014, he was appointed as the assistant general manager and the head of finance management department of the Company. He was appointed as the chief financial officer of the Company in January 2016. In June 2016, he became the Director of the Company. Mr. Zhao graduated from Nankai University

Mr. Guo Dechun, born in February 1962, is a senior engineer with a master degree in engineering. Mr. Guo is the director of the Company. Mr. Guo joined the predecessor of the Company in 1987. He was appointed as the head of the safety and supervision department of Dongtan Coal Mine in January 2000. He was appointed as the deputy head of Dongtan Coal Mine in June 2002. He was appointed as the deputy head and chief engineer of Baodian Coal Mine in August 2008. He was the deputy head of Baodian Coal Mine in September 2009. He was appointed as the head and deputy secretary of the Party committee of Yangcun Coal Mine in April 2010. He was appointed as the head and deputy secretary of the Party committee of Dongtan Coal Mine in January 2014. In December 2015, he was appointed as the chairman, general manager, deputy secretary of the Party committee of Yanzhou Coal Ordos Neng Hua Co., Ltd., the chairman of Inner Mongolia Haosheng Coal Mining Company Limited, and the chairman, general manager, secretary of the Party committee of Yanzhou Coal Yulin Neng Hua Company Limited. In June 2016, he became the Director of the Company. Mr. Guo graduated from China University of Mining and Technology.

Subject to the Shareholders' approval for their respective appointments, each of the above proposed Directors will enter into a service contract with the Company commencing from the conclusion of the AGM and ending on the conclusion of the 2019 annual general meeting of the Company.

The biographical details of the candidates for appointment as independent Directors of the seventh session of the Board are set out as follows:

Mr. Kong Xiangguo, born in June 1955, is a professor-level senior engineer, national registered consulting engineer, national registered mining engineer, who enjoys allowance of the state council. Mr. Kong now serves as the director of Transportation Technology Department of Survey and Engineering Commission of China Coal Construction Association, the director of CCTEG Xi'an Research Institute, the member of the thirteenth session of CPPCC. Mr. Kong had been the chairman and the vice secretary of party committee of CCTEG Nanjing Engineering Co., Ltd., and he was awarded with Excellent President of National Survey and Engineering Institute, Ten Best Modern Management Entrepreneur among national survey and engineering industry and many other honors. Mr. Kong was appointed as the Independent Director of the Company on March 2017. Mr. Kong graduated from Shandong University of Science and Technology.

Mr. Jia Shaohua, born in December 1950, doctor of economics, a researcher, Mr. Jia is currently the director of Tax Education Institute of the Central University of Finance and Economics, a member of Academic Research of the Chinese Tax Institute, a member of education committee of the Chinese Certified Tax Agents Association and vice president of the China Society for Finance and Tax Law, an executive member of the Chinese Enterprise Financial Tax Management Association, the consultant of the China Society for Tax Education and China Society for Tax Planning, as well as the graduate advisor of the Central University of Finance and Economics, the Graduate School of Chinese Academy of Social Sciences, the Graduate School of Research Institute of Ministry of Finance, PRC. Mr. Jia was previously the director of the Finance Department in Ningxia Autonomous Region, the deputy general manager of Hainan Commercial Group Company, the deputy director of Jiangxi and Hainan Provincial Office, SAT, the dean of Tax Leadership Academy of the State Administration of Taxation, and the editor-in-chief of the China Taxation Publisher etc. Mr. Jia has rich experience in accounting & tax and completed over a number of key research subjects at national and provincial level. In 1996, Mr. Jia was awarded "Expert of Excellence with outstanding contribution" in terms of Enterprise Operation and Management by People's Government of Hainan Province. He was awarded "Expert of Excellence with outstanding contribution" in the field of tax research and teaching by the State Council and enjoys the special allowance from the State Council. Mr. Jia is also the independent director of Harbin Electric Corporation Jiamusi Electric Machine Co., Ltd., JA Solar Holdings Co., Ltd., Zhuhai Letong Chemical Co., Ltd. and Haima Automobile Group Co., Ltd. Mr. Jia was appointed as the independent Director of the Company in May 2014. Mr. Jia graduated from the Graduate School of Chinese Academy of Social Sciences.

Mr. Poon Chiu Kwok, born in April 1962, was awarded a bachelor degree in laws, a bachelor degree in commerce and a master degree in international accounting. Mr. Poon is a fellow member of both the Institute of Charted Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries and a member of its Technical Advisory Group and Professional Development Committee, a senior member and invited mentor of Hong Kong Securities and Investment Institute. Mr. Poon currently serves as an executive director, vice president and company secretary of Huabao International Holdings Limited (stock code: 336), a company listed on the Hong Kong Stock Exchange. Mr. Poon has extensive experience in areas of regulatory compliance, corporate finance, corporate governance of listed companies and management. He served as the independent non-executive directors in

CSSC Offshore & Marine Engineering (Group) Company Limited (listed in the Stock Exchange with stock code: 317) from May 2011 to May 2014 and Ningbo Port Company Limited (listed in Shanghai Stock Exchange with stock code: 601018) from April 2008 to May 2014. Currently, Mr. Poon also serves as an independent non-executive director of several public companies listed on the Stock Exchange, including Sunac China Holdings Limited (stock code: 1918), Sany Heavy Equipment International Holdings Company Limited (stock code: 631), AUX International Holdings Limited (stock code: 2080), Changan Minsheng APLL Logistics Co., Ltd (stock code: 1292), Greentown Service Group Company Limited (stock code: 2869), Tonly Electronics Holdings Limited (stock code: 1249), Tus International Limited (stock code: 872), Yuanda China Holdings Limited (stock code: 2789) and Jinchuan Group International Resources Co. Ltd (stock code: 2362). Mr. Poon graduated from the University of London.

Mr. Qi Anbang, born in February 1952, is a doctor, professor, doctorial tutor in management. He is currently the head of the master of project management center, the head of the modern project management research center and the deputy head of the MBA center of Nankai University. He is mainly involved in research work on business management, project management, investment project evaluation, and techno-economic analysis, etc. He has completed several national and provincial research projects of the nation and the Ministry of Education and obtained a series of research awards including Project Excellence (PE) Awards of 2009 of International Project Management Association and Tianjin Municipal Social Science Excellent Achievement Award, etc. He also serves as the chairman of the research committee of International Project Management Association, the vice chairman of Project Management Research Committee China, the vice chairman of the research committee of the China Association for Information Systems, a member of the expert committee of China Engineering Cost Association, and a management advisor for Tianjin Municipal Government, etc. In June 2016, Mr. Qi became the independent director of the Company. Mr. Qi graduated from Nankai University.

The Company has received confirmation of independence from Mr. Kong Xiangguo, Mr. Jia Shaohua, Mr. Poon Chiu Kwok and Mr. Qi Anbang pursuant to Rule 3.13 of the Hong Kong Listing Rules and on this basis, the Company considers them to be independent.

Subject to the Shareholders' approval for their respective appointments, each of the above proposed independent Directors will enter into a service contract with the Company commencing from the conclusion of the AGM and ending on the conclusion of the 2019 annual general meeting of the Company.

As far as the Directors are aware and save as disclosed above, Mr. Kong Xiangguo, Mr. Jia Shaohua, Mr. Poon Chiu Kwok and Mr. Qi Anbang:

(i) do not presently, and did not in the last three years, hold any other position in the Company or any of its subsidiaries;

(ii) have not held any other directorship in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas;

(iii) have no other major appointment or professional qualification;

(iv) do not have any other relationship with any Director, senior management or substantial or controlling shareholder of the Company; and

(v) do not have, or are deemed to have, any interests in any Shares or underlying Shares within the meaning of Part XV of the SFO.

The remuneration of Mr. Kong Xiangguo, Mr. Jia Shaohua, Mr. Poon Chiu Kwok and Mr. Qi Anbang will be determined at the general meeting of the Company with reference to their duties, responsibilities, experience and the prevailing market conditions.

The term of office of the Directors of the seventh session of the Board is three years.

Save as disclosed in this circular, the Board is not aware of any other matter in relation to the proposed appointments of Mr. Li Xiyong, Mr. Li Wei, Mr. Wu Xiangqian, Mr. Wu Yuxiang, Mr. Zhao Qingchun, Mr. Guo Dechun, Mr. Kong Xiangguo, Mr. Jia Shaohua, Mr. Poon Chiu Kwok and Mr. Qi Anbang which are required to be disclosed pursuant to Rule 13.51(2) of the Hong Kong Listing Rules and any other matter that needs to be brought to the attention of the Shareholders.

The biographical details of the candidates for appointment as non-staff representative Supervisors of the seventh session of the Supervisory Committee are set out as follows:

Mr. Gu Shisheng, born in January 1964, is a professor level senior administrative officer with a master degree, is the vice chairman of the Supervisory Committee of the Company and the employee Director, a member of the Party's standing committee and chairman of the trade union of Yankuang Group. Mr. Gu joined the predecessor of the Company in 1979. He served as the deputy party committee secretary of Xinglongzhuang Coal Mine of Yankuang Group in 1996 and the party committee secretary of Xinglongzhuang Coal Mine of the Company in 2002. He served as the deputy secretary of the Discipline Inspection Commission and the director of Supervision Department of Yankuang Group in 2003. He was appointed as the chairman of the trade union of Yankuang Group in January 2014 and an employee director and member of the Party's standing Committee in December 2015. He served a Supervisor of the Company in May 2014 and vice chairman of the Supervisory Committee of the Company in July 2015. Mr. Gu graduated from the Party School of Shandong Provincial Communist Committee.

Mr. Zhou Hong, born in May 1970, is a university graduate and a holder of the bachelor's degree of economics. Mr. Zhou is qualified senior accountant, senior economist and Tier 1 human resources manager. Mr. Zhou joined the predecessor of the Company in 1994. He served as the chief economist of the human resources department of Yankuang

Group in August 2006, the deputy head of the human resources department of Yankuang Group in August 2009, the head of the human resources department of Yankuang Group in June 2012, the head of the operation and management department of Yankuang Group in March 2014, the head of the organizational department of Party Committee (Human Resources Department) in November 2015, the staff supervisor of Yankuang Group in December 2015 and the assistant of general manager of Yankuang Group in June 2016. Mr. Zhou graduated from China Coal Economics Institute.

Mr. Meng Qingjian, born in February 1962, is a senior accountant, bachelor degree holder, is a Supervisor of the Company and the director of the Finance Management Department of Yankuang Group. Mr. Meng joined the predecessor of the Company in 1981, and was appointed as the chief accountant and the vice director of Finance Department of Yankuang Group in December 1999 and June 2002, respectively. He was appointed as the vice director and the director of the Finance Management Department of Yankuang Group in October 2008 and January 2014, respectively. He was appointed as the Supervisor of the Company in June 2016. Mr. Meng graduated from Party School of the Central Committee of C.P.C.

Mr. Zhang Ning, born in October 1968, is a senior accountant and international financial manager with an EMBA degree. Mr. Zhang joined the predecessor of the Company in 1991. He served as the accountant in the financial department of Yankuang Group in September 2006, the deputy head of the financial department of Yankuang Group in July 2008, the assistant director of second division of China Development Bank Corporation Shandong Branch in August 2011 and the deputy head of financial management department of Yankuang Group in June 2012. He has been the head of the audit and risk management department of Yankuang Group since January 2016. Mr. Zhang graduated from Tianjin University of Finance and Economics.

Subject to the Shareholders' approval for their respective appointments, each of the above proposed non-staff representative Supervisor will enter into a service contract with the Company commencing from the conclusion of the AGM and ending on the conclusion of the 2019 annual general meeting of the Company.

As far as the Directors are aware and save as disclosed above, Mr. Gu Shisheng, Mr. Zhou Hong, Mr. Meng Qingjian and Mr. Zhang Ning:

(i) do not presently, and did not in the last three years, hold any other position in the Company or any of its subsidiaries;

(ii) have not held any other directorship in the last three years in public companies the securities of which are listed on any securities market in Hong Kong or overseas;

(iii) have no other major appointment or professional qualification;

(iv) do not have any other relationship with any Director, senior management or substantial or controlling shareholder of the Company; and

(v) do not have, or are deemed to have, any interests in any Shares or underlying Shares within the meaning of Part XV of the SFO.

Mr. Gu Shisheng, Mr. Meng Qingjian, Mr. Zhou Hong and Mr. Zhang Ning will not receive any remuneration from the Company during their service as a Supervisor of the Company.

The term of office of the Supervisors of the seventh session of the Supervisory Committee is three years.

Save as disclosed in this circular, the Board is not aware of any other matter in relation to the proposed appointments of Mr. Gu Shisheng, Mr. Zhou Hong, Mr. Meng Qingjian and Mr. Zhang Ning which are required to be disclosed pursuant to Rule 13.51(2) of the Hong Kong Listing Rules and any other matter that needs to be brought to the attention of the Shareholders.

Working Report of the Board of Yanzhou Coal Mining Company Limited for the Year 2016

Dear Shareholders,

In 2016, in strict compliance with laws and regulations as well as domestic and overseas regulatory requirements such as the PRC Company Law and the Articles of Association, the Board of Yanzhou Coal Mining Company Limited (the "Company") performed the duties in a diligent and responsible manner under the relentless support of all Shareholders, the Supervisory Committee and the management team. The Board led the Company to scientifically respond to the complicated economic environment, actively grasp market and policy opportunities and enhance the Company's continuous growth advantages, which resulted in the operating income achieved a new leap, and the profitability and the quality for development improved significantly, realizing a nice start for the Company's "Thirteenth Five-Year" plan. The Company ranked 84th on the "Fortune China 500" ranking in 2016, climbed by 8 as compared to the previous year. Being the only enterprise with an improved ranking among other listed coal companies, this fully demonstrates the Board's ability to deal with comlex situation and seize development opportunities. The working report of the Board of the Company for the year 2016 is as below:

I. REVIEW OF WORK PERFORMED IN THE YEAR 2016

In 2016, facing the complex situation of slow economic recovery, deep regulation and control of policies, and ups and downs of market, the Board adhered to the principle of standardizing the Company's operation and basing on optimizing production and operation, precisely formulated and implemented a series of preventive strategies to foster the Company's strategic optimization, industrial transformation and management upgrades, which ensured the standardized operation of the work in an orderly and efficient manner.

1. **More Standardized Corporate Governance.** The Articles of Association were amended in a timely manner according to the Company's actual conditions. The Company's relevant work systems such as the Working Rules for the Audit Committee of the Board and the Working Rules for the Secretary to the Board were revised in a timely manner in accordance with the changes in domestic and overseas regulatory rules. The construction of "Three Boards and One Layer" was constantly enhanced by additionally electing and re-electing five Directors and three Supervisors in 2016 to ensure that the Company's Board and its members are in compliance with the requirements of the Articles of Association and regulatory provisions. Five senior management members were employed in compliance with the procedures of the Board to further optimize and improve the structure of the Company's managerial level. Six Shareholders' general meetings were organized and held during the year, and 34 proposals were considered and approved. 13 Board meetings were organized and held, and 74 proposals were considered and approved. The Company attached great importance to the role of the independent Directors and the special committees of the Board. The independent Directors issued 6 pieces of prior approval opinion and 12 pieces of written independent opinion during the year to ensure all the decisions of the

Boards are professional and in compliance with relevant regulations. The Board of the Company was awarded the "Prize of Gold Round Table"（金圓桌獎）by the twelfth session of the Chinese Board of Listed Companies.

2. **Optimization and Adjustment of Strategic Layout.** The leading business was strengthened and expanded with the coordination of strategic business. The Company scientifically implemented a new business portfolio and sped up the construction of a new strategic business layout supported by "industrial business, logistics and trade, financial investment". The Company strove to make its entity business stronger by continuously strengthening its industrial business system which focuses on the bases in Shandong, Shaanxi and Inner Mongolia, and Australia and takes coal, chemicals, electricity and equipment manufacturing as the leading business. The Company adhered to trade coordination and comprehensively expanded the international and domestic integrated logistics and trade business system for diversified commodities such as coal and ore. The Company insisted on financial innovation by scientifically implementing the "four-in-one" financial business layout comprising Shanghai, Beijing, Shenzhen and Qingdao and constructing the financial services system integrating investment and financing. In 2016, the Company completed coal production of 66.74 million tons, methanol production of 1.64 million tons and electricity generation of 2.777 billion kWh. The Company achieved operating income of RMB101.982 billion, representing an increase of RMB32.975 billion as compared with the corresponding period of last year; achieved net profit attributable to Shareholders of the listed company of RMB2.065 billion, representing an increase of RMB1.205 billion.

3. **Significant Increase of Development Potential.** Focusing on the Company's sustainable growth, the Company steadily acceleratd the construction and development of new projects, new technologies and new businesses. The Ordos Zhuanlongwan Coal Mine was officially put into commercial operation; the Shilawusu Coal Mine Project was approved by the National Development and Reform Commission; the Yingpanhao Coal Mine Project was approved as the first batch of coal mines for production capacity replacement; an industrial cluster was rapidly established in Shaanxi and Inner Mongolia, including 3 10-million-ton coal mines and 2 large-scale coal chemicals industry parks. The Moolarben Coal Mine (Phase II) of Yancoal Australia was put into production and became the largest open-pit coal mine in Australia. Yancoal Australia achieved substantial decrease in losses throughout the year and its operational quality was significantly improved. The successful on-site application of the world's first set of 8.2 metres high large-scale comprehensive mining equipment self-developed by Donghua Heavy Industry filled the blank space of the world's history of safe and efficient coal mining. The Company sticked to the "Two-wheel Driving Factors" of industrial operation and capital operation by successively implementing capital operation projects, such as the asset securitization of Yancoal Australia, acquiring the equity shares of the Coal & Allied Industries Limited, investing in the shares of Zheshang Bank, etc. These sped up the construction of the multi-layered and multi-functional financial industrial structure of banking, futures, funds, financial

leasing, asset management, etc., and created conditions for the Company to broaden financing channels, efficiently allocate assets and realise wealth appreciation.

4. **Timely and Strict Information Disclosure.** The Board of the Company had always been following the principles of openness, impartiality and fairness, and attaching great importance to the truthfulness, accuracy, completeness, timeliness and fairness of the information disclosure to perform the work of information disclosure in a timely and efficient manner throughout the year in strict accordance with laws, regulations, and domestic and overseas listing regulatory requirements. In respect of entities which own several listing platforms domestically and overseas, the relevant information of the Company and Yancoal Australia was simultaneously disclosed in domestic and overseas market adhering to the principle of "More Over Less, Stringent Over Lenient, Simultaneous Fair Disclosure". In 2016, more than 500 extraordinary announcements disclosing the Company's major business information, major capital operation and major connected transactions were published on the Shanghai Stock Exchange, Hong Kong Stock Exchange and New Stock Exchange to provide the domestic and overseas market with more comprehensive, clear and accurate information. The Company's information disclosure had been awarded as Class A in the annual assessment by Shanghai Stock Exchange for several consecutive years. Meanwhile, the Company insisted on strictly implementing the insider information management and insider management system so as to maintain the overall interests of the Company and treat all Shareholders in a fair manner. There was no infringement of interests of the minority Shareholders.

5. **More Harmonious Investor Relations.** The Company insisted on organizing domestic and overseas results roadshows at least twice a year. By convening multi-party meetings, one-to-one interviews, press conferences, etc., the Company explained the Company's business conditions in detail to the capital market, asked for opinions and suggestions from investors and the capital market, and directly answered the hot issues and focuses concerned by the capital market. For focuses such as the integration of production and financial sections of the Company and the repurchase of H shares concerned by the capital market, the Company adopted ways of on-site interviews, telephone communication, e-platform of Shanghai Stock Exchange, etc., to proactively strengthen the communication with investors. The Company reached more than 400 domestic and overseas institutional investors in aggregate throughout the year and gained the general understanding and support of investors. The Company faced up to the complex public opinion environment, established a sound media response mechanism, and proactively publish positive acticles on the Company's major issues to strengthen the monitoring and guidance on public opinions. These effectively maintained the Company's good image in the domestic and overseas market. In 2016, the Company was awarded the "Chinese Listed Companies Investor Relations Best New Media Operation Award"（中國上市公司投資者關係最佳新媒體運營獎）and the "Golden Hong Kong Shares – Best Investor Relations Management Award"（金港股最佳投資者關係管理獎）.

6. **Steady Enhancement of Social Value.** The Company had always been attaching great importance to the social value of the development of the Company and incorporating the performance of social responsibility into corporate governance and development strategies in order to enhance the non-commercial contribution to stakeholders, environment protection, resources utilization, etc. The Company proactively implemented the "Blue Sky Project" by developing and promoting the technology of using clean coal, implementing clean exploitation and comprehensive utilization of resources, and planning for the efficient construction and operation of the automatic production lines which can produce 1 million tons of clean coal, 500 thousand tons of additive and 100 thousand of stove annually. These demonstrated the "Clean Utilization and Green Development" of coal. The Company implemented the national policy of reducing production capacity, organized production in strict accordance with the approved production capacity and closed the Beisu coal mine efficiently. The Company strengthened the safety control management, implemented safety responsibilities and ensured the occupational safety and health of employees so as to become an intrinsically safe enterprise. The Company cared about and supported public welfare and realized the coordinated development between enterprises and society by carrying out poverty alleviation activities, donating and providing education precisely according to the needs. The Company was awarded the "Asian Quality Award" (亞洲品質獎) again, making the Company the only Chinese coal enterprise that received the highest honor of Asian quality control for twice. Moreover, the Company was named "trustworthy enterprise" by the State Administration for Industry and Commerce and was evaluated as a Grade AAA Credit Enterprise by the China National Coal Association.

II. KEY TASKS FOR THE YEAR 2017

In 2017, the global economy is still in a period of deep adjustment. The macroeconomic environment and the foundation for the steady recovery of the coal market are still not stable. However, with the domestic economy becoming stable and the supply-side reform achieving preliminary results, the chances for the downward fluctuation of the coal market becomes smaller. In addition, as the Company continues to adjust the business structure, optimize the development layout and change the way of development, 2017 is going to be the important period of opportunities for the Company to enlarge the development advantages and enhance the efficacy of development.

The Board of the Company will examine the situation carefully and actively seize the development trend of industrial policies. The Company will bring its advantages into full play, implement policies precisely and aggressively to fully make use of the reciprocating effect of the industrial business in Shaanxi and Inner Mongolia base, the synergy effect of the logistics and trade business, and the service support function of the financial business according to the new strategic business layout of the industrial business, the logistics and trade business, and the financial business in order to requite the Shareholders for good operating results.

In 2017, the Board of the Company will focus on the following tasks:

1. **Constantly Standardize and Enhance the Level of Corporate Governance.** In strict accordance with the Articles of Association and domestic and overseas regulatory requirements, the Company will complete the general election of the Board and the Supervisory Committee of the Company in a timely manner and continue to standardize the structure of corporate governance and the operation of the "Three Boards". The role and functions of the Board will be highlighted and made use of, the authority conferred by the Articles of Association will perform actively in order to strengthen the control and management of operational risks and foster the Company's compliance operations. The construction of the special committees will be strengthened so as to improve their functions and that the working efficiency of the Board can be enhanced by making use of the regular platform of the special committees. The Board will fully reply on the neutrality and independence of the independent Directors and make use of their professional expertise to continuously enhance the professional level of the Board's decisions. The Board will speed up the exploration and development of a scientific and effective performance evaluation system to link remuneration with performance and combine long-term incentives with short-term incentives. The Company will also actively organize Directors, Supervisors and the senior management to participate in relevant trainings of domestic and overseas regulatory authorities to further enhance their awareness of standardized operation.

2. **Highlight and Strengthen the Supporting Advantages of Industrial Business.** The Company took the industrial business as the foundation for supporting the Company's sustainable development and continued to promote the expansion of the industrial business into upstream and downstream businesses and the higher end of the value chain by strengthening the coal business, expanding into the chemicals business, optimizing the electricity business and upgrading the manufacturing business. **For the coal business**, the Company will focus on optimizing the production of the main base, exploring potential and reducing costs to maintain the stable and efficient production. The projection construction and release of production capacity in Shaanxi and Inner Mongolia base can achieve higher production volume and efficiency. The production capacity optimization and coordinated operation in Australia base aim to turn loss into profit. **For the chemicals business**, the Company will focus on the system's "Safety, Stable, Long running hours, Full capacity and Premium product" operation, and strengthen the management and resources coordination within the area so as to lower the operating costs and enhance economic benefits. **For the electricity business**, the Company will actively seek the best intersection point of power generation efficiency and overall operational efficiency, and develop a unified platform for the purchase and sales of electricity by making use of the self-electricity policy. **For the manufacturing business**, in view of the "Made in China 2025" scheme, the Company will promote the expansion of equipment manufacturing from low-end to high-end, and from manufacturing components to the whole set of equipment. By actively implementing the "Going Out" strategy, the Company will strive to capture the emerging domestic and overseas market.

3. **Fully Implement the Coordination of Marketing, Trade and Operation.** In accordance with the "Big Marketing, Big Trade and Big Logistics" strategic layout, the Company will build a scientific, professional and integrated operating system for marketing, trade and logistics with the aim to enhance market competitiveness and level of efficiency. To ensure efficiency maximization, the Company will adhere to intelligent marketing which is efficiency-driven, improve the marketing effectiveness model, establish the "Decision-Making Side, Production Side, Market Side" dynamic linkage analysis mechanism, and realise simultaneous adjustment of marketing strategies and product structure. Aiming at doing specialized businesses, expanding the scale, increasing profit and strictly control the risks, the Company will integrate and optimize all of the regional trade business, promote the sharing of resources and market between the marketing system and trade business so as to increase market share. Leveraging on the financial services provided to the upstream and downstream clients along the supply chain to develop customer loyalty. Integrating the Company's internal and external logistics resources, the Company will strengthen the construction of logistics and distribution system to bring its advantage of industrial scale into full play. The Company will build a distribution system covering the headquarters, Shaanxi and Inner Mongolia and the East China region, fully open up Shaanxi and Inner Mongolia's eastbound, westbound and southbound coal transportation channels, and speed up the 10-million-ton alteration and expansion works of the Shihekou Port to further enhance the synergy effect of "Railway-River Combined Transportation".

4. **Focus on Enhancing the Development Effectiveness of the Integration of Production and Financial Sections.** Adhering to the principle of "Finance Serves Industry, Industry Assists Finance", the Company will vigorously carry out the strategic integration of the industrial business and the financial business, which will provide new support for the Company's development. The Company will fully make use of the location advantage of Shanghai, Beijing, Shenzhen and Qingdao and the resource advantage of the financial market, and insist on the parallel status of financial and quasi-financial business. Continuously strengthening the strategic cooperation with financial institutions such as banks, securities and insurance companies, business development such as financial leasing, funds and capital management can be coordinated and hence the construction of a financial business system can be sped up. Leveraging on the brand value of the listing platforms and the multi-layered and multi-functional financial industrial layout, the Company will open up diversified financing channels, secure traditional bank financing, innovate bond financing and enlarge equity financing to protect the Company's capital needs. The Company will continue to strengthen its entity business, expand its business, strengthen the screening of quality resources projects and capital projects, and carry out steady investment in order to benefit from capital-driven development, upgrade and transformation.

5. **Continuously Enhance the Company's Stamina for Constant Development.** Accurately grasping the incremental point, enhancement point and key point of the Company's development, the Company insists on the parallel status of external expansion and internal enhancement to improve the Company's development advantages. The Company will actively grasp the opportunities supported by national policies, speed up the key coal mine projects in Shaanxi and Inner Mongolia base and the construction of Yulin Methanol Plant (Phase II), and expand the coal and chemicals industrial chain of Shaanxi and Inner Mongolia base. The Company will speed up to release the capability of Moolarben coal mine to enlarge production volume, steadily advance in the aqusition of 100% equity shares of the Coal & Allied Industries Limited, and carry out the asset restructuring and operational coordination of Yancoal Australia to become the largest coal producer in Australia. In addition, the Company will speed up the large-scale production of efficient and clean coal, and expand the scale of marketing so as to become an integrated service provider of green and clean energy. By promoting the lean management, enterprise transformation of quality and efficiency development, intensive development and innovation-driven development are encouraged. The Company sticks to lean organization and production with the focuses of lowering production costs and increasing productivity. The Company will control its assets precisely so as to transform the asset advantages into efficiency advantages; allocate human resources precisely to enhance the utilization efficiency of human resources; carry out precise comprehensive budget management to control capital investment strictly. To provide new impetus for the Company's development, the Company will fully explore and stimulate all employees' potentials for innovation and achivements by continuously organizing "Innovation and Profit-Making" activities.

6. **Actively Maintain the Company's Good Development Image.** The Company will actively carry out the expectation management of investor relations by performing the work of information disclosure in a timely and efficient manner and in strict accordance with laws, regulations, and domestic and overseas listing regulatory requirements. The Company will continue to carry out detailed two-way exchange with investors and adhere to regular results roadshows in order to strengthen the communication with investors. To increase the Company's operational transparency, "Counter-Roadshows" will be organized in a timely manner by actively inviting market analysts and investors to investigate and observe the production and operation of the Company. The Company will strengthen its public relations management by further communicating and exchanging ideas closely with regulatory authorities, industry associations, and domestic and overseas media. All Shareholders will be treated in a fair manner and the insider information management and insider management will be handled strictly to ensure the overall interests of the Company and the minority Shareholders.

2017 will be the year for the nation's strengthened supply-side structural reform of the coal industry. It will also be the crucial year for the Company's transformation and upgrade, release of potential and breakthroughs. The Board of the Company will actively implement the resolutions approved by the Shareholders' general meetings. The Board will perform the duties in a diligent, responsible and aggressive manner under the relentless support of the Shareholders and the Supervisory Committee and with the assistance of the management to create sound return to Shareholders.

Working Report of the Supervisory Committee of Yanzhou Coal Mining Company Limited for the Year 2016

During the year 2016, in accordance with the PRC Company Law and the Articles of Yanzhou Coal Mining Company Limited (the "Company"), all Supervisors have fulfilled their supervising responsibilities, preserved the rights of the Company and its Shareholders, followed the principles of honesty and trustworthiness, and actively carried out their duties with care and diligence.

(I) Details of the meetings of the Supervisory Committee of the Company held during the reporting period:

The Supervisory Committee of the Company held five meetings during the reporting period and the details are as below:

1. The 10th Meeting of the sixth Session of the Supervisory Committee was held on 28 April 2016, at which the Report for the First Quarter of Year 2016 of Yanzhou Coal Mining Company Limited was considered and approved.

2. The 11th Meeting of the sixth Session of the Supervisory Committee was held on 16 June 2016, at which the Proposal in Relation to the Company Being in Compliance with the Requirements of Non-public Issuance of Shares, the Proposal in Relation to Method of Non-public Issuance of the Shares Towards Specific Investors, the Proposal in Relation to the Feasibility Analysis Report of Implementing the Use of Proceeds of the Non-public Issuance of RMB Ordinary Shares of the Company, the Proposal in Relation to Proposal of Non-public Issuance of the A Shares of the Company and the Proposal in Relation to the Shareholder Return Plan in the next Three Years (2016-2018) were considered and approved.

3. The 12th Meeting of the sixth Session of the Supervisory Committee was held on 26 August 2016, at which the Proposal in Relation to 2016 Interim Report of Yanzhou Coal Mining Company Limited was considered and approved.

4. The 13th Meeting of the sixth Session of the Supervisory Committee was held on 28 October 2016, at which the Report for the Third Quarter of Year 2016 of Yanzhou Coal Mining Company Limited was considered and approved.

5. The 14th Meeting of the sixth Session of the Supervisory Committee was held on 30 December 2016, at which the Proposal in Relation to the Non-proceeding of the Company's Non-public Issuance of A shares was considered and approved.

(II) Details of the opinion gave by the Supervisory Committee of the Company

The Supervisory Committee of the Company gave opinion on the following during the reporting period:

1. Operations in 2016 were in compliance with laws and regulations

Pursuant to the relevant laws and regulations, through sitting in the Board's meeting and attending Shareholders' meeting, the Supervisory Committee carried out investigation and supervision functions on matters such as the resolutions of and the procedures on convening the Shareholders' and Directors' meetings, the implementation of the resolutions of the Shareholders' general meetings by the Board, the carrying out of duties by the senior management of the Company and the management system of the Company. No act against the law, regulations and the Articles of the Company have been found. No breach of laws and regulations by the Directors and the senior management of the Company in the course of performing their duties has been found. The Supervisory Committee considers that the performance of the Board and the management in 2016 was in compliance with relevant PRC laws and regulations and the Articles of the Company, and was serious and responsible and its decision-making procedures were systematic and the internal control system of the Company was able to run effectively.

2. Examination of the financial situation of the Company

During the reporting period, the Supervisory Committee examined the financial conditions and operating results of the Company. The Supervisory Committee holds the view that the contents and format of the Company's financial statements were in conformity with relevant requirements, and the information provided can truly reflect the Company's financial situation and operating results of the current year from all aspects. The Company's results were accurate, and all costs, expenses and provisions were incurred and made in accordance with the relevant laws, regulations and the Articles of the Company.

3. Usage of Funds Raised

The Supervisory Committee takes the view that during the reporting period the projects actually invested in by the funds raised are consistent with the projects undertaken to be invested in by the Company.

4. Fairness of Assets Acquisition

During the reporting period, the pricing of assets acquisition was objective and fair. No insider dealing was discovered. The interests of the Shareholders and the Company's assets were not impaired.

5. Connected Transactions

During the reporting period, the connected transactions between the Company and its controlling Shareholder and its subsidiaries were just, fair and lawful, and did not impair the interests of the Shareholders of the Company.

6. Self-Assessment Report on the Internal Control System

The Supervisory Committee takes the view that the Self-Assessment Report on the Internal Control System made by the Board truly and completely reflects the actual conditions of the Company. The internal control system of the Company is sound basically and without major deficiency. The design of the internal control system is reasonable and its implementation is effective.

7. Establishment and Implementation of Insider Management System

During the reporting period, the Company strictly enforced the relevant provisions of the "Information Disclosure Management System of Yanzhou Coal Mining Company Limited". There were no insiders traded the shares of the Company before the disclosure of the significant price-sensitive internal information.

Yanzhou Coal Mining Company Limited
Supervisory Committee

THREE-YEAR FINANCIAL INFORMATION OF THE GROUP

The Company is required to set out in this circular the information for the last three financial years with respect to the profits and losses, financial record and position, set out as a comparative table and the latest published audited balance sheet together with the notes on the annual accounts for the last financial year for the Group.

The audited consolidated financial statements of the Group for the years ended 31 December 2016, 2015 and 2014 together with the accompanying notes to the financial statements, can be found on and pages 147 to 281 of the annual report of the Company for the year ended 31 December 2016, pages 143 to 276 of the annual report of the Company for the year ended 31 December 2015 and pages 120 to 241 of the annual report of the Company for the year ended 31 December 2014. The links are as follows:

http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0406/LTN20170406660.pdf
http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0330/LTN20160330629.pdf
http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0401/LTN201504011199.pdf

STATEMENT OF INDEBTEDNESS OF THE GROUP

At the close of business on 30 April 2017, being the latest practicable date for the purpose of this statement of indebtedness prior to the date of this circular, the bank and other borrowings of the Group as enlarged by the proposed acquisitions of C&A and Yankuang Group Finance (collectively referred to as the "**Combined Group**") comprise the following:

	RMB'000
Unsecured borrowing	10,914,361
Secured borrowing	25,723,807
Loans pledged by machineries	1,800,000
Finance lease liabilities	290,290
Guaranteed notes	27,467,757
	66,196,215

The secured borrowings and finance lease liabilities were secured by the Company's A Shares and the Combined Group's bank deposits and property, plant and equipment.

Contingent liabilities

As at 30 April 2017, the Combined Group has provided guarantees with respect to the performance and operation of the Combined Group, joint operations and related parties amounting to RMB3,945 million.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of business, as of 30 April 2017, the Combined Group did not have any other debt securities issued and outstanding, or authorised or otherwise created but unissued, loans or term loans (secured, unsecured, guaranteed or otherwise), other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, guarantees or other material contingent liabilities.

The Directors confirmed there was no material adverse change in the indebtedness and contingent liabilities of the Group since 30 April 2017 and being the date for determining the Group's indebtedness.

SUFFICIENCY OF WORKING CAPITAL

In determining the sufficiency of the working capital of the Group as enlarged by the proposed acquisitions of C&A and Yankuang Group Finance (collectively referred to as the "**Combined Group**"), the Directors have made the assumptions that (i) the YAL Rights Issue will be fully accepted and subscribed by the shareholders of Yancoal Australia and the net proceeds from the YAL Rights Issue of approximately of US$2.1 billion will be received in July 2017; and (ii) the Combined Group will be able to renew their existing banking facilities of approximately RMB25,000 million upon their respective expiration on or before 30 June 2018.

The Directors are of the opinion that: (i) the YAL Rights Issue will be fully accepted and subscribed by the shareholders of Yancoal Australia and the above mentioned net proceeds will be received in full; and (ii) the Combined Group will be able to renew their existing banking facilities upon their respective expiration on or before 30 June 2018 mentioned above since they have confirmed the intention with the banks.

After the consideration of the above assumption, the Directors are of the opinion that, in the absence of unforeseeable circumstances, after taking into account the business prospects of the Combined Group, the internal resources available to the Combined Group, YAL Rights Issue and the abovementioned banking facilities, the working capital available to the Group is sufficient for present requirements for at least the next twelve months from the date of this circular, which is estimated to be approximately RMB44,300 million including the payment of the Purchaser Price, the Tag Purchase Price and the consideration under the Yankuang Group Finance Equity Transfer Agreement. Should the estimated net proceeds of YAL Rights Issue and the above mentioned banking facilities be excluded from the working capital forecasts, the Combined Group will not have sufficient working capital for the Group's present requirements for at least the next twelve months from the date of this circular.

As at 30 April 2017, cash and bank balance of the Combined Group amounted to approximately RMB28,000 million. If (i) the YAL Rights Issue fails and the estimated net proceeds of approximately of US$2.1 billion does not exist; and (ii) the Combined Group is not able to renew their existing banking facilities of approximately RMB25,000 million upon their respective expiration on or before 30 June 2018, the Company will consider adopting other equity and debt fund-raising in both onshore and offshore market. Furthermore, as disclosed in the section headed "Proposed Application for the Issue of Not More Than 647,000,000 A Shares in the PRC" in this circular, the Company proposes to conduct the

Additional A Shares Issue, the amount of gross Proceeds from which is expected to be not more than RMB7,000 million. In addition, the Company will also consider disposing other investments currently held by the Company (if necessary).

DIVIDEND AND FINANCIAL SUMMARY

Final dividends of RMB 0.02 per Share, RMB 0.01 per Share and RMB 0.12 per Share were declared/paid by the Company for the years ended 31 December 2014, 2015 and 2016.

MANAGEMENT DISCUSSION AND ANALYSIS OF HISTORICAL RESULTS OF OPERATIONS OF THE GROUP

Reproduced below is the management discussion and analysis of the Group's operations for the financial years ended 31 December 2014, 2015 and 2016, respectively. The information reproduced below is principally extracted from the sections of "Business review", "Business prospects" and "Management discussion and analysis" of the annual report of the Company for each of the three financial years ended 31 December 2016 to provide further information relating to the financial condition and results of operations of the Group during the respective periods stated.

Capitalised terms used in this section shall have the same meaning as those defined in the respective annual report.

These extracted materials below were prepared prior to the date of this circular and speak as of the date they were originally published, representing the opinion and beliefs made by the then Directors at such time when the related annual report was issued.

As stated above, the Company's prospects and intentions relating to its business may have changed since that date, and the readers should therefore not place undue reliance on this information, including the information consisting of or relating to forward looking or future statements. Readers should instead pay attention to other sections of this circular, namely:

- Letter from the Board;
- Appendix X – Unaudited Pro Forma Financial Information of the Enlarged Group;
- Appendix XVI – General Information.

For the year ended 31 December 2016

I. MANAGEMENT DISCUSSION AND ANALYSIS

1. Main business by industries

		Unit	2016	2015	Increase/ Decrease	Increase/ Decrease (%)
1.	**Coal Business**					
	Raw coal production	kilotonne	**66,738**	68,478	-1,740	-2.54
	Salable coal production	kilotonne	**62,365**	62,869	-504	-0.80
	Salable coal sales volume	kilotonne	**74,969**	87,242	-12,269	-14.06
2.	**Railway Transportation Business**					
	Transportation volume	kilotonne	**13,443**	15,993	-2,550	-15.94
3.	**Coal Chemicals Business**					
	Methanol production	kilotonne	**1,641**	1,671	-30	-1.80
	Methanol sales volume	kilotonne	**1,675**	1,608	67	4.17
4.	**Power Generation Business**					
	Power generation	10,000KWh	**277,715**	263,952	13,763	5.21
	Electricity sold	10,000KWh	**179,907**	167,736	12,171	7.26
5.	**Heat Business**					
	Heat generation	10,000 steam tonnes	**133**	130	3	2.31
	Heat sales volume	10,000 steam tonnes	**5**	12	-7	-58.33
6.	Electrical and Mechanical Equipment Manufacturing					
	Output of Electrical and Mechanical Equipment					
	(1) hydraulic support	kilotonne	**67**	56	11	19.64
	(2) heading machine	set	**15**	12	3	25.00
	(3) scraper/belt conveyor	kilotonne	**29**	25	4	16.00
	(4) frequency converter and switch cabinet	set	**5,420**	5,230	190	3.63
	Sales of Electrical and Mechanical Equipment					
	(1) hydraulic support	kilotonne	**22**	24	-2	-8.33
	(2) heading machine	set	**2**	5	–3	-60.00
	(3) scraper/belt conveyor	kilotonne	**22**	19	3	15.79
	(4) frequency converter and switch cabinet	set	**4,018**	2,451	1,567	63.93

Notes:

1. There were significant differences between production volumes and sales volumes of related products of power business, heat business and electromechanical manufacturing business in the above table. It was mainly due to that related products of the Group are sold externally after satisfying its internal operating requirements.

2. In July 2015, as an acquisition under the common control, the Company acquired 100% equity interest of Donghua Heavy Industry held by Yankuang Group.

In 2016, affected by national reform of supply side and production reduction policy of coal industry, the Group's sales volume of self produced coal and traded coal was decreased. In 2016, the Group realized coal sales of 74.97 million tonnes, including: self produced coal sales of 60.71 million tonnes, accounting for 88.6% of annual self produced coal sales plan; methanol sales of 1.68 million tonnes, accounting for 112.0% of annual methanol sales plan.

2. The Operation of Business Segments

(1) Coal Business

In 2016, the Group produced 66.74 million tonnes of raw coal, representing a decrease of 1.74 million tonnes or 2.5% as compared with the previous year. The saleable coal production of the Group was 62.37 million tonnes, representing a decrease of 0.5 million tonnes or 0.8% as compared with that of last year.

Affected by national reform of supply side, production reduction policy of coal industry and other policy factors, the Group's average coal sales price increased as compared with that of the previous year.

In 2016, the Group sold a total of 74.97 million tonnes of coal, representing a decrease of 12.27 million tonnes or 14.1% as compared with that of 2015. The decrease of coal sales volume is mainly due to the decrease of 12.81 million tonnes or 47.3% of sales volume of traded coal as compared with that of 2015.

In 2016, the Group realized a sales income of RMB29.2954 billion, representing a decrease of RMB3.5806 billion or 10.9% as compared with that of 2015.

The Group's cost of coal sales in 2016 was RMB18.9571 billion, representing a decrease of RMB6.6537 billion or 26.0% as compared with that of 2015, which was attributed to: (i) the decrease of RMB6.8412 billion of sales costs of traded coal as compared with that of 2015; (ii) the decrease of RMB1.1535 billion of sales costs of Yancoal Australia; and (iii) the increase of RMB668.8 million of sales costs of the Company.

In 2016, the total cost of coal sales of Yancoal Australia was RMB2.8322 billion, representing a decrease of RMB1.1535 billion or 28.9% as compared with that of 2015. The cost of coal sales per tonne was RMB234.66, representing a decrease of RMB63.82 or 21.4% as compared with that of 2015. This was mainly due to the sales structure changes of saleable coal of Yancoal Australia in the reporting period caused by implementation of assets securitization and commercial operation of Phase II Project of Moolarben, resulting in the corresponding changes of sales cost per tonne.

(2) Railway Transportation Business

In 2016, the transportation volume of the Company's Railway Assets was 13.44 million tonnes, representing a decrease of 2.55 million tonnes or 15.9% as compared with that of 2015. Income from railway transportation services of the Company (income from transported volume settled on the basis of ex-mine prices and special purpose railway transportation fees borne by customers) was RMB287.4 million in 2016, representing a decrease of RMB39.956 million or 12.2% as compared with that of 2015. The cost of railway transportation business was RMB166.9 million, representing a decrease of RMB60.617 million or 26.6%.

(3) Coal Chemical Business

The following table sets out the Group's methanol business for 2016:

		Methanol Production Volume (kilotonne)			Methanol Sales Volume (kilotonne)		
		2016	**2015**	**Increase/ Decrease** *(%)*	**2016**	**2015**	**Increase/ Decrease** *(%)*
1.	Yulin Neng Hua	**690**	672	2.68	**686**	669	2.54
2.	Ordos Neng Hua	**951**	999	-4.80	**989**	939	5.32

		Sales Income (RMB'000)			Sales Cost (RMB'000)		
		2016	**2015**	**Increase/ Decrease** *(%)*	**2016**	**2015**	**Increase/ Decrease** *(%)*
1.	Yulin Neng Hua	**1,022,883**	951,236	7.53	**836,358**	730,499	14.49
2.	Ordos Neng Hua	**1,422,806**	1,313,512	8.32	**1,015,403**	805,329	26.09

(4) Power Generation Business

The following table sets out the summary of the operation of the Group's power business for 2016:

		Power Generation (10,000Kwh)			Power Output Dispatch (10,000Kwh)		
		2016	**2015**	**Increase/ Decrease** *(%)*	**2016**	**2015**	**Increase/ Decrease** *(%)*
1	Hua Ju Energy	**91,036**	96,006	-5.18	**33,228**	35,230	-5.68
2	Yulin Neng Hua	**29,229**	26,581	9.96	**2,243**	1,222	83.55
3	Heze Neng Hua	**157,450**	141,365	11.38	**144,436**	131,284	10.02

		Sales Income (RMB'000)			Sales Cost (RMB'000)		
		2016	2015	Increase/ Decrease (%)	2016	2015	Increase/ Decrease (%)
1	Hua Ju Energy	**136,702**	148,023	-7.65	**111,846**	114,866	-2.63
2	Yulin Neng Hua	**4,421**	2,773	59.43	**6,840**	3,617	89.11
3	Heze Neng Hua	**431,399**	447,812	-3.67	**355,205**	358,030	-0.79

Note: In 2016, the electricity sales volume of Yulin Neng Hua was increased as compared with that of 2015. This was mainly due to the increase of electricity online sales with the government permission.

(5) Heat Business

Hua Ju Energy generated heat energy of 1.33 million steam tonnes and sold 50 thousand steam tonnes in 2016, generating sales income of RMB12.399 million, with sales cost at RMB5.796 million.

(6) Electrical and Mechanical Equipment Manufacturing

The Group's operation of electrical and mechanical equipment manufacturing is shown as follows.

		Sales Income (RMB'000)			Sales Cost (RMB'000)		
		2016	2015	Increase/ Decrease (%)	2016	2015	Increase/ Decrease (%)
1.	Hydraulic support	**409,260**	30,562	1,239.11	**322,408**	30,076	971.98
2.	Heading machine	**5,592**	2,205	153.61	**3,758**	1,235	204.29
3.	Scraper/belt conveyor	**171,900**	241,016	-28.68	**153,687**	240,648	-36.14
4.	Frequency converter and switch cabinet	**72,348**	36,135	100.22	**63,094**	35,641	77.03

Notes:

1. The sales income and sales costs of various products shown in above table was increased dramatically as compared with that of last year. It is mainly due to increase of sales volume of the related products as compared with that of last year.

3. Analysis of Main Business

Analysis of changes in Consolidated Income Statement items and Consolidated Statement of Cash Flow items

Unit: RMB'000

	2016	2015	Increase/ Decrease *(%)*
Sales income	**33,272,432**	36,404,086	-8.60
Total sales cost	**21,998,352**	28,171,573	-21.91
Cost of coal transportation	**1,810,092**	2,078,902	-12.93
Selling, general and administrative expenses	**7,788,733**	5,696,704	36.72
Investment gains from associated enterprises	**708,368**	502,364	41.01
Investment losses from joint ventures	**10,366**	170,458	-93.92
Income tax	**816,908**	489,637	66.84
Net cash from operating activities	**11,220,674**	3,849,356	191.49
Cash flow from investing activities	**(14,955,294)**	(7,705,519)	–
Cash flow from financing activities	**38,680**	11,073,805	-99.65
Research and Development Expenditure	**79,526**	38,072	108.88

(1) Analysis of Income and Cost

The causes of sales income changes: (i) the sales revenue increased by RMB3.5419 billion as compared with that of 2015 due to the sales price increase of the self-produced coal, and the sales revenue decreased by RMB305.8 million as compared with that of 2015 due to the sales volume decrease of the self-produced coal; (ii) the sales income of the traded coal decreased by RMB6.8167 billion as compared with that of 2015.

(a) Factor Analysis of the Change in Business Income

Main business by industries

Unit: RMB'000

		Sales Income	Cost of Sales	Gross Profit *(%)*	Increase/ Decrease in sales income as compared with that of last year *(%)*	Increase/ Decrease in cost of sales as compared with that of last year *(%)*	Increase/ Decrease in gross profit as compared with that of last year (percentage point)
1.	Coal business	29,295,367	18,957,085	35.29	-10.89	-25.98	13.19
2.	Railway transportation business	287,355	166,871	41.93	-12.21	-26.65	11.43
3.	Coal chemicals business	2,445,689	1,851,761	24.28	7.99	20.57	-7.91
4.	Power generation business	572,522	473,891	17.23	-4.36	-0.55	-3.17
5.	Heat business	12,399	5,796	53.25	-54.99	-56.59	1.72
6.	Electrical and mechanical equipment manufacturing	659,100	542,948	17.62	112.67	76.51	16.87

Main business by products

		Sales Income	Cost of Sales	Gross Profit *(%)*	Increase/ Decrease in sales income as compared with that of last year *(%)*	Increase/ Decrease in cost of sales as compared with that of last year *(%)*	Increase/ Decrease in gross profit as compared with that of last year (percentage point)
1.	Coal business	29,295,367	18,957,085	35.29	-10.89	-25.98	13.19
2.	Railway transportation business	287,355	166,871	41.93	-12.21	-26.65	11.43
3.	Coal chemicals business	2,445,689	1,851,761	24.28	7.99	20.57	-7.91
4.	Power generation business	572,522	473,891	17.23	-4.36	-0.55	-3.17
5.	Heat business	12,399	5,796	53.25	-54.99	-56.59	1.72
6.	Electrical and mechanical equipment manufacturing	659,100	542,948	17.62	112.67	76.51	16.87

(b) Cost analysis

By industry

Unit: RMB'000

	Component of Costs	2016	Percentage of total cost in 2016	2015	Percentage of total cost in 2015	Increase/ Decrease as compared with that of last year
		(RMB'000)	*(%)*	*(RMB'000)*	*(%)*	*(%)*
I.	Costs of self-produced coal	**13,543,173**	**100.00**	13,355,668	100.00	1.40
	1. materials	**2,565,079**	**18.94**	2,040,354	15.28	25.72
	2. salary and employee benefits	**4,224,869**	**31.20**	4,486,531	33.59	-5.83
	3. electricity	**504,686**	**3.73**	473,303	3.54	6.63
	4. depreciation	**1,494,082**	**11.03**	2,096,790	15.70	-28.74
	5. Subsidence expenses	**1,252,552**	**9.25**	1,300,566	9.74	-3.69
	6. amortization of mining leases	**613,921**	**4.53**	719,821	5.39	-14.71
	7. others	**2,887,983**	**21.32**	2,238,303	16.76	29.03
II.	Costs of traded coal	**5,413,912**	**–**	12,255,123	–	-55.82
III.	Total	**18,957,085**	**–**	25,610,791	–	-25.98

2.1 Cost Analysis and other illustrations

(a) Causes of sales costs changes: the sales costs of coal business decreased by RMB6.6537 billion as compared with that of 2015.

(b) The sales costs of coal business accounts for 86.2% of the Group's total sales costs. Therefore the component of costs by industry in above table is only the component of sales costs of the Group's coal business during the reporting period.

(2) Analysis of Changes of Expenses and other

The cause analysis of changes of sales, general and administrative expenses: (i) the Group's bad-debt provision for prepayments, etc. decreased by RMB1.0525 billion as compared with that of 2015; (ii) with the implementation of national policies of production capacity reduction, the Company actively closed down Beisu Coal Mine in September 2016, resulting in the RMB341.3 million of increase of goodwill impairment losses.

The cause analysis of changes of investment income of associated enterprises: the investment income from associated enterprises increased by RMB222 million due to the Company's participation and investment to Qilu Bank Co., Ltd..

The cause analysis of changes of investment losses of joint ventures: the losses of investment to Middle Mount Joint Venture decreased by RMB156.5 million as compared with that of 2015 during the reporting period.

The cause analysis of changes of income tax: due to the upturns of domestic coal market, the Group's operational profit increased, resulting in the RMB327.3 million of increase of income tax as compared with that of 2015.

(3) Research and Development Expenditure

For the purpose of promotion of optimization and upgrading of industrial structure, and focusing on the core technology breakthrough of leading industries, and adhering to the principles of "enterprise dominants, internal and external joints, industrial combination, innovation promotion, key breakthrough and leaping development", the Group developed enterprise innovation development strategies with goals of "production automation, high-end orientation of products, technology independence, management informationalization, low carbon development and operation internationalization", improving the independent innovation abilities and building an innovation– oriented enterprise.

In 2016, the Group invested RMB79.526 million for research and development and completed 85 items of scientific and technological achievements, including 28 items reaching the international advanced level, 64 items obtaining patents and 22 items winning the provincial science and technology awards.

(4) Cash Flow

The cause analysis of changes of net cash from operating activities: (i) the cash inflow from the operating activities was increased by RMB7.8072 billion as compared with that of 2015; (ii) the net interest income was decreased by RMB1.0359 billion as compared with that of 2015.

The cause analysis of changes of cash flow for investment activities: (i) the external investment was increased by RMB5.4580 billion as compared with that of 2015; (ii) the cash from investment returns was decreased by RMB1.5524 billion as compared with that of 2015.

The cause analysis of changes of cash flow from financing activities: (i) the net bank loans was decreased by RMB11.9974 billion as compared with that of 2015; (ii) the net proceeds from guaranteed bills was decreased by RMB770.1 million as compared with that of 2015; (iii) the net perpetual capital bond was decreased by RMB5.8188 billion; and (iv) the contribution for non-controlling interests was increased by RMB7.8508 billion as compared with that of 2015.

Financial Resources and Utilisation

In 2016, the Group's principal financial resources was the cash flow from operations, bond issuance and bank loans. The Group has utilized its capital mainly for the payment of operating expenses, purchase of property, machinery and equipment, payment of dividends to the Shareholders, repayment of bank loans, payment of the acquisition of assets and equities.

The Group's capital expenditure for the purchase of property, machinery and equipment for the year 2016 was RMB6.3167 billion, representing a decrease of RMB3.5518 billion or 36.0% as compared with RMB9.8685 billion in 2015, which was mainly due to the decrease of capital expenditures needed after commercial operation of the Group's major coal mine construction projects.

4. Assets and Liabilities

Items	Closing amount of 2016	Percentage to total assets in 2016	Closing amount of 2015	Percentage to total assets in 2015	Percentage of increase/ decrease in closing amount	Notes
		(%)		*(%)*	*(%)*	
Restricted cash	**1,144,800**	**0.78**	407,711	0.29	180.79	During the reporting period, the Group received the returned environmental treatment deposit from the government, resulting in RMB944.9 million of increase of the restricted cash.
Bills and accounts	**9,735,859**	**6.60**	5,976,837	4.20	62.89	During the reporting period: ① the bills receivables collected by the Group for coal trades increased byRMB3.3263 billion as compared with that of 2015; ② the Group's rolling settlement for coal trades increased by RMB420.5 million as compared with that of 2015.
Assets held for sale	**–**	**–**	7,740,520	5.43	–	Through the implementation of assets securitization, Yancoal Australia sold the "Asset held for sale" to Watagan Mining Pty Limited.

Items	Closing amount of 2016	Percentage to total assets in 2016	Closing amount of 2015	Percentage to total assets in 2015	Percentage of increase/ decrease in closing amount	Notes
		(%)		*(%)*	*(%)*	
Projects under construction	**10,929,944**	**7.41**	16,956,592	11.90	-35.54	① Zhuanlongwan Coal Mine was put into commercial operation at the second half of 2016, resulting in the decrease by RMB9.0826 billion in projects under construction as compared with that of 2015; ② the infrastructure project investment of Yingpanhao Coal Mine, Shilawusu Coal Mine and Moolarben Coal Mine Phase II project increased, resulting in the increase by RMB2.9903 billion for projects under construction.
Security investment	**2,624,003**	**1.78**	944,410	0.66	177.85	During the reporting period, the Company's investment to Zheshang Bank resulted in the RMB1.8066 billion of increase of security investment.
Investments to associated enterprises	**5,133,273**	**3.48**	3,263,764	2.29	57.28	① Investment of RMB550 million for equity participation in Haichang Industry; ② Equity participation in Qilu Bank resulted in RMB797.7 million of increase of associated enterprise investment; ③ the Group confirmed that RMB708.4 million of income from investments to associated enterprises.
Long-term accounts receivables with maturities of more than one year	**4,667,837**	**3.17**	247,339	0.17	1,787.22	① The Group's long-term accounts receivables to Watagan Mining Pty Ltd. was increased by RMB3.8872 billion; ② The accounts receivables for financial leasing of Zhongyin Financial Leasing Co., Ltd. was increased by RMB466.1 million.
Bills and accounts payables	**5,849,019**	**3.97**	4,207,366	2.95	39.02	① The bills payables and accounts payables of Qingdao Zhongyin Ruifeng were increased by RMB1.0678 billion and RMB125.8 million respectively; ② Bills payables of Zhongyin Financial Leasing was decreased by RMB348.8 million; ③ Accounts payables of Yancoal Australia was increased by RMB629.3 million.

Items	Closing amount of 2016	Percentage to total assets in 2016 (%)	Closing amount of 2015	Percentage to total assets in 2015 (%)	Percentage of increase/ decrease in closing amount (%)	Notes
Tax payables	**775,051**	**0.53**	204,418	0.14	279.15	The Group's operational profit was increased due to the upturns of domestic coal market, resulting in RMB570.6 million of increase of income tax.
Non-controlling interests	**9,602,686**	**6.51**	3,770,070	2.65	154.71	① Duanxin Beijing's investment for establishment of the joint venture with Shenzhen FTSE Xinhua resulted in the RMB4.0 billion of increase of non-controlling interests; ② Duanxin Beijing's establishment of the joint venture with China Great Wall Security Co., Ltd. resulted in RMB3.0 billion of increase of non-controlling interests; ③ Duanxin Beijing's establishment of the joint venture with Jianghai Security Co., Ltd. resulted in RMB1.0 billion of increase of non-controlling interests; ④ The Group called US$300 million perpetual bonds.

Other information

(1) Debt on equity ratio

As at 31 December 2016, the equity attributable to the equity holders of the Company and the bank loans amounted to RMB37.1387 billion and RMB65.5778 billion respectively, representing a debt to equity ratio of 176.6%.

For detailed information on borrowings, please refer to Note 39 of the financial statements prepared as contained in the annual report of the Company for the year ended 31 December 2016.

(2) Contingent liabilities

For details of the contingent liabilities, please see Note 57 of the Financial Statements as contained in the annual report of the Company for the year ended 31 December 2016.

For the year ended 31 December 2015

I. MANAGEMENT DISCUSSION AND ANALYSIS

1. Main business by industries

		Unit	2015	2014	Increase/ Decrease	Percentage of increase and decrease
						(%)
1.	**Coal business**					
	Raw coal production	kilotonne	**68,478**	72,596	-4,118	-5.67
	Salable coal production	kilotonne	**62,869**	66,890	-4,021	-6.01
	Salable coal sales volume	kilotonne	**87,242**	123,075	-35,833	-29.11
2.	**Railway transportation business**					
	Transportation volume	kilotonne	**15,993**	16,565	-572	-3.45
3.	**Coal chemicals business**					
	Methanol production	kilotonne	**1,671**	645	1,026	159.07
	Methanol sales volume	kilotonne	**1,608**	655	953	145.50
4.	**Power generation business**					
	Power generation	10,000KWh	**263,952**	160,512	103,440	64.44
	Electricity sold	10,000KWh	**167,736**	72,249	95,487	132.16
5.	**Heat business**					
	Heat generation	10,000 steam tonnes	**130**	130	0	0
	Heat sales volume	10,000 steam tonnes	**12**	9	3	33.33
6.	**Electrical and mechanical equipment**					
	Output of electrical and mechanical equipment					
	(1) hydraulic support	kilotonnes	**56**	40	16	40.00
	(2) heading machine	set	**12**	16	-4	-25.00
	(3) scraper/belt conveyor	kilotonnes	**25**	33	-8	-24.24
	(4) frequency converter and switch cabinet	set	**5.230**	6.896	-1666	-24.16
	Sales of electrical and mechanical equipment					
	(1) hydraulic support	kilotonnes	**24**	–	24	–
	(2) heading machine	set	**5**	–	5	–
	(3) scraper/belt conveyor	kilotonnes	**19**	–	19	–
	(4) frequency converter and switch cabinet	set	**2.451**	–	2,451	–

2. The operation of business segments

(1) Coal Business

In 2015, the Group produced 68.48 million tonnes of raw coal, representing a decrease of 4.12 million tonnes or 5.7% as compared with that of 2014; The salable coal production of the Group was 62.87 million tonnes, representing a decrease of 4.02 million tonnes or 6.0% as compared with that of last year.

The weak demand for coal in both the domestic and the overseas markets has led to the decrease of the average coal sales price of the Group as compared with that of last year.

In 2015, the Group sold a total of 87.24 million tonnes of coal, representing a decrease of 35.83 million tonnes or 29.1% as compared with that of 2014. The decrease of coal sales volume is mainly due to the decrease of 29.95 million tonnes or 52.5% of sales volume of externally purchased coal as compared with that of 2014.

In 2015, the Group realized a sales income of RMB32.8760 billion, representing a decrease of RMB25.6634 billion or 43.8% as compared with that of 2014.

The Group's cost of coal sales in 2015 was RMB25.6108 billion, representing an decrease of RMB23.6966 billion or 48.1% as compared with that of 2014. This was attributed to: sales cost of outsourcing coal reduced by RMB19.1174 billion; the Group has implemented "three decreases and three increases", optimized personnel allocation and many other measures to exert potentialities, reduce cost and increase efficiency by the Group and the coal sales cost of all operating entities at home and abroad decreased.

(2) Railway Transportation Business

In 2015, the transportation volume of the Company's Railway Assets was 15.99 million tonnes, representing a decrease of 0.57 million tonnes or 3.5% as compared with that of 2014. Income from railway transportation services of the Company (income from transported volume settled on the basis of ex-mine prices and special purpose railway transportation fees borne by customers) was RMB327.3 million in 2015, representing a decrease of RMB46.306 million or 12.4% as compared with that of 2014. The cost of railway transportation business was RMB227.5 million, representing a decrease of RMB22.673 million or 9.1%.

(3) Coal Chemicals Business

The following table sets out the Group's methanol business for 2015:

		Sales Income (RMB'000)			Sales Cost (RMB'000)		
		2015	2014	Percentage of increase/ Decrease (%)	2015	2014	Percentage of increase/ Decrease (%)
1.	Yulin Neng Hua	**951,236**	1,195,458	-20.43	**730,499**	869,294	-15.97
2.	Ordos Neng Hua	**1,313,512**	–	–	**805,329**	–	–

(4) Power Generation Business

The following table sets out the Group's power generation business for 2015:

		Sales Income (RMB'000)			Cost of sales (RMB'000)		
		2015	2014	Increase/ Decrease (%)	2015	2014	Increase/ Decrease (%)
1.	Hua Ju Energy	**148,023**	133,795	10.63	**114,866**	108,973	5.41
2.	Yulin Neng Hua	**2,773**	3,174	-12.63	**3,617**	7,073	-48.86
3.	Heze Neng Hua	**447,812**	104,521	328.44	**358,030**	43,678	719.70

(5) Heat Business

Hua Ju Energy generated heat energy of 1.3 million steam tonnes and sold 0.12 million steam tonnes in 2015, generating sales income of RMB27.549 million, with sales cost at RMB13.353 million.

(6) Electrical and mechanical equipment manufacturing

The Group's operation of electrical and mechanical equipment manufacturing is shown as follows:

		Sales Income (RMB'000)			Sales Cost (RMB'000)		
		2015	2014	Increase/ Decrease (%)	2015	2014	Increase/ Decrease (%)
1.	hydraulic support	**30,562**	–	–	**30,076**	–	–
2.	heading machine	**2,205**	–	–	**1,235**	–	–
3.	scraper/belt conveyor	**241,016**	–	–	**240,648**	–	–
4.	frequency converter and/switch cabinet	**36,135**	–	–	**35,641**	–	–

3. Analysis of Main Business

Analysis of changes in Consolidated Income Statement items and Consolidated Statement of Cash Flow items

In RMB'000

	2015	2014	Increase/ decrease (%)
Sales income	36,404,086	60,370,764	-39.70
Total sales cost	28,171,573	50,597,756	-44.32
Cost of coal transportation	2,078,902	2,291,594	-9.28
Selling, general and administrative expenses	5,696,704	6,069,884	-6.15
Investment gains from associated enterprises	502,364	310,604	61.74
Investment losses from joint ventures	170,458	320,829	-46.87
Income tax	489,637	1,112,807	-56.00
Net cash from operating activities	4,347,210	4,171,816	4.20
Cash flow from investing activities	-8,203,373	-8,534,791	-3.88
Cash flow from financing activities	11,073,805	8,692,165	27.40
Research and Development Expenditure	38,072	33,929	12.21

(1) Factor analysis of the change in operating income

The Group's sales income in 2015 was RMB36.4041 billion, representing a decrease of RMB23.9667 billion or 39.7% as compared with that of 2014. This was mainly due to: (i) the decrease in price of self-produced coal resulting in a decrease of sales income by RMB4.6533 billion; Sales volume decrease of self-produced coal resulted in the decrease of RMB1.7606 billion of coal sales income; (ii) the sales income of externally purchased coal decreased by RMB19.2494 billion; and (iii) increase of methanol's sales income by RMB1.0693 billion.

(2) Cost analysis and other illustrations

The Group's sales cost in 2015 was RMB28.1716 billion, representing a decrease of RMB22.4262 billion or 44.3% as compared with that of 2014. It was mainly due to: (i) a decrease of RMB23.6966 billion in respect of coal sales cost; and (ii) An increase of RMB1.5358 billion in respect of methanol sales cost. The cost of coal sales accounts for 91% of the Group's total cost of sales.

(3) Expenses and others

The revenue from investment in associated enterprises by the Group for the year 2015 is RMB502.4 million, increased by RMB191.8 million or 61.7% as compared with that of 2014. This was mainly due to the increase of investment gains of RMB122.9 million and RMB45.345 million, respectively, from Huadian Zouxian Power Generation Co., Ltd. and Shaanxi Future Energy Chemicals Company Limited ("Future Energy Company") on the equity basis.

The losses in joint venture investment by the Group is RMB170.5 million for the year 2015, decreased by RMB150.4 million or 46.9%. This is mainly caused by investment losses in Middlemount JV decreased by RMB139.9 million.

The income tax of the Group for the year 2015 is RMB489.6 million, decreased by RMB623.2 million or 56.0% as compared with that of 2014. This is mainly due to tax payable decreased on YoY level in corresponding to profit decrease.

(4) Research and Development Expenditure

In 2015, the Group spent RMB38.072 million in research and development and completed 82 scientific and technological results, of which 20 projects reached advanced international standards, obtained 47 technological patents and received 26 technological rewards at the provincial and ministerial levels.

(5) Capital Sources and Use

In 2015, the Group's principal source of capital was the cash flow from operations, bond issuance and bank loans. The Group has utilized its capital mainly for the payment of operating expenses, purchase of property, machinery and equipment, payment of dividends to the Shareholders, payment of the acquisition of assets and equities.

The Group's capital expenditure for the purchase of property, machinery and equipment for the year 2015 was RMB9.8685 billion, representing an increase of RMB4.4644 billion or 82.6% as compared with RMB5.4041 billion in 2014, which was mainly due to the increase of capital expenditure in Donghua Heavy Industry and the Group's major coal projects construction.

4. Assets and Liabilities

Unit: RMB'000

Item	Closing amount of 2015	Percentage to total assets in 2015 *(%)*	Closing amount of 2014	Percentage to total assets in 2014 *(%)*	Percentage of increase/ decrease in closing amount	Note
Bank deposits and cash	**20,175,120**	**14.16**	15,041,928	11.30	34.13	*1*
Bank guarantee	**2,995,066**	**2.10**	5,154,296	3.87	-41.89	*2*
Assets held for sale	**7,740,520**	**5.43**	0	0	–	*3*
Security investment	**944,410**	**0.66**	388,764	0.29	142.93	*4*
Liabilities held for sale	**1,520,831**	**1.07**	0	0	–	*5*

Note:

1. ① Restricted bank guarantee deposit reduced by RMB2.1592 billion; ② Short-term borrowings increased by RMB2.8476 billion.

2. Restricted bank guarantee deposit was reduced for repayment of bank loan.

3. The total assets of Watagan Mining Company Pty. Ltd. ("Watagan Company") at the end of the reporting period was RMB7.7405 billion.

4. The Company increased its equity investment in Qilu Bank by RMB797.7 million. The security investment decreased by RMB272.3 million for reducing its stake in Shenergy and Lianyungang.

5. The total liabilities of Watagan Company as at the end of the reporting period was RMB1.5208 billion.

As at 31 December 2015, the equity attributable to the equity holders of the Company and the bank loans amounted to RMB35.3699 billion and RMB69.4798 billion respectively, representing a debt to equity ratio of 196.4%.

For the year ended 31 December 2014

I. MANAGEMENT DISCUSSION AND ANALYSIS

1. Main business by industries

In 2014, the Group realized a sales income of RMB60.3708 billion, of which, sales income from coal business was RMB58.5394 billion, representing 97.0% of sales income of the Group.

		Sales income *(RMB'000)*	Cost of Sales *(RMB'000)*	Gross Profit *(%)*	Increase/ decrease in sales income as compared with that of last year *(%)*	Increase/ decrease in cost of sales as compared with that of last year *(%)*	gross profit as compared with that of last year (percentage point)
1.	Coal business	58,539,353	49,305,209	15.77	7.52	16.87	Decreased 6.74
2.	Railway transportation business	373,617	250,161	33.04	-18.41	-22.98	Increased 3.97
3.	Coal chemicals business	1,195,458	869,294	27.28	3.44	2.18	Increased 0.89
4.	Power generation business	241,490	159,724	33.86	-27.29	-50.17	Increased 30.36
5.	Heat business	20,846	11,236	46.10	85.83	67.48	Increased 5.91

2. The operation of business segments

(1) Coal Business

In 2014, the Group produced 72.60 million tonnes of raw coal, representing a decrease of 1.2 million tonnes or 1.6% as compared with that of 2013; The saleable coal production of the Group was 66.89 million tonnes, representing a decrease of 0.11 million tonnes or 0.2% as compared with that of last year. The decrease of coal production was mainly due to the fact that facing the oversupply marketing conditions, the Group actively fulfilled the social responsibilities and took the initiatives to limit production.

The weak demand for coal in both the domestic and the overseas markets has led to the decrease of the average coal sales price of the Group as compared with that of 2013.

In 2014, the Group externally transported coal of 68.55 million tonnes, representing an increase of 2.9 million tonnes or 4.4% as compared with that of 2013; The Group sold a total of 123.1 million tonnes of coal in 2014, representing an increase of 19.08 million tonnes or 18.3% as compared with that of 2013. The increase of coal sales volume is mainly due to the increase of sales volume of externally purchased coal as compared with that of 2013.

In 2014, the Group realized a sales income of RMB58.5394 billion from the coal business, which represents an increase of RMB4.0945 billion or 7.5% as compared with that of 2013.

The Group's cost of coal sales in 2014 was RMB49.3052 billion, representing an increase of RMB7.1181 billion or 16.9% as compared with that of 2013.

(2) Railway Transportation Business

In 2014, the transportation volume of the Company's Railway Assets was 16.56 million tonnes, representing a decrease of 1.69 million tonnes or 9.2% as compared with that of 2013. Income from railway transportation services of the Company (income from transported volume settled on the basis of ex-mine prices and special purpose railway transportation fees borne by customers) was RMB373.6 million in 2014, representing a decrease of RMB84.281 million or 18.4% as compared with that of 2013. The cost of railway transportation business was RMB250.2 million, representing a decrease of RMB74.619 million or 23%.

(3) Coal Chemicals Business

In 2014, the methanol production volume of Yulin Neng Hua was 0.65 million tonnes, representing an increase of 0.04 million tonnes or 5.9% as compared with that of 2013. Methanol sales volume was 0.66 million tonnes, representing an increase of 0.06 million tonnes or 9.4% as compared with that of 2013. Sales income was RMB1.1955 billion in 2014, representing an increase of RMB39.716 million or 3.4% as compared with that of 2013. The cost of sales was RMB869.3 million, representing an increase of RMB18.506 million or 2.2% as compared with that of 2013.

(4) Power Generation Business

The following table sets out the summary of the operation of the Group's power business for 2014:

		Power Generation (10,000Kwh)			Power output dispatch (10,000Kwh)		
		2014	**2013**	**Increase/ Decrease**	**2014**	**2013**	**Increase/ Decrease**
				(%)			*(%)*
1	Hua Ju Energy	**90,117**	99,281	-9.23	**30,364**	86,912	-65.06
2	Yulin Neng Hua	**25,750**	24,161	6.58	**1,399**	998	40.20
3	Heze Neng Hua	**44,645**	–	–	**40,486**	–	–

Note:

1. Electricity generated by power plant of Hua Ju Energy is sold externally after satisfying its internal operating requirements since March, 2014.

2. Electricity generated by power plant of Yulin Neng Hua sold externally after satisfying its internal operating requirements

3. Electricity generated by power plant of Heze Neng Hua sold externally since November, 2014

		Sales Income (RMB'000)			Sales Cost (RMB'000)		
		2014	**2013**	**Increase/ Decrease** *(%)*	**2014**	**2013**	**Increase/ Decrease** *(%)*
1	Hua Ju Energy	**133,795**	329,839	-59.44	**108,973**	316,195	-65.54
2	Yulin Neng Hua	**3,174**	2,286	38.84	**7,073**	4,320	63.73
3	Heze Neng Hua	**104,521**	–	–	**43,678**	–	–

(5) Heat Business

Hua Ju Energy generated heat energy of 1.3 million steam tonnes and sold 90,000 steam tonnes in 2014, generating sales income of RMB20.846 million, with the cost of sales at RMB11.236 million.

3. Analysis of Main Business

Analysis of changes in Consolidated Income Statement items and Consolidated Statement of Cash Flow items

	2014 *(RMB'000)*	**2013** *(RMB'000)*	**Increase/ decrease** *(%)*
Sales income	**60,370,764**	56,401,826	7.04
Cost of sales	**50,597,756**	43,689,850	15.81
Selling, general and administrative expenses	**6,069,884**	10,380,713	-41.53
Investment income in associates	**310,604**	233,897	32.80
Other income	**2,382,186**	1,020,577	133.42
Interest expenses	**2,183,581**	1,765,777	23.66
Income before tax	**1,599,910**	-580,268	–
Net income attributable to the shareholders of the Company	**766,158**	777,368	-1.44
Net cash inflow from operating activities	**4,171,816**	-2,201,058	–
Net cash outflow from investing activities	**8,534,791**	13,504,370	-36.80
Net cash inflow from financing activities	**8,692,165**	13,286,919	-34.58
Research and Development Expenditure	**33,929**	277,202	87.76

(1) Income

The Group's sales income in 2014 was RMB60.3708 billion, representing an increase of RMB3.9689 billion or 7.0% as compared with that of 2013. This was mainly due to the decrease in price of self-produced coal resulting in a decrease of sales income by RMB5.6313 billion and the sales income of externally purchased coal increased by RMB8.6129 billion.

(2) Cost

The Group's sales cost in 2014 was RMB50.5978 billion, representing an increase of RMB6.9078 billion or 15.8% as compared with that of 2013. The cost of coal sales accounts for more than 90% of the Group's total of sales.

(3) Expenses and others

During the reporting period, selling, general and administrative expenses of the Group was RMB6.0699 billion, representing a decrease of RMB4.3103 billion or 41.5% as compared with that of 2013, which was mainly due to the fact that: (1) the exchange loss of RMB1.686 billion in 2013 resulted in impairment provision for intangible assets of RMB2.0522 billion while during the reporting period, there were no exchange loss and impairment provision for intangible assets of the Group; (2) the price regulation fund was decreased by RMB195.8 million as compared with that of 2013; (3) operating taxes and surcharges were increased by RMB334.8 million as compared with that of 2013.

During the reporting period, the investment income in associates of the Group was RMB310.6 million, representing an increase of RMB76.707 million or 32.8% as compared with that of 2013, which was mainly due to fact that during the reporting period: (1) the investment return on Shaanxi Future Energy Chemicals Co., Ltd. of RMB95.351 million; (2) the investment return on Huadian Zouxian Power Generation Co., Ltd. was decreased by RMB14.19 million compared with that of 2013.

During the reporting period, the Group's other income was RMB2.3822 billion, representing an increase of RMB1.3616 billion or 133.4% as compared with that of 2013. During the reporting period, this was mainly due to (1) implementation of wealth management business increased the interest income by RMB346.6 million compared with that of 2013; (2) foreign exchange gains of RMB154 million during the reporting period; (3) impairment provision for accrued intangible assets of RMB731.3 million reversed from the previous year during the reporting period.

(4) Cash flow

During the reporting period, the Group's net cash inflow from operating activities was RMB4.1718 billion (RMB2.2011 billion net cash outflow from operating activities in 2013). This was mainly due to the fact that the Group's net cash inflow from operating activities was increased compared with that of 2013 through coal marketing reinforcement, strict controls of cash disbursement and other measures during the reporting period.

During the reporting period, the Group's net cash outflow from investing activities was RMB8.5348 billion, representing a decrease of RMB4.9696 billion or 36.8% as compared with that of 2013. This was mainly due to the fact that: (1) the decrease of assets acquisition and equity investment resulted in a decrease of net cash outflow by RMB4.6303 billion as compared with that of 2013; (2) the change of bank guarantee deposit and restricted cash resulted in a decrease of net cash outflow by RMB332.9 million as compared with that of 2013.

During the reporting period, the Group's net cash inflow from financing activities was RMB8.6921 billion, representing a decrease of RMB4.5948 billion or 34.6% as compared with that of 2013. This was mainly due to the fact that: (1) cash for payment of dividends decreased by RMB1.6723 billion as compared with that of 2013; (2) cash for payment of debt decreased by RMB5.6553 billion as compared with that of 2013; (3) cash from issuance of notes and perpetual bonds increased by RMB8.2586 billion as compared with that of 2013; (4) cash from bank loan decreased by RMB12.7303 billion as compared with that of 2013; (5) RMB1.3735 billion paid to repurchase the CVR; (6) RMB5.9958 billion repayment for the notes issued in the previous years.

In 2014, the Group's principal source of capital was the cash flow from operations, bond issuance and bank loans. The Group has utilized its capital mainly for the payment of operating expenses, purchase of property, machinery and equipment, payment of dividends to the Shareholders, payment of the acquisition of assets and equities.

The Group's capital expenditure for the purchase of property, machinery and equipment for the year 2014 was RMB5.4041 billion, representing a decrease of RMB3.7401 billion or 40.9% as compared with RMB9.1442 billion in 2013, which was mainly due to the decrease of the construction investments on the Group's new projects.

(5) Research and Development Expenditure

In 2014, the Group spent RMB33.929 million in research and development and completed more than 45 scientific and technological achievements, of which 25 achievements reached advanced international standards, obtained 25 technological patents and received 65 technological rewards at the provincial and ministerial levels.

4. Assets and Liabilities

(1) Analysis of changes in assets and liabilities items

At the end of the reporting period, the Group's bank deposit and cash was RMB15.0419 billion, representing an increase of RMB4.1193 billion or 37.7% as compared with that of the beginning of 2014. This was mainly due to the fact that: (1) the Group raised fund of RMB14.3357 billion through issuance of corporate bonds, short-term notes, etc.; (2) during the reporting period, the Company carried out repo financing and raised fund of RMB1.4 billion; (3) repayment of bank loans, short-term notes and non-public issuance of financing instrument, totaling RMB11.2750 billion; (4) during the reporting period, the Company provided entrusted loan of RMB1.25 billion to Shaanxi Future Energy Chemical Co., Ltd. ("Future Energy").

At the end of the reporting period, the Group's prepayment and other receivables was RMB7.2193 billion, representing an increase of RMB1.9597 billion or 37.3% as compared with that of the beginning of 2014. This was mainly due to the fact that: (1) the prepayment was increased by RMB734.6 million as compared with that of the beginning of 2014; (2) during the reporting period, the Company provided entrusted loan to Shaanxi Futures Energy Chemical Co., Ltd. in the amount of RMB1.25 billion.

At the end of the reporting period, the Group's securities investment was RMB388.8 million, representing an increase of RMB177.2 million or 83.8% as compared with that of the beginning of 2014. This was mainly due to the fact that: (1) the share values of Shanghai Shenergy Co. and Jiangsu Lianyungang Port Co. held by the Group were increased by RMB69.714 million and RMB6.835 million, respectively, due to increase in their share prices; (2) the Company contributed RMB100.7 million to Ordos South Railway Co., Ltd. during the reporting period.

At the end of the reporting period, the Group's investment in joint ventures was RMB130.9 million, representing a decrease of RMB357.5 million or 73.2% as compared with that of the beginning of 2014. This was mainly due to the losses of Middlemount coal mine of Yancoal Australia.

At the end of the reporting period, the Group's bills payable and accounts payable were RMB4.0372 billion, representing an increase of RMB1.3205 billion or 48.6% as compared with that of the beginning of 2014. This was mainly due to the increase of bills payable of RMB1.7512 billion.

(2) Debt to Equity Ratio

As at 31 December 2014, the equity attributable to the equity holders of the Company and the bank loans amounted to RMB38.7258 billion and RMB61.4381 billion respectively, representing a debt to equity ratio of 158.6%.

BUSINESS TREND AND FINANCIAL AND TRADING PROSPECTS OF THE GROUP

In 2016, the global economy experienced slow recovery and Chinese government made initial success in the supply-side structural reform, which ameliorated the severe imbalance of supply and demand of coal market, contributed to the rational return of coal price to a reasonable level, and resulted in the remarkable increase of Chinese coal companies' profit-making capacity. Confronted with national industry structure adjustment, fluctuations of coal market and unprecedented enhanced operation pressure, the operating results of the Company increased significantly by keeping close watch on the market trend, seizing the opportunity of market uprising and policy adjustment, and actively implementing flexible and effective operating measures such as squeezing internal potentiality and decreasing the cost.

Look into year 2017, world economy growth will remain depressed, while China economic development is climbing by dealing with difficulties. With help of constant implementation of policies in China like the supply-side structural reform, capacity reduction and environment protection, it is expected that domestic coal demand and supply will reach a new dynamic balance and global coal price will remain high-position adjustment in 2017.

Year 2017 is an important year for implementation of the "13th Five Year Plan", for further structural reform in national coal supply side, for making breakthrough by transformational development and upgrading and releasing potentiality. The Group will seize the development trend of coal industry policies, make high-level layout and precise positioning, and construct a strategic development pattern integrating industrial sector, logistic and trade sector and finance sector.

The sale volume of coal and methanol in 2017 is projected to be 78.6 million tonnes and 1.5 million tonnes, respectively. To achieve all the operating targets, the Group is determined to focus on works as followings:

Strengthen industrial sector as a solid foundation for sustainable development. Promote overall industry development both at home and abroad and enhance economies of its scale. Firstly, to maintain stable and high efficient production of coal mines in Shandong Province. Striving to be green clean energy supplier by innovatively promote development of coal sector in a safe, high efficient, clean and green way. Secondly, to increase the productivity and profit making capability of Zhuanlongwan, Shilawusu and Yingpanhao Coal Mine by taking advantage of national policy; to extend coal chemical industry chain in Shaanxi and Inner Mongolia base by expediting the second stage of Rongxin chemical project and Yulin methanol project. Thirdly, to be the largest coal producer in Australia by increasing coal production capacity of Moolarben Coal Mine and steadily progressing equity acquisition of Coal & Allied Industries Limited of Rio Tinto Group; Fourthly, to implement capital operation and accelerate the selection of prime coal resource in Ordos and promote the target project; Fifthly, to speed up technology upgrading in electronic and mechanical equipment manufacture, promote transformation of a low-end manufacturer into a high-end one and occupy the vantage position.

Enhance market competitiveness by paying equal attention to volume increasing and profit making. With strategy of "big marketing, big trading and big logistics", enhance market competitiveness and profit making capability. Firstly, to increase profit making through marketing, including optimizing marketing efficiency model and promoting adjustment of marketing tactics and product structure simultaneously; Secondly, to increase trading volume and efficiency by following principle of "making risks controllable and valuing volume and efficiency equally"; Thirdly, to increase synergy of logistics by steadily promoting equity-participation in railway project so as to establish a railway network in eastward, westward and southward centering on Shaanxi and Inner Mongolia base, and increasing synergy of rail freight and canal freight by expanding the canal port of Sihe of Shandong Province to 10 million tonnes.

Progress expansion in finance sector steadily. By following principle of "finance servicing industry development and industry development boosting finance development", make strategic integration of industrial capital and financial capital, thus forming a new pillar for the development of the Company; build up a financial industrial system by optimizing regional distribution of finance industry, consolidating strategic cooperation with all kinds of financial institutes, strengthening financial holding, asset management and industrial fund and other financial business.

Release internal growth potentiality by lean management. Create lean management culture by lean management involving all staff, all-round aspects and all process. Implement cost composition analysis and make strict control over unit consumption of materials and labor cost so as to realize the unit consumption of main product up to national leading level. Fully ensure the Company's demand of fund by lean management of financing, including innovatively promoting bond financing and equity financing based on traditional bank financing. Fine-tune asset structure so as to transform prime asset to high profit. Optimize human resource allocation and increase labor efficiency. Make fine and strict budget management and control fund investment in accurate calculation.

POSSIBLE RISKS OF THE GROUP

Risks of safety management

Although the safety management level of the Group is much higher than the industrial level, due to the Company's engagement of coal, coal chemicals, power and other high-risk industries, the uncertainty factors influencing the safe production are more complicated, and the safe production is vital for the Group's sustainable and steady development.

Solutions: strengthen safety systems and regulations, set up safety management systems with perfect systems and powerful execution, improve safety execution abilities; regarding to technical problems influencing and restricting safe production, strengthen technical researches and scientific-technical problem tackling, increase the system safety level; establish accident and case warning education platforms, strengthen safety education and training, improve safety awareness and skills; strengthen comprehensive governance of key areas, prevent the happening of major accidents; strengthen the professional construction of safety supervision teams, enhance the safety supervision and inspections and strengthen the safety responsibility.

Risks of product trade

Trading business is an important supplement to the Group's entity industries. With the continuous expanding of the Group's diversified trade solutions and the significant growth of trade volume, trade risks may occur easily, possibly resulting in negative effects on the Company's performance.

Solutions: establish a complete "Dual parallel controls" mode of business and risk controls, scientifically avoid trade risks; with the advantages of the developed areas, set up the coordinated development platform of regional trades, realize the most optimized resources configurations; timely introduce high-end trade talents, establish the professional trade teams and promote the professionalized and coordinative development of the trade industry.

Risks of accounts receivable

In recent years, the Group's accounts receivable amount has a rising trend, increasing the difficulties of accounts receivable collection and the possibilities of uncollectibles.

Solutions: strictly review the coal customer credits, dynamically grasp the customers' operating conditions and financial situations, timely adjust the customers' credit lines and credit periods, increase the corresponding guarantee ratios and mortgage ratios of the credit customers and effectively control the new occurrences of accounts receivable; strictly implement debts responsibilities, develop door-to-door debts measures, lock the risk exposures and strengthen the accounts receivable collections by means of law; strengthen the source prevention and controls of accounts receivable risks, improve the dynamic supervision mechanism and effectively reduce the accounts receivable risks.

Valuation Report on All Equity Interest in Yankuang Group Finance Co., Ltd. Involved in the Proposed Transfer by Yankuang Group Company Limited of its Equity Interest in Yankuang Group Finance Co., Ltd.

Zhong Qi Hua Ping Bao Zi (2017) No. 3125
(Volume 1 of one volume in total)

Beijing China Enterprise Appraisals Co., Ltd.
2 March 2017

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Statement of Valuers

I. In carrying out this asset valuation, we have followed the relevant laws and regulations and the standards for asset valuation and adhered to the principles of independence, objectivity and impartiality. Based on the information we collected during the course of practices, the contents of the valuation report are objective and we assume responsibility for the rationality of the valuation conclusion.

II. The list of assets and liabilities of the subject of valuation has been reported and confirmed with signature by the client and the valued entity; the truthfulness, validity and completeness of the information provided, and the proper use of the valuation report shall be the responsibility of the client and the relevant parties.

III. We have no existing or expected relationship of interests with the subject of valuation in the valuation report or the relevant parties and has no prejudice against the relevant parties.

IV. We have carried out on-site investigation into the subject of valuation involved in the valuation report and its assets. We have paid necessary attention to the legal ownership of the subject of valuation and its assets, verified the information on the legal ownership of the subject of valuation and its assets, made proper disclosure on the issues identified, and requested the client and the relevant parties to perfect the title to meet the requirements for the issue of a valuation report.

V. The analysis, judgments and conclusions in our valuation report are limited by the assumptions and limitations in the valuation report, and users of the valuation report should take full account of the assumptions, limitations and notes on specific matters and their impact on the valuation conclusion.

Summary of The Valuation Report

Important Notes

The summary is extracted from the full text of the valuation report. In order to fully understand the detailed information of the valuation project and have a reasonable understanding of the valuation conclusion, please carefully read the full text of the valuation report.

Engaged by Yankuang Group Company Limited, Beijing China Enterprise Appraisals Co., Ltd. has conducted valuation of all the equity interest in Yankuang Group Finance Co., Ltd. as at the base date of valuation in accordance with the relevant laws and regulations and asset valuation standards, through necessary valuation procedures and on an independent, objective and fair basis. The valuation report is summarised as follows:

Purpose of valuation: Proposed transfer by Yankuang Group Company Limited of its equity interest in Yankuang Group Finance Co., Ltd.

Subject of valuation: Value of all the equity interest in Yankuang Group Finance Co., Ltd.

Scope of valuation: The scope of valuation is all assets and liabilities of the valued entity. The assets include cash and deposit in the central bank, deposit in other banks, loans and advances, fixed assets and deferred tax assets; and the liabilities include deposits received, employee remunerations payable, taxes payable, interest payable, accounts payable and other payables.

Base date of valuation: 31 December 2016

Type of value: Market value

Valuation methods: Asset-based approach and income approach

Valuation conclusion: The results of valuation under the income approach were adopted in this valuation report as the valuation conclusion. Details of the valuation conclusion are as follows:

Yankuang Group Finance Co., Ltd. has total assets of RMB8,873,973,000, total liabilities of RMB7,293,939,100 and net assets of RMB1,580,033,900. The appraised value of all equity interest in Yankuang Group Finance Co., Ltd. is RMB1,729,580,700, with a valuation appreciation of RMB149,546,800 and an appreciation ratio of 9.47%.

The valuation report is for the sole purpose of providing reference for the economic behaviour described in the valuation report, and the valuation conclusion shall be effective for one year from the base date of valuation, being 31 December 2016.

Users of the valuation report should take full account of the assumptions, limitations and notes on specific matters and their impact on the valuation conclusion.

Body Text of The Valuation Report

To Yankuang Group Company Limited,

Engaged by the Company, Beijing China Enterprise Appraisals Co., Ltd. has conducted valuation of all the equity interest in Yankuang Group Finance Co., Ltd. involved in the proposed transfer by Yankuang Group Company Limited of its equity interest in Yankuang Group Finance Co., Ltd. as at 31 December 2016 using the asset-based approach and the income approach in accordance with the relevant laws and regulations and asset valuation standards, through necessary valuation procedures and on an independent, objective and fair basis. Details of the asset valuation are as follows:

I. Client, valued entity and other users of the valuation report agreed in the business engagement

The client for this valuation is Yankuang Group Company Limited, and the valued entity is Yankuang Group Finance Co., Ltd. Other users of the valuation report agreed in the business engagement include the competent authorities of the client and other users of the valuation report under national laws and regulations.

(i) Information on the client

Name of enterprise:	Yankuang Group Company Limited
Registered address:	298 South Fushan Road, Zoucheng
Legal representative:	Li Xiyong
Registered capital:	RMB3,353,388,000
Nature of enterprise:	(State-controlled) limited liability company

Scope of business:	External investment, management and operation with self-owned funds; investment consulting; periodical publication; installation, opening and maintenance of cable broadcasting and television and sale of related equipment; value-added telecommunications services within the scope of the license; contracting within the scope of qualification certificate for foreign contracted projects with matching strength, scale an performance and dispatch of labour required for the implementation of the above foreign projects; (The following shall only be operated by branches): Mining, processing and sale of coal; thermoelectric, heating and power generation waste heat comprehensive utilization; road transport; wood processing; water and heat pipe installation and repair; restaurant and hotels; extraction and sale of water; mining, smelting, processing, sale of gold, precious metals and non-ferrous metals and related sales and technical services. advertising business; sale of electromechanical products, clothing, textiles and rubber products; import and export business within the scope of filing; landscaping; leasing of property, land and equipment; coal, coal chemical and coal power aluminium technology development services; production and sale of building materials and ammonium sulphate (white crystalline powder); manufacture, installation, repair and sale of mining equipment, electrical and mechanical engineering equipment, completes sets of equipment and spare parts; renovation and decoration; installation, maintenance and sale of electrical equipment; processing and sale of general parts and machinery parts; sewage treatment and sale of reclaimed water; property development and property management; sale of general merchandise, arts and crafts, metal materials and gas equipment; railway goods (within area) transport. (Approvals from competent authorities shall be obtained for the operation of the activities requiring approval in accordance with the laws).

(ii) Information on the valued entity

1. Corporate profile

Name of enterprise:	Yankuang Group Finance Co., Ltd. ("Yankuang Group Finance")
Registered address:	329 South Fushan Road, Zoucheng, Jining City
Legal representative:	Zhang Shengdong
Registered capital:	RMB1,000,000,000
Nature of enterprise:	Other limited liability company
Scope of business:	business authorised by the China Banking Regulatory Commission in accordance with the relevant laws, administrative regulations and other rules as set out in the approval document. (The effective term is set out in the approval.) *** (Approvals from competent authorities shall be obtained for the operation of the activities requiring approval in accordance with the laws).

2. Shareholding structure and change

Yankuang Group Finance was established jointly by Yankuang Group Company Limited, Yanzhou Coal Mining Co., Ltd. and China Credit Trust Co., Ltd. in September 2010 with a registered capital of RMB500 million (including US$10 million).

Yankuang Group Finance's shareholding structure upon establishment was as follows:

No.	**Shareholder**	**Amount of contribution** *(RMB)*	**Percentage** *(%)*
1	Yankuang Group Company Limited	281,730,000.00	70.00
2	Yankuang Group Company Limited (US$10 million)	68,270,000.00	
3	Yanzhou Coal Mining Co., Ltd.	125,000,000.00	25.00
4	China Credit Trust Co., Ltd.	25,000,000.00	5.00
	Total	500,000,000.00	100.00

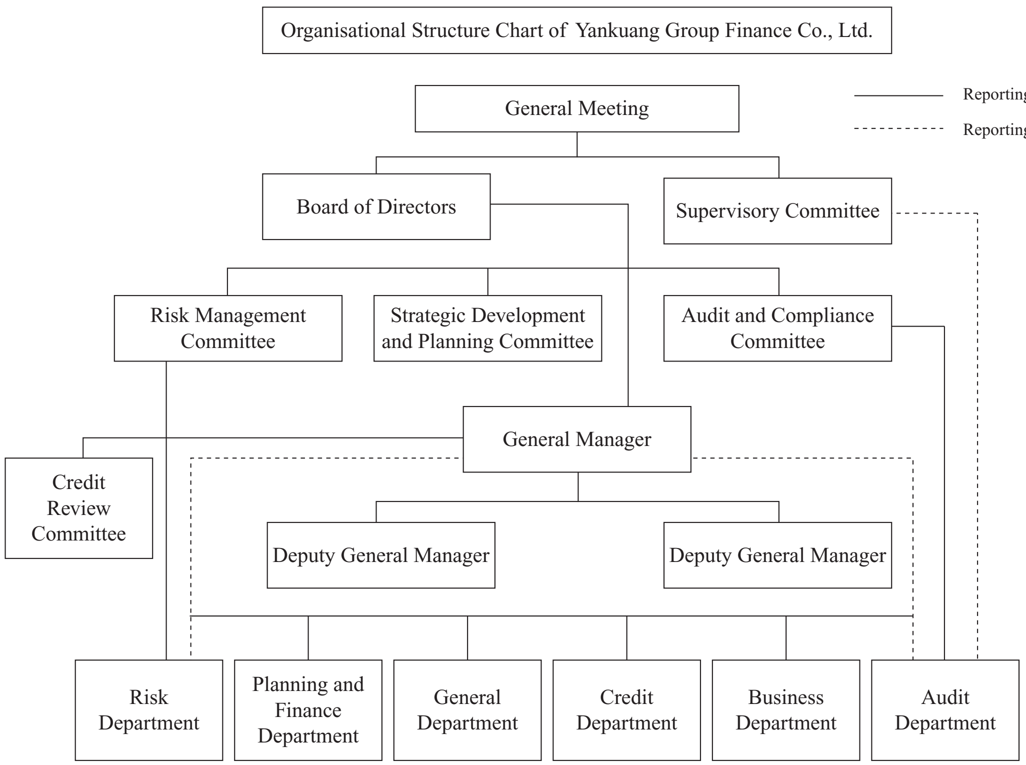
On 18 June 2014, an application was made for the increase in registered capital of RMB500 million, which was paid in full in one lump sum by 18 June 2014 by all shareholders, in accordance with a resolution passed at the general meeting of Yankuang Group Finance Co., Ltd. and its amended articles of association. Its registered capital upon change is RMB1 billion (including US$10 million). Upon completion of capital increase, the shareholding structure of Yankuang Group Finance Co., Ltd. is as follows:

No.	**Shareholder**	**Amount of contribution** *(RMB)*	**Percentage** *(%)*
1	Yankuang Group Company Limited	631,730,000.00	70.00
2	Yankuang Group Company Limited (US$10 million)	68,270,000.00	
3	Yanzhou Coal Mining Co., Ltd.	250,000,000.00	25.00
4	China Credit Trust Co., Ltd.	50,000,000.00	5.00
	Total	1,000,000,000.00	100.00

As at the base date of valuation, there had been no change in the shareholding of Yankuang Group Finance.

3. Ownership and management structure

The organisational structure of Yankuang Group Finance as at the base date of valuation was as follows:



As at the base date of valuation, Yankuang Group Finance had a total of 42 employees.

4. Financial and operational condition for the last three years

Set out below is the financial condition of the valued entity for the last three years:

Unit: RMB in ten thousand

Item	2014/12/31	2015/12/31	2016/12/31
Cash and deposit in the central bank	86,811.06	52,795.79	55,462.75
Deposit in other banks	132,823.39	300,160.02	320,816.32
Loans and advances	451,834.29	474,903.56	508,837.60
Other receivables	–	0.03	–
Fixed assets	21.86	351.18	323.56
Deferred tax assets	1,737.82	1,826.55	1,957.07
Total assets	673,228.43	830,037.13	887,397.30
Deposits received	545,088.18	684,238.49	727,150.62
Employee remunerations payable	23.89	40.95	35.95
Taxes payable	1,979.22	2,218.71	1,714.26
Interest payable	154.50	479.47	475.47
Other payables	131.04	58.37	10.29
Accounts payable	13.37	36.94	7.32
Total liabilities	547,390.21	687,072.93	729,393.91
Paid-in capital	100,000.00	100,000.00	100,000.00
Capital reserve	–	–	61.45
Surplus reserve	6,134.36	7,846.95	9,344.73
General reserve	8,943.65	11,808.61	12,640.52
Undistributed profit	10,760.21	23,308.63	35,956.70
Total owners' equity	125,838.22	142,964.20	158,003.39
Total liabilities and owners' equity	673,228.43	830,037.13	887,397.30

Set out below are the results of operation of the valued entity for the last three years:

Unit: RMB in ten thousand

Item	2014	2015	2016
I. Revenue	30,049.79	31,426.29	30,584.59
Interest income	29,731.99	31,078.76	30,336.76
Fee and commission income	317.8	347.53	244.66
Revenue from other business	–	–	3.17
II. Total operating costs	12,355.39	8,804.84	10,831.77
Interest expenses	4,698.89	4,996.26	7,458.90
Fee and commission expenses	5.04	3.87	2.84
Tax and surcharges	1,029.29	1,342.62	535.38
Business and administrative expenses	1,862.27	1,875.59	1,969.43
Assets impairment losses	4,759.90	586.5	865.23
Exchange gains or losses	11.58	202.96	244.15
III. Operating profit	17,705.98	22,824.40	19,996.96
Add: Non-operating income	–	–	0.20
Less: Non-operating expenses	–	–	4.01
IV. Total profit	17,705.98	22,824.40	19,993.15
Less: Income tax expenses	4,463.26	5,698.42	5,015.40
V. Net profit	13,242.72	17,125.98	14,977.75

The financial statements of the valued entity as at the base date of valuation and for 2014 and 2015 had been audited by Zhongxingcai Guanghua Certified Public Accounts LLP and unqualified opinions were issued.

5. Relationship between the client and the valued entity

The client, being Yankuang Group Company Limited, is the controlling shareholder of the valued entity, being Yankuang Group Finance Co., Ltd.

(iii) Other users of the valuation report agreed in the business engagement

The valuation report is only for use by the client and users of valuation reports required by national laws and regulations and shall not be used or relied on by any third party.

II. Purpose of Valuation

Yankuang Group Company Limited proposes to transfer all of its equity interest in Yankuang Group Finance Co., Ltd. As such, a valuation of the market value of all of its equity interest in Yankuang Group Finance Co., Ltd. as at the base date of valuation is required to provide a reference of value for the above economic behaviour.

The above economic behaviour has been approved at the first extraordinary general meeting of Yankuang Group Finance Co., Ltd. for 2017.

III. Subject of Valuation and Scope of Valuation

(i) Subject of valuation

According to the purpose of valuation, the subject of valuation is all equity interest of Yankuang Group Finance Co., Ltd.

(ii) Scope of valuation

The scope of valuation is all assets and liabilities of the valued entity. As at the base date of valuation, the assets within the scope of valuation included cash and deposit in the central bank, deposit in other banks, loans and advances, fixed assets and deferred tax assets, with a total carrying amount of RMB8,873,973,000; and the liabilities included deposits received, employee benefits payable, taxes payable, interest payable, accounts payable and other payables, with a total carrying amount of RMB7,293,939,100; the carrying amount of net assets was RMB1,580,033,900.

The subject of valuation and scope of valuation in respect of the engagement are consistent with the subject of valuation and scope of valuation relating to the economic behaviour. The carrying amount of assets and liabilities within the scope of valuation as at the base date of valuation had been audited by Zhongxingcai Guanghua Certified Public Accounts LLP and unqualified opinions were issued.

IV. Type of Values and Definitions

In accordance with the purpose of valuation, the type of value of the subject of valuation has been determined to be market value.

The market value is defined as the estimated price of the subject of valuation in a normal and arm's length transaction as at the base date of valuation between a willing purchaser and a willing seller acting reasonably and without compulsion.

V. Base Date of Valuation

The base date of valuation was 31 December 2016.

The base date of valuation was determined by the client.

VI. Basis for Valuation

(i) Basis for economic behaviour

A resolution passed at the first extraordinary general meeting of Yankuang Group Finance Co., Ltd. for 2017.

(ii) Laws and regulations

1. Company Law of the People's Republic of China (passed at the 6th meeting of the Standing Committee of the Twelfth National People's Congress of the People's Republic of China on 28 December 2013);

2. Securities Law of the People's Republic of China (passed at a meeting of the Standing Committee of the Twelfth National People's Congress of the People's Republic of China on 31 August 2014);

3. Enterprise Income Tax Law of the People's Republic of China (passed at the 5th meeting of the Standing Committee of the Tenth National People's Congress of the People's Republic of China on 16 March 2007);

4. State-owned Assets Law of the People's Republic of China (passed at the 5th meeting of the Standing Committee of the Eleventh National People's Congress of the People's Republic of China on 28 October 2008);

5. Interim Regulations on the Supervision and Administration of State-owned Assets in Enterprises (Order No. 378 of the State Council);

6. Interim Measures for the Management of the Transfer of the State-owned Property Right of Enterprises (Order No. 3 of the State-owned Assets Supervision and Administration Commission of the State Council and the Ministry of Finance);

7. Notice on the Relevant Matters on the Transfer of State-owned Property Rights of Enterprises (Guo Zi Fa Chan Quan [2006] No. 306);

8. Measures for the Administration of Assessment of State-owned Assets (Order No. 91 of the State Council);

9. Notice on Issuing the Guidelines for the Filing for Record of the Assessment Projects of State-owned Assets of Enterprises (Guo Zi Fa Chan Quan [2013] No. 64);

10. Interim Measures for the Management of the Valuation of State-owned Assets of Enterprises (Order No. 12 of the State-owned Assets Supervision and Administration Commission of the State Council);

11. Notice on Strengthening the Management of the Valuation of State-owned Assets of Enterprises (Guo Zi Wei Chan Quan [2006] No. 274);

12. Notice on Matters regarding Review of Asset Valuation Reports for State-owned Assets of Enterprises (Guo Zi Chan Quan [2009] No. 941);

13. Administrative Measures for the Transfer of State-owned Assets of Financial Enterprises (Order No. 54 of the Ministry of Finance);

14. Interim Measures for Supervision and Management of Appraisal of State-owned Assets of Financial Enterprises (Order No. 47 of the Ministry of Finance);

15. Notice on Issues Regarding the Supervision and Management of Appraisal of State-owned Assets of Financial Enterprises (Cai Jin [2011] No. 59);

16. Accounting Standards for Business Enterprises – Basic Standards (Order No. 33 of the Ministry of Finance);

17. Management Measures for Financial Companies of Enterprise Groups (Order No. 8 of 2006 of the China Banking Regulatory Commission);

18. Management Measures for Provision of Financial Enterprises (Cai Jin [2012] No. 20);

19. Capital Management Measures for Commercial Banks (for Trial Implementation) (Order No. 1 of 2012 of the China Banking Regulatory Commission);

20. Guiding Opinions of the China Banking Regulatory Commission on the Implementation of the New Regulatory Standards in China's Banking Sector (Yin Jian Fa [2011] No. 44);

21. Assets Valuation Law of the People's Republic of China (passed at the 21st meeting of the Standing Committee of the Twelfth National People's Congress of the People's Republic of China on 2 July 2016);

22. Notice on Expanding the Scope of Pilot Reform of Transition from Business Tax to Value-added Tax (Cai Shui [2016] No. 36);

23. Supervision and Management Measures for Exchange of State-owned Assets for Enterprises (Order No. 32 of the State Council, the SASAC and the Ministry of Finance);

24. Notice of the People's Bank of China on Lowering the Deposit Reserve Ratio Requirement for Financial Institutions (People's Bank of China Circular [2016] No. 56).

(iii) Valuation standards

1. Asset Valuation Standards – Basic Standards (Cai Qi [2004] No. 20);

2. Code of Ethics for Asset Valuation – Basic Standards (Cai Qi [2004] No. 20);

3. Guiding Opinions on Assessment of Legal Ownership of Subject of Valuation by Certified Public Valuers (Kuai Xie [2003] No. 18);

4. Guiding Opinions on Valuation of Non-performing Financial Assets (for Trial Implementation) (Zhong Ping Xie [2005] No. 37);

5. Asset Valuation Standards – Valuation Procedures (Zhong Ping Xie [2007] No. 189);

6. Asset Valuation Standards – Working Draft (Zhong Ping Xie [2007] No. 189);

7. Asset Valuation Standards – Machinery and Equipment (Zhong Ping Xie [2007] No. 189);

8. Guiding Opinions on Type of Values for Asset Valuation (Zhong Ping Xie [2007] No. 189);

9. Business Quality Control Guide for Valuers (Zhong Ping Xie [2010] No. 214);

10. Asset Valuation Standards – Enterprise Value (Zhong Ping Xie [2011] No. 227);

11. Asset Valuation Standards – Valuation Reports (Zhong Ping Xie [2011] No. 230);

12. Asset Valuation Standards – Business Engagement Letter (Zhong Ping Xie [2011] No. 230);

13. Guidelines for Valuation Reports on State-owned Assets of Enterprises (Zhong Ping Xie [2011] No. 230);

14. Code of Ethics for Asset Valuation – Independence (Zhong Ping Xie [2012] No. 248);

15. Guidelines for Valuation Reports on State-owned Assets of Financial Enterprises (Zhong Ping Xie [2011] No. 230);

16. Asset Valuation Standards – Engagement of Experts (Zhong Ping Xie [2012] No. 244).

(iv) Basis for titles

1. State-owned Assets Property Registration Certificates;

2. Other ownership certificates.

(v) Basis for price determination

1. Benchmark bank deposit rate and exchange rates as at the base date of valuation;

2. Notice on Issues regarding the Calculation of Capital Adequacy Ratio (Yin Fa (2001) No. 74 of the General Office of the China Banking Regulatory Commission);

3. Implementation Regulations for the Enterprise Income Tax of the People's Republic of China (passed at the 197th executive meeting of the State Council on 28 November 2007);

4. Notice on the Interim Measures for the Collection of Income Tax of Enterprises Operating Business across Different Regions and Paying Taxes on a Consolidated Basis (Guo Shui Fa [2008] No. 28);

5. Notice on Several Issues concerning the Administration of Collection of Income Tax of Enterprises Operating Business across Different Regions and Paying Taxes on a Consolidated Basis (Guo Shui Han [2009] No. 221);

6. Notice of the Ministry of Finance and the State Administration of Taxation on Policies concerning the Deduction of Loan Loss Reserves for Financial Enterprises before the Payment of Enterprise Income Tax ((2015) No. 9);

7. Report of Yankuang Group Finance Co., Ltd. on Adjustment to Renminbi Deposit and Loan Rates (2015);

8. Financial statements and auditors' reports for previous years;

9. Business plans for the next year provided by the relevant department;

10. Site investigation records of valuers and other information relating to the valuation collected;

11. Other information relating to the valuation.

(vi) Other references

1. List of assets and declaration form provided by Yankuang Group Finance Co., Ltd.;

2. Auditors' reports issued by Zhongxingcai Guanghua Certified Public Accounts LLP;

3. Database of Beijing China Enterprise Appraisals Co., Ltd.

VII. Valuation Methods

The commonly adopted basic approaches for enterprise valuation mainly include the income approach, the market comparison approach and the asset-based approach.

The income approach in enterprise valuation refers to a valuation approach which determines the value of the subject of valuation by capitalising or discounting expected income. The commonly used methods under the income approach include the dividend discount method and the cash flow discount method.

The market comparison approach in enterprise valuation refers to a valuation approach which determines the value of the subject of valuation by comparing the subject of valuation against comparable listed companies or comparable transaction cases. The two commonly used methods under the market comparison approach are the comparable listed company method and the transaction case method.

The asset-based approach in enterprise valuation refers to a valuation method which determines the value of the subject of valuation by assessing the value of on-and-off balance sheet assets and liabilities of an enterprise based on its balance sheet as at the base date of valuation.

Under the Asset Valuation Standards – Enterprise Value, in carrying out enterprise valuation tasks, a valuer shall analyze the applicability of the three basic valuation approaches, being the income approach, the market comparison approach and the asset-based approach, based on the purpose of valuation, the subject of valuation, the type of values and information collected, and adopt one or more basic valuation approaches.

Under the market comparison approach, the market value of the subject of valuation is determined by using the comparable objects in open market as reference. The market comparison approach is characterized by direct valuation angle and valuation channel, visual valuation process, directly using market data in valuation and convincing valuation results. Yankuang Group Finance mainly provides services to members of Yankuang Group and there were significant difficulties in selecting the comparable objects. Due to lack of open market information, the market comparison approach was not adopted in this valuation.

Based on the purpose of valuation, the actual situations of the subject of valuation and the information collected, the asset-based approach and the income approach were adopted in this valuation.

(i) Income approach

The income approach in enterprise valuation refers to a valuation approach which determines the value of the subject of valuation by capitalising or discounting expected income. The commonly used methods under the income approach include the dividend discount method and the cash flow discount method. The valuers shall choose appropriate methods based on the conditions to using the income approach and the sufficiency of the information obtained for valuation, taking into consideration the historical operational results and estimated future income of the valued enterprise. The dividend discount method is a method to discount the expected dividend to determine the value of the subject of valuation, which is normally used in the valuation of part of the equity interest without controlling right. The discounted cash flow usually includes the enterprise free cash flow discount model and the equity free cash flow discount model. The enterprise free cash flows include cash flows attributable to shareholders and creditors of an enterprise, representing the overall enterprise value, and the equity free cash flows refer to cash flows directly attributable to shareholders, representing the value of all owners' equity.

In order to regulate the business operation of financial companies and monitor the operational risks of financial companies, the nation has set up a complete set of strict, dynamic risk control indicator monitoring system, whereby financial companies must meet the requirements for various risk control in respect of business development. Financial companies shall calculate net capital and risk capital reserve in accordance with the relevant rules and prepare the net capital calculation statement, the risk capital reserve calculation and the risk control indicator monitoring statement. The development of financial companies is limited by their market size and competitive strengths and also limited by their net capital size. In order to maintain the sustainable development of financial companies, they must maintain net capital matching their operation and may need shareholders to finance part of business through the equity and may be required to maintain sufficient net capital size through adjusting dividend pay-out ratio and additional investment by shareholders. As such, size of production facilities, capital expenditure, and size of working capital are the core indicators limiting industrial enterprises in the development of general industrial enterprises. The enterprise free cash flow model is normally appropriate for the valuation of general industrial enterprises. However, for the income approach assessment model for financial companies, most assets and liabilities of financial companies are interest-bearing. There is no concept of working capital for them strictly, nor is there restriction on the size of production facilities. Only risk control indicators such as net capital are the core indicators restricting the business development of financial companies.

In the valuation, the equity cash flow model was adopted for Yankuang Group Finance Co., Ltd. and the value of all owner's equity was estimated by two periods, being the clear forecast period and sustainable operation period. As such, the formula for the equity discounted cash flow model is:

$$P = [\sum_{i-1}^{n} F_i(1 + r)^{-(i-0.5)} + F_t / r(1 + r)^{-(n-0.5)}]$$

Where: P: Value of all equity interest as at the base date of valuation;

F_i: Equity free cash flows for the year i following the base date of valuation;

r: Discount rate (capital asset pricing model (CAPM));

n: Forecast period;

i: Year i of the forecast period.

Equity capital cost is calculated using capital assets pricing model (CAPM) in accordance with the following formula:

$r = r_f + MRP \times \beta + r_c$

Where: r_f: Risk-free interest rate;

MRP: Market risk premium;

β: Equity systematic factor;

r_c: Enterprise-specific risk adjustment factor.

(ii) Asset-based approach

1. Assets

The assets in the scope of valuation include cash and deposit in the central bank, deposit in other banks, loans and advances, fixed assets and deferred tax assets.

(1) Deposit in the central bank represent mainly deposit reserve placed in the central bank; deposit in other banks represent mainly deposit placed in commercial banks and its appraised value is determined based on the value verified against bank statements and bank confirmations. Foreign currency fund is translated into Renminbi using the national foreign exchange rate as at the base date of valuation.

(2) For loans and advances, the valuers took samples for the loans granted by the company, and carried out examination of credit assets according to the list of samples. In addition, loans were classified based on loan quality to determine the possibility that borrowers will repay the principal and interest in time and in full. Yankuang Group Finance has no concern, substandard, doubtful or loss loans. As there is no indication of individual impairment, impairment loss was determined on a collective basis for sample normal loans upon verification. The appraised value of the loans granted by the company represents the net carrying amount of loans after deducting provision for impairment, being

Appraised value of loans = Carrying amount – Impairment loss assessed

(3) Machinery and equipment were assessed on the cost basis based on the characteristics for various types of equipment, types of appraised value and information collected. The formula of calculation is as follows:

Appraised value = Full replacement cost × Comprehensive newness rate

① Determination of full replacement cost

For the determination of full replacement cost of other equipment, as the equipment reported are all electronic office equipment purchased individually and delivered by vendors, requiring no installation cost, the early and other expenses and capital costs are negligible. The full replacement cost of equipment was determined based on the equipment purchase price (exclusive of tax) after obtaining market quotations. As such, the formula of calculation can be simplified as follows:

Full replacement cost of other equipment = Equipment purchase price (exclusive of tax)

② Determination of comprehensive newness rate

The comprehensive newness rate of small electronic equipment was mainly determined based on their useful lives. For large electronic equipment, their working environment and operation status were also taken into account in the determination of the comprehensive newness rate. The formula of calculation is as follows:

Straight line method newness rate = (Useful life – Number of years lapsed) / Useful life × 100%

Comprehensive newness rate = Straight line method newness rate × Adjustment factor

③ Determination of appraised value

Appraised value = Full replacement cost × Comprehensive newness rate

(4) Deferred tax assets

Deferred tax assets represent the deferred tax assets arising from the deductible temporary differences recognised by the valued entity, being the deferred tax assets arising from impairment loss for loans.

The valuers investigated the cause of deferred tax assets, reviewed the relevant accounting requirements for deferred tax assets and verified the accounting evidence of deferred tax assets as at the base date of valuation. The appraised value of deferred tax assets represented their carrying amount upon verification.

2. *Liabilities*

The liabilities mainly include deposits received, employee remunerations payable, taxes payable, interest payable and other payables. The appraised values of liabilities were determined based on the carrying amounts verified by us according to the breakdowns provided by the company.

VIII. Implementation of Valuation Procedures

The valuers carried out valuation of the assets and liabilities of the subject of valuation during the period from 8 February 2017 to 28 February 2017. Details of the major valuation procedures were as follows:

(i) Accepting engagement

On 8 February 2017, we reached an agreement with the client on the purpose of valuation, the subject of valuation, the base date of valuation and other basic valuation matters as well as the rights and obligations of the parties, and a valuation plan was prepared following negotiations with the client.

(ii) Early preparations

After accepting the engagement, Beijing China Enterprise Appraisals Co., Ltd. established a project team for the Yankuang Group Finance asset valuation project, prepared the relevant valuation plan and determined the person in charge of the project. In order to ensure the quality of valuation and use consistent valuation methods and parameters, an assets valuation operation plan was prepared based on the experience in previous valuation of similar enterprises and the characteristics of assets of different types of enterprises.

(iii) On-site investigation

The valuers carried out necessary checking and examination of the assets of the subject of valuation and necessary due diligence on the operation and management of the valued entity during the period from 8 February 2017 to 16 February 2017.

1. Asset verification

(1) Providing guidance to the valued entity on completing forms and preparing information to be submitted to the valuation institution

The valuers provided guidance to the finance and asset management personnel of the valued entity on making careful and accurate reporting of assets in the scope of valuation based on self-examination of assets and in accordance with the asset valuation declaration forms provided by the valuation institution and the instructions printed thereon. The valuers also collected ownership certificate of assets and the documents on the performance, status and economic and technical indicators of assets.

(2) Initial review and improvement in the asset valuation declaration forms completed by the valued entity

Through access to the relevant information, the valuers acquired detailed understanding of the assets in the scope of valuation and carefully reviewed the asset valuation declaration forms to check if there was any incomplete, inaccurate and unclear reporting of assets. The valuers also, based on experience and information available, checked whether there were any missing items in the asset valuation declaration forms and provided feedback to the valued entity for improvement of the asset valuation declaration forms.

(3) On-site investigation

In view of the types, amount and distribution of assets included in the scope of valuation and with the cooperation of the relevant personnel of the valued entity, the valuers conducted on-site investigation into the assets using different methods based on the natures and characteristics of different assets and in accordance with the relevant requirements of the asset valuation standards.

(4) Supplementing, revising and improving the asset valuation declaration forms

Based on the results of on-site investigation and through communication with the relevant personnels of the valued entity, the valuers further improved the asset valuation declaration forms to ensure that the declaration is consistent with the records and the actual situations.

(5) Examination of title certificates

The valuers examined the title certificates of the assets such as equipment included in the scope of valuation. For assets with insufficient title information or unclear ownership, the valuers requested the company to confirm or provide explanation on the ownership.

2. *Due diligence*

In order to fully understand the operation and management of the valued entity and the risks facing it, the valuers conducted necessary due diligence. The due diligence mainly covered the following:

(1) the history and development, major shareholders and their shareholding percentages, necessary ownership and operational and management structure of the valued entity;

(2) the assets, financial position, production, operation and management of the valued entity;

(3) the business plan, development plan and projected financial information of the valued entity;

(4) previous valuation and transactions of the subject of valuation and the valued entity;

(5) macroeconomic and regional economic factors affecting the production and operation of the valued entity;

(6) the development and prospects of the industry in which the valued entity operates;

(7) other related information.

(iv) Information collection

In view of the actual situations of the valuation project, the valuers collected the relevant information, including information independently obtained from the market and other channels, information obtained from the relevant parties including the client, and information obtained from government authorities, various professional institutions and other relevant departments, and conducted necessary analysis and sorting of the information to form the basis for valuation and estimation.

(v) Valuation and estimation

In view of the actual situations of various assets, the valuers chose the relevant formulas and parameters according to the valuation approach adopted for analysis, computation and judgment and the forming of an initial valuation conclusion. The person in charge of the project summarised the initial conclusion and prepared a draft valuation report.

(vi) Internal review

In accordance with the requirements of our valuation business process management rules, after finishing the preparation and review of the first proof of the valuation report, the person in charge of the project submitted it for internal review. Upon competition of internal review, the person in charge of the project prepared a valuation report for comments and submitted it to the client. The valuation report was finalised after amendments according to the client's feedbacks and then submitted to the client.

IX. Valuation Assumptions

The assumptions adopted in the analysis and estimation in the valuation report are as follows:

(i) General assumptions

1. It was assumed that the valued entity will continue to operate since the base date of valuation;

2. It was assumed that there will be no material changes in the political, economic and social conditions of the country and region in which the valued entity is located since the base date of valuation;

3. It was assumed that there will be no material changes in the national macroeconomic policies, industrial policies and regional development policies since the base date of valuation;

4. It was assumed that there will be no material changes in the interest rate, exchange rate, tax base and tax rate and policy charges relating to the valued entity since the base date of valuation;

5. It was assumed that the management of the valued entity will be responsible, stable and capable of performing their duties since the base date of valuation;

6. It was assumed that the valued entity will fully comply with all relevant laws and regulations;

7. It was assumed that there will be no force majeure having material adverse effect on the valued entity since the base date of valuation.

(ii) Special assumptions

1. It was assumed that the accounting policies to be adopted by the valued entity since the base date of valuation will be consistent with the existing accounting policies adopted as at the date of this valuation report in all material respects;

2. It was assumed that the future scope and operation method of business of the valued entity will remain the same since the base date of valuation, while maintaining existing management practice;

3. It was assumed that the cash inflows of the valued entity following the base date of valuation will be average inflows and its cash outflows will be average outflows since the base date of valuation;

4. It was assumed that the valued entity will face the same competition landscape since the base date of valuation;

5. As at the base date of valuation, Yankuang Group Finance leased a property of Cinda Hotel with a gross floor area of 810 sq.m. from Yankuang Group Company Limited for use as office and in operation for a long term. It was assumed that the valued entity will be able to lease such property since the base date of valuation;

6. It was assumed that the deposit reserve ratio (1.62%), general loan loss provision ratio (2.5%) and capital adequacy ratio (25%) will remain at the same level as in 2016 in the future.

The valuation conclusion under the valuation report was effective as at the base date of valuation and subject to the above assumptions. In case of any material changes in the above assumptions, the signing valuers and the valuation institution do not assume the responsibility for updating the valuation conclusion as a result of the changes in assumptions.

X. Valuation Conclusion

(i) Valuation results under the income approach

As at the base date of valuation, Yankuang Group Finance Co., Ltd. had total assets with carrying amount of RMB8,873,973,000, total liabilities with carrying amount of RMB7,293,939,100 and net assets of RMB1,580,033,900.

The value of all equity interest under the income approach is RMB1,729,580,700, with a valuation appreciation of RMB149,546,800 and an appreciation ratio of 9.47%. The appreciation in value under the valuation was because the income approach generated combined results, after taking into account the discounted future income, the loan network and human resources of the company.

(ii) Valuation results under the asset-based approach

As at the base date of valuation, Yankuang Group Finance Co., Ltd. had total assets with carrying amount of RMB8,873,973,000 and appraised value of RMB8,873,540,900, representing a depreciation in value of RMB432,200; total liabilities with carrying amount of RMB7,293,939,100 and appraised value of RMB7,293,939,100, without appreciation or depreciation in value; net assets with carrying amount of RMB1,580,033,900 and appraised value of RMB1,579,601,800, representing a depreciation in value of RMB432,200 and a depreciation ratio of 0.03%.

For details of the valuation results under the asset-based approach, please refer to the summary below:

Summary of valuation results under the asset-based approach

Base date of valuation: 31 December 2016 *Unit: RMB in ten thousand*

Item		**Carrying amount A**	**Appraised value B**	**Appreciation or depreciation C=B-A**	**Appreciation ratio (%) D=C/A*100**
Total assets	*1*	887,397.30	887,354.09	-43.22	0.00
Among which: Cash and deposit in the central bank	2	55,462.75	55,462.75	–	–
Deposit in other banks	*3*	320,816.32	320,816.32	–	–
Placements with banks and non-bank financial institutions	*4*				
Financial assets purchased under agreements to resell	*5*				
Interest receivable	*6*				
Other receivables	*7*				
Repossessed assets	*8*				
Loans and advances	*9*	508,837.60	508,837.60	–	–
Fixed assets	*10*	323.56	280.34	-43.22	-13.36
Deferred tax assets	*11*	1,957.07	1,957.07	–	–
Total liabilities	*12*	729,393.91	729,393.91	0.00	0.00
Net assets	*13*	158,003.39	157,960.18	-43.22	-0.03

(iii) Valuation Conclusion

The value of all equity interest under the income approach is RMB1,729,580,700, and the value of all equity interest under the asset-based approach is RMB1,579,601,800, representing a difference of RMB149,978,900 and difference ratio of 9.49%.

The asset-based approach and the income approach have different valuation angles and paths. The income approach measures the value of an enterprise based on its future profitability, and the cost approach measures the value of an enterprise based on the replacement of existing assets of the enterprise. As the valued entity operates in the finance and insurance industry and is a light-asset company, the results under the asset-based approach cannot fully reflect its future profitability. As such, the results under the income approach are more appropriate.

In view of the above, the results under the income approach were adopted as the valuation conclusion, i.e. all equity interest in Yankuang Group Finance Co., Ltd. was valued as RMB1,729,580,700.

The impact of liquidity on the valuation of the subject was not taken into account in the valuation report.

XI. Notes on Specific Matters

The following are the matters identified during the process of valuation which might have impacts on the valuation conclusion but the estimation of which are beyond the practicing capability of the valuers:

(1) The valued entity operates in an office that is leased from Shandong Yankuang Cinda Hotel Management Co., Ltd. The leased area is floor 1 and west side of floor 3 of the office building with a gross floor area of 810 sq.m. The term of lease is long-term.

(2) Provision of property reservation security for litigation of RMB41 million for Yankuang Donghua Construction Co., Ltd. There were engineering contract disputes between Yankuang Donghua Construction Co., Ltd. and Shandong World Hubiao Aluminum Co., Ltd. An application for property preservation for litigation had been submitted to and approved by Qufu People's Court during the litigation. In accordance with the order of the court, property reservation security for litigation must be provided in order to avoid loss suffered by the applicant due to wrongful application for a term commencing on the date of litigation and ending on the date of judgement. Yankuang Group Company Limited has provided joint and several liability guarantee in this regard. The impacts of the above matters on the valuation conclusion had not been considered in the valuation.

Users of the valuation report shall pay attention to the impacts of the above specific matters on the valuation conclusion.

XII. Notes on the Restrictions on Use of this Valuation Report

(i) The valuation report shall only be used in the purposes and uses specified in the valuation report;

(ii) The valuation report shall only be used by the users specified in the valuation report;

(iii) In case of all or any part of the valuation report to be extracted, quoted or disclosed in pubic media, the review by the valuation institution is required unless otherwise provided in laws and regulations and agreed by the relevant parties;

(iv) The valuation report shall not be used without the signature of the assets valuers and affixing of the chop of the valuation institution and until the filing with the state-owned assets supervisions and administration authorities or the investing enterprise;

(v) The valuation conclusion set out in the valuation report is only effective for the economic behaviour described in the valuation report and is effective for a term of one year from the base date of valuation.

XIII.Date of Valuation Report

The valuation report was issued on 2 March 2017.

Legal representative: Quan Zhongguang

Assets Valuer: Song Qiuhong Assets Valuer: Li Mingyuan

Beijing China Enterprise Appraisals Co., Ltd.
2 March 2017

In compliance with Rule 14.60A of the Hong Kong Listing Rules, the texts of each of the letter from SHINEWING (HK) CPA Limited to the Directors confirming it has reviewed the arithmetical calculations of the profit forecast for the Yankuang Group Finance Equity Transfer Agreement Valuation Report, and the letter from the Board confirming the Yankuang Group Finance Valuation in the Yankuang Group Finance Equity Transfer Agreement Valuation Report had been made by the Directors after due and careful enquiry, both dated 28 April 2017, for the purpose of (among other things) inclusion in the announcement of the Company dated 28 April 2017 in relation to the Yankuang Group Finance Equity Transfer Agreement, are reproduced below for inclusion in this circular for further information:

I LETTER FROM SHINEWING (HK) CPA LIMITED

信永中和 ShineWing

SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

28 April 2017

Board of Directors
Yanzhou Coal Mining Company Limited
298 Fushan South Road
Zoucheng City, Shandong Province
PRC

Dear Sirs,

INDEPENDENT ASSURANCE REPORT

We have examined the accounting policies adopted and calculations of the underlying profit forecast (the "**Underlying Forecast**") to the business valuation dated 2 March 2017 prepared by Beijing Zhong Qihua Assets Valuation Co., Ltd*（北京中企華資產評估有限責任公司）(the "**Valuer**") in respect of the valuation on Yankuang Group Finance Co., Ltd.*（兗礦集團財務有限公司）(the "**Target Company**") in connection with the proposed acquisition of 65% equity interest in the Target Company by Yanzhou Coal Mining Company Limited, (the "**Company**") as of 31 December 2016 as set out in Section I.2 of the announcement of the Company dated 28 April 2017 (the "**Announcement**").

Directors' Responsibilities

The directors of the Company and the Target Company (the "**Directors**") are solely responsible for the preparation of the Underlying Forecast including the bases and assumptions, for the purpose of business valuation of the Target Company based on

* *For identification purpose only*

discounted cash flow method. The Underlying Forecast has been prepared using a set of bases and assumptions (the "**Assumptions**") that include hypothetical assumptions about future events and management's actions that are not necessarily expected to occur. Even if the events anticipated occur, actual results are still likely to be different from the Underlying Forecast and the variation may be material. The Directors are responsible for the reasonableness and validity of the Assumptions.

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants, (the "**HKICPA**") which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, based on our work on the Underlying Forecast and to report our opinion solely to you, as a body, solely for the purpose of reporting under Rule 14.62 of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and for no other purpose. We have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and express no opinion on the reasonableness and validity of the Assumptions on which the Underlying Forecast is based. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

We conducted our engagement in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) ("**HKSAE 3000 (Revised)**") "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to the procedures specified in Hong Kong Standard on Investment Circular Reporting Engagements 500 "Reporting on Profit Forecast, Statements of Sufficiency of Working Capital and Statements of Indebtedness" issued by the HKICPA. We examined the consistency of accounting policies adopted and the arithmetical accuracy of the Underlying Forecast. We have planned and performed our work to obtain reasonable assurance for giving our opinion below.

We have planned and performed such procedures as we considered necessary to assist the Directors solely in evaluating whether the Underlying Forecast, so far as the accounting policies and calculations are concerned, has been properly compiled in accordance with the Assumptions made by the Directors. Our work does not constitute any valuation of the Target Company.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, so far as the accounting policies and calculations are concerned, the Underlying Forecast has been property compiled in accordance with the Assumptions adopted by the Directors as set out in Section I.2 of the Announcement and is presented on a basis consistent in all material aspects with the accounting policies currently adopted by the Company.

Yours faithfully,

SHINEWING (HK) CPA Limited
Certified Public Accountants
Lau Kai Wong
Practising Certificate Number: P06623

Hong Kong

II LETTER FROM THE BOARD

28 April 2017

Listing Division
The Stock Exchange of Hong Kong Limited
11th Floor, One International Finance Centre 1
Harbour View Street
Hong Kong

Dear Sir/Madam,

Regarding: Acquisition of 65% equity interest in Yankuang Group Finance by Yanzhou Coal Mining Company Limited (Stock Code: 1171) (the "Company")

We refer to the announcement of the Company dated 28 April 2017 in relation to the discloseable and connected transaction on the Company's acquisition of 65% equity interest in Yankuang Group Finance (the "**Announcement**"). Unless the context otherwise requires, terms defined in the Announcement shall have the same meanings when used herein.

We have reviewed and discussed the Equity Transfer Agreement Valuation Report, which forms the basis for determining the consideration for the Acquisition. We note that the methodology applied in deriving the value of equity interest in Yankuang Group Finance is regarded as a profit forecast under Rule 14.61 of the Hong Kong Listing Rules. Pursuant to Rule 14.62 of the Hong Kong Listing Rules, we have engaged SHINEWING (HK) CPA Limited, acting as the Company's reporting accountants, to examine the arithmetical accuracy of the calculation of the Equity Transfer Agreement Valuation Report in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information".

On the basis of the above, we confirm that the Yankuang Group Finance Equity Transfer Agreement Valuation (including the profit forecast) of Yankuang Group Finance as contained in the Equity Transfer Agreement Valuation Report has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of the Board of
Yanzhou Coal Mining Company Limited
Zhao Qingchun
Director and Authorised Representative

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, ShineWing Australia. A copy of the following accountants' report is available for inspection.

ShineWing AUSTRALIA

ShineWing Australia
Accountants and Advisors
Level 10, 530 Collins Street
Melbourne VIC 3000
T +61 3 8635 1800
F +61 3 8102 3400
shinewing.com.au

2 June 2017

The Board of Directors
Yanzhou Coal Mining Company Limited
298 Fushan South Road,
Zoucheng City,
Shandong Province,
PRC

Dear Sirs,

INTRODUCTION

We report on the historical financial information of Coal & Allied Industries Limited (the "Target") and its subsidiaries (hereinafter collectively referred to as the "C&A Group"), set out on pages VIII-4 to VIII-76 which comprises the consolidated statements of financial position of the C&A Group as at 31 December 2014, 2015 and 2016, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for C&A Group for the years then ended (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information (together the "Historical Financial Information"). The Historical Financial Information set out on pages VIII-4 to VIII-76 forms an integral part of this, report which had been prepared for inclusion in the circular of the Company dated 2 June 2017 (the "Circular") in connection with the proposed acquisition of the entire equity interest of the Target by Yancoal Australia Limited, a subsidiary of the Company.

DIRECTORS' RESPONSIBILITIES FOR HISTORICAL FINANCIAL INFORMATION

The directors of the Target are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information, and for such internal control as the directors of the Target determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Report on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgment, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the C&A Group's financial position as at 31 December 2014, 2015 and 2016 and of the C&A Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE LISTING RULES AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

ADJUSTMENTS

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on pages VIII-4 have been made.

DIVIDENDS

We refer to Note 27 to the Historical Financial Information which states that dividends have been declared and paid by C&A during the Relevant Periods.

ShineWing Australia
Chartered Accountants
Melbourne, Australia

A. FINANCIAL INFORMATION OF THE TARGET GROUP

HISTORICAL FINANCIAL INFORMATION OF THE C&A GROUP

Preparation of financial information of the C&A Group

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the C&A Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by us in accordance with the International Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Australian Dollars ("AUD") except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	31 December 2014 $'000	31 December 2015 $'000	31 December 2016 $'000
Revenue	7	2,163,053	2,131,284	1,664,180
Other income	8	23,699	23,660	1,901,741
Changes in inventories of finished goods and WIP		(30,144)	(22,379)	(5,769)
Raw materials and consumables used		(547,703)	(523,516)	(356,844)
Employee benefits expense	9	(350,528)	(332,902)	(253,043)
External services		(250,467)	(255,614)	(192,382)
Distribution	9	(454,937)	(437,261)	(322,108)
Debt forgiveness	9	–	–	(1,474,988)
Other operating expenses		(85,725)	(108,127)	(89,752)
Net gain/(loss) on disposal of property, plant and equipment		629	(2,196)	9,504
Depreciation and amortisation expense		(194,519)	(184,163)	(124,893)
Exploration and evaluation		(8,059)	(8,389)	–
Sea freight and purchased coal		(27,277)	(40,403)	(26,389)
Net foreign exchange (losses)/gains		4,388	10,389	(1,595)
Redbank termination fee	9	(51,193)	–	–
Finance costs	9	(31,116)	(15,655)	(6,730)
Share of profits of associates		16,562	6,607	2,438
Profit before income tax		176,663	241,335	723,370
Income tax (expense)/benefit	10	(87,912)	42,446	(326,471)
Profit for the year		88,751	283,781	396,899
Profit is attributable to:				
Owners of the Target		88,195	282,781	396,285
Non-controlling interests		556	1,000	614
		88,751	283,781	396,899

	Notes	31 December 2014 $'000	31 December 2015 $'000	31 December 2016 $'000
Other comprehensive income (expense) items that may be reclassified to profit or loss				
Share of other comprehensive income of associates		–	700	–
Exchange differences on translation		–	(100)	–
Other comprehensive income for the year, net of tax		–	600	–
Total comprehensive income for the year		88,751	284,381	396,899
Total comprehensive income for the year is attributable to:				
Owners of the Target		88,195	283,381	396,285
Non-controlling interests		556	1,000	614
		88,751	284,381	396,899

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	31 December 2014 $'000	31 December 2015 $'000	31 December 2016 $'000
ASSETS				
Current assets				
Cash and cash equivalents	11	241,804	213,024	311,729
Trade and other receivables	12	183,992	129,579	275,947
Inventories	13	136,111	86,530	60,727
		561,907	429,133	648,403
Assets classified as held for sale	14	–	320,547	–
Total current assets		561,907	749,680	648,403
Non-current assets				
Interests in associates	15	221,919	216,316	205,899
Land held for development or future sale		1,072	1,072	864
Property, plant and equipment	16	1,653,665	1,242,985	762,328
Deferred tax assets	17	77,240	80,890	155,084
Intangible assets	18	197,932	188,246	154,321
Total non-current assets		2,151,828	1,729,509	1,278,496
Total assets		2,713,735	2,479,189	1,926,899
LIABILITIES				
Current liabilities				
Trade and other payables	19	263,829	252,156	346,166
Bank overdraft	20	–	617	–
Borrowings	21	292,678	–	–
Current tax payable		40,868	6,711	4,357
Provisions	22	91,851	75,725	117,727
		689,226	335,209	468,250
Liabilities classified as held for sale	23	–	44,119	–
Total current liabilities		689,226	379,328	468,250

	Notes	31 December 2014 *$'000*	31 December 2015 *$'000*	31 December 2016 *$'000*
Non-current liabilities				
Receipts in advance		–	3,132	2,902
Deferred tax liabilities	*24*	188,487	71,768	11,274
Provisions	*25*	157,159	158,014	132,601
Total non-current liabilities		345,646	232,914	146,777
Total liabilities		1,034,872	612,242	615,027
Net assets		1,678,863	1,866,947	1,311,872
EQUITY				
Share capital	*26*	440,865	440,928	59,728
Other reserves	*28(a)*	6,686	11,703	10,326
Retained earnings	*28(b)*	1,229,048	1,411,651	1,239,146
Equity attributable to owners of the Target		1,676,599	1,864,282	1,309,200
Non-controlling interests	*29*	2,264	2,665	2,672
Total equity		1,678,863	1,866,947	1,311,872

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		Attributable to owners of the Target					
		Share capital	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	Notes	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Balance at 1 January 2014		440,890	3,651	1,140,552	1,585,093	2,329	1,587,422
Profit for the year		–	–	88,195	88,195	556	88,751
Other comprehensive income		–	–	–	–	–	–
Total comprehensive income for the year		–	–	88,195	88,195	556	88,751
Transactions with owners in their capacity as owners:							
Other		(25)	–	301	276	(21)	255
Dividends paid	27	–	–	–	–	(600)	(600)
Employee share schemes		–	3,035	–	3,035	–	3,035
Balance at 31 December 2014		440,865	6,686	1,229,048	1,676,599	2,264	1,678,863
Balance at 1 January 2015		440,865	6,686	1,229,048	1,676,599	2,264	1,678,863
Profit for the year		–	–	282,781	282,781	1,000	283,781
Other comprehensive income		–	600	–	600	–	600
Total comprehensive income for the year		–	600	282,781	283,381	1,000	284,381
Transactions with owners in their capacity as owners:							
Other		63	17	(178)	(98)	1	(97)
Dividends paid	27	–	–	(100,000)	(100,000)	(600)	(100,600)
Employee share schemes		–	4,400	–	4,400	–	4,400
Balance at 31 December 2015		440,928	11,703	1,411,651	1,864,282	2,665	1,866,947

		Attributable to owners of the Target				Non-	
		Contributed equity	Other reserves	Retained earnings	Total	controlling interests	Total equity
	Notes	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Balance at 1 January 2016		440,928	11,703	1,411,651	1,864,282	2,665	1,866,947
Profit for the year		–	–	396,285	396,285	614	396,899
Other comprehensive income		–	–	–	–	–	–
Total comprehensive income for the year		–	–	396,285	396,285	614	396,899
Transactions with owners in their capacity as owners:							
Other		–	23	10	33	(7)	26
Return of capital		(381,200)	–	–	(381,200)	–	(381,200)
Dividends paid	27	–	–	(568,800)	(568,800)	(600)	(569,400)
Employee share schemes		–	(1,400)	–	(1,400)	–	(1,400)
		(381,200)	(1,377)	(568,790)	(951,367)	(607)	(951,974)
Balance at 31 December 2016		59,728	10,326	1,239,146	1,309,200	2,672	1,311,872

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	31 December 2014 $'000	31 December 2015 $'000	31 December 2016 $'000
Operating activities				
Profit before income taxes		176,663	241,335	723,370
Adjustments for:				
Interest income		(5,272)	(5,500)	(17,500)
Dividend income from associates		(12,422)	(12,182)	(13,055)
Net unrealised foreign exchange loss/(gain)		–	(1,192)	5,200
Depreciation of property, plant and equipment and amortisation		194,519	184,163	124,893
Exploration and evaluation		8,059	8,398	–
Gain on sale of investments		–	–	(1,860,321)
Net loss on debt forgiveness		–	–	1,474,988
Share of loss or profit of associates		(4,900)	5,375	10,417
(Loss) gain on disposal of property, plant and equipment		(629)	2,196	(9,504)
Other		22,036	12,797	6,081
Operating cash flows before movements in working capital		378,054	435,390	444,569
Decrease (increase) in bills and accounts receivable		54,526	38,820	(137,702)
Decrease in inventories		35,764	48,963	9,044
Decrease in assets held for sale		–	11,300	–
Movement in provision for land subsidance, restoration, rehabilitation and environmental cost		6,099	5,695	(3,559)
(Increase) decrease in long term receivables		(1,722)	(1,062)	1,662
(Increase) decrease in bills and accounts payable		(86,587)	(5,397)	111,115
Increase (decrease) in other payables and accrued expenses		–	3,134	(233)
(Increase) decrease in long term payable and provision		(5,356)	(12,152)	8,503
Cash generated from operations		380,778	524,691	433,399
Income taxes paid		(63,414)	(110,168)	(451,177)
Interest received		5,272	5,500	17,500
Dividend received		12,422	12,182	13,055

	Notes	31 December 2014 $'000	31 December 2015 $'000	31 December 2016 $'000
Net cash inflow from operating activities		335,058	432,205	12,777
Cash flows from investing activities				
Purchase of property, plant and equipment		(79,236)	(63,600)	(40,700)
Exploration and evaluation		(8,059)	(8,398)	–
Proceeds on disposal of property, plant and equipment		2,034	4,104	8,973
Proceeds from sale of investment in associate	8	–	–	1,068,975
Net cash (outflow)/inflow from investing activities		(85,261)	(67,894)	1,037,248
Cash flows from financing activities				
Dividends paid	27	(600)	(100,600)	(569,400)
Capital return		–	–	(381,200)
Repayment of bank borrowings		(301,005)	(292,708)	(103)
Repayment of advances to related entities		(188)	(400)	–
Net cash outflow from financing activities		(301,793)	(393,708)	(950,703)
Net (decrease)/increase in cash and cash equivalents		(51,996)	(29,397)	99,322
Cash and cash equivalents at the beginning of the year		293,800	241,804	212,407
Cash and cash equivalents at end of year	11	241,804	212,407	311,729
Breakdown of cash and cash equivalents at end of year:				
Bank balances and cash held		241,804	213,024	311,729
Bank overdraft	20	–	(617)	–
Cash and cash equivalents at end of year		241,804	212,407	311,729

1. GENERAL INFORMATION

Description of business

Coal & Allied Industries Limited is a leading Australian producer of high quality thermal coal, indirectly owning majority joint venture interests in three coal mine operations, namely Hunter Valley Operations ("**HVO**"), Mount Thorley and Warkworth (together, "**MTW**") and associated assets.

During the Track Record Period the immediate parent entities are Australian Coal Holdings Pty Ltd and Hunter Valley Resources Pty Ltd which at 31 December 2016 owned 75.71% and 24.29% respectively (2015 and 2014: 75.71%, 14.09%) of the issued ordinary shares of Coal & Allied. The ultimate parent entity is Rio Tinto Limited.

The principal activities of the Target and its subsidiaries (the "Target Group") during the three years ended 31 December 2016 were coal mining and related coal preparation and marketing.

The consolidated financial information are presented in Australian dollars, which is Coal & Allied Industries Limited's functional and presentation currency.

Basis of preparation

For the purpose of preparing and presenting the consolidated financial information of the Target Group for the Track Record Period, the Target Group has consistently adopted all of the new and revised IFRSs issued by the International Accounting Standards Board ("IASB") which are effective for the Target Group's financial year beginning 1 January 2016.

Coal & Allied Industries Limited is a for-profit entity for the purpose of preparing the financial information.

The consolidated financial information also includes applicable disclosures required by the rules governing the listing of securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and by the Hong Kong Companies Ordinance.

The periods presented are for the years ended 31 December 2014, 31 December 2015 and 31 December 2016 (the "Track Record Period").

Historical cost convention

The consolidated financial information have been prepared on a historical cost basis, except for the following:

- assets held for sale – measured at the lower of cost or fair value less costs of disposal.

The accounting policies adopted in the preparation of the Financial Information are presented in Note 3 – Significant Accounting Policies. These policies have been consistently applied to all of the Relevant Periods.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

New and revised standards adopted by the Relevant Businesses

(i) New standards and interpretations not yet adopted

At the date of authorization of these consolidated financial statements, certain new and amended IFRSs have been published but are not yet effective, and have not been adopted early by the Group.

IFRS 9 (2014)	Financial Instruments[2]
IFRS 15	Revenue from Contracts with Customers[2]
IFRS 16	Leases[3]
Annual Improvements to IFRSs 2014 – 2016 Cycle	Amendments to IFRS 12 Disclosure of interests in other Entities[1]
Annual Improvements to IFRSs 2014 – 2016 Cycle	Amendments to a number of IFRSs[2]
Amendments to IAS 7	Disclosure Initiative[1]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]
Amendment to IAS 40	Investment property[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transaction[2]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[2]
IFRIC Interpretation 22	Foreign Currency Transactions and Advance Consideration[2]

1 Effective for annual periods beginning on or after 1 January 2017.
2 Effective for annual periods beginning on or after 1 January 2018.
3 Effective for annual periods beginning on or after 1 January 2019.
4 Effective date not yet been determined.

The Target's assessment of the impact of these new standards and interpretations is set out below.

Title of standard	Nature of change	Impact	Mandatory application date/Date of adoption by Target
IFRS 9 *Financial Instruments*	IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.	The Target is still assessing the impact.	Must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed IFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety. The Target is currently assessing whether it should adopt IFRS 9 before its mandatory date.

Title of standard	Nature of change	Impact	Mandatory application date/Date of adoption by Target
IFRS 15 *Revenue from Contracts with Customers*	The IFRS has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.	At this stage, the Target is not able to estimate the effect of the new rules on the Target's financial information.	Mandatory for financial years commencing on or after 1 January 2018, but available for early adoption. Expected date of adoption by the Target: 1 January 2018.
IFRS 16 *Leases*	IFRS 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.	The standard will affect primarily the accounting for the Target's operating leases. Information on the undiscounted amount of the Target's operating lease commitments at 31 December 2016 under IAS 17, the current leases standard, is disclosed in note 32. The Target has not yet determined to what extent its operating lease commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Target's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS16.	Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Target does not intend to adopt the standard before its operative date.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3. SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of all significant accounting policies adopted in the preparation of these consolidated financial information. These policies have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial information are for the Target consisting of Coal & Allied Industries Limited and its subsidiaries.

Historical cost convention

The consolidated financial information have been prepared on a historical cost basis, except for the following:

- assets held for sale-measured at the lower of cost or fair value less costs of disposal.

(a) Principles of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power over the entity, only substantive rights relating to the entity (held by the Group and others) are considered.

The Group includes the income and expenses of a subsidiary in the consolidated financial statements from the date it gains control until the date when the Group ceases to control the subsidiary.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Non-controlling interests represent the equity on a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognized.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 "Financial Instruments: Recognition and Measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre- or post-acquisition profits are recognized in the Company's profit or loss.

(ii) Joint arrangements

When Group entity undertakes its activities under joint operations, the Group as a joint operator recognises its direct right to, and its share of jointly held assets, liabilities, revenues and expenses of joint operations. These have been incorporated in the financial statements under appropriate headings.

Joint Operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Joint Ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

When the Target's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Target's net investment in the joint ventures), the Target does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Target and its joint ventures are eliminated to the extent of the Target's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary, to ensure consistency with the policies adopted by the Target.

(b) Foreign currency translation

In the individual financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e., the currency of the primary environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the reporting date.

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise.

Exchange differences on monetary items receivable from or payable to foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

In the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Renminbi) at the rate of exchange prevailing at the reporting date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate). Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

(c) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods (including coal, methanol and equipment manufacturing) are recognized upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Service income such as coal railway transportation and electricity and heat supply is recognized when services are provided.

Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount.

Dividend Income

Dividend income from investments is recognized when the shareholders' rights to receive payments have been established.

Management Fees and other recoveries

Management fees are charges to related parties for corporate services, global business services, people and organisational support, and technology and innovation. Recoveries comprise charges to related and external parties for the rendering of administration and general services.

Coal sales

Revenue comprises sales to third parties at invoiced amounts, with most sales being priced ex works, free on board (f.o.b.) or cartage, insurance and freight (c.i.f.). Amounts billed to customers in respect of shipping and handling are classed as revenue where the Target is responsible for carriage, insurance and freight. All shipping and handling costs incurred by the Target are recognised as operating costs. Revenue from continuing operations shown in the consolidated statement of comprehensive income includes the Target's share of revenue of joint operations.

Revenue is recognised on individual sales when persuasive evidence exists indicating that all the following criteria are met:

- the significant risks and rewards of ownership of the product have been transferred to the buyer;
- neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold has been retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the sale will flow to the Target; and
- the costs incurred or to be incurred in respect of the sale can be measured reliably.

These conditions are generally satisfied when title passes to the customer. In most instances revenue is recognised when the product is delivered to the destination specified by the customer, which is typically the vessel on which it will be shipped, the destination port or the customer's premises.

In some circumstances the terms of executed sales agreements allow for an adjustment to the sales price based on the global COAL index. These adjustments are settled quarterly in arrears. Revenue on such provisionally priced sales is initially recognised at estimated fair value of the total consideration to be received. The fair value of the final sales price adjustment is continually re-estimated and measured with reference to the global COAL index. The associated fair value movement is recognised as an adjustment to sales revenue.

(d) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight line basis over the term of the facility.

Borrowings are removed from the consolidated statements of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Target has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(e) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. Capitalization of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

All other borrowings costs are recognized as expenses in the period in which they are incurred.

(f) Exploration and evaluation expenditure

Under the Group's accounting policy, exploration expenditure is not capitalized. Evaluation expenditure is capitalized when there is a high degree of confidence that the Group will determine that a project is commercially viable and therefore it is considered probable that future economic benefits will flow to the Group.

There are occasions when the Group concludes that the asset recognition criteria are met at an earlier stage than approval to proceed. In these cases, evaluation expenditure is capitalised if there is a high degree of confidence that the Group will determine the project is commercially viable. The Group's view is that a high degree of confidence is greater than "more likely than not" (that is greater than 50 per cent certainty) and less than "virtually certain" (that is less than 90 per cent certainty). Determining whether there is a high degree of confidence that the Group will determine that an evaluation project is commercially viable requires a significant degree of judgment and assessment of all relevant factors such as the nature and objective of the project; the project's current stage and project timeline; current estimates of the project's net present value including sensitivity analyses for the key assumptions; and the main risks of the project.

Development expenditure incurred prior to the decision to proceed is subject to the same criteria for capitalization, being a high degree of confidence that the Group will determine that a project is commercially viable. In accordance with IFRS 6 "Exploration for and Evaluation of Mineral Resources", the criteria for the capitalization of evaluation costs are applied consistently from period to period. Subsequent recovery of the carrying value for evaluation costs depends on successful development or sale of the undeveloped project. If a project does not prove viable, all irrecoverable costs associated with the project net of any related impairment provisions are charged to the consolidated statement of profit or loss.

(g) Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and other financial institution and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For the preparation of consolidated cash flow statement, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

(h) Assets and liabilities held for sale

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Equity and debt securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale monetary financial assets relating to changes in foreign currency rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established. The fair value of available-for-sale monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

(i) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(j) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at the end of the reporting period.

(k) Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of GST, except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(l) Income tax

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Current tax assets and current tax liabilities are presented in net if, and only if, the Group has the legally enforceable right to set off the recognized amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, interest in associates and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Changes in deferred tax assets or liabilities are recognized in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

   (i) the same taxable entity; or

   (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Certain of the Company's wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. Each entity in the tax consolidated group recognizes its own deferred tax assets and liabilities, except where the deferred tax assets relate to unused tax losses and credits, in which case the Australian subsidiaries recognizes the assets. Australian subsidiaries have entered into a tax sharing agreement whereby each company of Australian subsidiaries contributes to the income tax payable in proportion to their contribution to the profit before tax of the tax consolidated group. The tax consolidated group has also entered into a tax funding agreement whereby each entity in Australian subsidiaries group can recognize their balance of the current tax assets and liabilities through inter-entity accounts.

(m) Tax consolidation

The Target became a member of a tax consolidated group on 2 February 2016, of which Rio Tinto Limited is the head entity.

Prior to joining the Rio Tinto Limited tax consolidated group in 2016, Coal & Allied and its wholly owned Australian controlled entities formed a separate group. Coal & Allied was the head entity and implemented the same structure as below.

The head entity, Rio Tinto Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

The Target has entered into a tax sharing and funding agreement with the head entity of the tax consolidated group, Rio Tinto Limited, in relation to their participation in the tax consolidation regime. Under the terms of this agreement, the subsidiary entities in the tax consolidated group have agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. The reimbursements are payable at the same time as the associated income tax liability falls due and have therefore been recognised as a "current intercompany payable/receivable in respect of tax" by the Target.

(n) Investments and other financial assets

Classification

The Target classifies its financial assets in the following categories:

- loans and receivables,

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including bank balances and cash, term deposits, restricted cash, bills and accounts receivable, long-term receivables, other receivables and deposits on investments) are subsequently measured at amortized cost using the effective interest method, less any identified impairment loss.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date-the date on which the Target commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Target has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

Measurement

At initial recognition, the Target measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of revenue from continuing operations when the Target's right to receive payments is established. Interest income from these financial assets is included in the net gains/(losses).

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Changes in the fair value of other monetary and non monetary securities classified as available-for-sale are recognised in other comprehensive income.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets and intangible assets with finite useful life to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset (determined at the higher of its fair value less costs of disposal and its value in use) is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with an indefinite useful life will be tested for impairment annually. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Recoverable amount is the higher of fair value less costs of disposal and value in use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash generating unit) is reduced to its recoverable amount. Impairment loss is recognized as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as an income immediately. For the purposes of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Assessment is performed for each area of interest in conjunction with the group of operating assets (representing a cash generating unit) to which the mining activity (mining complex level) is attributed. Management monitors and manages operations at the mining complex level to identify cash-generating streams.

(o) Inventories

Inventories of coal, methanol, iron ore and equipment are stated at the lower of cost and net realizable value. Cost, which comprises direct materials and, where applicable, direct labour and overheads that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realizable value represents the estimated selling price less all further costs to completion and costs to be incurred in selling, marketing and distribution.

Inventories of auxiliary materials, spare parts and small tools expected to be used in production are stated at weighted average cost less allowance, if necessary, for obsolescence.

(p) Land held for development

Land held for development is stated at the lower of cost and fair value less cost of disposal (net realisable value). Cost is assigned by specific identification and includes the cost of acquisition, and development and borrowing costs during development. When development is completed any subsequent borrowing costs and other holding charges are expensed as incurred.

Borrowing costs included in the cost of land held for resale are those costs that would have been avoided if the expenditure on the acquisition and development of the land had not been made. Borrowing costs incurred while active development is interrupted for extended periods are recognised as expenses.

(q) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present values of the minimum lease payments of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as an obligation under finance leases.

Each lease payment is allocated between liability and finance charges so as to achieve a constant rate of interest on the remaining balance of the liability. The finance lease liabilities are included in current and non-current borrowings. The finance charges are expensed in the income statement over the lease periods so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The assets accounted for as finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

(r) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. The cost of a tangible fixed asset comprises its purchase price and any costs directly attributable to the acquisition of the item and of bringing it into working condition for its intended use. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Target and cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the reporting period in which they are incurred.

Once a mining project has been established as commercially viable, expenditure other than that on land, buildings, plant and equipment is capitalised under "Operational mining properties" together with any amount transferred from "Exploration and evaluation". This includes costs incurred in preparing the site for mining operations. Development costs incurred after the commencement of production are capitalised to the extent they give rise to a future economic benefit. Interest on borrowings related to construction or development projects is capitalised until the point when substantially all the activities that are necessary to make the asset ready for its intended use are complete.

Costs associated with a start up period are capitalised where the asset is available for use but incapable of operating at normal levels without a commissioning period.

Interest payable on borrowings related to qualifying construction or development projects is capitalised up to the point when substantially all the activities that are necessary to make the asset ready for use are complete.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of comprehensive income.

Assets are fully depreciated over their economic lives, or over the remaining life of the mine if shorter. For certain assets, the economic benefits from the asset are consumed in a pattern than is linked to the level of production. In such cases, depreciation is generally charged on a unit of production basis. The straight line method is used for some operations where this provides a suitable alternative because production is not expected to fluctuate significantly from one year to another. Assets for which consumption of economic benefits is linked to passage of time are depreciated on a straight line basis.

Land is not depreciated unless acquired for mining purposes in which case it is included in mining properties.

Property, plant and equipment is depreciated over its useful life. The major categories of property, plant and equipment are depreciated on a straight line basis as appropriate.

Assets within operations for which production is not expected to fluctuate significantly from one year to another are depreciated on a straight line basis as follows:

–	Buildings	10-40 years
–	Plant and equipment	2-10 years
–	Mining properties	remaining marketable reserves utilised on a unit of production basis
–	Machinery and equipment	the shorter of applicable mine life and 5-15 years depending on the nature of the asset
–	Buildings not being part of mining properties	40 years

Residual values and useful lives are reviewed, and adjusted if appropriate, at the end balance sheet date. Changes to the estimated residual values or useful lives are accounted for prospectively.

(s) Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(t) Onerous contracts

Provision for an onerous contract is made only when the related assets, which may be part of the wider cash-generating unit of which the business unit forms part, are fully impaired or the contract becomes stranded as a result of a business decision. Judgement is required as to when it is appropriate to look to the wider cash-generating unit.

In some cases, product to be supplied under a sales contract can become onerous when the cost of production exceeds the revenues or it is purchased externally and sold at a loss. The decision on sourcing will be dependent on the Group's future marketing plans and changes in those plans may impact the amount of any provision.

Onerous contracts are shown within Other provisions.

(u) Provisions for close down restoration and environmental clean-up costs

Close down and restoration costs

Close down and restoration costs include the dismantling and demolition of infrastructure, the removal of residual materials and remediation of disturbed areas. Estimated close down and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during the site development or during the production phase, based on the net present value of estimated future costs. Provisions for close down and restoration costs do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure plan. The cost estimates are calculated annually during the life of the operation to reflect known developments and are subject to formal review at regular intervals.

Close down and restoration costs are a normal consequence of operations and the majority of close down and restoration expenditures are incurred at the end of the life of the operation. Although the ultimate cost to be incurred is uncertain, the Target estimates its costs based on feasibility and engineering studies using current restoration standards and techniques.

The amortisation or 'unwinding' of the discount applied in establishing the net present value of provisions is charged to the consolidated statement of comprehensive income in each accounting period. The amortisation of the discount is shown as a financing cost, rather than as an operating cost.

The initial closure provision together with other movements in the provisions for close down and restoration costs, including those resulting from new disturbance, updated cost estimates, changes to the lives of operations and revisions to discount rates are capitalised within property, plant and equipment. These costs are then depreciated over the lives of the assets to which they relate.

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the outstanding continuous rehabilitation work at each balance date and the cost is charged to the consolidated statement of comprehensive income.

Environmental clean-up costs

Provision is made for the estimated present value of the costs of environmental clean-up obligations outstanding at the balance date. These costs are charged to the consolidated statement of comprehensive income. Movements in the environmental clean-up provisions are presented as an operating cost, except for the unwind of the discount which is shown as a financing cost.

(v) Employee benefits

Benefits accruing to employees in respect of wages and salaries, annual leave and sick leave are included in trade and other payables. Related on-costs are also included in trade and other payables as other creditors. Long service leave is provided for when it is probable that settlement will be required and it is capable of being measured reliably.

Employee benefits expected to be settled within 12 months are measured using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date.

(w) Trade and other payables

These amounts represent liabilities for goods and services provided to the Target prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 45 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method. Other financial liabilities (excluding financial guarantees) are initially recognised at fair value, net of transaction costs.

(x) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are generally due for settlement within 30 days and therefore are all classified as current.

Individual receivables which are known to be uncollectible are written off by reducing the carrying amount directly. The other receivables are assessed collectively to determine whether there is objective evidence that an impairment has been incurred but not yet been identified. For these receivables the estimated impairment losses are recognised in a separate provision for impairment. The Target considers that there is evidence of impairment if any of the following indicators are present:

- significant financial difficulties of the debtor,
- probability that the debtor will enter bankruptcy or financial reorganisation, and
- default or delinquency in payments (more than 30 days overdue).

Receivables for which an impairment provision was recognised are written off against the provision when there is no expectation of recovering additional cash.

Impairment losses are recognised in profit or loss within other expenses. Subsequent recoveries of amounts previously written off are credited against other expenses.

(y) Determination of ore reserves

Mining reserves represent the portion of total proven and probable reserves in the mine of a mining right. Mining reserves are amortized over the life of the mine on a unit of production basis of the estimated total proven and probable reserves or the Australia Joint Ore Reserves Committee ("JORC") reserves for the Group's subsidiaries in Australia. Changes in the annual amortization rate resulting from changes in the remaining reserves are applied on a prospective basis from the commencement of the next financial year.

(z) Rounding of amounts

The Target is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the financial information. Amounts in the financial information have been rounded off in accordance with that Instrument to the nearest hundred thousand dollars, or in certain cases, to the nearest dollar.

(aa) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the senior management team (being the chief operating decision maker), comprising the Managing Director of Coal and the Coal Executive Committee in assessing performance and determining strategy.

Segment information is presented on the same basis as that used for internal reporting purposes. The Target's chief operating decision maker does not regularly review assets or liabilities on a segmented basis and therefore this information is not disclosed.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial information requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Target's accounting policies.

This note provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong. Detailed information about each of these estimates and judgements is outlined below.

Mine closure and rehabilitation provisions estimates

The calculation of rehabilitation and closure provisions (and corresponding capitalised closure cost assets where necessary) rely on estimates of costs required to rehabilitate and restore disturbed areas of land to their original condition. The costs are estimated on the basis of a closure plan. Significant judgement is required in determining the provision as there are many transactions and other factors that will affect the ultimate liability payable. Factors that will affect this liability include future disturbances caused by further development, changes in technology and restoration techniques, changes in the timing of rehabilitation expenditure due, for example, to changes in ore reserves or production rates, changes in regulations, price increases and changes in discount rates. These estimates are regularly reviewed and adjusted in order to ensure the most up to date data is used to calculate these balances. When these factors change in the future, such differences will impact the provision in the period in which they change or become known.

Determination of coal reserves and resources

The Target estimates its coal reserves and coal resources based on information compiled by Competent Persons as defined in accordance with the Australasian Code for Reporting of Mineral Resources and Ore Reserves of December 2012 (the "JORC code"). Reserves determined in this way are used in the calculation of depreciation, amortisation and impairment charges, and the assessment of mine lives and for forecasting the timing of the payment of closure and rehabilitation costs.

Impairment

Assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount exceeds its recoverable amount. The assessment of the carrying amount often requires estimates of future cash flows and foreign exchange rates.

5 FINANCIAL RISK MANAGEMENT

The Target Group carries out risk management under policies approved by the directors of the Company. The Target provides principles for overall risk management, as well as written policies covering specific areas, such as mitigating interest rate and other risks, and the use of derivative and non-derivative financial instruments.

The Target Group's business is coal mining and not trading. Accordingly, the Target Group only contracts to sell coal that it plans to produce, however purchasing coal for resale may be required in circumstances where actual production falls short of contractual sales volumes. The Target Group operates entirely in Australia and is exposed primarily to Australian dollar denominated costs. Sales are primarily denominated in US dollars. Cash deposits are denominated in both Australian and US dollars.

(a) Market risk

(i) Foreign exchange risk

The Target Group markets its products internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to export coal sales being denominated in US dollars and recognised financial assets and liabilities that are denominated in a currency that is not the respective functional currency of entities within the Target Group. The Target Group has a number of US dollar denominated cash, trade receivables and payables balances. The exposures to foreign currency risk at the reporting dates were as follows:

Exposure

	31 December 2014	**31 December 2015**	**31 December 2016**
	USD	*USD*	*USD*
	$'000	*$'000*	*$'000*
Cash	7,393	6,200	4,976
Trade receivables	101,007	59,699	126,365
Trade payables	2,135	39,856	101,078

Sensitivity

The sensitivity of profit or loss to changes in exchange rates arises mainly from US dollar denominated financial instruments. Profit is more sensitive to movements in the Australian dollar/US dollar exchange rates in 2016 than 2015 because of the increased net amount of USD denominated trade receivables and trade payables.

The tables below summarise the impact on the Target's post-tax profit of a 10% movement of the Australian dollar against the US dollar with all other variables held constant. Other components of equity would have been unaffected.

	Impact on post-tax profit Sensitivity 10% inc FX*		
Index	**2014**	**2015**	**2016**
	$'000	*$'000*	*$'000*
Cash	(574)	(542)	(439)
Trade receivables	(7,820)	(5,236)	(11,112)
Trade payables	1,636	3,532	8,690
Total	(6,758)	(2,246)	(2,861)

	Impact of post-tax profit Sensitivity 10% decrease in FX*		
	2014	**2015**	**2016**
	$'000	*$'000*	*$'000*
Cash	702	662	536
Trade receivables	9,557	6,399	13,581
Trade payables	(2,000)	(4,316)	(10,621)
Total	8,259	2,745	3,496

* All other variables held constant. Figures include trade receivables and trade payables classified as held for sale.

(ii) Interest rate risk

The Target's interest rate management policy is generally to borrow and invest at floating interest rates. This approach is based on a historical correlation between interest rates and commodity price. Cash deposits and borrowings issued at variable rates expose the Target to risk of changes in cash flows due to changes in interest rates.

During 2016, 2015 and 2014 deposits were held at variable rates and were held in both Australian dollars and US dollars. Borrowings in 2014 were held at variable rates and denominated in Australian dollars.

Exposure

	31 December 2014	31 December 2015	31 December 2016
	$'000	*$'000*	*$'000*
Cash	241,804	213,024	311,729
Borrowings	(292,678)	–	–

Sensitivity

The table below summarises the impact on the Group's post-tax profit of a 50 basis points (bps) increase in interest rates with all other variables held constant. A 50 bps decrease would have the same impact in the opposite direction. Other components of equity would have been unaffected. Profit is less sensitive to interest rate risk in 2014 than 2016 and 2015 because of lower net interest bearing financial assets and liabilities.

	Impact on post-tax profit 50bps increase in interest rates		
	2014	2015	2016
	$'000	*$'000*	*$'000*
Cash	846	746	1,091
Borrowings	(1,025)	–	–

(iii) Price risk

The Target's policy is to sell coal at prevailing market prices by creating a pricing portfolio of various pricing mechanisms available in the market. Typically for thermal coal this means three main pricing mechanisms-annual bi-lateral price negotiations with major customers for a 12 month fixed price, short term spot pricing and index linked pricing based on global COAL NEWC index which are settled monthly or quarterly depending on contract terms. Semi soft coking coal is priced on a quarterly basis, set through negotiations with major customers. A small proportion of semi soft sales are sold at spot price.

The marking to market of provisionally priced sales contracts is recorded as an adjustment to sales revenue.

Exposure

	31 December 2014	31 December 2015	31 December 2016
	$'000	*$'000*	*$'000*
Provisionally priced trade receivables	30,327	52,169	49,130

Sensitivity

The table below summarises the impact on the Group's post-tax profit for a 10% increase in coal price because of provisionally priced trade receivables with all other variables held constant. A 10% decrease in coal price would have the same impact in the opposite direction. Other components of equity would have been unaffected. Profit is more sensitive to coal price risk in 2016 and 2015 than 2014 due to the increased amount of provisionally priced trade receivables.

	Impact on post-tax profit 10% increase in coal price		
Index	**2014**	**2015**	**2016**
	$'000	*$'000*	*$'000*
Impact to sales revenue	2,123	3,652	3,439

(b) Credit risk

(i) Risk management

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities, including bank deposits, foreign exchange transactions and trade receivables.

Japan represents the highest percentage of the Group's sales and accordingly Japanese customers represent the highest concentration of credit risk (refer to segment information in Note 6 for further details on sales by country of destination). However, management believes the Group has minimal exposure to credit risk related to trade receivables or by virtue of the possible non-performance of the counterparties to the Group's other financial instruments. There is a limited number of counterparties who purchase coal from the Group, all of which are well known, reputable counterparties with sound financial positions. In the unlikely event of a default of counterparty, the Group is likely to be able to sell its coal to another counterparty at short notice, reducing the scope for potential loss.

As at 31 December 2014, 2015 and 2016, the Target Group has concentration of credit risk as 20.1%, 11.7% and 21.1% of the Target Group's receivables were due from the Target Group's largest customer respectively while 51.8%, 49.6% and 51.3% of the Target Group's receivables were due from the Target Group's five largest customer respectively.

The Target has a single external customer which represents more than ten per cent of its total revenue. Refer to note 6(c).

Cash transactions are limited to high credit quality financial institutions. The Target has policies that limit the amount of credit exposure to any one financial institution.

The maximum credit risk exposure to the Target's financial assets at each reporting date is as follows:

	31 December 2014	31 December 2015	31 December 2016
	$'000	*$'000*	*$'000*
Cash and cash equivalents			
Counterparties with external credit rating			
Deposits with Rio Tinto Finance (Baa1 credit rating – Moody's)	172,532	159,174	231,361
Deposits with banking institutions with a minimum Baa1 credit rating – Moody's	69,272	53,850	80,368
Total cash and cash equivalents *(Note 11)*	241,804	213,024	311,729
Trade and other receivables *(Note 12)*			
Trade and other receivables	183,992	129,579	275,947

Impaired trade receivables

Individual receivables which are known to be uncollectable are written off by reducing the carrying amount directly. The other receivables are assessed collectively to determine whether there is objective evidence that an impairment has been incurred but not yet identified. For these receivables the estimated impairment losses are recognised in a separate provision for impairment.

The Target considers that there is evidence of impairment if any of the following indicators are present.

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy

At 31 December 2016, 31 December 2015 or 31 December 2014 there were no impaired trade receivables.

Past due but not impaired

At 31 December 2016, 31 December 2015 or 31 December 2014 there were no trade receivables that were past due.

The other classes within trade and other receivables do not contain impaired assets and are not past due.

Credit risk in relation to financial guarantees

The Target only issues financial guarantees in exceptional circumstances or where required in order to secure access to mining leases. Guarantees are usually required by government bodies in order to guarantee the restoration of disturbed sites under mining leases granted to the Target. Refer to note 31 on contingent liabilities for further disclosure of the amount under risk and the counterparty involved.

(c) Liquidity risk

The Group's liquidity and risk management strategies are principally driven by Rio Tinto. Liquidity needs and surpluses of the Group are primarily managed through equity funding from and loans to Rio Tinto. Credit facilities have also previously been used to ensure sufficient funds are available to meet contractual obligations arising in the ordinary course of business.

(i) Maturities of financial liabilities

The amounts disclosed in the table below analyse the Target's financial liabilities into relevant maturity groupings based on their contractual maturities. The amounts disclosed are the contractual undiscounted cash flows.

Contractual maturities of financial liabilities 31 December 2014	Less than 6 months *$'000*	6-12 months *$'000*	Between 1 and 2 years *$'000*	Between 2 and 5 years *$'000*	Over 5 years *$'000*	Total contractual cash flows *$'000*	Carrying amount liabilities *$'000*
Non-derivatives							
Trade and other payables	263,829	–	–	–	–	263,829	263,829
Borrowings	11,052	303,730	–	–	–	314,782	292,678
	274,881	303,730	–	–	–	578,611	556,507
31 December 2015							
Non-derivatives							
Trade and other payables	252,156	–	–	–	–	252,156	252,156
31 December 2016							
Non-derivatives							
Trade and other payables	346,166	–	–	–	–	346,166	346,166

(d) Capital risk management

The Group's overriding objectives when managing capital include safeguarding the business as a going concern; maximising returns for Rio Tinto; and maintaining an optimal capital and tax structure in order to provide a high degree of financial flexibility at the lowest cost of capital. The capital structure of the Group is regularly reviewed taking into account strategic priorities and the economic conditions within which the Group operates.

The capital structure of the Group consists of borrowings, cash and cash equivalents and equity attributable to equity holders of the parent, including issued capital, reserves and retained earnings.

The Group is part of a larger organisational structure and as such the ultimate parent controls the Group's capital management policy. The ultimate parent controls financing decisions, however, cash levels are managed within the Group. The Group does not have a target debt to equity ratio, but considers various financial metrics including liquidity levels, total capital, cash flow and EBITDA to ensure a strong balance sheet is maintained.

The Target's gearing ratios at 31 December were as follows:

	31 December 2014	**31 December 2015**	**31 December 2016**
	\$'000	*\$'000*	*\$'000*
Total borrowings	292,678	–	–
Less: Cash and cash equivalents	(241,804)	(213,024)	(311,729)
Net (cash)/debt	50,874	(213,024)	(311,729)
Total equity	1,678,863	1,866,947	1,311,872
Total capital	1,729,737	1,653,923	1,000,143
Gearing ratio (%)	3	(13)	(31)

6 SEGMENT INFORMATION

(a) Description of segments and principal activities

Operating segments are reported in a manner consistent with the internal reporting provided to the senior management team (being the chief operating decision maker), comprising the Managing Director of Coal and the Coal Executive Committee in assessing performance and determining strategy.

The Target derives its revenue from coal mining and as such, performance is assessed for each of the operating coal mines individually. The following operating segments have been identified:

Hunter Valley Operations
Mount Thorley Warkworth
Bengalla Mining
Other

'Other' refers to corporate activities (including revenue from purchased coal), Mount Pleasant and any other items that are not appropriate to allocate to an individual operating segment.

Performance of the segments is assessed on a stand-alone, pre-tax basis as per below.

The senior management team do not regularly review assets and liabilities on a segment basis, rather at the consolidated level and therefore assets and liabilities by segment have not been disclosed.

(b) Segment results

	Hunter Valley Operations	Mount Thorley Warkworth	Bengalla Mining	Other	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Year ended 31 December 2014					
Segment revenue [1]	1,208,407	683,100	266,500	5,046	2,163,053
EBITDA [2]	275,430	90,689	102,175	(71,268)	397,026
Reconciliation of EBITDA to profit after tax					
Depreciation and amortisation expense					(194,519)
Net finance expense					(25,844)
Income tax expense					(87,912)
Profit for the year					88,751

	Hunter Valley Operations	Mount Thorley Warkworth	Bengalla Mining	Other	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Year ended 31 December 2015					
Segment revenue [1]	1,160,284	691,977	257,212	21,811	2,131,284
EBITDA [2]	241,519	164,474	83,986	(54,330)	435,649
Reconciliation of EBITDA to profit after tax					
Depreciation and amortisation expense					(184,163)
Net finance expense					(10,151)
Income tax benefit					42,446
Profit for the year					283,781

	Hunter Valley Operations	Mount Thorley Warkworth	Bengalla Mining	Other	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Year ended 31 December 2016					
Segment revenue [(1)]	878,047	728,235	34,605	23,293	1,664,180
EBITDA [(2)]	71,015	215,003	570,483	(19,003)	837,498
Other material items included in EBITDA					
Debt forgiveness	(1,474,988)	–	–	–	(1,474,988)
Gain on sale of operations	1,566,749	–	260,649	32,923	1,860,321
Reconciliation of EBITDA to profit after tax					
Depreciation and amortisation expense					(124,893)
Net finance income					10,765
Income tax expense					(326,471)
Profit for the year					396,899

(1) Segment revenue refers to total sales revenue as per note 7 and are from external customers.

(2) EBITDA is earnings before net finance costs, depreciation, amortisation and income tax expense.

EBITDA is the key measure that management uses to assess performance of individual segments and make decisions on the allocation of resources.

EBITDA includes the Target 's share of profit (loss) from investments accounted for using the equity method, included within 'Other' and debt forgiven as part of the deed of forgiveness entered into by the Target, Hunter Valley Resources Pty Ltd and Rio Tinto NSW Holdings Ltd.

(c) Other segment revenue disclosures

Segment revenue reconciles to total sales revenue from continuing operations as disclosed in Note 7.

The Target is domiciled in Australia. Sales revenue by country of destination and product are outlined below:

	31 December 2016 *$'000*	31 December 2015 *$'000*	31 December 2014 *$'000*
Segment revenue			
Japan	912,203	937,452	544,352
Korea	215,986	213,596	216,396
Taiwan	287,049	213,814	233,400
Singapore	190,107	261,757	226,700
Thailand	133,446	223,769	162,625
Malaysia	104,379	36,486	53,386
China	83,050	37,062	27,481
Switzerland	40,574	75,709	37,544
Turkey	25,777	23,183	1,167
Other foreign countries	77,329	36,264	101,822
Domestic	93,153	72,192	59,307
Total sales revenue *(note 7)*	2,163,053	2,131,284	1,664,180
Interest revenue	5,272	5,504	17,495
Other revenue	18,427	18,156	23,925
Total revenue	2,186,752	2,154,944	1,705,600
Total sales revenue by product			
Thermal	1,752,746	1,670,835	1,190,565
Semi-soft	410,307	460,449	473,615
	2,163,053	2,131,284	1,664,180

Revenues of approximately $198.2M (2015: $252.9M, 2014: $281.4M) are derived from a single external customer. These revenues are attributed to the Hunter Valley Operations and Mount Thorley Warkworth segments.

(d) Segment assets and liabilities

The senior management team do not regularly review assets on a segment basis and therefore assets and liabilities by segment are not disclosed here. All non-current assets are located in Australia.

7 REVENUE

	31 December 2014	31 December 2015	31 December 2016
	$'000	*$'000*	*$'000*
From continuing operations			
Sales revenue			
Sale of coal – produced	2,136,018	2,090,880	1,637,780
Sale of coal – purchased	9,635	22,849	23,500
Sea freight	17,400	17,555	2,900
	2,163,053	2,131,284	1,664,180

8 OTHER INCOME

	31 December 2014	31 December 2015	31 December 2016
	$'000	*$'000*	*$'000*
Net gain on sale of operations	–	–	1,860,306
Interest income	5,272	5,504	17,495
Management fee income-related parties	6,856	7,134	7,724
Coal handling services	4,600	4,860	4,600
Dividend income	732	189	777
Rental and sub-lease rental income	2,322	2,052	2,522
Other income	3,917	3,921	8,317
	23,699	23,660	1,901,741

The net gain on sale of operations is a combination of the three sale events below:

On 3 February 2016, the Company completed the sale of 32.4 per cent of the assets and liabilities associated with its Hunter Valley Operations to Mitsubishi Development Pty Ltd ("MDP"). The sale was in exchange for acquiring MDP's interest in the Coal & Allied Group. A component of the non-cash consideration was intercompany receivables from Hunter Valley Resources Pty Ltd and Rio Tinto Coal NSW Holdings Ltd (parent of Hunter Valley Resources Pty Ltd). This intercompany receivable was later forgiven (refer Note 9(i)).

On 1 March 2016, the Company completed the sale of the 40 per cent interest in Bengalla Joint Venture (Bengalla) to New Hope Corporation Limited.

On 4 August 2016, the Company completed the sale of the Mount Pleasant thermal coal development project to MACH Energy Australia Pty Limited.

The table below is a reconciliation of the components of the net gain on sale of operations.

	31 December 2014	31 December 2015	31 December 2016
	$'000	*$'000*	*$'000*
Cash consideration received	–	–	1,109,829
Less: Cash divested	–	–	(4,751)
Less: Transaction costs	–	–	(36,103)
Net cash consideration	–	–	1,068,975
Non-cash consideration			
Intercompany receivable	–	–	1,474,988
Contingent consideration	–	–	20,703
Total disposal consideration	–	–	2,564,666
Less: Carrying amount of net assets disposed			
Assets classified as held for sale	–	–	322,387
Other current assets	–	–	21,190
Property, plant and equipment and intangible assets	–	–	422,813
Deferred tax assets			964
Trade and other payables	–	–	(34,788)
Provisions	–	–	(42,141)
Liabilities classified as held for sale	–	–	(45,952)
Other	–	–	(1,284)
	–	–	643,189
Onerous contracts provision recognised on disposal	–	–	(61,171)
	–	–	1,860,306

9 EXPENSES

	31 December 2014	31 December 2015	31 December 2014
	$'000	*$'000*	*$'000*
Employee benefits expense			
Salaries and other benefits	322,892	303,796	230,884
Defined contribution superannuation expense	23,338	23,513	20,097
Share-based payments equity settled	4,298	5,593	2,062
Employee benefits expense	350,528	332,902	253,043
Selling and distribution			
Royalties	167,721	162,041	129,547
Rail Freight	147,298	138,814	100,606
Port charges	129,388	112,630	76,413
Net demurrage	10,530	23,776	15,542
	454,937	437,261	322,108
Debt forgiveness (i)	–	–	1,474,988
Redbank contract termination fee (ii)	51,193	–	–
Finance costs			
Interest expenses	21,046	7,904	517
Unwinding of discount on provisions *(note 25)*	10,070	7,751	6,213
	31,116	15,655	6,730

Depreciation is disclosed with Note 16 by class. No impairment has been recorded.

(i) Debt forgiveness

During 2016, the Company and its wholly owned subsidiaries entered into a deed of forgiveness with Hunter Valley Resources Pty Ltd and Rio Tinto Coal NSW Holdings Ltd (parent of Hunter Valley Resources Pty Ltd), whereby each party agreed to settle all intercompany balances in existence at 31 August 2016. A second tranche was forgiven for any new intercompany balances arising from 31 August 2016 to 30 November 2016.

(ii) Redbank contract termination

During 2014, Warkworth Mining Limited (as manager of Warkworth Associates Joint Venture) successfully terminated the Redbank fuel supply agreements. A consideration amount of $87.5 million was paid of which the Target's share was $51.2 million. All termination documents have been executed. The termination date was 30 October 2014. Termination has released approximately 600,000 tonnes of coal per annum to be redistributed into export markets at higher prices.

10 INCOME TAX EXPENSE/(BENEFIT)

	31 December 2014 $'000	31 December 2015 $'000	31 December 2016 $'000
Current tax expense on profits for the year	59,514	80,384	461,640
Adjustments to current tax for prior periods	34	(4,286)	376
Total tax expense attributable to the current year	59,548	76,098	462,016
Deferred income tax expense/(benefit) included in income tax expense comprises:			
Deferred tax in relation to current year	28,525	(122,957)	(136,027)
Deferred tax in relation to prior year	(161)	4,413	482
	28,364	(118,544)	(135,545)
Total income tax expense/(benefit)	87,912	(42,446)	326,471

(a) Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable

	31 December 2014 $'000	31 December 2015 $'000	31 December 2016 $'000
Profit from continuing operations before income tax expense	176,663	241,335	723,370
Tax at the Australian tax rate of 30.0% (2015: 30.0%, 2014: 30.0%)	52,999	72,400	217,011
Tax effect of amounts which are not taxable in calculating taxable income:			
Change in tax base due to sale	–	(110,482)	(336,914)
Debt forgiveness	–	–	442,496
MRRT *(note)*	40,000	–	–
Other	(5,087)	(4,364)	3,878
Income tax expense/(benefit)	87,912	(42,446)	326,471

Note: The Australian Minerals Resources Rent Tax ("MRRT") legislation was enacted on 19 March 2012 and effective from 1 July 2012. According to the relevant provisions of the MRRT tax laws, subsidiaries in Australia are required to determine the starting base allowance on the statement of financial position. Book value or market value approach can be selected in calculating the starting base and subsequently amortize within the prescribed useful life. Market value approach was selected for mines in Australia. Under the market value approach, base value is determined based on market value of the coal mines on 1 May 2010 and amortized based on the shorter of the life of mining project, mining rights and mining production.

During 2013, the Australian Government released an exposure draft legislation which proposed to repeal the MRRT legislation. On 5 September 2014, the Minerals Resource Rent Tax Repeal and Other Measures Act 2014 received royal assent. Entities would not be required to pay MRRT commencing on 1 October 2014, accordingly, the current and deferred MRRT assets and liabilities had been derecognized in 2014.

(b) Amounts recognised directly in equity

	31 December 2014 *$'000*	31 December 2015 *$'000*	31 December 2016 *$'000*
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:			
Deferred tax: Share based payments	857	(1,725)	857

(c) Unrecognised temporary differences

	31 December 2014 *$'000*	31 December 2015 *$'000*	31 December 2016 *$'000*
Tax losses	2,033	1,032	7
Unrecoverable deductions	243	246	246
	2,276	1,278	253

11 CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	Notes	31 December 2014 *$'000*	31 December 2015 *$'000*	31 December 2016 *$'000*
Coal & Allied cash held		203,496	179,927	263,998
Coal & Allied's share of cash held in Joint Operations		38,308	33,097	47,731
Cash and cash equivalents per consolidated statement of financial position		241,804	213,024	311,729
Bank overdraft	*20*	–	(617)	–
Cash and cash equivalents per consolidated statement of cash flows		241,804	212,407	311,729

12 CURRENT ASSETS-TRADE AND OTHER RECEIVABLES

	Notes	**31 December 2014** *$'000*	**31 December 2015** *$'000*	**31 December 2016** *$'000*
Trade receivables		128,211	72,460	176,462
Amounts due from related parties	*33(f)*	39,253	21,231	54,249
Other receivables		13,753	32,894	43,060
Prepayments		2,775	2,994	2,176
		183,992	129,579	275,947

The following is an aged analysis of trade receivables:

	31 December 2014 *$'000*	**31 December 2015** *$'000*	**31 December 2016** *$'000*
0 to 60 days	128,211	72,139	175,123
61 to 90 days	–	–	1,339
Over 90 days	–	321	–
	128,211	72,460	176,462

13 CURRENT ASSETS – INVENTORIES

	31 December 2014 *$'000*	**31 December 2015** *$'000*	**31 December 2016** *$'000*
Coal stocks – at cost			
Finished goods	22,080	16,378	6,590
Work in progress	29,199	12,522	16,555
	51,279	28,900	23,145
Stores			
Stores	85,283	59,274	37,904
Provision for obsolescence	(451)	(1,644)	(322)
	84,832	57,630	37,582
	136,111	86,530	60,727

	31 December 2014 *$'000*	**31 December 2015** *$'000*	**31 December 2016** *$'000*
Balance as at 1 January	451	451	1,644
Impairment loss recognized during the year	–	1,193	–
Reversal of impairment loss recognized during the year	–	–	(1,322)
	451	1,644	322

14 CURRENT ASSETS – ASSET CLASSIFIED AS HELD FOR SALE

	31 December 2014 *$'000*	31 December 2015 *$'000*	31 December 2016 *$'000*
Property, plant and equipment	–	287,741	–
Receivables	–	27,234	–
Inventories	–	5,572	–
	–	320,547	–

The 31 December 2015 balance relates to the sale of the Group's 40 per cent interest in the Bengalla Joint Venture. The sale was completed in 2016, refer to Note 6.

15 NON-CURRENT ASSETS – INVESTMENTS IN ASSOCIATES

	Notes	31 December 2014 *$'000*	31 December 2015 *$'000*	31 December 2016 *$'000*
Shares in associates		221,849	216,316	205,899
Interest in joint venture partnership		70	–	–
	34(a)	221,919	216,316	205,899

16 NON-CURRENT ASSETS-PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings *$'000*	Operational mining properties *$'000*	Plant and equipment *$'000*	Construction in progress *$'000*	Total *$'000*
At 1 January 2014					
Cost	149,955	971,547	2,534,968	40,226	3,696,696
Accumulated depreciation	(2,329)	(483,045)	(1,424,856)	–	(1,910,230)
Net book amount	147,626	488,502	1,110,112	40,226	1,786,466
Year ended 31 December 2014					
Opening net book amount	147,626	488,502	1,110,112	40,226	1,786,466
Additions	–	–	–	79,054	79,054
Depreciation charge	(154)	(52,649)	(132,682)	–	(185,485)
Net disposals	–	(1,085)	(218)	–	(1,303)
Transfers to/(from) construction in progress	478	88,733	7,168	(96,379)	–
Adjustment to rehabilitation and closure provisions	–	(25,067)	–	–	(25,067)
Closing net book amount	147,950	498,434	984,380	22,901	1,653,665

	Freehold land and buildings	Operational mining properties	Plant and equipment	Construction in progress	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
At 1 January 2015					
Cost	150,433	1,034,073	2,525,822	22,901	3,733,229
Accumulated depreciation	(2,483)	(535,639)	(1,541,442)	–	(2,079,564)
Net book amount	147,950	498,434	984,380	22,901	1,653,665
Year ended 31 December 2015					
Opening net book amount	147,950	498,434	984,380	22,901	1,653,665
Additions	–	99	–	63,540	63,639
Depreciation charge	(154)	(25,565)	(148,820)	–	(174,539)
Net disposals	–	(588)	(5,772)	–	(6,360)
Assets classified as held for sale	–	(159,569)	(122,703)	(5,469)	(287,741)
Transfers to/(from) construction in progress	2,010	4,642	48,988	(55,640)	–
Adjustment to rehabilitation and closure provisions	–	(5,679)	–	–	(5,679)
Closing net book amount	149,806	311,774	756,073	25,332	1,242,985

	Freehold land and buildings	Operational mining properties	Plant and equipment	Construction in progress	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
At 1 January 2016					
Cost	152,443	712,364	2,267,058	25,332	3,157,197
Accumulated depreciation	(2,637)	(400,590)	(1,510,985)	–	(1,914,212)
Net book amount	149,806	311,774	756,073	25,332	1,242,985
Year ended 31 December 2016					
Opening net book amount	149,806	311,774	756,073	25,332	1,242,985
Additions	–	–	–	40,787	40,787
Depreciation charge	(922)	(9,116)	(105,497)	–	(115,535)
Net disposals	(730)	1,740	(371)	–	639
Net assets included in divested operations	(210,360)	(38,529)	(144,636)	(4,600)	(398,125)
Reclassifications	166,238	(166,238)	–	–	–
Transfers to/(from) construction in progress	15,830	8,376	17,404	(41,610)	–
Adjustment to rehabilitation and closure provisions	–	(8,423)	–	–	(8,423)
Closing net book amount	119,862	99,584	522,973	19,909	762,328
At 31 December 2016					
Cost	166,252	330,420	1,696,908	19,909	2,213,489
Accumulated depreciation	(46,390)	(230,836)	(1,173,935)	–	(1,451,161)
Net book amount	119,862	99,584	522,973	19,909	762,328

17 NON-CURRENT ASSETS – DEFERRED TAX ASSETS

	31 December 2014	**31 December 2015**	**31 December 2016**
	$'000	*$'000*	*$'000*
The balance comprises temporary differences attributable to:			
Rehabilitation and closure provision	47,046	51,370	38,299
Employee benefits	27,732	27,446	27,636
Other provision	40	419	15,799
Tax losses	2,422	1,655	1,680
Property, plant and equipment and Intangible assets	–	–	69,476
Other receivables	–	–	705
Unrealised foreign exchange gains/losses	–	–	1,489
	77,240	80,890	155,084

18. NON-CURRENT ASSETS – INTANGIBLE ASSETS

	Mining reserves	**Others**	**Total**
	'000	*'000*	*'000*
COST			
At 1 January 2014	305,799	37,702	343,501
Additions for the year	–	–	–
Reclassification	–	–	–
At 31 December 2014 and 1 January 2015	305,799	37,702	343,501
Reclassification	–	(62)	(62)
At 31 December 2015 and 1 January 2016	305,799	37,640	343,439
Reclassificaion	–	122	122
Disposal for the year	–	(26,328)	(26,328)
At 31 December 2016	305,799	11,434	317,233

	Mining reserves *'000*	Others *'000*	Total *'000*
AMORTIZATION AND IMPAIRMENT			
At 1 January 2014	127,877	8,658	136,535
Provided for the year	8,769	265	9,034
At 31 December 2014 and 1 January 2015	136,646	8,923	145,569
Provided for the year	8,318	1,306	9,624
At 31 December 2015 and 1 January 2016	144,964	10,229	155,193
Provided for the year	8,717	641	9,358
Disposal for the year	–	(1,639)	(1,639)
At 31 December 2016	153,681	9,231	162,912
CARRYING VALUES			
At 31 December 2016	152,118	2,203	154,321
At 31 December 2015	160,835	27,411	188,246
At 31 December 2014	169,153	28,779	197,932

19 CURRENT LIABILITIES-TRADE AND OTHER PAYABLES

	Notes	31 December 2014 *$'000*	31 December 2015 *$'000*	31 December 2016 *$'000*
Trade payables		228,328	222,220	289,531
Amounts due to related parties	*33(f)*	18,292	15,184	17,437
Intercompany payable in respect of income tax		–	–	13,311
Other payables		17,209	14,752	25,887
		263,829	252,156	346,166

The following is an aged analysis of trade payables:

0 to 60 days	227,490	222,084	269,850
61 to 90 days	–	136	764
Over 90 days	838	–	18,917
	228,328	222,220	289,531

20 CURRENT LIABILITIES – BANK OVERDRAFT

	31 December 2014	31 December 2015	31 December 2016
	$'000	*$'000*	*$'000*
Bank overdraft	–	617	–

21 CURRENT LIABILITIES – BORROWINGS

	31 December 2014	31 December 2015	31 December 2016
	$'000	*$'000*	*$'000*
Shareholder loan – unsecured	292,678	–	–

The shareholder loan was advanced from its shareholders Australian Coal Holdings Pty Limited, Hunter Valley Resources Pty Ltd and Mitsubishi Development Pty Ltd and was unsecured and interest bearing at the London interbank offered rate for three month dollar deposits plus 5% and is repayable equally to all shareholders every three months.

(b) Financing facilities

	31 December 2014	31 December 2015	31 December 2016
	$'000	*$'000*	*$'000*
Shareholder loan			
Total shareholder loan facility	292,700	–	–
Used at balance date	(292,700)	–	–
	–	–	–

The shareholder loan was repaid in full during 2015.

	31 December 2014	31 December 2015	31 December 2016
	$'000	*$'000*	*$'000*
Credit standby arrangements			
Total overdrafts	75,000	75,000	75,000
Unused at balance date	75,000	74,383	75,000
Loan facilities			
Total revolving loan facility	400,000	400,000	400,000
Unused at balance date	400,000	400,000	400,000

Financing facilities

The overdraft facility was undrawn as at 31 December 2016, 31 December 2015 and 31 December 2014.

An unsecured revolving loan facility of $400.0 million Australian dollars was available at 31 December 2016 of which $320.0 million (80 per cent) was with Rio Tinto Finance Limited and $80.0 million (20 per cent) was with MDP. This facility lapsed on 9 February 2017.

22 CURRENT LIABILITIES – PROVISIONS

	31 December 2014	31 December 2015	31 December 2016
	$'000	*$'000*	*$'000*
Employee benefits	79,063	67,629	70,326
Rehabilitation	7,472	8,096	7,203
Other provisions*	5,316	–	40,198
	91,851	75,725	117,727

Refer to Note 25 for the movements in each class of provision other than employee benefits.

* Other provisions in 2016 principally relates to onerous contracts.

23 CURRENT LIABILITIES – LIABILITIES CLASSIFIED AS HELD FOR SALE

	31 December 2014	31 December 2015	31 December 2016
	$'000	*$'000*	*$'000*
Provisions	–	25,284	–
Trade payables	–	18,828	–
Borrowing	–	7	–
	–	44,119	–

The balances above represent the liabilities of the Target's 40 per cent interest in Bengalla Joint Venture. Refer to Note 14 for further information and assets classified as held for sale.

24 NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

	31 December 2014	31 December 2015	31 December 2016
	$'000	*$'000*	*$'000*
The balance comprises temporary differences attributable to:			
Property, plant and equipment and Intangible assets	161,255	53,665	–
Inventories	26,940	18,019	11,274
Unrealised foreign exchange gains/losses	98	84	–
Other	194	–	–
	188,487	71,768	11,274

25 NON-CURRENT LIABILITIES – PROVISIONS

	31 December 2014	31 December 2015	31 December 2016
	$'000	*$'000*	*$'000*
Employee benefits	4,739	3,709	3,872
Rehabilitation	59,764	73,870	63,081
Closure	92,656	80,435	52,769
Other provisions*	–	–	12,879
	157,159	158,014	132,601

* Other provisions in 2016 principally relates to onerous contracts.

(a) Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

2014

Current & Non-current	Rehabilitation	Closure	Other	Total
	$'000	*$'000*	*$'000*	*$'000*
Carrying amount at start of year	66,583	114,288	3,760	184,631
Additional provisions recognised	653	–	2,063	2,716
Adjustment to operation mining properties	–	(24,980)	–	(24,980)
Unwinding of discount	3,701	6,369	–	10,070
Payments	(3,701)	(1,181)	–	(4,882)
Amounts used during the year	–	(1,840)	(507)	(2,347)
Carrying amount at end of year	67,236	92,656	5,316	165,208

2015

Current & Non-current				
Carrying amount at start of year	67,236	92,656	5,316	165,208
Additional provisions recognised	14,890	–	–	14,890
Adjustment to operation mining properties	–	(5,679)	–	(5,679)
Unwinding of discount	3,257	4,494	–	7,751
Assets classified as held for sale	(3,248)	(10,600)	–	(13,848)
Unused amounts reversed	(169)	(436)	–	(605)
Amounts used during the year	–	–	(5,316)	(5,316)
Carrying amount at end of year	81,966	80,435	–	162,401

2016 Current & Non-current	Rehabilitation *$'000*	Closure *$'000*	Other *$'000*	Total *$'000*
Carrying amount at start of year	81,966	80,435	–	162,401
Additional provisions recognised	6,390	805	61,171	68,366
Adjustment to operational mining properties	(639)	(7,784)	–	(8,423)
Unwinding of discount	3,854	1,901	458	6,213
Unused amounts reversed	(2,405)	–	–	(2,405)
Amounts used during the year	–	–	(9,669)	(9,669)
Foreign exchange	–	–	1,117	1,117
Net amounts divested	(18,882)	(22,588)	–	(41,470)
Carrying amount at end of year	70,284	52,769	53,077	176,130

26 SHARE CAPITAL

(a) Share capital

	31 December 2014 *Shares*	31 December 2015 *Shares*	31 December 2016 *Shares*	31 December 2014 *$'000*	31 December 2015 *$'000*	31 December 2016 *$'000*
Ordinary shares – fully paid	86,584,735	86,584,735	86,584,735	440,865	440,928	59,728

(b) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Target in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders meetings. In the event of winding up the Target ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

Ordinary shares have no par value and the Target does not have a limited amount of authorised capital.

(c) Earnings per share

The Target is not required to calculate earnings per share as it is not a listed entity.

27 DIVIDENDS

Ordinary shares

	31 December 2014 *$'000*	31 December 2015 *$'000*	31 December 2016 *$'000*
Final dividend for the year ended 31 December 2016 was paid of $10.97 per fully paid share (2015: $1.15 per fully paid share, 2014: $nil)	–	100,000	568,800

No dividends have been paid or declared since year end for the year ended 31 December 2016 (2015: nil, 2014: nil).

28 OTHER RESERVES AND RETAINED EARNINGS

(a) Other reserves

(i) Share-based payments

The Target participates in a number of share-based payment plans available to executives and employees of the Target administered by Rio Tinto Limited. The share-based payments reflected in this reserve relate to various equity-settled Rio Tinto share option plans. The share-based payments reserve is used to recognise the fair value of options issued but not exercised.

(ii) Foreign currency translation

Exchange differences arising on translation of foreign controlled entities are recognised in other comprehensive income as described in note 3(b) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

(iii) Other reserves

Other reserves relates to the equity instruments reserve of Port Waratah Coal Services Ltd, an equity accounted associate of Coal & Allied Industries Limited.

	31 December 2014 *$'000*	31 December 2015 *$'000*	31 December 2016 *$'000*
Share-based payments	6,567	11,056	9,668
Foreign currency translation	119	(11)	–
Equity accounted units' equity instrument reserve	–	658	658
	6,686	11,703	10,326

(b) Retained earnings

Movements in retained earnings were as follows:

	31 December 2014	**31 December 2015**	**31 December 2016**
	$'000	*$'000*	*$'000*
Balance 1 January	1,140,552	1,229,048	1,411,651
Net profit for the year	88,195	282,781	396,285
Dividends paid	–	(100,000)	(568,800)
Other	301	(178)	10
Balance 31 December	1,229,048	1,411,651	1,239,146

29 NON-CONTROLLING INTERESTS

	31 December 2014	**31 December 2015**	**31 December 2016**
	$'000	*$'000*	*$'000*
Interest in:			
Retained earnings	2,264	2,665	2,672

30 JOINT ARRANGEMENTS

(a) Joint operations

At the end of the year the Target held the following interests in joint operations, the principal activity of which is coal mining and exploration:

	Principal place of business	**2014**	**2015**	**2016**
		%	%	%
Hunter Valley Operations	Australia	100	100	67.6
Bengalla Joint Venture	Australia	40	40	–
Mount Thorley Co-venture *	Australia	80	80	80
Warkworth Associates *	Australia	55.6	55.6	55.6

* Coal & Allied Industries Limited holds an 80 per cent interest in the Mount Thorley Co-Venture and a 55.574 per cent interest in Warkworth Associates. In 2004 these two joint ventures entered into an Operational Integration Agreement (OIA) that allows the two joint ventures to be managed as a single operation. Under the terms of the OIA production can be sourced from either mining lease and is allocated between the two joint ventures based on a tonnage ratio that is contractually agreed between the two joint ventures. The tonnage ratio is agreed at the beginning of each year. Since entering into the OIA the tonnage commitment ratio has been Warkworth Associates 65 per cent and Mount Thorley Co-Venture 35 per cent. In effect, Warkworth Associates receives 65 per cent and the Mount Thorley Co-Venture receives 35 per cent of the output from the combined mining leases with each joint venture then being responsible for the marketing and sale of its respective tonnage received. Production costs are shared on the same basis as the tonnage ratio. The OIA provides for compensation to be made for the use of each joint venture's assets and resource depletion.

Refer to Note 8 for further information.

31 CONTINGENCIES

(a) Contingent liabilities

The Target had contingent liabilities at 31 December 2016, 31 December 2015 and 31 December 2014 in respect of:

(i) Guarantees

For information about guarantees given by entities within the Target and under the deed of cross guarantee, including the parent entity.

	31 December 2014 $'000	31 December 2015 $'000	31 December 2016 $'000
Bank guarantees for restoration obligations The consolidated entity has a programme of on-going restoration as part of its mining operations. Guarantees have been provided to the NSW government in respect of the cost of restoration of certain leasehold properties, representing guarantees required by statute. A provision for mine site restoration of $123.1 million (2015: $162.4 million, 2014: $160.0 million) has been raised with regard to this obligation.	208,890	227,504	175,239
Bank guarantee for port allocation The consolidated entity has entered into various agreements with Port Waratah Coal Services Limited to secure port allocation arrangements and coal handling services. The consolidated entity has entered into various agreements with Newcastle Coal Infrastructure Group Pty Ltd as a condition of participating in the port nomination process.	103,089	97,749	91,426
Bank guarantees for rail network access The consolidated entity has entered into an access holder agreement with Australian Rail Track Corporation Limited relating to rail access to the Hunter Valley Network.	15,108	14,153	22,538
Bank guarantees for land conservation and environmental land offsets The consolidated entity has entered into various agreements with the Commonwealth Office of the Environment and Heritage, trading as National Parks and Wildlife with respect to land development in the Lower Hunter region.	18,902	18,902	18,902
Bank guarantees for infrastructure and emergency services The consolidated entity has entered into agreements with the NSW Department of Planning And Infrastructure for infrastructure and emergency services relating to land development applications in the Lower Hunter Valley.	5,180	5,180	5,180
Bank guarantee for other miscellaneous obligations The consolidated entity has entered into various agreements with State and local government authorities and other entities	1,140	1,213	6,340

(b) Contingent assets

As part of the sale agreement for Mount Pleasant, the Target is entitled to receive a 2 per cent royalty if the coal price exceeds US$72.50/t (unescalated) and is capped at US$100/t (escalated). The royalty is payable on the first 625 million tonnes of run of mine coal extracted.

32 COMMITMENTS

(a) Non-cancellable operating leases

	31 December 2014	31 December 2015	31 December 2016
	$'000	*$'000*	*$'000*
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:			
Within one year	2,935	5,255	4,553
Later than one year but not later than five years	11,914	10,707	8,198
Later than five years	48	–	–
	14,897	15,962	12,751
Average remaining lease terms	3 years	2 years	2 years

Items that are subject to operating leases include mining equipment, office space and small items of office equipment.

(b) Capital commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	31 December 2014	31 December 2015	31 December 2016
	$'000	*$'000*	*$'000*
Within one year	2,527	11,708	16,383
Later than one year but not later than five years	3,954	–	–
	6,481	11,708	16,383

(c) Lease commitments: Target as lessee

(i) Non-cancellable mining leases

	31 December 2014	31 December 2015	31 December 2016
	$'000	*$'000*	*$'000*
Commitments required to satisfy expenditure requirements on mining and exploration leases:			
Within one year	16,065	16,083	12,285
Later than one year but not later than five years	61,555	60,000	47,128
Greater than five years	122,165	108,851	65,570
	199,785	184,934	124,983

(d) Unconditional purchase obligations

Unconditional purchase obligations comprise take-or-pay contracts for port and rail contracts:

	31 December 2014	31 December 2015	31 December 2016
	$'000	*$'000*	*$'000*
Within one year	215,734	212,334	102,479
Later than one year but not later than five years	868,167	848,580	424,503
Greater than five years	1,037,411	981,674	437,583
	2,121,312	2,042,588	964,565

33 RELATED PARTY TRANSACTIONS

The consolidated entity operates, through a Management Services Agreement with Rio Tinto Coal Australia Pty Limited (RTCA), an integrated approach to managing and organising its operating companies. Directly attributable costs are charged to Coal & Allied and costs that are incurred by RTCA on behalf of Coal & Allied are charged based on an estimate of time spent providing the service.

(a) Parent entities

The immediate parent entities are Australian Coal Holdings Pty Ltd and Hunter Valley Resources Pty Ltd which at 31 December 2016 owned 75.71% and 24.29% respectively (2015 and 2014: 75.71%, 14.09%) of the issued ordinary shares of Coal & Allied. The ultimate parent entity is Rio Tinto Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 34.

(c) Terms and conditions

Amounts due to and from related parties are unsecured and non-interest bearing. There are no formal agreements for these amounts, therefore they are classified as current.

Transactions with other related parties were made on normal commercial terms and conditions.

(d) Key management personnel compensation

International Accounting Standard (IAS 124) requires disclosures for key management personnel (KMP). KMPs are persons (including executive and non-executive directors of the Target) having the authority and responsibility for planning, directing and controlling the Target's activities, directly or indirectly.

Compensation has been disclosed for the directors providing services to the Target even though employed by other Rio Tinto entities. Compensation for these KMP includes 100% of their compensation and has not been apportioned according to their actual services provided to the Target. No compensation information has been provided for any Mitsubishi Corporation directors as these directors did not receive fees for their services provided. The following directors have been included in total compensation relating to KMP.

Key management personnel covered in this report

Director	**Period covered**
S Ellinor	1 January 2014 to 31 December 2016
R Francis	10 October 2016 to 31 December 2016
R Hassall	10 October 2016 to 31 December 2016
S Kaufman	3 August 2016 to 31 December 2016
B White	20 April 2015 to 31 December 2016
R Albones	1 April 2015 to 4 April 2016
C Salisbury	1 January 2014 to 3 August 2016
I Vella	1 March 2016 to 3 August 2016
S Watson	3 August 2016 to 10 October 2016
M Halliday	1 January 2014 to 28 October 2015
P Keenan	1 January 2014 to 1 April 2015
B Long	1 January 2014 to 24 March 2015
R Payne	1 January 2014 to 16 March 2015

In addition to the directors, the following other key management personnel have been identified due to their positions held within the Company.

Other KMP	**Position**	**Period covered**
M Eaglesham	Chief Operating Officer	1 January 2014 to 28 February 2016
T Lukeman	General Manager, Hunter Valley Operations	1 January 2014 to 31 December 2016
D Janney	General Manager, Bengalla	1 January 2014 to 31 August 2014
J Scarini	General Manager, Bengalla	1 September 2014 to 1 March 2016
C Halfpenny	General Manager, Mount Thorley Warkworth	1 January 2014 to 31 May 2014
M Rodgers	General Manager, Mount Thorley Warkworth	1 June 2014 to 31 December 2016
M Roberts	General Manager, Sales & Marketing	1 January 2014 to 31 December 2016

	31 December 2014 $'000	31 December 2015 $'000	31 December 2016 $'000
Short-term employee benefits	5,792	5,605	5,145
Post-employment benefits	326	333	290
Long-term benefits	121	324	114
Termination benefits	–	–	664
Share-based payments	2,657	1,992	1,357
	8,896	8,254	7,570

(e) Ownership interests in related parties

Interests held in the following classes of related parties are set out in the following notes:

Joint operations – note 30 (a)

Associates and Joint Ventures – note 34(a)

(f) Amounts due to and from related parties as at 31 December

	31 December 2014 $'000	31 December 2015 $'000	31 December 2016 $'000
Cash deposited with Rio Tinto Finance Limited	172,532	159,174	231,361
Amounts owing by related parties *(note 12)*	39,253	21,231	54,249
Amounts owing to related parties *(note 19)*	(18,292)	(15,184)	(17,437)

The Cash deposited with Rio Tinto Finance Limited is interest bearing at the unofficial unsecured overnight mid-rate quoted on the Reuters Screen 'AUCASH=' at 11:00am on the applicable date on which interest is to be calculated. This is settled with 1 business days notice.

The amounts owing by and to related parties are non-interest bearing and are settled on thirty day terms.

(g) Transactions with other related parties

The following transactions occurred with other related parties:

	31 December 2014	31 December 2015	31 December 2016
	$'000	*$'000*	*$'000*
Rio Tinto Group companies			
Expenditure			
Insurance services	(5,902)	(4,376)	(4,232)
Management services	(32,414)	(62,129)	(53,213)
Interest paid	(15,783)	(5,965)	–
Shipping services	(17,663)	(17,554)	(2,888)
Consulting services	(1,419)	(1,804)	–
Debt forgiveness	–	–	(1,474,988)
Share based payment expenses	4,300	5,600	2,100
Revenue			
Interest received	4,219	4,587	16,491
Coal sales	202,792	247,010	206,429
Other related companies			
Port Waratah Coal Services Limited			
Coal handling charges	(82,028)	(65,103)	(36,404)
Management fee	1,545	574	1,598
Employee related recharges	1,109	445	1,066
Dividend revenue – associates	11,691	12,058	12,911
Mitsubishi Development Pty Limited			
Commissions paid	(2,303)	(780)	(1,344)
Interest paid	(2,131)	(1,576)	–

Coal Handling charges are calculated based a throughput rate agreed by the PWCS management.

Management fee is generated for providing management services to PWCS.

Employee related charges are reimbursement for provided employee services to PWCS.

Dividend revenue are dividends received from PWCS.

Commissions paid are for 1% of the average quarterly price on Japanese sales from Hunter Valley Operations.

Interest paid on shareholder loan at London interbank offered rate for three month dollar deposits plus 5%.

34 SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

(a) Interests in associates and joint ventures

Set out below are the associates and joint ventures of the Target Group as at 31 December 2016, 31 December 2015 and 31 December 2014. The entities listed below have share capital consisting solely of ordinary shares, which are held directly by the Target. The country of incorporation or registration is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

Name of entity	Place of business/ country of incorporation	Class of shares held	Principal activity	% of ownership interest			Nature of relationship	Measure-ment method	Carrying amount		
				2014	2015	2016			2014	2015	2016
									$'000	$'000	$'000
Port Waratah Coal Services Limited (1)	Australia	Ordinary	The provision of coal receivable, blending, stockpiling and ship loading service	36.5	36.5	36.5	Associate	Equity Accounted	221,394	215,842	205,370
UBE C&A Co Ltd	Japan	Ordinary	The provision of procurement, coal handling and storage facilities, charter of ocean going vessels and barging of coal service	24.5	24.5	24.5	Associate	Equity Accounted	455	474	529
Bengalla Agricultural Company Pty Limited	Australia	Ordinary	Non-trading entity	40.0	–	–	Joint venture	Equity Accounted	70	–	–
									221,919	216,316	205,899

All of the above associates have been accounted for using equity method in the consolidated financial statements.

The financial information and carrying amount, in aggregate, of the Group's interests in associates that are accounted for using the equity method are set out below:

	2014	2015	2016
	$'000	$'000	$'000
The Group's share of profit and total comprehensive income	16,562	6,607	2,438
Aggregate carrying amount of the Group's interests in these associates	221,919	216,316	205,899

(1) The principal activities of Port Waratah Coal Services Limited were the provision of coal receivable, blending, stockpiling and ship loading services in the Port of Newcastle. The investment is strategic as the Group utilises port services provided by the associate.

(i) *Summarised financial information for associates and joint ventures*

The tables below provide summarised financial information for those associates that are material to the Group. The information disclosed reflects amounts presented in the financial statements of the relevant associates. They have been amended to reflect adjustments made by the entity when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

	Port Waratah Coal Services Limited		
Summarised balance sheet	**31 December 2014**	**31 December 2015**	**31 December 2016**
	$'000	*$'000*	*$'000*
Total current assets	77,232	88,436	76,018
Non-current assets	1,763,361	1,684,548	1,620,088
Total current liabilities	(105,625)	(438,346)	(311,810)
Total non-current liabilities	(1,286,863)	(743,258)	(821,640)
Net assets	448,105	591,380	562,656
Ownership share (%)	37	37	37
Carrying amount of investment	221,394	215,842	205,370
Reconciliation to carrying amounts of investment:			
Carrying amount at 1 January	216,523	221,394	215,842
Share of profit after income tax	16,562	6,607	2,438
Dividends received/receivable	(11,691)	(12,159)	(12,910)
Carrying amount at 31 December	221,394	215,842	205,370

	Port Waratah Coal Services Limited		
Summarised statement of comprehensive income	**31 December 2014**	**31 December 2015**	**31 December 2016**
	$'000	*$'000*	*$'000*
Revenue	372,083	319,625	301,299
Profit before income tax	64,822	25,859	9,540
Income tax expense	(19,447)	(7,758)	(2,862)
Profit from continuing operations	45,375	18,101	6,678
Profit for the period	45,375	18,101	6,678
Other comprehensive income	–	–	–
Total comprehensive income	45,375	18,101	6,678

(i) Share of associates' expenditure commitment

	31 December 2014 *$'000*	31 December 2015 *$'000*	31 December 2016 *$'000*
Capital commitments	38,404	23,779	14,543
Lease commitments	53,692	47,472	42,852
Other commitments	25,898	19,183	14,443
	117,994	90,434	71,838

(b) Significant investments in subsidiaries

The consolidated financial information incorporate the assets, liabilities and results of the following principal subsidiaries in accordance with the accounting policy described in note 3(a). The proportion of ownership interest is the same proportion of voting rights held.

	Notes	31 December 2016 %	31 December 2015 %	31 December 2014 %
Australian Coal Resources Limited	*A*	100	100	100
Black Hill Land Pty Ltd		100	100	100
Catherine Hill Bay Land Pty Ltd		100	100	100
CNA Bengalla Pty Limited		–	100	100
CNA Bengalla Investments Pty Limited	*A*	100	100	100
CNA Investments (UK) Pty Limited		100	100	100
CNA Resources Holdings Pty Limited		100	100	100
CNA Resources Limited	*A*	100	100	100
CNA Sub Holdings Pty Limited		100	100	100
CNA Warkworth Australasia Pty Limited	*A*	100	100	100
CNA UK Limited		–	100	100
Coal & Allied Mining Services Pty Limited	*A*	100	100	100
Coal & Allied Operations Pty Limited	*A*	100	100	100
Darex Capital Inc (UK)		–	100	100
Dolphin Properties Pty Limited	*C*	100	100	100
Gwandalan Land Pty Ltd		100	100	100
HV Operations Pty Ltd	*A*	100	100	–
HVO Coal Sales Pty Ltd	*B*	67	67	–
Kalamah Pty Ltd	*A*	100	100	100
Lower Hunter Land Holdings Pty Ltd		100	100	100
Miller Pohang Coal Company Pty limited	*B*	80	80	80
Minmi Land Pty Ltd		100	100	100
Mount Thorley Coal Loading Pty Limited	*B*	57	57	57
Mount Thorley Operations Pty Limited	*A*	100	100	100
Namoi Valley Coal Pty Limited	*A*	100	100	100
Nords Wharf Land Pty Ltd		100	100	100
Northern (Rhondda) Collieries Pty Limited	*A*	100	100	100
Novacoal Australia Pty Limited	*A*	100	100	100
Oaklands Coal Pty limited		100	100	100
Rio Tinto Coal (NSW) Pty Limited	*A*	100	100	100
R W Miller (Holdings) Limited	*A*	100	100	100
Warkworth Coal Sales Pty Ltd		56	56	56
Warkworth Pastoral Company Pty Ltd		56	56	56
Warkworth Tailings Treatment Pty Ltd		56	56	56
Warkworth Mining Limited		56	56	56

All entities are incorporated in Australia except the following:

Entity	Place of incorporation
Darex Capital Inc (UK)	United Kingdom
CNA UK Limited	United Kingdom

Notes:

A These wholly-owned companies and the parent entity have entered into a deed of cross guarantee under which each Target guarantees the debts of the others. By entering into the deed, the wholly-owned entities are relieved from the requirement to prepare a Financial Report and directors' report under Australian Securities and Investment Commission Class Order 98/1418. These companies represent a "Closed Group" for the purposes of the Class Order, and as there are no other parties to the deed of cross guarantee that are controlled by the parent entity, they also represent the "Extended Closed Group".

On 19 December 2016 the following entities were added to the deed of cross guarantee:

CNA Warkworth Australiasia Pty Ltd

CNA Resources Limited

CNA Bengalla Investments Pty Ltd

Kalamah Pty Limited

Coal & Allied Mining Services Pty Ltd

HV Operations Pty Ltd

The proportion of ownership interest is equal to the proportion of voting power held.

B Non-controlling interest in controlled entities refer to Note 29.

C Non-beneficially controlled.

35 EVENTS OCCURRING AFTER THE REPORTING PERIOD

The directors deemed it prudent to disclose the following matters subsequent to the end of the financial year given the entity's proximity to matters arising within its direct and indirect subsidiaries.

On 24 January 2017, Rio Tinto Limited, the ultimate parent of the Target, signed a binding agreement for the sale of its 100% share of Coal & Allied Industries Limited to Yancoal Australia Limited for up to A$3.24 billion*. Completion is expected in the third quarter of 2017. The Target's interest in the assets and liabilities have not been presented as held for sale in the 2016 financial information.

* The amount in AUD has been converted at the rate of A$1 = US$0.75643, being the prevailing exchange rate on 24 January 2017.

No other matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect:

(a) the Target's operations in future financial years, or

(b) the results of those operations in future financial years, or

(c) the Target's state of affairs in future financial years.

The statutory audit of the Group for the years ended 31 December 2014, 2015 and 2016 were performed by PricewaterhouseCoopers.

36 CARVE OUT ACCOUNTING

The consolidated financial information presented in this Accountants' Report above represents the audited financial information of the Target Group for the financial years ended 31 December 2014, 2015 and 2016.

As further stated in note 8, the Target Group had disposed of certain material operations during the year ended 31 December 2016. The information set forth below provides carve-out adjustments to those financial information to reflect the consolidated financial information of the Target Group as if those disposals were completed on 1 January 2014.

The carve-out adjustments made comprise:

Bengalla

On March 2016 Coal & Allied's interest in Bengalla was sold to New Hope. The carve out adjustments remove the one-off gain on sale of Bengalla as well as all Bengalla assets and associated P&L and cash flow for the three year financial period.

Mount Pleasant

On August 2016 the Mount Pleasant thermal coal development project was sold to MACH Energy Australia Pty Ltd. The carve out adjustments remove the one-off gain on sale of Mount Pleasant as well as all Mount Pleasant assets and associated P&L and cash flow for the three year financial period.

HVO 32.4%

On February 2016 Coal & Allied sold 32.4% of its interest in the Hunter Valley Operations to Mitsubishi Development. The carve out adjustments remove the one-off gain on sale of HVO beneficial interest as well as the 32.4% of HVO's assets and associated P&L and cash flow for the three year financial period.

Included below is the consolidated income statement and consolidated statement of cash flows of the Target for the financial years ended 31 December 2014, 2015 and 2016 after making the carve-out adjustments.

Included below is the consolidated balance sheet of the Target as at 31 December 2014, 2015 and 2016 after making the carve-out adjustments.

PROFORMA CONSOLIDATED STATEMENTS OF PROFIT OR LOSS FOR THE YEARS ENDED 31 DECEMBER 2014,2015,AND 2016

	2014			2015			2016		
	As Reported	**Carve Outs**	**Adjusted**	**As Reported**	**Carve Outs**	**Adjusted**	**As Reported**	**Carve Outs**	**Adjusted**
	AUD'000	*AUD'000*	*AUD'000*	*AUD'000*	*AUD'000*	*AUD'000*	*AUD'000*	*AUD'000*	*AUD'000*
Revenue	2,163,053	657,580	1,505,473	2,131,284	633,675	1,497,609	1,664,180	64,877	1,599,303
Other income	23,699	–	23,699	23,660	–	23,660	1,901,741	1,860,304	41,437
Changes in inventories of finished goods and WIP	(30,144)	(6,593)	(23,551)	(22,379)	(4,150)	(18,229)	(5,769)	4,633	(10,402)
Raw material and consumables used	(547,703)	(142,753)	(404,950)	(523,516)	(144,924)	(378,592)	(356,844)	(16,420)	(340,424)
Employee benefits expense	(350,528)	(84,860)	(265,668)	(332,902)	(80,344)	(252,558)	(253,043)	(7,941)	(245,102)
External services	(250,467)	(66,288)	(184,179)	(255,614)	(69,988)	(185,626)	(192,382)	(10,787)	(181,595)
Selling and distribution	(454,937)	(135,030)	(319,907)	(437,261)	(131,920)	(305,341)	(322,108)	(33,476)	(288,632)
Debt forgiveness	–	–	–	–	–	–	(1,474,988)	(1,474,988)	–
Other operating expenses	(85,725)	(29,548)	(56,177)	(108,127)	(26,101)	(82,026)	(89,752)	(6,099)	(83,653)
Net (loss)/gain on disposal of property, plant and equipment	629	122	507	(2,196)	(390)	(1,806)	9,504	(83)	9,587
Depreciation and amortisation expense	(194,519)	(63,019)	(131,500)	(184,163)	(53,429)	(130,734)	(124,893)	(2,579)	(122,314)
Exploration and evaluation	(8,059)	(7,644)	(415)	(8,389)	(7,880)	(509)	–	–	–
Sea freight and purchased coal	(27,277)	(9,462)	(17,815)	(40,403)	(11,476)	(28,927)	(26,389)	(377)	(26,012)
Net foreign exchange gains	4,388	2,196	2,192	10,389	2,272	8,117	(1,595)	(59)	(1,536)
Redbank termination fee	(51,193)	–	(51,193)	–	–	–	–	–	–
Finance costs	(31,116)	(3,068)	(28,048)	(15,655)	(2,175)	(13,480)	(6,730)	(798)	(5,932)
Share of profits after tax of equity accounted units	16,562	2	16,560	6,607	–	6,607	2,438	–	2,438
Profit before income tax	**176,663**	**111,635**	**65,028**	**241,335**	**103,170**	**138,165**	**723,370**	**376,207**	**347,163**
Income tax benefit/(expense)	(87,912)	(39,488)	(48,424)	42,446	86,527	(44,081)	(326,471)	(226,213)	(100,258)
Profit for the year	**88,751**	**72,147**	**16,604**	**283,781**	**189,697**	**94,084**	**396,899**	**149,994**	**246,905**

	2014			2015			2016		
	As Reported	Carve Outs	Adjusted	As Reported	Carve Outs	Adjusted	As Reported	Carve Outs	Adjusted
	AUD'000	*AUD'000*	*AUD'000*	*AUD'000*	*AUD'000*	*AUD'000*	*AUD'000*	*AUD'000*	*AUD'000*
Profit for the year is attributable to:									
Owners of Coal & Allied Industries Limited	88,195	72,147	16,048	282,781	189,697	93,084	396,285	149,994	246,291
Non-controlling interests	556	–	556	1,000	–	1,000	614	–	614
	88,751	**72,147**	**16,604**	**283,781**	**189,697**	**94,084**	**396,899**	**149,994**	**246,905**
Other comprehensive income									
Items that may be reclassified to profit or loss									
Share of other comprehensive income of equity accounted units	–	–	–	700	–	700	–	–	–
Exchange differences on translation	–	–	–	(100)	–	(100)	–	–	–
Other comprehensive income for the year, net of tax	**–**	**–**	**–**	**600**	**–**	**600**	**–**	**–**	**–**
Total comprehensive income for the year	**88,751**	**72,147**	**16,604**	**284,381**	**189,697**	**94,684**	**396,899**	**149,994**	**246,905**
Total comprehensive income for the year is attributable to:									
Owners of Coal & Allied Industries Limited	88,195	72,147	16,048	283,381	189,697	93,684	396,285	149,994	246,291
Non-controlling interests	556	–	556	1,000	–	1,000	614	–	614
	88,751	**72,147**	**16,604**	**284,381**	**189,697**	**94,684**	**396,899**	**149,994**	**246,905**

PROFORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2014, 2015 AND 2016

	2014			2015			2016		
	As Reported	Carve Outs	Adjusted	As Reported	Carve Outs	Adjusted	As Reported	Carve Outs	Adjusted
	AUD'000	*AUD'000*	*AUD'000*	*AUD'000*	*AUD'000*	*AUD'000*	*AUD'000*	*AUD'000*	*AUD'000*
ASSETS									
Current assets									
Cash and cash equivalents	241,804	10,658	231,146	213,024	4,350	208,674	311,729	–	311,729
Trade and other receivables	183,992	53,255	130,737	129,579	24,857	104,722	275,947	–	275,947
Inventories	136,111	35,300	100,811	86,530	17,556	68,974	60,727	–	60,727
Assets classified as held for sale	–	–	–	320,547	320,547	–	–	–	–
Total Current assets	**561,907**	**99,213**	**462,694**	**749,680**	**367,310**	**382,370**	**648,403**	**–**	**648,403**
Non-current assets									
Investment accounted for using the equity method	221,919	99	221,820	216,316	10	216,306	205,899	–	205,899
Land held for development or future sales	1,072	–	1,072	1,072	–	1,072	864	–	864
Property, plant and equipment	1,653,665	717,890	935,775	1,242,985	393,853	849,132	762,328	–	762,328
Deferred tax assets	77,240	(54,522)	131,762	80,890	(51,248)	132,138	155,084	–	155,084
Intangible assets	197,932	24,676	173,256	188,246	24,689	163,557	154,321	–	154,321
Total non-current assets	**2,151,828**	**688,143**	**1,463,685**	**1,729,509**	**367,304**	**1,362,205**	**1,278,496**	**–**	**1,278,496**
Total assets	**2,713,735**	**787,356**	**1,926,379**	**2,479,189**	**734,614**	**1,744,575**	**1,926,899**	**–**	**1,926,899**

	2014			2015			2016		
	As Reported	Carve Outs	Adjusted	As Reported	Carve Outs	Adjusted	As Reported	Carve Outs	Adjusted
	AUD'000	*AUD'000*	*AUD'000*	*AUD'000*	*AUD'000*	*AUD'000*	*AUD'000*	*AUD'000*	*AUD'000*
LIABILITIES									
Current liabilities									
Trade and other payables	263,829	56,471	207,358	252,156	41,074	211,082	346,166	–	346,166
Bank overdraft	–	–	–	617	–	617	–	–	–
Borrowings	292,678	–	292,678	–	–	–	–	–	–
Provisions	91,851	40,475	51,376	75,725	30,536	45,189	117,727	–	117,727
Current tax liabilities	40,868	29,707	11,161	6,711	7,042	(331)	4,357	–	4,357
Liabilities classified as held for sale	–	–	–	44,119	44,119	–	–	–	–
Total current liabilities	**689,226**	**126,653**	**562,573**	**379,328**	**122,771**	**256,557**	**468,250**	**–**	**468,250**
Non-current liabilities									
Borrowings	–	–	–	–	–	–	–	–	–
Deferred income	–	–	–	3,132	–	3,132	2,902	–	2,902
Deferred tax liabilities	188,487	167,822	20,665	71,768	58,176	13,592	11,274	–	11,274
Provisions	157,159	33,500	123,659	158,014	22,308	135,706	132,601	–	132,601
Total non-current liabilities	**345,646**	**201,322**	**144,324**	**232,914**	**80,484**	**152,430**	**146,777**	**–**	**146,777**
Total liabilities	**1,034,872**	**327,975**	**706,897**	**612,242**	**203,255**	**408,987**	**615,027**	**–**	**615,027**
Net assets	**1,678,863**	**459,381**	**1,219,482**	**1,866,947**	**531,359**	**1,335,588**	**1,311,872**	**–**	**1,311,872**
EQUITY									
Contributed equity	440,865	–	440,865	440,928	–	440,928	59,728	–	59,728
Other reserves	6,686	942	5,744	11,703	1,284	10,419	10,326	–	10,326
Retained earnings	1,229,048	458,439	770,609	1,411,651	530,075	881,576	1,239,146	–	1,239,146
Non-controlling interests	2,264	–	2,264	2,665	–	2,665	2,672	–	2,672
Total equity	**1,678,863**	**459,381**	**1,219,482**	**1,866,947**	**531,359**	**1,335,588**	**1,311,872**	**–**	**1,311,872**

PROFORMA CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2014, 2015 AND 2016

	2014			2015			2016		
	As Reported	Carve Outs	Adjusted	As Reported	Carve Outs	Adjusted	As Reported	Carve Outs	Adjusted
	AUD'000	*AUD'000*	*AUD'000*	*AUD'000*	*AUD'000*	*AUD'000*	*AUD'000*	*AUD'000*	*AUD'000*
Cash flows from operating activities									
Receipts from customers	2,239,279	665,149	1,574,130	2,175,035	635,291	1,539,744	1,555,162	95,782	1,459,380
Payments to suppliers and employees	(1,837,445)	(596,235)	(1,241,210)	(1,642,444)	(566,444)	(1,076,000)	(1,121,763)	(232,001)	(889,762)
	401,834	**68,914**	**332,920**	**532,591**	**68,847**	**463,744**	**433,399**	**(136,219)**	**569,618**
Interest paid	(21,056)	550	(21,606)	(7,900)	158	(8,058)	–	–	–
Income taxes paid	(63,414)	(33,198)	(30,216)	(110,168)	(49,066)	(61,102)	(11,672)	71,592	(83,264)
Tax paid to tax consolidation group head entity	–	–	–	–	–	–	(439,505)	(439,505)	–
Dividends received	12,422	–	12,422	12,182	–	12,182	13,055	–	13,055
Interest received	5,272	–	5,272	5,500	–	5,500	17,500	(191)	17,691
Net cash inflow from operating activities	**335,058**	**36,266**	**298,792**	**432,205**	**19,939**	**412,266**	**12,777**	**(504,323)**	**517,100**
Cash flows from investing activities									
Payment for property, plant and equipment	(79,236)	(21,787)	(57,449)	(63,600)	(20,841)	(42,759)	(40,700)	(202)	(40,498)
Payments for exploration	(8,059)	(7,644)	(415)	(8,398)	(7,880)	(518)	–	–	–
Proceeds from sale of property, plant and equipment	2,034	(225)	2,259	4,104	2,474	1,630	8,973	–	8,973
Proceeds from divestment	–	–	–	–	–	–	1,068,975	1,068,975	–
Net cash outflow from investing activities	**(85,261)**	**(29,656)**	**(55,605)**	**(67,894)**	**(26,247)**	**(41,647)**	**1,037,248**	**1,068,773**	**(31,525)**

	2014			2015			2016		
	As Reported	Carve Outs	Adjusted	As Reported	Carve Outs	Adjusted	As Reported	Carve Outs	Adjusted
	AUD'000	*AUD'000*	*AUD'000*	*AUD'000*	*AUD'000*	*AUD'000*	*AUD'000*	*AUD'000*	*AUD'000*
Cash flows from financing activities									
Dividends paid to non-controlling interest	(600)	–	(600)	(600)	–	(600)	(600)	–	(600)
Dividends paid	–	–	–	(100,000)	–	(100,000)	(568,800)	(568,800)	–
Return of capital	–	–	–	–	–	–	(381,200)	–	(381,200)
Repayment of loan facilities	(301,005)	–	(301,005)	(292,708)	–	(292,708)	(103)	–	(103)
Repayment of advances from related entities	(188)	–	(188)	(400)	–	(400)	–	–	–
Net cash outflow from financing activities	**(301,793)**	**–**	**(301,793)**	**(393,708)**	**–**	**(393,708)**	**(950,703)**	**(568,800)**	**(381,903)**
Net decrease in cash and cash equivalents	**(51,996)**	**6,610**	**(58,606)**	**(29,397)**	**(6,308)**	**(23,089)**	**99,322**	**(4,350)**	**103,672**
Cash and cash equivalents at the beginning of the year	293,800	4,048	289,752	241,804	10,658	231,146	212,407	4,350	208,057
Cash and cash equivalents at end of year	**241,804**	**10,658**	**231,146**	**212,407**	**4,350**	**208,057**	**311,729**	**–**	**311,729**

37 HUNTER VALLEY OPERATIONS

Below tables display the standalone profit and loss, financial position and cashflow statements for 100% of HVO.

HUNTER VALLEY OPERATIONS
CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	31 December 2014	31 December 2015	31 December 2016
	$'000	*$'000*	*$'000*
Revenue	1,209,367	1,161,112	1,268,272
Other income	–	–	–
Changes in inventories of finished goods and WIP	(26,433)	(9,531)	4,037
Raw materials and consumables used	(296,157)	(290,969)	(266,722)
Employee benefits expense	(166,304)	(155,212)	(138,550)
External services	(146,104)	(160,461)	(170,205)
Distribution	(240,326)	(233,118)	(233,255)
Other operating expenses	(48,585)	(37,773)	(76,075)
Net gain/(loss) on disposal of property, plant and equipment	16	(1,231)	(61)
Depreciation and amortisation expense	(99,960)	(91,751)	(86,489)
Exploration and evaluation	(1,014)	(765)	0
Sea freight and purchased coal	(13,588)	(13,430)	(1,339)
Net foreign exchange (losses)/gains	4,716	6,171	732
Finance costs	(6,431)	(4,692)	(4,667)
Profit before income tax	**169,197**	**168,350**	**295,678**
Income tax (expense)/benefit	(65,605)	115,116	(99,171)
Profit for the year	**103,593**	**283,466**	**196,507**

HUNTER VALLEY OPERATIONS
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	31 December 2014	31 December 2015	31 December 2016
	$'000	*$'000*	*$'000*
Current assets			
Cash and cash equivalents	–	–	157,849
Trade and other receivables	105,890	76,682	161,972
Inventories	75,963	54,187	53,736
Current tax recoverable	–	–	47,277
Total current assets	181,853	130,869	420,834
Non-current assets			
Receivables	4,770	5,109	–
Property, plant and equipment	792,058	724,932	634,757
Intangible assets	–	37	89
Total non-current assets	796,828	730,078	634,846
Total assets	978,681	860,947	1,055,680
Current liabilities			
Trade and other payables	106,301	125,650	205,940
Current tax payable	36,995	5,830	–
Provisions	63,745	59,337	62,255
Total current liabilities	207,041	190,817	268,195
Non-current liabilities			
Deferred tax liabilities	540,597	387,443	6,152
Provisions	97,997	108,873	98,180
Total non-current liabilities	638,594	496,316	104,332
Total liabilities	845,635	687,133	372,527
Net assets	133,046	173,814	683,153
Other reserves	2,137	1,990	1,990
Retained earnings	130,909	171,824	681,163
Total equity	133,046	173,814	683,153

HUNTER VALLEY OPERATIONS
CONSOLIDATED STATEMENTS OF CASH FLOWS

	31 December 2014	31 December 2015	31 December 2016
	$'000	*$'000*	*$'000*
Operating activities			
Receipts from customers	1,211,484	1,189,980	1,217,796
Payments to suppliers and employees	(1,125,143)	(1,092,071)	(819,566)
	86,341	97,909	398,230
Income taxes paid	(47,952)	(69,203)	(171,479)
Net cash inflow from operating activities	38,389	28,706	226,751
Cash flows from investing activities			
Payment for property, plant and equipment	(37,390)	(35,577)	(51)
Payments for exploration	(1,014)	(765)	–
Proceeds from disposal of subsidiary	–	–	2,881
Proceeds from sale of property, plant and equipment	15	7,636	3,625
Net cash (outflow)/inflow from investing activities	(38,389)	(28,706)	6,455
Cash flow from financing activities			
Dividend paid	–	–	(74,828)
Return on capital	–	–	(529)
Net cash outflow from financing activities	–	–	(75,357)
Net increase in cash and cash equivalents	–	–	157,849
Cash and cash equivalents at the beginning of the year	–	–	–
Cash and cash equivalents at end of year	–	–	157,849

OPERATING REVIEW AND PROSPECTS

Overview

According to the Sale and Purchase Agreement, Yancoal Australia, a subsidiary of the Company, will acquire 100% of the ordinary share capital of the Target. Please refer to the section headed "Further Information on the C&A Target Company Group" in this Circular for further details.

The financial information included herein is based on the post carve-out financial information of the Target extracted from Note 35 to 36 of the Accountants' Report as set out in Appendix VIII to this Circular.

As a result of the application of carve-out accounting, the results of operations, financial position and cash flows of the Relevant Business as presented in this Management Discussion and Analysis on Target section of the Circular are different to those carried by Rio Tinto in its own consolidated financial statements.

Management believes the assumptions underlying the Management Discussion and Analysis are reasonable. However, the financial information contained herein may not necessarily be representative of the Relevant Businesses' combined result of operations, financial position and cash flows in the future or what its historical result of operations, financial position or cash flows would have been had the Relevant Businesses been a stand-alone entity during the periods discussed.

REVIEW OF HISTORICAL OPERATING RESULTS

INCOME STATEMENT

	Year ended 31 December		
	2014	**2015**	**2016**
	$'000	*$'000*	*$'000*
Revenue	1,505,473	1,497,609	1,599,303
Other income	23,699	23,660	41,437
Changes in inventories of finished goods and WIP	(23,551)	(18,229)	(10,402)
Raw material and consumables used	(404,950)	(378,592)	(340,424)
Employee benefits expense	(265,668)	(252,558)	(245,102)
External services	(184,179)	(185,626)	(181,595)
Selling and distribution	(319,907)	(305,341)	(288,632)
Administration	(56,177)	(82,026)	(83,653)
Net (loss)/gain on disposal of property, plant and equipment	507	(1,806)	9,587
Depreciation and amortisation expense	(131,500)	(130,734)	(122,314)
Exploration and evaluation	(415)	(509)	–
Sea freight and purchased coal	(17,815)	(28,927)	(26,012)
Net foreign exchange gains	2,192	8,117	(1,536)
Finance costs	(28,048)	(13,480)	(5,932)
Redbank termination fee	(51,193)	–	–
Share of profits after tax of equity accounted units	16,560	6,607	2,438
Profit before income tax	65,028	138,165	347,163
Income tax benefit/(expense)	(48,424)	(44,081)	(100,258)
Profit for the year	16,604	94,084	246,905
Profit for the year is attributable to:			
Owners of Coal & Allied Industries Limited	16,048	93,084	246,291
Non-controlling interests	556	1,000	614
	16,604	94,084	246,905
Other comprehensive income			
Items that may be reclassified to profit or loss			
Share of other comprehensive income of equity accounted units	–	700	–
Exchange differences on translation	–	(100)	–
Other comprehensive income for the year, net of tax	–	600	–

	Year ended 31 December		
	2014	2015	2016
	$'000	*$'000*	*$'000*
Total comprehensive income for the year	16,604	94,684	246,905
Total comprehensive income for the year is attributable to:			
Owners of Coal & Allied Industries Limited	16,048	93,684	246,291
Non-controlling interests	556	1,000	614
	16,604	94,684	246,905

YEAR ENDED 31 DECEMBER 2015 COMPARED TO 31 DECEMBER 2016

Revenue

Revenue represents the sales value of thermal and metallurgical coal sold to external customers. The Target's revenue increased 6.8% mainly due to favourable semi soft coking coal prices (average price 2016: US$83/ton compared to 2015: US$76/ton); sales volume at HVO increased by 5% from 8.8Mt in 2015 to 9.2Mt in 2016 (equity-based) and by the weaker AUD on USD denominated sales (average exchange rate 2016: 0.74 compared to 2015: 0.75).

Raw material and consumables used

Raw material and consumables used represents the cost of raw material and consumables such as fuel and electricity used in the extraction of coal. The Target's cost of raw material and consumables used was 10.1% lower mainly due to lower fuel cost of AUD 18.0 million driven by lower average price paid (2016 average of $0.48/L compared to 2015 average of $0.64/L) offset by lower maintenance cost from improved equipment condition monitoring at HVO and MTW.

Employee benefits expense

Employee benefits expenses represents the cost of the Target's employees. The Target's employee benefits expenses were 3.0% lower mainly due to labour productivity initiatives at HVO and MTW which resulted in reduced number of employees at HVO and MTW.

External services

External services represents the cost of external contract labour, consultants and other external service providers. The Target's external services expense was AUD 4.0 million lower in 2016 representing a 2.2% decrease due to a reduced reliance on external service providers.

Selling and distribution (including royalties)

Selling and distribution expenses represents the cost of railing coal from the mine sites to the port and port handling charges and other selling costs. Royalties represents amounts paid to the New South Wales government on coal sales. The Target's selling and distribution costs decreased 5.5% mainly from lower port charges from reduced rates at Port Waratah Coal Services.

Administration

Administration expenses represents administrative functions at the mine site, including rehabilitation, and corporate functions such as finance and information technology. The Target's administration costs increased 2.0% due to some increases in external services costs at HVO partially offset by lower external costs at MTW.

Depreciation and amortisation expense

Depreciation and amortisation expense includes the depreciation of the Target's property, plant and equipment and operational mining properties. The Target's depreciation was AUD 8.4 million lower in 2016 due to the upward revision of HVO coal reserves.

Profit before income tax

Profit before tax increased by AUD 209.0 million of which AUD 101.7 million resulted from increased sales volumes and coal prices with the balance achieved through lower operating costs as outlined above.

Income tax benefit/(expense)

Income tax expense consists of the Australian federal income tax charged at 30%. The Target's effective tax rate is close to 30% of profit before tax in both 2015 and 2016.

YEAR ENDED 31 DECEMBER 2014 COMPARED TO 31 DECEMBER 2015

Revenue

Revenue represents the sales value of thermal and metallurgical coal sold to external customers. The Target's revenue decreased 0.5% mainly due to unfavourable prices (average semisoft price is US$76/ton in 2015 compared to US$91/ton in 2014, average export thermal price is US$63/ton in 2015 compared to US$77/ton in 2014) and lower sales volume at HVO (decreased 8%) due to wet weather impacting production and MTW (decreased 2%). This is offset by weaker AUD on USD denominated sales (average exchange rate for 2015 is 0.75 compared to 0.90 for 2014).

Raw material and consumables used

Raw material and consumables used represents the cost of raw material and consumables such as fuel and electricity used in the extraction of coal. The Target's cost of raw material and consumables used was 6.5% lower mainly due to lower fuel cost of AUD 44 million driven by lower average price paid (2015 average price of $0.64/L compared to 2014 average price of $0.94/L) offset by higher maintenance cost at HVO.

Employee benefits expense

Employee benefits expenses represents the cost of the Target's employees. The Target's employee benefits expenses were 4.9% lower mainly due to productivity programs which resulted in reduced number of employees at HVO and MTW.

External services

External services represents the cost of external contract labour, consultants and other external service providers. The Target's external services expense was AUD 1.4 million higher in 2015 representing an increase of less than 1% compared to 2014.

Selling and distribution (including royalties)

Selling and distribution expenses represents the cost of railing coal from the mine sites to the port, and port handling charges and other selling costs. Royalties represents amounts paid to the New South Wales government on coal sales. The Target's selling and distribution costs decreased 4.6% mainly due to lower port charges from reduced rates at Port Waratah Coal Services along with reduced royalties from lower sales revenue.

Administration

Administration expenses represents administrative functions at the mine site, including rehabilitation work, and corporate functions such as finance and information technology. The Target's administration costs increased AUD 25.8 million (46%) mainly due to costs incurred for rehabilitation work in 2015.

Depreciation and amortisation expense

Depreciation and amortisation expense includes the depreciation of the Target's property, plant and equipment and operational mining properties. The Target's depreciation was AUD 0.8 million lower in 2015, representing a decrease of less than 1%.

Redbank termination fee

The Target paid a fee to terminate a below market international market coal supply agreement with the Australian power utility Redbank in October 2014. The termination released approximately 600,000 tonnes of coal per annum to be redistributed into export markets at higher prices.

Profit before tax

Profit before tax increased by AUD 73.1 million in 2015, representing an increase of 112.5% compared to 2014, primarily resulting from the cost saving and productivity measures implemented by the Target as noted above.

Income tax benefit/(expense)

Income tax expense consists of the Australian federal income tax charged at 30%. The Target's effective tax rate is close to 30% of profit before tax in 2015. The higher effective tax rate of 74.5% in 2014 was mainly due to impact by the de-recognition of a Minerals Resource Rent Tax deferred tax asset following its legislative repeal in 2014.

SEGMENT INFORMATION:

The Target derives its revenue from coal mining and as such performance is assessed for each of the operating coal mines individually – Hunter Valley operations, Mount Thorley Warkworth and Other. Other includes corporate activities including revenue from purchase coal that is not appropriate to allocate to an individual segment and the equity accounted results of PWCS.

Segment results

	Hunter Valley Operations	Mount Thorley Warkworth	Other	Total
	$'000	*$'000*	*$'000*	*$'000*
Year ended 31 December 2016				
Segment revenue	856,188	728,235	14,880	1,599,303
EBITDA	275,781	215,003	(32,858)	457,926
Reconciliation of EBITDA to profit after tax				
Depreciation and amortisation expense				(122,314)
Net finance income				11,551
Income tax expense				(100,258)
Profit for the year				246,905

	Hunter Valley Operations	Mount Thorley Warkworth	Other	Total
	$'000	*$'000*	*$'000*	*$'000*
Year ended 31 December 2015				
Segment revenue	784,352	691,977	21,280	1,497,609
EBITDA	155,725	164,474	(43,222)	276,977
Reconciliation of EBITDA to profit after tax				
Depreciation and amortisation expense				(130,734)
Net finance expense				(8,078)
Income tax expense				(44,081)
Profit for the year				94,084

	Hunter Valley Operations	Mount Thorley Warkworth	Other	Total
	$'000	*$'000*	*$'000*	*$'000*
Year ended 31 December 2014				
Segment revenue	816,883	683,100	5,490	1,505,473
EBITDA	186,139	90,689	(57,274)	219,554
Reconciliation of EBITDA to profit after tax				
Depreciation and amortisation expense				(131,500)
Net finance expense				(23,026)
Income tax expense				(48,424)
Profit for the year				16,604

LIQUIDITY AND CAPITAL RESOURCES

The Target has historically met its liquidity requirements mainly from cash generated from operations.

Cash flow data

The table below sets out selected cash flow data from the Target's combined cash flow statements for the periods indicated:

	Year ended 31 December		
	2014	2015	2016
	$'000	*$'000*	*$'000*
Net cash inflow from operating activities	298,792	412,266	517,100
Net cash outflow from investing activities	(55,605)	(41,647)	(31,525)
Net cash outflow from financing activities	(301,793)	(393,708)	(381,903)
Net increase/(decrease) in cash and cash equivalents	(58,606)	(23,089)	103,672
Cash and cash equivalents at the beginning of the year	289,752	231,146	208,057
Cash and cash equivalents at end of year	231,146	208,057	311,729

Cash flow from operating activities

The Target derives its cash inflows from operating activities primarily from the sale of thermal and metallurgical coal to overseas markets denominated in US$. The Target's cash outflow for operating activities is primarily used for payment to suppliers and employees. Cash flows from operating activities can be significantly affected by factors such as changes in US$ coal prices, the A$/US$ exchange rate and sales volumes as result of changes in production.

For the year ended 31 December 2016, the Target had a net operating cash inflow of AUD 517.1 million primarily attributable to receipts from customers of AUD 1,459.4 million for sales on thermal and metallurgical coal, and offset by payment to suppliers and employees of AUD 889.8 million for the supply and services used in the coal mining production processes and an income tax payment of AUD 83.3 million.

For the year ended 31 December 2015, the Target had a net operating cash inflow of AUD 412.3 million primarily attributable to receipts from customers of AUD 1,539.8 million for sales on thermal and metallurgical coal, and offset by payment to suppliers and employees of AUD 1,076.0 million for the supply and services used in the coal mining production processes and an income tax payment of AUD 61.1 million.

For the year ended 31 December 2014, the Target had a net operating cash inflow of AUD 298.8 million primarily attributable to receipts from customers of AUD 1,574.1 million for sales on thermal and metallurgical coal, and offset by payment to suppliers and employees of AUD 1,241.2 million for the supply and services used in the coal mining production processes and an income tax payment of AUD 30.2 million and interest payout of AUD21.6 million.

Cash flow from investing activities

The Target's cash outflow from investing activities primarily consists of purchases of property, plant and equipment, mine development and exploration.

For the year ended 31 December 2016, the Target's net cash used in investing activities was AUD 31.5 million. Cash used in investing activities in this period was primarily attributable to (i) purchases of property, plant and equipment of AUD 40.5 million, partially offset by proceeds from sale of property, plant and equipment of AUD 9.0 million.

For the year ended 31 December 2015, the Target's net cash used in investing activities was AUD 41.6 million. Cash used in investing activities in this period was primarily attributable to purchases of property, plant and equipment of AUD 42.8 million, offset by proceeds from sale of property, plant and equipment of AUD 1.6 million.

For the year ended 31 December 2014, the Target's net cash used in investing activities was AUD 55.6 million. Cash used in investing activities in this period was primarily attributable to purchases of property, plant and equipment of AUD 57.4 million, offset by proceeds from sale of property, plant and equipment of AUD 2.3 million.

Cash flows from financing activities

The Target's cash outflows from financing activities primarily consist of dividends paid to shareholders and the repayment of borrowings to the shareholders.

For the year ended 31 December 2016, the Target's net cash used in financing activities was AUD 381.9 million. Cash used in financing activities in this period was primarily attributable to (i) a capital return to shareholders of AUD381.2 million, and (ii) a dividend payment to shareholders of AUD 0.6 million.

For the year ended 31 December 2015, the Target's net cash used in financing activities was AUD 393.7 million. Cash used in financing activities in this period was primarily attributable to (i) dividend payment to shareholders of AUD 100.6 million, and (ii) repayment on shareholder loan of AUD 292.7 million.

For the year ended 31 December 2014, the Target's net cash used in financing activities was AUD 301.8 million. Cash used in financing activities in this period was primarily attributable to (i) dividend payment to shareholders of AUD 0.6 million, and (ii) repayment on shareholder loan of AUD 301.0 million.

CAPITAL EXPENDITURES AND COMMITMENTS

The Target's capital expenditures principally consists of purchases of property, plant and equipment, mine development and exploration. The Target's capital expenditures were AUD 57.4 million. AUD 42.8 million and AUD 40.5 million for the year ended 31 December 2014, 2015 and 2016, respectively.

The Target finances its capital expenditure requirements primarily from cash flow generated from operating activities.

Material acquisitions and disposals

As noted in Note 36 of the Accountants Report (Appendix VIII) in 2016, the Target disposed of its entire interest in the Bengalla and Mount Pleasant operations and a 32.4% interest in HVO. This Management Discussion and Analysis section has been prepared on a carve-out basis excluding the impact of these disposals.

Significant investments

No significant investments are planned in the near future other than business as usual expenditure.

Contractual Commitments

The Target's contractual commitments are principally comprised of operating leases, non-cancellable mining leases, capital commitments and unconditional purchase obligations.

Commitments

Operating leases

The Target leases certain of its mining equipment and facilities under non-cancellable operating leases. These leases typically have an initial term of one to five years, with an option to renew the lease when the terms are renegotiated. The following table sets out the total minimum leases payments under these operating leases for the periods indicated:

	Year ended 31 December		
	2014	**2015**	**2016**
	$'000	*$'000*	*$'000*
Within one year	–	956	4,553
Later than one year but not later than five years	2,451	–	8,198
Later than five years	48	–	–
	2,499	956	12,751

Non-cancellable mining leases:

Commitments required to satisfy expenditure requirements on mining and exploration leases

	Year ended 31 December		
	2014	**2015**	**2016**
	$'000	*$'000*	*$'000*
Within one year	9,784	9,824	12,285
Later than one year but not later than five years	38,753	38,435	47,128
Greater than five years	64,862	56,727	65,570
	113,399	104,986	124,983

Capital commitments

Significant capital expenditure contracted for, in the normal course of business at the end of the reporting period but not recognised as liabilities is as follows:

	Year ended 31 December		
	2014	**2015**	**2016**
	$'000	*$'000*	*$'000*
Within one year	608	2,322	16,383
Later than one year but not later than five years	3,660	–	–
Total capital commitments	4,268	2,322	16,383

Unconditional purchase obligations

Unconditional purchase obligations comprise take-or-pay contracts for port and rail contracts:

	Year ended 31 December		
	2014	**2015**	**2016**
	$'000	*$'000*	*$'000*
Within one year	125,259	123,241	142,476
Later than one year but not later than five years	502,344	489,097	435,971
Greater than five years	586,049	545,768	437,583
	1,213,652	1,158,106	1,016,030

WORKING CAPITAL

Net current assets

The table below sets out the Target's current assets, current liabilities and net current assets as at the date indicated:

	Year ended 31 December		
	2014	2015	2016
	$'000	*$'000*	*$'000*
ASSETS			
Current assets			
Cash and cash equivalents	231,146	208,674	311,729
Trade and other receivables	130,737	104,722	275,947
Inventories	100,811	68,974	60,727
Total Current assets	462,694	382,370	648,403
Current liabilities			
Trade and other payables	207,358	211,082	346,166
Bank overdraft	–	617	–
Borrowings	292,678	–	–
Provisions	51,376	45,189	117,727
Current tax liabilities	11,161	(331)	4,357
Total current liabilities	562,573	256,557	468,250
Net Current assets/liabilities	(99,879)	125,813	180,153

The increase in net current assets from 31 December 2014 to 2015 was primarily due to the repayment of the Shareholder loan in September 2015 of AUD 292.7 million, reduced receivables from receipts in HVO, lower inventory balance from reduced operating costs, reduction of ROM and product stockpiles at HVO and MTW and the timing of rehabilitation work in 2015.

The increase in net current assets from 31 December 2015 to 2016, was primarily due to higher trade receivables at HVO and MTW from increased coal prices, lower inventory balance from reduced operating costs, reduction of ROM and product stockpiles at HVO and MTW.

Trade and other receivables

The Target's trade and other receivables mainly represent receivables from sales of thermal and metallurgical coal. Trade receivables are generally due for settlement within 14 days and therefore are all classified as current. As at 31 December 2016, 2015 and 2014, the Target' trade and other receivables were AUD 275.9 million, AUD 104.7 million and AUD 130.7 million, respectively. The following table sets out the components of the Target's trade and other receivables as at the date indicated:

	Year ended 31 December		
	2014	**2015**	**2016**
	$'000	*$'000*	*$'000*
Current assets – Trade and other receivables			
Trade receivables	82,276	53,381	176,462
Amount due from related parties	37,063	18,171	54,249
Other receivables	9,220	30,597	43,060
Prepayments	2,178	2,573	2,176
	130,737	104,722	275,947

The Target's trade receivables increased by 231% as at 31 December 2015 to 31 December 2016 mainly due to higher sales prices and timing of receipts.

The Target's trade receivables decreased by 35% as at 31 December 2014 to 31 December 2015 mainly due to lower sales prices and timing of receipts.

The Target's amounts due from related parties consist of intercompany receivable from Rio Tinto's entities and external portion of receivables from external Joint Venture partners.

The Target's other receivables were primarily related to fuel tax rebates, GST receivable and other receivables.

The Target's prepayments were primarily related to rates, levy and mining tenements and insurance.

Inventories

As at 31 December 2016, 2015 and 2014, the Target's inventories were AUD 60.7 million, AUD 69.0 million and AUD 100.8 million, respectively. The following table sets out the components of the Target's Inventories as at the date indicated:

	Year ended 31 December		
Current assets – Inventories	**2014**	**2015**	**2016**
	$'000	*$'000*	*$'000*
Coal stocks – at cost			
Finished goods	14,240	12,963	6,590
Work in progress	23,608	10,344	16,555
	37,848	23,307	23,145
Stores			
Stores	63,322	47,125	37,904
Provision for obsolescence	(359)	(1,458)	(322)
	62,963	45,667	37,582
	100,811	68,974	60,727

The Target's finished goods are primarily comprised of coal stocks stored at site and in transit on trains and stockpiles at the ports.

The Target's work in progress stocks comprise stockpiles of Run of Mine coal either bypassed or to be processed through the Coal Handling and Preparation Plant. Lower coal stocks in 2015 and 2016 are mainly due to reduced inventory standard rates reflecting cost reductions and reduction of ROM and product stockpiles at both sites.

The coal stocks at 31 December 2015 were in line with 31 December 2016.

The coal stocks decreased by 38% as at 31 December 2014 to 31 December 2015 primarily due to lower inventory standard rates reflecting cost reductions, reduction of ROM production and product stockpiles at HVO and MTW.

The Target's stores inventories are primarily comprised of production supplies and critical spares parts for use in the operations of the Target. A decrease in stores from 2015 to 2016 was mainly due to increasing the 2015 initiative to transition stores stocks to consignment rather than owned by the company.

A decrease in the Target's stores inventories from 2014 to 2015 was mainly due to initiatives to transition stores stocks to consignment rather than owned by the company.

Trade and other payables

The Target's trade and other payables mainly represent purchase of operating supplies and services used in production processes. The Target's trade and other payables are normally settled within 45 days. As at 31 December 2016, 2015 and 2014, the Target' trade and other payables were AUD 346.2 million, AUD 211.1 million and AUD 207.4 million, respectively. The following table sets out the components of the Target's Trade and other payables as at the date indicated:

	Year ended 31 December		
	2014	**2015**	**2016**
	$'000	*$'000*	*$'000*
Current liabilities – Trade and other payables			
Trade payables	185,665	186,735	289,531
Amounts due to related parties	17,649	12,548	17,437
Intercompany payable in respect of income tax	–	–	13,311
Other payables	4,044	11,799	25,887
	207,358	211,082	346,166

The Target's trade payables increased 55% as at 31 December 2015 to 31 December 2016 mainly due to working capital initiatives to extend payments terms being widely implemented across HVO and MTW.

The Target's trade payables increased less than 1% as at 31 December 2014 to 31 December 2015 mainly due to working capital initiatives to extend payments terms.

The Target's amounts due to related parties consist of intercompany payables to Rio Tinto entities and external portion of payables to external Joint Venture partners.

The Target's other payables consists of royalty payables, payroll tax payable, accruals and payable clearings.

INDEBTEDNESS

Borrowings

As at 31 December 2014 the Shareholder loan was $292.7 million. The Target settled the remaining balance of the Shareholder loan in 2015. As at 31 December 2016, The Target has no borrowings outstanding.

Maturity profile of debt and currency exposure

As at 31 December 2016 the Target had no borrowings outstanding and as such there is no maturity profile or currency exposure on borrowings.

Use of financial instruments

The Target does not use financial instruments for hedging purposes and holds no foreign currency net investments.

Contingencies	**Year ended 31 December**		
	2014	**2015**	**2016**
	$'000	*$'000*	*$'000*
Bank guarantees for restoration obligations			
The Target has a programme of on-going restoration as part of its mining operations. Guarantees have been provided to the NSW government in respect of the cost of restoration of certain leasehold properties, representing guarantees required by statute. A provision for mine site restoration of $101.5 million (2015: $127.3 million, 2014: $115.9 million) has been raised with regard to this obligation.	149,717	155,895	174,865
Bank guarantee for port allocation			
The Target has entered into various agreements with Port Waratah Coal Services Limited to secure port allocation arrangements and coal handling services. The Target has entered into various agreements with Newcastle Coal Infrastructure Group Pty Ltd as a condition of participating in the port nomination process.	103,089	97,749	91,426

Contingencies	Year ended 31 December		
	2014	2015	2016
	$'000	*$'000*	*$'000*
Bank guarantees for rail network access			
The Target has entered into an access holder agreement with Australian Rail Track Corporation Limited relating to rail access to the Hunter Valley Network.	15,108	14,153	22,538
Bank guarantees for land conservation and environmental land offsets			
The Target has entered into various agreements with the Commonwealth Office of the Environment and Heritage, trading as National Parks and Wildlife with respect to land development in the Lower Hunter region.	18,902	18,902	18,902
Bank guarantees for infrastructure and emergency services			
The Target has entered into agreements with the NSW Department of Planning And Infrastructure for infrastructure and emergency services relating to land development applications in the Lower Hunter Valley.	5,180	5,180	5,180
Bank guarantee for other miscellaneous obligations			
The Target has entered into various agreements with State and local government authorities and other entities.	409	409	5,996

As of the Latest Practicable Date, except for the above, the Target had no contingent liabilities.

Gearing ratio

The Target's overriding objective when managing capital is to safeguard the Target as a going concern whilst maximising returns for shareholders. In a cyclical and capital intensive industry such as the mining industry, maintaining a strong balance sheet and a sound financial risk management framework are desirable to preserving financial flexibility.

The capital structure of the Target consists of borrowings, cash and cash equivalents and equity attributable to equity holders of the parent, including issued capital, reserves and retained earnings.

The Target is part of a larger organisational structure and as such the ultimate parent controls the Target's capital management policy. The ultimate parent controls financing decisions, however, cash levels are managed within the Target. The Target does not have a target debt to equity ratio, but considers various financial metrics including liquidity levels, total capital, cash flow and EBITDA to ensure a strong balance sheet is maintained. The Target's gearing ratios as at 31 December were as follows:

	Year ended 31 December		
	2014	**2015**	**2016**
	$'000	*$'000*	*$'000*
Total borrowings	292,678	–	–
Less cash and cash equivalents	(231,146)	(208,057)	(311,729)
Net cash	61,532	(208,057)	(311,729)
Total equity	1,219,482	1,335,588	1,311,872
Total capital	1,281,014	1,127,531	1,000,143
Gearing ratio (%)[1]	4.8	(18.5)	(31.2)

Note 1: Gearing ratio = Net Debt/(Net Debt + Equity)

Charges on the Target's assets

As at 31 December 2016, there is no charge on the assets of the Target.

Off-Balance Sheet Transactions

As at 31 December 2016, the Target had not entered into any off-balance sheet transactions.

MARKET RISK

The Target carries out risk management under policies approved by the directors' and in line with Rio Tinto Group policy. The board provides principles for overall risk management, as well as written policies covering specific areas, such as mitigating interest rate and other risks, and the use of derivative and non-derivative financial instruments.

The Target's principal activity is coal mining and not trading. Accordingly, the Target only contracts to sell coal that it plans to produce, however purchasing coal for resale may be required in circumstances where actual production falls short of contractual sales volumes. The Target operates entirely in Australia and is exposed primarily to Australian dollar denominated costs. Sales are primarily denominated in US dollars. Cash deposits are denominated in both Australian and US dollars.

Foreign exchange risk

The Target markets its products internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to export coal sales being denominated in US dollars and recognised financial assets and liabilities that are denominated in a currency that is not the Group's functional currency. The Target has a number of US dollar denominated trade receivables and payables balances. The exposure to foreign currency risk at reporting date was as follows:

	31 December 2014	**31 December 2015**	**31 December 2016**
	USD'000	*USD'000*	*USD'000*
Cash	–	–	4,976
Trade receivables	72,446	39,207	126,365
Trade payables	21,293	34,199	101,078

The sensitivity of profit or loss to changes in exchange rates arises mainly from US dollar denominated financial instruments. Profit is less sensitive to movements in the Australian dollar/US dollar exchange rates in 2016 than 2015 and 2014 because of the increased amount of USD denominated trade payables offsetting the USD denominated trade receivables.

The table below summarises the impact on the Company's post-tax profit for a 10% increase in exchange rates with all other variables held constant. Other components of equity would have been unaffected.

	Impact on post-tax profit Sensitivity 10% inc FX		
	2014	**2015**	**2016**
	$'000	*$'000*	*$'000*
Trade receivables	(5,608)	(4,157)	(11,112)
Trade payables	1,636	3,029	8,690

Interest rate risk

The Target's interest rate management policy is generally to borrow and invest at floating interest rates. This approach is based on a historical correlation between interest rates and commodity price. Cash deposits and borrowings issued at variable rates expose the Group to risk of changes in cash flows due to changes in interest rates.

During 2016, 2015 and 2014 deposits were at variable rates and were held in both Australian dollars and US dollars. Borrowings in 2015 and 2014 were held at variable rates and denominated in Australian dollars.

Sensitivity

The table below summarises the impact on the Company's post-tax profit for a 50bp increase in interest rates with all other variables held constant. Other components of equity would have been unaffected.

	Impact on post-tax profit 50bp increase in interest rates		
	2014	**2015**	**2016**
	$'000	*$'000*	*$'000*
Cash	(809)	(730)	(1,091)
Borrowings	1	–	–

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Target is exposed to credit risk from its operating activities, including bank deposits, foreign exchange transactions and trade receivables. The management of the Target believes the Target has minimal exposure to credit risk related to trade receivables or by virtue of the possible non–performance of the counterparties to the Target's other financial instruments. The Target has a limited number of counterparties who purchase coal from the Target, all of which are well known, reputable counterparties with sound financial positions. In the unlikely event of a default of a counterparty, the Target is likely to be able to sell its coal to another counterparty at short notice, reducing the scope for potential loss.

Cash transactions are limited to high credit quality financial institutions. The Group has policies that limit the amount of credit exposure to any one financial institution.

The maximum credit risk exposure to the Group's cash deposits at balance sheet date is as follows:

Cash and cash equivalents

Counterparties with external credit rating

Deposits with Rio Tinto Finance (Baa1 credit rating – Moody's)

	2014	**2015**	**2016**
	$'000	*$'000*	*$'000*
Cash and cash equivalents			
Counterparties with external credit rating			
Deposits with Rio Tinto Finance (Baa1 credit rating – Moody's)	172,532	159,174	231,361
Deposits with banking institutions with a minimum Baa1 credit rating – Moody's	58,614	49,500	80,368
Bank Overdraft	–	(617)	–
Total cash and cash equivalents	231,146	208,057	311,729

Commodity price risk

The Target's policy is to sell coal at prevailing market prices by creating a pricing portfolio of various pricing mechanisms available in the market. Typically for thermal coal this means three main pricing mechanisms – annual bi-lateral price negotiations with major customers for a 12 month fixed price, short term spot pricing and index linked pricing based on globalCOAL NEWC index which are settled monthly or quarterly depending on contract terms. Semi soft coking coal is priced on a quarterly basis, set through negotiations with major customers. A small proportion of semi soft sales are sold at spot price.

The marking to market of provisionally priced sales contracts is recorded as an adjustment to sales revenue.

Sensitivity

The table below summarises the impact on the Target's post-tax profit for a 10% increase in coal price with all other variables held constant. Other components of equity would have been unaffected.

	Impact on post-tax profit 10% increase in price		
	2014	**2015**	**2016**
	$'000	*$'000*	*$'000*
Provisionally priced trade receivables	2,123	3,652	3,439

Liquidity and Capital Risk

Liquidity needs and surpluses of the Target are primarily managed through equity funding from and loans to Rio Tinto.

The Target's overriding objectives when managing capital include safeguarding the Target as a going concern; maximising returns for shareholders; and maintaining an optimal capital and tax structure in order to provide a high degree of financial flexibility at the lowest cost of capital. The capital structure of the Target is reviewed regularly taking into account strategic priorities and the economic conditions within which the Target operates.

In terms of evaluating and managing liquidity, the Target's financial liabilities are comprised entirely of trade and other payables which are unsecured and are typically paid within supplier payment terms ranging between 14 to 60 days of recognition. In 2014, the Target also had an unsecured shareholder loan, which was fully repaid in 2015.

EMPLOYEES

As of 31 December 2016 the Target had approximately 1,888 employees and approximately 879 contractors working at the mine sites. Remuneration packages and benefits were determined in accordance with market terms, industry practice as well as the nature of duties, performance, qualifications and experience of employees.

OCCUPATIONAL HEALTH AND SAFETY

The Target has an established policy in relation to environment, safety and health (the "HSE Policy"). In accordance with this policy, the Target has a number of well-established and stringent safety standards and policies which are reflective of Rio Tinto's safety commitment, and a "zero harm approach". This approach ensures the Target remains committed to:

- Reducing hazards that could cause illness or injury to people, damage to property or unacceptable impacts on the environment
- Ensuring that all employees and contractors meet the Target's environmental, health and safety obligations
- Mitigating short and long term safety, environmental and community impacts arising from the Target's operations.

The Target's HSE Policy is reviewed annually to ensure effectiveness of strategies implemented, and to keep abreast of changing requirements of the mine, regulations and technologies.

The Target is currently implementing approaches which include:

- Critical Risk Management (CRM) approach which aims to prevent all fatalities and verify critical safety controls are in place at site
- Enhancing risk management assessment and strategies
- Improvements in injury management
- Enhanced health and wellness program

The Target is committed to continually improving its performance in environment, safety and health aspects by striving for best practice to achieve its goal of zero harm and protection of the environment.

COMMUNITY RELATIONS

The Target recognises that it has a responsibility to the community in which it operates. The Target seeks to build enduring relationships by:

- Actively communicating business plans and philosophies
- Seeking and respecting community views and acknowledging its communities and neighbours as important stakeholders in the long term prosperity of the Target

- Actively consulting with its communities and key stakeholders to maintain sustainable partnerships and build capacity regarding the short term impacts on them

- Respecting the cultural heritage of the lands on which the Target operates

- Working in partnership with the community to identify and appropriately manage areas of cultural significance by meeting all legal and statutory requirements for heritage sites

The Target is committed to continuing to build relationships with, and to further developing its understanding of the issues affecting, the community to ensure an optimal outcome for all.

The Target adopts the Rio Tinto communities policy and meets and exceeds the requirements set out in the Rio Tinto communities standard.

RISK MANAGEMENT

The Target's success is a result of implementation of many risk management strategies to ensure smooth operation. The Target conducts an annual critical risk assessment program (the "Critical Risk Assessment"). The program is operated by external consultants on behalf of Rio Tinto. The main objectives of the Critical Risk Assessment and Critical Risk Assessment Report are to:

- Identify and evaluate the physical risks to facilities, property and external inferences that have the most significant consequences in terms of 'total financial loss' to the operation and Rio Tinto. These risks are known as terms the "Critical Risk Scenarios" at the operation.

- Evaluate the performance of the operation in regards to management of asset and business interruption risks, through an assessment of the management systems and a systematic approach employed at the operations, with an aim to reduce risks.

- Make recommendations as to the potential improvements in reducing or eliminating the identified risks at the operation (with special focus on the Critical Risk Scenarios) or on the strengthening of management systems influencing the management of risk.

- Assess the status of any previous recommendations, made under this program or by other loss control consultants.

- Provides an independent assessment for use in obtaining insurance premiums.

The management team of the Target conducts quarterly reviews of the Critical Risk Assessment report's action plan to minimise risks at the Target.

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, SHINEWING (HK) CPA Limited. A copy of the following accountants' report is available for inspection.

信永中和 ShineWing

SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

2 June 2017
The Board of Directors
Yanzhou Coal Mining Company Limited
298 Fushan South Road,
Zoucheng City,
Shandong Province,
PRC

Dear Sirs,

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Yanzhou Coal Mining Company Limited, (the "Company") and its subsidiaries (collectively referred to as the "Group") by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") consists of the unaudited pro forma consolidated statement of financial position as at 31 December 2016, the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2016, and related notes as set out on pages X-5 to X-30 of the investment circular (the "Circular") in connection with the proposed acquisition (the "Proposed Acquisition") of the entire equity interest in the Coal & Allied Industries Limited (the "Target") by Yancoal Australia Limited, a subsidiary of the Company. The applicable criteria on the basis of which the directors of the Company have compiled the Unaudited Pro Forma Financial Information are described on pages X-5 to X-30 of the Circular.

The Unaudited Pro forma Financial Information has been compiled by the directors of the Company to illustrate the impact of the Proposed Acquisition and the potential exercise of the Tag-Along Offer (as defined in the Circular) on the Group's financial position at 31 December 2016 as if Proposed Acquisition and/or the Tag-Along Offer had been completed/exercised on 31 December 2016 and the Group's financial performance and cash flows for the year ended 31 December 2016 as if the Proposed Acquisition and/or the Tag-Along Offer had been completed/exercised on 1 January 2016. As part of this process, information about the Group's financial position, financial performance and cash flows has been extracted by the directors of the Company from the Group's consolidated financial statements for the year ended 31 December 2016, on which an audit report has been published.

Directors' Responsibility for the Unaudited pro forma Financial Information

The directors of the Company are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the directors of the Company have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Listing Rules and with reference to AG7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of the Proposed Acquisition on unadjusted financial information of the Group as if the Proposed Acquisition had occurred at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Proposed Acquisition and/or the Tag-Along Offer at 31 December 2016 or year ended 31 December 2016 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors of the Company in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether: (i) the related unaudited pro forma adjustments give appropriate effect to those criteria; and (ii) the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(i) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(ii) such basis is consistent with the accounting policies of the Group; and

(iii) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Lau Kai Wong
Practising Certificate Number: P06623

Hong Kong

A. BASIS OF PREPARATION OF THE PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following unaudited pro forma financial information of the Enlarged Group has been prepared by the directors of the Company to illustrate the effect of the following transactions:

1. the proposed acquisition of 100% equity interests in the Target (the "Proposed Acquisition"); and

2. the exercise of the Tag-Along Offer.

As the unaudited pro forma financial information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position, financial performance or cash flows of the Enlarged Group following the completion of the above transactions.

The unaudited pro forma financial information contains two scenarios of pro forma financial information. The unaudited pro forma financial information set out in scenario 1 has been prepared without considering the effect of the exercise of the Tag-Along Offer which is conditional upon the completion of the Proposed Acquisition and in scenario 2 has been prepared with the effect of the exercise of the Tag-Along Offer upon the completion of the Proposed Acquisition.

The unaudited pro forma financial information of the Enlarged Group has been prepared as if the Proposed Acquisition had been completed on 31 December 2016 for the unaudited pro forma consolidated statement of assets and liabilities and on 1 January 2016 for the unaudited pro forma consolidated income statement and unaudited pro forma consolidated statement of cash flows.

The unaudited pro forma financial information of the Enlarged Group is prepared based on (i) the audited consolidated financial statements of the Group for the year ended 31 December 2016 and (ii) the audited consolidated financial information of the Target on a carve out basis as set out in Appendix VIII and was prepared in accordance with Rules 4.29 and 14.68(2)(a)(ii) of the Listing Rules.

PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(i) Pro Forma Consolidated Statement of Financial Position of the Enlarged Group as at 31 December 2016

					Scenario 1 *(Note 1)*					**Scenario 2** *(Note 1)*	
	The Group	**The Target Group**	**Curve-out Adjustments**	**The Target Group after curve-outs**	**Pro Forma Adjustments resulting from the Proposed Acquisition**			**Total Pro Forma Adjustments**	**The Enlarged Group**	**Pro Forma Adjustments for Tag Along Offer**	**The Enlarged Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 2)	*(Note 2)*	*(Note 3)*		*(Note 4)*	*(Note 5)*	*(Note 6)*			*(Note 7)*	
	a	*b*	*c*	*d=b+c*	*e*	*f*	*g*	*h=e+f+g*	*i=a+d+h*	*j*	*k=i+j*
Current assets											
Bank balances and cash	16,422,769	1,567,560	–	1,567,560	(14,641,920)	–	–	(14,641,920)	3,348,409	(4,503,222)	(1,154,813)
Term deposits	2,445,000	–	–	–	–	–	–	–	2,445,000	–	2,445,000
Restricted cash	1,144,800	–	–	–	–	–	–	–	1,144,800	–	1,144,800
Bills and accounts receivable	9,735,859	887,352	–	887,352	–	–	–	–	10,623,211	340,924	10,964,135
Held-to-maturity investments	130,573	–	–	–	–	–	–	–	130,573	–	130,573
Long term receivables – due within one year	1,944,050	–	–	–	–	–	–	–	1,944,050	–	1,944,050
Royalty receivable	156,461	–	–	–	–	–	–	–	156,461	–	156,461
Inventories	2,162,147	305,367	–	305,367	–	–	–	–	2,467,514	87,553	2,555,067
Prepayments and other receivables	7,313,141	500,280	–	500,280	–	–	–	–	7,813,421	–	7,813,421
Prepaid lease payments	29,056	–	–	–	–	–	–	–	29,056	–	29,056
Tax recoverable	27,555	–	–	–	–	–	–	–	27,555	–	27,555
Total current assets	41,511,411	3,260,559	–	3,260,559	(14,641,920)	–	–	(14,641,920)	30,130,050	(4,074,745)	26,055,305

					Scenario 1 *(Note 1)*						**Scenario 2** *(Note 1)*
	The Group	**The Target Group**	**Curve-out Adjustments**	**The Target Group after curve-outs**	**Pro Forma Adjustments resulting from the Proposed Acquisition**			**Total Pro Forma Adjustments**	**The Enlarged Group**	**Pro Forma Adjustments for Tag Along Offer**	**The Enlarged Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 2)	*(Note 2)*	*(Note 3)*		*(Note 4)*	*(Note 5)*	*(Note 6)*			*(Note 7)*	
	a	*b*	*c*	*d=b+c*	*e*	*f*	*g*	*h=e+f+g*	*i=a+d+h*	*j*	*k=i+j*
Non-current assets											
Intangible assets	40,606,793	776,028	–	776,028	–	24,598,222	–	24,598,222	65,981,043	6,905,882	72,886,925
Prepaid lease payments	872,202	–	–	–	–	–	–	–	872,202	–	872,202
Property, plant and equipment	31,023,022	3,737,668	–	3,737,668	–	(72,915)	–	(72,915)	34,687,775	988,049	35,675,824
Construction in progress	10,929,944	100,114	–	100,114	–	–	–	–	11,030,058	–	11,030,058
Goodwill	1,646,717	–	–	–	–	–	–	–	1,646,717	–	1,646,717
Investments in securities	2,624,003	–	–	–	–	–	–	–	2,624,003	–	2,624,003
Investment in associate	5,133,273	1,035,384	–	1,035,384	–	–	–	–	6,168,657	–	6,168,657
Interest in joint ventures	65,390	–	–	–	–	–	–	–	65,390	–	65,390
Investment in subsidiary	–	–	–	–	17,323,840	(17,323,840)	–	–	–	–	–
Held-to-maturity investments	69,427	–	–	–	–	–	–	–	69,427	–	69,427
Long term receivables – due after one year	4,667,837	–	–	–	–	–	–	–	4,667,837	–	4,667,837
Royalty receivable	841,300	–	–	–	–	–	–	–	841,300	–	841,300
Deposits made on investments	118,926	–	–	–	–	–	–	–	118,926	–	118,926
Deferred tax assets	7,345,227	779,855	–	779,855	–	–	–	–	8,125,082	(13,695)	8,111,387
Total non-current assets	105,944,061	6,429,049	–	6,429,049	17,323,840	7,201,467	–	24,525,307	136,898,417	7,880,236	144,778,653
Total assets	147,455,472	9,689,608	–	9,689,608	2,681,920	7,201,467	–	9,883,387	167,028,467	3,805,491	170,833,958

	The Group	The Target Group	Curve-out Adjustments	The Target Group after curve-outs	Pro Forma Adjustments resulting from the Proposed Acquisition (Scenario 1 (Note 1))			Total Pro Forma Adjustments	The Enlarged Group	Pro Forma Adjustments for Tag Along Offer (Scenario 2 (Note 1))	The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 2)	*(Note 2)*	*(Note 3)*		*(Note 4)*	*(Note 5)*	*(Note 6)*			*(Note 7)*	
	a	*b*	*c*	*d=b+c*	*e*	*f*	*g*	*h=e+f+g*	*i=a+d+h*	*j*	*k=i+j*
Current liabilities											
Bills and accounts payable	5,849,019	1,455,970	–	1,455,970	–	–	–	–	7,304,989	335,538	7,640,527
Other payables and accrued expenses	10,567,895	284,765	–	284,765	–	1,038,000	–	1,038,000	11,890,660	262,000	12,152,660
Provision for land subsidence, restoration, rehabilitation and environmental costs	2,689,433	36,221	–	36,221	–	–	–	–	2,725,654	–	2,725,654
Amounts due to Parent and its subsidiary companies	315,956	–	–	–	–	–	–	–	315,956	–	315,956
Borrowings-due within one year	30,741,981	–	–	–	–	–	–	–	30,741,981	–	30,741,981
Long term payable and provision – due within one year	396,285	–	–	–	–	–	–	–	396,285	–	396,285
Provision	44,982	555,781	–	555,781	–	116,126	–	116,126	716,889	101,427	818,316
Derivative financial instruments	3,246	–	–	–	–	–	–	–	3,246	–	3,246
Tax payable	–	21,910	–	21,910	–	–	–	–	21,910	–	21,910
Liabilities held for resale	775,051	–	–	–	–	–	–	–	775,051	–	775,051
Total current liabilities	51,383,848	2,354,647	–	2,354,647	–	1,154,126	–	1,154,126	54,892,621	698,965	55,591,586

					Scenario 1 *(Note 1)*					Scenario 2 *(Note 1)*	
	The Group	The Target Group	Curve-out Adjustments	The Target Group after curve-outs	Pro Forma Adjustments resulting from the Proposed Acquisition			Total Pro Forma Adjustments	The Enlarged Group	Pro Forma Adjustments for Tag Along Offer	The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 2)	*(Note 2)*	*(Note 3)*		*(Note 4)*	*(Note 5)*	*(Note 6)*			*(Note 7)*	
	a	*b*	*c*	*d=b+c*	*e*	*f*	*g*	*h=e+f+g*	*i=a+d+h*	*j*	*k=i+j*
Non-current liabilities											
Borrowing-due after one year	34,835,810	–	–	–	–	–	–	–	34,835,810	–	34,835,810
Deferred income	–	14,588	–	14,588	–	–	–	–	14,588	–	14,588
Deferred tax liabilities	7,017,396	56,692	–	56,692	–	7,137,735	–	7,137,735	14,211,823	2,067,946	16,279,769
Provision for land subsidence, restoration, rehabilitation and environmental costs	617,447	582,563	–	582,563	–	(72,915)	–	(72,915)	1,127,095	113,823	1,240,918
Long term payable and provision – due after one year	197,418	84,234	–	84,234	2,681,920	689,639	–	3,371,559	3,653,211	–	3,653,211
Total non-current liabilities	42,668,071	738,077	–	738,077	2,681,920	7,754,459	–	10,436,379	53,842,527	2,181,769	56,024,296
Total liabilities	94,051,919	3,092,724	–	3,092,724	2,681,920	8,908,585	–	11,590,505	108,735,148	2,880,734	111,615,882

	Scenario 1 *(Note 1)*									Scenario 2 *(Note 1)*	
	The Group	The Target Group	Curve-out Adjustments	The Target Group after curve-outs	Pro Forma Adjustments resulting from the Proposed Acquisition			Total Pro Forma Adjustments	The Enlarged Group	Pro Forma Adjustments for Tag Along Offer	The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 2)	*(Note 2)*	*(Note 3)*		*(Note 4)*	*(Note 5)*	*(Note 6)*			*(Note 7)*	
	a	*b*	*c*	*d=b+c*	*e*	*f*	*g*	*h=e+f+g*	*i=a+d+h*	*j*	*k=i+j*
Capital and reserves											
Share capital	4,912,016	300,348	–	300,348	–	(300,348)	–	(300,348)	4,912,016	–	4,912,016
Reserves	32,226,660	6,283,095	–	6,283,095	–	(6,283,095)	–	(6,283,095)	36,026,660	–	36,747,970
Gain on bargain purchase						3,800,000	–	3,800,000	–	721,310	–
Equity attributable to equity holders of the Company	37,138,676	6,583,443	–	6,583,443	–	(2,783,443)	–	(2,783,443)	40,938,676	721,310	41,659,986
Owners of perpetual capital	6,662,191	–	–	–	–	–	–	–	6,662,191	–	6,662,191
Non controlling interests	–	–									
– Subordinated capital notes	3,102	–	–	–	–	–	–	–	3,102	–	3,102
– Other	9,599,584	13,441	–	13,441	–	1,076,325	–	1,076,325	10,689,350	203,447	10,892,797
Total equity	53,403,553	6,596,884	–	6,596,884	–	(1,707,118)	–	(1,707,118)	58,293,319	924,757	59,218,076
Total liabilities and equity	147,455,472	9,689,608	–	9,689,608	2,681,920	7,201,467	–	9,883,387	167,028,467	3,805,491	170,833,958

(ii) Pro Forma Consolidated Statement of Profit or Loss of the Enlarged Group for the year ended 31 December 2016

	Scenario 1 *(Note 1)*									Scenario 2 *(Note 1)*	
	The Group	The Target Group	Curve-out Adjustments	The Target Group after curve-outs	Pro Forma Adjustments resulting from the Proposed Acquisition			Total Pro Forma Adjustments	The Enlarged Group	Pro Forma Adjustments for Tag Along Offer	The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 2)	*(Note 2)*	*(Note 3)*		*(Note 4)*	*(Note 5)*	*(Note 6)*			*(Note 7)*	
	a	*b*	*c*	*d=b+c*	*e*	*f*	*g*	*h=e+f+g*	*i=a+d+h*	*j*	*k=i+j*
Total revenue	33,272,432	8,368,496	(283,895)	8,084,601	–	–	–	–	41,357,033	2,066,352	43,423,385
Total cost of sales	(23,808,444)	(6,496,368)	223,521	(6,272,847)	–	–	(723,477)	(723.477)	(30,804,768)	(1,233,075)	(32,037,843)
Gross Profit	9,463,988	1,872,128	(60,374)	1,811,754	–	–	(723,477)	(723,477)	10,552,265	833,277	11,385,542
Selling, general and administrative expenses	(7,788,733)	(390,219)	148,057	(242,162)	–	–	–	–	(8,030,895)	(502,789)	(8,533,684)
Share of profits of associate	708,368	12,260	–	12,260	–	–	–	–	720,628	–	720,628
Share of loss of joint ventures	(10,366)	–	–	–	–	–	–	–	(10,366)	–	(10,366)
Other income and gains	2,822,871	9,563,095	(9,397,071)	166,024	–	4,876,325	–	4,876,325	7,865,220	924,757	8,789,977
Other expense	–	(7,417,125)	7,417,125	–	–	–	–	–	–	–	–
Finance cost	(2,501,016)	(2,600)	201	(2,399)	(212,968)	–	–	(212,968)	(2,716,383)	(7,603)	(2,723,986)
Profit before tax	2,695,112	3,637,539	(1,892,062)	1,745,477	(212,968)	4,876,325	(723,477)	3,939,880	8,380,469	1,247,642	9,628,111
Income tax expenses	(816,908)	(1,641,692)	1,137,389	(504,303)	–	–	217,043	217,043	(1,104,168)	(113,918)	(1,218,086)
Profit for the year	1,878,204	1,995,847	(754,673)	1,241,174	(212,968)	4,876,325	(506,434)	4,156,923	7,276,301	1,133,724	8,410,025

	The Group	The Target Group	Curve-out Adjustments	The Target Group after curve-outs	Scenario 1 *(Note 1)* Pro Forma Adjustments resulting from the Proposed Acquisition			Total Pro Forma Adjustments	The Enlarged Group	Scenario 2 *(Note 1)* Pro Forma Adjustments for Tag Along Offer	The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 2)	*(Note 2)*	*(Note 3)*		*(Note 4)*	*(Note 5)*	*(Note 6)*			*(Note 7)*	
	a	*b*	*c*	*d=b+c*	*e*	*f*	*g*	*h=e+f+g*	*i=a+d+h*	*j*	*k=i+j*
Attributable to:											
Equity holders of the Company	1,649,391	1,992,758	(754,673)	1,238,085	(166,115)	3,800,000	(665,599)	2,968,286	5,855,762	884,305	6,740,067
Owners of perpetual capital securities	424,307	–	–	–	–	–	–	–	424,307	–	424,307
Non-controlling interests											
– Perpetual capital securities	67,353	–	–	–	–	–	–	–	67,353	–	67,353
– Other	(262,847)	3,089	–	3,089	(46,853)	1,076,325	159,165	1,188,637	928,879	249,419	1,178,298
	1,878,204	1,995,847	(754,673)	1,241,174	(212,968)	4,876,325	(506,434)	4,156,923	7,276,301	1,133,724	8,410,025
Other comprehensive income for the year	310,950	–	–	–	–	–	–	–	310,950	–	310,950
Total comprehensive income for the year	2,189,154	1,995,847	(754,673)	1,241,174	(212,968)	4,876,325	(506,434)	4,156,923	7,587,251	1,133,724	8,720,975
Attributable to:											
Equity holders of the Company	1,818,099	1,992,758	(754,673)	1,238,085	(166,115)	3,800,000	(665,599)	2,968,286	6,024,470	884,305	6,908,775
Owners of perpetual capital securities	424,307	–	–	–	–	–	–	–	424,307	–	424,307
Non-controlling interests											
– Perpetual capital securities	67,353	–	–	–	–	–	–	–	67,353	–	67,353
– Other	(120,605)	3,089	–	3,089	(46,853)	1,076,325	159,165	1,188,637	1,071,121	249,419	1,320,540
	2,189,154	1,995,847	(754,673)	1,241,174	(212,968)	4,876,325	(506,434)	4,156,923	7,587,251	1,133,724	8,720,975

(iii) Pro Forma Consolidated Statement of Cash Flows of the Enlarged Group for the year ended 31 December 2016

					Scenario 1 *(Note 1)*					Scenario 2 *(Note 1)*	
	The Group	The Target Group	Curve-out Adjustments	The Target Group after curve-outs	Pro Forma Adjustments resulting from the Proposed Acquisition			Total Pro Forma Adjustments	The Enlarged Group	Pro Forma Adjustments for Tag Along Offer	The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 2)	*(Note 2)*	*(Note 3)*		*(Note 4)*	*(Note 5)*	*(Note 6)*			*(Note 7)*	
	a	*b*	*c*	*d=b+c*	*e*	*f*	*g*	*h=e+f+g*	*i=a+d+h*	*j*	*k=i+j*
Operating activities											
Profit before tax	2,695,112	3,637,539	(1,892,062)	1,745,477	(212,968)	4,876,325	(723,477)	3,939,880	8,380,469	1,247,642	9,628,111
Adjustments for:											
Interest expenses	2,501,016	–	–	–	212,968	–	–	212,968	2,713,984	7,603	2,721,587
Interest income	(743,362)	(88,001)	–	(88,001)	–	–	–	–	(831,363)	–	(831,363)
Dividend income	(58,477)	(65,650)	–	(65,650)	–	–	–	–	(124,127)	–	(124,127)
Net unrealised foreign exchange loss (gain)	(373,140)	26,149	299	26,448	–	–	–	–	(346,692)	–	(346,692)
Depreciation and amortisation	4,167,085	628,035	(12,967)	615,068	–	–	723,477	723,477	5,505,630	299,766	5,805,396
Release of prepaid lease payments	27,847	–	–	–	–	–	–	–	27,847	–	27,847
Gain on sale of investments in securities	–	(9,354,810)	9,354,810	–	–	–	–	–	–	–	–
Net loss on debt forgiveness	–	7,417,124	(7,417,124)	–	–	–	–	–	–	–	–
Gain on bargain purchase	–	–	–	–	–	(4,876,325)	–	(4,876,325)	(4,876,325)	(924,757)	(5,801,082)
Provision of impairment loss on accounts receivable and other receivables, net	1,109,053	–	–	–	–	–	–	–	1,109,053	–	1,109,053
Reversal of impairment loss on goodwill	668,210	–	–	–	–	–	–	–	668,210	–	668,210
Provision of impairment loss on inventories	9,394	–	–	–	–	–	–	–	9,394	–	9,394
Reversal of impairment loss on inventories	(17,360)	–	–	–	–	–	–	–	(17,360)	–	(17,360)
Share of loss of joint ventures	10,366	–	–	–	–	–	–	–	10,366	–	10,366
Share of profit of associates	(708,368)	52,383	–	52,383	–	–	–	–	(655,985)	–	(655,985)
(Loss) gain on disposal of property, plant and equipment	142,440	(47,790)	–	(47,790)	–	–	–	–	94,650	99	94,749
Loss on change of fair value of royalty receivable	30,872	–	–	–	–	–	–	–	30,872	–	30,872
Other	–	30,580	(6,134)	24,446	–	–	–	–	24,446	–	24,446
Operating cash flows before movements in working capital	9,460,688	2,235,559	26,822	2,262,381	–	–	–	–	11,723,069	630,353	12,353,422

	The Group	The Target Group	Curve-out Adjustments	The Target Group after curve-outs	Scenario 1 (Note 1) Pro Forma Adjustments resulting from the Proposed Acquisition			Total Pro Forma Adjustments	The Enlarged Group	Scenario 2 (Note 1) Pro Forma Adjustments for Tag Along Offer	The Enlarged Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 2)	(Note 2)	(Note 3)		(Note 4)	(Note 5)	(Note 6)			(Note 7)	
	a	b	c	d=b+c	e	f	g	h=e+f+g	i=a+d+h	j	k=i+j
Increase in bills and accounts receivable	(3,791,024)	(692,450)	588,527	(103,923)	–	–	–	–	(3,894,947)	(82,238)	(3,977,185)
(Increase) decrease in inventories	(265,834)	45,480	8,640	54,120	–	–	–	–	(211,714)	734	(210,980)
Movement in provision for land subsidance, restoration, rehabilitation and environmental cost	107,141	(17,897)	42,258	24,361	–	–	–	–	131,502	(12,666)	118,836
Increase in prepaid lease payment	(4,756)	–	–	–	–	–	–	–	(4,756)	–	(4,756)
Increase in prepayments and other current assets	6,245,778	–	–	–	–	–	–	–	6,245,778	–	6,245,778
Increase in long term receivables	–	8,355	–	8,355	–	–	–	–	8,355	–	8,355
Increase in bills and accounts payable	1,595,850	558,753	17,627	576,380	–	–	–	–	2,172,230	120,242	2,292,472
Increase (decrease) in other payables and accrued expenses	1,815,356	(1,172)	–	(1,172)	–	–	–	–	1,814,184	–	1,814,184
Increase in amounts due to Parent Company and its subsidiaries	125,806	–	–	–	–	–	–	–	125,806	–	125,806
(Decrease) increase in long term payable and provision	(496,865)	42,760	1,122	43,882	–	–	–	–	(452,983)	–	(452,983)
Cash generated from (used in) operations	14,792,140	2,179,388	684,996	2,864,384	–	–	–	–	17,656,524	656,425	18,312,949
Income taxes paid	(1,251,250)	(2,268,785)	1,850,085	(418,700)	–	–	–	–	(1,669,950)	(279,385)	(1,949,335)
Interest paid	(3,063,578)	–	–	–	–	–	–	–	(3,063,578)	(7,603)	(3,071,181)
Interest received	743,362	88,001	960	88,961	–	–	–	–	832,323	–	832,323
Dividend received	–	65,650	–	65,650	–	–	–	–	65,650	–	65,650
Net cash from operating activities	11,220,674	64,254	2,536,041	2,600,295	–	–	–	–	13,820,969	369,437	14,190,406

	Scenario 1 *(Note 1)*									Scenario 2 *(Note 1)*	
	The Group	The Target Group	Curve-out Adjustments	The Target Group after curve-outs	Pro Forma Adjustments resulting from the Proposed Acquisition			Total Pro Forma Adjustments	The Enlarged Group	Pro Forma Adjustments for Tag Along Offer	The Enlarged Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 2)	*(Note 2)*	*(Note 3)*		*(Note 4)*	*(Note 5)*	*(Note 6)*			*(Note 7)*	
	a	*b*	*c*	*d=b+c*	*e*	*f*	*g*	*h=e+f+g*	*i=a+d+h*	*j*	*k=i+j*
Investing activities											
Decrease in term deposits	550,066	–	–	–	–	–	–	–	550,066	–	550,066
Increase in restricted cash	(737,089)	–	–	–	–	–	–	–	(737,089)	–	(737,089)
Purchase of property, plant and equipment	(1,682,789)	(204,664)	1,018	(203,646)	–	–	–	–	(1,886,435)	(83)	(1,886,518)
Purchase of construction in progress	(6,101,635)	–	–	–	–	–	–	–	(6,101,635)	–	(6,101,635)
Increase in long term receivables	(4,690,483)	–	–	–	–	–	–	–	(4,690,483)	–	(4,690,483)
Proceeds on disposal of property, plant and equipment	993,142	45,123	–	45,123	–	–	–	–	1,038,265	5,906	1,044,171
Investment in securities	(2,520,404)	–	–	–	–	–	–	–	(2,520,404)	–	(2,520,404)
Acquisition of Target	–	–	–	–	(14,641,920)	–	–	(14,641,920)	(14,641,920)	–	(14,641,920)
Investment in held to maturity investments	(200,000)	–	–	–	–	–	–	–	(200,000)	–	(200,000)
Proceeds from sale of investment in associate	–	5,375,445	(5,375,453)	(8)	–	–	–	–	(8)	4,694	4,686
Investment in an associate	(550,000)	–	–	–	–	–	–	–	(550,000)	–	(550,000)
Dividend received	58,477	–	–	–	–	–	–	–	58,477	–	58,477
Dividend received from associates	167,346	–	–	–	–	–	–	–	167,346	–	167,346
Acquisition of 32.4% interest in HVO	–	–	–	–	–	–	–	–	–	(4,760,400)	(4,760,400)
Purchase of intangible assets	(241,925)	–	–	–	–	–	–	–	(241,925)	–	(241,925)
Net cash used in investing activities	(14,955,294)	5,215,904	(5,374,435)	(158,531)	(14,641,920)	–	–	(14,641,920)	(29,755,745)	(4,749,883)	(34,505,628)

	The Group	The Target Group	Curve-out Adjustments	The Target Group after curve-outs	Scenario 1 (Note 1) Pro Forma Adjustments resulting from the Proposed Acquisition			Total Pro Forma Adjustments	The Enlarged Group	Scenario 2 (Note 1) Pro Forma Adjustments for Tag Along Offer	The Enlarged Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 2)	(Note 2)	(Note 3)		(Note 4)	(Note 5)	(Note 6)			(Note 7)	
	a	b	c	d=b+c	e	f	g	h=e+f+g	i=a+d+h	j	k=i+j
Financing activities											
Dividends paid	(49,324)	(2,863,285)	2,860,268	(3,017)	–	–	–	–	(52,341)	(121,914)	(174,255)
Proceeds from bank borrowings	7,899,453	–	–	–	–	–	–	–	7,899,453	–	7,899,453
Repayment of bank borrowings	(16,738,268)	(520)	–	(520)	–	–	–	–	(16,738,788)	–	(16,738,788)
Return of capital	–	(1,916,903)	–	(1,916,903)	–	–	–	–	(1,916,903)	(862)	(1,917,765)
Proceeds from issuance of guaranteed notes	25,464,750	–	–	–	–	–	–	–	25,464,750	–	25,464,750
Repayment of guaranteed notes	(22,000,000)	–	–	–	–	–	–	–	(22,000,000)	–	(22,000,000)
Repayment of perpetual capital securities	(1,854,837)	–	–	–	–	–	–	–	(1,854,837)	–	(1,854,837)
Distribution paid to holders of perpetual capital securities	(491,152)	–	–	–	–	–	–	–	(491,152)	–	(491,152)
Dividend paid to non-controlling shareholders	(201,992)	–	–	–	–	–	–	–	(201,992)	–	(201,992)
Contribution from non-controlling interests	8,010,050	–	–	–	–	–	–	–	8,010,050	–	8,010,050
Net cash from financing activities	38,680	(4,780,708)	2,860,268	(1,920,440)	–	–	–	–	(1,881,760)	(122,776)	(2,004,536)
Net increase (decrease) in cash and cash equivalents	(3,695,940)	499,450	21,874	521,324	(14,641,920)	–	–	(14,641,920)	(17,816,536)	(4,503,222)	(22,319,758)
Cash and cash equivalents at 1 January	20,175,120	1,068,110	(21,874)	1,046,236	–	–	–	–	21,221,356	–	21,221,356
Effect of foreign exchange rate changes	(56,411)	–	–	–	–	–	–	–	(56,411)	–	(56,411)
Cash and cash equivalents at 31 December represented by bank balances and cash	16,422,769	1,567,560	–	1,567,560	(14,641,920)	–	–	(14,641,920)	3,348,409	(4,503,222)	(1,154,813)

B. NOTES TO THE PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. Scenario 1 was prepared by the directors of the Company to illustrate the effects of the completion of the Proposed Acquisition without taking into account the exercise of the Tag-Along Offer.

   Scenario 2 was prepared by the directors of the Company to illustrate the effects of the exercise of the Tag-Along Offer following the completion of the Proposed Acquisition.

2. The financial information of the Group is extracted from the audited financial statements of the Group for the year ended 31 December 2016. The financial information of the Target Group for the year ended 31 December 2016 is extracted from the Accountants' Report as set out in Appendix VIII to this Circular and translated to RMB at AUD1 to RMB5.0286, after making certain reclassifications to conform with the presentation of the Group's financial information.

   No representation is made that any amounts in AUD can be or could have been converted to RMB at the relevant date and period at the above rates or any other rates or at all.

3. Balance represented adjustments for the income, expenses and cash flows for businesses/assets disposed of by the Target Group during the year ended 31 December 2016, which did not form part of the Proposed Acquisition, as extracted from note 37 to the Accountants' Report as set out in Appendix VIII to the Circular and translated to RMB at AUD1 to RMB5.0286, after making certain reclassifications to conform with the presentation of the Group's financial information.

   During the year ended 31 December 2016, the Target disposed of its entire interest in two mines, Bengalla and Mount Pleasant (the "Sold Mines"). Bengalla was disposed of in March 2016 and Mount Pleasant was disposed of in August 2016.

   In addition in February 2016, the Target Group restructured its interest in the HVO mine resulting in a change of ownership from 100% to 67.6%. Following the divestment in HVO mine, the HVO mine become a joint operation of the Target Group and the Target Group's interest in the HVO mine was accounted for the assets, liabilities, revenues and expenses relating to its interest in a joint operation.

For the purpose of the unaudited pro forma consolidated statement of profit or loss and other comprehensive income and the unaudited pro forma statement of cash flows, the income, expenses, gains on disposals and cash flows of the Sold Mines for the period from 1 January 2016 to the respective date of disposal are excluded. In addition, the income, expenses and cash flows of the HVO mine for the period from 1 January 2016 to the date of divestment have been adjusted to reflect a 67.6% interest.

4. Balance represented the investment cost in the Target.

According to the Sale and Purchase Agreement (the "SPA"), Yancoal Australia, a subsidiary of the Company, would acquire the entire equity interests in the Target.

The consideration for the Proposed Acquisition (the "Consideration") can be settled in one of the following ways:

i) The Consideration is US$2.45 billion where US$1.95 billion payable upon Completion plus five deferred payments of US$100 million (the "Deferred Consideration") each payable on the first, second, third, fourth and fifth anniversary of the Completion Date; or

ii) If the Yancoal Australia elects to pay the Consideration as a single upfront payment the Consideration is reduced to US$2.35 billion (the "Single Payment Purchase Price") which must be paid as a single payment at Completion.

Yancoal Australia has notified the vendors that it will not elect the alternative purchase price structure of a Single Payment Purchase Price. As such, the Consideration remains as US$2.45 billion.

The directors of the Company considered that the discounted present value of the Deferred Consideration of US$500 million to be US$400 million.

For the purposes of the unaudited pro forma statement of financial position, the Consideration is translated into RMB at the exchange rate RMB6.7048 to US$1.

The Consideration is subject to a net debt (bank balances and cash less borrowings) and working capital adjustment determined with reference to the actual net debt and actual working capital at the final calendar date of the month immediately preceding the date of the completion by the parties of the sale and purchase of the Sale Shares under the SPA ("Completion").

The following is a reconciliation of the Consideration:

	RMB'000
Cash consideration (US$1.95 billion)	13,074,360
Deferred consideration	2,681,920
Total	15,756,280
Add:	
Bank balances and cash of the Target Group at 31 December 2016	1,567,560
Adjusted consideration/investment cost	17,323,840
Cash consideration (US$1.95billion)	13,074,360
Add:	
Bank balances and cash of the Target Group at 31 December 2016	1,567,560
Adjusted cash consideration paid at completion date	14,641,920

The net debt included in the SPA was nil and the unaudited pro forma statement of financial position includes an adjustment to the Consideration. The directors of the Company assumed that no adjustment to the net working capital is required for the purpose of the unaudited pro forma financial information.

For the purposes of the unaudited pro forma statement of profit or loss and other comprehensive income, finance cost of RMB212,698,000 was recognised at the effective interest rate of 7.93% on the Deferred Consideration.

5. Balances represented the elimination of the investment cost in the Target.

Upon completion of the Proposed Acquisition, the identifiable assets and liabilities of the Target will be accounted for in the consolidated financial statements of the Enlarged Group at fair value under the acquisition method of accounting in accordance with International Financial Reporting Standard 3 "Business Combination".

The gain on bargain purchase resulted from the Proposed Acquisition as if the Proposed Acquisition was completed on 31 December 2016 is calculated as follows:

	Note	*RMB'000*
Investment cost	*4*	17,323,840
Less:		
Nets assets of the Target at 31 December 2016 acquired	*(i)*	23,238,165
Gain on bargain purchase before deducting transaction costs		5,914,325
Less: Transaction costs		1,038,000
Gain on bargain purchase after deducting transaction costs		4,876,325
Attributable to:		
– Owners of the Company		3,800,000
– Non-controlling interests		1,076,325
		4,876,325

The estimated transaction costs in connection with the Proposed Acquisition amounted to RMB1,038,000,000 and was presented as a net off to the gain on bargain purchase in the unaudited pro forma statement of profit or loss.

Note

(i) The net assets of the Target acquired are calculated as follow:

	RMB'000	*RMB'000*
Net assets attributable to owners of the Target as at 31 December 2016		6,583,443
Fair value of		
– Property, plant and equipment	3,664,753	
– Intangible assets	25,374,250	
– Provision (current portion)	(671,907)	
– Provision for land subsidence, restoration, rehabilitation and environmental costs	(509,648)	
– Provision (non-current portion)	(773,873)	27,083,575
Less:		
Carrying amount of		
– Property, plant and equipment	(3,737,668)	
– Intangible assets	(776,028)	
– Provision (current portion)	555,781	
– Provision for land subsidence, restoration, rehabilitation and environmental costs	582,563	
– Provision (non-current portion)	84,234	(3,291,118)
Deferred tax liability arising from fair value adjustments		(7,137,735)
		23,238,165

For the purpose of preparation of the unaudited pro forma consolidated statement of financial position, it is assumed that the fair values of the identifiable assets and liabilities of the Target Group, except property, plant and equipment, intangible assets and provisions, approximates to their respective carrying amounts as at 31 December 2016. In addition, the directors of the Company considered that the Transitional Services Agreement, the Bee Creek Contract and the Royalty Deeds (the "Other Agreements") that are to be entered into on the date of Completion are contracts for the ordinary course of business of the Target Group and the value of the Other Agreements to the Target Group is immaterial. The fair values of the identifiable assets and liabilities, including the Other Agreements, of the Target Group as at the completion date of the Proposed Acquisition will be determined by the directors of the Company by reference to valuations to be carried out by an independent professional qualified valuer. The fair values of the identifiable assets and liabilities of the Target Group determined on the completion date may be materially different from their respective values used in the preparation of the unaudited pro forma consolidated statement of financial position. Accordingly, the final amounts of assets or liabilities and bargain purchase gain or goodwill, if any, to be recognised in the consolidated financial statements of the Enlarged Group upon completion may be materially different from the amounts adopted in the preparation of this unaudited pro forma consolidated statement of assets and liabilities.

As such and since the acquisition of the Target Company will be made by Yancoal Australia Limited, the fair values of the identifiable assets and liabilities of the Target Group to be recorded by Yancoal Australia Limited upon completion may also be materially different from the amounts adopted by the Company in the preparation of the unaudited pro forma consolidated statement of assets and liabilities.

The fair values of property, plant and equipment and intangible assets are derived with reference to the valuation report carried out by Censere (Far East) Limited ("Censere"), an independent professional qualified valuer not connected to the Group, based on discounted cash flow approach at 31 December 2016. The fair values of the provisions are derived by the directors of the Company with reference to latest market information as well as internal sources.

Deferred taxation is calculated on the temporary differences arising from the difference in fair values and tax bases of the acquired assets on 31 December 2016 and is calculated using the Australian corporate tax rate of 30%.

The amounts of fair value adjustments and deferred tax impact are subject to change when the purchase price allocation is finalised on the date of actual completion of this Proposed Acquisition and the taxable amounts of the relevant acquired assets are reviewed and confirmed by the local tax authority in Australia upon the actual completion of the Proposed Acquisition.

The directors of the Company considered that there are no impairment over the mining tenement assets arising from the Proposed Acquisition as at 31 December 2016.

Pursuant to the terms of the SPA, the Group is required to make the Tag-Along Offer. The Group had made an offer of US$710 million (equivalent to RMB4,760.4 million) (the "Tag-Along Consideration"), the Tag-Along Offer is subject to the acceptance or otherwise by Mitsubishi Development Pty Ltd ("MDP") by no later than 23rd June 2017. In such respect, in the opinion of the directors of the Company, the value ascribed to the Tag-Along Offer is negligible for the purposes of the unaudited pro forma financial information.

6. Balance represents the impact of the fair value adjustments recognised on completion of the Proposed Acquisition if Proposed Acquisition completed on 1 January 2016.

It includes the additional depreciation and amortisation in respect of the fair value adjustments to property, plant and equipment and intangible assets respectively held by the Target Group, and the corresponding reversal of the resulting deferred tax liabilities for the period 1 January 2016 to 31 December 2016.

The additional depreciation and amortisation is calculated on a unit-of-production basis based on the actual unit of production for the year ended 31 December 2016.

The above pro forma adjustments are expected to have a continuing impact on the financial performance of the Enlarged Group.

7. Balance represents impact of the exercise of the Tag-Along Offer.

Unaudited pro forma consolidated statement of financial position

	Adjustment 1 RMB'000 *Note (i)*	Adjustment 2 RMB'000 *Note (ii)*	Adjustment 3 RMB'000 *Note (iii)*	Adjustment 4 RMB'000 *Note (iv)*	Total RMB'000
Bank balances and cash	257,178	(4,760,400)	–	–	(4,503,222)
Bills and accounts receivable	340,924	–	–	–	340,924
Inventories	87,553	–	–	–	87,553
Total current assets	685,655	(4,760,400)	–	–	(4,074,745)
Non-current assets					
Intangible assets	–	–	6,905,882	–	6,905,882
Prepaid lease payments	–	–	–	–	–
Property, plant and equipment	1,034,187	–	(46,138)	–	988,049
Investment in subsidiary	–	4,760,400	(4,760,400)	–	–
Deferred tax assets	146	–	(13,841)	–	(13,695)
Total non-current assets	1,034,333	4,760,400	2,085,503	–	7,880,236
Total assets	1,719,988	–	2,085,503	–	3,805,491
Current liabilities					
Bills and accounts payable	335,538	–	–	–	335,538
Other payables and accrued expenses	–	–	262,000	–	262,000
Provisions	101,427	–	–	–	101,427
Total current liabilities	436,965	–	262,000	–	698,965
Non-current liabilities					
Deferred tax liabilities	10,022	–	2,057,924	–	2,067,946
Provision for land subsidance, restoration, rehabilitation and environmental costs	159,961	–	(46,138)	–	113,823
Total non-current liabilities	169,983	–	2,011,786	–	2,181,769
Total liabilities	606,948	–	2,273,786	–	2,880,734

	Adjustment 1 RMB'000 *Note (i)*	Adjustment 2 RMB'000 *Note (ii)*	Adjustment 3 RMB'000 *Note (iii)*	Adjustment 4 RMB'000 *Note (iv)*	Total RMB'000
Capital and reserves					
Share capital	–	–	–	–	–
Reserves	1,113,040	–	(1,113,040)	–	–
Gain on bargain purchase	–		721,310	–	721,310
Equity attributable to equity holders of the Company	1,113,040	–	(391,730)	–	721,310
Owners of perpetial capital					
Non controlling interests					
– Subordinated capital notes					
– Others	–	–	203,447	–	203,447
Total equity	1,113,040	–	(188,283)	–	924,757
Total liabilities and equity	1,719,988	–	2,085,503	–	3,805,491

Upon consolidation of Yancoal Australia Limited ("Yancoal") by the Company, the gain on bargain purchase (note (iii)) of RMB924,757,000 will be attributable to the owners of the Company and non-controlling interest by RMB721,310,000 and RMB203,447,000 respectively.

Unaudited pro forma consolidated statement of profit or loss and other comprehensive income

	Adjustment 1	Adjustment 2	Adjustment 3	Adjustment 4	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note (i)	*Note (ii)*	*Note (iii)*	*Note (iv)*	
Total revenue	2,066,352	–	–	–	2,066,352
Cost of goods sold	(1,074,223)	–	–	(158,852)	(1,233,075)
Gross Profit	992,129	–	–	(158,852)	833,277
Other income	–	–	924,757	–	924,757
Selling, General and Administrative Expenses	(502,789)	–	–	–	(502,789)
Interest expense	(7,603)	–	–	–	(7,603)
Profit before income taxes	481,737	–	924,757	(158,852)	1,247,642
Income taxes	(161,574)	–	–	47,656	(113,918)
Profit for the year	**320,163**	**–**	**924,757**	**(111,196)**	**1,133,724**
Attributable to:					
Equity holders for the Company	249,271	–	721,310	(86,276)	884,305
Owners of perpetual capital securities interest	–	–	–	–	–
– Perpetual capital securities	–	–	–	–	–
– Others	70,892	–	203,447	(24,920)	249,419
	320,163	–	924,757	(111,196)	1,133,724
Other comprehensive income for the year	–	–	–	–	–
Total comprehensive income for the year	320,163	–	924,757	(111,196)	1,133,724
Attributable to:					
Equity holders for the Company	249,271	–	721,310	(86,276)	884,305
Owners of perpetual capital securities	–	–	–	–	–
Non-controlling interests					
– Perpetual capital securities	–	–	–	–	–
– Others	70,892	–	203,447	(24,920)	249,419
	320,163	–	924,757	(111,196)	1,133,724

Upon consolidation of Yancoal by the Company, out of the profit for the year of RMB1,133,724,000, RMB884,305,000 and RMB249,419,000 is attributable to the owners of the Company and non-controlling interest respectively.

Unaudited pro forma consolidated statement of cash flows

	Adjustment 1	Adjustment 2	Adjustment 3	Adjustment 4	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note (i)	*Note (ii)*	*Note (iii)*	*Note (iv)*	
Operating activities					
Profit before tax	481,737	–	924,757	(158,852)	1,247,642
Adjustments for:					
Interest expenses	7,603	–	–	–	7,603
Gain on bargain purchase	–	–	(924,757)	–	(924,757)
Depreciation and amortisation	140,914	–	–	158,852	299,766
Loss on disposal of property, plant and equipment	99	–	–	–	99
Operating cash flows before movements in working capital	630,353	–	–	–	630,353
Increase in bills and accounts receivable	(82,238)	–	–	–	(82,238)
Decrease in inventories	734	–	–	–	734
Movement in provision for land subsidence, restoration, rehabilitation and environmental cost	(12,666)	–	–	–	(12,666)
Increase in bills and accounts payable	120,242	–	–	–	120,242
Income taxes paid	(279,385)	–	–	–	(279,385)
Interest paid	(7,603)	–	–	–	(7,603)
Net cash from operating activities	369,437	–	–	–	369,437
Investing activities					
Purchase of property, plant and equipment	(83)	–	–	–	(83)
Proceeds from sale of associate	4,694	–	–	–	4,694
Proceeds from disposal of property, plant and equipment	5,906	–	–	–	5,906
Acquisition of 32.4% interest in HVO	–	(4,760,400)	–	–	(4,760,400)
Net cash used in investing activities	10,517	(4,760,400)	–	–	(4,749,883)

	Adjustment 1	Adjustment 2	Adjustment 3	Adjustment 4	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note (i)	*Note (ii)*	*Note (iii)*	*Note (iv)*	
Financing activities					
Return of capital	(862)	–	–	–	(862)
Dividend paid	(121,914)	–	–	–	(121,914)
Net cash from financing activities	(122,776)	–	–	–	(122,776)
Net increase (decrease) in cash and cash equivalents	257,178	(4,760,400)	–	–	(4,503,222)
Cash and cash equivalents at 1 January 2016	–	–	–	–	–
Cash and cash equivalents at 31 December 2016 represented by bank balances and cash	257,178	(4,760,400)	–	–	(4,503,222)

Note (i):

The balances were extracted from the audited financial information of Hunter Valley Operation ("HVO") and represented 32.4% of the respective balances, translated to RMB at AUD1 to RMB5.0286, after making certain reclassifications to conform with the presentation of the Group's financial information.

Note (ii):

Balance represented the Tag-Along Consideration of US$710 million (equivalent to RMB4,760.4 million). The Tag-Along Consideration offered by the Enlarged Group is subject to further acceptance by MDP.

The Tag-Along Consideration is proposed to take place 6 months after the Completion Date. The proforma adjustment assumed that the Tag Along Consideration will be settled on the Completion Date.

Note (iii)

Balance represented the elimination adjustment for the acquisition of the 32.4% interest in HVO.

	RMB'000	*RMB'000*
Net assets attributable to 32.4% interest as at 31 December 2016		1,113,040
Fair value of		
– Intangible assets	6,905,882	
– Property, plant and equipment	988,049	
– Provisions	(113,823)	
		7,780,108
Less:		
– Carrying amount of		
– Property, plant and equipment	(1,034,187)	
– Provisions	159,961	
		(874,226)
Deferred tax asset arising from fair value adjustments		(13,841)
Deferred tax liability arising from fair value adjustments		(2,057,924)
		5,947,157

In respect of the fair value of the 67.6% previously held interest in HVO, the directors of the Company considered that the fair value equals of 67.6% of the fair value of the net identifiable assets and liabilities and which had been included in the unaudited pro forma financial information of the Enlarged Group under Scenario 1 and thus no further adjustment is required in this respect. With the Tag-Along Consideration of RMB4,760.4 million and the estimated transaction costs in connection with the Tag-Along amounted to RMB262 million, a gain of RMB924,757,000 is recognised in the unaudited pro forma consolidated statement of profit or loss.

For the purpose of preparation of the unaudited pro forma consolidated statement of financial position, it is assumed that the fair values of the identifiable assets and liabilities of HVO, except property, plant and equipment and provisions, approximates to their respective carrying amounts (32.4%) as at 31 December 2016. The fair values of the identifiable assets and liabilities of HVO as at the completion date will be determined by the directors of the Company by reference to valuations to be carried out by an independent professional qualified valuer. The fair values of the identifiable assets and liabilities of HVO determined on the completion date may be materially different from their respective values used in the preparation of the unaudited pro forma consolidated statement of financial position. Accordingly, the final amounts of assets or liabilities and bargain purchase gain or goodwill, if any, to be recognised in the consolidated financial statements of the Enlarged Group upon completion may be materially different from the amounts adopted in the preparation of this unaudited pro forma consolidated statement of assets and liabilities.

The fair values of property, plant and equipment are derived with reference to the valuation report carried out by Censere based on discounted cash flow approach at 31 December 2016. The fair values of the provisions are derived by the directors of the Company with reference to latest market information as well as internal sources.

Deferred taxation is calculated on the temporary differences arising from the difference in fair values and tax bases of the acquired assets on 31 December 2016 and is calculated using the Australian corporate tax rate of 30%.

The amounts of fair value adjustments and deferred tax impact are subject to change when the purchase price allocation is finalised on the date of actual completion of the Tag-Along Offer and the taxable amounts of the relevant acquired assets are reviewed and confirmed by the local tax authority in Australia upon the actual completion.

Note (iv)

Balance represents the impact of the fair value adjustments recognised on completion of the acquisition of the 32.4% interest in HVO as if the acquisition completed on 1 January 2016.

It includes the additional depreciation and amortisation in respect of the fair value adjustments to property, plant and equipment and intangible assets held by HVO and the corresponding reversal of the resulting deferred tax liabilities for the period 1 January 2016 to 31 December 2016.

The additional depreciation and amortisation is calculated on a unit-of-production basis based on the actual unit of production for the year ended 31 December 2016.

The above pro forma adjustments are expected to have a continuing impact on the financial performance of the Enlarged Group.

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Hunter Valley Coal Assets, New South Wales, Australia Competent Person Report

Yanzhou Coal Mining Co. Ltd

ADV-HK-00106

2 June, 2017

Final Report

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Document Control Sheet

Client	
Yanzhou Coal Mining Co. Ltd	
Report Name	**Date**
Competent Person's Report – Hunter Valley Assets	2 June 2017
Report No.	**Revision No.**
ADV-HK-00106	FINAL

Authorizations				
Name		**Position**	**Signature**	**Date**
Prepared By:	Peter Ellis Doug Sillar	Executive Consultant Principal Mining Engineer		2 June 2017
Reviewed By	Jeremy Clark	Manager – Hong Kong		2 June 2017
Approved By	Jeremy Clark	Manger – Hong Kong		2 June 2017

Organization	No. Of Hard Copies	No. Of Electronic Copies	Comment
Yanzhou Coal Mining Co. Ltd	4	1	

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Executive Summary

Runge Asia Limited
known as RPMGlobal

13/F, 68 Yee Wo Street
Causeway Bay
Hong Kong

Yanzhou Coal Mining Co. Ltd.
99 Queen's Road Central
Rm 2608-10, The Center
Central Hong Kong
Hong Kong

2 June, 2017

RE: Competent Person Report

Dear Sirs,

Runge Asia Limited known as as RPMGLobal ("RPM") has been engaged by Yanzhou Coal Mining Co. Ltd. (HKEx:1171) referred to as ("Yanzhou" or "the Client") to undertake an Independent Technical Review ("ITR") and compile a Competent Person Report ("CPR" or the "Report") (as defined by Chapter 18 of the Rules Governing the Listing Rules of the Stock Exchange of Hong Kong (the "Listing Rules") on the Hunter Valley Coal Assets (the "Assets"). The Assets, include the Mount Thorley Warkworth and Hunter valley operations both of which are located in the Hunter Valley, New South Wales, Australia (***Figure 1-1***), and are currently owned and operated by Coal & Allied (the "Company") which is a wholly owned subsidiary of Rio Tinto Coal Australia ("the RTCA"). Considered to be world class (Tier 1) thermal and semi-soft coal projects, the business consists of multiple mines, which process and manufactures market ready coal products for international demand. The Assets have been in continuous production for over 45 years with well-established and integrated mining and processing infrastructure which is interconnected with both road and rail networks and serviced by a deep water port facility in Newcastle.

The Client has conditionally agreed to acquire the Assets through the acquisition of the issued share capital of subsidiaries of the RTCA. The process and conclusions of the ITR are presented in the CPR which will be included in the Circular of the Client in relation to the transaction in accordance with Chapter 18 of the Listing Rules.

The statements of Coal Resources and Coal Reserves (as defined in ***Appendix B***) have been reported to be in accordance with the recommendations of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves JORC Code (2012 Edition) and the Australian Guidelines for the Estimation and Classification of Coal Resources (2014)

RPM's technical team ("the Team") consisted of International Competent Person's, International Senior Consultants, Executive Mining Engineers and Executive Consultant Geologists with significant Hunter Valley mining experience. RPM's Hong Kong Competent Person was responsible for compiling or supervising the compilation of the Report and the JORC reported Statements of Coal Resources and Coal Reserves, stated within. The Team's qualifications and experience is detailed in ***Appendix A*** for reference.

A site visit was conducted by members of the Team to the Assets' operations to familiarise themselves with the Assets characteristics. The site visit was undertaken on the 16th February, 2017 by Ms. Trisha, Wilson Mr. Peter Ellis and Mr. Jolyon Peart. During the site visits the Team inspected the mining operations, the Coal processing plant, the tailings storage facility, the water supply system, the power distribution system, , and conducted general inspections of the Assets area. The visit was also used to gain a better understanding of the Assets status. The Team had open discussions with the Company's personnel on technical aspects relating to the relevant issues. The Company's personnel were cooperative and open in facilitating RPM's work.

In addition to work undertaken to generate independent JORC Coal Resources and Coal Reserves estimates, the CPR relies largely on information provided by the Company, either directly from the sites and other offices, or from reports by other organizations whose work is the property of the Company or its subsidiaries. The data relied upon for the JORC Coal Resources and Coal Reserves estimates independently completed by RPM have been compiled primarily by the Client and the Company and subsequently reviewed and verified as well as reasonably possible by RPM. The CPR is based on information made available to RPM as at 2 June, 2017. The Client or the Company has not advised RPM of any material change, or event likely to cause material change, to the underlying data, designs or forecasts since the date of Assets inspections.

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Project Summary

- The Project is a world class Semi Soft Coking and Thermal Coal operating project located in the Hunter Valley region of New South Wales, Australia. Approximately 150 km north of Sydney and 90 km inland from Newcastle the Assets are accessed by a network of excellent quality regional roads and further via national highway to the port areas at Newcastle the major city of Sydney.
- The business consists of multiple open pit mines which process and manufacture market ready coking and thermal coal products for international demand. The Assets are contained within a series of Mining and Exploration licenses which are split into two areas, namely the Hunter Valley ("HVO") and Mount Thorley Warkworth ("MTW") operations. Coal occurs in multiple near surface 5º dipping highly continuous seams which are exploited via conventional large scale coal open pit mining methods. Run of Mine ("ROM") Coal is washed at one of two Coal Handling Processing Plants ("CPP") per operation and loaded on trains via dedicated train loading points (two at each operation). All Coal products are transported via a single rail link to the deep water Port of Newcastle (100km).
- Since commissioning in the 1960's the Assets has been in constant operation with all current mining being undertaken via the conventional large scale dragline and truck and shovel methods. HVO currently has five operating pits and produced approximately 18 Million tonnes ("Mt") of run-of-mine ("ROM") coal for 13.6 Mt of Product coal in 2016. Coal from the pits is hauled to either of two CPP's which have a combined throughput capacity of 20 million tonnes per annum ("Mtpa"), which include the Hunter Valley Coal Processing Plant ("HV-CPP") (16.8 Mtpa) and the Howick Coal Processing Plant (Howick-CPP") (3.2 Mtpa). MTW produces from three active pits, the North, West and Loders. Approximately 12.3 Mt of Product Coal (18.1 Mt ROM Coal) was produced in 2016 from the Mount Thorley CPP ("MT-CPP) (8.4 Mtpa) and the Warkworth CPP (WW-CPP) (10.2 Mtpa). Following washing the Product Coal is conveyed or hauled from each plant to one of four Loading Point. Further blending occurs at the railhead prior to loading on rail carts for transport to the Newcastle port for export.
- In addition to the open pit mining and the surface processing plant and offices infrastructure, significant regional and local infrastructure provide support to the operations and the forecast production requirements. A review by RPM of the regional and local infrastructure indicates that the area has suitable transport logistics connecting the operating asset to local and international markets for both supply of consumables and transport of product to market. The Project is located close to well established highways, water sources with all personnel accommodated onsite in two purpose built accommodation areas. Power to the Project is provided via a long-term agreement with electric utility company serving the region.
- The Assets are operated as unincorporated joint ventures which differs between the operations. The Company owns 67.6% and manages the HVO joint venture, with Mitsubishi owning the remaining 32.4 %. MTW has operated as a combined operation of the Mount Thorley and Warkworth areas since 2004 however the Company's interest in each varies. The Company owns an 80% interest in Mount Thorley (Posco owns the remaining 20%) and a 55.574% interest in Warkworth (Mitsubishi, Nippon Steel and Mitsubishi Materials are the other joint venture parties). An Operational Integration Agreement ("OIA") allows MTW to be managed as one integrated operation by the Company. Under the terms of the OIA, export coal can be produced from either area and is allocated between the two joint ventures based on a tonnage commitment ratio.

Mineral Resource and Ore Reserves Estimates

- The review undertaken by RPM of the drilling and sampling procedures indicates that in general, good practices were used with no material issues noted. RPM also notes the majority of the data used for the resource estimation were derived from drilling from post 2007 and have followed the Companies procedures and protocols. Data acquired prior to 2007 has been subject to the Companies procedures and protocols implemented. As such, RPM considers the data which supports the resource estimation to have no material sample bias and is representative of the samples taken.
- Results of the independent Coal Resources estimate for the Assets are tabulated in the Statement of Coal Resources in ***Table 1*** below, which are reported in line with both the requirements of the 2012 JORC Code and the reporting standards of Chapter 18 of the HKEx Listing Rules. The Statement of Coal Resources is therefore suitable for public reporting. The Statement of Coal Resources shown in ***Table 1*** and graphically in ***Figure 1*** are inclusive of the Coal Reserves reported in ***Table 2*** and not additional to.

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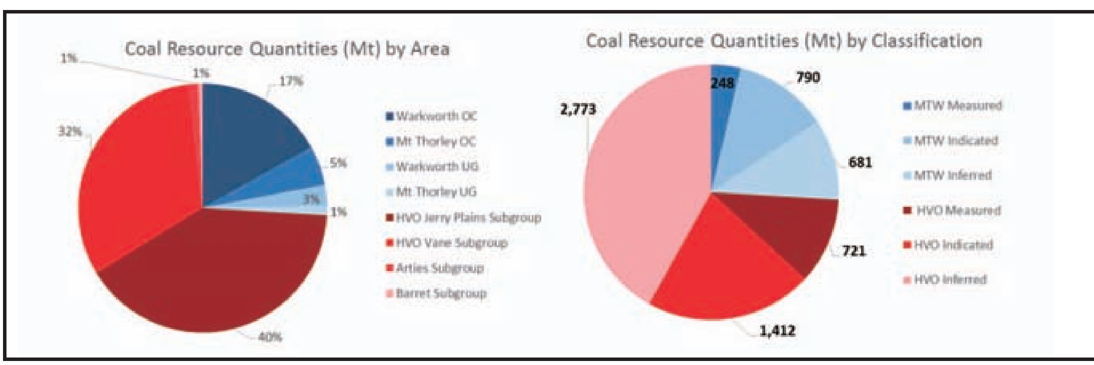
Table 1 Statement of Coal Resources by Operation as at 31st December, 2016.

Operation	Type	Area	Measured (Mt)	Indicated (Mt)	Inferred (Mt)	Total (Mt)
MTW	Open Cut	Warkworth	215	500	404	1,119
		Mt Thorley	32	50	99	181
	Underground	Warkworth		215	124	339
		Mt Thorley	0	25	54	79
	Combined		**248**	**790**	**681**	**1,718**
HVO	Open Cut	Jerry Plains Subgroup	567	982	571	2,120
		Vane Subgroup	154	430	2,085	2,669
	Underground	Arties Subgroup			35	35
		Barret Subgroup			82	82
	Combined		**721**	**1,412**	**2,773**	**4,906**

Note:

1. *The Statement of JORC Coal Resources has been compiled under the supervision of Mr. Peter Ellis who is a full-time employee of RPM and a Registered Member of the Australian Institute of Mining and Metallurgy. Mr. Ellis has sufficient experience that is relevant to the style of Coal and type of deposit under consideration and to the activity that he has undertaken to qualify as a Competent Person as defined in the JORC Code.*
2. *All Coal Resources figures reported in the table above represent estimates at 31st December, 2016. Coal Resource estimates are not precise calculations, being dependent on the interpretation of limited information on the location, shape and continuity of the occurrence and on the available sampling results. The totals contained in the above table have been rounded to reflect the relative uncertainty of the estimate. Rounding may cause some computational discrepancies.*
3. *Coal Resources are reported in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (The Joint Coal Reserves Committee Code – JORC 2012 Edition).*

Figure 1 Graphical Representation Coal Resources



- The Assets are mature open cut mining operations that have approvals and license to operate in place for an extended period of time. As part of the resource reporting RPM has made the following general assumptions to define the reasonable prospects for economic extraction (further details are provided in ***Section 7***):
- The HVO open cut operations are economic to the 7 to 8:1 to 1 for prime strip ratio which is considered to approximate the break-even strip ratio (BESR), and an approximate depth of cover between 300 and 350m (See ***Section 9*** for further details), while MTW are economic to the 9:1 to 1 for prime strip ratio.
- Benchmarking with other open cut operations and future proposed operations in the Hunter Valley suggests that a 350m depth of cover cut off is appropriate while Underground operations below open cut excavation floor typically requires 80 to 120m of cover above the seam being mined by longwall methods, but a minimum of 60m has been assumed.
- Future demand for thermal and semi soft coal will remain strong, and

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- In addition RPM has made the following assumptions specific to MTW:
- The Company has stated open cut Resources to the Mt Arthur seam in the West Pit and Warkworth D seam in the North Pit however RPM considers that the Piercefield and Vaux seams are potentially economic open cut seams based on sufficient spoil room being available as such are included.
- That the slope and dump management plan will successfully manage the geotechnical aspects of mining below the current Mt Arthur and Warkworth seam floor to recover the Piercefield and Vaux seams, however the Broonie and Bayswater seams are not potentially economic open cut coal seams due to a lack of spoil room.
- The Company does not have title to the Bayswater seam by virtue of the title conditions, and as such the Bayswater seam cannot form part of the current Coal Resource within MTO, as such open cut Coal Resources are stated to the Woodlands Hill seam.
- The Bayswater seam has been reported as the Underground Resource in the WML area as it has been assumed that open cut mining will continue to the Vaux seam from the highwall location as of December 31 2016. The Company depicts plans for longwall panels in the Vaux seam in both WML and MTO. RPM has reviewed the separation thickness between the Mount Arthur seam floor and the Vaux seam and determined that the separation thickness is insufficient (less than 60m) to support a practical longwall in the Vaux seam, should open cut mining progress to the Mount Arthur seam.
- RPM reviewed the open cut potential in the MTO area and concluded that it was likely that only a single longwall operation was possible due to requirement of having at least 60m separation between mined intervals below the Woodlands Hill seam floor in the open cut. RPM selected the Vaux seam as a reasonable longwall target seam because it appeared to have consistent seam thickness and separation between the VAF, VAG and VAH plies. The Mt Arthur MAC to MAJ plies are also a possible longwall resource but were rejected on the grounds of closer proximity to the floor of the Mt Arthur seam open cut and inferior roof conditions due to the Mount Arthur MAA and MAB plies, Fairford Claystone and Warkworth WKE to WKK plies being present in the primary and secondary roof.
- RPM has made the following assumptions specific to HVO:
- All coal seams within the Jerrys Plains and the Vane Subgroups in the HVON area have open cut economic potential because depth of cover is less than 320m, and the prime strip ratio 5.8 as outlined in Section 8.
- The coal seams of the Vane Subgroup only have open cut economic potential to the currently proposed limit of the Auckland Pit highwall. All coal seams of the Vane Subgroup located down dip of the proposed Auckland Pit highwall and which are located in the axial plane area of the Bayswater Syncline can only have underground potential due to having depth greater than 320m and insitu strip ratio greater than 9:1. The Wollombi Brook and its associated river flats is also considered to be the western limit of the Auckland open cut resource area.
- A 100m offset has been applied to the bord and pillar underground operations in the MA3, PF1 and PF2 seams. The area of underground working has been excluded from the Resource estimate. All Resource from the Jerrys Plains and Vane Subgroups in HVO North (has been classified and reported as an open cut Resource, and as such no underground Resources are reported.
- The HVO underground Resource is located in the HVO South area in the Arties and Barrett seams of the Vane Subgroup. The underground Resource area has been subject to an Order of Magnitude Study by the Company in 2010.
- The Independent Statement of Ore Reserves for the Project is estimated as at the 31st December, 2016 by RPM and reported in accordance with the JORC Code. RPM has determined suitable technical parameters to apply in the Ore Reserve estimation process following review of site data and technical information contained with studies of at least a pre-feasibility level of confidence. Further information taken into consideration included the proposed life of mine plans, mining method, forecast processing plant recoveries and tailings storage facility capacities. The Ore Reserves were derived only from areas of the Project where Measured and Indicated Resources have been estimated.
- The Proved and Probable Coal Reserves estimate for the Project is summarized in ***Table 2 and 3*** and shown graphically in ***Figure 2***. The Coal Reserves estimates reported below are included in the Measured and Indicated Coal Resources quantities reported in ***Table 1*** and are not additional to. RPM has estimated the

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total Coal Reserves to be approximately **824 Mt** at HVO and **664 Mt** at MTW comprising 508 Mt of Proved and Mt of Probable Ore Reserves.

Table 2 Statement of JORC Coal Reserves Estimate within the Final Pit Designs as at 31st December, 2016

Reserves	Project	Proved (Mt)	Probable (Mt)	Total (Mt)
Coal Reserves	HVO	359	465	**824**
	MTW	149	199	**348**
Marketable Reserves	HVO	247	327	**574**
	MTW	104	139	**243**

Notes:

1. *The Statement of JORC Coal Reserves has been compiled under the supervision of Mr. Doug Sillar who is a full time Senior Mining Engineer employed by RPM and is a Member of the Australian Institute of Mining and Metallurgy. Mr. Sillar has sufficient experience which is relevant to the style of Coal and type of deposit under consideration to qualify as a Competent Person as defined in the JORC Code.*
2. *Tonnages are metric tonnes*
3. *Figures reported are rounded which may result in small tabulation errors. Coal Reserves have been estimated under the 2012 Edition of the JORC Code.*

Table 3 JORC ROM Coal Reserves Estimate by Pit as at 31st December, 2016

Operation	Pit	Proved (Mt)	Probable (Mt)	Total (Mt)
HVO	West-HVO	62	10	**72**
	Wilton	40	21	**61**
	Mitchell	34	77	**111**
	Carrington West	7	1	**9**
	Carrington East	0	60	**60**
	Riverview	15	7	**21**
	Cheshunt 1&2	77	4	**80**
	Cheshunt Deep	125	101	**226**
	Auckland South	0	19	**19**
	Southern	0	119	**119**
	Auckland	0	47	**47**
	Total	**359**	**465**	**824**
MTW	West-MTW	68	84	**152**
	North	76	114	**190**
	Loder	5	1	**6**
	South	-	-	**-**
	Total	**149**	**199**	**348**

Notes:

1. *The Statement of JORC Coal Reserves has been compiled under the supervision of Mr. Doug Sillar who is a full time Senior Mining Engineer employed by RPM and is a Member of the Australian Institute of Mining and Metallurgy. Mr. Sillar has sufficient experience which is relevant to the style of Coal and type of deposit under consideration to qualify as a Competent Person as defined in the JORC Code.*
2. *Tonnages are metric tonnes*
3. *Figures reported are rounded which may result in small tabulation errors. Coal Reserves have been estimated under the 2012 Edition of the JORC Code.*

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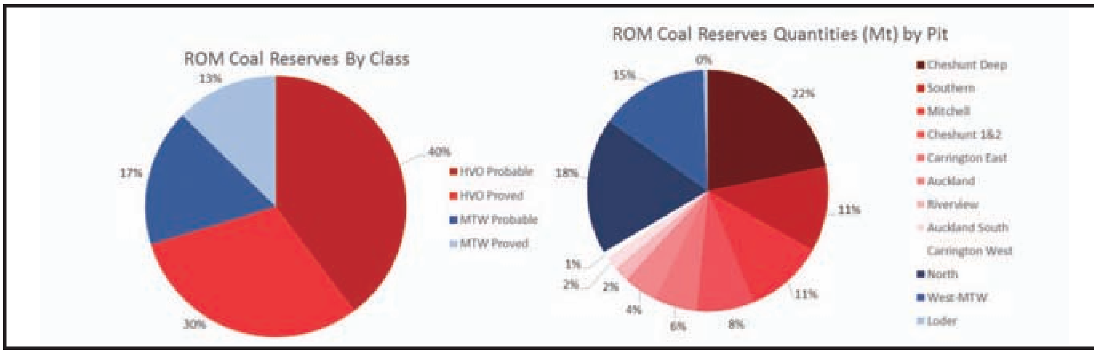
Figure 2 Graphical Representation JORC In Situ Coal Reserves Estimate within the Final Pit Designs



- To determine the economic viability of the Coal Reserves, RPM undertook margin ranking and a break even strip ration analysis to select appropriate pit designs. RPM generated a break-even strip ratio to confirm the pit limits. A break-even strip ratio is the ratio of burden (waste) to ROM coal tonnes at which there is $0 margin. The cost inputs in the estimation of the break-even stripping ratio were as per those used in the above described margin rank process. The estimated Break Even Strip ratio for HVO is 13:1 and for MTW 11:1. Cumulative strip ratio plots were generated in Minex™ software to the appropriate seam floors for each pit area and compared against the break-even strip ratio estimate. The break-even strip ratio analysis confirmed the results of the margin rank study completed by the Client. RPM also used the break-even strip ratio method to confirm the pit limits at Auckland South and Carrington East which were not included in the margin ranking as they were not included in the previous works completed by the Client.

<u>**Exploration Potential**</u>

- Exploration has been undertaken over numerous generations over the last decades with the main focus on the two complexes for which Mineral Resources have been estimated. Although the area has a long history of exploration, RPM considers there to be good potential to define further coal seams bodies within the Project area both near planned mining infrastructure and within the broader exploration concession. RPM considers the large concession holding of the Company contains a two key targets which present opportunities to increase the resource base and add feed sources to the plant in turn increasing the mine life, these include:
  - **Inferred material:** Within the current final pit designs for the Project a total of approximately 10 Mt of "inferred" material has been reported. This is particularly prevalent as if converted to Indicated with successful drilling will have a positive impact on the strip ratio, as this material is classified as waste in the current LOM schedule. .
  - **Downdip Targets**: The Company has undertaken exploration in the areas surrounding the defined near surface resource, however in addition further down dip targets have been identified predominately to the west of the current Inferred material. RPM notes this target is limited by the license boundary is underground potential only.

<u>**Mining and Production**</u>

Current Production

- All mining operations at the Assets are undertaken via conventional large scale coal open pit methods predominately using owner operator equipment. ROM coal is hauled to one of four (two on each operation) Coal Handling Preparation Plants which produce marketable thermal and SSCC Product Coal. Subsequent to blending and stockpiling, Product Coal is loaded onto train carts and transported to the Port of Newcastle for sale on the international market. The following summarise the Coal Reserves schedules:
- The HVO Life of Mine schedule was developed targeting a ROM Coal production rate of 20.6Mtpa from a number of active mining areas at the site. West Pit, due for completion in 2034, is currently mined using a combination of truck and shovel for pre-strip operations and a dragline uncovering the lower coal seams, has a

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target of 4.5 Mt ROM Coal per annum. Riverview Pit is currently being mined by truck/excavator and dragline method. The in-pit spoil at Riverview will also be re-handled as part of the larger Cheshunt Deep Pit which targets the deeper seams. The Cheshunt 1 & 2 Pits are adjacent active truck and shovel pits and are a subset of the larger Cheshunt Deep Pit. The Cheshunt 1 & 2 Pits are forecast to mine up to 14.7 Mtpa and will be completed in 2023 following transition into the Cheshunt Deep Pit. The expansion pits at HVO are the Cheshunt Deep Pit, Southern, Auckland, Carrington East and Auckland South Pits. The Cheshunt Deep Pit is scheduled to be completed in 2041 at which time the Southern, Carrington East and Auckland South Pits will be developed to maintain the total site production rate of approximately 20 Mtpa. As these pits are depleted, the Auckland pit will be developed in 2052 with the operation transitioning to a lower production rate of 10 Mtpa before completion in 2060.

- The MTW LOM schedule indicates that the Loders Pit ceases in 2019 leaving the West and North Pits to support production. The Company plans to retire the dragline that was operational at Mt Thorley and modify the dragline operating method in the West and North Pits to a tandem offset dragline method which will commence in 2019 as outlined previously. The West and North Pits will continue to develop down dip towards the west of the licence area and have a combined production target of approximately 17 Mtpa. The ROM coal production from each pit is variable as it depends on the proportion of time the draglines are operating in each pit for any given year. North Pit ceases production in 2040 and West Pit is completed in 2036.
- RPM has estimated the total Coal Reserves Schedule to be approximately **1,172 Mt** which is made up of **824 Mt** at HVO and **348 Mt** at MTW with strip ratios of 5.8 and 6.7 respectively. Based on the Coal Reserves, RPM estimates the mine life to be approximately 44 and 24 years respectively for Assets as outlined in ***Table 5***.
- Four processing (washing) facilities with variable throughput rates have been constructed on site. ROM Coal from the pits is stockpiled directly onto the ROM) based on coal characteristic with the following summaries between the two operations
- HVO utilises two wash plants in the HVO north area which are considered to be well maintained and are capable of typical industry benchmark utilisation of 7,200 hours per year, however ongoing maintenance is required. Debottlenecking of plant circuits where necessary, and with a consistent feed of coals to not overload any part of the processing circuit, should enable a total throughput of 23 Mtpa, which is well in excess of the current mine target of 20.6 Mtpa ROM Coal, with the potential to produce up to 14Mtpa of Product. RPM notes that it is the product type, quality and quantities including the distribution of the size fractions in the feed that will dictate the ultimate capacity of the plants during the mine life. The combined HVO CPP facilities have a capacity to produce approximately 16 Mtpa products currently with 20-25% SSCC and the balance being a range of low to very high ash thermal coals. Coal yield from the two plants was 76% in 2015 which is forecast to remain approximately the same over the LOM.
- The CPP facilities at MTW are well-established and capable of processing up to 18Mtpa ROM Coal feed. While the infrastructure is quite old, it appears to be reasonably well maintained which is required and forecast to continue. MTW consists of two coal wash plants and two rail loading points which are connected via a series of conveyors throughout the site. The LOM Coal yield if forecast to be approximately 69.5% however this varies between 67.8 % and 70.9& due to coal seam characteristics.
- A total of 5.00 Billion AUD and 1.72 Billion AUD sustaining capital is required over the remainder of the operational life for HVO and MTW respectively. As outlined in ***Section 9***, the operations require continued replacement and sustained maintenance for both mobile and fixed plant to ensure the required production performance and processing yield. New and replacement production fleet (draglines, trucks, excavators) capital encompasses the majority of the sustaining capital for both operation (approximately 60%). The remainder of the capital includes replacement and maintenance of the CPP's and site infrastructure construction etc. RPM considers the forecast reasonable to support the Coal Reserve mine life.
- Forecast operating costs vary between the operations as outlined in ***Table 4*** Further breakdown are provided in ***Section 13*** for reference.

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Table 4 Coal Reserve LOM Average Operating Costs

Operation	Cost Centre	Unit	LOM Average Cost
HVO	**Onsite Costs**		
	Open Cut	AUD/t ROM Coal	20.89
	Site Admin	AUD/t ROM Coal	5.3
	CPP	AUD/t ROM Coal	5.7
	Total Free on Rail	**AUD/t ROM Coal**	**31.9**
	Total Free on Rail	**AUD/t product**	**45.8**
	Off site costs		
	Rail	AUD/t product	5.3
	Port	AUD/t product	3.5
	Other	AUD/t product	2.6
	Total Free on Board	**AUD/t product**	**57.2**
MTW	**Onsite Costs**		
	Open Cut	AUD/t ROM Coal	23.1
	Site Admin	AUD/t ROM Coal	6.1
	CPP	AUD/t ROM Coal	5.1
	Total Free on Rail	**AUD/t ROM Coal**	**34.3**
	Total Free on Rail	**AUD/t product**	**49.3**
	Off site costs		
	Rail	AUD/t product	4.3
	Port	AUD/t product	2.4
	Other	AUD/t ROM Coal	2.6
	Total Free on Board	**AUD/t product**	**58.6**

Source: Unit Costs were provided by the Company however were adjusted to reflect RPM independent Coal Reserve schedule. LOM Unit costs vary to the Company's due to unit costs changes and production schedule variations.

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Table 5 LOM Coal Reserves Schedule

Operation	Year	Units	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Avg. 2031-2035	Avg. 2036-2040	Avg. 2041-2050	Avg. 2051-2060	Total LOM
HVO	**Mining**																				
	ROM Coal	Mt	19.1	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	19.7	13.4	**823.7**
	Prime Waste Mined	Mbcm	82.8	99.9	87.9	97.2	113.9	121.6	119.8	141.3	136.2	128.1	122.9	129.2	126.2	121.3	114.0	110.5	125.8	80.6	**4,814.8**
	Rehandle Waste	Mbcm	9.8	12.2	10.0	11.2	11.7	11.3	11.7	11.3	8.6	8.5	8.1	8.1	7.9	7.6	5.7	2.2	2.5	1.6	**218.6**
	Total Waste mined	Mbcm	92.6	112.1	97.9	108.4	125.6	132.9	131.5	152.6	144.9	136.6	131.0	137.3	134.1	128.9	119.7	112.7	128.3	82.2	**5,033.5**
	Prime Strip Ratio	bcm/ROM t	4.3	4.9	4.3	4.7	5.5	5.9	5.8	6.9	6.6	6.2	6.0	6.3	6.1	5.9	5.5	5.4	6.4	6.0	**5.8**
	Total Stri Ratio	bcm/ROM t	4.9	5.4	4.8	5.3	6.1	6.4	6.4	7.4	7.0	6.6	6.4	6.7	6.5	6.3	5.8	5.5	6.5	6.1	**6.1**
	CHPP																				
	Coal Processed	Mtonnes	19.1	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	19.7	13.4	**823.7**
	Coal Product	Mtonnes	13.5	14.7	14.4	14.5	14.5	14.6	14.7	14.9	14.7	14.6	14.6	14.3	14.3	14.3	14.2	13.9	13.8	9.3	**574.1**
	Plant Yield	%	69.7	71.0	71.3	69.9	70.4	70.6	70.6	71.6	72.4	71.5	70.8	70.9	69.6	69.2	69.4	67.5	69.9	69.0	**69.7**
	Coal Products																				
	Semi Soft Coking	Mtonnes	3.0	3.3	4.5	4.6	4.9	4.2	4.0	4.2	4.9	3.5	3.1	2.9	3.0	3.1	2.9	3.1	3.1	1.6	**130.6**
	Thermal (low ash)	Mtonnes	4.6	5.0	4.4	4.4	4.3	4.7	4.9	5.0	4.6	5.2	5.4	5.4	5.4	5.4	5.6	5.6	5.7	4.1	**222.6**
	Thermal (Mid ash)	Mtonnes	5.4	5.8	5.0	4.9	4.7	5.0	5.1	5.1	4.6	5.1	5.2	5.1	4.9	4.9	4.7	4.1	3.7	2.6	**177.2**
	Thermal (high ash)	Mtonnes	0.5	0.6	0.5	0.6	0.6	0.6	0.7	0.7	0.7	0.8	0.9	0.9	0.9	0.9	1.0	1.2	1.3	1.0	**43.7**
MTW	**Mining**																				
	ROM Coal	Mtonnes	17.0	17.0	16.9	16.5	16.6	16.5	16.4	16.3	16.2	16.1	15.9	16.0	15.8	16.0	13.5	10.2			**348.2**
	Prime Waste Mined	Mbcm	93.2	92.5	88.6	102.1	105.4	106.2	102.1	102.7	104.9	104.7	103.3	103.6	99.6	96.2	99.5	69.9			**2,252.2**
	Rehandle Waste	Mbcm	12.9	14.4	13.0	15.6	15.1	13.6	13.5	13.6	13.9	14.3	14.3	14.4	14.4	13.3	13.4	7.2			**299.3**
	Total Waste mined	Mbcm	106.1	107.0	101.6	117.7	120.5	119.8	115.6	116.2	118.8	119.0	117.6	118.0	114.0	109.5	112.9	77.1			**2,551.5**
	Prime Strip Ratio	bcm/ROM t	5.5	5.4	5.2	6.2	6.3	6.5	6.2	6.3	6.5	6.5	6.5	6.5	6.3	6.0	7.4	6.8			**6.5**
	Total Strip Ratio	bcm/ROM t	6.2	6.3	6.0	7.1	7.2	7.3	7.0	7.1	7.3	7.4	7.4	7.4	7.2	6.9	8.4	7.5			**7.3**
	CHPP																				
	Coal Processed	Mtonnes	17.0	17.0	16.9	16.5	16.6	16.5	16.4	16.3	16.2	16.1	15.9	16.0	15.8	16.0	13.5	10.2			**348.2**
	Coal Product	Mtonnes	11.6	11.8	**11.5**	11.5	11.6	11.5	11.5	11.4	11.3	11.2	11.0	11.1	10.9	11.1	9.5	7.3			**243.0**
	Plant Yield	%	68.2	69.4	67.8	69.4	69.8	69.7	70.1	69.8	69.6	69.6	69.3	69.5	69.1	69.5	70.2	71.4			**69.8**
	Coal Products																				
	Semi Soft Coking	Mtonnes	2.4	2.1	2.2	2.9	2.2	2.4	2.6	2.2	2.1	2.2	2.3	2.3	2.3	2.2	2.5	1.9			**54.3**
	Thermal (low ash)	Mtonnes	5.1	5.4	5.1	4.8	5.2	5.1	5.0	5.2	5.3	5.1	5.0	5.1	5.0	5.2	4.1	3.2			**108.3**
	Thermal (Mid ash)	Mtonnes	2.7	2.8	2.7	2.5	2.7	2.5	2.5	2.5	2.5	2.4	2.3	2.3	2.3	2.3	1.8	1.3			**50.2**
	Thermal (high ash)	Mtonnes	1.4	1.5	1.4	1.3	1.5	1.4	1.4	1.5	1.5	1.4	1.4	1.4	1.4	1.4	1.2	0.9			**30.3**

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Environmental, Health, Social and Safety

- The Assets have exhibited a high degree of environmental compliance over recent years. An Independent Environmental Audit (IEA) for HVO in December 2016 demonstrating a high degree of compliance with respect to statutory requirements and internal management plans. Similarly an independent review of MTW in May 2016 reported a similarly high level of compliance (Horn, 2016). The Company have a developed Health, Safety and Environment (HSE) Management System with corresponding resources in terms of staffing and processes in place. One area in which regulatory compliance has been lagging has been the management of water on-site, including in respect to water pollution incidents. These however, are not expected to pose an ongoing regulatory risk with improved management systems onsite.
- Recent review of risks and exposure associated with Native Title and Aboriginal Land Claims was conducted in June 2016, the results of which are contained in the Hunter Valley Native Title and Aboriginal Land Claim Risk Register. The review identified while that Native Title has not been extinguished for some areas (including land, water ways and access roads) that the majority of the Assets holdings are not subject to native title claims and that any outstanding areas and claims do not impact the current mine plan as presented in this Report.
- The MTW mine has historically been the subject of a high community complaint frequency, largely as a result of noise and dust emissions. As a result the Company has put in place several management strategies and increasingly efficient noise muffling systems and noise and dust early warning monitoring systems. These trigger the temporary shut-down of mobile plant at MTW as noise impacts in nearby communities approach regulatory limits. This implementation has resulted in a marked reduction in complaints in recent times and RPM highlights these shut down are planned as part of the forecast utilisation. In addition, the Company has established a community management system to manage these as per good industry practice. Management measures in place support the assumption that the forecast plans will be ultimately accepted by communities. This includes the on-track progress in obtaining approval for the upcoming closing of a community road.
- In line with all operating coal mines, the Assets have accumulated heavy-metal contaminated waste rock in the disposal/storage facilities and these potential contamination factors have not been thoroughly quantified and assessed, however based on the prevailing geo-chemistry of tailings materials in the region, the risk of highly mobile and bio-available contamination is considered unlikely.
- Continuous and phased rehabilitation of mined out areas has been taking place, with an acceptable level of success measured against established criteria for the areas having had the longest regeneration time. Mine closure costs are budgeted beyond the operational expenditures associated with the continuous rehabilitation.

The Key Opportunities Identified during the ITR include.

While various opportunities exist to increase the value of the project, including the significant exploration potential of the project, inferred material within the current pits and short term blending, given the very long mine life RPM for reference presents below what are considered to the opportunities which could material effect both the mine life and/or the value of the Project.

- **Inferred Material**: As per the reporting requirements of the JORC Code, the Inferred material within the final pit is considered waste and not included the reported Coal quantities or schedule. RPM notes that within the final pits **32.4 Mt** and **28 Mt** of Inferred Coal Resources and unclassified coal at the Assets pits respectively. If additional exploration successfully delineates this Coal and it is upgraded to Indicated and/or Measured this material can be included in an updated Coal Reserve estimate. If successfully defined as economical, this material has the potential to extend the mine life approximately by 1.5 years for HVO and 2 years at MTW, additionally this material if successfully defined as Indicated resource would decrease the LOM prime strip ratio from 5.8 to 5.6 at HVO and 6.5 to 6.0 at MTW.
- **Final Pit Design**: RPM notes that additional **9 Mt** and **9 Mt** of Indicated and Inferred coal is estimated within the final west pit design MTW however due to the Inferred component within this area being classified as waste, this coal is not included in the Schedule as presented in ***Section 9***. This material while still able to be classified as a Coal Reserves as per JORC requirements is not included in the schedule as per Chapter 18 reporting requirements of valuations.
- **Underground Expansion**: Underground operations have not been considered for this statement of open cut Reserves. There are significant resources with underground potential at both MTW and HVO and

preliminary studies have been completed. Further detailed study is required to confirm the viability of underground extensions prior to inclusion as a Coal Reserve, however RPM presents an over in ***Section 15*** for reference.

The Key Risks Identified during the ITR include.

While various risks have been identified, given the very long mine life, RPM presents below what are considered to be the risks that could potentially affect the Company's ability to achieve the mine life and/or the value of the Project's current Ore Reserve schedule and does not include any risks associated with the upside.

- **Community Relations**: Communities, in particular Bulga, have voiced numerous grievances against MTW operations, in particular regarding noise and dust emissions, however the impact of these complaints upon mining operations can be readily managed using existing practices. It should be noted that complainants have few legal avenues available to delay approved mining activities provided such are undertaken in compliance with regulatory obligations.
- **Wallaby Scrub Road**: The Closure of wallaby scrub road agreement with the local council is still pending to allow mining at MTW to continue westward after 5 years. RPM is aware discussions are occurring and an agreement is pending with a council meeting voting to commence close out procedures in February, 2017. RPM notes that this risk is being managed by the Company and is likely to have no impact on the LOM plan as presented in this Report.

Limitations and Exclusions

RPM's review was based on various reports, plans and tabulations provided by the Client or the Company either directly from the mine site and other offices, or from reports by other organizations whose work is the property of the Client or the Company. Neither Client nor the Company has not advised RPM of any material change, or event likely to cause material change, to the operations or forecasts since the date of Assets inspections.

The work undertaken for this Report is that required for a technical review of the information, coupled with such inspections as the Team considered appropriate to prepare this Report.

It specifically excludes all aspects of legal issues, commercial and financing matters, land titles and agreements, except such aspects as may directly influence technical, operational or cost issues and where applicable to the JORC Code guidelines.

RPM has specifically excluded making any comments on the competitive position of the Relevant Assets compared with other similar and competing producers around the world. RPM strongly advises that any potential investors make their own comprehensive assessment of both the competitive position of the Relevant Assets in the market, and the fundamentals of the seaborne export coal at large.

Limited Liability

This Report has been prepared by RPM for the purposes of Client for inclusion in its Circular in respect of the proposed acquisition of the Assets in accordance with the Listing Rules and is not to be used or relied upon for any other purpose. RPM will not be liable for any loss or damage suffered by a third party relying on this report or any references or extracts therefrom contrary to the purpose (regardless of the cause of action, whether breach of contract, tort (including negligence) or otherwise) unless and to the extent that RPM has consented to such reliance or use.

Responsibility and Context of this Report

The contents of this Report have been based upon and created using data and information provided by or on behalf of Client or the Company. RPM accepts no liability for the accuracy or completeness of data and information provided to it by, or obtained by it from Client, the Company or any third parties, even if that data and information has been incorporated into or relied upon in creating this report. The report has been produced by RPM in good faith using information that was available to RPM as at the date stated on the cover page and is to be read in conjunction with the circular which has been prepared and forms part of the referenced transaction.

This report contains forecasts, estimates and findings that may materially change in the event that any of the information supplied to RPM is inaccurate or is materially changed. RPM is under no obligation to update the information contained in the report.

Notwithstanding the above, in RPM's opinion, the data and information provided by or on behalf of Client or the Company was reasonable and nothing discovered during the preparation of this Report suggests that there was a significant error or misrepresentation of such data or information.

Indemnification

Client has indemnified and holds harmless RPM and its subcontractors, consultants, agents, officers, directors, and employees from and against any and all claims, liabilities, damages, losses, and expenses (including lawyers' fees and other costs of litigation, arbitration or mediation) arising out of or in any way related to:

- RPM's reliance on any information provided by Client and the Company; or
- RPM's services or materials; or
- Any use of or reliance on these services or material,

save and except in cases of death or personnel injury, property damage, claims by third parties for breach of intellectual property rights, gross negligence, willful misconduct, fraud, fraudulent misrepresentation or the tort of deceit, or any other matter which be so limited or excluded as a matter of applicable law (including as a Competent Person under the Listing Rules), and regardless of any breach of contract or strict liability by RPM.

Mining Unknown Factors

The findings and opinions presented herein are not warranted in any manner, expressed or implied. The ability of the operator, or any other related business unit, to achieve forward looking production and economic targets is dependent upon numerous factors that are beyond RPM's control and which cannot be fully anticipated by RPM. These factors include site specific mining and geological conditions, the capabilities of management and employees, availability of funding to properly operate and capitalise the operation, variations in cost elements and market conditions, developing and operating the mine in an efficient manner, etc. Unforeseen changes in legislation and new industry developments could substantially alter the performance of any mining operation.

Capability and Independence

RPM provides advisory services to the mining and finance sectors. Within its core expertise it provides independent technical reviews, resource evaluation, mining engineering and mine valuation services to the resources and financial services industries.

RPM has independently assessed the Assets by reviewing pertinent data, including resources, reserves, manpower requirements and the life of mine plans relating to productivity, production, operating costs and capital expenditures. All opinions, findings and conclusions expressed in this Report are those of RPM and its specialist advisors.

Drafts of this Report were provided to Client, but only for the purpose of confirming the accuracy of factual material and the reasonableness of assumptions relied upon in this Report.

RPM has been paid, and has agreed to be paid, professional fees based on a fixed fee estimate for its preparation of this Report. Its remuneration is not dependent upon the findings of this Report or on the outcome of the transaction.

None of RPM or its directors, staff or specialists who contributed to this Report have any economic or beneficial interest (present or contingent), in:

- the Assets, securities of the companies associated with the Assets or that of Client; or
- the right or options in the Relevant Assets; or
- the outcome of the proposed transaction.

This CPR was compiled on behalf of RPM by the signatories to this CPR, details of whose qualifications and experience are set out in ***Appendix A*** of this CPR. The specialists who contributed to the findings within this CPR have each consented to the matters based on their information in the form and context in which it appears.

RPM Qualifications and Experience

RPM's advisory division operates as independent technical consultants providing services across the entire mining life cycle including exploration and Assets feasibility, resource and reserve evaluation, mining engineering and mine valuation services to both the mining and financial services industries.

RPM is the market leader in the innovation of advisory and technology solutions that optimize the economic value of mining Assets and operations. RPM has serviced the industry with a full suite of advisory services for over 45 years and is the largest publicly traded independent group of mining technical experts in the world having completed over 13,000 studies across all major commodities and mining methods, and worked in over 118 countries globally. This report was prepared on behalf of RPM by technical specialists, details of whose qualifications and experience are set out in **Appendix A**.

RPM has been paid, and has agreed to be paid, professional fees for its preparation of this report; however, none of RPM or its directors, staff or sub-consultants who contributed to this report has any interest or entitlement, direct or indirect in:

- the Company, securities of the Company or companies associated with the Company; or
- The right or options in the relevant Assets.
- The work undertaken is an ITR of the information provided by or on behalf of the Company, as well as information collected during site inspections completed by RPM as part of the ITR process. It specifically excludes all aspects of legal issues, marketing, commercial and financing matters, insurance, land titles and usage agreements, and any other agreements/contracts that Company may have entered into.

RPM does not warrant the completeness or accuracy of information provided by the Company which has been used in the preparation of this report.

The title of this report does not pass to the Client until all consideration has been paid in full.

Drafts of this report were provided to the Client, but only for the purpose of confirming the accuracy of factual material and the reasonableness of assumptions relied upon in the report.

Generally, the data available was sufficient for RPM to complete the scope of work. The quality and quantity of data available, and the cooperative assistance, in RPM's view, clearly demonstrated the Company's assistance in the ITR process. All opinions, findings and conclusions expressed in the report are those of RPM and its specialist advisors.

Yours faithfully,

Doug Sillar

Senior Mining Engineer (Competent Person – Hong Kong Chapter 18)
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1. Introduction

Runge Asia Limited trading as RungePincockMinarco ("RPM") has been engaged by Yanzhou Coal Mining Co. Ltd. (HKEx:1171) referred to as ("Yanzhou" or "the Client") to undertake an Independent Technical Review ("ITR") and compile a Competent Person Report ("CPR" or the "Report") (as defined by Chapter 18 of the Rules Governing the Listing Rules of the Stock Exchange of Hong Kong (the "Listing Rules") on the Hunter Valley Coal Assets (the "Assets"). The Assets, include the Mount Thorley Warkworth and Hunter valley operations both of which are located in the Hunter Valley, New South Wales, Australia (***Figure 1-1***), and are currently owned and operated by Coal & Allied (the "Company") which is a wholly owned subsidiary of Rio Tinto Coal Australia ("the RTCA"). Considered to be world class (Tier 1) thermal and semi-soft coal projects, the business consists of multiple mines, which process and manufactures market ready coal products for international demand. The Assets have been in continuous production for over 45 years with well-established and integrated mining and processing infrastructure which is interconnected with both road and rail networks and serviced by a deep water port facility in Newcastle.

1.1 RPM Scope of Work

RPM's scope of work included:

- Gathering of relevant information on the Assets including resources and reserves information, Life if Mine ("LOM") production schedules, and operating and capital cost information;
- Reviewing of the Company's resources and reserves, including quantity and quality of drilling, reliability of data, and adequacy of resource and reserve estimation methods;
- Estimation of independent Coal Resources and Coal Reserves (as defined in Appendix B) reported in compliance with the recommended guidelines of the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code"), prepared by the Joint Ore Reserves Committee ("JORC") and the Australian Guidelines for the Estimation and Classification of Coal Resources (2014)
- Reviewing and commenting on the exploration prospect of the Assets;
- Reviewing and commenting on forecast operating and capital expenditures in the relevant technical studies;
- Reviewing the Assets short term and long term development plans;
- High level review of the environmental, health and safety risks and management plans for the Assets; and
- Compilation of a CPR as defined under Chapter 18 of the Listing Rules.

1.2 Relevant Assets

The Assets operations includes the Hunter Valley Operation and Mount Thorley Warkworth Operation located to the west of the town of Singleton in New South Wales Australia. These operations contain coal deposits as well as a four coal preparation and handling facilities. Coal Products include a range of thermal coal products as well as semi soft coking coal products. All products are currently exported through the Newcastle port which allows direct access to international markets via the Pacific Ocean (***Figure 1-1)***.

1.3 Review Methodology

RPM's ITR methodology was as follows:

- Review existing reports and data,
- Conduct a Competent Person's site visit,
- Discussions with Assets personnel of the Company prior to and following the site visit,
- Independent Estimation and Reporting of Coal Resources and Coal Reserves in accordance with the JORC Code (2012) and Australian Coal Guidelines (2014),, and

- Preparation of a CPR and provision of drafts of the CPR to Client's personnel to ensure factual accuracy and reasonableness of assumptions.

The comments and forecasts in this CPR are based on information compiled by enquiry and verbal comment from the Client and Assets personnel from the Company. Where possible, this information has been checked with hard copy data or by comment from more than one source. Where there was conflicting information on issues, RPM used its professional judgment to assess the issues.

1.4 Site Visits and Inspections

RPM visited the mines and processing facilities between the dates of February 16th, 2017 to perform technical due diligence on the Assets. RPM's site visit team consisted of:

- Trisha Wilson, Senior Mining Engineer
- Peter Ellis, Principal Geologist,
- Jolyon Peart – Environmental Consultant

RPM notes that Hong Kong Competent Person (Mr. Doug Sillar, as noted in ***Section 1.6***) was not part of the site visit team, however the JORC Competent Person for Coal Resource and a representative of the CP was part of the team. As part of the Hong Kong Competent Person responsibilities Mr. Sillar has relied on the relevant experts who completed the site visit as part of his confirmation of the works completed.

1.5 Information Sources

Several geology studies, feasibility studies, design reports, life of mine budgets and schedules were provided for the Assets as well as recent operational data.

1.6 Competent Person and Responsibilities

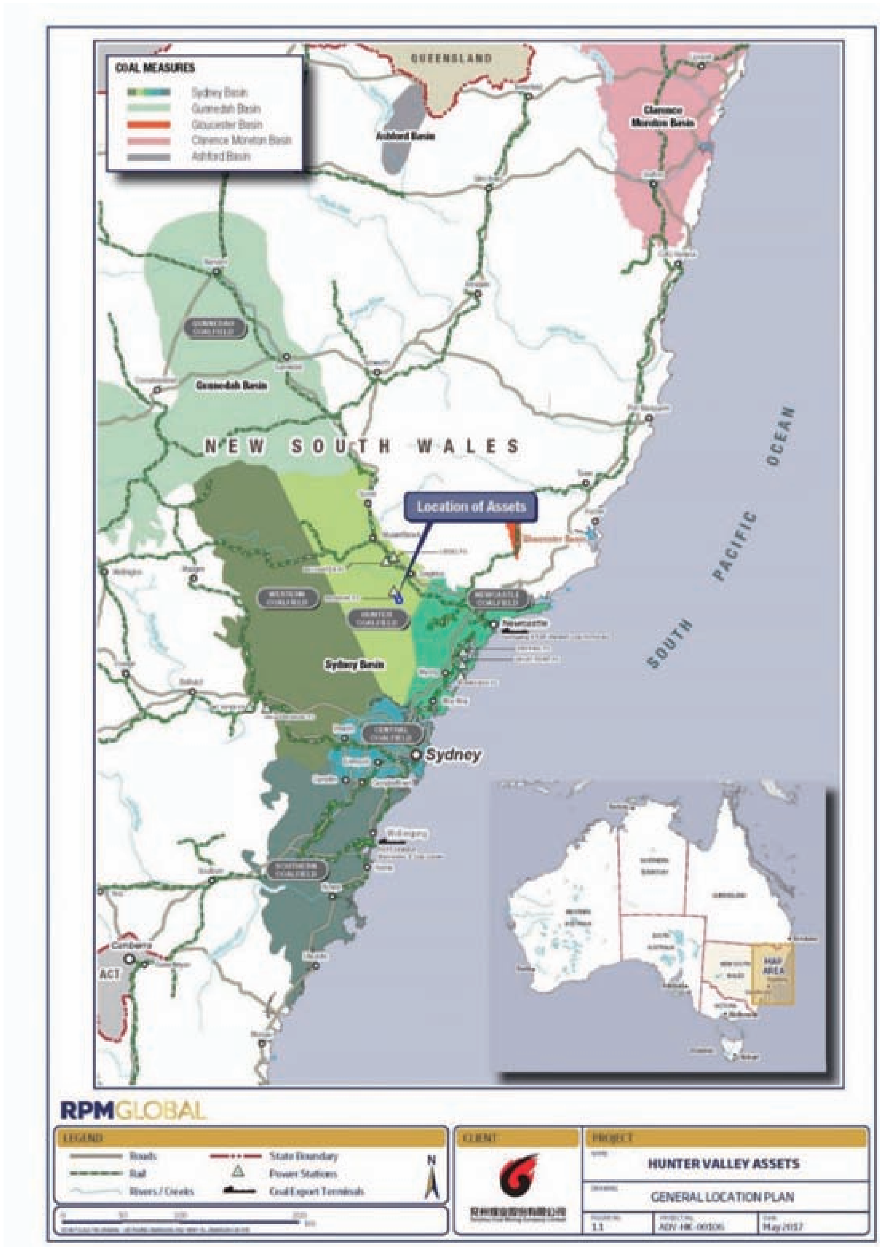
The Statements of Coal Resources and Coal Reserves have been reported in accordance with the recommended guidelines of the JORC Code and are suitable for inclusion in a CPR as defined by Chapter 18 of the Listing Rules.

1.6.1 Team Responsibility

As part of the Team, members who have worked to compile this report include the following:

- Mr. Peter Ellis– Peter was responsible for review of the drill hole database and estimation of the Coal Resources stated within this Report.
- Mr. Doug Sillar – Doug was responsible for review of the mining parameters, mine scheduling and estimation of the Coal Reserves stated within this Report.
- Mr. Aaron Simonis – Aaron was responsible for open cut mine scheduling.
- Mr. Trisha Wilson – Trisha was responsible for the review of the open cut mine design and scheduling.
- Mr. Lucy Powers – Lucy was responsible for review of the wash plants.
- Ms. Jolyon Peart– Jolyon was responsibility for the review of the environmental and social aspects of the Assets.
- Mr. Henri DeBranche– Henri was responsibility for the review of the environmental and social aspects of the Assets.
- Mr. Jeremy Clark – Jeremy was responsible for internal peer review of the Report.
- Mr. Philippe Baudry– Phillipe was responsible for the final internal peer review and approval of the Report.

Figure 1-1 General Location Map



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1.6.2 Coal Resources

The information in this report that relates to the Coal Resources of the Assets is based on information compiled and reviewed by **Mr. Peter Ellis**, who is a member of the Australasian Institute of Mining and Metallurgy and is a full time employee of RungePincockMinarco.

Mr Ellis has sufficient experience that is relevant to the style of mineralization and types of coal deposits under consideration, and to the activity he is undertaking, to qualify him as a Competent Person (as defined in the 2012 Edition of the JORC Code). He has more than fifteen years of experience in the mining industry and has visited the mine sites.

Mr Ellis has no interest whatsoever in the mining Assets reviewed and will gain no reward for the provision of this Coal Resource Statement. RPM will receive a professional fee for the preparation of this statement.

Peter Ellis BSc (Geology) (Hons) MAusIMM.

1.6.3 Coal Reserves

The information in this report that relates to the Coal Reserves of the Hunter Valley Operations and Mount Thorley Warkworth Mines is based on information compiled and reviewed by **Mr. Doug Sillar**, who is a member of the Australasian Institute of Mining and Metallurgy and is a full time employee of RungePincockMinarco.

Mr Sillar has sufficient experience that is relevant to the style of mineralisation and types of coal deposits under consideration, and to the activity he is undertaking, to qualify him as a Competent Person (as defined in the 2012 Edition of the JORC Code). He has more than fifteen years of experience in the mining industry.

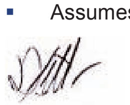
Mr Sillar has no interest whatsoever in the mining Assets reviewed and will gain no reward for the provision of this Coal Reserve Statement. RPM will receive a professional fee for the preparation of this statement.

Doug Sillar BE (Min)(Hons) MAusIMM.

1.6.4 HKEx Competent Person

Mr. Doug Sillar meets the requirements of a Competent Person, as defined by Chapter 18 of the Listing Rules. These requirements include:

- Greater than five years' experience relevant to the type of deposit;
- Member of the Australian Institute of Mines and Metallurgy ("AUSIMM"), which is a Recognized Professional Organizations as per the HKEx and JORC Code.
- Does not have economic or beneficial interest (present or contingent) in any of the reported Relevant Assets;
- Has not received a fee dependent on the findings outlined in the Competent Person's Report;
- Is not an officer, employee or proposed officer for the Client or any group, holding or associated company of the issuer, and
- Assumes overall responsibility for the Competent Person's Report.



Doug Sillar (Hong Kong Competent Person) (MAUSIMM)

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1.7 Limitations and Exclusions

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The work undertaken for this Report is that required for a technical review of the information, coupled with such inspections as the Team considered appropriate to prepare this Report.

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RPM has specifically excluded making any comments on the competitive position of the Relevant Assets compared with other similar and competing producers around the world. RPM strongly advises that any potential investors make their own comprehensive assessment of both the competitive position of the Relevant Assets in the market, and the fundamentals of the coal markets at large.

1.7.1 Limited Liability

This Report has been prepared by RPM for the purposes of Client for inclusion in its Circular in respect of the proposed acquisition of the Assets in accordance with the Listing Rules and is not to be used or relied upon for any other purpose. RPM will not be liable for any loss or damage suffered by a third party relying on this report or any references or extracts therefrom contrary to the purpose (regardless of the cause of action, whether breach of contract, tort (including negligence) or otherwise) unless and to the extent that RPM has consented to such reliance or use.

1.7.2 Responsibility and Context of this Report

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This report contains forecasts, estimates and findings that may materially change in the event that any of the information supplied to RPM is inaccurate or is materially changed. RPM is under no obligation to update the information contained in the report.

Notwithstanding the above, in RPM's opinion, the data and information provided by or on behalf of Client or the Company was reasonable and nothing discovered during the preparation of this Report suggests that there was a significant error or misrepresentation of such data or information.

1.7.3 Indemnification

Client has indemnified and held harmless RPM and its subcontractors, consultants, agents, officers, directors, and employees from and against any and all claims, liabilities, damages, losses, and expenses (including lawyers' fees and other costs of litigation, arbitration or mediation) arising out of or in any way related to:

- RPM's reliance on any information provided by Client and the Company; or
- RPM's services or materials; or
- Any use of or reliance on these services or material,

save and except in cases of death or personnel injury, property damage, claims by third parties for breach of intellectual property rights, gross negligence, willful misconduct, fraud, fraudulent misrepresentation or the tort of deceit, or any other matter which be so limited or excluded as a matter of applicable law (including as a Competent Person under the Listing Rules), and regardless of any breach of contract or strict liability by RPM.

1.7.4 Mining Unknown Factors

The findings and opinions presented herein are not warranted in any manner, expressed or implied. The ability of the operator, or any other related business unit, to achieve forward looking production and economic

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targets is dependent upon numerous factors that are beyond RPM's control and which cannot be fully anticipated by RPM. These factors include site specific mining and geological conditions, the capabilities of management and employees, availability of funding to properly operate and capitalise the operation, variations in cost elements and market conditions, developing and operating the mine in an efficient manner, etc. Unforeseen changes in legislation and new industry developments could substantially alter the performance of any mining operation.

1.7.5 Capability and Independence

RPM provides advisory services to the mining and finance sectors. Within its core expertise it provides independent technical reviews, resource evaluation, mining engineering and mine valuation services to the resources and financial services industries.

RPM has independently assessed the Relevant Assets of the Assets by reviewing pertinent data, including resources, reserves, manpower requirements and the life of mine plans relating to productivity, production, operating costs and capital expenditures. All opinions, findings and conclusions expressed in this Report are those of RPM and its specialist advisors.

Drafts of this Report were provided to Client, but only for the purpose of confirming the accuracy of factual material and the reasonableness of assumptions relied upon in this Report.

RPM has been paid, and has agreed to be paid, professional fees based on a fixed fee estimate for its preparation of this Report. Its remuneration is not dependent upon the findings of this Report or on the outcome of the transaction.

None of RPM or its directors, staff or specialists who contributed to this Report have any economic or beneficial interest (present or contingent), in:

- the Assets, securities of the companies associated with the Assets or that of Client; or
- the right or options in the Relevant Assets; or
- the outcome of the proposed transaction.

This CPR was compiled on behalf of RPM by the signatories to this CPR, details of whose qualifications and experience are set out in Annexure A of this CPR. The specialists who contributed to the findings within this CPR have each consented to the matters based on their information in the form and context in which it appears.

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2. Project Overview

Considered world class, the business consists of multiple open pit mines which process and manufacture market ready coal products for international demand. The Assets are contained within a series of Mining and Exploration licenses (***Figure 1-1***) which are split into two areas, namely the Hunter Valley ("HVO") and Mount Thorley Warkworth ("MTW") operations. Coal occurs in multiple near surface 5^{o} dipping highly continuous seams which are exploited via conventional large scale coal open pit mining methods. Run of Mine ("ROM") Coal is washed at one of two Coal Handling Processing Plants ("CPP") per operation and loaded on trains via dedicated train loading points (two at HVO and two at MTW). All Coal products are transported via a single rail link to the deep water Port of Newcastle (100km). The operations produce several thermal coal products and a semi soft coking coal product (***Section 2.4***) which can be customized and quantities can be varied based on market and customer demands.

2.1 Assets Location and Access

The Assets' operations are located in adjacent landholdings in the Hunter Valley region of NSW, Australia (***Figure 1-1***), approximately 150 km north of Sydney and 90 km inland from Newcastle. HVO is centred 24 km northwest of the regional town of Singleton, while MTW is centred approximately 14 km south east of Singleton. Both operations are accessed by a network of excellent quality regional roads from Singleton and further via national highway to the port areas at Newcastle the major city of Sydney.

In addition, the operations are adjacent to the extensive Hunter Valley railway network which services a large number of mines in the region while the Newcastle airport allows connection to most eastern seaboard cities.

2.2 Current Operations

Mining at the Assets commenced in the 1960's and has continued to the present via conventional large scale dragline and truck and shovel methods. Multiple pits are currently active enabling the operations flexibility to optimize the product blends and mining fleets to de-risk mining activities. The Company is a major regional landholder and employer with the Assets considered one of the premier high quality thermal coal providers globally.

The HVO currently produces thermal and semi-soft coking coal ("SSCC)" via five pits and produced approximately 18 Million tonnes ("Mt") of run-of-mine ("ROM") coal for 13.6 Mt of Product coal in 2016. Mining activities are geographically divided by the Hunter River into the HVO North and the HVO South areas, and are optimized as part of the overall blending strategy. Current mining focuses on the West and the Carrington pits in the North, and the Cheshunt and Riverview pits in the South (***Figure 2-1*** *and* ***Figure 2-2***). ROM Coal from the pits is hauled to either of two CPP's which have a combined throughput capacity of 20 million tonnes per annum ("Mtpa"), which include the Hunter Valley Coal Processing Plant ("HV-CPP") (16.8 Mtpa) and the Howick Coal Processing Plant (Howick-CPP") (3.2 Mtpa). Currently the majority of ROM coal is hauled to the HV-CPP, however coal from the West pit is hauled to the Howick-CPP for processing.

Following processing, Product Coal is transferred by haul truck from the Howick-CPP to the Newell Rail Loading Point and by conveyor to the Hunter Valley Rail Loading Point ("HV-Rail Loading) from the HV-CPP. RPM notes that further blending occurs at the rail heads via conveyors to further optimize and add value to the products to meet specific customer specifications. Product coal is railed 107 km to the port facility in Newcastle for export.

MTW produces thermal coal and SSCC from three active pits, the North, West and Loders. Similar to HVO, MTW is separated by a geographical structure, Putty Road, which separates the operation into the southern Mount Thorley and the northern Warkworth areas (***Figure 2-3***). Approximately 12.3 Mt of Product Coal (18.1 Mt ROM Coal) was produced in 2016 from two plants which have a combined throughput capacity of 18.6 Mtpa ROM Coal. The two MTW plants are the Mount Thorley CPP ("MT-CPP) (8.4 Mtpa) and the Warkworth CPP (WW-CPP) (10.2 Mtpa). Thermal ROM Coal is directly fed into the WW-CPP, whilst SSCC is trucked to the MT-CPP as it consists of a two product washing facility which enables SSCC and a high ash thermal coal to be produced from a single seam.

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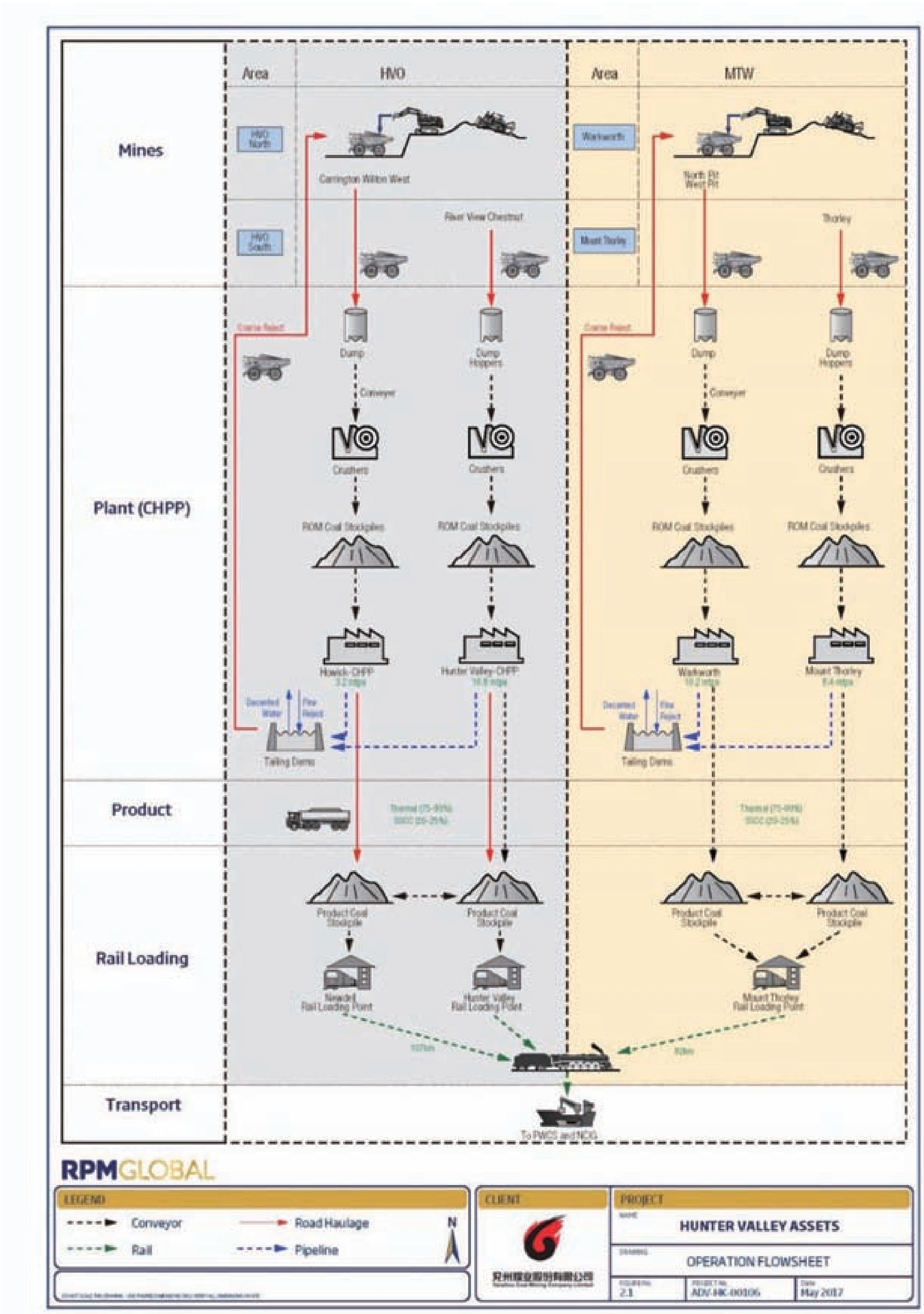
Figure 2-1 Operations Flowsheet



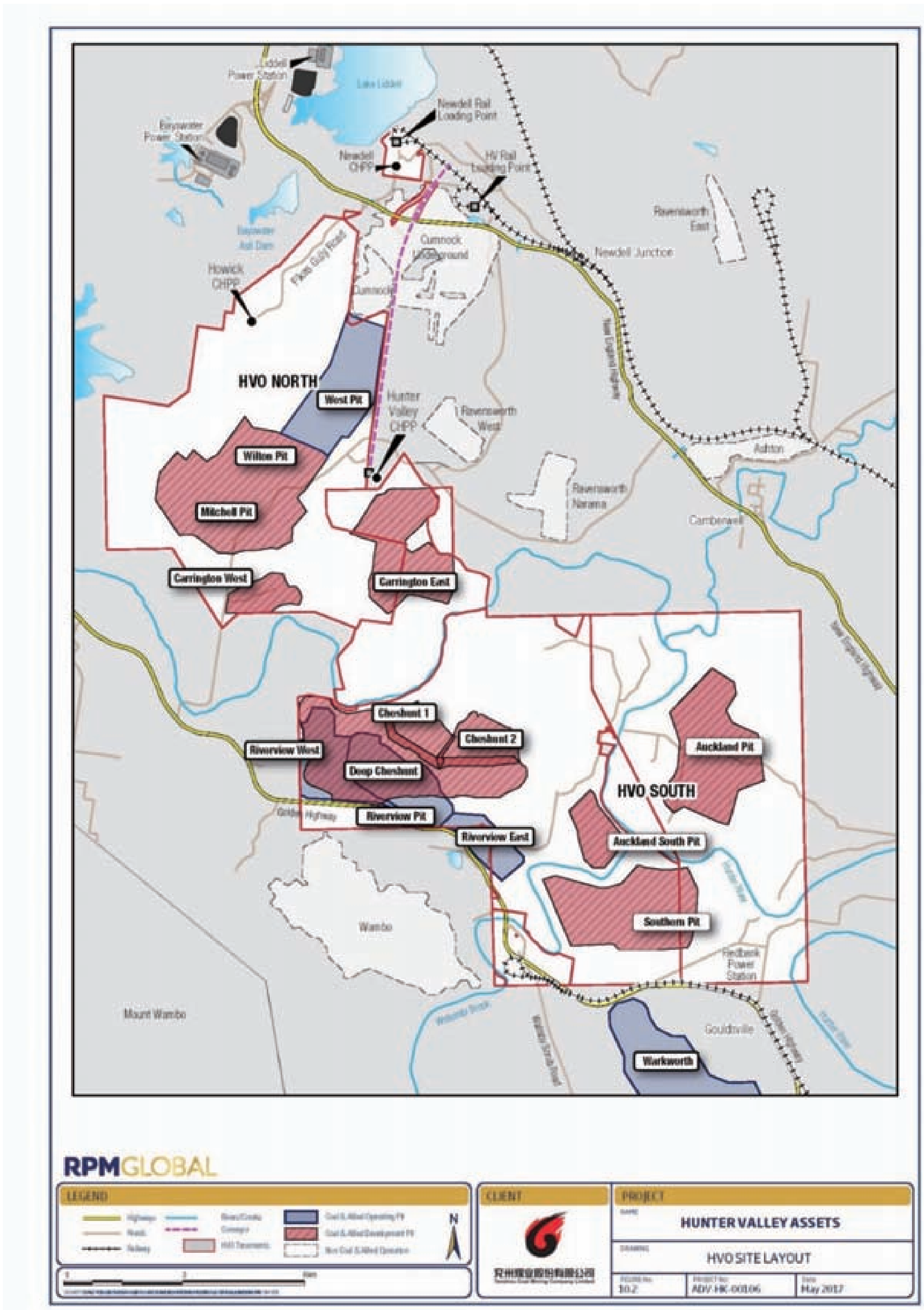
Following washing the coal products are conveyed from each plant to the Mount Thorley Rail Loading Point. Similar to HVO, further blending occurs at the railhead prior to loading on rail carts for transport 82 km to the Newcastle port. RPM notes this is same rail line as used by HVO.

RPM has estimated the total Coal Reserves to be approximately **1,172Mt** which consists of **824M**t at HVO and **348Mt** at MTW. Over the 44 year LOM, the HVO pit stripping ratio will average 5.8 bank cubic metres ("bcm") prime waste to 1.0 t ROM Coal, while at MTW the average prime strip ratio will be 6.5 bcm/t over the 24 year LOM.

The Assets are operated as unincorporated joint ventures which differs between the operations. The Company owns 67.6% and manages the HVO joint venture, with Mitsubishi owning the remaining 32.4 %. MTW has operated as a combined operation of the Mount Thorley and Warkworth areas since 2004 however the Company's interest in each varies. The Company owns an 80% interest in Mount Thorley (Posco owns the remaining 20%) and a 55.574% interest in Warkworth (Mitsubishi, Nippon Steel and Mitsubishi Materials are the other joint venture parties). An Operational Integration Agreement ("OIA") allows MTW to be managed as one integrated operation by the Company. Under the terms of the OIA, export coal can be produced from either area and is allocated between the two joint ventures based on a tonnage commitment ratio. Since entering into the OIA, the tonnage commitment ratio has been Warkworth (65%) and Mount Thorley (35%), resulting in the Company receiving 64.1% of total production from the combined MTW operation.

RPM highlights that the statements contained within this Report all Coal Resources and Coal Reserves within the Assets on a 100% equity basis.

Figure 2-2 HVO Layout Plan



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2.3 Product Types

Two Product Coal types are produced from the Assets, these include Thermal and Semi Soft Coking Coal however several thermal coal products are produced as outlined below. RPM presents this for information and refers the reader to the Competent Valuation report in Appendix XII and the business section of the Circular for further information.

2.3.1 Thermal Coal

Historically the Hunter Valley region, where the Assets are located, has been the source of large volumes of high quality bituminous coal. As a result, for several decades these coals have been used as the basis for the design of power plants in the major developed economies of Japan, Korea and Taiwan, and the developing economies in south-east Asia. The Thermal coal produced, and importantly planned to continue as part of the LOM plan, is consistent with historical high quality thermal coals, and customers expected requirements. The coals are characterised by low ash, low sulphur, favourable fuel ratio, high energy and benign ash chemistry, as shown in historical production averages in ***Table 2-1***. The operations typically produce three thermal Product Coal types based on ash content, Low Ash, Medium Ash and High Ash. As would be expected these three product types attract different customers and prices with specifications varying between customers

Table 2-1 Assets Average Thermal Coal Quality

Quality	Unit	Value
Calorific Value	kcal/kg, gar	6,322
Ash (ad)	%	13.5
Total Moisture (ar)	%	10.0
Fixed Carbon (ad)	%	53.0
Sulphur (ad)	%	0.55
Volatile matter (ad)	%	31.0
HGI		50

Source: Provided by the Company

2.3.2 Semi-soft coking coal characteristics

Semi Soft Coking Coal can be produced in a limited number of seams in the lower Hunter Coalfield within which the Company has a large footprint. This Product Coal type is highly regarded by steel mills throughout Asia for various reasons, most particularly the low impurities in the coal. The average SSCC historical production qualities are shown in ***Table 2-2*** for reference.

Table 2-2 Assets Average Semi Soft Coking Coal Quality

Quality	Unit	Value
Ash (ad)	%	10.0
Total Moisture (ar)	%	55.0
Fixed Carbon (ad)	%	0.55
Volatile Matter (ad)	%	33.5
Phosphorous (ad)	%	0.015
Free swelling index		6
Fluidity (ddpm)		150

Source: Provided by the Company

2.4 Market Overview

The major traditional thermal coal markets of Japan, Taiwan and South East Asia are the primary customers of the Company. Japanese power utilities and some customers in Taiwan and Korea seek high energy, low ash coal to enhance boiler efficiency and/or reduce ash disposal costs. RPM is aware that the Company's semi-soft coking coals are sought in significant and increasing proportions by North Asian steel mills for their coking coal blends.

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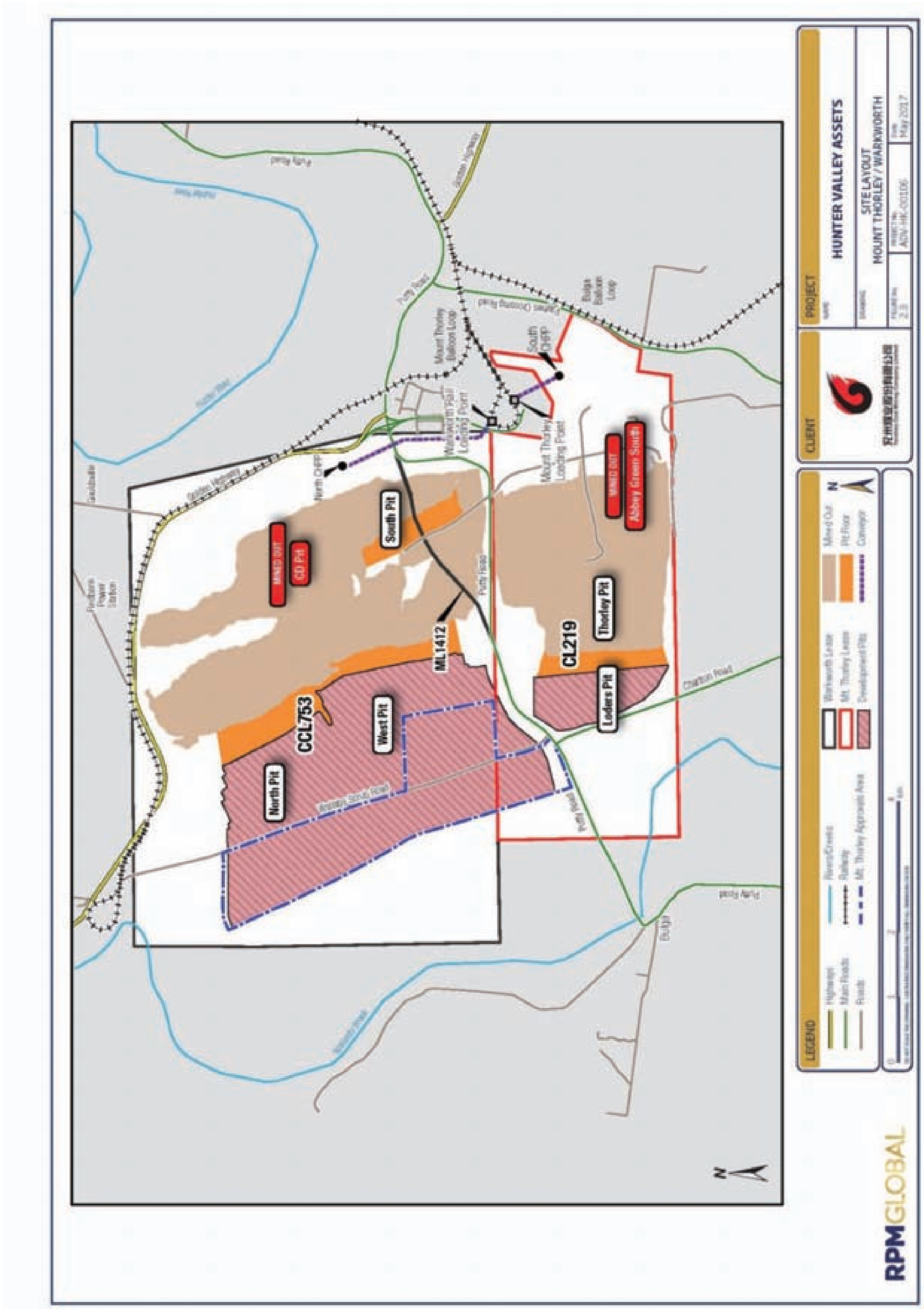
Figure 2-3 MTW Location



2.5 Regional Environment

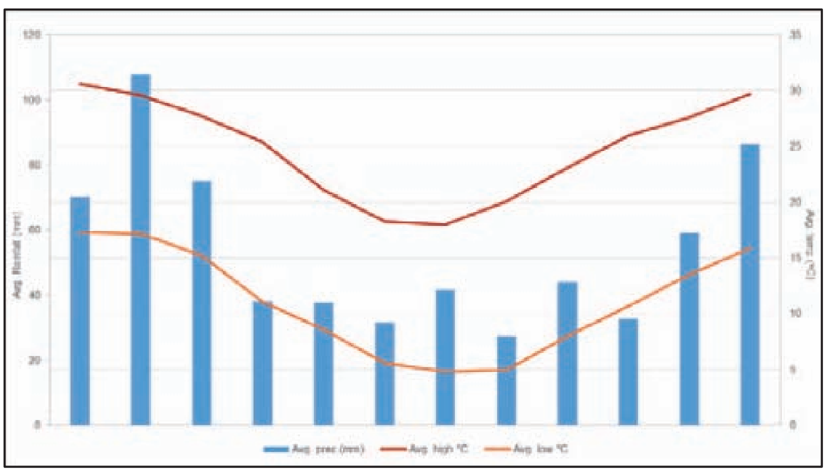
2.5.1 Geography

The Hunter Valley region on and inland from the central coast of New South Wales (***Figure 1-1***), which is commonly known as the Hunter Valley. This area extends approximately 120 km to 310 km north of Sydney with the land forms dominated by the major regional Hunter River and its tributaries with highland areas to the north and south. The Hunter Valley is one of the largest river valleys on the NSW coast, and has rolling hills incised by river and creek systems.

2.5.2 Climate

The region has a humid sub-tropical climate with hot wet summers and cool drier winters. The rainfall observed and moderate temperature ranges result in little to no impact on mining activities and plentiful water supply. The average annual temperature is 17.6°C and has an average rainfall of 692 mm per annum with the driest month being July and the highest rainfalls occur between December and February as outlined in ***Figure 2-4***.

Figure 2-4 Regional Average Rainfall and temperature



2.6 Industry

Apart from mining, other major industries in the region include Defence, tourism, light industry, vineyards, horse breeding, and cattle production. The largest employment industry is coal mining, which employs 24 % of the regions workforce followed by Defence with almost 4 % of the workforce at the Lone Pine Army base located 6km to the south of Singleton.

2.7 Regional and Local Infrastructure

In addition to the open pit mining, maintenance and the surface processing plant and office infrastructure, significant regional and local infrastructure provides support to the operations and the forecast production. A review by RPM of the regional and local supporting infrastructure indicates that the area has suitable power, water and transport logistics connecting the operating Assets to international markets to support the Life of Mine ("LOM") production presented in this Report. The Assets are located close to well established excellent quality highways and rail infrastructure (***Figure 2-2 and Figure 2-3***), water sources and regional towns which provide accommodation and support services for the mining operation and its personnel. Further details of the supporting infrastructure are provided in ***Section 11*** and ***Section 12***.

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3. Licenses and Permits

The Company holds numerous current mining tenements including mining and exploration licences (permits), business, environmental and safety permits. These enable the Company's operations including mining, major surface facilities and coal handling, management, electrical infrastructure, waste and TSF emplacement, and exploration. Below is a summary of the key permits,

RPM provides this information for reference only and recommends that land titles and ownership rights be reviewed by legal experts.

3.1 Coal Concessions and Surface Rights

All key mining tenements are currently valid for the continued operation of the Assets to support the planned production rates. All relevant mining and exploration licenses and authorizations held by the Company are listed in ***Table 3-1*** and are shown graphically in ***Figure 2-2 and Figure 2-3***.

The HVO Resource is covered by a significant number of leases, which in many cases are stratified with a range of basal depths. The majority of the tenements in which mining is planned have a basal depth of 900m below the natural surface (AHD) or unlimited depth, (to the centre of the earth). Tenure that is depth limited includes CCL 755 which is limited to 5m below the Vaux seam and ML1324 where depth is limited to 5m below the Bayswater seam.

RPM notes that, as per normal NSW regulations, the exploration concessions have renewal deadlines). RPM understands the Company has preemptive rights to renew these licenses as per standard applications with the regulators. As shown in ***Table 3-1*** the various concessions also contain the rights for various coal seams which coincide with the known deposits and mining areas.

Table 3-1 Mining and Exploration Rights

HVO Tenement	Expiry Date	MTW Tenement	Expiry Date
Mining Leases (ML)/Coal Mining Leases (CML)			
ML 1324	19 August 2014	ML 1590	26 February 2028
ML 1337	9 September 2014	ML 1412	10 January 2018
ML 1359	1 November 2015	ML 1547[1]	4 April 2025
ML 1406	10 February 2027		
ML 1428	14 April 2019		
ML 1465	21 February 2021		
ML 1474	23 November 2021		
ML 1482	14 April 2019		
ML 1500	20 December 2022		
ML 1526	2 December 2023		
ML 1560	27 January 2026		
ML 1589	1 November 2027		
ML 1622	10 March 2027		
ML 1634	31 July 1930		
ML 1682	16 December 1933		
ML 1704	5 December 1935		
ML 1705	17 December 1935		
ML 1706	9 December 1935		
ML 1707	9 December 1935		
ML 1732	6 April 1937		
CML 4	3 June 1933		
Coal Leases (CL)/Consolidated Coal Leases (CCL)			
CL 398	4 June 1934	CL 219	23 September 2023
CL 327	6 March 1931	CCL 753	17 February 2023
CL0360	29 May 1932		
CL0359	21 May 1932		
CL0 378[1]	10 March 2027		
CL0584	31 December 2023		
CCL 708[1]	30 December 2023		
CCL 714	30 August 1930		
CCL 755	5 March 1930		
Mining Lease Applications (MLA)			

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MLA 468	24 January 2014[2]	MLA 352	2 June 2010[2]
MLA 501	10 July 2015[2]	MLA 353	2 June 2010[2]
MLA 495	12 May 2015[2]		
MLA 496	12 May 2015[2]		
MLA 488	10 March 2015[2]		
MLA 489	10 March 2015[2]		
MLA 520	23 December 2015[2]		
Exploration Licences (EL)/Authorisations (AUTH)/Assessment Leases (AL)			
ML 1324	18 August 2014[2]	MLA 352	2 June 2010[2]
ML 1337	9 September 2014[2]	MLA 353	2 June 2010[2]
EL 5292	27 April 2015[2]	MLA 352	2 June 2010[2]
EL 5417	8 May 2015[2]		
EL 5291	23 September 2015[2]		
ML 1359	31 October 2015[2]		
Auth 72	24 March 2018		
EL 8175	22 September 2018		
ML 1428	14 April 2019		
ML 1482	14 April 2019		
EL 5606	10 August 2019		
ML 1465	12 February 2021		
ML 1474	23 November 2021		
ML 1500	20 December 2022		
ML 1526	2 December 2023		
Part CCL 708	29 December 2023		
CL 584	31 December 2023		
EL 5418	8 May 2017		

[1] *Partially owned tenements.*

[2] *Application date.*

Source: Provided by the Company

3.2 Water Rights

Water required for the operations is sourced by various methods, including wells and surface sumps and the Hunter River. As such numerous water rights permits are required for the Assets. All permits are current in good standing to support current production. Further information is provided in ***Section 14***.

3.3 Environmental and Operating Permits

The Company currently holds numerous environmental, construction, and operating permits that's are described in ***Section 14***. The permits include the waste and tails dam facilities construction and operating permits, water well drilling and extraction permits and various operating and environmental permits. RPM has completed an overview of these permits, and considers them in good standing to support the continued operation of the Assets for the foreseeable future. RPM does note that as per typical Australian standards, various permits and licenses need to be periodically renewed as per any long standing and operating mining and processing operations. RPM is not aware of any reason for these permits to not be renewed pending the correct and suitable application procedure.

Further details on tenements, approvals and licenses held by the Company are provided in ***Section 14***.

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4. Assets History

4.1 Exploration History

The Assets have a long history of systematic exploration which has included geological mapping, geophysical and geochemical surveys as well as a large amount of surface diamond and open hole drilling as outlined below.

4.1.1 MTW

Prior to the acquisition and aggregation of the operations by the Company, several companies completed exploration works which include the following:

- Exploration in MTW commenced in 1949 by the Joint Coal Board (JCB) which completed a series of shallow percussion boreholes. It was not until 1976 that development of the Warkworth Mining Limited (WML) and Mount Thorley Operations (MTO) areas was considered in earnest.
- 1960's: Clutha Bargo explored the Whybrow Seam for coking coal potential.
- 1970-1975: Department of Mines conducts fully cored hole drilling program (DM Warkworth and DM Doyles Creek series).
- 1976: Warkworth Consortium formed (later established as WML) and awarded mining bid for Warkworth area. Commenced exploration program with 12 rigs drilling fully cored, HQ-size holes and large diameter (LD) core drilling in selected seams.
- 1976: Drilling program started at the Mt Thorley site – similar to Warkworth drilling program. Main concentration of drilling was in the shallower, eastern parts of the lease.
- 1980s & 1990s: The main focus at Warkworth was open-hole drilling. Mt Thorley increased open hole drilling in advance of production, and made a concerted effort at core drilling during the 1990s.

4.1.2 HVO

HVO is an amalgamation of three previously independent mining operations, namely: Howick, Hunter Valley, and Lemington. Each mine was developed at different times and was subject to different exploration philosophies and exploration work. Some of the initial exploration work is summarised below:

- Howick open-cut (west pit) – exploration initiated in the 1940s and 1950s completed by the Joint Coal Board and the Bureau of Mineral Resources. Drilling to 200m–300m spacing for cored holes and 50m–150m spacing for open holes.
- Hunter Valley No.1 & 2 mines – exploration initiated in the 1960s and early 1970s by the New South Wales (NSW) Department of Mines. Drilling to 212m spacing for cored holes and 100m spacing for open holes.
- Lemington South open-cut and underground mines – exploration initiated in the 1970s by the Joint Coal Board. Drilling to 200m– 800m spacing for cored holes.

4.2 Mining History

The Relevant Assets are an amalgamation of five coal mining operations which combined have been in production for over 45 years via various large scale open pits and small bord and pillar underground operations at Lemington.

HVO comprises the Howick, Hunter Valley and Lemington Assets which included the following:

- The Lemington Mine, which began production in 1971, was acquired and merged into HVO in 2001.
- Coal production began at the Howick Coal Mine in 1968 in what is known as the West Pit at HVO. In 2000 the Howick Coal Mine became part of Rio Tinto's Hunter Valley Operations as a result of the merger with Hunter Valley Mines.
- The Hunter Valley No. 1 Mine began production in 1979.

In 2000 the Company merged the Howick and Hunter Valley mines to create the Hunter Valley Operations. The Lemington mine was acquired and merged into Hunter Valley Operations in 2001.

MTW comprises the Mt Thorley and Warkworth Assets and includes the following

- Mount Thorley has been in operation since 1981, and after a business restructuring of mining company W. Miller, Coal & Allied became managers of the mine in 1989.
- Warkworth Mining began operations in the same year as Mount Thorley in 1981, and in 2001 Coal & Allied purchased an interest in the mine. In January 2004, the two mines were integrated to improve efficiency by operating as one business.

Currently mining is being completed at both Assets with recent production outlined in ***Table 4-1***.

Table 4-1 2014 to 2016 Operations Historical Coal Production by Type and Operation.

Operation	Coal Type	Unit	2014	2015	2016*
HVO	**Prime waste**	**KBCM**	93,387	104,337	88,272
	Rehandle waste	**KBCM**	13,330	10,399	12,231
	ROM Coal	**kt**	17,989	17,157	15,119
	Coal Processed	**kt**	17,977	17,297	14,986
	SSCC (kt)	**kt**	**1,901**	**2,966**	**3,125**
	Thermal (kt)	**kt**	**12,245**	**10,048**	**8,239**
MTW	**Overburden**	**KBCM**	98,019	103,156	80,054
	Rehandle waste	**KBCM**	34,371	29,912	31,728
	ROM Coal	**kt**	17,693	17,052	15,258
	Coal Processed	**kt**	17,159	17,159	17,159
	SSCC	**kt**	**2,886**	**2,277**	**1,892**
	Thermal	**kt**	**9,044**	**9,587**	**8,487**

Source: Provided by the Company
**As of End of October.*

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5. Geology

RPM has reviewed the geology of the two operations, on both a regional and deposit scale and considers the geology to be well understood and developed through the generations of geological mapping, data acquisition from drilling, geophysical surveys, interpretation and and development of three-dimensional models. Below is a summary of the key geological features of the Assets.

RPM notes that the below summary has largely been derived from information provided by the Company from various reports and sources, however it has been reviewed and edited based on RPM's opinion and site visit observations.

5.1 Regional and Deposit Geology

The Assets occur in the upper part of the Hunter Coalfield, which is located in the northern part of the Sydney Basin as shown in ***Figure 1-1***. The Sydney Basin forms part of the composite Permian-Triassic age Sydney-Gunnedah-Bowen Basin (SGBB) system, which extends for approximately 1,700 km from southern NSW to central Queensland. The Sydney – Gunnedah – Bowen Basin forms a 1,700 km long foreland basin of Early Permian to Late Triassic age. The basin is bounded by the New England Fold Belt to the north and this boundary is marked by a structural complex, the Hunter-Mooki Thrust. To the west and south, the basin strata lap onto older rocks of the Lachlan Fold Belt, and to the east, the basin's limit is marked by the edge of the continental shelf.

The Sydney Basin is one of the world's premier coal provinces containing multiple stacked sequences of thick bituminous-rank Permian coal measures. The Permian coal measures in the Sydney Basin are only weakly to moderately folded and faulted and as such are generally amenable to high productivity surface and underground mining methods.

The SGBB system evolved as a large, elongate geological complex, from the Late Carboniferous to the Middle Triassic (approximately 310 to 230 million years ago (Ma)). A series of contiguous basins which formed along the eastern part of the Gondwana continental margin have been subjected to a complex, multiphase history including early rifting in a back-arc environment, and thermal subsidence evolving into a retro-arc foreland basin. The prolonged, subsiding basin environment was suitable for coal accumulation.

Coal measure sedimentation in the Sydney Basin began in the early Permian and was terminated towards the end of the Permian by major uplift and basin tilting. The earliest Permian units were deposited in fluvial, coastal plain and marine environments on older Paleozoic basement rocks. This deposition was followed by rapid subsidence in the middle Permian, providing more space for sediment accumulation, with the main period of coal deposition occurring in the late Permian.

The sedimentary pile in the Sydney Basin is asymmetrical. The thickest accumulations are along the east-dipping Hunter-Mooki Thrust Fault System suggesting that subsidence was greatest along that fault. The sequence thins to the west. The Hunter Coalfield is a district-scale north-eastern subdivision of the Sydney Basin (***Figure 1-1***). The Permian coal bearing stratigraphic section contains two world class coal producing intervals termed the Whittingham and Greta coal measures.

5.2 Stratigraphy

The Late Permian Whittingham coal measures are the main focus of operations and its stratigraphy is outlined in ***Figure 5-1***. The existing operations exploit more than 100 individual seams (or seam plies) in over 20+ seam groups (or members) across the Vane and Jerrys Plains Subgroups. The thickness of the component stratigraphy varies laterally across Operations due to the presence of large channel sandstone deposits. Coal seams split and coalesce in various combinations at all stratigraphic intervals.

5.2.1 Whittingham Coal Measures

The Whittingham Coal Measures were deposited in a retroarc foreland basin during the Late Permian at a time when the Sydney-Bowen Basin complex was undergoing east–west compressional tectonics. The sediments were largely derived from the north (Hunter Mooki Thrust) and the east, shedding off a contemporaneous high associated with the New England Fold Belt and the already developed Hunter-Mooki

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Thrust System.

Palaeocontemporaneous highs such as the Loder Dome found in the Lower Hunter area probably influential the coal seam deposition at that time by acting as a basement high resulting in thinner Permian sediment deposition. Subsequent burial, rifting and recent compressional tectonics has all influenced the structural character of the area. The coal seams generally dip to the south and west at less than 4 to 6º.

The Whittingham Coal Measures are typically 100 to 300 m thick, and where they crop out around the Lochinvar Anticline are 60 to 75 m thick. Igneous activity occurred at various stages of geological history, particularly during the Jurassic, Late Cretaceous, and Tertiary, after deposition of the coal seams and as such cross cut the measures and influence continuity and coal qualities in the local vicinity.

The Whittingham Coal measures are subdivided in to two Subgroups, namely Jerrys Plains and Vane as outlined below and shown in in ***Figure 5-1***.

Jerrys Plains Subgroup

The Jerry's Plains Subgroup represents a complete cycle of terrestrial coal measure sedimentation up to 800 m thick. Interseam lithologies are typically lithic sandstones, shale and conglomerate, with siltstone, carbonaceous claystone and tuff also occurring throughout the sequence. This Subgroup is the major source of coal mined in the Hunter Coalfield and due to extensive work has been subdivided in various formation and further into seam member as outlined in ***Figure 5-1***.

The Jerrys Plains Subgroup developed as a river-dominated sequence from major source areas outside of the coalfield. The Bayswater Coal Member is the lowest coal seam in this sequence, and was formed by progradation of a back-barrier coal swamp. Deposition of alternating interdistributary bay laminites and upwards coarsening crevasse-splay sandstones occurred in a lower delta plain environment, with the thin and banded Broonie Coal Member and Vaux Coal Member forming part of this sequence. Upper delta plain conditions then resulted in thicker and laterally continuous seams such as the Piercefield Coal Member and Mount Arthur Coal Member, after which lower delta plain conditions were re-established with the deposition of the Glen Munro through to the Whybrow Coal Member. Deposition of the Jerrys Plains Subgroup ended with a marine transgression, forming the base of the Denman Formation.

Coal distribution in the Jerrys Plains Subgroup of the Whittingham Coal Measures is more variable compared to that of the Vane Subgroup stratigraphically below. Although the majority of the upper delta plain seams are laterally extensive, some of the largest variations occur in the Blakefield, Mount Arthur and Piercefield coal members. The lowest seam, the Bayswater Coal Member seam, varies in thickness from about 1 to 14 m, and has a dull character with high inertinite content. The brighter coals such as the Broonie through to the Warkworth coal members are subject to extensive splitting.

Vane Subgroup

The Jerrys Plains Subgroup and the Vane Subgroup are separated by a marine incursion. Similar to the Jerrys Plains Subgroup the Vane Subgroup has been subdivided into two formations, namely the Bulga and Foybrook Formations and various seam members as outlined in ***Figure 5-1***.

The lower seams of the Vane Subgroup generally have similar thicknesses and are characteristic of the facies change from lower to upper delta plain deposits, with the Liddell Coal Member being the thickest coal-bearing unit, up to 14 m in the Foybrook area. The majority of the seams are characterised by multiple splitting, thus, individual coal seams tend to be thin and of inferior quality to the upper Jerrys Plains Seams.

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Figure 5-1 Generalized Stratigraphic Columns for Hunter Coalfield

	Subgroup	Formation	Member
Wittingham Coal Measures	Denman Formation		
Wittingham Coal Measures	Jerrys Plains Subgroup	Mt Leonard Formation	Whybrow Seam
Wittingham Coal Measures	Jerrys Plains Subgroup	Malabar Formation	Redbank Creek Seam
Wittingham Coal Measures	Jerrys Plains Subgroup	Malabar Formation	Wambo Seam
Wittingham Coal Measures	Jerrys Plains Subgroup	Malabar Formation	Whynot Seam
Wittingham Coal Measures	Jerrys Plains Subgroup	Malabar Formation	Blakefield Seam
Wittingham Coal Measures	Jerrys Plains Subgroup	Mount Ogilvie Formation	Saxonvale Member
Wittingham Coal Measures	Jerrys Plains Subgroup	Mount Ogilvie Formation	Glen Munro Seam
Wittingham Coal Measures	Jerrys Plains Subgroup	Mount Ogilvie Formation	Woodlands Hill Seam
Wittingham Coal Measures	Jerrys Plains Subgroup	Milbrodale Formation	
Wittingham Coal Measures	Jerrys Plains Subgroup	Mount Thorley Formation	Arrowfield Seam
Wittingham Coal Measures	Jerrys Plains Subgroup	Mount Thorley Formation	Bowfield Seam
Wittingham Coal Measures	Jerrys Plains Subgroup	Mount Thorley Formation	Warkworth Seam
Wittingham Coal Measures	Jerrys Plains Subgroup	Fairford Formation	
Wittingham Coal Measures	Jerrys Plains Subgroup	Burnamwood Formation	Mt Arthur Seam
Wittingham Coal Measures	Jerrys Plains Subgroup	Burnamwood Formation	Piercefield Seam
Wittingham Coal Measures	Jerrys Plains Subgroup	Burnamwood Formation	Vaux Seam
Wittingham Coal Measures	Jerrys Plains Subgroup	Burnamwood Formation	Broonie Seam
Wittingham Coal Measures	Jerrys Plains Subgroup	Burnamwood Formation	Bayswater Seam
Wittingham Coal Measures	Archerfield Sandstone		
Wittingham Coal Measures	Vane Subgroup	Bulga Formation	Lemington Seam
Wittingham Coal Measures	Vane Subgroup	Foybrook Formation	Pikes Gully Seam
Wittingham Coal Measures	Vane Subgroup	Foybrook Formation	Arties Seam
Wittingham Coal Measures	Vane Subgroup	Foybrook Formation	Liddell Seam
Wittingham Coal Measures	Vane Subgroup	Foybrook Formation	Barrett Seam
Wittingham Coal Measures	Vane Subgroup	Foybrook Formation	Hebden Seam
Wittingham Coal Measures	Saltwater Creek Formation		

5.3 Coal Mineralogy

5.3.1 Vitrinite

Vitrinite is the dominant maceral group in coals of the Jerrys Plains Subgroup (generally greater than 50%) with the content of the coal at MTW and HVO typically ranging between 70 and 80%. Inertinite is most abundant in seams from the Bowfield Coal Member to the Bayswater Coal Member, which could indicate greater extent of oxidation during deposition of coals in the Jerrys Plains Subgroup

5.4 Coal Rank

Coals in the south of the Hunter Coalfield are generally of higher rank in comparison to those in the north for the same depth, all generally increasing linearly with increasing depth. Vitrinite Reflectance (Rv max) is used as a measure of coal rank with coals in the south of the coalfield varying within a broad range between 0.56 and 1.15%, although most are greater than 0.75%. Rv max of 1% or more occurs at depths of greater than 700m with the central regions, Rv max is about 0.72 to 1.00%, whereas in the west Rv max is between 0.65

and 0.95% Rv max in the HVO area does not show any consistent trends, and any potential down dip trend of increasing Rv max is within the repeatability range of the vitrinite reflectance measurement.

A number of seams demonstrate that CSN increases to the south east in HVO rather than down dip. The CSN at MTW appears to follow the southeasterly increasing trend with CSN values that generally greater than HVO down to the Mount Arthur Seam. The CSN for the Piercefield to Broonie seams appear to have similar values at both MTW and HVO. The CSN values in MTW appear to increase down dip.

The MTO CPP splits coal at plus and minus 16mm, with the minus 16mm fraction producing SSCC. Splitting the coal by size fraction is a way of concentrating vitrinite into the minus 16mm fraction.

RPM considers that increased CSN at MTW and HVO is related to the increased vitrinite content of the coal. Coal rank in the range Rv max 0.75 to 0.8% at MTW and HVO is not a significant driver for caking properties. Additionally RPM concludes that Rv max should not be used as an indicator for determining increased potential for semi soft coking coal down dip, but the relationship between vitrinite content and CSN should be investigated in detail to develop an understanding of how increased value can be obtained from the MTW and HVO resources.

5.5 Deposit Geology

The surface geology of the MTW coal leases is dominated by outcrops of the Whittingham Coal Measures which consist of the Jerry's Plains and vane Subgroups. The main rock types of this sub-group include sandstone, siltstone and conglomerate, which occur with subordinate coal and tuffaceous claystone

5.5.1 Mount Thorley and Warkworth

The Wollombi Coal Measures overlie the Whittingham Coal Measures and outcrop in the far southwestern corner of CCL753. Alluvial deposits associated with the Hunter River and Wollombi Brook cover the coal bearing strata over the northern and eastern parts of CCL753.

The strata within the MTW area dip to the west and southwest between 4 and 6^{o} with increased dips in excess of 60 degrees in the southeastern corner of the MTO area, known as the Mount Thorley Monocline, which is located on the western flank of the Loder Anticline.

5.5.2 Hunter Valley Operations

HVO is located on the asymmetric southerly plunging Bayswater Syncline. The Auckland area located on the western flank of the Camberwell Anticline dips more steeply than the western limb of the Syncline. The West Pit is located on the eastern flank of the Muswellbrook Anticline.

The Barrett seam outcrops in the east of the Auckland area on the Camberwell Anticline.

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Figure 5-2 HVO Typical Cross Section

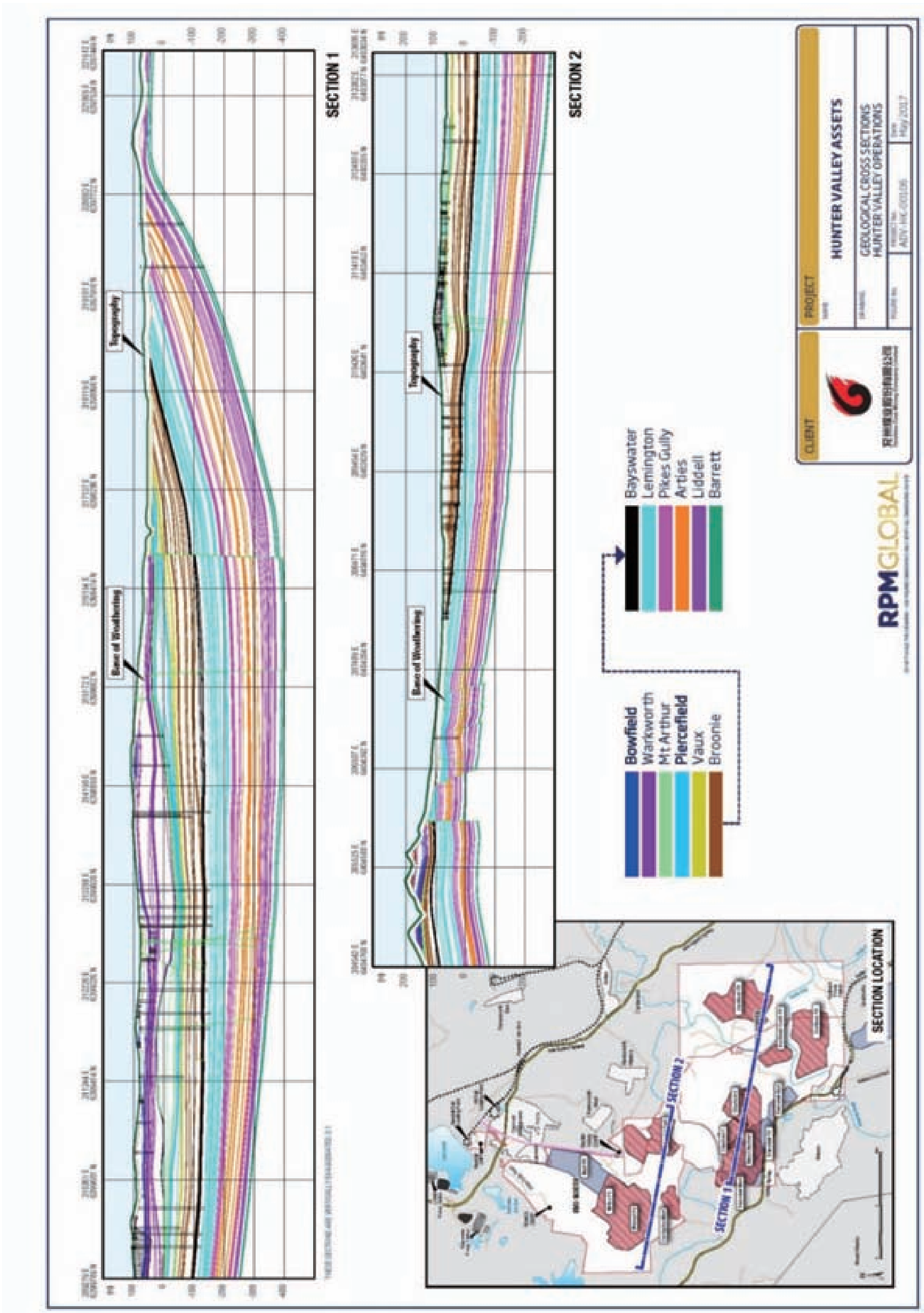

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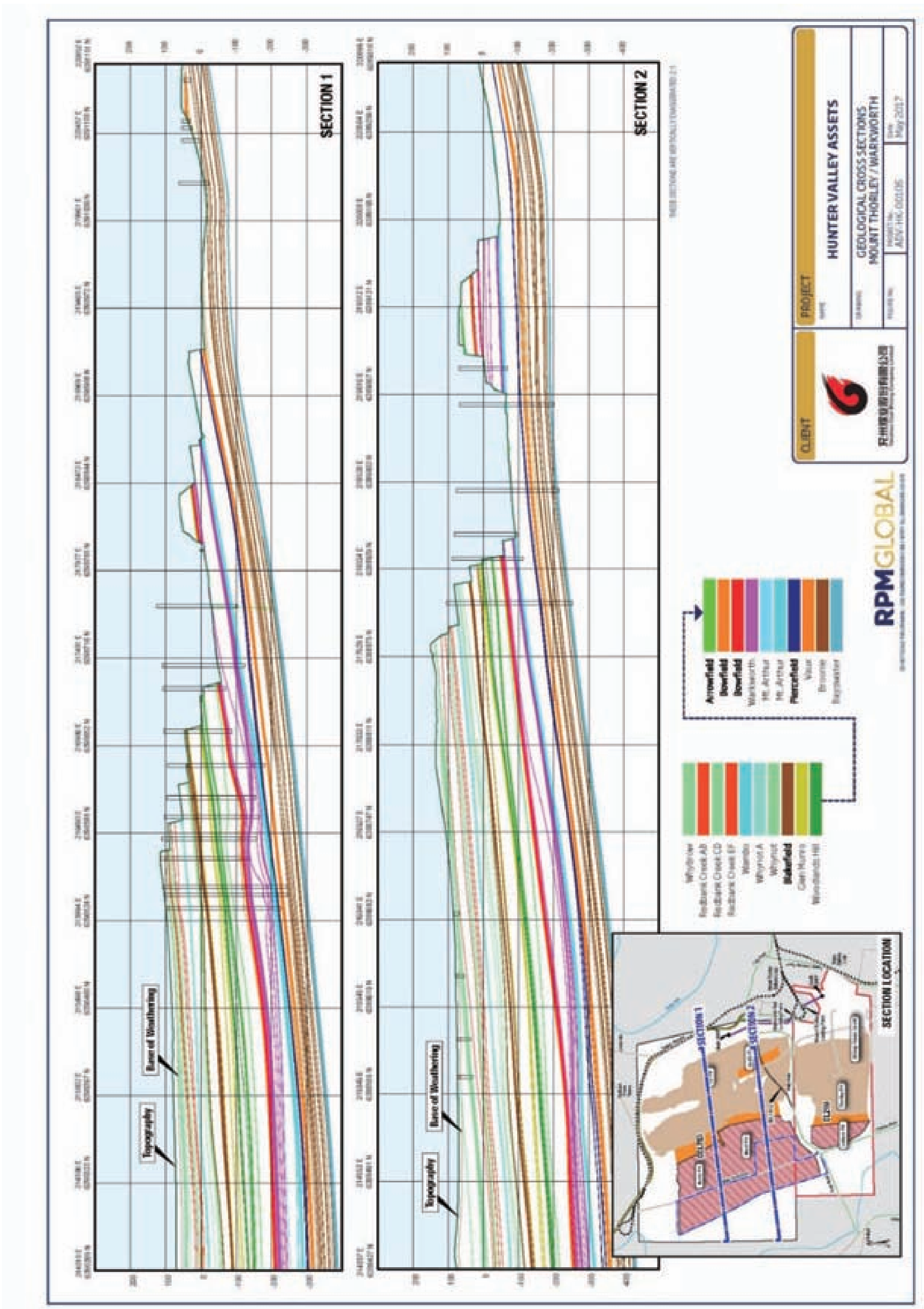
Figure 5-3 MTW Typical Cross Section



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6. Data Verification

RPM conducted a review of the geological and digital data supplied by the Client to ensure that no material data issues could be identified and that there was no cause to consider the data inaccurate and not representative of the underlying samples. RPM visited the Assets in February 2017 and reviewed Assets operation. RPM concluded that the data was adequately acquired and validated following industry best practices as outlined below.

6.1 Bore Hole Data

Geological data acquisition has been ongoing in the MTW and HVO areas since 1949 when the Joint Coal Board commenced exploration in the MTW area. Exploration activity increased in the late 1960s and 1970s in response to increasing world energy consumption and demand for both thermal and metallurgical coal, with the Howick Mine commencing operations in 1968, closely followed by the Lemington Mine in 1971, and the Hunter Valley No. 1 operation in 1979. Mt Thorley and Warkworth Mines commenced operations in 1981.

The long history of HVO has led to the utilisation of a number of different data and planning practices, and in particular seam correlations between the Howick, Hunter Valley and Lemington mine sites. During 2007, MineScape software was introduced to HVO as the preferred tool for technical mine planning functions, including geological database and geological modelling. A GDB borehole database called HVO was created from Minex seam interval data, with "stone" used to designate non-coal units within boreholes. Geological data acquired by the Company since 2007 was loaded with all detail into the HVO GDB database.

It became apparent to the Company that significant proportions of pre 2007 geological data had not been uploaded into GDB and / or was unsuitable for geological model development and could not be easily validated compared to the original primary data. As a result, the Company refers to all exploration data acquired prior to 2007 as legacy data. The Company undertook a project referred to as the 'Hunter Valley Legacy Data Project' between mid-2013 and October 2015 whereby all legacy data for HVO was converted from non-digital to digital format, validated and added to the HVO geological database.

The MTW operation transitioned to Minescape software in 2006, with all legacy data being validated and uploaded to the GDB database by the end of 2006. RPM considers that the 'Legacy Data Project' has achieved a significantly complete geological data set which now can be used with a high level of confidence for geological modelling and Resource estimation.

RPM is aware the Company completed a significant tranche of work in 2015 whereby seam nomenclature and correlation was standardized for the Jerrys Plains and in particular the Vane Subgroup across the Howick, Hunter Valley and Lemington areas. This tranche of work enabled a single HVO geological model to be developed.

RPM has not reviewed primary data sources such as geological logs, geophysical logs and laboratory coal quality reports as part of its data verification however has relied upon review of the following:

- Standards and Procedures (QA and QC) followed by the Company for data acquisition, interpretation and database and model development, and
- Data contained in the database and the geological models.

RPM conclude that the digital geological data for MTW and HVO has been adequately reviewed and validated using industry best practices as outlined below.

6.1.1 Digital Data Base

The Company utilised ABB's Minescape suite of geological database, modelling and mine design software which includes the systems Oracle-based geological database (GDB) and stratigraphic modelling package (Stratmodel). GDB is a relational database comprising a number of indexed tables linked by key variables including borehole collar, lithology, geophysics, coal quality (raw, wash and composite data) and geotechnical data.

As a result of the long exploration history and amalgamation of operations the HVO database includes data from multiple data sources and formats (Howick Mincom Geodas database, the Lemington Minex borehole database, and Vulcan format database files from Hunter Valley No's 1 and 2, and Prolog files generated by field geologists). The majority of the data, with the exception of the Howick data, was a set of seam pick files consisting of from and to depths which could not be easily validated. During 2009 the original data was sourced, reformatted and in many cases encoded from English logs to populate the ABB GDB based borehole database. However, that work completed in 2009 was only an interim step, and it was not until the completion of the Hunter Valley Legacy Data Project in 2015 that all geological could be to be loaded to the GDB database.

The MTW database was subject to an extensive upgrade and validation process by 'Measured Resources' in 2012 where data quality, accuracy and completeness was improved significantly. As part of this validation a number of underlying "business rules" where built into the GDB database to ensure consistency and integrity of data including, but not limited to:-

- Relational link between geological, down hole geophysical and coal quality data
- Exclusion of overlapping geological intervals
- Restriction of data entry to the interval of the defined hole depth
- Use of defined rock type and stratigraphic codes
- Coal quality upper and lower limit bounds
- Basic coal quality integrity checks such ensuring data is within normal range limits, which proximate analyses add to 100 percent etc.

6.2 Drilling Types and Core Recoveries

Geological data generated since 2002 has followed the Company's data acquisition standards, documentation, systems and protocols for drilling, logging, and sampling of bore core and chip samples, in pit mapping of rock exposures, and geophysical data acquisition, interpretation and database management.

Data acquired prior to 2007 has been subject to the protocols of the Legacy Data Project and conforms to the Company Standards.

Both core and open holes have been completed within MTW with coring predominantly undertaken via HQ3-sized bit (63 mm) and open hole to an equivalent hole diameter size. RPM notes that seven holes at 150 mm and 49 holes at 200 mm diameter sizes were completed for evaluation of coal preparation properties. A total of 503 open holes and 230 cored holes were completed at MTW during the period 2004 to 2015 as shown graphically in ***Figure 6-1*** while a summary of the holes completed since 2004 are provided in ***Table 6-1***.

Commencing with the 2008 drilling program a borehole grid design based on an equilateral triangular grid with cored boreholes 250 m apart and open holes 125 m apart was used at MTW. The MTW mined out area is supported by cored borehole data at 250 m to 500 m centres, and open hole data at variable spacing but generally 125 m apart. The intensity of core drilling is greater at Mount Thorley than it is at Warkworth, where there is a need to continue closing in core drill spacing to improve the status of Coal Resources. Borehole spacing of cored holes that intersect large parts of the sequence located west of Wallaby Scrub Road is relatively sparse where the spacing is 500 to 1500m.

Table 6-1 Summary of Holes Completed since 2004

Type	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Totals
Open Holes	35	11	71	75	23	62	103	39	45	6	28	5	**503**
Cored Holes	7	1	6	19	18	17	24	47	44	31	13	3	**230**
Totals	42	12	77	94	41	79	127	86	89	37	41	8	**733**

Source: Provided by the Company

6.2.1 HVO

A combination of open hole (predominantly for structural definition) and cored (for coal quality, geotechnical and gas sampling) have been used for delineation of the HVO resource with the location of exploration boreholes at HVO is shown in ***Figure 6-1***. Borehole spacing for core holes is on an equilateral triangle grid of 500m or less, while open holes spacing is on a 250m or less equilateral triangle grid. Coring has predominantly been completed using a HQ3-sized (63mm) bit and open hole drilling to an equivalent hole diameter size. In addition a number of large diameter (LD) holes have been drilled with 103 holes at 101mm (4") and six holes at 200mm (8") diameter sizes.

A total of 1,010 open holes and 253 cored holes were completed at HVO during the period 2002 to 2015 as summarised in ***Table 6-2***.

Table 6-2 Summary of Drill Type for HVO Since 2002

	Area/Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Open Holes	Carrington	43	20	31							11	102				207
	Cheshunt	23	7	2	6	16	43		3	19	51		2	15		187
	West	37			25		9	134	38			6	5	4		258
	Mitchell	13										43				56
	Riverview	84			8		29		26	14	47		24	33		265
	Southern										12	25				37
	Totals	200	27	33	39	16	81	134	67	33	121	176	31	52		1,010
Cored Holes	Carrington		1	7				17	4		5	40				74
	Cheshunt	10	1		5	5	8		4	8	8	4		2		55
	West	4	7		8		3	7	4	4	3	9		2		51
	Mitchell										5	1				6
	Riverview				1	1			1	15	8	2				28
	Auckland											18			6	24
	Southern										15					15
	Totals	14	9	7	14	6	11	24	13	27	44	74	0	4	6	253

Source: Provided by the Company.

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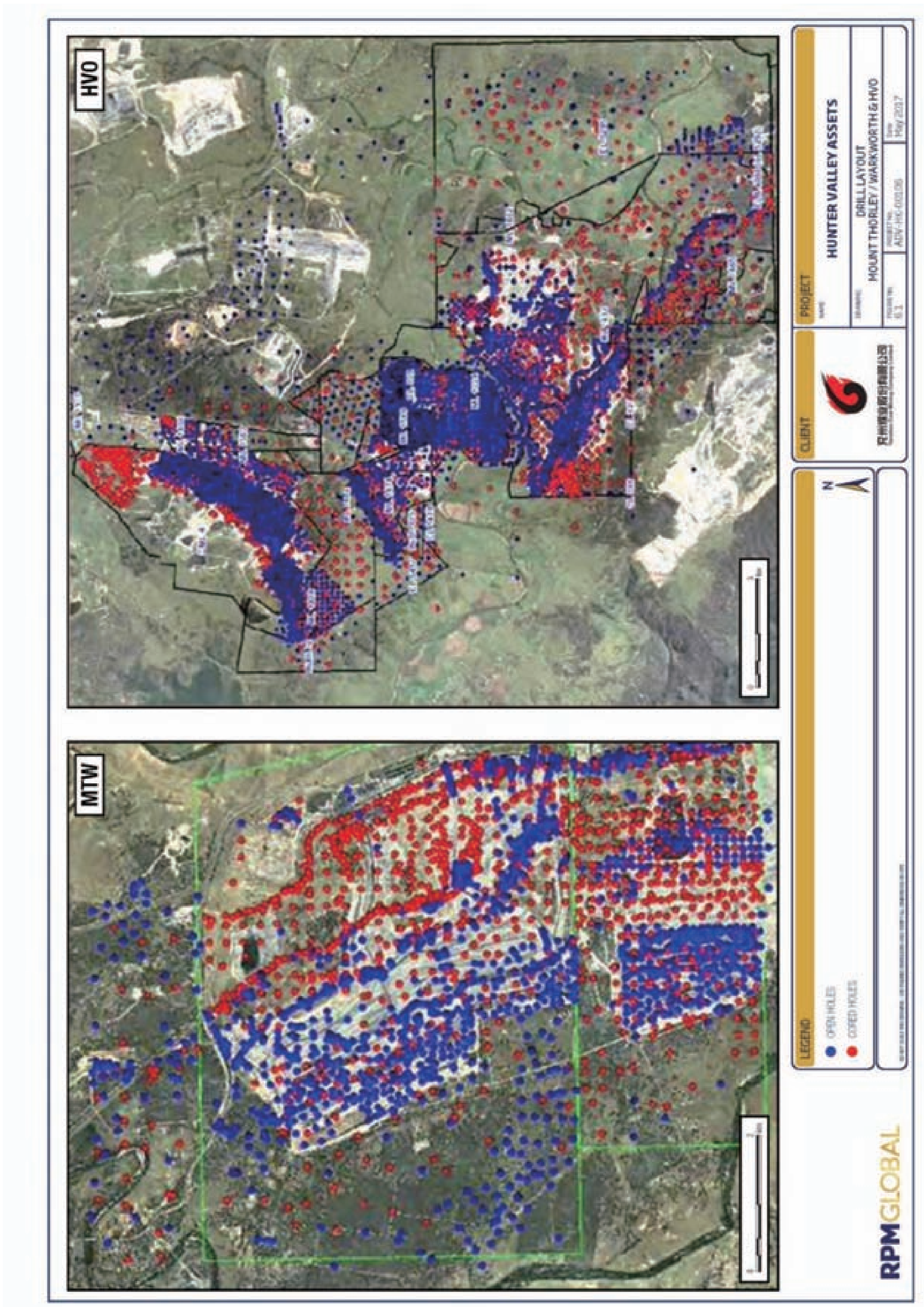
Figure 6-1. Borehole Types and Distribution at Assets



6.3 Topography and Collar Locations

The topographic surface at MTW is derived from a combination of 2m and 5m contour data digitised from topographic maps and 10m digitised data from the Bulga 1st edition topographic map covering the mined areas. This data was combined with surveyed drill hole collars and mine survey data to form the final topographic map of the mined area. The topographic surface at HVO was developed from combinations of Lands and Property Management Authority (LPMA) 10m contours which originated from the early 1980s and recent (September 2008) 2m contours derived from an AAM Hatch flyover. RPM notes that the historical mine out surfaces were on a coarse grid size, which doesn't allow suitable level of accuracy for the bench and batter definition. As such the depletion is potentially inaccurate however any potential change is not material and does not impact the forecast Ore Reserves.

Since 2007, drill hole collars at MTW and HVO were surveyed post drilling by licensed surveyors using differential global positioning system with an accuracy of ±10mm. RPM is aware that the Legacy data borehole collars have been converted to the MGA coordinate system, and reviewed by the HVO survey team, while boreholes surveyed to local coordinate grids have not been converted to MGA where insufficient survey information was available and have not been used for model development.

Borehole collars have been compared with the natural topographic surface with reports nothing that the majority of borehole collars are located between 0 and 2m above the natural topographic surface. Some 1,100 boreholes have differences of greater than +/- 10m above or below the natural topographic surface, however all of these boreholes are located on in pit benches or on spoil as such as suitable.

RPM notes that all surveyed coordinates are within Map Grid of Australia 1994 MGA (MGA94) Zone 56 projection using datum GDA94.

RPM considers that the topographic surfaces and borehole collar locations at both MTW and HVO have been developed with sufficient rigor to enable reliable Resource model development and Coal Resource estimation.

6.4 Down the Hole Survey

Geophysical logging at both MTW and HVO only became a common occurrence in the 1980's, and 1990's respectively, while down hole borehole deviation data has only been acquired since the mid 2000's, however has only 239 boreholes have been loaded to the GDB database ..

RPM considers that the historical lack of down the hole surveying is not material as the strata at both MTW and HVO are relatively shallow dipping and that borehole deviation particularly for HQ-3 cored holes will be negligible.

6.5 Geophysical Logging

Geophysical logging of boreholes has been carried out since the 1980's at Mt Thorley Warkworth, and in general from the 1990s at HVO. Hard copy geophysical logs of boreholes are stored at each site. The suite of geophysical logs acquired generally includes natural gamma, short and long spaced density, compensated density, caliper, neutron, sonic, and resistivity. Verticality surveys, and acoustic and optical televiewer data has only been acquired since the mid 2000's. In 2006, LAS files were organised and stored on a server dedicated to mine planning. Not all geophysically logged boreholes have LAS data due to the borehole pre dating the time when geophysical data was acquired digitally.

RPM notes that down hole geophysical data is acquired by the geophysical service provider according to Company Standards and protocols.

6.6 Geological, Geotechnical, and Geomechanical Logging

MTW and HVO are mature mining operations with the local and regional geology and geotechnical characteristics of the two areas well understood from open cut and underground mining operations and geotechnical logging and testing of bore core that have occurred over the past forty years.

Geological logging and sampling is performed by qualified geologists at the drill rigs in accordance with the

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Company Standards and procedures with all core logged for geology and geotechnical characteristics. Open hole chip samples are taken every 1m and logged for lithology. Quantitative logging for lithology, stratigraphy, texture, and hardness is conducted using standard dictionary definitions, while colour and any additional qualitative descriptions are also recorded. Geological interpretation occurs by the following series of steps:

- Preliminary seam correlations are carried out with reference to geophysical logs and known marker intervals.
    - The primary marker intervals such as the Milbrodale Claystone, Fairford Claystone and Archerfield Sandstone are identified to provide the overarching stratigraphic framework for the Jerrys Plains Subgroup. The Archerfield sandstone is located below the Bayswater seam and has a distinctive bronze colour. The Fairford Claystone is located between the basal Warkworth ply and the uppermost Mt Arthur ply, and the Milbrodale Claystone is located between the Arrowfield Zero and One seams,
    - Broad brush seam correlations are completed by use of 1:200 scale geophysical logs,
    - The broad brush correlations are checked by referencing existing boreholes in the GDB database to ensure consistency with existing data and interpretations.
- LogCheck software which has similar business rules as the GDB database is used to encode lithology data.
- The lithology and seam data loaded into GDB are validated using GDB's business rules and validation tools.
- The LogCheck and GDB software business rules include but are not limited to:
    - relational link between geological, down hole geophysical and coal quality data
    - exclusion of overlapping geological intervals
    - restriction of data entry to the interval of the defined hole depth
    - use only of defined rock type and stratigraphic codes
    - basic coal quality integrity checks such ensuring data is within normal range limits, that proximate analyses add to 100 percent etc.
    - Other checks are performed either periodically or before export of data include:-
        - missing or unlogged geological intervals highlighted
        - stratigraphic picks out of correct stratigraphic sequence
        - missing stratigraphic codes
        - missing, anomalous, non-zero thickness, multiple or inappropriate (e.g. within overlying stratigraphy rather than host stratigraphy)
        - Base of Weathering
- A structural geology model is developed from which borehole postings, sections and contours are created to validate seam correlations.
- Anomalous or incorrect seam correlations are corrected and the checking process repeated until the geological practitioner is satisfied with the integrity of the correlations.
- Faults locations and displacement are determined from surveyed seam roof or floor data, in pit mapping, from direct evidence in bore core and interpretation of missing or repeated sequences in boreholes.
- Fault displacements are calibrated by review of supporting seam roof or floor survey data in addition to ensuring that borehole seam data is honored.
- Base of weathering data is interpreted from visual data from the original exploration boreholes.

Geotechnical logging is completed by qualified geotechnical personnel and follows the Company Guidelines and Standards and is completed for all core boreholes at MTW and HVO. RPM also the notes the following:

- Geotechnical logging is completed by qualified geotechnical personnel and follows RTCA Guidelines and

Standards and is completed for all core boreholes at MTW and HVO.

- The 'synthetic' formation strength is estimated from a regression equation developed from cross plots of Uniaxial Compressive Strength (UCS) of bore core samples and sonic velocity correlations.
- Data acquired from acoustic or optical televiewer images provide more detailed information about defect orientation, spacing and intensity, and the direction of horizontal stress.
- Additional geotechnical and structural data is acquired by field measurement by hand held compass and Maptek I-Site three dimensional laser scans of the excavation.

RPM considers that the recorded information is sufficient to define a reliable geological Resource model geotechnical models for development of reliable and safe LOM plans.

6.7 Bulk Density Determination

The density of coal and the immediate seam roof and floor have been determined from analysis of bore core samples while the density of interseam formations density is estimated from density logs. A range of relative density testing has been performed at MTW and HVO, with some samples having been tested for

- True RD analysis;
- Both ARD and true RD, and
- The majority of samples that have had ARD determined.

The relationships between ARD and true RD were determined from the paired sets of ARD and true RD analyses.

The relationships between ARD and true RD were determined from the paired sets of ARD and true RD analyses include:

- ***MTW*** - The relationships used at MTW to populate the ply by ply data that has missing ARDs or true RD value are:
- RD = 1.0003 x ARD $^{1.0645}$
- ARD = 1.0045 x RD $^{0.9316}$
- ***HVO -*** The relationships used at MTW to populate the ply by ply data that has missing ARDs or true RD value are:
- RD(ad) = 1.042 x ARD (ad) – 0.018
- The in situ relative density; i.e. the density of materials at an in situ moisture basis, was calculated using the Preston and Sanders equation:
- RD2= [RD1*(100-M1)]/ [100+RD1*(M2-M1)-M2]

Insitu moisture has been estimated by the equation moisture air dried + 4% for both HVO and MTW. Air dried moisture is typically 2 to 4% thereby Insitu moisture will range between 6 and 8%. RPM considers this appropriate for the coal rank at HVO and MTW. In general the stratigraphically higher coal seams, such as Arrowfield, have total moisture closer to 8% and the Bayswater seam will have total moisture closer to 6%.

RPM considers that the work performed by RTCA to populate the ply by ply density data in the GDB database at MTW has resulted in a poor to average relative density data set. The cross plot of ply by ply un-composited relative density and ash values show that relative density is overestimated, as shown in ***Figure 6-2.*** This plot shows the raw ash and relative density plots show that the database contains a large percentage of outlier relative density data values, both overestimated (red polygon) and underestimated (blue polygon). RPM is unaware of any coal measure sediment samples for coal where the rank as measured by vitrinite reflectance (Rv max) is less than 1% Rv max:

- Having ash content of less than 40% and relative density values greater than 1.8, and
- For coal seams to have relative density greater than 2.2 (and up to greater than 3) when ash values range from 60 to 80%.

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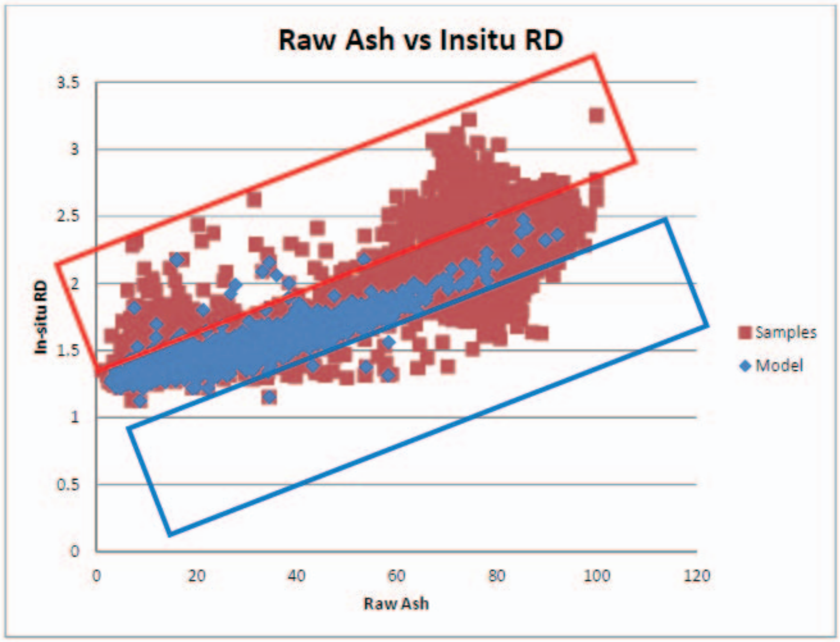
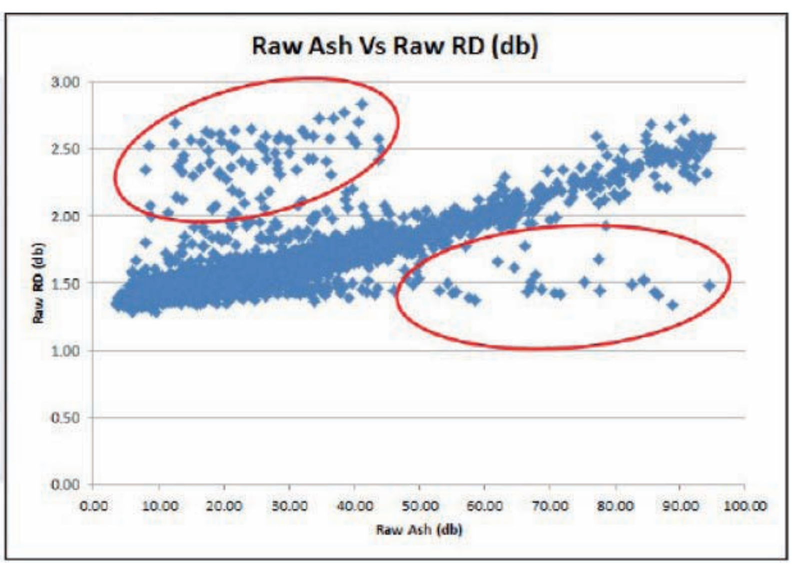
Figure 6-2 – Comparison of Cross Plots of Raw Ash and Insitu RD for All Samples and Modelled Seams at MTW



The HVO database contains similar relative density outliers to MTW, as shown in ***Figure 6.4***, where 141 composited raw coal sample outliers have been identified.

Figure 6-3 Comparison of Cross Plots of Raw Ash and Insitu RD for All Samples and Modelled Seams at HVO



RPM considers that the MTW and HVO database contains a large number of outlier relative density values that are causing both under and overestimation of relative density. RPM consider that potential estimation errors of relative density will not have a material impact on the Resources and Reserves estimate, because the number of overestimated and underestimated values will have a negating effect.

Good practice has been followed at HVO to develop relative density models for estimation of Coal Resources and Reserves. Outlier relative density values (those values above or below 1.5 times the interquartile range) were excluded from coal quality model development.

6.8 Sampling and Sample Preparation

The Company follows the procedures outlined in the document 'Coal and Allied' s Hunter Valley Borecore Testing Programme' documentation for coal sampling, preparation and testing which was introduced in March 2011. RPM is unaware of any documentation describing coal sampling, preparation and testing prior to 2011 but understands that relatively consistent informal practices were followed at both MTW and HVO prior to 2011.

Washability testing at MTW has historically been carried out at a range of different densities. In 2007, washability data was loaded into spreadsheet based LIMN simulation software to standardize the washability data into a consistent format.

All HQ-3 (63mm diameter) core samples are weighed, air-dried and then re-weighed before being crushed to an 11.2 mm top size. Subsequently coal quality testing was completed over a three stage process consisting of:

- Raw coal quality testing
- Washability, and
- Clean coal composite testing of washed coal fractions to simulate product quality

Tables 6-1 and 6-2 summaries the Company's analytical testing for raw coal, float and sink and clean Product Coal composites. As noted previously a limited number of large diameter (LD) holes have been drilled at MTW for evaluation of coal preparation properties. Testing of the LD holes was for eleven size fractions with a top size of 50mm.

Prior to May 2013 samples were analysed by ALS (previously named ACIRL) at their Steel River, Newcastle laboratory. Post-May 2013, samples have been sent to the Bureau Veritas laboratory in Brendale, Queensland. All sample treatment and analysis is conducted according to procedures which adhere to Australian (or International equivalent) standards in a National Association of Testing Authorities certified laboratory.

Table 6-3 Analytical Tests for Raw Coal and Stone Ply Samples

Raw Samples	Raw Coal Analysis	
	COAL	STONE
Relative Density ad (AS 1038.21.1.1 - 2002)	√	√
Moisture (ad)	√	√
Ash (ad)	√	√
Volatile Matter (ad)	√	
Fixed Carbon (ad)	√	
Calorific Value (gad)	√	
Total Sulphur (ad)	√	√

Source: Provided by the Company

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Table 6-4 Analytical Tests for Float Sink Testing

Sample Type	Fractional Separation Density	Standard	Detailed
COAL	F1.3		√
	F1.4	√	√
	F1.5		√
	F1.6	√	√
	F1.7		√
	F1.8	√	√
	S1.8*	√	√
STONE	F1.6	√	√
	F1.8	√	√
	S1.8*	√	√

Source: Provided by the Company
(*) Denotes testing for total Sulphur on selected samples for acid rock drainage.

Table 6-5 Analytical Tests for Clean Coal Composite Testing

Borehole Analysis type	STANDARD		DETAILED		
Composite Type	CF1.40	CF1.60	BYPASS	CF1.40	CF1.60
Analysis					
Moisture (ad)	√	√	√	√	√
Ash (ad)	√	√	√	√	√
Volatile Matter (ad)	√	√	√	√	√
Fixed Carbon (ad)	√	√	√	√	√
Calorific Value (gad)	√	√	√	√	√
Total Sulphur (ad)	√	√	√	√	√
CSN	√	√	√	√	√
Moisture Holding Capacity			√		
Carbonate carbon (ad)		√	√	√	√
Ultimate Analysis		√	√	√	√
Ash Analysis		√	√		√
Ash Fusion (reducing)		√	√		√
Trace element analysis			√		√
Chlorine			√		
HGI			√		o
Abrasion Index					o
Petrography - macerals/reflectance				√	o
Giosoler				√	o
Gray-King Coo Type				√	o
A-A Dilatometer				√	o
Forms of sulphur			√	√	o

Source: Provided by the Company
O = Optional

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6.9 Core Recovery

Core recovery is recorded by the drill rig geologist while logging the bore core. Overall, linear core recovery of greater than 95 per cent was required by RTCA. Linear core recovery less than 95% in coal requires that section of the borehole to be re-drilled. Ply samples masses are also checked for representativeness against a theoretical mass after raw coal quality analysis, and prior to composite definition. Open hole chip recovery is assessed qualitatively by the rig geologist.

6.10 Quality Assurance Quality Control

RPM is aware that non-formalised quality assurance/quality control (QA/QC) checks involving duplicate samples are regularly undertaken as per standard coal industry practices. In addition, RPM understands that check laboratory round robin and basic reproducibility tests are flowed both by ALS or Bureau Veritas. All coal quality results were assessed by the Company using a range of validation methods that included:

- The sum of all percentages reported for proximate analysis, ultimate analysis and petrographic analysis should total 100%. The exception is ash analysis, for which the sum of the oxides has an allowable range between 98% and 102%,
- Ash Fusion Temperatures: Check deformation flow temperatures to ensure they are always increasing for the one sample.
- Review of classical statistics for the significant seams of each raw analytical element and produce relevant histograms from the quality samples used in model development,
- Review cross-plots of related parameters such as relative density and ash, energy and ash,
- Check that yields add up to 100%,
- Check sizing and relative density fractions to ensure they are reported in the correct order.

Data transfer from site is covered by an agreed Company protocol

6.11 Sample Security

All drilling activities prior to Company's management were managed by the on-site geological teams at each of the individual sites. Subsequent to the Company's management all drilling activities have been completed by contractors under the Company's supervision staff geologists.

Due to the style of drilling undertaken within the Assets the Company's personnel have mostly undertaken core sample handling rather than the contractors. These activities include the drilling crews being responsible for delivering the core to the core logging facility where geologists log and sample the coal core, and box the non-coal core. The geologist transports the coal core samples and core boxes to the core shed, where the coal samples are stored in a locked secure core shed until the cored hole has been completed. Samples from an entire cored hole are transported by a dedicated courier to the laboratory. Core samples from MTW are stored in a refrigerated unit in the MTW core shed prior to dispatch to the laboratory.

RPM considers these procedures to be industry standard and regards the sample security and the custody chain to be adequate, however notes that no details were provided for sample security prior to 2007.

6.12 Data Verification Statement

The review undertaken by RPM of the drilling and sampling procedures indicates that in general, good practices were used with no material issues noted.

RPM also notes the majority of the data used for the resource estimation were derived from drilling from post 2007 and have followed the Companies procedures and protocols. Data acquired prior to 2007 has been subject to the Companies procedures and protocols implemented as part of the HVLDP, and as such all data is considers to be of good standard.

RPM considers that the data which supports the resource estimation has no material errors.

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7. JORC Coal Resources

Coal Resources have been independently reported by RPM in accordance with the JORC Code (2012) and the Australian Guidelines for the Estimation and Classification of Coal Resources (2014)

7.1 Coal Resource Classification System under the JORC Code

A "Mineral Resource" is defined in the JORC Code as **'**a concentration or occurrence of solid material of economic interest in or on the Earth's crust in such form, grade (or quality) that there are reasonable prospects for eventual economic extraction. The location, quantity, grade (or quality), continuity and other geological characteristics of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge, including sampling. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories (JORC Code – Clause 20)**.'**

Mineral Resource estimates are not precise calculations, being dependent on the interpretation of limited information on the location, shape and continuity of the occurrence and on the available sampling results.

For a Mineral Resource to be reported, it must be considered by the Competent Person to meet the following criteria under the recommended guidelines of the JORC Code:

- There are reasonable prospects for eventual economic extraction.
- Data collection methodology and record keeping for geology, assay, bulk density and other sampling information is relevant to the style of Mineral and quality checks have been carried out to ensure confidence in the data.
- Geological interpretation of the resource and its continuity has been well defined.
- Estimation methodology that is appropriate to the deposit and reflects internal grade variability, sample spacing and selective mining units.
- Classification of the Mineral Resource has taken into account varying confidence levels and assessment and whether appropriate account has been taken for all relevant factors i.e. relative confidence in tonnage/grade, computations, confidence in continuity of geology and grade, quantity and distribution of the data and the results reflect the view of the Competent Person.

The terms 'Mineral Resource(s)', and the subdivisions of these as defined above, apply also to coal reporting, but if preferred by the reporting company, the terms 'Coal Resource(s)'' and the appropriate subdivisions may be substituted. (JORC Code - Clause 43). As such in this report RPM will refer to Mineral Resource, as Coal Resources.

7.2 Area of the Resource Estimation

The deposits, which form part of the Coal Resource estimates, are located approximately 150 km North West of Sydney and approximately 20 km west of Singleton. The Assets consists of several exploration and mining rights under the NSW mining code. RPM notes that the Reported Coal Resources (***Table 7-1***) include the following areas:

- ***Mt Thorley*** **Open Cut** - The resource area is contained within MTW (north of the golden highway) and consists of number coal seam which occur with 320m of surface and exploitable by Open Cut methods.
- ***Warkworth Open Cut*** – The resource area is contained within MTW (south of the golden highway) and consists of number coal seam which occur with 320m of surface and exploitable by Open Cut methods.
- ***Mt Thorley*** **Underground** - The resource area is contained within MTW (north of the golden highway) and consists of the Vaux coal seam which is potentially exploitable via Longwall Underground methods.
- ***Warkworth*** **Underground** - The resource area is contained within MTW (South of the golden highway) and consists of the Baywaters coal seam which is potentially exploitable via Longwall Underground methods.
- ***HVO Open Cut*** – The resource area is contained within HVON and HVOS areas. The Resource in the HVON area is located in the Vane Subgroup and the Resource in the HVOS area consists of all seam groups within the Jerrys Plains and Vane Subgroups.
- **HVOS Underground** – The resource area is contained within the Arties and Barrett seams of the Vane

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Subgroup.

7.3 JORC Statement of Coal Resources

Results of the independent Coal Resources estimate for the Assets are tabulated in the Statement of Coal Resources in ***Table 7-1*** below, which are reported in line with both the requirements of the 2012 JORC Code and the reporting standards of Chapter 18 of the HKEx Listing Rules. The Statement of Coal Resources is therefore suitable for public reporting. The Statement of Coal Resources shown in ***Table 7-1*** and graphically in ***Figure 7-1*** are inclusive of the Coal Reserves reported in ***Section 8*** and not additional to.

Coal Resources are reported on an Insitu basis with total moisture estimated by the equation of air dried moisture + 4%, which means that the Insitu moisture of the Coal Resources ranges between 6 and 8%. In general the stratigraphically higher coal seams such as the Arrowfield have total moisture closer to 8% and the Bayswater seam will have total moisture closer to 6%.

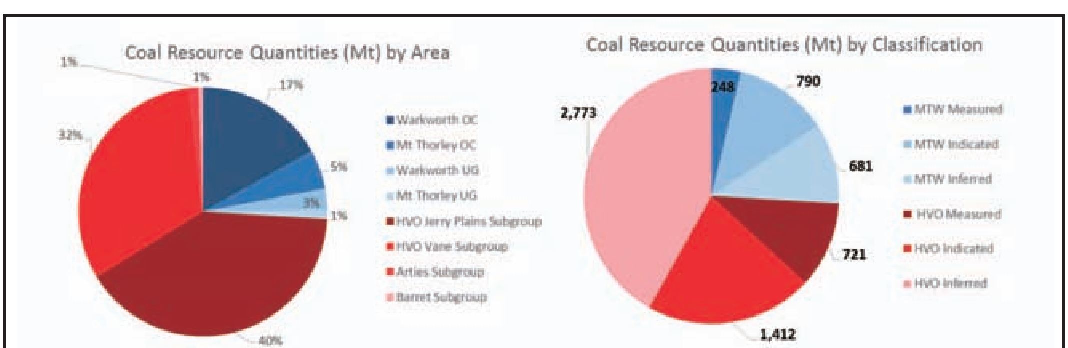
Table 7-1 Statement of Coal Resources by Operation as at 31st December, 2016.

Operation	Type	Area	Measured (Mt)	Indicated (Mt)	Inferred (Mt)	Total (Mt)
MTW	Open Cut	Warkworth	215	500	404	1,119
		Mt Thorley	32	50	99	181
	Underground	Warkworth		215	124	339
		Mt Thorley	0	25	54	79
	Combined		**248**	**790**	**681**	**1,718**
HVO	Open Cut	Jerry Plains Subgroup	567	982	571	2,120
		Vane Subgroup	154	430	2,085	2,669
	Underground	Arties			35	35
		Barret			82	82
	Combined		**721**	**1,412**	**2,773**	**4,906**

Note:

4. *The Statement of JORC Coal Resources has been compiled under the supervision of Mr. Peter Ellis who is a full-time employee of RPM and a Registered Member of the Australian Institute of Mining and Metallurgy. Mr. Ellis has sufficient experience that is relevant to the style of Coal and type of deposit under consideration and to the activity that he has undertaken to qualify as a Competent Person as defined in the JORC Code.*
5. *All Coal Resources figures reported in the table above represent estimates at 31st December, 2016. Coal Resource estimates are not precise calculations, being dependent on the interpretation of limited information on the location, shape and continuity of the occurrence and on the available sampling results. The totals contained in the above table have been rounded to reflect the relative uncertainty of the estimate. Rounding may cause some computational discrepancies.*
6. *Coal Resources are reported in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (The Joint Coal Reserves Committee Code – JORC 2012 Edition).*

Figure 7-1 Graphical Representation Coal Resources



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7.4 Classification

While ***Table 1*** as required by the JORC Code 2012 edition is presented in ***Appendix C*** for reference a summary of the resource estimate classification approach is provided below. The RPM Resource classification system is based on industry best practices and include the following process:

1. Review the regional geology to understand seam continuity and other characteristics beyond the Company's mining tenure boundaries.
2. Define the Points of Observation (PoO's) for quantity and quality.
3. Define supportive data types – is the stage at which a determination is made as which data will be in the classification of the resources
4. Determine Resource and Reserve entities – is the stage at which seam groups and which ply will be separated and PoO determined for each seam.
5. Determine PoO spacing
6. Stage 1 is a mechanical stage that produces two maps for the Resource entity, one for quantity and the second for quality, which shows the polygons of influence surrounding the PoO's. Stage 1 assigns areas of high, moderate and low levels of confidence.
7. Stage 2 This is the stage at which the judgement of the Competent Person is applied. The two Stage 1 maps are reviewed and modified by the Competent Person to:

   a. Reflect the importance of supporting PoOs for structure and Type 3 for quality as distinct from primary data.

   b. Take into account regional and other geological knowledge and the like, which cannot be distilled down into PoOs

   c. Remove outliers, fill in between inliers where appropriate, reduce excessive extrapolation and smooth boundaries
8. Stage 3 is the final stage in which the categories are assigned based upon both physical continuity/existence and coal quality. To achieve this position the minimum area of each category for each map is taken as being the final area for that category. For example, if an area of 100 ha is considered to be Measured based on physical existence/continuity, but only 65 ha of this is considered to be Measured based on knowledge of coal quality, then the final area of Measured coal is the 65 ha intersection of the two polygons.

Below is a brief description of each of the steps and the parameters assumed.

7.4.1 Review of Regional Geology

RPM has performed a high level review of the geology of surrounding the Assets and concludes that the Whittingham Coal Measures are continuously developed within and surrounding the MTW and HVO areas. However, there are differences in how the stratigraphic sequence of the Whittingham Coal Measures has been interpreted between the Assets sites, and with the surrounding sites as outlined in ***Section 5***. Below is a review of the geological model generated by various persons.

7.4.2 Geological Models

The geological (structural and coal quality) models for MTW and HVO were developed using ABB's Minescape Stratmodel software directly from the respective GDB databases. The geological models were developed by a combination of Company personnel and their consultants. As part of reporting the Coal Resource within this report, RPM has utilised the provided 2012 model (updated for mining to 2016) and the 2015 database, however is aware that a 2016 model has been developed which included further boreholes. RPM has not utilised this model due to time constraints following provision in early February, 2017.

MTW

The MTW_1208_LOM model was developed and validated by Measured Resources, utilizing the ABB FEM interpolator for structural modelling with Standard ABB settings used. Subsequent to structural modelling the inverse distance squared interpolator was used for coal quality model development on grids with 20 m by 20

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me node spacing.

The model consists of the coal seams only with waste modelled by default and not assigned any grade. Resource estimates are therefore of the coal seams only.

HVO

The HVO_1508_LOM model was developed and validated by HVO personnel using Minescape Version 5.9. software and subsequently externally reviewed by Encompass Mining. The ABB FEM interpolator was used for structural modelling with Standard ABB settings used.

The inverse distance squared interpolator was used for coal quality model development. Subsequent to structural modelling the inverse distance squared interpolator was used for surface and coal quality model development on grids with 50 m by 50 me node spacing. A single structural model and single coal quality model cover the entire HVO area.

The model consists of the coal seams only with waste modelled by default and not assigned any grade. Resource estimates are therefore of the coal seams only.

RPM Review of the Geological Models

A review completed by RPM of the geological models indicates that the interpretations appear to honour input borehole and seam thickness and reduced level values and are considered appropriate for reporting of Coal Resources. A brief outline if provided below.

MTW Coal Quality Model

RPM considers that the coal quality model is developed to an acceptable standard however notes the following:

- The database and the model do not contain clean coal composite values when raw coal ash of a coal ply is greater than 50%. In these cases the coal quality model will underestimate ash and overestimate yield.
- Coal quality data has not been acquired when coal seams are less than 0.1m thick. Due the seam characteristics there are a large number of thin seams modeled that do not have coal quality data.
- The coal quality model was developed by using all borehole data with a number of coal quality data points that do not have supporting structural data. It appears that the final quality models were developed prior to the final structural models which have excluded some of the coal quality boreholes from structural model development.

Having noted the above, RPM is of the opinion that the misalignment of the raw coal and clean coal quality models is unlikely to make a material difference to the Resources and Reserves estimate.

HVO Coal Quality Model

RPM considers that the coal quality model is developed to an acceptable standard however notes the following:

- RPM consider that the coal quality models contain many inconsistent data input values, with numerous coal seams being modelled with ash values between 50% and 90%. A large percentage of the boreholes with anomalously high ash values are located in areas of low coal quality data density. These boreholes will be over represented in the coal quality model by having a disproportionate area of influence, and as a result coal tonnage will be excluded from the Reserves estimate.
- The coal quality model was developed by using all borehole data. There are number of coal quality data that do not have supporting structural data. It appears that the final quality models were developed prior to the final structural models which have excluded a larger number of boreholes from model development.

Having noted the above issues, RPM considers that the above are unlikely to make a material difference to the global Coal Resources estimate, however will potentially impact short term models and schedules. RPM further comments that these variations are likely to be smoothed during mining, given the long history of mining these seams in the region.

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Company Validation of Geological Models

RPM is aware that the Company undertook significant validation of the geological models to support their use in Coal Resource reporting. For reference and transparency RPM presents the following summary and outcomes which is sources from the Company provided information and previous Competent Person statements

MTW

The following reviews were undertaken

- Comparison of modelled seam reduced levels with input seam reduced level was performed by comparison of structure contours and data postings. No material issues are reported.
- Visual inspection of sampled and modelled intervals for raw coal ash to determine if the sampled intervals match the seam picks. No material issues are reported.
- Comparison of input ash and relative density values with modelled ash and relative density values. The comparison is not particularly valid because it compares un-composited ply by ply input data with composited seam data.

HVO

The Company completed most of the normal suite of model validation procedures which has included:

- Comparison of modelled seam thickness with input seam thickness values. No material issues are reported.
- Comparison of modelled seam reduced levels with input seam reduced level. No material issues are reported.
- A comparison of waste volumes and tonnage for the previous HVO_1408_ model with the HVO_1508_LOM model showed increased waste volume and coal tonnage of 1%, which is not material.
- Review of coal quality cross plots of ash and relative density, ash and energy, specific energy and relative density, and volatile matter and energy was completed for all seams. In general the cross plots showed that coal quality data was reliable, although coal quality data outliers are present in the database.
- The Company has not completed a comparison of input coal quality values compared to the output gridded coal quality values.
- The HVO_1508_LOM model was reviewed by a third party which identified issues which were partially subsequently corrected by the Company before release of the final mode (which formed the basis for RPM's review). A number of these issues were not corrected for the final model release, and currently remain uncorrected, these include the two main issues identified and discussed by RPM:
- There are a total of 701 composited raw coal samples with a raw coal ash value greater than 50%.
- A total of 141 composited raw coal density sample outliers are present in the database (as discussed i***n Section 6***)

RPM considers that the above issues are not material however recommends further analysis and reviews be undertaken as part of the next update of the geological model.

7.4.3 Points of Observation Definition and Supportive Data

RPM defined the following for reference:

- **Quantity Point of Observation**: A Quantity or Structure Point of Observation ("PoO") requires a reliable collar location and downhole geophysical log data acquired for the full seam interval that is to be classified.
- **Quality Point of Observation**: A Quality PoO requires a reliable collar location and raw ash data. Down hole geophysical log data acquired for the seam interval in a cored hole is optional.

As part of the above definitions, RPM assume that all bore core has been acquired and logged to a high standard so that the amount and location of any core loss has been managed by the geologist logging the core. RPM review of cored hole data suggests that the requirement for greater than 95% core recovery for a Quality PoO has been met because significant core loss was not found in bore core log descriptions.

In addition, RPM assumes that downhole geophysical logs will have a depth accuracy of+/- 20 to 30cm, depending on the source to detector spacing of the sonde, and that it is unlikely that bore core would be logged with error of greater than 20 to 30cm. RPM consider that potential depth error of 20 to 30cm is not material due to the depth of the large scale mining methods employed at the Assets being greater than 100m.

As part of its initial review RPM utilised a PoO definition that used clean coal product ash which identified to correspond well with the number of raw coal ash PoO's at HVO. However, at MTW it was noted that samples with raw ash content of greater than 50% were not submitted for washability and determination of clean product quality parameters. As a result within MTW Raw coal ash was used by RPM for the PoO definition.

RPM considers that raw coal ash can be used as proxy for relative density, and specific energy, and considers that reliable relationships have been established that relate raw ash to washed product yield and ash given the long production historical data and product generation.

The RPM Points of Observation (PoO) definitions are shown in ***Table 7-2***.

Supportive Data

The following data has been used as supportive data for the PoO:

- Surveyed in pit seam observations, and inspection of open pit highwalls as supportive data to assist with determining PoO spacing.
- Borehole data not used for model development was reviewed to provide additional data to support seam continuity.

Table 7-2 Points of Observation Definitions

PoO Attribute	PoO Type			
	Quality		Quantity (Structure)	Support Data
	Type 1	Type 2	Type 3	
Non Cored Borehole				
Reliable Collar Location	✓	✓	✓	
Geophysical log for seam interval (Requires density and gamma)	✓	✓	✓	
No Geophysical Log				✓
Cored Borehole				
Reliable Collar Location	✓	✓		
Geophysical log for seam interval (Requires density and gamma)	✓			
No Geophysical Log		✓		
Greater then 95% linear core recovery	✓	✓		
Raw Ash (MTW)	✓	✓		
Clean coal product Ash (HVO)	✓	✓		
Other				
Surveyed in pit seam observation				✓

7.4.4 Resource and Reserve Entities

The Company's Resource and Reserve entities are interpreted to be the seam groups mined, which at MTW number 15, and number 17 at HVO. As part of the classification of the Coal Resource, RPM applied further analysis to seam groups and separated individual ply's to 34 entities at MTW and 25 entities at HVO.

RPM reviewed the borehole intersections on a seam basis and identified that in many cases the number of seam intersections and coal quality data were not the same for each seam element in a seam group. As outlined in ***Table 7-3***, the Vaux seam at MTW which includes the VAA, VAB, VAC, VAD, VAE, VAF, VAG, VAH, VAJ elemental intervals and the various compound seams, the VAA and VAB elements have 230 borehole intersections. The VAC to VAH elements have 300 to 350 borehole intersections, and the VAJ element has 125 borehole intersections. As a result RPM created 3 Resource entities, VAAB, VACH and VAJ

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for the Vaux seam at MTW which varies from the Company's One Resource entity. The Resource entities used by RPM are shown in ***Table 7-4***..

RPM applied a similar approach to that described for the Vaux seam, to all of the seams at MTW and HVO based on the number of structural and coal quality borehole intersections. As a result, RPM applied entities varies from that of the Company which impacts the classification applied to the seam groups as outlined below.

Limits

RPM notes that the below limits have been applied as part of the entities applied to the resource estimate:

- No minimum seam thickness limit has been applied to the RPM Resource estimate vs 0.25m for the Company. .
- No upper ash limit has been applied to the RPM Resource estimate.

RPM considers the above appropriate for resources considering the further applied entities and aggregation applied to the mining planning to form the recoverable ROM working sections.

Table 7-3 Vaux Seam Stratigraphy and Number of Borehole Intersections by Seam Element and Compound

Compound Intervals	Element	Number of Intersections
	VAA	231
VAAB		
	VAB	234
VA		
	VAC	326
VACD		259
	VAD	341
VACE		249
	VAE	340
VACH		
	VAF	357
VAFG		360
	VAG	360
VAFH		
	VAH	305
VACJ		
	VAJ	125

7.4.5 Points of Observation Spacing

RPM has completed a detailed review of the PoO spacing from a first principles to determine an independent view of classification applied to the resource. RPM notes that these PoO applied are applied to the entities utilised in the resource estimate as defined above and varied from those applied by the Company as outlined in various public announcements.

RPM has reviewed the following attributes for 100 seam elements and 65 compound seam intervals for MTW, and 104 seam elements and 55 compound seam intervals for HVO to assess the variability of the Resources to determine PoO spacing:

- Seam thickness,
- Interburden thickness,
- Seam splitting and coalescing patterns to determine whether they are sedimentary or due to seam correlation inconsistency between stages of exploration.

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- Structural elevation,
- Coal quality,
- The relationship between raw coal quality and washed Product Coal quality,
- The relationship between overburden / interburden thickness variation and coal quality variability,
- Histograms, statistics and cross plots of coal quality attributes of seam groups.
- Review of the as mined seam roof or floor survey data in conjunction with modelled roof and floor contours, and borehole intersections to assess reliability of input data and model output.

RPM acknowledges that some of the variability present in the MTW and HVO geological data is in part due to the inconsistency of the work that was performed by a large range of geologists over a time period in excess of 30 years. It is likely that the geology of the MTW and HVO areas may be less variable than that exhibited by the MTW and HVO databases, however, the Resource estimate must be made by making an assessment based on the variability of the data that is available.

The largest variability of the MTW and HVO data is caused by the seam correlations. In general the seam splits do not show any trend which is counter to geological processes. Groups of certain seam correlations appear to be clustered into groups that are aligned in parallel to the highwall suggesting that seam correlations are dependent upon the geologist completing the work rather than the geology. RPM has ignored this aspect of variation, and has assessed seam thickness and coal quality variation within each of the different seam name domains and considers this not a material issue given the large scale mining practices.

RPM has determined the PoO spacing for both the MTW and HVO resource areas by review of variation between nearest neighbor boreholes for the attributes listed above. The PoO spacing was determined when less than 10% and 20% variability of between adjacent boreholes was established. In general coal quality data showed low variability between adjacent boreholes, except in the following circumstances:

- Incorrect data has been loaded to the database, or data has been incorrectly composited. There are a large number of coal seams in HVO with coal seam ash ranging between 50 and 90%.
- Interburden thickness above a coal seam thickens. It is common for interburden thickness to increase from 0.2m to greater than 20m over a horizontal distance between 100 and 150m. In general the underlying coal seam shows increased raw ash and product ash in the zone where the interburden thickens.

The coal quality PoO spacing was assessed by RPM to usually be double the spacing of the quantity or structural PoO.

7.5 Exploration Potential

Exploration Potential

- Exploration has been undertaken over numerous generations over the last decades with the main focus on the two operation main pits for which Coal Resources have been estimated. Although the area has a long history of exploration, RPM considers there to be good potential to define further coal seams bodies within the Project area both near planned mining infrastructure and within the broader exploration concession. RPM considers the large concession holding of the Company contains a two key targets which present opportunities to increase the resource base and add feed sources to the plant in turn increasing the mine life, these include:
  - **Inferred material:** Within the current final pit designs for the Project a total of approximately 10 Mt of "inferred" material has been reported. This is particularly prevalent as if converted to Indicated with successful drilling will have a positive impact on the strip ratio, as this material is classified as waste in the current LOM schedule. .
  - **Downdip Targets**: The Company has undertaken exploration in the areas surrounding the defined near surface resource, however in addition further down dip targets have been identified predominately to the west of the current Inferred material. RPM notes this target is limited by the license boundary is underground potential only.
  - **Oakland**: RPM notes that exploration drilling to date has defined coal seams which are continuous and well mapped. This drilling included significant near surface holes in order to explore below the

near surface deposit. The results confirmed the continuity of the seams however insufficient verified data was available to allow the estimation the resource quantities in-line with the JORC Code.

Table 7-4 PoO Spacing MTW

Seam Group / Seams	PoO Radius Quantity			PoO Radius Quality		
	Measured	Indicated	Inferred	Measured	Indicated	Inferred
Whybrow						
WYAB	100	200	400	200	400	800
WYC	100	200	400	200	400	800
WYD	100	200	400	200	400	800
WYE	100	200	400	200	400	800
WYF	100	200	400	200	400	800
WYG	100	200	400	200	400	800
Redbank Creek						
RCA	125	250	500	250	500	1,000
RCB	125	250	500	250	500	1,000
RCC	125	250	500	250	500	1,000
RCD, RCE, RCF	125	250	500	250	500	1,000
Wambo						
WBAC	125	250	500	250	500	1,000
WBD	125	250	500	250	500	1,000
Whynot						
WNA	125	250	500	250	500	1,000
WNB, WND	125	250	500	250	500	1,000
WNC	125	250	500	250	500	1,000
Blakefield						
BLAB, BLC, BLE, BLF, BLG, BLH	160	320	900	250	500	1,000
BLD	125	250	500	250	500	1,000
BLJ	125	250	500	250	500	1,000
Glen Munro	125	250	500	250	500	1,000
Woodlands	125	250	500	250	500	1,000
Arrowfield						
AFA	125	250	500	250	500	1,000
AFB	125	250	500	200	400	600
Bowfield	170	300	1,000	250	500	1000
Warkworth	150	300	600	300	600	1,200
Mount Arthur	150	300	600	300	600	1,200
Piercefield						
PFAB	200	400	800	400	1,000	1,200
PFCE	200	400	800	400	1,000	1,200
Vaux						
VAAB	225	450	900	400	1,000	1,200
VACH	225	450	900	400	1,000	1,200
VAJ	225	450	900	400	1,000	1,200
Broonie						
BNAF	200	400	800	400	1,000	1,200
BNGH	200	400	800	400	1,000	1,200
BNJQ	200	400	800	400	1,000	1,200
Bayswater	250	500	1,000	400	1,000	1,200

Table 7-5 PoO Spacing HVO

Seam Group	PoO Radius					
	PoO 1 to 3			PoO 1 and 2		
	Quantity			Quality		
	Measured	Indicated	Inferred	Measured	Indicated	Inferred
Wambo	75	150	400	150	300	800
Whynot	75	150	400	150	300	800
Blakefield	75	200	400	150	300	800
Glen Munro	75	200	400	150	300	800
Woodlands	75	150	400	150	300	800
Arrowfield	75	150	400	150	300	800
Bowfield	100	200	500	200	400	1,000
Warkworth, WK2, WK3, WK4, WK5, WK6, WK9, WK10	125	250	600	250	500	1,000
WK1	125	250	600	250	500	1,000
WK7, 8A, 8C	125	250	600	250	500	1,000
Mount Arthur	125	250	600	250	500	1,000
Piercefield	175	350	700	350	700	1,000
Vaux	200	400	800	300	600	1,200
Broonie	175	400	800	300	600	1,200
Bayswater	200	400	800	300	600	1,200
Lemington	100	200	400	200	400	1,000
Pikes Gully	125	250	600	300	600	1,200
Arties	125	250	600	250	500	1,000
Liddell	125	250	600	250	500	1,000
Barrett	125	250	600	250	500	1,000
BAR	150	300	600	300	600	1,000
BAR1	125	250	600	250	500	1,000
BAR2	125	250	600	250	500	1,000
LBA	125	250	600	250	500	1,000
LBA1	125	250	600	250	500	1,000
LBA2	125	250	600	250	500	1,000

7.6 Reasonable Economic Prospects

The Assets are mature open cut mining operations that have approvals and license to operate in place for an extended period of time. Coal products are semi soft and thermal coal products that have strong market acceptance. Given the active mining both Assets have sufficient infrastructure including rail and port capacity and a well-trained and competent work force that should enable the life of mine (LOM) plans to be followed (See various sections for further commentary).

RPM has made the following general assumptions to define the reasonable prospects for economic extraction:

- The HVO open cut operations are economic to the 7 to 1 and the 8:1 to 1 for insitu prime strip ratio which is considered to approximate the break-even strip ratio (BESR), and an approximate depth of cover between 300 and 350m (See ***Section 9*** for further details).
- The MTW open cut operations are economic to the 9:1 to 1 for insitu prime strip ratio.
- Benchmarking with other open cut operations and future proposed operations in the Hunter Valley suggests that a 350m depth of cover cut off is appropriate,.
- RPM considers underground longwall operations below open cut excavation floor typically requires 80 to 120m of cover above the seam being mined by longwall methods. A minimum of 60m has been assumed for this Resource estimate based on the Company's assumptions used for the Hail Creek Underground mining studies where the underground working sections are separated by 60m.
- Future demand for thermal and semi soft coal will remain strong, and
- License to operate will not change to adversely affect the duration of the current LOM plan with mining consents are in place for HVO North to 2025, HVO South to 2030, and MTW to 2036. RPM assume these will be updated in due course of standard applications in NSW.

In addition RPM has made the following assumptions specific to MTW:

- The Company has stated open cut Resources to the Mt Arthur seam in the West Pit and Warkworth D seam in the North Pit.
- RPM considers that the Piercefield and Vaux seams are potentially economic open cut seams based on sufficient spoil room being available as such are included.
- That the slope and dump management plan will successfully manage the geotechnical aspects of mining below the current Mt Arthur and Warkworth seam floor to recover the Piercefield and Vaux seams.
- The Broonie and Bayswater seams are not potentially economic seams due to a lack of spoil room.
- The Company does not have title to the Bayswater seam by virtue of the title conditions, and as such the Bayswater seam cannot form part of the current Coal Resource.
- MTO open cut Coal Resources are stated to the Woodlands Hill seam.
- The Bayswater seam has been reported as the Underground Resource in the WML area as it has been assumed that open cut mining will continue to the Vaux seam from the highwall location as of December 31 2016. The Company depicts plans for longwall panels in the Vaux seam in both WML and MTO. RPM has reviewed the separation thickness between the Mount Arthur seam floor and the Vaux seam and determined that the separation thickness is insufficient (less than 60m) to support a practical longwall in the Vaux seam, should open cut mining progress to the Mount Arthur seam.
- RPM reviewed the open cut potential in the MTO area and concluded that it was likely that only a single longwall operation was possible due to requirement of having at least 60m separation between mined intervals below the Woodlands Hill seam floor in the open cut. RPM selected the Vaux seam as a reasonable longwall target seam because it appeared to have consistent seam thickness and separation between the VAF, VAG and VAH plies. The Mt Arthur MAC to MAJ plies are also a possible longwall resource but were rejected on the grounds of closer proximity to the floor of the Mt Arthur seam open cut and inferior roof conditions due to the Mount Arthur MAA and MAB plies, Fairford Claystone and Warkworth WKE to WKK plies being present in the primary and secondary roof.

RPM has made the following assumptions specific to HVO:

- All seams within the Jerrys Plains and the Vane Subgroups in the HVON area have open cut economic potential because depth of cover is less than 320m, and the prime strip ratio 5.8 as outlined in ***Section 8***.
- The coal seams of the Vane Subgroup only have open cut economic potential to the proposed limit of the Auckland Pit highwall. All seams of the Vane Subgroup down dip of the proposed Auckland Pit highwall and located in the axial plane area of the Bayswater Syncline can only have underground potential due to having depth greater than 320m and insitu strip ratio greater than 9:1. The Wollombi Brook and its associated river flats is also considered to be the western limit of the Auckland open cut resource area.
- A 100m offset has been applied to the bord and pillar underground operations in the MA3, PF1 and PF2 seams. The area of underground working has been excluded from the Resource estimate.
- The HVO underground Resource is located in the HVO South area in the Arties and Barrett seams of the Vane Subgroup. The Resource area has been subject to a mining study by the Company in 2010.
- All Resource from the Jerrys Plains and Vane Subgroups in HVO North has been classified and reported as an open cut Resource, and as such no underground Resources are reported.
- The HVO underground Resource is located in the HVO South area in the Arties and Barrett seams of the Vane Subgroup. The underground Resource area has been subject to an Order of Magnitude Study by the Company in 2010.
- RPM has assumed that tenure below the Vaux seam in CCL 755 and below the Bayswater seam in ML 1324 would be granted to the tenure holder of the HVO leases upon application. The Resource in these areas is estimated to be 453 Mt to a depth of 350m.
- RPM has not reduced the Coal Resource footprint in areas of waterways and alluvial land. RPM considers that extraction of coal by methods other than open cut could be possible in such areas however notes that coal does no extend under the hunter river. Offsets from waterways and alluvial land are considered to be modifying factors when classifying Reserves.

Appendix D provides graphical representation of the classification applied to the Coal Resource for various

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seams.

7.7 Variation from Company Reporting

RPM used the quantity and quality PoO spacing it determined from first principles to create plots of reliability (Stage 1 and 2 plots) and determined that the RPM and the Company's Resource classification plots used very similar radii of influence to assess Resource confidence however due to the increased entities and variable resulted in variation in the classifications applied to the resources.

RPM further notes that there is an increase in the reported resource by RPM as to that of the Company's due primarily to changes in the break even strip ratio in HVO (an subsequent exclusion of UG resources), inclusion of material below area of the licenses, and expansion of potential open pitiable material in Cheshunt.

The area north of the hunter river in Hvo is not considered resources by the company. RPM has extended the resource to the bareet seam, in a potential open pit similar to the chesthunt deep operation. The total resource in the vane subgroup below the baywater seam is 1.2 Bt

The remaining resource differentiation of 1.1 Bt is associated with the extending and he open cut area isf Cheshunt to the east and southeast. Such an extended opencut footp isn't does not extend into the Wollombi brook.

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8. Coal Reserves

The JORC Code defines a 'Coal Reserve' as the economically mineable part of a Measured and/or Indicated Coal Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Coal Reserves are sub-divided in order of increasing confidence into Probable Coal Reserves and Proved Coal Reserves. (JORC Code - Clause 28).

The terms 'Mineral Resource(s)' and 'Ore Reserve(s)', and the subdivisions of these as defined above, apply also to coal reporting, but if preferred by the reporting company, the terms 'Coal Resource(s)' and 'Coal Reserve(s)' and the appropriate subdivisions may be substituted. (JORC Code - Clause 43). As such RPM will refer to Ore Reserves as Coal Reserves in this Report.

8.1 Areas of Coal Reserves

The estimation of Coal Reserves is based on the following areas which are planned to be exploited through open cut mining methods:

- Hunter Valley Operations – this mine is currently being exploited via open pit methods and contains total Coal Reserves of **824 Mt** made up of 359 Mt Proved and 465 Mt Probable. The Reserve at HVO includes existing pits and expansion pits that will be developed when required to maintain production.
- Mount Thorley Warkworth Mine – this mine is currently being exploited via open pit methods and contains total Coal Reserves of **348 Mt** made up of 149 Mt Proved and 199 Mt Probable. The Reserve at MTW is made up from pits that are currently operated at the site.

8.2 JORC Statement of Coal Reserves

The Proved and Probable JORC Coal Reserves estimate for the Assets is summarized in ***Table 8-1*** and ***Table 8-2*** and shown graphically in ***Figure 8-1***. The JORC Coal Reserves estimates reported below are included in the Measured and Indicated Coal Resources quantities reported in ***Section 7*** and are not additional to.

For the West, Wilton, Mitchell, Cheshunt and Riverview Pits at HVO and all Pits at MTW, Coal Reserves that are supported by Measured Resources are classified as Proved Reserves and Coal Reserves supported by Indicated Resources are classified as Probable Reserves. The detailed level of mine planning and ongoing operating experience in these areas provide sufficient confidence in the Modifying Factors to at least pre-feasibility study level of accuracy as defined by the JORC Code.

The Open Cut Coal Reserves at Southern, Carrington East, Auckland South and Auckland are classified as Probable for both Measured and Indicated Resources, as a result of level of mine planning for these pits is preliminary and they are not currently operating.

Table 8-1 Statement of JORC Coal Reserves Estimate within the Final Pit Designs as at 31st December, 2016

Reserves	Project	Proved (Mt)	Probable (Mt)	Total (Mt)
Coal Reserves	HVO	359	465	**824**
	MTW	149	199	**348**
Marketable Reserves	HVO	247	327	**574**
	MTW	104	139	**243**

Notes:

4. *The Statement of JORC Coal Reserves has been compiled under the supervision of Mr. Doug Sillar who is a full time Senior Mining Engineer employed by RPM and is a Member of the Australian Institute of Mining and Metallurgy. Mr. Sillar has sufficient experience which is relevant to the style of Coal and type of deposit under consideration to qualify as a Competent Person as defined in the JORC Code.*
5. *Tonnages are metric tonnes*
6. *Figures reported are rounded which may result in small tabulation errors. Coal Reserves have been estimated under the 2012 Edition of the JORC Code.*

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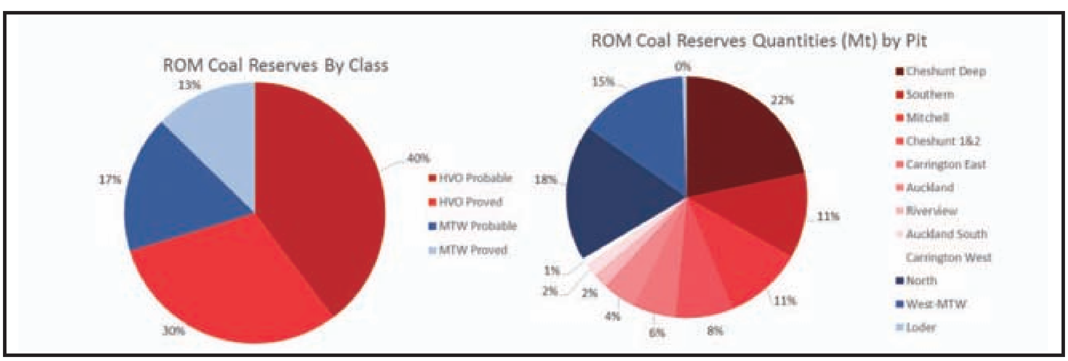
Table 8-2 ROM Coal Reserves Estimate by Pit as at 31st December, 2016

Operation	Pit	Proved (Mt)	Probable (Mt)	Total (Mt)
HVO	West-HVO	62	10	72
	Wilton	40	21	61
	Mitchell	34	77	111
	Carrington West	7	1	9
	Carrington East	0	60	60
	Riverview	15	7	21
	Cheshunt 1&2	77	4	80
	Cheshunt Deep	125	101	226
	Auckland South	0	19	19
	Southern	0	119	119
	Auckland	0	47	47
	Total	359	465	824
MTW	West-MTW	68	84	152
	North	76	114	190
	Loder	5	1	6
	South	-	-	-
	Total	149	199	348

Notes:

4. *The Statement of JORC Coal Reserves has been compiled under the supervision of Mr. Doug Sillar who is a full time Senior Mining Engineer employed by RPM and is a Member of the Australian Institute of Mining and Metallurgy. Mr. Sillar has sufficient experience which is relevant to the style of Coal and type of deposit under consideration to qualify as a Competent Person as defined in the JORC Code.*
5. *Tonnages are metric tonnes*
6. *Figures reported are rounded which may result in small tabulation errors. Coal Reserves have been estimated under the 2012 Edition of the JORC Code.*

Figure 8-1 Graphical Representation JORC In Situ Coal Reserves Estimate within the Final Pit Designs



RPM notes that the Company undertook Coal Reserves statements for both projects as at the 31st December 2015. The report for HVO states a total Coal Reserve of 890Mt. This compares to the current Reserves of 824Mt Differences in the results are due to; depletion from ongoing mining operations, adjustment to pit limits at HVON to align with recent planning and the addition of the Auckland pit reserves.

The previous Coal Reserve statement for MTW completed by the Company as at 31 December 2015 states a total Coal Reserves of 352Mt. This compares to the current Reserves of 348Mt. Difference are due to depletion due to ongoing mining operations and minor adjustments to pit limits.

8.3 JORC Coal Reserves Estimation Procedure

Coal Reserves were estimated using a suit of specialized geological and mine planning software Minex and open pit mine planning software XPAC, which includes margin ranking and life of mine production schedule program XPAC. The input parameters selected by RPM are based on the review of the mining studies completed by the Company, discussions with sit personnel and site visit observations. To enable the estimation of JORC Coal Reserves, RPM has:

- Reviewed approach, assumptions and outcomes from the Company mine planning studies, including the operating and capital cost forecasts;
- Reviewed information on current mine performance including operating costs and processing recoveries;
- RPM used the end of December 2016 surfaces as basis for production schedule forecast at both MTW and HVO Assets. As result, all Coal Reserves and production schedules presented in this report reflect the in situ tonnes as at the 31st December 2016.
- Reviewed the results of the margin rank and break even strip ratio analysis and selection of appropriate pit shells;
- Reviewed the mining method and current life of mine pit designs;
- Reviewed methodology used to estimate Coal recovery parameters in the model;
- Reviewed production schedules generated by the Client and updated certain pits using Minex.
- Generated a discounted cashflow model for the LOM schedule incorporating operating and capital costs and revenue as detailed in ***Section 13*** and outlined below. RPM reviewed the operating and capital cost estimates prior to applying them in the economic model.

8.4 JORC Coal Reserves Estimation Parameters

RPM has determined suitable technical parameters including costs, recoveries to apply in the Coal Reserve estimation process following; discussions with site personnel, review of pre-feasibility level documents, proposed life of mine plans, mining method, tailings dam capacity and the forecast processing plant recoveries for the areas of the Assets where Measured and Indicated Resources have been estimated. RPM notes that the sites are currently operating and that at least pre-feasibly study level documents were available for expansion areas, which formed the basis for the selected parameters. RPM highlights (as outlined in ***Section 14***), that the owner currently operates both MTW and HVO, as such owner operator mining costs were utilised in the study. Inferred Coal Resources cannot be used for Coal Reserves estimation and were not included as part of the Coal Reserve estimate.

A summary is presented for reference below, while further information regarding the parameters can be found in ***Sections 9, 10 and 13***. The following parameters (***Table 8-3***) have been used for the Coal Reserve estimate and reporting:

- Variable metallurgical recoveries (Yield) dependent on the ROM Coal quality were utilised in the study. A regression was developed by coal quality and coal processing specialist on behalf of the Client as part of the technical Due Diligence. RPM subsequently reviewed this work with the regression based on the MTW plants actual performance for a range of plant feed ash levels;
- The total Product Coal is determined by the ash vs yield regression as outlined above, however this regression does not determine the product split (thermal coal types and SSCC). The SSCC product is determined by a crucible swell number ("CSN") cut off of 4.7 within the low ash yield coal type. As a result the total thermal product is the total Product Coal (based on the ash versus yield regression) less the SSCC product. The remaining thermal products are based on the thermal splits applied in the Company's LOM plan model. This apportioned the thermal products into a low ash, medium ash and high ash product.
- Mining and processing operating costs utilised in the margin ranking and break-even were based on actual operating cost data and forecast performance of the operations as per the Company's Annual Operating Plan (AOP). These costs are based on various expected volumes, plant maintenance and unit costs for the 5 year period from 2016. All mining is undertaken by the owner, as such the input costs reflect this with separate operating costs and capital costs for mobile equipment. RPM notes that haulage costs in the mining costs utilised in the margin rank are based on the average haulage distance for the next 5 years. RPM considers this is a reasonable approach for the purposes of confirming the pit limits at both project areas given the distributions of the pits within both areas over the life of mine as well as the use of predominately in pit waste storage and CPP's. RPM also refers the reader to other

sections of the circular which present the recent costs and financial performance of the operations.

- Resource models have been converted to Run of Mine models through the application of Modifying Factors. This includes a minimum mining thickness cut-off of 0.4m, a minimum separable parting thickness of 0.4m, a globally applied coal loss factor of 10% and dilution of 4%. Dilution added to the ROM coal is assumed to have a default ash value of 80%.
- Long Term Forecast prices were utilised for the margin ranking and economic modelling to underpin reporting of Coal Reserves. The prices for margin ranking and reporting of Coal Reserves are at the point of sale of the products (free of board). The long term forecasts were sourced from third party reports completed by marketing experts provided by the Company along with discussions with the Company's personnel. RPM refers to the Business section and the Valuation Report in the Circular for detailed marketing and economic information. RPM is not a commodity forecasting specialist and has relied on third parties for price assumption. As per the JORC Code reporting requirements, RPM has completed independent reviews based on public and internal pricing information and considers the price assumption to be reasonable.

Table 8-3 Margin Rank Input Parameters

Description	Units	MTW	HVO
Prices			
SSCC	USD /tonne	72.25	72.25
Thermal	USD /tonne	47.75 – 54.23	47.75 – 54.23
Exchange Rate	AUD/USD	0.75	0.75
Average Mining Costs			
Coal Mining	AUD /tonne	3.07	1.64
Waste Mining	AUD /bcm	2.95	2.98
Site Overheads			
Processing	AUD /t ROM	3.83	3.26
Administration	AUD /t ROM	12.76	10.45
Offsite Costs			
Rail	AUD/t Prod	5.16	5.48
Port	AUD/t Prod	3.02	4.02
Other Offsite Costs	AUD/t Prod	11.03	11.36
Dilution and Recovery			
Mining Recovery	%	90	90
Mining Dilution	%	4	4
Average Yield			
CPP	%	68.5	76.3
Bypass[4]	%	100%	100%
Pit Slopes			
Overall Slope Angles	Degrees	Varies location within the pit	Varies location within the pit

Source: Provided by the Client and reviewed by RPM.
Notes:
1. *Coal Prices in USD*
2. *Thermal coal price varies for Low, Mid and High ash products*
3. *All costs in Australian Dollars*
4. *Bypass is assumed to be zero for reserves and cashflow viability*

8.5 Coal Reserve Economic Viability

As part of RPM's process to justify the economic viability of the reported Coal Reserves two separate revenue cash flow analyses were completed based on the following:

- To determine viability of the Coal Reserves included in the schedule as presented in ***Section 9***, all Inferred Resources were treated as waste;
- All variable unit costs for the mine life, including mining, in and out of pit variable haulage, coal processing and handling transportation costs, overheads and royalty costs;
- The forecast schedules as shown in ***Section 9***;

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- CAPEX costs including sustaining and closure costs as outlined in ***Section 13***;
- Applied the assumed Long Term Consensus forecast prices as noted above. As outlined in the Market overview summary in Section 2.4, both the SSCC and Thermal coal markets are susceptible to both up and downswings over the medium and long term with various market forces impacting demand and supply. Given the market forces and the increased complexities in forecasting prices, in the DCF model RPM considered the use of long term average price suitable; RPM has sourced these pricing from third party marketing studies and/or information and forecasts provided by the Company. RPM is not a price forecast expert and has relied on third party and expert opinions however considers them reasonable
- Discount rate of 10%, which was selected based on the quantity, long history of mining and well established community relations; and
- No taxes were applied other than royalties.

Based on the above parameters the outcomes of both models showed positive cashflow when all costs, CAPEX and pricing assumptions were applied. Further to the construction of the DCF model, sensitivities were tested with key elements found to be sensitive to the Assets economics are price of the products as well as process operating costs. However, the Coal Reserves were found to be resilient to +/-20% variation in key parameters employed for sensitivity test over the life of the mine. As such RPM considers that the quantities and grades reported are economically robust and suitable for reported as Coal Reserves.

The averaged aggregated annualized costs which resulted from the cashflow model are presented in ***Section 13.2*** for each operation***.***

While RPM has completed an independent DCF to justify its Coal Reserves, RPM has also reviewed and refers the reader to the Valuation report contained within the Circular. This independent valuation report is based on the inputs and quantities contained within this Report and presented the detailed cashflow analysis, outcomes reported NPVs of the Assets for reference.

8.6 Comments

RPM notes the following in relation to the Coal Reserves:

- As per the reporting requirements of the JORC Code, the Inferred material within the final pit is considered waste and not included the reported Coal quantities or schedule. RPM notes that within the final pits **32.4 Mt** and **28 Mt** at MTW and HVO of Inferred Coal Resources and unclassified coal respectively at the Assets pits respectively. If additional exploration successfully delineates this Coal and it is upgraded to Indicated and/or Measured this material can be included in an updated Coal Reserve estimate. If successfully defined as economical, this material has the potential to extend the mine life approximately by 1.5 years for HVO and 2 years at MTW, additionally this material if successfully defined as Indicated resource would decrease the LOM prime strip ratio from 5.8 to 5.6 at HVO and 6.5 to 6.0 at MTW.
- A number of years require peak waste movement to achieve the required throughput. The approach to modelling has been to assume that hire equipment is utilized to meet short term peaks in waste stripping requirements over and above the base annual capacity of the owner's fleet.
- RPM notes that an additional **9 Mt** of indicated and **9 Mt** of inferred coal is estimated within the final West pit design at MTW (not the Coal Reserve pit), however due to the inferred component within this area, this **18 Mt** of coal is not included in the Schedule as presented in ***Section 9***. This Indicated material, while still able to be classified as a Coal Reserves as per JORC requirements is not included in the schedule as per Chapter 18 reporting requirements of valuations.
- As part of the LOM plan the MTW operation requires the closure of the Wallaby Scrub road. RPM is aware the Company has an environmental permit as well as the required mining permits for mining in this area however required local council approval to close the road. RPM is aware of recent meetings and a visit was undertaken in February, 2017 which commenced the close out procedure. RPM highlights that this approval is not required for 5 years as such considers this a low risk which can be managed as per normal community discussions of this type.
- Underground operations have not been considered for this statement of Coal Reserves. There are significant resources with underground potential at both MTW and HVO and preliminary studies have been completed. Further detailed study is required to confirm the feasibility of underground extensions

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prior to inclusion as a Reserve however RPM outlines the study shown in ***Section 15***.

- As outlined in ***Section 14***, no aboriginal are outstanding Native Title area impact the Coal Reserves reported in this Report.

9. Mining

All mining operations at the Assets are undertaken via conventional large scale coal open pit methods predominately using owner operator equipment. ROM coal is hauled to one of four (two on each operation) Coal Handling Preparation Plants which produce marketable thermal and SSCC Product Coal. Subsequent to blending and stockpiling, Product Coal is loaded onto train carts and transported to the Port of Newcastle for sale on the international market.

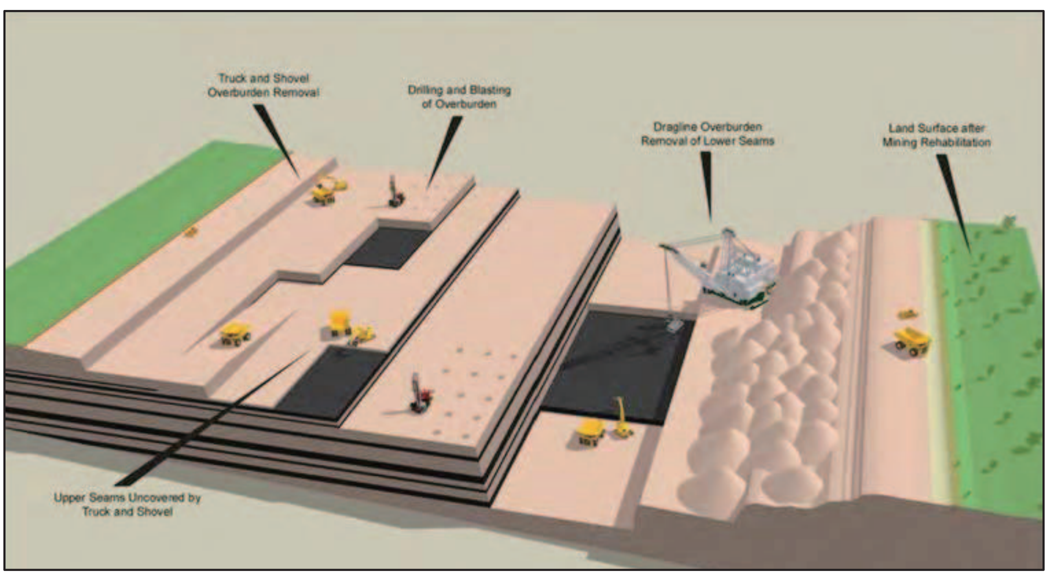
RPM has estimated the total Coal Reserves Schedule to be approximately **1,172 Mt** which is made up of **824 Mt** at HVO and **348 Mt** at MTW with strip ratios of 5.8 and 6.5 respectively. Based on the Coal Reserves, RPM estimates the mine life to be approximately 44 and 24 years respectively for Assets.

9.1 Mining Method

Coal within both operations occurs as large sub-horizontal bodies (***Section 5***) which are laterally very extensive over 10's km. As such, both operation utilize large scale open cut mining methods which is summarised below and shown graphically in ***Figure 9-1***.

- Removal and storage of topsoil material via draglines or truck and shovel methods.
- Drilling of a blast pattern.
- Blasting to fragment rock.
- Excavation of waste material with truck and shovel/excavator in the upper benches to uncover coal.
- Excavation of waste material in lower benches by draglines (in certain pits), and
- Digging, loading and hauling of Coal via truck and Shovel methods.

Figure 9-1 Graphical Representation of Open Cut Coal Mining



RPM notes that the majority of the waste material is drilled and blasted to fragment the rock. Pre-strip waste in the waste horizons that sit above the dragline working level which is typically at the bottom of the waste mining sequence. The pre-strip waste is mined by electric shovels and hydraulic excavators and loaded into rear dump trucks which haul the waste material to the various dump locations..

9.1.1 Hunter Valley Operations

The HVO site area is approximately 20km long (North to south) and 10km wide (***Figure 2-2***). HVO is divided into HVO North (HVON) and HVO South (HVOS) with are divided by the Hunter River which flow through the

HVO leases. There are a number of current active pits and potential future developments at HVO as further outlined in ***Section 9.6***, with the existing operation producing approximately 17 Mtpa of run-of-mine coal which results in approximately 13 to 14 Mtpa of coal products.

At HVO North the current active mining area is the West Pit, however there has been recent mining in the Wilton and Carrington Pits (***Figure 2-2***). West pit is a dragline pit whereas the Wilton and Carrington pits are planned to be mined via Truck and Shovel methods only.

West pit, located at the northern end of the HVO site, commenced operation is 1949 as part of the Howick Mine with the bottom seam varying from north to south. The West pit targets a Barrett Seam Floor. Coal Seams from the Barrett seam at the bottom of the pit up to the Lemington Seam are found in the West pit area with the upper seams more developed as the pit progresses down dip to the Southeast.

A centre bridge system is used by the dragline at West Pit to gain access into each successive cut. The coal beneath the centre bridge is not recovered with a low-wall ramp system used to gain access to the Liddell and Barrett coal seams at West Pit. The pre-strip operations are undertaken by Electric Rope shovels and large Hydraulic Excavators loading rear dump trucks. Pre-strip waste is placed into the in-pit dumps with Coal mined by front end loaders and hydraulic excavators hauled to either of the CPP's.

Within HVOS there are two currently operating pit areas; Cheshunt 1&2 and Riverview. Riverview pit is located to the west of the Cheshunt pits on the western limit of the HVO lease boundary (***Figure 2-2*** and has planned to pit limits of approximately 1.2km wide (west to east) and 1km north to south. Riverview is a dragline operation with Truck and Shovel pre-strip with the pit advancing to the South. In the north the basal seam of the pit was the Warkworth Seam (area mined out), with the central area of the pit the Warkworth Seam splits away from the Bowfield Seam and the floor of the pit is stepped up to a Bowfield Floor.

Coal from the Riverview West pit is mined by front end loaders and hauled to either CPP. The in-pit spoil from the Riverview West pit will ultimately be rehandled as part of the Cheshunt Deep pit which will target the Bayswater Seam beneath the current Riverview West Pit.

Cheshunt 1 and 2 pits are adjoining mining areas located at the northern end of the HVOS area. The pits are mined by Truck and Shovel methods with waste being hauled to ex-pit / in-pit dumps to the north east of the pits either via the eastern endwall or cross pit access between the Cheshunt 1 and Cheshunt 2 pits. A ramp system up the advancing waste dump has been developed which provides access to a number of active dump tip heads. The combined length of operating face at the two pits is approximately 3km. The pits are developed to the south and southwest and are a subset of the Cheshunt Deep pit extension which is planned in later years of the mine life as outlined in ***Section 9.6***. Coal seams from the Warkworth Seam down to the Barrett seam are identified in the area, however the Cheshunt 1 and 2 pits mine down to the Bayswater Seam floor only.

Mount Thorley Warkworth

There are currently four operational pits at MTW:

- Loders Pit,
- West Pit, and
- North Pit

Loders Pit is due for completion in 2018 after which there will be two operational pits which utilise the dragline with Truck and Shovel pre-stripping method. At the completion of the Loders pit a dragline will be decommissioned leaving two operational draglines at MTW. The reduction from four operating dragline pits to two will require a change in the dragline operating method to maintain the required production rates, as a result the Company have completed detailed investigation of the revised dragline operating method. The features of the dragline offset method include:

- Operating two draglines in the same pit;
- Increasing the strip width from 55m to 80m;
- Allows two coal seam horizons to be exposed at the same time;
- Two pass operation in the West Pit, one pass operation in North Pit;
- Spoil pullback pass in West Pit to achieve a spoil balance, and

- 30 day delay for both draglines at the end of each strip to allow for de-coaling operations to take place and preparation of the next strip for dragline operation.

9.2 Mine Design and Concept

The following outlines the mine design aspects of both the operations.

9.2.1 Geotechnical –Pit Slopes

Seismic hazard studies were not included in the documents available. However, the region is classified as a low seismicity area and seismic hazard is not a critical design consideration. RPM considers the geotechnical parameters applied to Assets pit designs are suitable and reasonable for the rock types identified.

Hunter Valley Operations

Coal is planned to be mined from up to 10 separate pits over the life of the mine. Mine Designs are generally based on those generated by the Company however have been reviewed by RPM and considered reasonable. Information provided by the Company does not specifically state the design criteria however notes the following:

- Some geotechnical issues have had an impact on design such as mining through alluvial land or in proximity to underground workings, however these have not had a significant impact on the operation,
- In the current pits, bedding is inclined in the direction of the highwall and major faulting generally trends perpendicular to the highwall.
- The weakest strata on site is the alluvial material, requires significant geotechnical and hydrogeological study to confirm impact on pit design and stability.
- The ongoing design criteria used at the site includes input from:
- Regular geotechnical inspections, reviews and design advice from external geotechnical consultants throughout the entire period of mining operations; and
- Inspections and back analysis of any wall failures to demonstrate causes of failure with preventative measures being incorporated back into wall design.

Mount Thorley Warkworth

Coal is planned to be mined from up to three different pits of which Loders will be completed within the next three years. The Company advised RPM that the final highwall overall design slope for the North, West and Loders Pit is 55 º and the end walls (northern and southern walls) vary between 25 and 35 º for operational reasons. In all pits the overall slopes may vary depending on the depth of the pits, the number of benches and the number of required access roads.

9.2.2 Pit Limits

The Client completed a Margin Ranking process using XPAC mine planning software which is a process which attributes revenue and costs factors to a set of discreet block data to estimate the incremental and cumulative margin for each coal horizon. The margin ranking results provide an indication of the economic pit limits and also may assist in strategic planning as it allows the relative ranking of pits from high to low margin. The margin ranking was limited to the extents of the pit shells for both MTW and HVO. The cost assumptions for the Margin Ranking include:

- Waste removal costs based on AOP forecasts with operational improvements to productivity based on Client benchmarks.
- Drill and blast costs based on Client cost data
- All other onsite costs as per AOP
- Offsite costs updated as per Client expectations.

The outcomes from the margin ranking were analysed and, allowing for cost of capital, a cut off margin of AUD 10.00 per product tonne was selected. Although the margin ranking process is indicative, it provides a good guide for targeting economical reserves for mine planning and scheduling.

The potential basal seams resulting from the Margin Ranking are outlined in ***Table 9-1***. The basal seam applied in the LOM plan and Reserves reporting is also shown. In some cases the potential economic basal seam may be below the pit design and presents upside for further expansion of the pits.

RPM has reviewed the Client's margin ranking exercise and considers it suitable, and has applied these basal seams to the LOM Schedule presented in this Report.

Table 9-1 Margin Rank and Design Seam Floor

Pit	Margin Rank Basal Seam	LOM / Reserve Basal Seam	Comments
MTW			
Loders Pit	Woodland Hill	Woodland Hill	
West Pit	Mount Arthur	Mount Arthur	
North Pit	Mount Arthur	Warkworth	the Company currently mine to Warkworth Seam
HVO			
West Pit	Barrett	Barrett / Liddell	South of bridge, the pit steps up to Liddell
Wilton Pit	Barrett	Barrett	
Mitchell Pit	Barrett	Barrett	
Carrington West Pit	Bayswater	Bayswater	
Riverview Pits	Warkworth	Warkworth	
Cheshunt Pits	Lower Liddell	Bayswater	Pit limited to Bayswater seam for practical purposes
Southern Pit	Hebden (Lower Barrett)	Lemington	Pit limited to Lemington seam for practical purposes
Auckland Pit	Hebden (Lower Barrett)	Lower Barrett	

9.2.3 Break-Even Strip Ratio Analysis

In addition to the Margin Rank, RPM generated a break-even strip ratio to confirm the pit limits. A break-even strip ratio is the ratio of burden (waste) to ROM coal tonnes at which there is $0 margin. The cost inputs in the estimation of the break-even stripping ratio were as per those used in the above described margin rank process. The estimated Break Even Strip ratio for HVO is 13:1 and for MTW 11:1. Cumulative strip ratio plots were generated in Minex™ software to the appropriate seam floors for each pit area and compared against the break-even strip ratio estimate.

The break-even strip ratio analysis confirmed the results of the margin rank study completed by the Client. RPM also used the break-even strip ratio method to confirm the pit limits at Auckland South and Carrington East which were not included in the margin ranking as they were not included in the previous works completed by the Client.

9.2.4 Mine Design Parameters

The slope criteria adopted in the LOM plan for HVO are shown in the ***Table 9-2***. RPM notes that in some sections of wall the overall slope design may vary depending on the depth and the number of berms in the wall design.

Table 9-2 HVO Pit Design Slopes

Pit	North	East	South	West
West	30	38	30	N/A
Riverview	N/A	N/A	50	37
Cheshunt 1&2	40	N/A	45	45
Cheshunt Deep	40	40	40	40
Carrington West	40	45	44	38
Wilton/Mitchell	40	39	30	17-27
Southern	37-40	22	37-40	37
Auckland	35	35	35	35
Auckland South	37	31-37	37	37

Carrington East				

At MTW the final highwalls of all pits are designed to an overall slope of 55° however endwall design slopes vary depending on operational requirements such as access roads to dumps and typically range from 25 to 35 degrees.

RPM has reviewed the current mine plans for the pits that are scheduled to be mined over the life of the projects and considers that the pit limits were designed with suitable level of detail taking into account the recommended geotechnical and mining operation parameters.

9.2.5 Waste Dumps

The Client commissioned a third party to prepare a dumping and trucking study for both MTW and HVO. The study replicated the LOM plan and used dump limits and shells from the Company's LOM Model. A 20% swell factor was applied to the waste volumes placed into the dumps.

The waste has been selectively hauled to the associated in-pit dump as first priority, out of pit dumps are utilised when the in-pit dumps are full. In pit dumps are defined as the dump immediately behind the active pit, which are generally accessible via short hauls from pit haul back roads. Out of pit dumps are dumps which require a longer haul to access, and are generally located outside of the pit area. Below is a summary of the study for each operation.

Hunter Valley Operations

Spoil balance work in the Cheshunt Pit at HVO indicates that waste does not fit within the current approved dump limits (155mRL), with the study estimating that the required dump height is 195mRL. The approved dump limit is not exceeded until 2020. RPM considers there is sufficient time to design alternatives.

RPM understand that the Company has applied for a modification to the final Cheshunt dump height, the application is referred to as MOD5. Based on information provided by the Company it appears there is sufficient time to obtain the required approval for MOD5.

At the Auckland Pit there was a significant shortfall in dump capacity when using the Company's dump shell limit of 140mRL. Accordingly, the planned dump height has been increased to 180mRL to allow a spoil balance to be achieved. RPM highlights there is sufficient time to review and improve the mine plan at Auckland as the pit is not scheduled to commence until 2052.

RPM considers the HVO waste dump designs and strategy to be adequate to support the Life of Mine Production Schedules. Opportunities may exist to optimise waste handling and storage through detailed reviews of mine designs and scheduling.

Mount Thorley Warkworth

The strategy used for waste haulage and dumping at MTW can be described by the following rules:

- Loders Pit (Mt Thorley) waste is hauled in pit to Mt Thorley dumps (2016 to 2018 only),
- Loders pit void will be primarily used as a tailings dam. Some waste will also be placed in the void late in the LOM Plan
- West Pit waste is hauled to the following dumps in order of preference:
- West Pit in-pit dumps,
- South ex-pit Dumps (2016 to 2028 after which South ex-pit Dump is full)
- West ex-pit dump (2028 to 2038 after which West ex-pit dump is full), and
- Loders Pit final void (2038 to 2040).
- North Pit waste is hauled to the following dumps in order of preference:
- North Pit in-pit dumps,
- North Pit ex-pit dump (2016 to 2022 after which North ex-pit dump is full),

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- West Pit final ex-pit dump (2022 to 2038 after which West ex-pit dump is full), and
- Loders Pit final void (2038 to 2040).

At MTW waste generally fits within the approved dump limits with the one exception being where the dump over the Loders pit area will need to increase 5m above the approved dump height of 155mRL. The additional volume is estimated to be 2.5Mlcm and is not considered by RPM to be a material issue.

9.2.6 Groundwater

During the site visit it was noted the operations are reasonably dry and water negative (i.e. the operations have to get water in from other sources to keep up dust control and don't release any water). The ground water will also typically run away from the face as it is mined due to the mining methods applied, as such any in-pit water is managed with a dewatering pump to a holding facility and used for dust suppression.

RPM considers the surface mining water management to be suitable for the operations. RPM did not review the flood control management systems.

9.3 Equipment Capital

9.3.1 HVO

The mining equipment is maintained through a comprehensive mine maintenance management system whereby each item of equipment has scheduled service and component replacement based on operating hours and historical records. RPM considered some of the estimated hours for the life of the equipment in the Company modelling exceeds typically acceptable hours and this has been adjusted in the Client models. RPM deems the major mining fleet capacity to be suitable for the waste and coal movements in the LOM plan, with the fleet numbers outlined in ***Table 9-3***.

9.3.2 MTW

There are currently three draglines working across the MTW pits, with one of these draglines scheduled for retirement within the next few years when the Loader pit at Mount Thorley is completed. The draglines are aged and require substantial maintenance and routine inspections however this is included into the operating costs as part of ongoing maintenance. There are also three electric shovels operating at MTW which are fairly new and thereby incur much lower preventative and routine maintenance costs. That said, there are six electrically operated machines operating in-pit at MTW and the HV electrical infrastructure required to support these machines is substantial and costly to maintain and move to suit mining operations. Overburden haul trucks at MTW are typically Caterpillar 789's, Komatsu 830's and Caterpillar 795's while Coal is hauled in Caterpillar 789's or Komatsu 830's. The LOM fleet requirements are shown in ***Table 9-4***.

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Table 9-3 - HVO Fleet Forecast

Asset Type	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
Dragline	2	2	2	2	2	2	2	2	1	1	1	1	1	1	1	1	1	1	0	0	0	0
Shovel	3	3	3	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	3	4	4	4
Excavators	7	7	7	7	7	8	8	9	9	9	9	9	8	8	8	8	8	8	8	6	6	6
Front end Loader	6	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7	7
Owner Haul Truck	93	100	71	74	100	101	106	109	112	114	114	120	120	115	121	110	86	89	92	95	99	104
Hire Truck	18	7	26	11	23	25	19	23	26	20	14	8	10	5	8	10	19	20	10	17	0	0
Dozer	36	36	36	36	39	39	40	40	40	40	40	40	40	39	39	39	39	38	38	34	34	34
Drill	9	7	7	9	9	9	9	9	9	9	9	9	9	9	12	12	12	12	12	12	12	12
Water Tank	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
16G/H Grader Fleet	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9
24H Grader Fleet	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Grader	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11
Cable Reeler	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	0	0	0	0	0
Scraper	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Service Trucks	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4

Asset Type	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060
Dragline	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Shovel	4	4	4	5	4	4	4	4	4	4	4	4	4	4	4	4	2	2	2	2	2	1
Excavators	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	4	3	3	3	3	2
Front end Loader	7	7	7	7	7	6	6	6	6	6	6	6	6	6	6	4	4	3	3	3	3	2
Owner Haul Truck	115	120	126	133	133	133	133	137	137	138	141	141	141	140	140	117	77	69	69	69	70	51
Hire Truck	0	0	0	4	4	2	0	0	4	5	0	0	4	3	1	0	0	0	0	0	0	0
Dozer	34	35	36	36	36	36	36	36	36	36	36	36	36	32	32	28	21	19	16	16	16	12
Drill	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	10	7	7	7	6	6	5
Water Tank	10	10	10	11	11	11	11	11	11	11	11	11	11	11	11	10	10	6	6	6	6	4
16G/H Grader Fleet	9	9	9	10	10	10	10	10	10	10	10	10	10	10	10	9	6	5	5	5	5	4
24H Grader Fleet	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	1	1	1	1	1
Grader	11	11	11	12	12	12	12	12	12	12	12	12	12	12	12	11	8	6	6	6	6	5
Cable Reeler	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Scraper	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	1	1	1	1	1	1	1
Service Trucks	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	3	2	2	2	2	2	1

Source: Provided by the Client following adjustment to RPM's schedule

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Table 9-4 - MTW Fleet Forecast

Asset Type	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Draglines	3	3	3	2	2	2	2	2	2	2	2	2	2	2
Shovels	3	3	3	3	2	2	2	2	2	2	2	2	2	2
Excavators	6	6	6	6	6	6	6	5	5	5	5	5	5	5
Front End Loaders	4	4	5	5	5	5	5	5	5	5	5	5	5	5
Haul Truck	84	84	96	105	102	106	103	106	103	115	96	101	112	106
Dozer Feel	35	33	33	29	29	27	27	27	27	27	26	26	26	26
Drill Fleet	9	7	7	7	7	7	7	7	7	7	7	7	7	7
651 Scraper Fleet	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Service Trucks	0	0	0	0	0	0	0	0	0	0	0	0	0	0
785 Water Tank Fleet	8	8	8	8	8	8	8	8	8	8	8	8	8	8
Grader Fleet	7	7	7	7	7	7	7	7	7	7	7	7	7	7
Cable Reeler	2	2	1	1	1	1	1	1	1	1	1	1	1	1
Scraper	2	2	2	2	2	2	2	1	1	1	1	1	1	1
Service Trucks	4	3	3	3	3	3	3	3	3	3	3	3	3	3

Asset Type	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
Draglines	2	2	2	2	2	2	1	1	1	1
Shovels	2	2	2	2	2	2	1	1	1	1
Excavators	5	5	5	5	4	4	4	3	2	2
Front End Loaders	5	5	5	5	5	5	3	3	3	3
Haul Truck	105	102	102	105	86	86	72	58	55	48
Dozer Feel	26	25	25	25	25	25	17	16	16	14
Drill Fleet	7	7	7	7	7	7	4	4	4	4
651 Scraper Fleet	0	0	0	0	0	0	0	0	0	0
Service Trucks	0	0	0	0	0	0	0	0	0	0
785 Water Tank Fleet	8	5	5	5	5	5	4	3	3	3
Grader Fleet	7	6	6	6	5	5	3	3	3	3
Cable Reeler	1	1	1	1	1	1	1	1	1	1
Scraper	1	1	1	1	1	1	1	1	1	1
Service Trucks	3	3	3	3	3	3	2	2	2	2

Source: Provided by the Client following adjustment to RPM's schedule

RPM considers that the above equipment fleet forecasts are suitable and practical for the LOM Schedule presented in this Report.

9.4 Life of Mine Plan and Pit Sequence

Mining is forecast to continue as per the current operations at both operations. At MTW, four operational pits currently feed the CPPs. Mining from the Loders Pit will cease in 2018 and South Pit will be completed during 2017, leaving North Pit and West Pit for the remainder of the mine life. The operating pits continue to progress down dip towards the west of the lease area and Wallaby Scrub Road. At HVO, mining is currently active in the West, Riverview, and Cheshunt Pits with a number of future expansion pits planned to be developed as coal is depleted from existing pits. The ROM coal production targets by pit are shown in ***Figure 9-2*** for Assets with detailed schedules shown in ***Table 9-5*** and ***Table 9-6***.

9.5 Coal Reserve Schedule

The production plans for the Assets prepared by RPM, as shown in ***Table 9-5*** and ***Table 9-6,*** and ***Figure 9-2*** through ***Figure 9-4,*** are based on Measured and Indicated Resources only. Specifically, Coal Reserves reported were based on Measured and Indicated material, with any Inferred Resource contained within the design pits classified as waste.

Based on the Coal Reserve estimates, the Pit Development Sequence, and the Pit Designs, the forecast mine lives for the Assets are approximately 44 years for HVO and 24 years for MTW as at 31st December, 2016. RPM considers the proposed Life of Mine Development Sequence and Production Forecast to be reasonable and achievable based on the current mining equipment forecasts (***Table 9-2*** and ***Table 9-3***) and designs. RPM does however recommend that further optimisation and long term planning be completed to confirm the LOM plan outcomes. This optimisation should focus of the sequence of development in conjunction with capital and operating cost analysis to maximize the profitability of the Assets in particular the fleet management.

RPM highlights that the production schedules in this Report vary from those presented by the Company primarily as a result of the exclusion of Inferred Resources from the RPM Coal Reserves schedule as required by JORC Code.

9.5.1 HVO Production Schedule

The HVO LOM schedule was developed targeting a ROM Coal production rate of 20.6Mtpa from a number of active mining areas at the site. West Pit, due for completion in 2034, is currently mined using a combination of truck and shovel for pre-strip operations and a dragline uncovering the lower coal seams, has a target of 4.5 Mt ROM Coal per annum. At the completion of this pit the dragline will be retired from use at the mine. Riverview Pit is currently being mined by truck/excavator and dragline method. The Riverview Pit is mined to the Warkworth Seam with spoil placed into the mined out void. Following completion of the Riverview Pit in 2024 the dragline will be retired. The in-pit spoil at Riverview will also be re-handled as part of the larger Cheshunt Deep Pit which targets the deeper seams. The Cheshunt 1 & 2 Pits are adjacent active truck and shovel pits and are a subset of the larger Cheshunt Deep Pit. The Cheshunt 1 & 2 Pits are forecast to mine up to 14.7 Mtpa and will be completed in 2023 following transition into the Cheshunt Deep Pit.

The expansion pits at HVO are the Cheshunt Deep Pit, Southern, Auckland, Carrington East and Auckland South Pits. The Cheshunt Deep Pit is scheduled to be completed in 2041 at which time the Southern, Carrington East and Auckland South Pits will be developed to maintain the total site production rate of approximately 20 Mtpa. As these pits are depleted, the Auckland pit will be developed in 2052 with the operation transitioning to a lower production rate of 10 Mtpa before completion in 2060.

The HVO schedule results, which RPM consider to be practical and achievable, are presented in ***Table 9-5*** and ***Figure 9-3*** and ***Figure 9-4***.

9.5.2 MTW Production Schedule

In the MTW LOM schedule the Loders Pit is planned to cease in 2019 leaving the West and North Pits to support production. The Company plans to retire the dragline that was operational at Mt Thorley and modify the dragline operating method in the West and North Pits to a tandem offset dragline method which will commence in 2019 as outlined previously.

The West and North Pits will continue to develop down dip towards the west of the licence area and have a combined production target of approximately 17 Mtpa. The ROM coal production from each pit is variable as it depends on the proportion of time the draglines are operating in each pit for any given year. North Pit ceases production in 2040 and West Pit is completed in 2036.

As the North and West Pits near their western limits the proportion of Inferred coal that has been excluded from the LOM plan increases. This reduces the annual ROM coal produced and increases the ROM strip ratio however presents significant upside for future mining if successful drilling results in upgrade of the resource classification. The LOM plan schedule results are presented in ***Table 9-6*** and ***Figure 9-5*** and ***Figure 9-6***.

Figure 9-2 Assets LOM Pit Sequencing

Operation	Pit	Units	Years													
			2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
HVO	West	Mt	2.3	2.0	4.5	4.0	4.0	4.3	4.4	4.5	4.6	4.6	4.7	4.9	4.8	4.8
	Wilton	Mt							0.9	1.0	1.1	1.1	2.1	2.1	3.0	3.0
	Mitchel	Mt														
	Carrington	Mt									1.5	1.5	1.5	1.5	1.5	1.5
	Riverview	Mt	5.2	4.9	2.1	1.9	2.0	2.0	2.0	1.9						
	Cheshunt	Mt	11.6	13.7	14.1	14.7	14.6	10.3	1.6							
	Cheshunt Deep	Mt						4.0	11.7	13.2	13.4	13.4	12.3	12.1	11.3	11.3
	Southern	Mt														
	Auckland	Mt														
	Auckland South	Mt														
	Carrington East	Mt														
	Total ROM Coal	Mt	19.1	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6
MTW	Loders	Mt	4.8	1.4												
	North	Mt	5.4	7.7	3.5	4.7	6.4	7.0	8.7	8.8	8.1	7.5	7.7	7.9	8.2	10.4
	West	Mt	6.8	8.0	13.5	12.3	10.6	10.0	8.2	8.1	8.8	9.3	9.0	8.8	8.4	6.3
	Total ROM Coal	Mt	10.3	17.0	17.0	17.0	17.0	17.0	17.0	16.9	16.9	16.9	16.7	16.7	16.6	16.6

Operation	Pit	Units	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045
HVO	West	Mt	4.6	4.6	4.2	1.3											
	Wilton	Mt	3.0	3.0	4.0	4.0	4.0	4.0	3.9	3.9	3.7	3.7	3.7	3.7	2.2		
	Mitchel	Mt				2.5	4.1	4.1	4.1	4.1	4.4	4.4	4.4	4.4	4.4	4.4	4.5
	Carrington	Mt	1.5	1.6													
	Riverview	Mt															
	Cheshunt	Mt															
	Cheshunt Deep	Mt	11.5	11.4	12.4	12.8	12.6	12.5	12.5	12.5	12.5	10.5	6.5	2.8			
	Southern	Mt										2.0	5.0	5.7	8.0	8.0	8.0
	Auckland	Mt															
	Auckland South	Mt													1.0	2.0	2.0
	Carrington East	Mt											1.0	4.0	5.0	5.0	5.0
	Total ROM Coal	Mt	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	19.6	16.6	14.6	12.4	12.5
MTW	Loders	Mt															
	North	Mt	10.6	6.3	9.0	10.4	6.6	10.6	9.5	8.9	12.6	8.3					
	West	Mt	6.1	10.3	7.6	6.4	10.0	6.2	6.3	7.4	3.5	0.7					
	Total ROM Coal	Mt	16.7	16.7	16.6	16.8	16.6	16.8	15.8	16.2	16.1	9.0					

Operation	Pit	Units	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	LOM
HVO	West	Mt																73.2
	Wilton	Mt																61.2
	Mitchel	Mt	4.5	4.4	4.4	4.4	4.4	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.4	0.7	113.2
	Carrington	Mt																12.1
	Riverview	Mt																22.0
	Cheshunt	Mt																80.5
	Cheshunt Deep	Mt																233.1
	Southern	Mt	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	6.0	3.1					125.8
	Auckland	Mt									2.0	6.0	6.0	6.0	6.0	6.0	6.0	38.0
	Auckland South	Mt	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	1.0							22.6
	Carrington East	Mt	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	3.4							63.4
	Total ROM Coal	Mt	12.5	12.4	12.4	12.4	12.4	12.5	12.5	12.5	14.5	18.5	16.5	13.6	10.5	10.4	6.7	844.4
MTW	Loders	Mt																6.2
	North	Mt																194.7
	West	Mt																192.7
	Total ROM Coal	Mt																393.7

Current Operating Pit

Future Development Pit

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Table 9-5 LOM Coal Reserves Schedule

Operation	Year	Units	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Avg. 2031-2035	Avg. 2036-2040	Avg. 2041-2050	Avg. 2051-2060	Total LOM
HVO	**Mining**																				
	ROM Coal	Mt	19.1	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	19.7	13.4	823.7
	Prime Waste Mined	Mbcm	82.8	99.9	87.9	97.2	113.9	121.6	119.8	141.3	136.2	128.1	122.9	129.2	126.2	121.3	114.0	110.5	125.8	80.6	4,814.8
	Rehandle Waste	Mbcm	9.8	12.2	10.0	11.2	11.7	11.3	11.7	11.3	8.6	8.5	8.1	8.1	7.9	7.6	5.7	2.2	2.5	1.6	218.6
	Total Waste mined	Mbcm	92.6	112.1	97.9	108.4	125.6	132.9	131.5	152.6	144.9	136.6	131.0	137.3	134.1	128.9	119.7	112.7	128.3	82.2	5,033.5
	Prime Strip Ratio	bcm/ROM t	4.3	4.9	4.3	4.7	5.5	5.9	5.8	6.9	6.6	6.2	6.0	6.3	6.1	5.9	5.5	5.4	6.4	6.0	5.8
	Total Stri Ratio	bcm/ROM t	4.9	5.4	4.8	5.3	6.1	6.4	6.4	7.4	7.0	6.6	6.4	6.7	6.5	6.3	5.8	5.5	6.5	6.1	6.1
	CHPP																				
	Coal Processed	Mtonnes	19.1	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	20.6	19.7	13.4	823.7
	Coal Product	Mtonnes	13.5	14.7	14.4	14.5	14.5	14.6	14.7	14.9	14.7	14.6	14.6	14.3	14.3	14.3	14.2	13.9	13.8	9.3	574.1
	Plant Yield	%	69.7	71.0	71.3	69.9	70.4	70.6	70.6	71.6	72.4	71.5	70.8	70.9	69.6	69.2	69.4	67.5	69.9	69.0	69.7
	Coal Products																				
	Semi Soft Coking	Mtonnes	3.0	3.3	4.5	4.6	4.9	4.2	4.0	4.2	4.9	3.5	3.1	2.9	3.0	3.1	2.9	3.1	3.1	1.6	130.6
	Thermal (low ash)	Mtonnes	4.6	5.0	4.4	4.4	4.3	4.7	4.9	5.0	4.6	5.2	5.4	5.4	5.4	5.4	5.6	5.6	5.7	4.1	222.6
	Thermal (Mid ash)	Mtonnes	5.4	5.8	5.0	4.9	4.7	5.0	5.1	5.1	4.6	5.1	5.2	5.1	4.9	4.9	4.7	4.1	3.7	2.6	177.2
	Thermal (high ash)	Mtonnes	0.5	0.6	0.5	0.6	0.6	0.6	0.7	0.7	0.7	0.8	0.9	0.9	0.9	0.9	1.0	1.2	1.3	1.0	43.7
MTW	**Mining**																				
	ROM Coal	Mtonnes	17.0	17.0	16.9	16.5	16.6	16.5	16.4	16.3	16.2	16.1	15.9	16.0	15.8	16.0	13.5	10.2			348.2
	Prime Waste Mined	Mbcm	93.2	92.5	88.6	102.1	105.4	106.2	102.1	102.7	104.9	104.7	103.3	103.6	99.6	96.2	99.5	69.9			2,252.2
	Rehandle Waste	Mbcm	12.9	14.4	13.0	15.6	15.1	13.6	13.5	13.6	13.9	14.3	14.3	14.4	14.4	13.3	13.4	7.2			299.3
	Total Waste mined	Mbcm	106.1	107.0	101.6	117.7	120.5	119.8	115.6	116.2	118.8	119.0	117.6	118.0	114.0	109.5	112.9	77.1			2,551.5
	Prime Strip Ratio	bcm/ROM t	5.5	5.4	5.2	6.2	6.3	6.5	6.2	6.3	6.5	6.5	6.5	6.5	6.3	6.0	7.4	6.8			6.5
	Total Strip Ratio	bcm/ROM t	6.2	6.3	6.0	7.1	7.2	7.3	7.0	7.1	7.3	7.4	7.4	7.4	7.2	6.9	8.4	7.5			7.3
	CHPP																				
	Coal Processed	Mtonnes	17.0	17.0	16.9	16.5	16.6	16.5	16.4	16.3	16.2	16.1	15.9	16.0	15.8	16.0	13.5	10.2			348.2
	Coal Product	Mtonnes	11.6	11.8	**11.5**	11.5	11.6	11.5	11.5	11.4	11.3	11.2	11.0	11.1	10.9	11.1	9.5	7.3			243.0
	Plant Yield	%	68.2	69.4	67.8	69.4	69.8	69.7	70.1	69.8	69.6	69.6	69.3	69.5	69.1	69.5	70.2	71.4			69.8
	Coal Products																				
	Semi Soft Coking	Mtonnes	2.4	2.1	2.2	2.9	2.2	2.4	2.6	2.2	2.1	2.2	2.3	2.3	2.3	2.2	2.5	1.9			54.3
	Thermal (low ash)	Mtonnes	5.1	5.4	5.1	4.8	5.2	5.1	5.0	5.2	5.3	5.1	5.0	5.1	5.0	5.2	4.1	3.2			108.3
	Thermal (Mid ash)	Mtonnes	2.7	2.8	2.7	2.5	2.7	2.5	2.5	2.5	2.5	2.4	2.3	2.3	2.3	2.3	1.8	1.3			50.2
	Thermal (high ash)	Mtonnes	1.4	1.5	1.4	1.3	1.5	1.4	1.4	1.5	1.5	1.4	1.4	1.4	1.4	1.4	1.2	0.9			30.3

Figure 9-3 HVO Graphical Representation LOM Schedule by Year

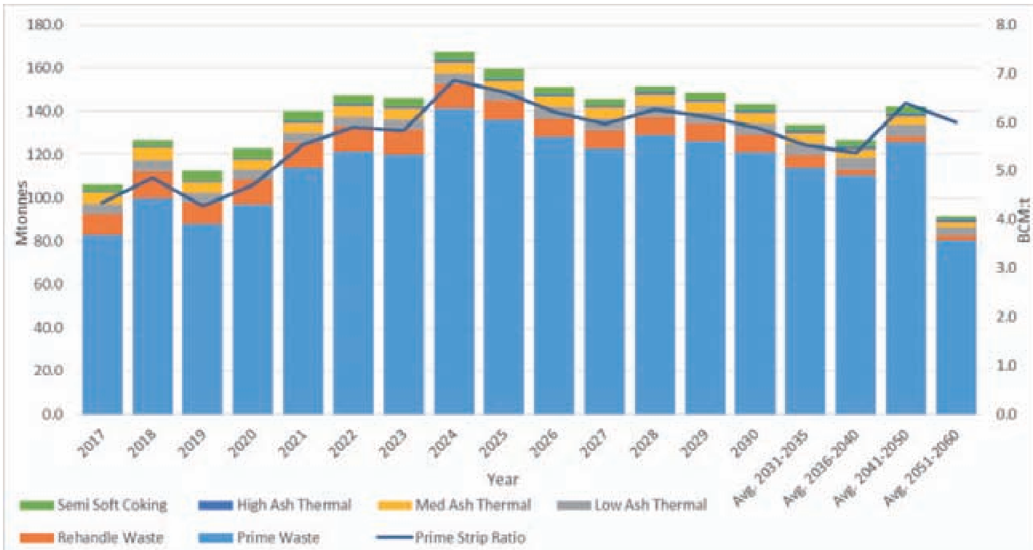

Figure 9-4 HVO Graphical Representation LOM Schedule By Pit

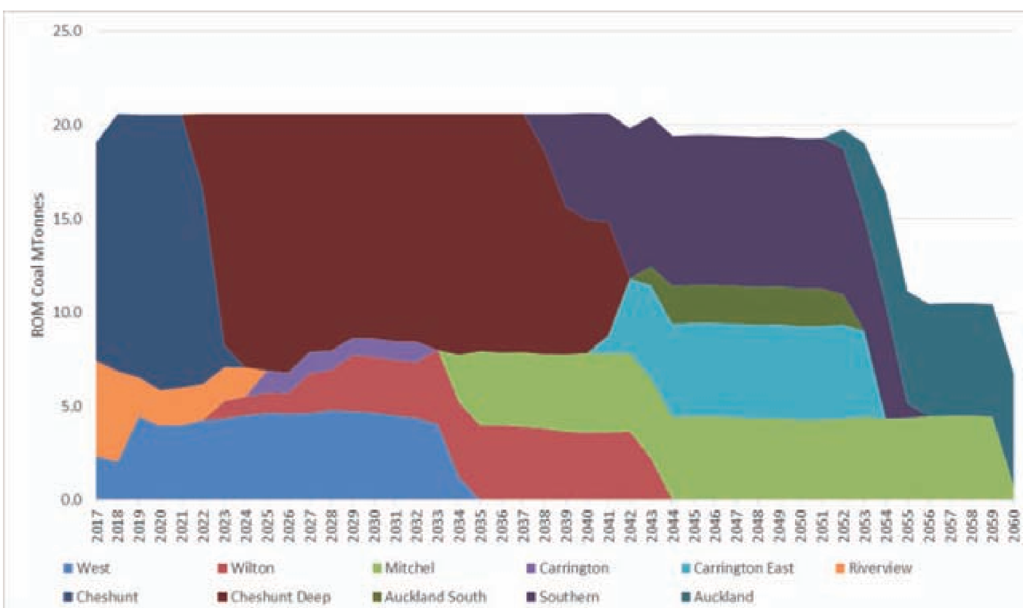

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Figure 9-5 MTW Graphical Representation LOM Schedule by Year

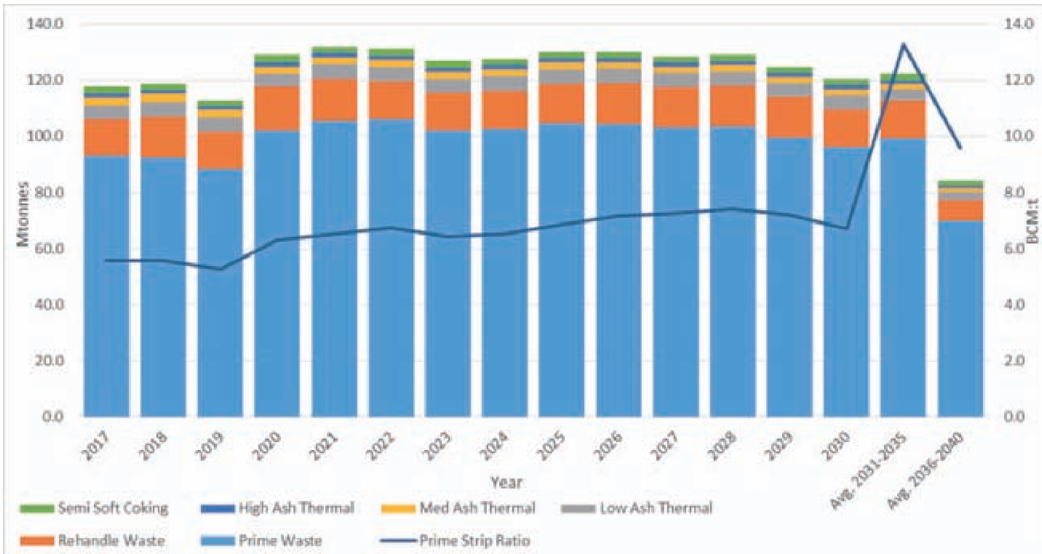
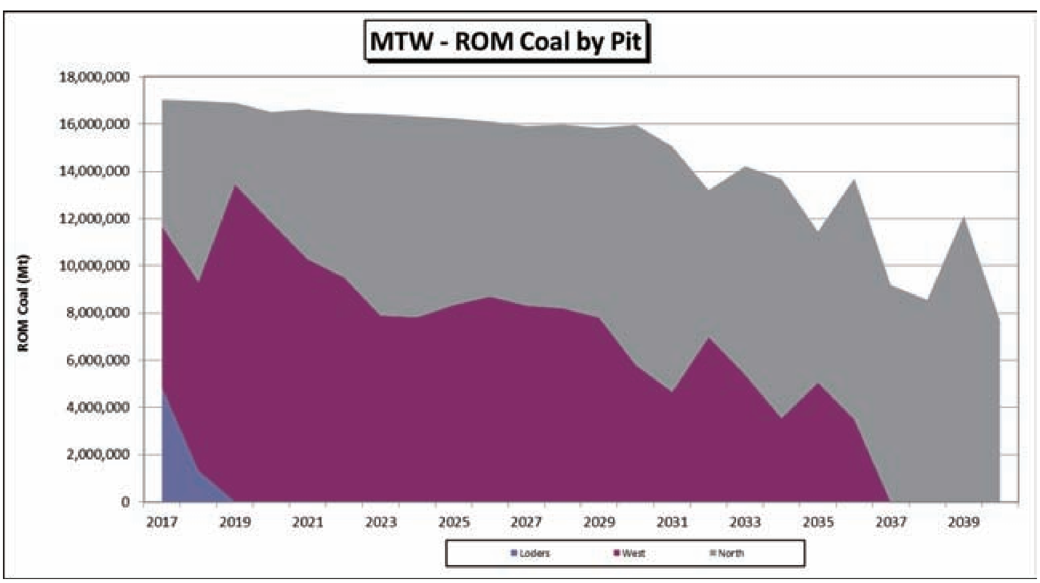


Figure 9-6 MTW Graphical Representation LOM Schedule By Pit



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10. Processing and Blending

10.1 Hunter Valley Operations

HVO site infrastructure, consisting of two coal preparation plants and two coal loading points, is in reasonable condition however much of the equipment requires ongoing maintenance due to its age. RPM is aware that significant sustaining CAPEX has been provisioned as part of the ongoing maintenance to minimize downtime and ensure utilisation is consistent with the planned production. These costs have been included in the cost forecast in ***Section 13*** and are outlined below.

10.1.1 HVO Coal Preparation Plants (CPP)

HVO utilises two wash plants in the HVO north area, as shown in ***Figure 2-2***. The plants are considered to be well maintained and are capable of typical industry benchmark utilisation of 7,200 hours per year, however ongoing maintenance is required. Debottlenecking of plant circuits where necessary, and with a consistent feed of coals to not overload any part of the processing circuit, should enable a total throughput of 23 Mtpa, which is well in excess of the current mine target of 20.6 Mtpa ROM Coal, and the potential to produce up to 14Mtpa of Product. RPM notes that it is the product type, quality and quantities including the distribution of the size fractions in the feed that will dictate the ultimate capacity of the plants during the mine life. The combined HVO CPP facilities have a capacity to produce approximately 16 Mtpa products currently with 20-25% SSCC and the balance being a range of low to very high ash thermal coals.

Hunter Valley CPP

The Hunter Valley CPP (HVCPP) is located in the central eastern portion of HVO north and has a ROM coal throughput capacity of approximately 2,500tph or approximately 17 to 20 Mtpa ROM. The utilisation of the plant in 2015 was less than 80% based on potential throughput and typical 7,000 operating hours per year, however has an upside of 7,200 operating hours per year. The HVCPP was commissioned in 1982 and has development consent to process 20 Mtpa ROM coal. The flowsheet for the HVCPP is shown in ***Figure 10-1*** with the plant producing up to three thermal coal products. RPM is aware there are plans to increase capacity to 20.6 Mtpa with A$22 Million CAPEX planed.

Howick CPP

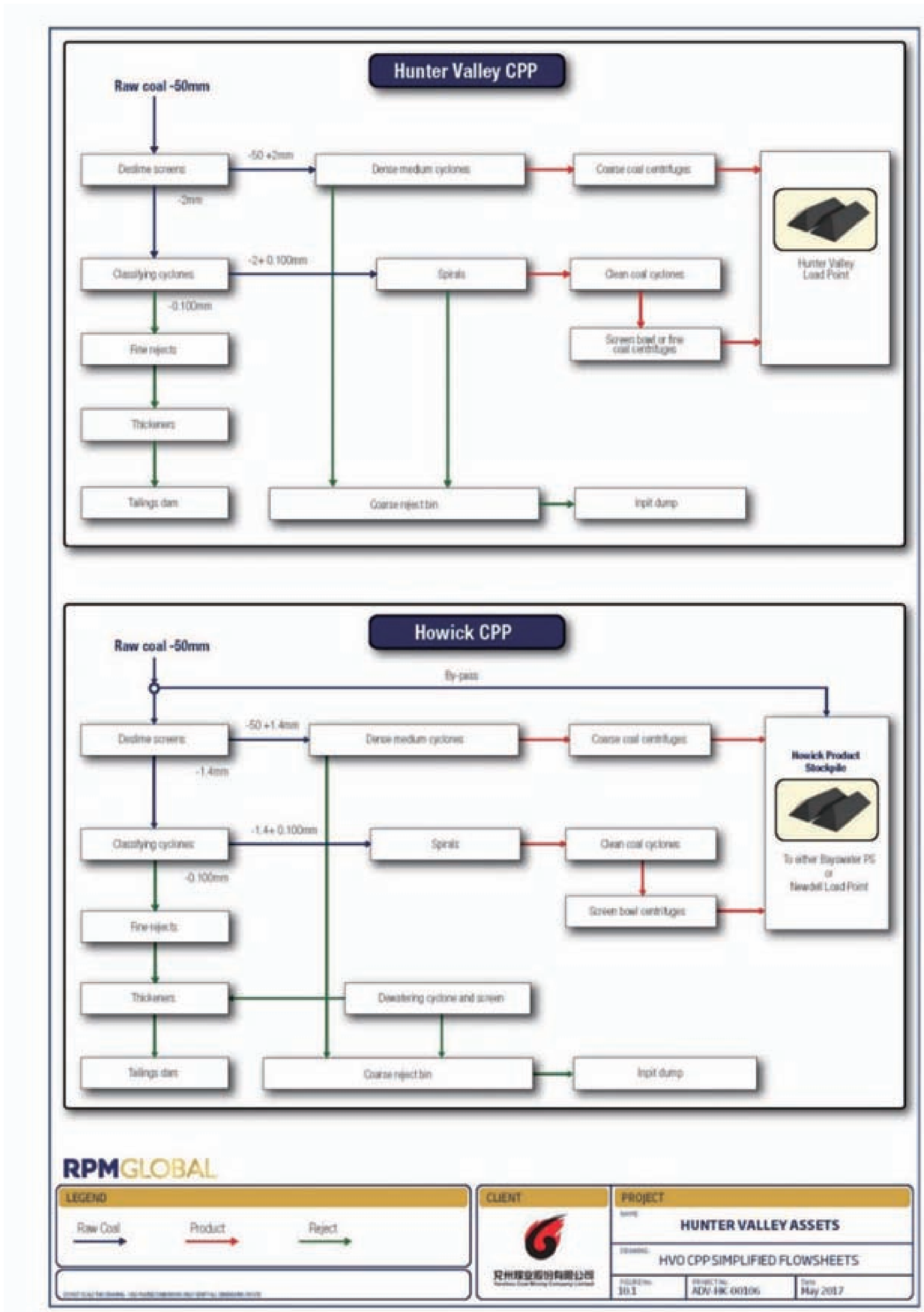
The Howick CPP (HCPP) is located in the northern extent of the lease and has a ROM coal capacity of 450tph or approximately 3.2 Mtpa. The HCPP was originally designed and constructed to supply product thermal coal to the adjacent Bayswater Power Station however that is no longer serviced with all coal exported. The HCPP was commissioned in 1982 and has consent to process 6Mtpa of ROM coal with a flowsheet as shown in ***Figure 10-1***.

RPM Comments

RPM notes that:

- The SSCC products from HVO have better fluidity than those produced at the MTW operation. However, the CPP has to wash the ROM coals very hard and at a low S.G. of 1.3 to get the right SSCC properties for sale.
- There are some clayey seams and interburden materials that can cause loss of yield and higher ash thermal coals at HVO.
- HVO undertakes regular integrity inspections to keep the CPP infrastructure in good working order, and this was evidenced during the brief HVO site visit.
- Due to the sticky nature of some ROM coals (like the Bowfield seam) HVO typically schedule feed to the CPP without allowing the coals to 'age' on the stockpile.
- The HVCPP can bypass raw coal to Product Coal stockpiles however no bypass is assumed as part of the LOM plan presented in ***Section 9***. RPM considers this to be an upside to the project value and OPEX.
- Both CPP's have product samplers however no ROM coal or reject samplers. Mass balance checks across the CPP facility, for reconciliations and for plant optimisation, are completed by manual sampling.

Figure 10-1 HVO CPP's Simplified Flowsheets



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- RPM considers this to be a shortfall in the ability to actively control the feed and wash settings on a real time basis and could be a contributing factor to the poor outcomes of the reconciliation.
- Product coal sampling is used to fine tune blending onto trains and onto PWCS and NCIG port stockpiles. Final blending and sampling is always done at the ports – which have incoming sampling and sampling on the outgoing ship loading streams, further information is provided in ***Section 10.3***.
- Typical in-pit coal inventory is around 1Mt ROM.

10.1.2 Coal Yield

The coal yield from the HVCCP in 2015 was 77% and the plant processed 92% of the total coal washed at HVO with a combined yield from both plants of 76% with the decrease due to the small contribution from the Howick CPP with yield of 67% (***Table 10-1***). During 2016 this yield stayed consistent at 76% with a total throughput of approximately 18Mt of ROM coal. The actual distribution of these coals to the individual plants is not provided in the data, however the current plan is for a maximum of 20.6Mtpa of ROM coal feed, as such a similar Yield is forecast.

RPM notes that the HVCCP and HCPP both process coal from the Cheshunt Pits, West, Wilton and GRS (completed) Pits with markedly different yield outcomes. The majority of the coal being delivered to the HCPP is from the Foybrook Formation coal seams although raw ash from all seams appears variable within each pit. There is no apparent explanation to the lower yields obtained at the HCPP apart from a slightly lower efficiency. Coal from the top of the seam sections may be diverted to the HCPP with higher dilution included.

Table 10-1 HVO Plant Yields (2015)

Pit	HVCPP			HCPP		
	Feed (kt)	Product (kt)	Yield (%)	Feed (kt)	Product (kt)	Yield (%)
Cheshunt1	4,469.7	3,493.0	78.1%	3.1	2.1	68.1%
Cheshunt2	3,227.1	2,403.9	74.5%	5.4	3.1	56.8%
Cheshunt pit	224.9	174.4	77.5%			
Riverview North	583.1	433.9	74.4%			
Riverview West	2,440.3	1,805.0	74.0%			
West Pit	1,748.2	1,415.0	80.9%	889.1	604.5	68.0%
Wilton	466.0	381.2	81.8%	279.3	171.6	61.4%
Gilder Pit	298.5	242.6	81.3%	20.4	10.7	52.5%
GRS	179.7	131.1	73.0%			
Total	**13,637.6**	**10,479.0**	**76.8%**	**1,197.3**	**791.9**	**66.1%**

The Company's models forecast that there will be a gradual trend for decreasing yield over time (average 74% in the first 10 years to average 63% in the last 10 years. This is primarily due to the change in the proportion of coal seams being mined. RPM is aware these yields were forecast to be conservative to account for the age of the equipment.

RPM notes that the high total yields currently being achieved at HVO are not consistent with the raw data in the coal quality ROM models. RPM has taken a conservative approach and reduced the yields by 3% partly in consideration to provide a balance between the actual results and yield model outcomes. RPM notes these higher yields could be related to the mining method being utilised to minimise dilution and lower ROM coal ash content.

10.1.3 Product Coal Handling

There are two train loading points at HVO, the Hunter Valley Rail Loading Point and the Newdell Rail Loading Point, as shown in ***Figure 10-1***. An 8km long cable belt conveyor connects the HVCPP with the Hunter Valley Rail Loading Point while the HCPP Product Coals are trucked to the Newdell Rail Loading Point as the volumes are typically low at up to 3Mtpa. Overflow from the Hunter Valley Loadout point can be sent to the Newdell loading point via a transfer conveyor, which also facilitates blending for product specifications.

Product coals are segregated onto Product Coal stockpiles at each loading point and thereafter kept separate to meet specific customer and marketing requirements. Most blending is done off Product Coal stockpiles and onto trains. Trains are then campaigned to either PWCS or to NCIG to build shipments at the ship terminalHVO has a large number of stockpile machines (Stackers/ Reclaimers) that are aging and that could be suffering from the early stages of structural fatigue. Unfortunately, little information has been provided for review on this matter. Structural integrity assessments have been provided for review on this matter and

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include the stockpile machines, however that information is more than 4 years old (prepared in 2012) and does not provide any clarification on the likelihood of an HVO stockpile machine failure or the costs associated with a major rebuild of one or more of these machines to significantly extend their service lives. Due to this, additional CAPEX has been included as a contingency.

The number of products produced by HVO adds complexity to the coal supply chain network in that additional Product Coal stockpile capacity is required both at the mine and at the port to allow shipments to be campaigned to specific customer requirements. The Company's proposed introduction of the Hunter Blend Strategy will likely place even more pressure on HVO mining operations, wash plant performance, coal loss minimisation, ROM, raw and Product Coal stockpile capacity, train management, and port operations in an attempt to realise incremental improvements to efficiencies, with further works to be undertaken to confirm the assumed improvements. RPM highlights that the LOM plan does not include these assumed improvements.

10.2 Mount Thorley and Warkworth

The CPP facilities at MTW are well-established and capable of processing up to 18Mtpa ROM Coal feed. While the infrastructure is quite old, it appears to be reasonably well maintained which is required and forecast to continue. MTW consists of two coal wash plants and two rail loading points which are connected via a series of conveyors throughout the site.

A major regional road (Putty Road) separates the Warkworth and Mount Thorley mines. An overpass was constructed to facilitate haul truck access between the sites when the operations were combined in the early 2000's. An additional overpass has been proposed to enable overburden to be dumped in the mined out void of the Loders pit.

While RPM has not been provided with a detailed plant and equipment list, maintenance records, utilisation records, or any other information to allow for a thorough assessment of the serviceability of coal handling plant and equipment, wash plants, RPM has completed a review of the forecast costs, historical production records and maintenance requirements. In addition, during the site visit RPM completed a high-level review of the equipment in operation and considered, while ongoing maintenance is required, the forecast costs outlined in ***Section 13*** and the onsite infrastructure is suitable to support the forecast production.

10.2.1 Coal Preparation Plants

There are two CPP's at MTW (Warkworth CPP and Mt Thorley CPP) which have a combined capacity of 18.6Mtpa ROM to produce between 12Mtpa to 13Mtpa products. These CPP' produce a number of products which comprise a range of thermal coals and a single semi-soft coking coal via a flowsheet as shown in ***Figure 10-2***.

10.2.2 Coal Yield

The average product yield for the MTW is forecast to be LOM 69.5%. This varies year-on-year from 67.8% to 70.9% and is in-line with recent yield performance by MTW as shown in ***Table 10-2***. This annual variation is mainly due to the differing proportions of coal seams that are produced at MTW each year. RPM highlights that the MTW Blakefield seam is 'clayey' and thus somewhat difficult to wash. Most of the other MTW seams are easier to wash without loss of yield and/or reduction in Product Coal quality.

Table 10-2 Historical MTW Yield Performance

Year	2013	2014	2015	2016
Yield	67.2%	68.4%	67.7%	68.0%

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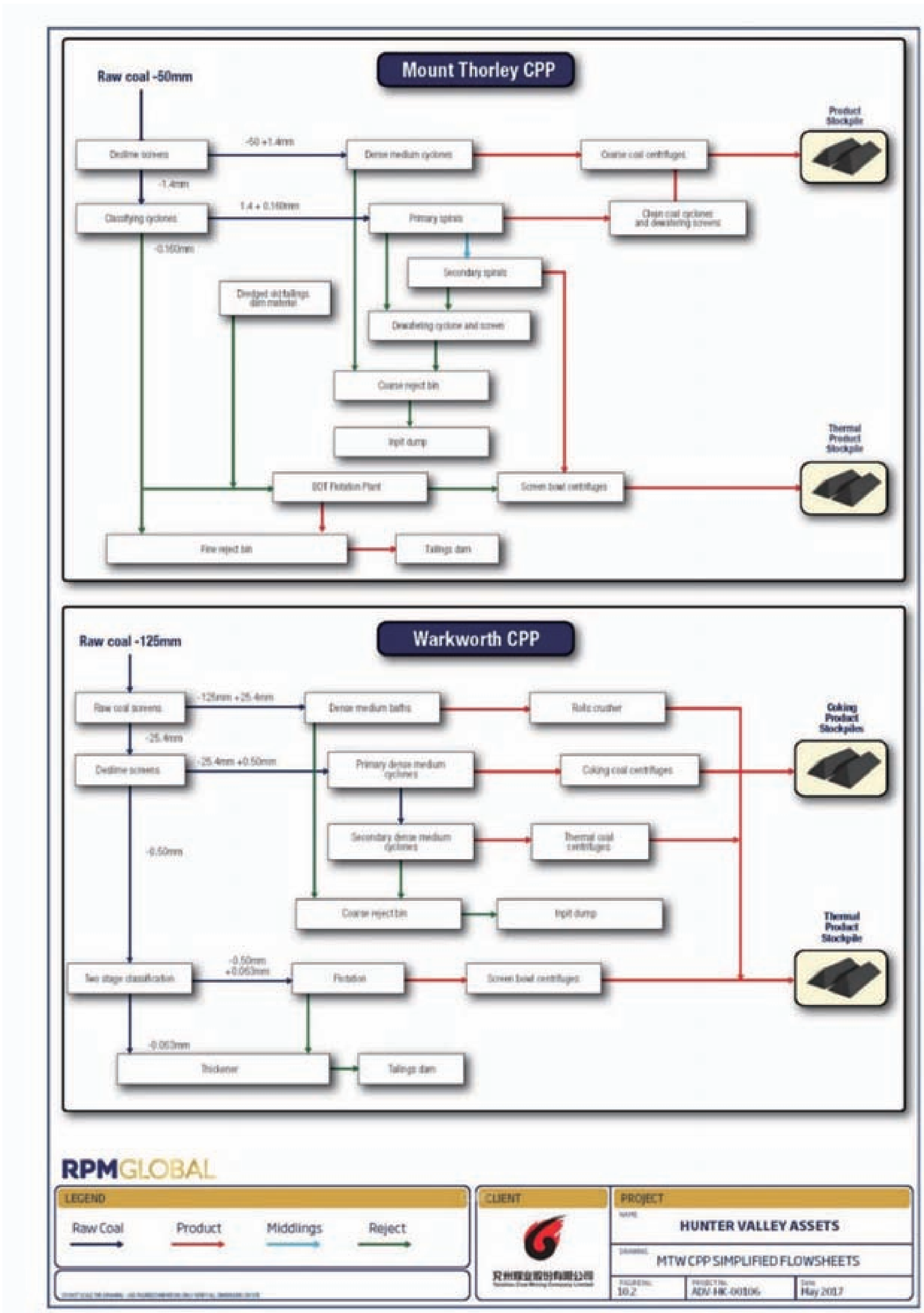
Figure 10-2 – MTW CPP Simplified Flowsheet



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10.2.3 Coal Product

Both MTW CPP facilities produce approximately 80% thermal and 20% SSCC products. RPM notes that while there is little detail to support the product split; the overall mix seems reasonable for mines in the Hunter Region and historical production. The thermal coals are of varying ash levels allowing the operation to maximise revenue through blending. RPM recommends that the mix of coal products in the Bidder Model should not be changed.

MTW in-pit coal inventory is typically 1Mt which allows for the management of the delivery to the CPP of coal types to suit the product blending strategy in the short and medium term.

10.2.4 Coal Handling

The MTW blending strategy typically starts in the pit with various seams delivered to the ROM coal stockpiles and washed one seam at a time in a campaign to improve yields and throughputs. Some seam blending partners are identified (seams with similar wash characteristics) and thereby blended onto raw coal stockpiles ahead of washing.

MTW has a large number of stockpile machines (Stackers/Reclaimers) that are aging and that could be suffering from the early stages of structural fatigue. Structural integrity assessments have been provided for review on this matter and include the stockpile machines, however that information is more than 4 years old (prepared in 2012) and does not provide any clarification on the likelihood of a MTW stockpile machine failure, or the costs associated with a major rebuild of one or more of these machines to significantly extend their service lives. Due to this, additional CAPEX has been included as a contingency.

The MTW operations rely upon blending onto trains and at the port to improve Product Coal qualities with a small amount of blending is currently done onto the product stockpiles.

The Company's site management have confirmed that near term future CPP tailings will go to the Loders Pit where mining will be completed within three years. Half of the Loders Pit final void will also be used for overburden waste placement and other half for tailings emplacement.

There are two train loading bins on the Mount Thorley rail loop with a capacity of up to 19Mtpa in railings. The two TLO bins are located close enough together such that a train can be loaded from Mount Thorley and Warkworth TLO bins at the same time, which helps with blending and doubles the speed of train loading.

10.3 Hunter Blend Strategy

Due to the number of pits, product types and required product specification of its customers, the Company has the ability to blend ROM coal and washed coal to optimize products and add significant value. As such the Company has developed a detailed blending program for the Assets, called the Hunter Blend Strategy. The concept of the Hunter Blend Strategy is to shift the coal supply philosophy from operational constraints to be driven by customer demand. This strategy facilitates blending high and low quality coals from the various Company mines within each operation required to meet some standard product specifications.

As with most Hunter Valley coal mines, the HVO operation commences its 'blending strategy' in-pit and across multiple seams and mining faces. Some problematic seams are campaigned to the raw coal stockpile and washed seam-by-seam. Some seam 'partners' are identified (that wash the same) and are then delivered to the same raw coal stockpile for blending ahead of washing.

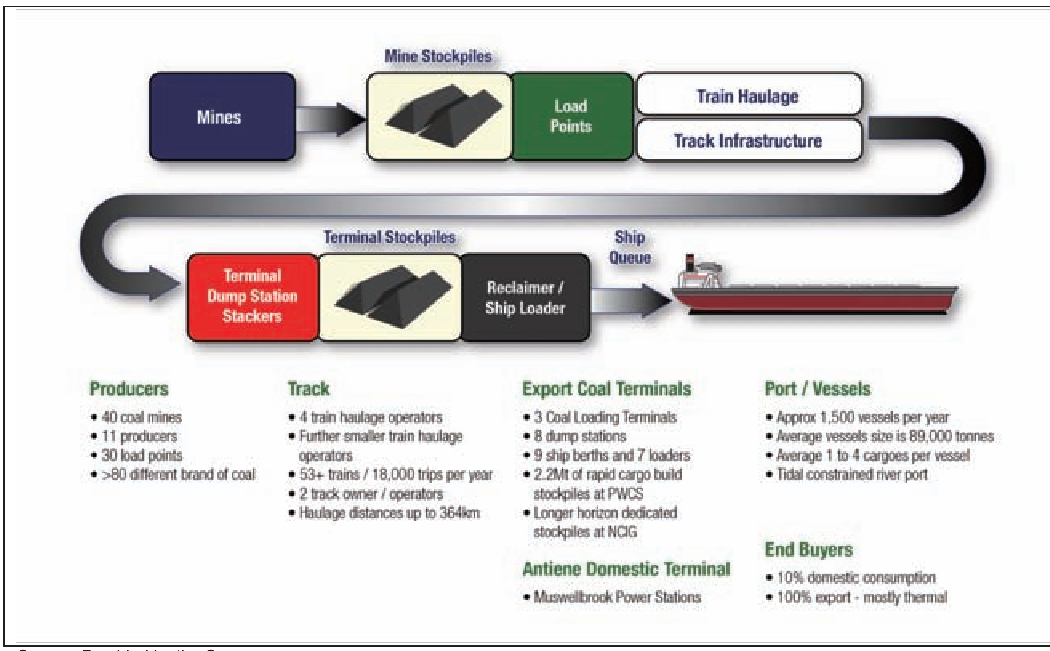
The Hunter Blend Strategy is currently a theoretical exercise. RPM believes the concepts are sound but may be difficult to translate into real outcomes for the project and further planning is warranted.

11. Railway and Port Infrastructure

Upon arrival at the various loading points within the Assets, the coal is transferred to coal carts for transport via railway to one of two terminals at the deepwater port in Newcastle. These terminals are referred to as Port Waratah Coal Service ("PWCS") and Newcastle Coal Infrastructure Group ("NCIG")and service the Company as well as other coal producers in the region.

Both the rail network and port facilities are operated by third parties and, as such, the Company has various contracts in place. This network is a regulated network that is often referred to as the Hunter Valley Coal Chain ("HVCC") and requires no capital investment from the Company, instead the Company pays usage rates. An overview of the HVCC as at 2012 is shown in ***Figure 11-1.*** RPM highlights this figure shows the current total user of the network, not just the Company.

Figure 11-1 Overview of HVCC at as 2012.



Source: Provided by the Company

11.1 Rail Supply Chain

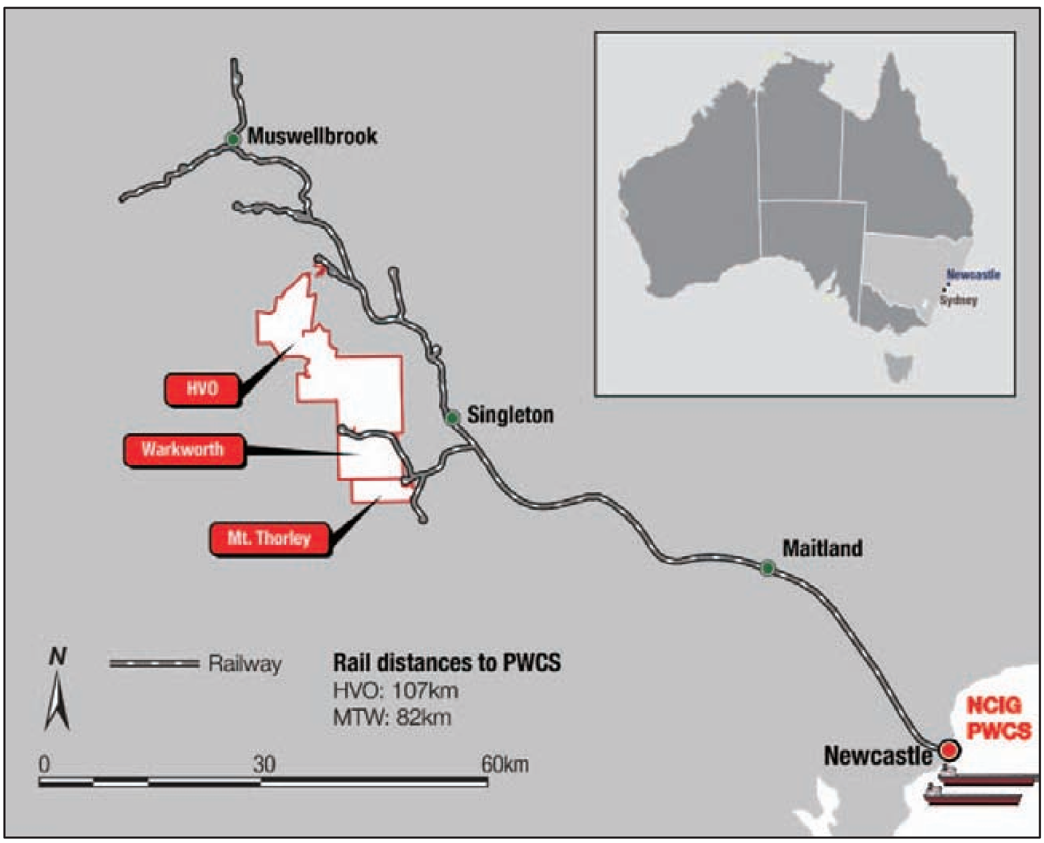
The Company's supply chain is a sub-set of the broader rail and port network operating in NSW (***Figure 11-2***) which is operated by the third party Hunter Valley Coal Chain Co-coordinator Limited ("HVCCC"). Both Assets use the HVCC rail network to transport products to the Port of Newcastle coal terminals PWCS and NCIG with the Company required to schedule coal transport, as do all other HVCC users, with the HVCCC.

RPM notes that the Australian Rail Track Corporation ("ARTC") provides all below-rail access with capacity aligned to contracted port volumes for all HVCC users. The ARTC is a federal government owned corporation established in 1998 that manages the majority of the interstate rail network in Australia. The role of the ARTC is to operate and coordinate the operation of the national rail network and to ensure rail capacity will be sufficient to meet future growth demands. Importantly for the Company the ARTC recently restructured the access framework for the Hunter Valley rail system that resulted in the ARTC contracting directly with coal producers for rail access for coordination with the HVCCC.

RPM is aware that ARTC has produced a 2015 to 2024 Hunter Valley Corridor Capacity Strategy report which outlines the necessary rail infrastructure requirements to meet the track capacity requirements of the coal industry over this period. The system improvements are proposed to be funded by access charges paid by the coal producers utilising the track as per current arrangements.

It is expected that below-rail capacity will lag port capacity in the HVCC until 2017 when a number of the key congestion projects are expected to be completed. Importantly, the corridor strategy also identifies the necessary rail network upgrades that would enable track system capacity to support the development of terminal 4 at PWCS by delivering system capacity of approximately 280-300Mtpa. RPM has not reviewed this strategy document, and provides this information for reference only.

Figure 11-2 - Assets Rail Network to Port of Newcastle



11.1.1 Rail Contracts

As noted previously, the ARTC coordinates the rail allocations on the HVCC for each coal producers. RPM notes that these allocations vary from the contract capacities for the freight providers (outlined below). With the current allocations in recent years the Company have experienced ongoing under-utilisation of train paths. As a result, the operations continue to incur Take or Pay contract ("TPC") charges for between 10Mtpa and 12Mtpa of their 36Mtpa below rail allocation as outlined in ***Table 11-1.*** RPM notes that MTP refers to the Mount Pleasant operation which was recently sold as outlined below.

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Table 11-1 – Assets Contracted Track Allocations

the Company Track Allocations (million tonnes per annum)										
Mine	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
HVO	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00	16.00
MTW	13.08	13.08	13.08	13.08	13.08	13.08	13.08	13.08	13.08	13.08
MTP	6.935	6.935	7.067	7.067	7.067	7.067	7.067	7.067	7.067	7.067
Total	**36.02**	**36.02**	**36.15**	**36.15**	**36.15**	**36.15**	**36.15**	**36.15**	**36.15**	**36.15**

Source: Provided by the Company

The contracted rail capacity assigned to HVO is 16Mtpa over the 10 year (evergreen) timeframe and in line with the Company's "optimised" production, however the contracted rail capacity assigned to MTW is now more than 13Mtpa over the 10 year (evergreen) timeframe and up from the 12Mtpa previously forecast from 2019 and the current production rate.

As such it is likely that the Company has taken some of the over contracted and under-utilised trains paths (approximately 1Mtpa) based on the current production plan and assigned those to MTW for a proposed expansion. MTW will therefore need to fund the TPC charges associated with the unused 1Mtpa below rail capacity allocation over the 10-year forecast period until the expansion occurs. RPM notes that this expansion is not included in the Coal Reserves and the LOM plan detailed in this Report, as such the TPC charges are included in the OPEX.

RPM notes that the Company has recently sold its interest in the Mt Pleasant Operation to MACH Energy Australia. As part of this transaction the Company sold the mine along with an assigned 8 Mtpa track and port allocation, however this allocation transfer will not occur until March, 2018. As such under the TPC the Company is liable for these charges as outlined below. It is more likely that the combined Assets operations will be limited to 28Mtpa by train paths to the Newcastle Ports and thereafter be limited to approximately 28Mtpa by virtue of the combined PWCS and NCIG port allocations (see below). RPM highlights track allocation varies from the contract with the freight providers and the current LOM plan does not meet this limit.

The Company has contracts in place with Pacific National ("PN") for rail (freight) services to both PWCS and NCIG terminals which expire in 2021 with an additional 5-year term through to 2026 should the Company choose to. RPM notes that additional capacity can generally be contracted on shorter one or two year lead time contracts if required. ***Table 11-22*** summarises the rail freight contracts currently awarded to Pacific National by the Company after the sale of its interests in both the Bengalla coal mine and the Mt Pleasant project.

The Company has reduced the PN haulage contract from 30Mtpa in 2011 to 26Mtpa in 2016, with further falls in rail freight forecast to 23.6Mtpa by 2019. Based on the current production forecast reported in this Report there is a shortfall (out-of-contract) rail freight requirement of 2Mtpa by 2019. In the current market RPM does not consider this issue to be of a significant risk to the forecast as there is flexibility in tonnages for rail freight contracts.

Table 11-2 – Assets Pacific National Rail Freight Contracts

Operation	2016	2017	2018	2019	2020	2021
HVO	14.5	14.5	14.5	13.1	13.1	13.1
MTW	11.5	11.5	11.5	10.5	10.5	10.5
Total	26.0	26.0	26.0	23.6	23.6	23.6

Source: Provided by the Company

RPM notes the ARTC rail allocations (***Table 11-1***) are in excess of the PN rail haulage contracts for both operations (***Table 11-2***). Current PN rail haulage contracts for MTW (11.5Mtpa) and HVO (14.5Mtpa) total 26Mtpa and fall short of the rail TPC contracts by 10Mtpa (when the MTP allocation in included till March, 2018). Such a miss-match in rail capacity contracts costs approximately $1/tonne or A$10m per year in TPC which are added to the Assets.

11.2 Port Facilities

Upon arrival at the Port of Newcastle, the products are exported via coal terminals PWCS and NCIG. Several producers utilise these terminals which have a total nameplate capacity of 211Mtpa after recent expansions. Similar to the rail supply chain, the port facilities are operated by a third party. Below is a brief summary of each of the terminals. RPM presents this for information purposes only.

11.2.1 PWCS

The PWCS terminal has a capacity of 145 Mtpa and consists of two sub terminals, namely Carrington Terminal and Kooragang Terminal, as described below:

- Carrington Terminal – Commenced operation in 1976 and is located on 51Ha of land on the south side of Newcastle Harbor. Initially with 16mtpa of capacity it has been expanded to the current level of 25mtpa. Coal is transported by rail or road, with the vast majority by rail, to two offloading facilitates. Two ship loaders are in operation.
- Kooragang Terminal – Commenced operation in 1984 and is located on 265Ha on the North side of Newcastle Harbor. With an initial capacity of 15mtpa, it has been incrementally increased to the current capacity of 120mtpa. All coal is received via rail into four offloading facilities.

PCWS has committed to an additional terminal to be constructed, named Terminal 4. This terminal is yet to commence construction however technical studies are underway along with the governmental approval process. No timeline has been set for construction of the 120mtpa capacity terminal due to recent decreases in commitments of throughput from various coal producers.

11.2.2 NCIG Terminal

The NCIG terminal commenced operation 2010 with an initial capacity of 30 Mtpa, after which a number of upgrades were completed resulting the current capacity of 66 Mtpa. The terminal contains storage capacity of 6.6 Mt, consisting of eleven 600 kt stockpiles for the various coal producers which are allocated based on proportion of the capacity allocation.

11.2.3 Port Contracts

Each coal producer is provided with a contracted port allocation which is the upper limited of export coal and are obliged to meet under a TPC. The contracted port allocations for the Company are listed in ***Table 11-33*,** which at the time included the HVO, MTW and Mt Pleasant Operations**.** RPM is aware the Company does not necessarily follow these allocations per operation. Instead, the Company takes into consideration the NCIG port capacity allocation of 9Mtpa and splits that on a Product Coal optimisation basis between MTW and HVO.

The current port capacity contracts do not reflect mine ownership, nor do these reflect the current ARTC rail allotment agreements for contracted volumes from MTW (13.08Mtpa) and HVO (16Mtpa) operations. Given the Company also holds the rail contract for Mt Pleasant (6.935Mtpa) until 31 March 2018, the total contract capacity totals more than 36Mtpa, which is well in excess of current Assets product requirements. The mines are exposed to substantial TPC charges that are a legacy of the Company's former development schedule for the Mt Pleasant project.

Table 11-3 – 10 Year Contracted Port Allocations

Mine	Terminal	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
HVO	PWCS	12.597	12.597	12.656	12.656	12.656	12.656	12.656	12.656	12.656	12.656
	NCIG	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
MTW	PWCS	10.490	10.490	10.500	10.500	10.500	10.500	10.500	10.500	10.500	10.500
	NCIG	-	-	-	-	-	-	-	-	-	-
MTP	PWCS	3.93	3.93	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
	NCIG	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Total	PWCS	27.021	27.021	27.156	27.156	27.156	27.156	27.156	27.156	27.156	27.156
	NCIG	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00
	Total	**36.021**	**36.021**	**36.156**	**36.156**	**36.156**	**36.156**	**36.156**	**36.156**	**36.156**	**36.156**

Source: Provided by the Company

The Company holds the typical 10 year rolling TPC port contracts at both NCIG and PWCS. Whilst these long-term contracts act as security over the Assets operations they can also be problematic in terms of meeting, but not exceeding, contracted volumes. In fact, the Company has failed to export sufficient coal volumes to cover all of its NCIG and PWCS port contracts for at least the last 5 years. That would indicate that the Company has made a commercial decision to accept TPC charges for unused port capacity rather

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than not have that capacity in hand should it be required.

RPM is aware Mt Pleasant project has an 8 Mtpa coal supply commitment that uses 4 Mtpa NCIG and 4 Mtpa PWCS port capacity allocations along with 8 Mtpa ARTC below rail capacity allocation. Given the Company had previously committed to 8.654Mtpa port capacity for Mt Pleasant it now has to add 0.654Mtpa of long term TPC port capacity to either MTW or HVO operations, both of which are not currently using their full TPC rail and port commitments. As such these additional costs are need to be forecast in to the OPEX of the Assets, as outlined in ***Section 13***.

Notwithstanding the contracted allocations defined in the above tables, it is necessary for the Company to revise the allocations and assess the risk for TPC penalties. This is important as the NCIG port has a higher charge than PWCS however better cargo handling and blending facilities.

11.3 Hunter Region Infrastructure Comments

Whilst RPM is of the opinion that the current HVCC and contracts in place are sufficient to support the forecast production as reported in this Report, a key constraint to major expansions at both Assets is the rail infrastructure which is currently lagging Newcastle Port capacity. ARTC and NSW State authorities have advised coal producers that this issue should be rectified by late 2017.

Even then, rail capacity could be a limiting factor should several of the 40 coal mines currently operating throughout the Hunter Valley plus the Ulan and Gunnedah regions also wish to expand in the short term.

HVO expansion plans, in combination with a 12Mtpa MTW production volume, will require additional rail and port capacity that the Company does not currently have secured (other than that noted above). As with all 10 year evergreen rail and port capacity allocations it is possible to apply for additional train paths and port capacity on an annual basis. There is sufficient time for the Company to use the annual process to apply for increased allocations if it so desires, and in the current market, there should be no issues in receiving increased rail and port allocations in a timely manner. However, this scenario could rapidly change with relatively minor increases to the current FOB Port of Newcastle revenues across the coal industry.

The proposed Terminal 4 expansion at Newcastle Port is on hold. Even without that project proceeding there are a number of efficiency upgrades underway at PWCS that will increase the Port handling capacity over the short to medium term without the need to invest in a major upgrade like T4.

In the current climate it is difficult to predict when the next cycle of major rail and port expansion projects will proceed, however expansions of the HVCC are not seen as short to medium term risks to the implementation or timing of any HVO expansion.

There always exists some confusion about medium to long term rail and port charges. However, at this point in time RPM believes there are some opportunities for coal miners to seek and obtain better deals across the HVCC as evidenced by recent reduction in PWCS port charges to the Company.

12. Site Infrastructure

Supporting regional and local infrastructure for the Assets is well established and has ample capacity for the continued support of the planned LOM operation. The Assets are located to the west of the regional town of Singleton and serviced by national highways and good quality tarred roads. These surrounding towns provide suitable accommodation and supporting industries for the operations. Below is a description of the major infrastructure requirements of the Assets (other than rail and port transport infrastructure). RPM considers the infrastructure appropriate and in good condition to support the very long mine life's estimated.

12.1 Transportation Facilities

Good quality paved highways connect the cities in the region as well as the provide access to further regional areas and ports for transportation of the Global Product. Good quality on-site gravel roads allow access throughout the Assets area while a series of conveyors have been constructed which transports coal and products throughout the site to the rail loading facilities. A public railroad allows access to the major seaport in Newcastle which is operated by third parties and markets for sale.

A new heavy vehicle overpass (over the Putty road) is planned to reduce the overburden haul costs for future mining operations at MTW. The overpass is forecast to cost AUD 18M and will be funded by the Company.

12.2 Buildings and Yards

The operations are equipped with the usual complement of facilities including parking areas, gate-houses, offices, warehouses, storage yards, workshops, scrap yards, laboratories, change rooms, lunch rooms, emergency-service facilities (medical clinics and fire-fighting), food-service facilities, etc. required to serve the mines and plants. RPM notes that various workshops are spread throughout both operations due to the number of active pits.

12.3 Water Supply

12.3.1 HVO

Water supply requirements for HVO differ depending on whether the area is a net user or producer of water during the various rain seasons as outlined in ***Section 2***. The water management system for HVO, including the West Pit, operates through the separation of clean and dirty water via separate water circuits between the tails and CPP facilities. The main consumption of water is for dust suppression on haul roads, mining areas and coal stockpiles and CPP circuit losses. Water has historically been supplied from three sources:

- surplus mine water stored in pit (and subsequently pumped);
- intercepted runoff water; and
- groundwater percolation into the open-cuts.

HVO has an active water management strategy and manages surface and subsurface water according to key objectives:

- Ensure that statutory requirements and corporate standards are met;
- Manage catchments and water on the mine lease in a way that minimises surface water impacts to environment and downstream neighbours, and limits interference to mining production;
- Maintain quality control and segregation of clean and mine affected water;
- Reduce reliance on fresh water usage; and
- Keep the local community and regulators informed of activities where required and to respond quickly and effectively to issues and complaints.

RPM is aware that HVO is not connected to the Singleton Shire town water supply with potable water trucked in from local suppliers in the Singleton and Muswellbrook area. Rehabilitated Class I and II land on the Alluvial Lands mining area is irrigated using an agricultural licence issued by NSW Office of Water (see ***Section 14***). The licence and allocation were pre-existing and were purchased with the land before mining

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commenced.

12.3.2 MTW

Water supply and on-site storage at MTW was significantly upgraded by approvals for major out of pit dams in 2009 and is further secured by access to Hunter River entitlements and also supply supplement via HVO. The current operations, and possibly the expanded operation should it occur, are adequately covered by raw water supply and storage infrastructure.

Following the internal and regulatory approvals being secured construction of two dams, South Out of Pit Dam and North Out of Pit Dam were completed to increase out of pit water storage capacity from 685Ml to 2,340Ml, thus allowing the Thorley Pit to be returned to mining. The South Out of Pit Dam was constructed in 2010 and has a capacity of 2,110Ml.

If site water stocks are low or not available, fresh water is sourced from the Hunter River via the MTCV Water Supply Scheme. If MTW's allocation has been exceeded during periods of extended dry weather, MTW has historically purchased water from HVO to meet the surplus demand.

MTW has adequate water licences (3GL) to supply washeries and dust management systems across the mine site. The Company has adopted a 'hot' shift change system with the oncoming shift 'tool box' meetings being held at the Administration area and then personnel are bussed in-pit for the 'hot' change on what is effectively a12.5 hour shift. This same 'hot' shift change applies at MTW and HVO.

12.4 Power Supply

12.4.1 HVO

Electricity is supplied to HVO via a 66kV transmission line and associated substations and switchyards. Electricity is supplied to mining equipment such as draglines, electric rope shovels, employee amenities and CPP's from the main grid. In addition, 330kV transmission lines pass through HVO.

12.4.2 MTW

As noted in ***Section*** 2 the MTW is an amalgamation of Mount Thorley and Warkworth mines separated by the Putty Road. As a result two separate high voltage electrical supply and reticulation systems are in place with Mount Thorley having a capacity of 66kV, while 33kV was adopted at Warkworth. Both systems are fed from Ausgrid's Mount Thorley 66kV switchyard located approximately 150m east of Warkworth's main administration building.

Recent modifications have been completed to standardise reticulation to the mining fleet across MTW at 33kV. As such electrical supply to the mining fleet at Mount Thorley is supplied from Warkworth.

12.5 Internal Services

Internal services provided by the operations include medical, fire-protection, purchasing, accounting, human-relations, community-relations, environmental-safety-health (ESH), legal, and marketing.

12.6 Personnel

The management organization is conventional and considerable effort appears to be devoted to planning, to resolving foreseeable problems ahead of time, and taking advantage of opportunities. RPM considers the current structure suitable to manage the operations.

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13. Operating and Capital Costs

The Capital and Operating costs outlined below reflect the Coal Reserve Consolidated Production Schedule which is summarized in ***Section 9***. The forecast costs assume all Inferred Resources are waste and are costed accordingly.

All costs are assumed to be Australian Dollars unless denoted otherwise.

13.1 Operating Costs

Operating costs for the Assets are reported as Free on Rail ("FOR" or "Onsite Costs") and Free of Board ("FOB" or "FOR plus off site costs") cash costs. These cost centres incorporate the following costs:

- ***FOR or Onsite costs:*** include all costs to produce the product from mining to the either of the rail loading facilitates and incorporate the following:
- Open cut mining of waste and coal: This includes the drill and blast costs, dragline, excavators, trucks, and haulage costs to the waste dumps and CPP's.
- Site Administration (G & A costs): This includes technical services and administration labour costs etc.
- CPP: All costs associated with washing of the coal and transport to the rail loading facilities.
- ***FOB costs***: includes all costs to transport the coal products to the boats transport for transfer to customers. These costs include the following:
- ***Rail***: Costs associated with third party rail freight from the rail loading facilities to the port terminals
- ***Port***: Costs associated with transfer of coal product from rail freight to boat via the coal handling terminals at the Port of Newcastle.
- ***Other costs***: These include royalties and levies, corporate management, and demurrage at the port.

13.1.1 Historical Costs

The historical costs per costs center and operation as shown in ***Table 13-2*** show a general decrease from 2014 through to October 2016. RPM understands this reduction is generally due to cost saving measures implemented by the Company including labour and wage reductions.

Table 13-1 Historical Average Operating Costs

Operation	Cost Centre	Unit	2014	2015	2016
HVO	**On Site (FOR) Costs**	**AUD/t ROM coal**	36.3	38.0	34.3
	Non-Site Costs	**AUD/t product**	17.4	18.0	16.3
	rail	**AUD/t product**	5.7	5.7	5.2
	port	**AUD/t product**	4.1	4.3	3.5
	Other Costs	**AUD/t product**	7.5	7.9	7.6
	Total Free of Board	**AUD/t product**	**64.4**	**68.1**	**61.8**
MTW	**On Site Costs**	**AUD/t ROM coal**	36.5	35.4	31.4
	Non-Site Costs	**AUD/t product**	16.6	17.3	15.8
	rail	**AUD/t product**	5.3	5.3	5.0
	port	**AUD/t product**	4.1	4.0	3.5
	Other Costs	**AUD/t product**	7.2	8.0	7.3
	Total Free of Board	**AUD/t product**	**70.8**	**68.7**	**61.8**

**2016 costs are till end of October.*
Source: Total Revenue Supplied by the Company with Unit Costs based on total reported tonnages.

13.1.2 Forecast Operating Costs

Estimated LOM average operating costs for the Assets are summarized in ***Table 13-2*** while the LOM yearly operating costs are summarised in ***Table 13-3***. RPM notes that the unit costs presented in ***Table 14-1*** and ***Table 14-2,*** while sourced from information provided by the Company, were adjusted where considered appropriate to reflect RPM's independent review and Coal Reserve schedule presented in this Report.

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Table 13-2 Coal Reserve LOM Average Operating Costs

Operation	Cost Centre	Unit	LOM Average Cost
HVO	**Onsite Costs**		
	Open Cut	AUD/t ROM Coal	20.9
	Site Admin	AUD/t ROM Coal	5.3
	CPP	AUD/t ROM Coal	5.7
	Total Free on Rail	**AUD/t ROM Coal**	**31.9**
	Total Free on Rail	**AUD/t product**	**45.8**
	Off site costs		
	Rail	AUD/t product	5.3
	Port	AUD/t product	3.5
	Other	AUD/t product	2.6
	Total Free on Board	**AUD/t product**	**57.2**
MTW	**Onsite Costs**		
	Open Cut	AUD/t ROM Coal	23.1
	Site Admin	AUD/t ROM Coal	6.1
	CPP	AUD/t ROM Coal	5.1
	Total Free on Rail	**AUD/t ROM Coal**	**34.3**
	Total Free on Rail	**AUD/t product**	**49.3**
	Off site costs		
	Rail	AUD/t product	4.3
	Port	AUD/t product	2.4
	Other	AUD/t ROM Coal	2.6
	Total Free on Board	**AUD/t product**	**58.6**

Source: Unit Costs were provided by the Company however were adjusted to reflect RPM independent Coal Reserve schedule. Unit costs vary to the Company's due to unit costs changes and production schedule variations.

13.2 Captial Costs

Capital Costs for the project are separated into the following Cost Centres:

- Growth Capital: Include capital required for the upgrades of the CPP's and site infrastructure.
- Sustaining capital: Include capital required to replace mobile and fixed plant as part of ongoing maintenance and production requirements. This includes all site infrastructure production fleets and CPP's and Tails Storage Facilities.
- Closure: Capital required to rehab the site upon closure of the Assets including pit and CPP areas, waste and TSF's facilities.

13.2.1 Growth Capital Expenditure

As the Assets are operating limited capital development expenditure is required in the near term with the only forecast CAPEX in the next for updates to the HVO CPP in 2017. With the development of the Southern and Auckland Pits in 2053 and 2038 respectively there is an additional A$494M of growth capital allowance. This brings the total growth capital at HVO up to A$516M with no requirement in MTW as shown ***Table 13-2***.

13.2.2 Sustaining Capital

A total of 5.00 Billion AUD and 1.72 Billion AUD sustaining capital is required over the remainder of the operational life for HVO and MTW respectively as shown in ***Table 13-3***. As outlined in ***Section 9***, the operations require continued replacement and sustained maintenance for both mobile and fixed plant to ensure the required production performance and processing yield. New and replacement production fleet (draglines, trucks, excavators) capital encompasses the majority of the sustaining capital for both operation (approximately 60%). The remainder of the capital includes replacement and maintenance of the CPP's and site infrastructure construction etc. RPM considers the forecast reasonable to support the Coal Reserve mine life.

13.2.3 Closure Costs

As detailed in ***Section 14***, detailed closure plans have been established for both operations along with estimated closure costs. These costs are incurred in the last few years of the current Coal Reserves schedules with closure in 2060 and 2040 for Assets respectively. The closure costs are shown in ***Table 13-3*** for reference however highlights these include the final closure costs only and not the annual rehabilitation costs which are included in the mining OPEX.

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Table 13-3 LOM Annual (calendar) Operating Costs

Operation	Cost Centre	Unit	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Avg. 2031-2035	Avg. 2036-2040	Avg. 2041-2050	Avg. 2051-2060	Total LOM
HVO	**Onsite Costs**																				
	Open Cut	Million AUD	362.3	377.7	410.0	368.5	426.9	447.2	436.4	472.2	482.0	462.0	436.2	434.5	440.2	408.3	399.6	374.9	441.8	295.6	17,211.2
	Site Admin	Million AUD	117.9	116.5	113.8	105.7	108.8	109.0	110.1	111.0	110.0	109.2	109.3	107.7	107.3	107.6	107.0	105.5	104.7	70.8	4,360.7
	CHPP	Million AUD	109.1	117.9	117.5	116.8	116.8	117.2	116.8	116.3	117.0	117.7	117.5	118.5	118.9	119.1	119.9	117.8	111.7	77.1	4,713.9
	Total Free on Rail	**Million AUD**	**589.3**	**612.1**	**641.2**	**591.1**	**652.5**	**673.4**	**663.3**	**699.5**	**708.9**	**688.9**	**663.0**	**660.7**	**666.4**	**635.0**	**626.6**	**598.3**	**658.2**	**443.4**	**26,285.8**
		AUD/prod t	**43.5**	**41.7**	**44.6**	**40.8**	**44.9**	**46.3**	**45.0**	**46.9**	**48.1**	**47.2**	**45.4**	**46.1**	**46.7**	**44.3**	**44.1**	**42.9**	**47.7**	**47.7**	**45.8**
	Off site costs																				
	Rail	Million AUD	78.4	78.7	77.2	77.6	77.8	77.8	79.1	79.8	78.7	76.8	76.9	75.5	75.1	75.4	74.8	73.4	72.7	48.8	3,040.7
	Port	Million AUD	53.6	60.0	54.0	55.7	54.5	54.5	54.6	56.2	54.7	53.9	48.1	47.2	46.8	47.0	46.5	45.9	45.5	35.1	2,008.8
	Other	Million AUD	34.9	36.2	36.1	36.2	36.1	36.3	36.5	36.8	36.7	36.6	36.9	36.4	36.5	36.4	38.5	41.8	36.6	24.5	1,520.9
	Total Free on Board	**Million AUD**	**166.8**	**174.9**	**167.3**	**169.5**	**168.4**	**168.6**	**170.2**	**172.8**	**170.1**	**167.4**	**161.9**	**159.1**	**158.4**	**158.8**	**159.9**	**161.1**	**154.7**	**108.4**	**6,570.4**
		AUD/prod t	**55.8**	**53.6**	**56.3**	**52.5**	**56.5**	**57.9**	**56.5**	**58.5**	**59.7**	**58.7**	**56.5**	**57.2**	**57.9**	**55.4**	**55.3**	**54.4**	**58.9**	**59.6**	**57.2**
MTW	**Onsite Costs**																				
	Open Cut	Million AUD	324.1	326.1	368.0	388.6	366.1	379.3	360.1	360.9	357.7	378.3	348.0	366.4	397.5	363.4	353.6	238.3			8,043.9
	Site Admin	Million AUD	107.4	104.9	102.9	103.3	98.4	97.6	97.7	97.2	96.5	95.8	94.8	95.3	94.2	95.1	84.6	63.7			2,122.4
	CHPP	Million AUD	83.0	83.1	83.8	81.9	82.5	81.8	81.6	81.3	81.1	81.4	80.4	80.5	80.1	80.9	70.6	56.1			1,776.9
	Total Free on Rail	**Million AUD**	**514.4**	**514.0**	**554.7**	**573.7**	**547.0**	**558.7**	**539.4**	**539.3**	**535.3**	**555.5**	**523.2**	**542.1**	**571.8**	**539.4**	**508.9**	**358.0**			**11,943.3**
		AUD/prod t	**44.3**	**43.6**	**48.4**	**50.1**	**47.2**	**48.7**	**46.9**	**47.3**	**47.4**	**49.6**	**47.4**	**48.8**	**52.3**	**48.7**	**51.1**	**55.3**			**49.3**
	Off site costs																				
	Rail	Million AUD	50.9	51.5	50.0	50.2	50.6	50.0	50.1	49.7	49.3	48.8	47.5	47.9	47.1	47.8	40.7	31.0			1,049.8
	Port	Million AUD	27.5	27.9	27.2	27.2	27.5	27.2	27.2	27.0	26.8	26.5	26.2	26.3	25.9	26.3	22.4	17.0			573.9
	Other	Million AUD	30.0	29.1	28.8	28.7	28.9	28.6	28.5	28.2	28.2	28.2	27.9	28.3	28.1	28.3	25.5	21.2			633.5
	Total Free on Board	**Million AUD**	**108.4**	**108.5**	**106.0**	**106.0**	**107.0**	**105.8**	**105.9**	**105.0**	**104.3**	**103.6**	**101.6**	**102.5**	**101.1**	**102.3**	**88.6**	**69.2**			**2,257.2**
		AUD/prod t	**53.6**	**52.8**	**57.7**	**59.3**	**56.4**	**57.9**	**56.1**	**56.5**	**56.6**	**58.8**	**56.6**	**58.0**	**61.5**	**57.9**	**54.1**	**59.9**			**58.6**

Source: Unit Costs were provided by the Company however were adjusted to reflect RPM independent Coal Reserve schedule. Unit costs vary to the Company's due to unit costs changes and production schedule variations.

Table 13-4 Annual (calendar) LOM Capital Cost Estimate (Average Per Year)

Operation	Cost Centre	Unit	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Avg. 2031-2035	Avg. 2036-2040	Avg. 2041-2050	Avg. 2051-2060	Total LOM
HVO	Growth	Million AUD	22.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	30.4	0.0	34.2	516.0
	Sustaining	Million AUD	52.5	86.7	80.3	125.0	79.6	92.3	114.8	102.8	116.8	112.1	106.2	115.0	87.0	99.4	119.8	149.9	126.1	38.9	4,368.4
	Closure	Million AUD	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	12.2	122.0
	Total	**Million AUD**	**74.5**	**86.7**	**80.3**	**125.0**	**79.6**	**92.3**	**114.8**	**102.8**	**116.8**	**112.1**	**106.2**	**115.0**	**87.0**	**99.4**	**119.8**	**180.3**	**126.1**	**85.3**	**5,006.4**
MTW	Growth	Million AUD	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Sustaining	Million AUD	64.3	48.4	113.0	119.7	77.3	72.2	72.3	81.3	45.1	119.4	102.2	110.7	107.8	138.3	60.7	28.6	0.0	0.0	1,718.4
	Closure	Million AUD	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Total	**Million AUD**	**64.3**	**48.4**	**113.0**	**119.7**	**77.3**	**72.2**	**72.3**	**81.3**	**45.1**	**119.4**	**102.2**	**110.7**	**107.8**	**138.3**	**60.7**	**28.6**	**0.0**	**0.0**	**1,718.4**

Source:CAPEX Costs Provided by the Company and utilised by RPM in the Coal Reserve Schedule

Closure costs for MTW are estimated to be 116M (included in sustaining totals)

14. Overview of Permitting, Environmental Impact, and Social & Community Impact

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14.1 EHS and Social context and Summary

14.1.1 Environmental and Social Context

The Upper Hunter region is a rural landscape characterised by irrigated agriculture on the alluvial flats of the Hunter River, transitioning to pastoral landuses and nature conservation reserves on the more marginal soil landscapes found in the surrounding hills. The region also includes a number of coal mining operations and two coal fired power stations, situated predominantly on the valley floor. Key receptors associated with mining activities in the area include aquatic ecosystems within nearby creeks and rivers (such as Wollombi Brook and the Hunter River) and downstream water users, ecological and human users of groundwater in the vicinity of the mines and nearby communities, and livestock within the air-shed, noise receptors and light emissions of mining activities, and users of shared social infrastructure.

The HVO is bounded by the localities of Howick, Warkworth, Ravensworth and Jerry's Plains, which is situated 4.5km south east of the closest HVO mining pit. The MTW mine is located immediately to the south of HVO mine. A number of rural residences are located in the vicinity of the Assets, and are potential receptors of dust, noise and light emissions from the mines. The township of Bulga is situated 4km west of the current active mining area at MTW (noting that approved pit limits under the Warkworth Continuation Project are 2.5km from Bulga).

The Assets are situated in close proximity to public roads including the Golden Highway (separating the Assets), Putty Road (separating Mt Thorley and Warkworth), and Wallaby Scrub and Charlton Roads which bound the MTW mine to the West. The altered land form is visible to motorists utilising these public roads. This is relevant given the visual value placed on the Putty Road scenic drive by recreational users. Visual amenity is enhanced by the presence of an earthen bund placed on the northern side of Putty Road, to visually screen the mine. This visual screening bund is complemented by a programme of aerially seeding of un-rehabilitated waste dumps that are visible from public roads. Visible waste dumps now have a good cover of grass and shrubs which results in suitable aesthetics, however noting that these waste areas will be rehabilitated in the future, consistent with the MTW Mine Operations Plan (MOP).

Further discussion on the potential impacts on these environmental and social receptors is presented in subsequent sections.

14.1.2 Social and Community

The Company is a proactively engaged in the local community through a range of mechanisms, including biannual newspaper advertorials, quarterly letters to neighbours, local government briefings, and a community consultation committee. These activities allows the local communities to receive regular updates. Complaints received from local community members are recorded and investigated by the Company with noise related complaints historically being the most common type of complaint. Six hundred and fifty five complaints were received in relation to the MTW mine in 2015 and 36 for HVO; representing a reduction of 32% and an increase of 2% respectively, when compared to the previous reporting period.

To assist in the management of mine-related noise, three community liaison officers are employed and real time noise monitoring equipment has been installed. The noise monitoring equipment is used as an early warning mechanism; operations are shut down if the early warning indicates that noise breaches may occur at nearby residences (See ***Section 14.1.4***). Although there has been a decrease in complaints, noise requires ongoing management. It is further noted these operations have a long history of continuous mining and proactive management should ensure continued operations through consistent stakeholder engagement and grievance management.

The Company has well-established social investment programs, which distribute approximately AUD 1 million to community organisations annually.

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14.1.3 Emissions discharges

Similar to other open cut coal mines in the region, emissions at the Assets are predominantly a combination of windblown dust and direct emissions from vehicles. Review of mandatory national reporting data (from the National Pollutant Inventory - NPI) indicates discharged air pollutants in 2015 include heavy metals (25 tonnes discharged across both sites), particulate matter PM 10 (1,903 t), particulate matter PM 2.5 (259 t), oxides of sulfur (4 t), oxides of nitrogen (4,718 t) and total Volatile Organic Compounds (244 t). With the exception of particulate matter (airborne and deposited), none of these emissions are regulated by project approvals and licenses. Information presented in the most recent (2015) Annual Environmental Management Reviews for the Assets indicates both mines complied with all regulatory criteria in respect to air quality.

Current air emissions from the Assets are not considered likely to pose a regulatory risk, given the efficacy of the dust management procedures and process currently in place. These include a real time monitoring and reporting system, paired with a policy of progressively shutting down mobile plant (primarily trucks and drag-lines) in response to elevated dust emissions. Dust emissions from roadways are minimised through regular watering by a water cart fleet, while emissions from other exposed surfaces are reduced by progressive clearing and rehabilitation, aided by aerial seeding of waste dumps that are not proposed for immediate rehabilitation. It is understood the Client has committed to a continuation of the existing air quality management procedures. The potential for ongoing equipment downtime as a result of management responses to elevated dust emissions needs to be managed and minimized.

RPM notes that downtimes are included in the equipment utilization in the mine plan and as such do not present a risk to the current LOM plan as presented in this Report. Downtime hours are expected to increase as mining at MTW continues in the direction of the town of Bulga (and the current buffer distance is reduced), however these are included in the current LOM plan and should not impact planned production forecast under current understanding and appreciation of the circumstances.

Discharge of pollutants to off-site water bodies (controlled or uncontrolled) were not reported for HVO or MTW during 2015.

14.1.4 Groundwater and/or surface water resources

The Hunter River and its tributaries are a regionally significant water resource, which are used for a variety of beneficial purposes including agricultural irrigation, stock watering and recreation in addition to the ecological services they provide. The Assets are situated in close proximity to the Hunter River and its tributaries with the Carrington Pit and tailings storage facility situated 450m and 130m from the Hunter River respectively and the Lemington Pit is situated close to Wollombi Brook, a tributary to the Hunter River. Groundwater in the upper Hunter is used for a range of beneficial uses, including drinking water in many towns (including Bulga), agricultural uses and use by extractive industries such as quarrying and mining. Groundwater is present in a range of aquifers including shallow alluvial aquifers associated with the Hunter River and its tributaries and the deeper Permian aged Singleton Coal Measures and interburden strata.

The water requirements of the Assets are met via a combination of water sources including harvesting rainwater from within the active mining area, intercepting and retaining groundwater that infiltrates the pits and extracting water from local surface water sources. Additionally, depressurisation of the Singleton Coal Measures aquifer as a result of mining is understood to pose a risk of reducing inflows to the Wollombi Brook alluvial aquifer. Both operation are licenced to obtain water in the manner described above. To manage its water the Company has an established surface water management system (***Section 14.3.3***). A review of the Assets Water Management Plans (RTCA, 2016) confirms that impacts of mine water use upon surrounding water users and environmental receptors were not experienced during 2015, and no change is expected in the future. Similarly, impacts to surface water quality from the operations, is not considered to pose a material risk, given the range of surface water management measures in place to capture and treat surface water prior to discharge into the environment.

14.1.5 Soil and Groundwater Contamination

Like all mining operations, HVO contains a range of potential sources of contamination, including bulk fuel storages, tailings disposal facilities, wastewater treatment plants and washdown bays, mechanical workshops and associated waste oil storages, the majority do not impose a material risk. Review of the HVO contamination register (2015) indicates 12 sites listed as 'contaminated' are present within the HVO operational area. Another 89 sites are listed as having various likelihoods of contamination, some of which have been remediated to various extents. An equivalent register prepared for MTW indicates three contaminated sites at the mine and 81 other sites have the potential to be contaminated. A firefighting training area is located on the MTW mine. Whilst not listed on the register, this area has a high likelihood of being impacted by perfluorinated compounds, which are a contaminant associated with the use of Aqueous Fire Fighting Foams (AFFF). It is further noted that the use of AFFF containing perfluorinated compounds has been phased out;

RPM notes that the identified and potential contaminated sites could be investigated and remediated progressively as new facilities are constructed to replace older infrastructure, or following cessation of mining in that location. Accordingly, potential contamination from the sources outlined above is not deemed likely to pose a material risk.

In line with similar operations in the region, a contamination risk is potentially posed by the current and historic tailings storage facilities. RPM is aware that due to the processing methods, heavy metals are stored in these facilities. These can lead to contamination if not contained appropriately. Data held on the National Pollutant Inventory database indicates the HVO mine deposited a total of 926 tonnes of potentially hazardous heavy metals (including lead, mercury, chromium, arsenic and cadmium) into on-site tailings storage facilities during the 2014-15 reporting period. The MTW mine disposed of a total of 906 tonnes of heavy metals into tailings facilities over the same reporting period. It is therefore evident that a significant reservoir of potential contaminants is present within the tailings storage facilities at the Assets. RPM has not been provided detailed information to quantify the potential risk, however notes that no breaches have been filed against the Company or instances of contamination of the groundwater have been publically reported. RPM understands that all reporting requirements have been meet, however would recommend that a internal risk assessment study be undertaken..

14.1.6 Land Tenure and Permitting

The Assets are situated upon a collection of 307 and 304 different parcels of free-hold land respectively, approximately 70% of which are owned by the Company. Additionally, three parcels of government owned land, under the administration of Department of Industry – Lands are located within the boundaries of each mine. This includes licenced Crown Land and Crown Land subject to Enclosure Permits.

Recent review of risks and exposure (the Assets) associated with Native Title and Aboriginal Land Claims was conducted in June 2016, the results of which are contained in the Hunter Valley Native Title and Aboriginal Land Claim Risk Register. The review identified that Native Title has not been extinguished for some areas (including land, water ways and access roads) at the Assets; as such the Native Title may still exist and if found to exist may be subject to a claim. In addition, small areas at the Assets are subject to undetermined Aboriginal Land Claims. RPM notes that the majority of the Assets holdings are not subject to native title claims and that any outstanding areas and claims do not impact the current mine plan as presented in this Report.

The HVO mine is permitted under two planning approvals, HVO North development consent DA 450-10-2003 and HVOS Project Approval PA 06-0261. Each approval has been subject to four modifications to date, with a current modification application for HVON (DA 450-10-2003 MOD5) having been lodged and placed on public exhibition. HVO operates under one Environment Protection Licence (EPL) 640. Hunter Valley Operations are subject to one EPBC Act Controlled Action Approval 2016/7640. HVO also operates under a number of other approvals, including for the storage of explosives, storage of dangerous goods and water licences, as well as under a number of operational and management plans approved by relevant regulators. The HVO mine is permitted to extract up to 36Mtpa of coal

The MTW operations are permitted under various consents and has approval to extract 18 Mtpa from the Warkworth leases and 10 Mtpa for the Mount Thorley leasehold. Three Environment Protection Licences (EPLs) apply: EPL 1376 (Warkworth), EPL 24 (Mount Thorley Loading Area) and EPL 1976 (Mount Thorley Operations). Warkworth operations are also subject to two EPBC Act Controlled Action Approvals (EPBC 2002/629 and EPBC 2009/5081.

The Assets also operate under a number of other approvals, including dangerous goods, water licences and Resource Recovery Exemption, as well as under a number of operational and management plans approved by relevant regulators.

Two approvals in relation to proposed expansion of the Assets are understood to be outstanding at the time of writing. The first is local council approval for the closure of Wallaby Scrub Road to facilitate the West pit westward advance, and an Environment Protection and Biodiversity Conservation (EPBC) Act referral. RPM is aware the Wallaby scrub road approval was recently discussed at a local council meeting, , with Council voting to consult publicly on the closure of the road. RPM note that this area is not planned to be mined for at least 5 years. As such, the closure of the road is likely to be resolved as a matter of course within the timeframe required.

The second outstanding approval is an approval under the EPBC Act for the Cheshunt Deep Pit. To that end, we note that EPBC Referral 2016/7641 has been lodged for the Cheshunt Deep Pit.. Interviews with RTCA management indicates that this approval has been held up due to relatively minor matters of a technical nature and this approval is not expected to delay mining activities to a material extent (if at all).

14.1.7 Workplace Liabilities

Workers compensation claims pertaining to the RTCA subsidiary companies managing the Assets are reported in the document Coal Mines Insurance NSW Coal Open Claims as at August 31st, 2016. In total, 182 open claims are reported as of August 2016, totaling A$30.2 Million, of which A$17.5 Million has been paid and A$12.8 Million is outstanding. RPM notes, workers compensation claims are subject to mandatory insurance cover in the state of New South Wales, and as such payment of claims is the responsibility of the insurer.

14.2 EHS Governance and Management System

14.2.1 Organisational EHS structure

EHS performance at the Assets is delivered by means of the overarching Rio Tinto Health, Safety, Environment, Quality Management System (HSEQMS). The HSEQMS is guided by the RTCA Health Safety Environment and Community Policy. An ISO14001 Certified Environmental Management System sits under the broader HSEQMS. The EMS is in turn supported by a range of procedures, strategies, plans and programmes, designed to delivery compliance with applicable regulatory Commitments, Obligations, Undertakings and Requirements (COURs), which are a function of Development Consent conditions and Environmental Protection Licence conditions.

These include:

- RTCA HSEQMS Procedures and Performance Standards ('Plan, Do, Check, Review');
- Strategies, Plans and Programmes (Environmental Assessments, management strategies, management plans and monitoring programmes); and
- Support Documents (environmental work instructions, training manuals, single point lessons, forms, permits, checklists, registers and risk assessments).

The key building blocks of the EMS are the Environmental Management Plans (EMPs) which have been prepared to guide the day to day management of environmental aspects on the mines. Critical review of a selection of these management plans from both the Assets indicated that in general, they were of a high standard, and fit for purpose.

A team of environmental advisors and specialists and managers are employed to implement the management plans and maintain the EMS. This team includes specialists in the fields of environmental approvals and mine rehabilitation and a Community Liaison Officer. Environmental officers report to the HSE Manager whereas the Community Liaison Officers report directly to the General Manager of each mine. It is understood that this team make-up and structure is substantially similar to that which would be established by the Client.

The Company manage health and safety at the Assets from a central Health, Safety, Environment and Community group, which services both mines. This group has both a Health and Safety Manager and an Environment and Community Manager. Statutory appointments within the Health and Safety functional group include the Manager Health and Safety, who is supported by a Senior Advisor – Emergency Services, who is in turn supported by six Emergency Services Officers at HVO and five at MTW. There are 35 full time equivalent health, safety, environment and community staff employed at the mine, including the statutory appointments. This level of resourcing is considered appropriate for the size, complexity and maturity of the mining operations. It is understood the Client would implement similar staffing arrangements, albeit under their systems, policies, procedures and management plans.

14.2.2 EHS budgets

Detailed analysis of EHS budgets has not been undertaken in the course of this study, however complementary information, including review of HSE staff numbers and information provided regarding environmental controls implemented in recent years have been used to assess the general adequacy of the EHS budgets of the Assets. The EHS budget for the Assets mines includes provision for 35 full time equivalent staff which is considered adequate by RPM. Rehabilitation rates have approximated those nominated in the relevant MOPs over recent years, and progressive rehabilitation budgets are therefore assumed to be adequate. Major projects, such as the retrofitting of mobile plant with noise attenuation measures, and the installation of additional noise and dust monitoring equipment have also been funded in recent years, further supporting the view of satisfactory EHS budgeting in recent years.

In summary, the EHS management system at the Assets is considered satisfactory for the size, complexity, degree of regulation, and risk profile represented by these mines. The EHS management system is comprehensive, adequately resourced and has proven to be broadly effective in managing health, safety and environmental risks. It is important to note that community complaints are **not** a proxy for environmental compliance. To that end, while community opposition to the MTW mine, and associated complaints are a community relations matter, environmental controls over recent years have resulted in no material non-compliances and a significant reduction in complaint frequency.

14.3 Operational EHS performance

14.3.1 EHS performance

The Assets have exhibited a high degree of environmental compliance over recent years. An Independent Environmental Audit (IEA) for HVO in December 2016 demonstrating a high degree of compliance with respect to statutory requirements and internal management plans. Similarly an independent review of MTW in May 2016 reported suitable compliance (Horn, 2016).

Review of data presented in AEMR's for the Assets suggests noise, dust, surface water and blasting related incidents have historically represented the majority of environmental non-compliances with respect to statutory obligations. In the last two years, noise and dust related incidents have decreased in frequency, and none were reported for 2015. This performance is attributable to a range of factors, including, the progressive implementation of comprehensive noise and dust monitoring and management strategies, combined with pro-active shut-down of noisy and dust generating equipment where emissions approach regulatory limits.

Noise impacts on surrounding residents have been a key driver of complaints from the community over recent years, particularly at MTW. A program to progressively reduce noise impacts from mining at the Assets has been implemented over recent years, consisting of enhanced sound attenuation for mobile plant combined with enhanced predictive noise monitoring and real time telemetry of data, combined with progressive shutting down of noisy plant. The MTW 2015 AEMR indicates an average of 63% of heavy mobile plant at MTW had been fitted with noise attenuation modifications as of February 2016. Interviews with site representatives indicate the attenuation programme at MTW is approaching completion and is understood to be delivering improved environmental compliance rates (no breaches of regulatory criteria in 2014 or 2015), fewer equipment downtime hours (a 60% reduction compared to 2014) and fewer community complaints as discussed previously.

Information provided to RPM indicates that there were a number of surface water related incidents between 2013 and 2015. These incidents generally involved unauthorised or low quality water discharges into the environment, either as a result of overflows from water storages during high rainfall events or failures of plant and infrastructure. RPM understands one incident that occurred in October 2014 resulted in the Company entering into an enforceable undertaking with the EPA to improve water management practices on site. A Section 193 notice (formal request for information) was issued to the Company in relation to a separate water-related incident that occurred in January 2016, followed by a number of interviews with relevant staff. While it is unclear whether the EPA intends to prosecute in relation to this incident, the liability for any such legal proceedings is not transferrable to the Client (see ***section 14.3.4***). Blasting over-pressure incidents have occurred on the Assets, as have blast fume incidents. These incidents are infrequent, and are rarely drivers of community concern with procedures in place to manage any potential impact.

Health and Safety performance at the Assets is periodically evaluated by the Company. Findings of audits undertaken in 2011 (HVO) and 2014 (MTW) illustrate some lapses in safety, maintenance and housekeeping practices. Improvements to the capability of the H&S management system, such as an increased frequency of inspections may resolve many of these issues. RPM understands that the Client proposes to implement increased frequency of inspections.

The performance of a health and safety management system can also be measured through analysis of health and safety data trends such as incident rates. The monthly average lost-time injury frequency rates (LTIFR) for the Assets, as of December 2014, year to date was reported as 0.5 and 0.61 respectively in HSE Performance Reports. This rate compares favorably with the average for NSW aboveground coal mining industry, which was 2.88 (per million hours worked) for 2014-15 (as reported in the NSW Mine Safety Summary Performance Report of 2014-15). The lower than average LTIFR rate suggests that the operations are safer than the average open cut coal mining operation in NSW.

The last fatality at the Assets was at MTW on 28 May 2004 with the fatality rate comparing favorably to the industry average (0.021 fatalities per million hours worked).

RPM is aware the Company is currently facing prosecution by the NSW Department of Industry Resources in relation to an incident that occurred at the MTW mine in October 2014. The charge alleges that the Company breached the Work Health and Safety Act 2011 (NSW) with a maximum penalty for the charge in question is A$1,500,000. Liability in respect to this case is not transferrable to the Client and as such is not relevant to this transaction.

14.3.2 Workplace Conditions / Exposure Limits

Mining operations occur at the Assets 24 hours a day, 365 days a year. These operational requirements are supported by both day and night shift workers, totaling 1,470 and 1,265 full time equivalent workers at HOVE and MTW respectively. At HVO approximately half are employees and half are contractors, whereas two thirds are employees at MTW.

Analysis of workers compensation claims suggests key workplace risks at the Assets mirror those of the aboveground coal mining industry generally, with slips, trips, falls, other muscular stress and overextension responsible for the bulk of injuries. Sprains, strains, jarring and soft tissue injuries represent the most common injuries. Industrial deafness is represented multiple times in the workers compensation claims records. There are no recorded incidences of respiratory illness (silicosis, pneumoconiosis) in the Company workers compensation claims dated August 2016.

14.3.3 Hazardous Chemicals Management

The Company manages hazardous materials on site through an online platform (ChemAlert). The system requires chemicals used on site to be registered on a central database. It is understood that the database contains information in relation to the storage, use and disposal of all potentially hazardous substances.

The HVO mine possesses three fuel major diesel fuel farms (at the main workshop, the West Pit workshop and the Southern Facilities) and three in-pit fuel farms. The in-pit fuel farms consist of a self-bunded storage tank with integrated dispensing systems. These in-pit fuel farms are moved periodically as operational requirements dictate. The total number of fuel storages at MTW is unclear, though it is understood the mine employs a similar system to fuel distribution to HVO. Locations in which hazardous chemicals and hydrocarbons are stored and handled represent a contamination risk, with the risk increasing proportional to the age of the facility. Soils in the vicinity of the older bulk fuel storages, workshops, washdown bays and heavy vehicle refueling facilities at both mines therefore have the potential to be contaminated. Risks to groundwater are a function of groundwater depth and the permeability of overlying strata. Risks to groundwater have not been evaluated in the context of the potentially contaminated facilities at Assets. As discussed in the preceding 'Soil and Groundwater Contamination' Section, Contamination risks associated with these facilities are not considered material.

14.3.4 Water Management (including wastewater)

Water management at the Assets is guided by the Assets Water Management Plans prepared in 2016, and provide a comprehensive discussion of the manner in which surface water and groundwater quality, and consumption is managed on the mines.

The water management system at each site consists of a network of infrastructure (i.e. dams, pipelines, contour banks) to control the movement of water around the site, between the sites, and between the sites and nearby mines. Water used on the mines (for dust suppression and coal processing) is derived from a variety of sources, principal amongst which is the re-use of water captured on-site. Mine affected rainwater, groundwater and seepage water is captured on both sites and diverted into a series of storage dams and disused mine pits whereupon it is available for future use. Water is also recovered from tailings storage facilities for on-site reuse. The Water Management Plan for HVO reports a total combined water storage capacity of 24045 ML.

While both mines possess Water Access Licenses for the extraction of water from local rivers, interviews with the RTCA HVO General Manager indicates water has not been extracted from surface water sources for use at HVO in approximately 10 years. The MTW mine extracts water from licensed surface water sources most years, to supply approximately 15% of the mines water needs. HVO is understood to be a net exporter of water most years, due to the higher rates of groundwater ingress to pits than that experienced at MTW. Both mines import potable water from the local Singleton Shire Council potable water supply.

The Water Management Plans (RTCA, 2016) indicate saline mine affected water releases from both mines are regulated by the Hunter River Salinity Trading Scheme (HRSTS). Excess mine water is permitted to be released via licensed discharge points into the Hunter River during high and flood flow periods. Discharges are regulated by conditions in the site EPLs 1376 and 1976 and by the Hunter River Salinity Trading Scheme Regulation 2000.

The Assets have reported a total of 18 mostly non-material surface water related incidents between 2013 and 2015, with one incident in late 2014 and an additional occurrence in January 2016 leading to an investigation by the relevant authorities. The incident frequency was relatively consistent over this period. Incidents ranged from failures of infrastructure (including pipelines) and pumping equipment, to controlled discharges of low quality water and unauthorised discharges attributable to overflow from water storages during rainfall events that exceed the design capacity of the water storages. Considered in the context of the size and complexity of the storage and distribution network on the mines, these incidents are not considered to be indicative of sub-standard water management. Both the incident rate and the type of surface water related incidents occurring at the Assets are not dissimilar to those occurring on other mining operation in Australia.

14.3.5 Waste Management

The Assets Annual Reviews for 2015 indicate waste at the mines is managed in accordance with regulatory requirements, and waste generation is minimised where possible.

Non-hazardous waste is disposed of off-site with recyclable waste streams recycled and non-recyclable waste is disposed of at Singleton Council's landfill. The AEMRs for the Assets report that 76.5% and 82% of solid, non-mineral waste respectively, was recycled or diverted to secondary use pathways in 2015.

The AEMR's report that regulated waste (including chemicals, hydrocarbons and other hazardous materials) is disposed of off-site at a facility licensed to accept that waste, under a tracking system. Hydrocarbon impacted soils generated at HVO are treated at the on-site bioremediation facility. The procedure for the management of hydrocarbon impacted soil at MTW is unclear. In 2015 the HVO mine recycled 324 kl of waste oil, by substituting it for diesel in the manufacture of the explosive, ANFO.

Interviews with management indicate used heavy vehicle tyres are disposed of through burial in mine voids, a common practice in the Australian mining industry.

14.3.6 Fire Safety / Explosion Protection

Fire risk in the Australian coal mining context is principally driven by the risk of bushfires, spontaneous combustion and fires associated with flammable or combustible liquids (predominantly transport fuels).

The management of bushfire risks at HVO is informed and guided by HVO Bushfire Management Plan (RTCA, 2007). Equivalent plans for the MTW mine have not been sighted, however are expected to be equivalent. The key tenets of this Plan are the control of fuel loads (through grazing and slashing), maintaining access to a variety of fire fighting equipment, and regular consultation with the state of New South Wale's Rural Fire Service.

The Bushfire Management Plan indicates all operations have existing fire control infrastructure, with firefighting equipment at key points (that is serviced regularly), and an emergency response team. The Plan states that each site has a number of water trucks, all of which have STORZ fittings, compatible with the NSW Fire Brigade and NSW Rural Fire Service.

Spontaneous combustion is understood to be managed using the Company's Spontaneous Combustion Procedure and HVO's Spontaneous Combustion Management Plan. The HVO MOP indicates spontaneous combustion issues have previously been experienced within the NLP rail loop. Interviews with the General Manager of the MTW Mine indicates he was aware of only 3 coal smoulders in the past 10 years which were controlled using earthmoving equipment or water carts. Information contained within the MTW Acid Rock Drainage and Mineral Waste Management Plan (RT, 2009) further confirms risks associated with spontaneous combustion are not material. The HVO Acid Rock Drainage and Mineral Waste Management Plan (RT, 2007) notes that three "significant areas of spontaneous combustion" were extinguished at HVO in the 1990s, and that some spontaneous combustion re-occurred in these areas following treatment. The current status of spontaneous combustion risks on the site has not been evaluated, and it is considered possible that another incident may occur, which should be able to be managed within the current procedures.

Fire risks associated with fuel storage at the HVO mines are managed through the design of storage facilities such that they are compliant with applicable Australian Standards, control of ignition sources during refueling and the provision of fire suppression systems.

14.3.7 Emergency planning

Emergency Services Officers are stationed at both Assets, and are available during every shift worked. They have access to a fire tanker for fire-related incidents. A paramedic is also understood to be available for immediate response to incidents during every shift. Where incidents occurring on either mine are of sufficient size or complexity as to exhaust the capacity of the mine Emergency Services resources, state emergency services including New South Wales Fire and Rescue and NSW Ambulance are available to respond. Emergency services escort points are present at the entry to the mines such that external responders can be guided rapidly to the site of the incident.

14.4 Ecology and Mine Rehabilitation

14.4.1 Ecology

The Upper Hunter region is home to a range of threatened species and Endangered Ecological Communities (EECs), which are subject to regulation under the Threatened Species Conservation Act (1995) and Environmental Protection and Biodiversity Conservation Act (1999) and the Environmental Planning and Assessment Act (1979). The Warkworth Biodiversity Management Plan (RTCA, 2016) reports that biodiversity impacts are avoided and mitigated where feasible to minimise the biodiversity impact. These include the following:

- Biodiversity values are regulated by the project environmental approval conditions, BCAM Ecosystem and Species Credits and a Biodiversity Offset Strategy.
- Biodiversity impacts on operational land are managed through the Mine Operations Plan, the Ground Disturbance Permit system, measures to minimise clearing and measures to maximise rehabilitation rates.
- Impacts upon biodiversity are compensated for through a system of biodiversity conservation areas (biodiversity offset areas and biobanking agreements); and
- General biodiversity outcomes are enhanced through a series of projects undertaken to improve scientific knowledge in relation to biodiversity issues of local concern.

In summary, biodiversity related risk, and regulatory obligations in respect to biodiversity impacts are understood to have been satisfactorily addressed. Future material risk associated with currently approved projects is not anticipated.

14.4.2 Biodiversity Offsets

Following measures to avoid impact, the significant residual biodiversity impacts are proposed to be compensated for by the provision of 'biodiversity offsets'. The Biodiversity Management Plan for MTW (RTCA, 2016) indicates the Biodiversity Offset Strategy has been developed to compensate for residual significant biodiversity impacts and includes direct offset and indirect compensation measures, including:

- Retirement of species and ecosystem credits within 3 years of the date of commencement of the action.
- Retirement of rehabilitation offsets credits, within 10 years after completion of mining operations.
- Direct land based offsets within designated Biodiversity Areas.
- Performance criteria for regeneration of Warkworth Sands Woodland to ensure successful regeneration in the Northern Biodiversity Area within 15 years after commencement of the action.
- Development of an Integrated Management Plan for the Warkworth Sands Woodland EEC; and
- A one off A$1 million contribution to the Office of Environment and Heritage (OEH's) 'Saving Our Species – Regent Honeyeater' conservation program.

In total, the Biodiversity Management Plan for MTW (RTCA, 2016) reports that the MTW mine holds a total of 6,380 ha of offsets under both state and federal project approvals. The HVO South mine holds 140 ha of offsets in the Goulburn River Biodiversity Area, triggered by approval 06_0261. The need for offsets is triggered where major projects negatively impact upon the habitat of threatened species or EECs. Offsets for medium term expansions of the mines, as detailed in the respective MOPs are believed to have been addressed or are in an advanced state of resolution. As such, no material risk is believed to be presented by offsets required by the MTW approvals. Ongoing costs of note are associated with the lease and maintenance of the biodiversity areas and the rehabilitation of degraded vegetation communities in the BAs. These costs have not been confirmed, however are not considered materiali in a given calendar year.

Schedule 3 of NSW approval PA 06_0261 requires the lodgement of a Conservation and Biodiversity Offset Implementation Bond of A$1 million (indexed to inflation) to provide financial security that the Warkworth Sands EEC would be rehabilitated within the Northern Biodiversity Area. This bond would revert to the state in the event rehabilitation fails to meet performance targets within a 15 year period. .

14.4.3 Rehabilitation

The current approach at the Assets is progressive rehabilitation of mined land to create stable non-polluting landforms and revegetation of disturbed land to create a mixture of pasture suitable for grazing stock (70% of the rehabilitated land area), and native woodland (30%). Rehabilitation on the Assets is informed by the respective Mine Operations Plans (the HVO North and South MOPs and the MTW MOP, prepared in 2016) and the Mine Closure Plans for the Assets, prepared in 2014. Review of the 2016 MOPs for the Assets indicates these are comprehensive documents that identify mined land suitable for rehabilitation during the MOP period, and provide high quality information to support the rehabilitation and revegetation process.

Rehabilitation is reported to be progressing across the site at a rate generally consistent to that specified within the MOPs. The 2015 HVO AEMR reports that 80% (304 ha) of the area proposed for rehabilitation during the 2013 MOP period was rehabilitated. At MTW 102% (180 ha) of land proposed was rehabilitated during the 2013 MOP period. Capping and rehabilitation of Tailings Dam 1 at MTW was undertaken in 2015. A site inspection indicates this landform has been designed to gently shed surface water, and is now surfaced with a thick cover of pasture grasses. The 2016 MOPs propose a total of 616 ha of rehabilitation at HVO between 2015 and 2018, compared to 730 ha of new disturbance. At MTW 681 ha of rehabilitation is proposed during the MOP period, which compares to a total of 440 ha of new disturbance.

The adequacy of the woodland rehabilitation undertaken at the Assets is the subject of ongoing monitoring and comparison with nearby reference sites. Niche (2016) report the findings from rehabilitation monitoring undertaken at sites in which the intended post-mining vegetation community is Central Hunter Grey Box – Ironbark Woodland and Central Hunter Ironbark-Spotted Gum-Grey Box Forest. The results of this study indicate that the monitoring sites have as yet not reached parity with the reference site benchmarks. Three sites of the 20 monitoring sites scored 50% or higher conformance with the 10 benchmark monitoring parameters. The majority of monitoring sites (85%) recorded a degree of divergence from the reference site benchmarks. These findings should be viewed cautiously however, given the relative infancy of many rehabilitation areas considered in the benchmarking study and the relative leniency of the rehabilitation performance criteria detailed in the MOPs (many of which have yet to be established). Sites engaged in rehabilitation for a longer period have been assessed as closer to the criteria.

Consequently, the general adequacy of the approach to the rehabilitation of native woodland implemented on the mines cannot be fully evaluated at this time. It is noted that final relinquishment of rehabilitated areas on the mines would occur following the cessation of mining, and hence a significant period of time is available for the Client to undertake corrective actions (if required) to ensure rehabilitation meets the established performance criteria.

A grazing trial commenced at HVO in 2014 to document the suitability of rehabilitated pastures for grazing stock. Results reported in the HVO 2015 AEMR indicate cattle grazed on rehabilitated land gained weight faster than those cattle grazed on reference sites. These findings are supportive of the view that rehabilitation of pastures on the site has been undertaken to a suitable standard.

It is evident, that the rate of rehabilitation across both mines is generally proceeding in line with expectations (as detailed in the MOPs), and is broadly keeping pace with new disturbance. The adequacy of the woodland rehabilitation undertaken to date is undetermined, and will be able to be confirmed progressively, as rehabilitated areas approach maturity; rehabilitation of grazing land has been successful.

14.4.4 Closure Liability

Closure cost estimates are detailed within the Assets Mine Closure Plans (RTCA, 2014) and include both progressive rehab costs and final closure costs at the cessation of mining. There are several methods for estimation of final closure costs including the Present Closure Obligation and Total Project Cost of Closure Costs. The Present Closure Obligation (PCO) is a metric used to describe the full amount of close down and rehabilitation costs to which the operation is committed at the balance sheet date at current rates, with all costs incurred at a given time. At June 2014 the PCO for HVO was A$ 176,852,876 and A$148,768,558 for MTW. The Total Projected Cost of Closure (TPC) includes the PCO as well as all costs relating to the progressive rehabilitation of future environmental disturbances as described in the MOP (relevant to valid development consent) and LOM Plan. The TPC at 2014 reported in the Mine Closure Plan is A$ 167,696,053 for HVO and A$149,984,031 for MTW.

The PCO and TPC are useful measures of financial liability in the event of an immediate cessation of operation, and over the long term respectively. Of greater relevance however are the medium term financial liabilities that would be incurred in the current MOP period (2015 – 2018 for HVO and 2015 – 2021 for MTW).

The rehabilitation costs estimated for HVO are $A 4.57 million, 4.02 million and 4.59 million over the years 2016, 2017 and 2018 respectively. On the basis of the proposed rehabilitation totals detailed in the HVO MOPs, these estimates equate to A$79,404 / ha, A$20,169 / ha and A$20,986 / ha respectively (average of A$40,186 ha). Projected costs for MTW are $A 2.52 million, 2.63 million, A$ 3.99 million, A$ 3.62 million, A$ 3.38 million and A$ 2.41 million over the years 2016 – 2021 respectively. Costs per hectare during this timeframe range between A$24,579 / ha and A$35,239 / ha (average A$30,535 / ha).

These estimates are understood to represent the costs associated with minor earthworks, soil amelioration, seeding / planting and ongoing monitoring and management. The principal cost drivers during rehabilitation are bulk material movements and major earthworks associated with the creation of the final landforms. These costs are accounted for in the mine operations budget and as such are not reflected in the final closure cost estimates as presented in ***Table 13-4***. RPM highlights these costs presented include the cost of closure at the cessation of mining, with the progressive rehab included in the mining costs. RPM highlights that when the full rehab forecast costs are included with the closure costs at the end of the mine life the total cost is higher than both the PCO and TPC measures, as such is considered conservative.

While the adequacy of this allowance with respect to historic costs incurred on the Assets has not been verified, it is possible to compare the financial rehabilitation provisions made by the Company with rehabilitation costs incurred on comparable coal mining operations in the region. This exercise suggests that the average rehabilitation cost per hectare estimated for the Assets is in keeping with industry averages, and indeed may be conservative, given the relatively high proportion of pasture in the final landuse (70%). Furthermore, the rehabilitation targets for native woodland established in the MOP are considered no more onerous (and perhaps less onerous) than those experienced on comparable sites.

15. Underground Mining Potential

As outlined in ***Section 7*** there is extensive coal inventory down dip of the existing open cut operations together with the deeper coal beneath the open cut pits has been selected for consideration of underground mining potential. RPM considers that up to Four seams are suitable targets for mining by longwall methods at MTW within the Vane Subgroup with an additional two seams at HVO in the Foybrook Subgroup. RPM highlights that these seam groups are based on both thickness as well as overburden thick. As a minimum RPM has includes seams with an overburden of at least 60m. Studies have concluded that production in the order of 5Mt – 6Mt per longwall is reasonable and that no fatal flaws are present. RPM however considers that there are sufficient uncertainties and risks that require further studies and investigation in order to advance to a Feasibility status, not least being whether all the seams should be mined, particularly where superimposed with low interburden separation. Historically no more than 3 overlying seams have been mined by underground methods in Australia.

15.1 HVO and MTW Underground Potential

RPM is aware an underground conceptual level study (the "study") was completed by a third party consultant in 2013. This study has not been updated to reflect the new geological models nor the classification applied by RPM in this Report. RPM also notes that this study was completed on RPM does however present a summary of the study concept and design criteria to highlight the underground potential viability in both operations.

15.1.1 Proposed Mining Areas

The Study (June 2013) identified 9 seams in the MTW/HVO leases with the potential for underground extraction versus RPMs six. Seams in the Foybrook Formation (Pikes Gully, Liddell and Barrett) were included for the HVO area only but not MTW as noted in ***Table 15-1.*** As noted in Section 7 RPM considers

Table 15-1 – MTW Target Seams

Seam	Thickness Range (m)	Depth Range (m)	Interburden (m)	Roof Strata – 2m	Gas	Mining Conditions
Wambo	1.5 – 2.75	50 - 160		Shale immediate roof, low strength. Up to 2m roof generally ~20MPa. Strength consistent with nearby upper seam ply (WBA) generally <1m separation.	Low gas regime	Thicker in the central area. Thin seam conditions elsewhere would limit productivity with higher dilution. Inferred faulting in northwest area may reduce mining potential and resources. Roof has low strength and separation of the WBA ply is a risk on the longwall face. Dilution will reduce yield substantially, although the coal itself is low ash.
Woodlands Hill	2.0 – 2.5	100 - 280	90 - 115	Reasonable strength – sandstone/siltstone >20MPa.	Predominantly methane. 2 – 7 m^3/t although high CO_2 in north east near open cut.	Reasonably consistent thickness over most of target area. Faulting in northwest. Clays in floor could present trafficability issues. Arrowfield Seam <1m below in the floor may release gas at depth during development. Blakefield, Glen Munro and Arrowfield seams will be gas sources during longwall extraction although at <200m depth should be manageable.
Bowfield	1.5 – 2.0	120 - 350	20 - 100	Reasonable strength – shale/siltstone although weaker in	Low to moderate up to $8m^3/t$. Higher CO_2i	Thin seam conditions. Considered not attractive. Predominantly <50m beneath WH Seam with only 20m in east

Seam	Thickness Range (m)	Depth Range (m)	Interburden (m)	Roof Strata – 2m	Gas	Mining Conditions
				south of deposit. Minimal data points. Weak zone at MTOH602 (near E-W fault?)	east near open cut – lower desorption rates.	area. Interaction expected. The roof has low strength zones in the southern area potentially near the E-W thrust fault. Longwall through this area may have high risk.
Mt Arthur	3.0 – 3.5	140 - 400	10 - 80	Immediate roof >25MPa over much of the area. Lower strength in south, predominantly shale, and very low in vicinity of thrust fault.	High gas domain up to 12 m^3/t with 50% CO_2.	An east-west thrust fault in planned area subparallel to longwall face may require face relocation. Bullseye thickness point <0.5m. Proximity to overlying Bowfield Seam in southeast will produce stress concentrations in pillars and on longwall face. Warkworth Seam <1m above MA seam together with claystone interburden. Tendon roof support may be required. The upper seam ply MAAB will need to remain for roof control. The lower MAC-J plies to be mined. Highly banded working section. No mining where thin interburden <20m should be undertaken.
Vaux	2.0 – 3.5	140 - 460	20 - 60	Weak to moderate immediate roof strata mostly 20-25MPa. Predominantly a shale domain in the south area.	Moderate to high gas content up to 13m^3/t. CO_2 increases to southwest.	Reasonably consistent thickness. Bullseye thickness point <0.5m. Areas will have high stress concentrations due to proximity of overlying workings. Weaker roof strata may exhibit failure. This will be exacerbated at depth underlying the MA seam workings. Gas will become more difficult to drain in southwest zone.
Bayswater	2.0 – 7.5	300 - 500	55 - 75	Variable but considered moderately strong although the immediate 0.5m is moderate typically<20MPa.	High gas content. 9 – 11m^3/t. CO_2 increases with depth	Thickens to west. More drilling to this seam required. Depth range places at deep mining conditions. Predrainage of gas necessary, impact of multi seam mining.

15.1.2 Mining Concept

The cumulative effect of multi seam mining and in particular where interburden distances are low will result in high stress conditions from chain pillars remaining in upper workings. Although offset arrangements of longwall panels have been shown for some seams others show longwall panels diagonally crossing beneath those of upper seams. Further mine layout orientation is necessary.

An average annual output from each longwall of 5Mt is reasonable, although for the thicker seam sections above 3m a higher output is possible whilst the seam sections less than 3m, particularly in the order of 2.5m production in the order of 4.5 Mtpa would be considered more realistic. Therefore the three upper seams a downgraded output of 4.5 Mtpa from each is a likely scenario. If these seams are initially targeted then a much lower ramp up in mine output would occur.

RPM notes that modern longwalls in thicker seams (Narrabri) and at Grasstree, high production is achieved. The output from the lower seams can therefore be expected to be higher; however depth, roof conditions with clay bands, nearby seam plies and multi-seam overhead workings will detract from direct comparison with the single seam top producing mines.

A constant yield (assumed average) of 73.5% has been used over the LOM noting that this would vary between seams; however the proportion of coal from each seam at any particular time is not disclosed nor the annual variation of thermal and SSCC product. RPM accepts this for a high level study but the output needs to be considered very conjectural and a guideline only.

It can be concluded that there is a large Coal Resource, mostly of Indicated and Inferred classification (as outlined in ***Section 7***) but no Coal Reserves due to lack of detailed investigation and study (PFS status).

Development of Underground Projects

The development of underground operations in Australia can be a lengthy process depending on the characteristics of the resource, the approach of the owner, prevailing economics and sensitivity in relation to local communities and the environment. Local, state and federal environmental and mining approvals are required throughout the process to ensure that all stakeholders are considered and where necessary protected. The average timeline identified by RPM illustrates that the timing of a robust exploration and study process can be well matched to the anticipated timelines required to obtain necessary approvals.

It is however a fact that delays can be experienced in any of the development steps thus pushing out the expected date at which full mining operations are anticipated to commence. This is as likely to result from delays within the study and internal approval process as it is to be from external factors. It is also recognised that in Australia's Hunter Valley, community considerations and environmental concerns can have greater impact on the smooth progression of the process than in other parts of the country.

RPM's experience is that the study phase of a project can be expected to take approximately five years to complete, starting from initiating drilling to support concept level analysis, through to the completion of a feasibility study. Up to a further year is required for internal approvals, funding and engineering-level design work to be completed. Once site construction commences, depending on the access method, an underground operation is likely to take around 2.5 to 3 years before the longwall commences operation. A high-level review of publically available data relating the development stages of six Australian underground operations confirms that the timelines suggested within this report are realistic.

The client is reminded that the timelines presented in this report are both averages and generic in nature. A high degree of variability is to be expected for the execution of individual stages depending on the particular circumstances of a specific project.

15.1.3 Development Sequence

Development of Underground Mines generally encompasses a number of steps which vary in both length and costs, these include:

- Exploration and Mining Studies.
- External Approvals, and
- Construction and Operations.

Exploration and studies

The progression of exploration through the various stages of study, to construction and ultimately operation are dictated by three primary factors:

1. External approvals – this includes federal and state approvals and encompasses environmental and mining approvals all of which are discussed in the next section.

2. Internal approvals – these approvals predominantly relate to the release of funds and provision of corporate support for progression to the next phase of study or development. This is discussed in more detail in the following sub-section.
3. Time to complete a phase of study or construction.

Internal approvals

Internal approval processes and the manner in which they are implemented are specific to individual organisations and their objectives. These approvals can in some cases have a greater impact on the project development timeline than external approvals.

Some of the key factors that may affect the time it takes to obtain internal approvals are listed below.

- **Complexity of the approval process and risk management** - Large organisations often have complex approval processes in which risk is managed through detailed cross-checking and if necessary, orders to complete re-work. Smaller organisations on the other hand can be leaner and may be more prepared to accept the potentially higher level of risk associated with a faster approval process. There may also be cultural aspects to the approval process with differences in approach between organisations established in different countries.

- **The prospectivity of the resource** - High-quality and high-value resources are more likely to demonstrate positive economics and will therefore more easily pass through internal approval stage gates. Resources that exhibit marginal economics are likely to suffer delays or be sent back for redesign to develop a more economically attractive plan.

- **Competition for internal resources** – Large mining houses with a range of resources will always prioritise the development of the highest value resource and with limited capital funding; lower-value resources may suffer delays. The same resource may attain higher priority if owned by an organisation with fewer options. There have been cases where joint venture parties have differing priorities to the managing partner and become frustrated with the slow progress of project study and development.

- **Prevailing economic conditions** – During economic downturns when commodity prices are low, mining companies will conserve capital to minimise risk. This will inevitably result in delays to exploration activity or deferment of study or project execution.

Study phase

An exploration and study program required to prove up a greenfields coal deposit normally follows three distinct study phases. The actual length of each study phase is not fixed and will depend upon the size and complexity of the resource, specific community or environmental issues and the quality of the supporting data and analysis at the start of the study phase. In addition to this, the depth of investigation and analysis required by the client may vary significantly from one organisation to another and this will be reflected in the time that a company is prepared to invest in a particular phase. Large corporations tend to assemble large study teams of in-house professionals and specialist consultants and may be prepared to spend significantly longer on a study phase than a much smaller organisation with a lower budget and much smaller study team.

The generally accepted study phases are provided in ***Table 15-2***.

Table 15-2 - Study phase description

Study Phase	Detail	Typical Timing (and range)	Comments
Concept study ***4 months***	Focus on identifying a prospective resource and determines at a high level whether it is likely to possess sufficient value to warrant proceeding further.	Allow 4 months. Can be less depending on available data and chosen level of study detail.	This study phase equates to a Class 5 estimate under the AACE standards and is undertaken to an accuracy of approximately -50% to +100%.
Pre-feasibility study ***12 months***	The aim of a pre-feasibility study is to identify and evaluate the range of possible mine development strategies and to determine which strategy provides the greatest returns as well as robustness to future uncertainty.	Range of 9 to 12 months for the study but the entire phase which includes approvals, exploration and support studies may take from 18 to 24 months	This study phase equates to a Class 4 estimate under the AACE standards although sits at the lower detail range for this class. This estimate is undertaken to an accuracy of approximately -30% to +50%.
Feasibility study ***12 months***	The objective of a feasibility study is to develop the recommended life of mine strategy to a high degree of detail sufficient to provide surety to investors of future value and to also provide sufficient detail from which to base construction contracts and final equipment specifications.	Range of 9 to 12 months for the study but the entire phase which includes approvals, exploration and support studies may take from 15 to 21 months	This study phase equates to a Class 4 estimate under the AACE standards and sits at the higher detail range for this class. This estimate is undertaken to an accuracy of approximately -15% to +20%.

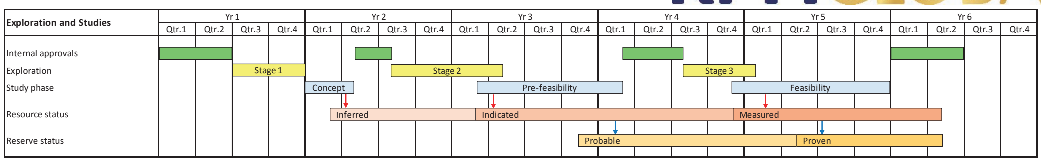
Exploration

Staged exploration work is undertaken prior to and throughout the early stages of each of the above study phases. This exploration work is progressively focused on the higher-value areas within the deposit and is tailored to meet the objectives of the study phases. The deposit's JORC classification status therefore progresses from exploration results through to Measured Resources throughout the study phases.

At the Concept Study phase, much of the data available for the deposit would be unclassified with some broad portions brought up to Inferred status. During the Pre-feasibility stage, the key areas of the deposit sufficient in size on which to base a reasonable-sized mine are typically elevated to an Indicated status. At the completion of a final Feasibility Study, it is typical to have the area which is planned to be mined during the first five to ten years of mine life, explored sufficiently to be classed as Measured Resources, with the remainder of the proposed mine's resources remaining at an Indicated Resource level. As the mine is developed, ongoing exploration required for the completion of detailed mine planning will progressively elevate the life of mine resources from an Indicated to Measured status.

The duration of each stage of exploration is largely dependent upon the size, depth and geological complexity of the resource. Access and weather conditions can also impact on the actual time to complete each stage. ***Figure*** 15-1 provides a high level timeline of a typical staged study program and the commensurate exploration program, showing the parallel progression through the JORC Resource and Reserve definition status.

Figure 15-1 - Staged Exploration and Study Time Line



External approvals

Table 15-3 provides an outline of the NSW mineral exploration and development assessment and approvals process for state significant development (SSD) mining projects from exploration to mining (new development application). Note: the table excludes native title, legal appeals, land acquisition and plans for biodiversity offsets. The timeframe should be considered an average but experience in NSW shows that any element of the schedule can be subject to significant delay.

Table 15-3 - External approval description

Key Activity	Detail	Typical Timing (and range)	Comments
Securing Exploration Licence and Land Access ***6 months***	An ELA is lodged and processed. Local Community advised of application (Newspaper notification of ELA) Public submissions invited with regard to coal exploration licence applications Grant of Exploration Licence (EL) with conditions and security bond	Allow 3 months for non-complex ELAs (range can be up to 12 months or more)	Ministerial Consent is required to apply for an Exploration Licence Application (ELA) for coal and specified minerals within a Minerals Allocation Area. Highly variable timeframes. If ELA refused, a new revised application could potentially be lodged
	Detailed community and landholder consultation commences (ongoing)	Ongoing	May involve the formation of a Community Consultative Committee
	Written Access Arrangements with Landowners required prior to any work commencing. Pre-notification to DRE of exploration (1 month)	Allow 3 months	Highly variable - Potentially subject to landowner access restrictions or even veto (e.g. Hume Project)
Exploration (As per proponent's program)	Exploration, Environmental and Feasibility investigations begin	As discussed in Section 2.	Recommended that this phase includes commencement of at least two years baseline monitoring prior to lodgment of an EIS for a greenfield project, including installation of groundwater bores and various types of air quality monitoring.
Project Definition – PREFEASIBILITY	Mineable/probable resource defined and concept mine plans developed	As discussed in Section 2.	Significant multi-disciplinary studies and iterative project evaluation and consideration of alternatives
	Presentation of Conceptual Project Development Plan to NSW DRE	Allow 1 month minimum	DRE - Department of Industry, Resources and Energy - Mineral Resources
	DRE in-principle support for mining concept, Department of Planning & Environment (DP&E) notified		

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Key Activity	Detail	Typical Timing (and range)	Comments
Applications for Environmental Impact Assessment under NSW and Commonwealth legislation ***Up to 6 months***	Preparation of report by proponent for lodging to Gateway, if required	Allow 2 months	Common in Hunter Valley, covering soils, agriculture, groundwater, etc.
	Lodge application for Gateway Certificate[1] (if required by proximity to BSAL and/or equine industry)	Allow up to 3 months	Regulation timeframe 60 to 90 days from lodgment. If Site Verification only required, allow only up to 2 months
	Preparation of Preliminary Environmental Assessment document and Request for Secretary's Environmental Assessment Requirements (SEARs) lodged with DP&E. Lodgment of State Significant Development Application with DP&E.	Allow 1 month	Concurrent lodgment of Mining Lease Application (MLA) to Resources & Energy is possible[2] from this stage of the process onwards. Similarly, applications for road closure could commence from this time forward, but proposals are more likely to be sufficiently resolved following further assessment and project planning, including consideration of native title and Aboriginal land rights issues.
	Environmental Impact Statement (EIS) Requirements Issued (SEARs)		Inter-Agency Planning Focus Meeting (PFM) may be organised by DP&E
	Lodge referral with C'th Dept of Environment under *EPBC Act 1999*	Referral lodgment action concurrent with above (or below) actions.	Referral re relevant matters of national environmental significance (MNES). Resultant assessment documentation to be prepared in parallel with the NSW EIS preparation assessment and approval process.
Preparation and Lodgment of EIS (and EPBC impact assessment documentation in parallel) ***7 months***	EIS Studies and Preparation of EIS	Allow 6 months (range 6 months – 24 months)	EIA preparation 6 months for less complex brownfields projects, longer for complex greenfields projects
	Draft EIS lodged with DP&E for "adequacy test" (with input from key Govt. Agencies)	Allow 1 month	Increased time if further information required to be supplied
Assessment of EIS (and EPBC impact assessment documentation) and Determination of DA **Allow *16 months***	Public exhibition of EIS and submissions invited from agencies, community and any interested parties	Minimum 1 month	DPE may extend EIS exhibition up to 2 months (e,g, holiday periods)
	Response to Submissions (RTS) by proponent.	Allow 5 months post-EIS exhibition (range up to 7 months)	Allow 2 months for proponent to prepare RTS
	DP&E Assessment of EIS and submissions and proponent's Response to Submissions		Allow 3 months. Includes further requests for information by DPE & agencies
	Minister for Planning may appoint Planning Assessment Commission (PAC) for Review of project	Allow 4 months	PAC review may include public hearing (which circumvents later 3rd party appeals)
	Response to PAC Review	Allow up to 2 months	Report by Proponent
	DPE Supplementary Assessment	Allow 1.5 months	Finalises Secretary's Assessment

Key Activity	Detail	Typical Timing (and range)	Comments
			Report
	PAC Determination -currently determined by second, separate PAC panel. (If approved, Grant of Development Approval with conditions)	Allow 1.5 months	PAC may hold public meeting. Note: PAC review and delegated determination process subject to current review
	Commonwealth approval under *EPBC Act 1999,* if required	Allow 1 month	Issue of instrument approval
Grant of Mining Lease (ML) ***Allow 1 month***	Minister for Resources and Energy grants a Mining Lease (ML)[3]	Allow 1 month	Development consent a precursor. ML granted subject to conditions and lodgment of security
DETAILED FEASIBILITY	Can be commenced earlier but not advisable to conclude until development consents secured. Includes Owner/JV go forward decision/process.	As discussed in Section 2.	Detailed Feasibility Study can and should be concurrent with or straddling the above and below activities
Post-Approval Actions (Required Pre-Construction or Prior to Commencement of the Consent) ***Allow 5 months***	Preparation and submission of Mining Operations Plan (MOP) to DRE, Extraction Plan to DP&E (U/ground mines) and other EMPs	Allow 4 months	Required by Condition of ML. Timeframe can extend if complex, if agency is tardy an where C'th EMP approval is required, etc
	Security Bond reassessed based on the MOP	Allow 1 month	Additional financial security to be lodged (condition of ML)
	Approvals and Licences obtained from other NSW Government agencies (Secured through the Part 4 Division 4.1 process of the *EP&A Act 1979*)	*Allow 3 months CONCURRENT WITH ABOVE*	Coal mine developments are State Significant Developments (SSD)
	Local government approvals such as detailed building design approval to Building Code of Australia, fire safety standards, etc.	*CONCURRENT WITH ABOVE*	Detailed design phase; may also involve road upgrades, water/sewer connections which may be specified in Voluntary planning Agreement with Council.
Construction/Production	Commencement of Construction and Mining Operations		As per proponent construction schedule etc

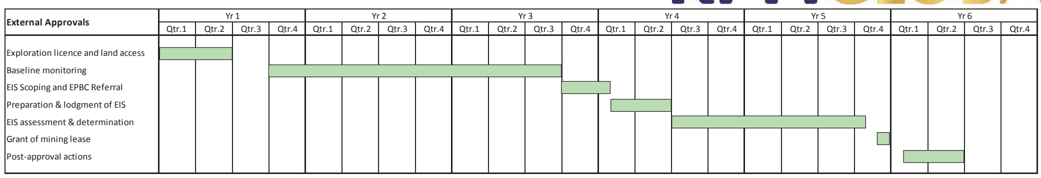
Notes

1. Information on the Gateway process can be found on the Department of Planning website: http://www.planning.nsw.gov.au/Plans-for-Your-Area/Local-Environmental-Plans/The-Gateway-Process
2. MLA (or PPLA) may be lodged at any time (processing undertaken in parallel with the approvals process).
3. A ML (or PPL) can only be granted when there is a valid development approval (consent).

(Adapted from Source: http://www.resourcesandenergy.nsw.gov.au/miners-and-explorers/applications-and-approvals/mining-and-exploration-in-nsw/project-approvals/mining-project-development)

Figure 15-2 illustrates a typical timeline for external approvals.

Figure 15-2 - Gantt chart of external approval timeline



Construction and Operation

Following the completion of the feasibility study internal approval will be required to proceed to the construction phase. RPM has allowed 6 months for this approval process but given the complexity of capital funding this could be significantly greater depending on the specific funding strategy for the organisation. The construction and operational ramp up phases are discussed in ***Table 15-4***.

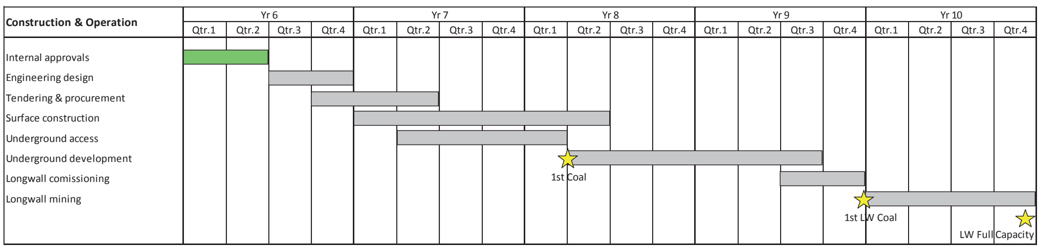
Table 15-4 - Construction activity discussion

Construction activity	Detail	Typical Timing (and range)	Comments
Engineering design ***6 months***	Preparation of designs and drawings of sufficient detail to support tenders, contracts and final construction.	Allow 6 months. Range 6 to 12 months as engineering design may continue in parallel to some construction activity.	
Tendering and procurement ***12 months***	Working with engineering design team to set up major construction contracts and to source equipment.	Range of 12 to 24 months.	Peak activity prior to and during the construction phase but will continue into the mine life. Timing of long-lead items is critical.
Surface construction ***18 months***	This phase establishes surface infrastructure and facilities to support the underground operations. A minimum level of construction is required before underground access can commence but may not be completed until the access and pit bottom development is completed.	Range of 9 to 24 months	The cost and duration of this phase will depend upon whether processing facilities and/or major transport infrastructure (rail loop) are required.
Underground access ***12 months***	Construction of the main mine access and coal clearance between the surface to the underground workings.	Range 3 to 18 months depending on depth, access method and geotechnical and hydrological conditions.	Estimate is based on drift access to approximately 200 m depth, in reasonably favorable conditions.
Underground development ***18 months***	Development of the underground roadways to provide access to the first block of longwall coal.	Range 12 to 24 months depending on time to establish pit bottom, length of gateroads and mining complexity.	Resourcing is initially constrained by available space underground but total development activity can increase as the mine footprint expands.
Longwall commissioning ***6 months***	Receipt of delivery of longwall equipment. Surface testing, transportation underground and commissioning.	Range 6 to 9 months depending on size and complexity of equipment.	Operations typically conduct a "mini build" on the surface to test the new longwall functionality before it goes underground.
Longwall ramp up to full operation	New longwall equipment does not typically operate at full capacity	RPM typically de-rate the productivity rate in the first	

	immediately on installation. This may be due to additional training or familiarization of operators or commissioning issues.	longwall panel.

Figure 15-3 shows a typical timeline for construction and ramp up to full production levels.

Figure 15-3 - Construction and operation timeline



Summary

RPM concludes that for a greenfield site with no approvals, it is likely to take around five years to complete exploration, mining and associated studies and relevant environmental studies and approvals. Following this there is likely to be a full year prior to the commencement of construction, during which internal approvals and funding is obtained, engineering design and tendering / procurement commence. Surface construction and underground access plus development can be expected to continue for around 3 years before the longwall can commence operation.

There is however a reasonably high level of variability in timing depending on the prospectivity and complexity of the resource, the approach and culture of the operating organisation and the sensitivity of the operation in terms of the environment and the community. These timelines can be reduced for an economically favourable resource with a motivated operator and minimal external opposition. In New South Wales however this is rarely the case and timelines are more likely to extend as agreements and compromises are progressively made with stakeholders.

16. Mine Risks and Opportunity Assessment

16.1 Opportunity

RPM considers there are several opportunities within the Assets. These include:

- As per the reporting requirements of the JORC Code, the Inferred material within the final pit is considered waste and not included the reported Coal quantities or schedule. RPM notes that within the final pits **32.4 Mt** and **28 Mt** of Inferred Coal Resources and unclassified coal at the Assets pits respectively. If additional exploration successfully delineates this Coal and it is upgraded to Indicated and/or Measured this material can be included in an updated Coal Reserve estimate. If successfully defined as economical, this material has the potential to extend the mine life approximately by 1.5 years for HVO and 2 years at MTW, additionally this material if successfully defined as Indicated resource would decrease the LOM prime strip ratio from 5.8 to 5.6 at HVO and 6.5 to 6.0 at MTW.
- RPM notes that additional **9Mt** and **9Mt** of Indicated and Inferred coal is estimated within the final west pit design MTW however due to the Inferred component within this area being classified as waste, this coal is not included in the Schedule as presented in ***Section 9***. This material while still able to be classified as a Coal Reserves as per JORC requirements is not included in the schedule as per Chapter 18 reporting requirements of valuations.
- Underground operations have not been considered for this statement of open cut Reserves. There are significant resources with underground potential at both MTW and HVO and preliminary studies have been completed. Further detailed study is required to confirm the feasibility of underground extensions prior to inclusion as a Coal Reserve however RPM outlines the study shown in ***Section 15***

16.2 Risk

Mining is a relatively high risk business when compared to other industrial and commercial operations. Each mine has unique characteristics and responses during mining and processing, which can never be wholly predicted. RPM's review of the Mines indicates mine risk profiles typical of large scale mines at similar levels of resource, mine planning and development in New South Wales. Until further studies provide greater certainty, RPM notes that it has identified risks and opportunities with the Assets as outlined in ***Table 16-2***.

RPM has attempted to classify risks associated with the Mine based on Guidance Note 7 issued by The Stock Exchange of Hong Kong Limited. Risks are ranked as **High**, **Medium** or **Low**, and are determined by assessing the perceived consequence of a risk and its likelihood of occurring using the following definitions:

Consequence of risk:

- **Major**: the factor poses an immediate danger of a failure, which if uncorrected, will have a material effect (>15% to 20%) on the Mine cash flow and performance and could potentially lead to Mine failure;
- **Moderate**: the factor, if uncorrected, could have a significant effect (10% to 15% or 20%) on the Mine cash flow and performance unless mitigated by some corrective action, and
- **Minor**: the factor, if uncorrected, will have little or no effect (<10%) on Mine cash flow and performance.

Likelihood of risk occurring within a 7 year timeframe:

- **Likely**: will probably occur;
- **Possible**: may occur, and
- **Unlikely**: unlikely to occur.

The consequence of a risk and its likelihood of occurring are then combined into an overall risk assessment as shown in ***Table 16-1*** to determine the overall risk rank.

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Table 16-1 Risk Assessment Ranking

Likelihood	Consequence		
	Minor	Moderate	Major
Likely	Medium	High	High
Possible	Low	Medium	High
Unlikely	Low	Low	Medium

RPM notes that in most instances it is likely that through enacting controls identified through detailed review of the Mine's operation, existing documentation and additional technical studies, many of the normally encountered Mine risks may be mitigated.

Table 16-2 Risk Assessment

Risk Ranking	Risk Description and Suggested Further Review	Potential Mitigant	Area of Impact
M	**Community Relations** Communities, in particular Bulga, have voiced numerous grievances against MTW operations, in particular regarding noise and dust emissions, leading to equipment downtime and subsequent investment in noise attenuation equipment for equipment.	Continue proactively engaging with affected communities and implementing noise mitigation strategy to remain in compliance with applicable regulatory standards and minimize equipment downtime. Assess and regularly review the noise impacts of planned mine development in increasing proximity to Bulga and continuously estimate related equipment downtime	OPEX, MTW Asset Economics
L	**Plant Maintenance** Several of the CPP's are ageing and this is reflected in the requirement for more detailed and systematic planning systems. This presents a risk for increased OPEX and unavailability. PR is aware that maintenance costs are included in the costs presented in this report	The Company has implementing several system to ensure continued operation and utilisations. Ensure management overview of maintenance.	OPEX
L	**Commodity Price Fluctuation** The market for Coal has been variable over recent years, RPM highlights that while the recent lower commodity prices the operations are still profitable, as such the risk to the profit sensitivity	Long term contracts.	Assets Economics
L	**Waste Storage** Further increases in the in-pit storage heights permits are required to allow sufficient storage capacity beyond 2020. RPM is aware a permit is pending for this increase	Confirm permit approval	CAPEX and Life of Assets
L	**Data Quality** Limited original data or sampling and assay protocols or data is available for the		Resource estimate

Risk Ranking	Risk Description and Suggested Further Review	Potential Mitigant	Area of Impact
	drill hole information prior to 2007. However a significant review program has been undertaken.		
L	**Wallaby Scrub Road Permit** The Closure of wallaby scrub road agreement with the local council is still pending. RPM is aware discussions are in occurring and an agreement is pending.	Confirm closure permit	MTW operations
L	**Relative Density** Some bias may have occurred within for deposits Of particular note is the regressions noted in Section .6	Complete a reconciliation of the BD completed against the mined areas to determine the variation on a local scale.	Local Variation of Resource estimate
L	**Heavy Metals Contaminations** Fate of heavy metals in tailings and potential groundwater and soil contamination have not been assessed. Historical or future contamination could lead to regulatory shut-down, community opposition and clean-up costs	Conduct leaching test and soil and groundwater environmental site assessment at relevant locations in and around tailings facilities	Compliance, Assets Economics (closure and/or clean-up costs)

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Appendix A - Experience and Qualifications

Jeremy Clark – Manager, Hong Kong, Bsc. with Honours in Applied Geology, Grad Cert Geostatistics, MAIG, MAusimm

Jeremy has over 15 years of experience working in the mining industry. During this time he has been responsible for the planning, implementation and supervision of various exploration programs, open pit and underground production duties, detailed structural and geological mapping and logging and has a wide range of experience in resource estimation techniques. Jeremy's wide range of experience within various mining operations in Australia and recent experience working in South and North America gives him an excellent practical and theoretical basis for resource estimation of various metalliferous deposits including Iron Coal and extensive experience in reporting resource under the recommendations of the JORC and NI-43-101 reporting codes.

With relevant experience in a wide range of commodity and deposit types, Jeremy meets the requirements for Qualified Person for 43-101 reporting, and Competent Person ("CP") for JORC reporting for most metalliferous Coal Resources. Jeremy is a member of the Australian Institute of Geoscientists

Philippe Baudry – General Manager – China and Mongolia, Bsc. Coal Exploration and Mining Geology, Assoc Dip Geo science, Grad Cert Geostatistics, MAIG

Philippe is a geologist with over 15 years of experience. He has worked as a consultant geologist for over 6 years first with Resource Evaluations and subsequently with Runge after they acquired the ResEval group in 2008. During this time Philippe has worked extensively in Russia assisting with the development of two large scale copper porphyry Mines from exploration to feasibility level, as well as carrying out due diligence studies on metalliferous Mines throughout Russia. His work in Australia has included resource estimates for BHPB, St Barbara Mines and many other Client both in Australia and overseas on most styles of Coal and metals. Philippe furthered his modelling and geostatistic skills in 2008 by completing a Post Graduate Certificate in Geostatistics at Edith Cowan University. Philippe relocated to China in 2008 and has since managed numerous Due Diligences and Independent Technical Reviews for private acquisitions and IPO listings purpose mostly in China and Mongolia.

Prior to working as a consultant Philippe spent 7 years working in the Western Australian Goldfields in various positions from mine geologist in a large scale open cut gold mine through to Senior Underground Geologist. Before this time Philippe worked as a contractor on early stage gold and metal exploration mines in central and northern Australia.

With relevant experience in a wide range of commodity and deposit types, Philippe meets the requirements for Qualified Person for 43-101 reporting, and Competent Person ("CP") for JORC reporting for most metalliferous Coal Resources. Philippe is a member of the Australian Institute of Geoscientists

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Company's Relevant Experience

RungePincockMinarco (RPM) is the market leader in the innovation of advisory and technology solutions that optimize the economic value of mining Assets and operations. RPM has serviced the industry with a full suite of advisory services for over 45 years and is the largest publicly traded independent group of mining technical experts in the world.

RPM has completed over 11,000 studies across all major commodities and mining methods, having worked in over 118 countries globally.

RPM has operations in all of the world's key mining locations enabling them to provide experts who understand the local language, culture and terrain. RPM's global team of technical specialists are located in 18 offices around the world. Through their global network, RPM can provide you access to the right specialist technical skills for your Assets.

RPM's advisory division operates as independent technical consultants providing services across the entire mining life cycle including exploration and Assets feasibility, resource and reserve evaluation, mining engineering and mine valuation services to both the mining and financial services industries.

RPM's trusted advisors typically complete assignments across all commodities in the disciplines of:

- Geology;
- Mining Engineering;
- Coals Processing;
- Coal Handling and Preparation;
- Infrastructure and Transportation;
- Environmental Management;
- Contracts Management;
- Mine Management;
- Finance and Assets Funding;
- Commercial Negotiations.

RPM was founded in Australia and as a result, has a solid understanding of and is committed to compliance with the codes which regulate Australian corporations and consultants.

Over the past 45 years, RPM has grown into an international business which has continued to provide Client and those that rely on its work the confidence that can be associated by the use of the relevant global industry codes some of which include:

- The Australasian Institute of Mining and Metallurgy Code of Ethics;
- The Australasian Code for Reporting of Exploration Results, Coal Resources and Coal Reserves;
- The Australian Institute of Geoscientists Code of Ethics and Practices;
- Society for Mining, Metallurgy and Exploration Code of Ethics; and
- The National Instrument 43-101 Standards of Disclosure for Coal Assets.

RPM has conducted numerous independent mining technical due diligence studies and reporting for IPO's and capital raisings under the requirements of all key mining equity markets over the past six years, with involvement in capital raisings worth more than US$44 billion. Some of this and other work is summarised in ***Table A1***.

RPM leverages the power of its specialist knowledge to also provide cutting edge mining software that is sought after globally for mine scheduling, equipment simulation and financial analysis. RPM software is relied on by mining professionals to understand how to structure their long and short term operations efficiently using auditable best practice methodologies and solutions.

Table A1 - Mining Related IPO and Capital Raising Due Diligence Experience

2017 China Molybdenum Company., Ltd; Competent Persons Report of Mineral Resources and Ore Reserves under JORC and Independent Technical Review for inclusion in a HKEx Circular to support the a indirect Major Transaction for the acquisition of the Tenke Copper and Cobalt Mine, DRC.

2016 China Molybdenum Company., Ltd; Competent Persons Report of Mineral Resources and Ore Reserves under JORC and Independent Technical Review for inclusion in a HKEx Circular to support the a Major Transaction for the acquisition of the Tenke Copper and Cobalt Mine, DRC.

2016 China Molybdenum Company., Ltd; Competent Persons Report of Mineral Resources and Ore Reserves under JORC and Independent Technical Review for inclusion in a HKEx Circular to support the a Major Transaction for the acquisition of the Phosphate and Niobium Mine Brazil

2016 CGN Mining Company Limited; Competent Persons Report of Mineral Resources and Ore Reserves under JORC and Independent Technical Review for inclusion in a HKEx Circular to support the a Major Transaction for the acquisition of a 19.9% equity stake in Fission Uranium Corps Pattersons Lake Uranium Project, Canada**.**

2015 BHP Limited Demerger into South 32; independent technical review and compilation of a Competent Persons Report as defined by the European Securities and Markets Authority's Recommendations on consistent implementation of Commission Regulations ("EC") No 809/2004 implementing the Prospective Directive (the "ESMA Recommendations"). The ITR was completed on the assets of Illawara Coal Holdings located in the New South Wales state of Australia.

2014. MMG., Ltd; Competent Persons Report of Mineral Resources and Ore Reserves under JORC and Independent Technical Review for inclusion in a HKSE Circular to support the acquisition of the Las Bambas Copper Mine, Peru.

2014 Hidili International Development Company., Ltd; Competent Persons Report of Mineral Resources and Ore Reserves under JORC and Independent Technical Review for inclusion in a HKSE Circular to support the divestment of Multiple Coal Mines, Yunnan Province, China.

2013 China Molybdenum Company., Ltd; Competent Persons Report of Mineral Resources and Ore Reserves under JORC and Independent Technical Review for inclusion in a HKSE Circular to support the acquisition of the Northparkes Copper and Au Mine, Central West NSW, Australia.

2012 China Au Resources International., Ltd; Tibet Jiama Copper-Polymetallic Phase II NI 43-101 HKEx Pre-Feasibility Study. China

2012 China Precious Metal Resources Holdings Co., Ltd Competent Persons Report of Mineral Resources and Ore Reserves under JORC and Independent Technical Review for inclusion in a HKSE Circular to support the acquisition of an Au Operation Yunnan Province, China.

2012 Kinetic Mines and Energy., Ltd; Competent Persons Report of Mineral Resources and Ore Reserves under JORC and Independent Technical Review for inclusion in a HKSE Circular to support the IPO of an underground coal asset in Inner Mongolia Province, China.

2012 China Daye Non-Ferrous Metals Mining., Ltd; Competent Persons Report of Mineral Resources and Ore Reserves under JORC and Independent Technical Review for inclusion in a HKSE Circular to support the acquisition of 4 operating underground copper, lead, zinc assets in Hubei Province, China.

2012 Huili Resources Group ., Ltd; Competent Persons Report of Mineral Resources and Ore Reserves under JORC and Independent Technical Review for inclusion in a HKSE Circular to support the IPO of multiple underground nickel, lead, zinc, copper and au mining assets in Xinjiang and Hami Province, China.

2011 China Polymetallic Limited Mining., Ltd; Competent Persons Report of Mineral Resources and Ore Reserves under JORC and Independent Technical Review for inclusion in a HKSE Circular to support the IPO of a lead zinc silver polymetallic underground mining assets in Yunnan Province, China.

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Appendix B – Glossary of Terms

Abbreviation	Unit or Term
A	Ampere
AUD	Australian Dollar
the Company	Rio Tinto Coal Australia and Coal and Allied
ARD	acid rock drainage
BFA	bench face angle
C1	Net Direct Cash Cost
CAPEX	Capital expenses
CoG	cutoff grade
COO	Chief Operating Officer
CST	Cleaner scavenger tailings
CU	consolidated-undrained
DADC	Double Absorption Double Contact
DD	Diamond Drill holes
DGAAM	Directorate of Energy and Mines – Environmental Affairs
DTM	average haulage distance
EAP	emergency action plan
EHS	Environmental, Health and Safety
EIA	Environmental Impact Assessment
ELO	License to Operate Office
EMP	Environmental Management Plan
EMS	Environmental Management System
EP	Equator Principles
EPC	Engineering, Procurement, Construction
EPCM	Engineering, Procurement, Construction Management
ESAP	Environmental and Social Action Plan
F&A	Finance and Administration
FoS	Factor of safety
FS	Feasibility Study
g	grams
g/t	grams per tone
GCL	geosynthetic clay liner
H:V	Horizontal:Vertical
hp	horsepower
H2SO4	Sulphuric acid
Hz	hertz
JORC	Joint Coal Reserves Committee
k. lbs	thousands of pounds
km	kilometer
km2	square kilometers
kt	kilo tonnes
Kt	thousands of tonnes
ktpa	kilo tones per year
kV	kilovolt
kW	kilowatt
kWh	kilowatt hour
l	liter
l/s	liters per second
LAN	Local Area Network (computer communications system)
lb	pound
lbs	pounds
LL	liquid limit
LOM	Life of Mine

LP	Preliminary Permit
m	meter
m3	cubic meter
masl	meters above sea level
M	Million
M&I	Measured and Indicated (with respect to Resources)
Mm3	million cubic meters
Mo	molybdenum
Mt	million tonnes
MW	megawatt
MWh	megawatt-hour
NPV	net present value
OK	Ordinary Kriging
OHSAS	Occupational Health & Safety Advisory Services
OPEX	Operational expenses
oz	Troy ounces
Pb	lead
PE	Professional Engineer
PG	Professional Geologist
PGR	Risk Management Program
PPE	Personal Protective Equipment
ppm	parts per million
psig	pounds per square inch gauge
PPRA	Occupational Risk Prevention Program
QA/QC	quality-assurance/quality-control
RC	Reverse Circulation Drill Holes
Rec	recovery
ROI	return on investment (percentage, after tax)
RPM	RungePincockMinarco
S	sulfur
$	Australian dollars
SA	Sulphuric acid
SAP	Sulphuric acid plant
SD	Standard deviation
SO2	Sulphur Dioxide
SSCC	Semi Soft Coking Coal
t	Metric tonne
tpd	Metric tonnes per day
TG	Turbine Generator
TSF	Tailings Storage Facility
WAN	Wide Area Network (computer communication system)
Wi	Work index (grinding characteristic of rock)
WWTP	waste water treatment plant
XRF	X-ray fluorescence
Zn	zinc

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Appendix C – JORC Code Disclosure Requirements

Section 1 Sampling Techniques and Data

Criteria	JORC Code explanation	Commentary
Sampling techniques	• *Nature and quality of sampling (e.g. cut channels, random chips, or specific specialised industry standard measurement tools appropriate to the minerals under investigation, such as downhole gamma sondes, or handheld XRF instruments, etc.). These examples should not be taken as limiting the broad meaning of sampling.* • *Include reference to measures taken to ensure sample representivity and the appropriate calibration of any measurement tools or systems used.* • *Aspects of the determination of mineralisation that are Material to the Public Report.* • *In cases where 'industry standard' work has been done this would be relatively simple (e.g. 'reverse circulation drilling was used to obtain 1 m samples from which 3 kg was pulverised to produce a 30 g charge for fire assay'). In other cases more explanation may be required, such as where there is coarse gold that has inherent sampling problems. Unusual commodities or mineralisation types (e.g. submarine nodules) may warrant disclosure of detailed information.*	A combination of open hole and cored holes for coal quality (CQ), geotechnical and gas sampling have been used.MTW • A total of 2,628 drill holes (274,585m) support the Resource estimate Cored drilling represents 45% of the total metres and open hole drilling 55%. • The boreholes are up to 725m in length and average 92m. The drill holes were all nominally recorded as vertical. Boreholes deviated by more than 5% were to be re-drilled by contractor.Coring has predominantly been done using a HQ3-sized (63mm) and open hole drilling to an equivalent hole diameter size. • In addition a number of large diameter (LD) holes have been drilled: seven holes at 150mm (6") and 49 holes at 200mm (8") diameter sizes for evaluation of detailed coal processing and preparation options. HVO • A total of 9,557 drill holes (585,019m) support the Resource estimate. Cored drilling represents 34% of the total metres and open hole drilling 66%. • The drill holes are up to 616m in length and average 67m. The drill holes were all nominally recorded as vertical. Boreholes which deviated by more than 5% from vertical of the total drill holes length the drill hole were redrilled. • In addition a limited number of large diameter (LD) holes have been drilled: 103 holes at 100mm (4") and six holes at 200mm (8") diameter sizes. • Each drill rig is managed and supervised by a qualified geologist who is normally a Contract geologist, who works according to a set of RTCA site guidelines for data acquisition. • RTCA mine site geologists manage all of the site based exploration. • Governance and overview is provided by RTCA Principal geologists.
Drilling techniques	• *Drill type (e.g. core, reverse circulation, open-hole hammer, rotary air blast, auger, Bangka, sonic, etc.) and details (e.g. core diameter, triple or standard tube, depth of diamond tails, face-sampling bit or other type, whether core is oriented and if so, by what method,*	• Industry standard drilling techniques are used. • All drilling has been completed using vertical holes. No core orientation has been performed.

Criteria	JORC Code explanation	Commentary
	etc.).	
Drill sample recovery	• *Method of recording and assessing core and chip sample recoveries and results assessed.* • *Measures taken to maximise sample recovery and ensure representative nature of the samples.* • *Whether a relationship exists between sample recovery and grade and whether sample bias may have occurred due to preferential loss/gain of fine/coarse material.*	• Core recovery is recorded by the rig geologist while logging the bore hole. Actual recovered core lengths are measured with a tape measure and any core loss is recorded in geological logs, coal quality sample intervals and in the run by run drilling record field sheets. • If core recovery for a coal ply is less than 95%, then that section of the hole is redrilled to ensure a representative sample is taken. • As received and air dried sample masses are typically recorded and reported during analysis and provide a check for sample recovery where core diameter, sample intervals and density is known. This also provides a useful check where sample mix ups are suspected. • Open hole chip recovery is assessed qualitatively by the rig geologist.
Logging	• *Whether core and chip samples have been geologically and geotechnically logged to a level of detail to support appropriate Mineral Resource estimation, mining studies and metallurgical studies.* • *Whether logging is qualitative or quantitative in nature. Core (or costean, channel, etc.) photography.* • *The total length and percentage of the relevant intersections logged.*	• Standardised Rio Tinto Coal Australia logging systems are utilised for all drilling logging and sampling. • Core is geologically and geotechnically logged and open hole chip samples are taken every 1m and logged for lithology changes. • All holes have been lithologically logged, with cored coal sections brightness logged. The logging of the chip and core samples is detailed and includes a record of the recovery of the total length and the cored length, rock type, stratigraphic unit and numerous adjectives to describe the sample in terms of colour, grainsize, bedding etc. all of which is sufficient to describe the various lithologies and coal samples to support the coal resource estimation from a geological, geotechnical and coal quality consideration. • All bore core is photographed on both the core table (0.5m increment) and in a core tray on a nominal 5m tray basis. • Chip samples are photographed as laid out in 1m intervals. • All holes are logged using a comprehensive suite of downhole geophysics tools (calliper,gamma, density, neutron, and sonic), with the addition of acoustic scanner that is used for geotechnical assessment in cored holes
Sub-sampling techniques and sample preparation	• *If core, whether cut or sawn and whether quarter, half or all core taken.* • *If non-core, whether riffled, tube sampled, rotary split, etc. and whether sampled wet or dry.* • *For all sample types, the nature, quality*	• Core sampling is completed at the drill site and is based on a set of standard criteria (determined by lithology and structure). Samples are bagged and tagged at the drill site and then transported to an external accredited laboratory for analysis as a complete hole

Criteria	JORC Code explanation	Commentary
	and appropriateness of the sample preparation technique. • *Quality control procedures adopted for all sub-sampling stages to maximise representivity of samples.* • *Measures taken to ensure that the sampling is representative of the in situ material collected, including for instance results for field duplicate/second-half sampling.* • *Whether sample sizes are appropriate to the grain size of the material being sampled.*	batch. • Prior to May 2013 all RTCA samples were analysed by Australian Laboratory Services Steel River, Newcastle laboratory. Since that time coal testing has been performed by Bureau Veritas. • Full core samples only were despatched to the labs for analysis. There is no in field splitting or halving of core. Only these full core sample analyses were used to create the coal quality models. Laboratory sample preparation and subsampling has been performed by the NATA approved laboratories which completed the testing in accordance with the various Australian and or International Standards. • All samples are weighed, air-dried and then re-weighed before being crushed to an 11.2mm top size. A rotary splitter is used to divide the sample into portions available for further coal quality analysis. • Coal quality analysis follows a three stage method involving raw analysis on all plies followed by washability and product testing on composite samples that are defined by the geologist. • All instructions issues to the laboratory follow a standard format that forms the basis of reporting the results of laboratory testing. • All sample treatment and analysis is conducted according to procedures which adhere to Australian (or International equivalent) standards in a National Association of Testing Authorities certified laboratory.
Quality of assay data and laboratory tests	• *The nature, quality and appropriateness of the assaying and laboratory procedures used and whether the technique is considered partial or total.* • *For geophysical tools, spectrometers, handheld XRF instruments, etc., the parameters used in determining the analysis including instrument make and model, reading times, calibrations factors applied and their derivation, etc.* • *Nature of quality control procedures adopted (e.g. standards, blanks, duplicates, external laboratory checks) and whether acceptable levels of accuracy (i.e. lack of bias) and precision have been established.*	• Non-formalised quality assurance/quality control (QAQC) involving duplicate samples is completed by RTCA. • RTCA checks laboratory round robin and basic reproducibility tests provided by the coal testing laboratory. • All laboratory test results are assessed by RTCA geologists by a number of techniques for precision and accuracy that include: • Ensuring that all test work has been completed according to the issued testing instructions, • Sum of proximate and ultimate analysis equals 100%, • Sum of ash analysis is in the range 98 to 102% • Crossplots of energy and ash, density and ash, energy and volatile matter, and basic statistics to identify outliers. • Responsibility for quality control and quality assurance for these analyses primarily lay with the NATA approved laboratories which

Criteria	JORC Code explanation	Commentary
		completed the testing to the various Australian Standards. Tested samples had sufficient reserve sample to allow for checks of the analytical testing to be completed if RTCA determined from their QC procedures that the results were anomalous or inconsistent. • Data checks and check analyses were requested by RTCA where outliers were identified in the reported analytical test results.
Verification of sampling and assaying	• *The verification of significant intersections by either independent or alternative company personnel.* • *The use of twinned holes.* • *Documentation of primary data, data entry procedures, data verification, data storage (physical and electronic) protocols.* • *Discuss any adjustment to assay data.*	• All CQ sampling and analysis is managed and checked by RTCA personnel. • Data transfer from site is covered by RTCA protocols. This system documents primary assaying data, data entry procedures, data verification, and data storage (physical and electronic) into the ABB GDB relational geological database. • Coal quality data loaded to the GDB database is not altered, with the exception of converting data to a different basis, such as converting air dried relative density data to an insitu basis using the Preston Sanders equation. The original as reported laboratory data is still retained in the database, and the data calculated data is contained in an additional calculated column. • All data is contained in the GDB database, even that data which may be incorrect. The incorrect data is identified and excluded from resource model development by use of borehole template or data flags.
Location of data points	• *Accuracy and quality of surveys used to locate drill holes (collar and down-hole surveys), trenches, mine workings and other locations used in Mineral Resource estimation.* • *Specification of the grid system used.* • *Quality and adequacy of topographic control.*	MTW • The topographic surface is derived from a combination of2m and 5m contour data digitised from topographic maps and 10m digitised data from the Bulga 1st edition topographic map covering the mined areas. Drill hole collars and mine survey data were also used. The digital terrain model was created with a 20m × 20m cell size triangulation at 0.2m decimation. • All surveyed coordinates are within Map Grid of Australia 1994 MGA Zone 56. • Drill hole collars were surveyed post drilling by licensed surveyors using differential global positioning system with an accuracy of ±10mm. • Downhole surveying has been undertaken using downhole verticality and calliper tools since 2007, including attempted resurvey of earlier drill holes. Overall 84% of the diamond drilling metres have been surveyed downhole over the entire drill hole length but only 40% of the total open hole drilling metres have been

Criteria	JORC Code explanation	Commentary
		downhole surveyed. HVO • The topographic surface is derived from a combination of Lands and Property Management Authority 10m contours which originated from the early 1980s, and • recent (September 2008) 2m contours derived from an airborne LiDAR survey. Drill hole collars and mine survey data were also used. The digital terrain model was created with a 50m × 50m cell size triangulation at 0.2m decimation. • All surveyed coordinates are within Map Grid of Australia 1994 MGA (MGA94) Zone 56 projection using datum GDA94. • Drill hole collars were surveyed post drilling by licensed surveyors using differential global positioning system with an accuracy of ±10mm. • Downhole surveying has been undertaken using downhole verticality and calliper tools since 2007, including attempted resurvey of earlier drill holes. Overall 84% of the diamond drilling metres have been surveyed downhole over the entire drill hole length but only 40% of the total open hole drilling metres have been downhole surveyed.
Data spacing and distribution	• *Data spacing for reporting of Exploration Results.* • *Whether the data spacing and distribution is sufficient to establish the degree of geological and grade continuity appropriate for the Mineral Resource and Ore Reserve estimation procedure(s) and classifications applied.* • *Whether sample compositing has been applied.*	MTW • Drill hole spacing for core holes is on an equilateral triangle grid of 250m or less. For open holes spacing is on a 125m or less equilateral triangle grid. HVO • Drill hole spacing for core holes is on an equilateral triangle grid of 500m or less. For open holes spacing is on a 250m or less equilateral triangle grid. • All core samples are composited within defined seam boundaries.
Orientation of data in relation to geological structure	• *Whether the orientation of sampling achieves unbiased sampling of possible structures and the extent to which this is known, considering the deposit type.* • *If the relationship between the drilling orientation and the orientation of key mineralised structures is considered to have introduced a sampling bias, this should be assessed and reported if material.*	• The coal measures show a relatively consistent layering and dip at 3 to 7 degrees. • The orientation of drilling is therefore suitable for flat lying stratified deposits.
Sample security	• *The measures taken to ensure sample security.*	• Core/chip samples were taken at the drill site by the qualified geologists and then

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Criteria	JORC Code explanation	Commentary
		transported daily to the locked MTW or HVO core shed for storage. The MTW core shed stores coal samples in a refrigerated unit. Once each borehole has been completed the samples are transported to the laboratory via a dedicated courier service. • In light of the bulk commodity nature of coal, no higher level security measures are deemed necessary since it is very unlikely to be subject to material impact from sample tampering theft or loss.
Audits or reviews	• *The results of any audits or reviews of sampling techniques and data.*	• MTW has had one audit completed in the past five years. The audit was conducted in March 2010 by the Xstract Group (report: Resources and Reserves Internal Audit Report Executive Summary Mt Thorley Warkworth).The review concluded that the fundamental data collection techniques are appropriate.

Section 2 Reporting of Exploration Results

Criteria	JORC Code explanation	Commentary
Mineral tenement and land tenure status	• *Type, reference name/number, location and ownership including agreements or material issues with third parties such as joint ventures, partnerships, overriding royalties, native title interests, historical sites, wilderness or national park and environmental settings.* • *The security of the tenure held at the time of reporting along with any known impediments to obtaining a licence to operate in the area.*	MTW • MTW is an amalgamation of two previously independent mines – Mt Thorley Operations and Warkworth Mining Limited. Each mine was developed at approximately the same time and combined by Coal & Allied Limited (CNA) in 2004. • MTW is operated by CNA on behalf of the joint venture (JV) participants. There are two JV partnerships – one for each of the formerly separate operations. Participants in the JVs are outlined below. • Mount Thorley Operations (MTO) Mount Thorley Operations Pty Ltd (a subsidiary of CNA) (share: 80%) Posco Australia Pty Ltd (share: 20%). • Warkworth Mining Limited (WML): CNA Resources (a subsidiary of CNA) (share: 28.750%) CNA Warkworth Australasia Pty Ltd (a subsidiary of CNA) (share: 26.824%) Mitsubishi Development Pty Ltd (share: 28.898%) Mitsubishi Materials (Australia) Pty Ltd (share: 6.000%) Nippon Steel (Australia) Pty Ltd (share: 9.528%). • MTW contains numerous leases and licences including: one consolidated coal lease covering 4192ha

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Criteria	JORC Code explanation	Commentary
		one coal lease covering 1992ha one exploration licence covering 1988ha three mining leases covering 29ha two mining lease applications covering 1370ha HVO • Tenements are 100% owned by Coal and Allied Industries Limited, which is in turn a • 100% owned subsidiary of Rio Tinto Coal Australia. • HVO contains numerous leases and licences (see Figure 1, note that this is schematic • only): 2 × authorisations covering 533ha 3 × consolidated coal leases covering 1782.5ha 5 × coal leases covering 247ha 1 × coal mining lease covering 2162ha 6 × exploration leases covering 5849ha 14 × mining leases covering 6924.47ha 5 × mining lease applications covering 251.96ha 1 × assessment lease application covering 430ha • All leases containing Resources are in good standing.
Exploration done by other parties	• *Acknowledgment and appraisal of exploration by other parties.*	MTW • 1949–1950: Newly formed Joint Coal Board commence drilling shallow percussion boreholes (McMenamins and JCB Warkworth series). • 1960s: Clutha Bargo explored the Whybrow Seam for coking coal potential. • Early 1970s: Armco conducted diamond drilling in the Bulga area. • 1970-1975: Department of Mines conducts fully cored hole drilling program (DM Warkworth and DM Doyles Creek series). • 1976: Warkworth Consortium is formed (later established as WML) and awarded mining bid for Warkworth area. Commenced exploration program with 12 rigs drilling fully cored, HQ-size holes and large diameter (LD) core drilling in selected seams. • 1976: Drilling program started at Mt Thorley site – similar to Warkworth drilling program. Main concentration of drilling was in the shallower, eastern parts of the lease. • 1980s and 1990s: Main focus at Warkworth was open-hole drilling. Mt Thorley increased open holing with production, and a concerted effort at core drilling during the 1990s. • 2002–2005: Little drilling was undertaken. • 2006–2014: Pre-production and further

Criteria	JORC Code explanation	Commentary
		exploration drilling was undertaken. Focus was on: improving borehole data density, testing in situ gas content, provide data for underground Resources, testing the geology of Abbey Green, and extending pre-production drilling 3yrs ahead of mining (MTO and WML). • Drilling data acquired on both sites (Warkworth and MTO) has been combined into a single geological database. HVO • HVO is an amalgamation of several previously independent mines: Howick, Hunter Valley, and Lemington. Each mine was developed at different times resulting in variable exploration summarised as follows: Howick open-cut (west pit) – exploration initiated in the 1940s and 1950s undertaken by the Joint Coal Board and the Bureau of Mineral Resources. Drilling to 200m–300m spacing for cored holes and 50m–150m spacing for open holes. Hunter Valley No.1 & 2 mines – exploration initiated in the 1960s and early 1970s by the New South Wales (NSW) Department of Mines. Drilling to 212m spacing for cored holes and 100m spacing for open holes. Lemington South open-cut and underground mines – exploration initiated in the 1970s by the Joint Coal Board. Drilling to 200m– 800m spacing for cored holes.
Geology	• *Deposit type, geological setting and style of mineralisation.*	• MTW and HVO are located in the Permian age Hunter Coalfield in the northern part of the Sydney Basin. MTW exploits the coal seams contained within the Jerrys Plains Subgroup, (Whybrow to Bayswater seams). The main rock types of this subgroup include sandstone, siltstone and conglomerate, which occur with subordinate coal and tuffaceous claystone.
Drill hole Information	• *A summary of all information material to the understanding of the exploration results including a tabulation of the following information for all Material drill holes:* ○ *easting and northing of the drill hole collar* ○ *elevation or RL (Reduced Level – elevation above sea level in metres) of the drill hole collar*	• All borehole data is stored within the ABB GDB database for both the Warkworth and MTO leases. A summary of borehole numbers completed by year since 2004 since consolidation of the Warkworth and MTO data is shown below:

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<tr><th>Criteria</th><th>JORC Code explanation</th><th>Commentary</th></tr>
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<li style="list-style:none">
dip and azimuth of the hole
down hole length and interception depth
hole length.

If the exclusion of this information is justified on the basis that the information is not Material and this exclusion does not detract from the understanding of the report, the Competent Person should clearly explain why this is the case.

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<table>
<tr><th></th><th>2004</th><th>2005</th><th>2006</th><th>2007</th><th>2008</th><th>2009</th><th>2010</th><th>2011</th><th>2012</th><th>2013</th><th>2014</th><th>2015</th></tr>
<tr><td>Open holes</td><td>35</td><td>11</td><td>71</td><td>75</td><td>23</td><td>62</td><td>103</td><td>39</td><td>45</td><td>6</td><td>28</td><td>5</td></tr>
<tr><td>Cored holes</td><td>7</td><td>1</td><td>6</td><td>19</td><td>18</td><td>17</td><td>24</td><td>47</td><td>44</td><td>31</td><td>13</td><td>3</td></tr>
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Drilling data summary since consolidation of the Lemington, Howick, and Hunter Valley mines into one operation (as HVO):

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<tr><th></th><th>Area/year</th><th>2002</th><th>2003</th><th>2004</th><th>2005</th><th>2006</th><th>2007</th><th>2008</th><th>2009</th><th>2010</th><th>2011</th><th>2012</th><th>2013</th><th>2014</th><th>2016</th></tr>
<tr><td>Open Holes</td><td>Carrington</td><td>43</td><td>20</td><td>31</td><td></td><td></td><td></td><td></td><td></td><td></td><td>11</td><td>102</td><td></td><td></td><td></td></tr>
<tr><td></td><td>Cheshunt</td><td>23</td><td>7</td><td>2</td><td>6</td><td>16</td><td>43</td><td></td><td>3</td><td>19</td><td>51</td><td></td><td>2</td><td>15</td><td></td></tr>
<tr><td></td><td>West</td><td>37</td><td></td><td></td><td>25</td><td></td><td>9</td><td>134</td><td>38</td><td></td><td></td><td>6</td><td>5</td><td>4</td><td></td></tr>
<tr><td></td><td>Mitchell</td><td>13</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>43</td><td></td><td></td><td></td></tr>
<tr><td></td><td>Riverview</td><td>84</td><td></td><td></td><td>8</td><td></td><td>29</td><td></td><td>26</td><td>14</td><td>47</td><td></td><td>24</td><td>33</td><td></td></tr>
<tr><td></td><td>Southern</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>12</td><td>25</td><td></td><td></td><td></td></tr>
<tr><td>Cored Holes</td><td>Carrington</td><td></td><td>1</td><td>7</td><td></td><td></td><td></td><td>17</td><td>4</td><td></td><td>5</td><td>40</td><td></td><td></td><td></td></tr>
<tr><td></td><td>Cheshunt</td><td>10</td><td>1</td><td></td><td>5</td><td>5</td><td>8</td><td></td><td>4</td><td>8</td><td>8</td><td>4</td><td></td><td>2</td><td></td></tr>
<tr><td></td><td>West</td><td>4</td><td>7</td><td></td><td>8</td><td></td><td>3</td><td>7</td><td>4</td><td>4</td><td>3</td><td>9</td><td></td><td>2</td><td></td></tr>
<tr><td></td><td>Mitchell</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>5</td><td>1</td><td></td><td></td><td></td></tr>
<tr><td></td><td>Riverview</td><td></td><td></td><td></td><td>1</td><td>1</td><td></td><td></td><td>1</td><td>15</td><td>8</td><td>2</td><td></td><td></td><td></td></tr>
<tr><td></td><td>Auckland</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>18</td><td></td><td></td><td>6</td></tr>
<tr><td></td><td>Southern</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>15</td><td></td><td></td><td></td><td></td></tr>
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<tr>
<td>Data aggregation methods</td>
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In reporting Exploration Results, weighting averaging techniques, maximum and/or minimum grade truncations (e.g. cutting of high grades) and cut-off grades are usually Material and should be stated.
Where aggregate intercepts incorporate short lengths of high grade results and longer lengths of low grade results, the procedure used for such aggregation should be stated and some typical examples of such aggregations should be shown in detail.
The assumptions used for any reporting of metal equivalent values should be clearly stated.

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Ply samples are combined to create composites (for washability and Product Coal analyses) that represent the mineable seam working sections.
Individual samples have been weighted by thickness and density (mass weighting). Laboratory determined air dried ARD has been used for the density weighting. Where no ARD data is available and ash data is available then an air dried ash to ARD regression has been used to assign individual sample ARDs prior to weighting.
There are no metal equivalents used to report the coal resources. This is not a standard reporting practice for coal resources.

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<td>Relationship between mineralisation widths and intercept lengths</td>
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These relationships are particularly important in the reporting of Exploration Results.
If the geometry of the mineralisation with respect to the drill hole angle is known, its nature should be reported.
If it is not known and only the down hole lengths are reported, there should be a clear statement to this effect (e.g. 'down hole length, true width not known').

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The strata at MTW in general dip shallowly to the west at 4 to 6 degrees. Boreholes are drilled vertically.
The strata at HVO in general dip shallowly into the centrally located Bayswater syncline, and plunge to the south.
Based on drilling techniques and seam dip, the coal seam intercepts therefore approximate the true coal thickness.

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<td>Diagrams</td>
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Appropriate maps and sections (with scales) and tabulations of intercepts should be included for any significant discovery being reported These should include, but not be limited to a

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Please refer to various sections of the attached report

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Criteria	JORC Code explanation	Commentary
	plan view of drill hole collar locations and appropriate sectional views.	
Balanced reporting	• Accuracy and quality of surveys used to locate drill holes (collar and down-hole surveys), trenches, mine workings and other locations used in Mineral Resource estimation.	• Not applicable. Rio Tinto Coal Australia has not specifically released exploration results for the MTW coal Resource.
Other substantive exploration data	• Where comprehensive reporting of all Exploration Results is not practicable, representative reporting of both low and high grades and/or widths should be practiced to avoid misleading reporting of Exploration Results.	• In addition to drilling, resistivity surveys, ground and airborne magnetic and 2D seismic surveys have been completed to identify faults, dykes, and alluvial limits.
Further work	• Other exploration data, if meaningful and material, should be reported including (but not limited to): geological observations; geophysical survey results; geochemical survey results; bulk samples - size and method of treatment; metallurgical test results; bulk density, groundwater, geotechnical and rock characteristics; potential deleterious or contaminating substances.	• Both pre-production drilling and strategic brownfields drilling is required down dip of the current MTO, WML and HVO highwalls. The drilling includes associated coal quality, geotechnical, gas and environmental testing and environmental monitoring. • Brownfields exploration is required to support the MTW underground concept study which covers the areas of the present open-cut pits and extending to the western extents of the MTW licence areas. • Greenfields exploration at HVO includes investigations in the Auckland and Southern areas. In addition regional scale exploration and evaluation are being made to assess the underground potential of HVO and the adjoining areas (Mount Thorley Warkworth (MTW) directly south of HVO).

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Section 3 Estimation and Reporting of Coal Resources

Criteria	JORC Code explanation	Commentary
Database integrity	• *Measures taken to ensure that data has not been corrupted by, for example, transcription or keying errors, between its initial collection and its use for Mineral Resource estimation purposes.* • *Data validation procedures used.*	• All borehole data is securely stored in a database which is duplicated on multiple servers (MTW, HVO and Singleton) and is backed up daily. • The ABB GDB database contains all hole surveys, drilling details, lithological data, and coal quality results and is the primary source for all such information. There is only one copy of the database and any data additions, changes to or edits of the data are made directly into the database. • Where possible, all original geological field logs (scanned or hard copy), down hole geophysics (LAS) files and hard copy logs, hole collar survey files, digital laboratory data and reports and other similar source data are maintained on the project server or library and referenced within the database to provide an audit trail to this original source data. • Data is validated at the drill site and also prior to loading into the database by the responsible geologist. • There are a number of underlying "business rules" built into the database that help ensure consistency and integrity of data including, but not limited to:- • relational link between geological, down hole geophysical and coal quality data • exclusion of overlapping geological intervals • restriction of data entry to the interval of the defined hole depth • use only of defined rock type and stratigraphic codes • basic coal quality integrity checks such ensuring data is within normal range limits, that proximate analyses add to 100 percent etc. • Other checks are performed either periodically or before export of data include:- • missing or unlogged geological intervals highlighted • stratigraphic picks are out of correct stratigraphic sequence • missing stratigraphic codes • missing, anomalous, non-zero

Criteria	JORC Code explanation	Commentary
		thickness, multiple or inappropriate (e.g. within overlying stratigraphy rather than host stratigraphy) Base of Weathering • The database contains automated validation processes which are activated during data loading and prevent un-validated data from being loaded to the GDB database. • Field geologist seam and stratigraphic picks and correlations were independently checked and rechecked by senior geological staff. After modelling anomalous seam and interburden structure and thicknesses were interrogated and errors iteratively corrected or removed from the database. • It is highly unlikely that there is significant corrupt data in the database, given the validation procedures above. Some errors may still pass through to the geological and coal quality models, considering that coal is a bulk commodity of relative even consistency and the large number of drill holes on which the resource is based, such errors are unlikely to have a material impact on the resource estimate.
Site visits	• *Comment on any site visits undertaken by the Competent Person and the outcome of those visits.* • *If no site visits have been undertaken indicate why this is the case.*	• The Resources Competent Person has visited MTW in January 2015, and both MTW and HVO in February 2017.
Geological interpretation	• *Confidence in (or conversely, the uncertainty of) the geological interpretation of the mineral deposit.* • *Nature of the data used and of any assumptions made.* • *The effect, if any, of alternative interpretations on Mineral Resource estimation.* • *The use of geology in guiding and controlling Mineral Resource estimation.* • *The factors affecting continuity both of grade and geology.*	• Detailed coal ply logging is completed by geological logging of open and fully cored holes supported by geophysical log data. • Coal seam and ply correlation are relatively simple where drill spacing is adequate and are sufficient to establish the variability of interburden thicknesses. • The geology of the MTW Resource is well known because it has been in production since the early 1980s. The coal plies predominantly have a tabular layer-cake disposition, however, interburden thicknesses are characterised by common rapid lateral thickness changes due to channel splays propagating from alluvial fan structures located to the north of the

Criteria	JORC Code explanation	Commentary
		MTW area. The major channel structures appear to have a north – south orientation (parallel to strike), and are sinuous in nature. • The geology of the HVO Resource is well known because it has been in production since 1969 at Howick, 1971 at Lemington and 1979 at Hunter Valley No. 1. The coal plies predominantly have a tabular layer-cake disposition, however, interburden thicknesses are characterised by common rapid lateral thickness changes due to channel splays propagating from alluvial fan structures located to the north of the HVO area. The major channel structures appear to have an east – west orientation (perpendicular to strike), and do not appear to have the sinuosity that is seen at MTW. • Infill drilling and mining exposure and mapping has supported and refined the MTW and HVO models. The current geological interpretations are considered to be robust.
Dimensions	• *The extent and variability of the Mineral Resource expressed as length (along strike or otherwise), plan width, and depth below surface to the upper and lower limits of the Mineral Resource.*	• The MTW resource area trends 8km northwest to southeast and is 8.5km in width. The deposit extends to a depth of 460m below the topographic surface. •
Estimation and modelling techniques	• *The nature and appropriateness of the estimation technique(s) applied and key assumptions, including treatment of extreme grade values, domaining, interpolation parameters and maximum distance of extrapolation from data points. If a computer assisted estimation method was chosen include a description of computer software and parameters used.* • *The availability of check estimates, previous estimates and/or mine production records and whether the Mineral Resource estimate takes appropriate account of such data.* • *The assumptions made regarding recovery of by-products.* • *Estimation of deleterious elements or other non-grade variables of economic significance (e.g. sulphur for acid mine drainage characterisation).* • *In the case of block model interpolation, the block size in relation to the average sample spacing and the search employed.* • *Any assumptions behind modelling of selective*	• MTW • Coal resources were estimated by the Competent Person using ABB Mincom software from a geological model developed by RTCA. The geological model was updated in 2012 and is called MTW_1208_LOM. • Mined limits provided by RTCA to August 2016 were used. • HVO • Coal resources were estimated by the Competent Person using ABB Mincom software from a geological model developed by RTCA. The geological model was updated in 2015 and is called HVO_1508_LOM. • Mined limits provided by RTCA to August 2016 were used.

Criteria	JORC Code explanation	Commentary
	mining units. • *Any assumptions about correlation between variables.* • *Description of how the geological interpretation was used to control the resource estimates.* • *Discussion of basis for using or not using grade cutting or capping.* • *The process of validation, the checking process used, the comparison of model data to drill hole data, and use of reconciliation data if available.*	
Moisture	• *Whether the tonnages are estimated on a dry basis or with natural moisture, and the method of determination of the moisture content.*	• All tonnages are estimated on an in situ moisture basis, following the RTCA practice of estimating insitu moisture as air-dried moisture content plus 4%. This offset was derived by RTCA by comparing the difference between the average total moisture content of shipments of coal that have by-passed the coal plant, and the average air-dried moisture content of that coal.
Cut-off parameters	• *The basis of the adopted cut-off grade(s) or quality parameters applied.*	• Resources polygons are limited to the limit of oxidation, and tenement boundaries. • Mined out surfaces are used as the upper surface. • At MTW the Bayswater seam is the lowest seam for which Resources have been estimated. Tenure at MTO does not extend to the seams stratigraphically lower than the Bayswater. • At HVO the Barrett seam is the lowest seam for which Resources have been estimated. • No cut-off coal quality parameters or thickness limits have been applied to coal plies have been applied for Resource estimation because coal plies are aggregated during the Reserve estimation process. It is during the Reserve estimation process that coal plies are assigned to Resource or waste based on the mining aggregation rules used.
Mining factors or assumptions	• *Assumptions made regarding possible mining methods, minimum mining dimensions and internal (or, if applicable, external) mining dilution. It is always necessary as part of the process of determining reasonable prospects for eventual economic extraction to consider potential mining methods, but the assumptions made regarding mining methods and*	•

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Criteria	JORC Code explanation	Commentary
	parameters when estimating Mineral Resources may not always be rigorous. Where this is the case, this should be reported with an explanation of the basis of the mining assumptions made.	
Metallurgical factors or assumptions	• *The basis for assumptions or predictions regarding metallurgical amenability. It is always necessary as part of the process of determining reasonable prospects for eventual economic extraction to consider potential metallurgical methods, but the assumptions regarding metallurgical treatment processes and parameters made when reporting Mineral Resources may not always be rigorous. Where this is the case, this should be reported with an explanation of the basis of the metallurgical assumptions made.*	• MTW has two coal handling and preparation plants (CPP): North CPP and South CPP. Both plants are operational, with North CPP is a single product washing and South CPP is capable of two-product washing. • HVO • The processes used are standard for the coal industry and so are well tested technologies. All samples are wash/cut-point tested and so the representativeness of test work undertaken is implicit in the resource classification status. • In-seam dilution is included in sample testing. • Coal Reserve estimation is based on existing product specifications. • Nominally coal is washed to produce a semi-soft coking coal product at 9% air-dried ash or to three types of thermal products (11% air-dried ash, 13% air-dried ash and 18% airdried ash). For all products, product moisture is at 9%. Air-dried is quoted at a 2.5% moisture basis.
Environmental factors or assumptions	• *Assumptions made regarding possible waste and process residue disposal options. It is always necessary as part of the process of determining reasonable prospects for eventual economic extraction to consider the potential environmental impacts of the mining and processing operation. While at this stage the determination of potential environmental impacts, particularly for a greenfields project, may not always be well advanced, the status of early consideration of these potential environmental impacts should be reported. Where these aspects have not been considered this should be reported with an explanation of the environmental assumptions made.*	• MTW has a number of current mining and exploration titles. • All the various mining leases across MTW are defined by a 21yr consent limit. This consent limit is particular to each mining lease, and as such leases are constantly being renewed. There is a dedicated tenements manager to ensure the application for lease renewal occurs on time. • An appeal of the project approval for Reserves west of Wallaby Scrub Road was upheld (disapproved) by the NSW Land and Environment Court in April 2013. A 350m modification within this area was subsequently secured in January 2014 and Rio Tinto Coal Australia management worked through a process that resulted in further approvals being granted in November 2015. • Coarse rejects are dumped within the mines overburden dumps, while the

Criteria	JORC Code explanation	Commentary
		fines coal washery rejects are stored within dedicated tailings dams. Rejects material and completed tailings dams must be covered by at least 3m of inert waste rock material. • Overburden waste rock has low acid forming potential.
Bulk density	• *Whether assumed or determined. If assumed, the basis for the assumptions. If determined, the method used, whether wet or dry, the frequency of the measurements, the nature, size and representativeness of the samples.* • *The bulk density for bulk material must have been measured by methods that adequately account for void spaces (vugs, porosity, etc.), moisture and differences between rock and alteration zones within the deposit.* • *Discuss assumptions for bulk density estimates used in the evaluation process of the different materials.*	• Certain boreholes samples have only true relative density (RD) analysis; some have both apparent relative density (ARD) and true RD, and most have ARD. Relationships between ARD and RD were determined from the paired sets of ARD and RD analyses. The relationships used to populate the ply by ply data with missing ARDs or RDs are: RD (ad) = 1.0003 x ARD 1.0645, and ARD = 1.0045 x RD 0.9316. • The in situ relative density (i.e. the density of materials at an in situ moisture basis) was calculated using the Preston and Sanders equation: RD2=[RD1*(100-M1)]/[100+RD1*(M2-M1)-M2] • *Where RD1 is true RD (ad), M1 is moisture (ad) and M2 is the in situ moisture. (M1 +4)* • A regression of laboratory ARD measurements against raw Ash was used for the in situ density when density values had not been determined in the laboratory, such as when coal plies were aggregated on a working section basis.
Classification	• *The basis for the classification of the Mineral Resources into varying confidence categories.* • *Whether appropriate account has been taken of all relevant factors (i.e. relative confidence in tonnage/grade estimations, reliability of input data, confidence in continuity of geology and metal values, quality, quantity and distribution of the data).* • *Whether the result appropriately reflects the Competent Person's view of the deposit.*	• The classification of the Mineral Resources into varying confidence categories is based on a standardised process of utilising points of observation (PoO) according to their reliability. The PoOs are used to categorise quantity and quality continuity (or both) or support continuity. • A Quantity PoO has the following attributes; Open hole Seam interval geophysically logged Reliable collar survey

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Criteria	JORC Code explanation	Commentary
		• A Quality PoO has the following attributes; Cored hole in which 100% of the seam interval has been cored Linear core recovery greater than 95% Reliable collar survey Raw coal ash (can be used as a proxy for Relative density) • Support Data for PoOs In pit mapping data for faults and dykes Seam floor or roof survey data • The radii of influence for PoOs were determined by consideration of the following for each coal ply; I. Variability of seam thickness, II. Variability of interburden thickness, III. Seam splitting and coalescing patterns; are they sedimentary or due to seam correlation inconsistency between stages of exploration. IV. Structural variability, V. Variability of coal quality, VI. Understanding of relationship between raw coal quality and washed Product Coal quality, VII. Relationship between overburden thickness variation and coal quality variability, and VIII. Examining aerial distribution of data points, histograms and statistics of the ash content of seam groups. IX. Review of as mined seam roof or floor survey data in conjunction with modelled roof and floor contours, and borehole intersections to assess reliability of input data and model output to assess; i. the variability of the geology between boreholes and ii. the reliability of borehole data • There are many coal plies at MTW and HVO, and in general seam groups (equivalent to the seam names) were used as the Resource entities. Where variability of plies within a seam group

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Criteria	JORC Code explanation	Commentary
		were identified and a single Resource entity for the seam group was not justified multiple Resource entities were categorised. The MTW Resource contains 15 seam groups, but Resources have been categorised for 28 seam entities. • Previous Resource classifications of the MTW Resource have been based on the 15 primary seam groups, and at HVO the 17 primary seam groups. Detailed review of each of the MTW and HVO plies has shown that in general the lower plies of some seam groups have greater variability, or have less extensive or consistent lateral development than the upper plies of the seam group. As a consequence some seam groups have multiple coal plies categorised. • Radii of influence were plotted around PoOs to produce maps of quantity and quality. • Areas of low, medium, and high confidence are produced from these plots for structure (quantity) and coal quality for each Resource entity. The quantity and quality areas of confidence are intersected to produce areas of Measured, Indicated and Inferred to categorise the Resource tonnage estimates. • In summary quantity radii range 100-250m for high confidence, 200-500m for medium and 400-1,000m for low; and, for quality 200-400m radii for high, 400-1,000m for medium and 800-1,200m for low confidence respectively. The ranges reflect the variability within and between the fifteen seam groups modelled at MTW. • The Competent Person is satisfied that the stated Mineral Resource classification reflects the geological controls interpreted and the estimation constraints of the deposits.
Audits or reviews	• *The results of any audits or reviews of Mineral Resource estimates.*	• MTW has had one external audit which was conducted in March 2010 by the Xstract Group as part of RTCA's internal compliance requirements. • The outcome of this audit was an overall satisfactory rating with a number of recommendations made and acted upon by Rio Tinto Coal Australia.

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<table>
<tr><th>Criteria</th><th>JORC Code explanation</th><th>Commentary</th></tr>
<tr><td></td><td></td><td>In September 2011 an audit into the modelling and Resource estimation process at HVO was completed (report: Rio Tinto Corporate Assurance Resources and Reserves Internal Audit Report. Hunter Valley Operations. 2.1).
The outcome of this audit was overall a satisfactory rating with a number of recommendations made and acted upon by Rio Tinto Coal Australia.</td></tr>
<tr><td>Discussion of relative accuracy/ confidence</td><td>Where appropriate a statement of the relative accuracy and confidence level in the Mineral Resource estimate using an approach or procedure deemed appropriate by the Competent Person. For example, the application of statistical or geostatistical procedures to quantify the relative accuracy of the resource within stated confidence limits, or, if such an approach is not deemed appropriate, a qualitative discussion of the factors that could affect the relative accuracy and confidence of the estimate.
The statement should specify whether it relates to global or local estimates, and, if local, state the relevant tonnages, which should be relevant to technical and economic evaluation. Documentation should include assumptions made and the procedures used.
These statements of relative accuracy and confidence of the estimate should be compared with production data, where available.</td><td>Reconciliation at MTW is performed on an annual rather than a spatial basis. The following is noted from the MTW 2015 Annual Reconciliation:
<table>
<tr><th></th><th colspan="2">Unprocessed Coal</th><th></th><th></th></tr>
<tr><td></td><td colspan="2">ROM</td><td>Yield (%)</td><td>Was</td></tr>
<tr><td></td><td>Mass(t)</td><td>Ash(%)</td><td></td><td>M m</td></tr>
<tr><td>AOP</td><td>17,485</td><td>38.3</td><td>54.5</td><td>94,9</td></tr>
<tr><td>To Plant</td><td>16,576</td><td>24.3</td><td>66.9</td><td>99,3</td></tr>
<tr><td>Plant/AOP</td><td>95%</td><td>63%</td><td>123%</td><td>105</td></tr>
</table>
The Annual Operating Plan (AOP) underestimates:
Waste volume
Yield
Strip ratio
Product coal tonnes
The Annual Operating Plan (AOP) overestimates:
ROM tonnes
ROM ash
In summary, the insitu structural and coal quality models, and the assumptions used to convert from insitu to ROM models show material difference between estimated and actual performance.
Assessment of variability has not been performed geostatistically. However, reconciliation between estimated and actual model performance, and variability of seam and interburden thickness, seam structure and raw and product ash between adjacent boreholes was assessed for development of the PoO spacing used for the Resource categorisation and estimation.
Reconciliation at HVO is performed on an annual rather than a spatial basis. The following is noted from the MTW 2015 Annual Reconciliation:</td></tr>
</table>

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<table>
<tr><th>Criteria</th><th>JORC Code explanation</th><th>Commentary</th></tr>
<tr><td></td><td></td><td>
<table>
<tr><td></td><td colspan="2">Unprocessed Coal</td><td colspan="3"></td><td>Prod</td></tr>
<tr><td></td><td colspan="2">ROM</td><td>Yield (%)</td><td>Waste</td><td>Strip Ratio</td><td>Co</td></tr>
<tr><td></td><td>Mass(t)</td><td>Ash(%)</td><td></td><td>M m^3</td><td>bcm/t</td><td>Mas</td></tr>
<tr><td>AOP</td><td>18,849</td><td>37.5</td><td>66.5</td><td>101,808</td><td>5.4</td><td>12,5</td></tr>
<tr><td>To Plant</td><td>16,709</td><td>26.8</td><td>77.3</td><td>101,072</td><td>6.05</td><td>12,9</td></tr>
<tr><td>Plant/AOP</td><td>89%</td><td>71%</td><td>116%</td><td>99%</td><td>112%</td><td>103</td></tr>
</table>
The results of the HVO annual reconciliation are similar to the findings of the MTW reconciliation, and the same comments made for MTW can apply to HVO.</td></tr>
<tr><td></td><td>•</td><td>• Resource estimates in this stratiform conformable deposit are directly dependent on 3 factors, the size (aerial extent) of the coal seam resource polygons, the coal seam thickness and the coal density. The coal seam resource polygons are limited by the modelled coal seam subcrops, mapped and interpreted faults and by the borehole distribution. The resource polygons are not significantly extrapolated past the "last" drill hole which is considered to be a conservative approach.</td></tr>
</table>

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Section 4 Estimation and Reporting of Coal Reserves

(Criteria listed in section 1, and where relevant in sections 2 and 3, also apply to this section.)

Criteria	JORC Code explanation	Commentary
Mineral Resource estimate for conversion to Ore Reserves	▪ Description of the Mineral Resource estimate used as a basis for the conversion to an Ore Reserve. ▪ Clear statement as to whether the Mineral Resources are reported additional to, or inclusive of, the Ore Reserves.	▪ The Mineral Resource estimate used as the basis for this Coal Reserves Statement is described as part of this statement. The Resource estimate has been prepared by Mr. Peter Ellis. The Competent Person, Mr. Ellis, has sufficient expertise that is relevant to the style of mineralisation and type of deposit and activity to qualify as a Competent Person as specified under the JORC Code and is a member of the Australian Institute of Mining and Metallurgy . ▪ The Resources Statement was compiled in accordance with The JORC Code 2012 Edition. ▪ The Coal Resources reported are inclusive of the Coal Reserves. RPM note that this is a different approach to Resource reporting compared to that undertaken by RTCA.
Site visits	▪ Comment on any site visits undertaken by the Competent Person and the outcome of those visits. ▪ If no site visits have been undertaken indicate why this is the case.	▪ A site visit to the MTW and HVO Mines was undertaken by the a representative of RPM in January 2017. The Reserves Competent Person was unable to attend but interviewed the representative following the visit. The outcome of this visit was observation of the Project area to better understand location, environmental, social, groundwater and existing infrastructure consideration. The site visit also included a tour of the CPP's and train loading facilities at both sites.
Study status	▪ The type and level of study undertaken to enable Mineral Resources to be converted to Ore Reserves. ▪ The Code requires that a study to at least Pre-Feasibility Study level has been undertaken to convert Mineral Resources to Ore Reserves. Such studies will have been carried out and will have determined a mine plan that is technically achievable and economically viable, and that material Modifying Factors have been considered.	▪ MTW is an operating mine. The Reserves are located within an extension of existing active mining pits. ▪ HVO is an operating mine consisting of a number of operating pits and planned future pits for expansion. ▪ Reserves are based on the results of a life of mine plan prepared by YAL at MTW and YAL/RPM at HVO. Both LOM plans have been reviewed by RPM. The Modifying Factors are based on YAL's experience in operating similar mines and are considered reasonable by RPM. As such, the level of confidence in the data and assumptions exceed those of a Prefeasibility Study.
Cut-off parameters	▪ The basis of the cut-off grade(s) or quality parameters applied.	▪ A 55% (ad) ROM ash cut off has been applied to the MTW model. ▪ At HVO a 55% (ad) ROM ash cut off is applied in the West, Wilton, Mitchell, Carrington West and Riverview pits. The cut off was not applied at Cheshunt, Southern, Auckland and Auckland South

Criteria	JORC Code explanation	Commentary
		Pits. RPM has reviewed and the impact is not material.
Mining factors or assumptions	▪ The method and assumptions used as reported in the Pre-Feasibility or Feasibility Study to convert the Mineral Resource to an Ore Reserve (i.e. either by application of appropriate factors by optimisation or by preliminary or detailed design). ▪ The choice, nature and appropriateness of the selected mining method(s) and other mining parameters including associated design issues such as pre-strip, access, etc. ▪ The assumptions made regarding geotechnical parameters (e.g. pit slopes, stope sizes, etc.), grade control and pre-production drilling. ▪ The major assumptions made and Mineral Resource model used for pit and stope optimisation (if appropriate). ▪ The mining dilution factors used. ▪ The mining recovery factors used. ▪ Any minimum mining widths used. ▪ The manner in which Inferred Mineral Resources are utilised in mining studies and the sensitivity of the outcome to their inclusion. ▪ The infrastructure requirements of the selected mining methods.	▪ A combination of Margin Ranking, Break Even Strip Ratio Analysis, pit design and LOM planning have been used as the basis of converting Coal Resources to Coal Reserves. ▪ The mining method at both Assets utilises draglines and truck and shovel for waste removal. Coal is mined by FEL / Excavator and hauled to ROM locations by rear dump trucks. This method is proven at the mine and considered appropriate for future planning based upon geology and strip ratio. Draglines will be phased out of operation when there are no longer suitable working areas. ▪ Pit designs use criteria based on operational knowledge as well as input and advice from external geotechnical consultants. All pit designs are based on those previously prepared by RTCA for the 2015 Reserves Statement. ▪ RTCA completed a pit optimisation in 2015. YAL then undertook a Marking Rank process in XPAC to confirm the economic limits of a number of pits at Assets. The results of the margin rank indicate that the pits reviewed are economic and that there is potentially economic coal below the JORC designed pit floors. RPM completed a break even strip ratio analysis as a basis for confirming the pit limits at HVO (Carrington Pits, Riverview East and Wilton/Mitchel/West pit extensions). ▪ The mining factors used were: – Minimum coal working section mining thickness of 0.4 m; – Minimum parting mining thickness of 0.3 m; – Overall average coal losses of 10% – Dilution of 4% – Dilution ash assumed to be 80%, and – Insitu moisture standardised to 6.5%. ROM moisture is assumed to be 6.5%. ▪ Inferred coal has been excluded from the LOM Plan. ▪ All necessary infrastructure is in place and operational at both MTW and HVO.
Metallurgical factors or assumptions	▪ The metallurgical process proposed and the appropriateness of that process to the style of mineralisation. ▪ Whether the metallurgical	▪ HVO has three Coal Handling and Preparation Plants (CPP); Hunter Valley CPP, West Pit CPP and the Newdell CPP. Newdell is only used for coal handling purposes. The metallurgical process is appropriate for the mine. ▪ MTW has two Coal Handling and Preparation Plants

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Criteria	JORC Code explanation	Commentary
	process is well-tested technology or novel in nature. ▪ The nature, amount and representativeness of metallurgical test work undertaken, the nature of the metallurgical domaining applied and the corresponding metallurgical recovery factors applied. ▪ Any assumptions or allowances made for deleterious elements. ▪ The existence of any bulk sample or pilot scale test work and the degree to which such samples are considered representative of the ore body as a whole. ▪ For minerals that are defined by a specification, has the ore reserve estimation been based on the appropriate mineralogy to meet the specifications?	(CPP); North CPP and South CPP. The South CPP has two product washing. The metallurgical process is appropriate for the MTW mine. ▪ Discrepancies identified between historical yield performance data and mine plan estimates at HVO, with the actual yield higher than predicted. HVO do not record the ROM feed Ash % making analysis of the actual yield results difficult. ▪ YAL commissioned a coal quality expert to review production data and determine an estimate of current yield at Assets. Sufficient historical data available to produce a regression relationship between ROM Ash % and the product yield using MTW data. As the HVO pits are mining from the same coal measures it is reasonable to apply the MTW yield regression to the HVO model. ▪ Product logic based on the following: – Total product tonnes estimated from ROM tonnes and yield derived from the Ash / Yield regression) – Semi Soft Coking Coal tonnes estimated from ROM tonnes and the F1.6 yield data in the model – Total thermal product tonnes is the difference between the Total Product Tonnes and the SSCC tonnes – Thermal products further split into Low Ash, Mid Ash and High Ash products based on the annual LOM splits in the RTCA LOM Plan (Bidder Model). ▪ No bypass products assumed in the LOM plan though some minor quantities actually produced on site. ▪ No allowance has been made for deleterious elements. ▪ Last dot point is not applicable for coal
Environmental	▪ The status of studies of potential environmental impacts of the mining and processing operation. Details of waste rock characterisation and the consideration of potential sites, status of design options considered and, where applicable, the status of approvals for process residue storage and waste dumps should be reported.	▪ Environmental approval required for the Cheshunt Deep pit within the next 5 years. YAL advised that this is sufficient time to achieve this approval. All other primary approvals are in place for HVO for the short to medium term. ▪ Environmental Approval is required for the Southern and Auckland Pits at HVO. ▪ Approval required at MTW for two Mining Lease Applications (MLA's). MLA 352 and MLA 353 have been lodged, it is expected that MLA 352 will not be granted until Wallaby Scrub Road is closed. YAL expect that these MLA's will be granted within 2-3

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Criteria	JORC Code explanation	Commentary
		years. ▪ Coarse Rejects are placed within the mine overburden emplacements. Washery fines material is stored within specific tailings dams. When tailings dams are full they are dried and require 3m of inert capping material. ▪ Overburden material has low acid forming potential (RTCA, 2015 Reserves)
Infrastructure	▪ The existence of appropriate infrastructure: availability of land for plant development, power, water, transportation (particularly for bulk commodities), labour, accommodation; or the ease with which the infrastructure can be provided, or accessed.	▪ All necessary infrastructure is in place and operational for the current operations at Assets.
Costs	▪ The derivation of, or assumptions made, regarding projected capital costs in the study. ▪ The methodology used to estimate operating costs. ▪ Allowances made for the content of deleterious elements. ▪ The source of exchange rates used in the study. ▪ Derivation of transportation charges. ▪ The basis for forecasting or source of treatment and refining charges, penalties for failure to meet specification, etc. ▪ The allowances made for royalties payable, both Government and private.	▪ All major infrastructure is in place at both MTW and HVO. Additional sustaining capital allowances have been included within the first five years to upgrade the existing facilitates at the sites. ▪ All operating costs were based on a first principles build up based on a recent LOM process. ▪ Current long-term exchange rate assumptions were provided by YAL. ▪ Transport charges based on actual contracted prices taking into account existing Take or Pay arrangements in the near term. ▪ Product Coal Benchmark specifications were based on historical averages from both sites. ▪ RPM reviewed all costs and they are considered reasonable.
Revenue factors	▪ The derivation of, or assumptions made regarding revenue factors including head grade, metal or commodity price(s) exchange rates, transportation and treatment charges, penalties, net smelter returns, etc. ▪ The derivation of assumptions made of metal or commodity	▪ Coal pricing based on a forward curve for various product types. The following long term benchmark Product Coal pricing assumptions were used in the XERAS model: ▪ SSCC – US \$88/t ▪ Thermal (at 6,322 kcal/kg GAR) – US \$72/t ▪ Adjustments made for thermal coal based on historical energy content for the three products; Low Ash Thermal, Mid Ash Thermal and High Ash

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Criteria	JORC Code explanation	Commentary
	price(s), for the principal metals, minerals and co-products.	Thermal.
Market assessment	▪ The demand, supply and stock situation for the particular commodity, consumption trends and factors likely to affect supply and demand into the future. ▪ A customer and competitor analysis along with the identification of likely market windows for the product. ▪ Price and volume forecasts and the basis for these forecasts. ▪ For industrial minerals the customer specification, testing and acceptance requirements prior to a supply contract.	▪ A detailed Market Study has not been reviewed however markets are well established for the mine's coal products. The projects typically produce up to four main products: - Three Thermal at approx. 12-15.5% ash (ad); and - SSCC at approx. 8-9% ash (ad). ▪ Based upon these products and specifications, RPM anticipates no foreseeable issues in demand for these products.
Economic	▪ The inputs to the economic analysis to produce the net present value (NPV) in the study, the source and confidence of these economic inputs including estimated inflation, discount rate, etc. ▪ NPV ranges and sensitivity to variations in the significant assumptions and inputs.	▪ The inputs to the economic analysis are derived capital and operating cost estimates outlined in the "Costs" section of Table 1. The source of the inputs is real and the confidence satisfactory. The economic modelling is in real terms and a range of discount rates have been used in assessing NPV. ▪ The NPV results for both Assets produced from economic modelling generated positive and acceptable NPV's for all discount rates and the Projects are considered economic from an NPV stand-point. ▪ The NPV at 8% discount rate has been assessed for variations of +/- 20% in the key value drivers of revenue, operating costs, exchange rate and capital costs. The Project is most sensitive to changes in exchange rate, revenue and operating costs.
Social	▪ The status of agreements with key stakeholders and matters leading to social licence to operate.	▪ At MTW there are no claims to Native Title and there are no sites of European Heritage. ▪ MTW has received development consents which authorise mining at Mt Thorley and Warkworth to 2036. The company will need to continue to work with the local community to earn its social licence. ▪ At HVO south a parcel of land is excluded from Reserves as it is an Aboriginal Cultural Heritage Restricted Access area. ▪ At HVO there are no areas of European cultural heritage.

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Criteria	JORC Code explanation	Commentary
Other	▪ To the extent relevant, the impact of the following on the project and/or on the estimation and classification of the Ore Reserves: ▪ Any identified material naturally occurring risks. ▪ The status of material legal agreements and marketing arrangements. ▪ The status of governmental agreements and approvals critical to the viability of the project, such as mineral tenement status, and government and statutory approvals. There must be reasonable grounds to expect that all necessary Government approvals will be received within the timeframes anticipated in the Pre-Feasibility or Feasibility study. Highlight and discuss the materiality of any unresolved matter that is dependent on a third party on which extraction of the reserve is contingent.	▪ All mining projects operate in an environment of geological uncertainty. RPM is not aware of any other potential factors, legal, marketing or otherwise, that could affect the operation's viability. ▪ At HVO the LOM plan includes pits that are outside the current approvals limits. The pits are forecast for mining from 2021 which RPM believe is an acceptable amount of time to achieve approval. Updating of approvals is an ongoing process and it is reasonably expected that any modifications to existing agreements or additional agreements that may be required can be obtained in a timely manner.
Classification	▪ The basis for the classification of the Ore Reserves into varying confidence categories. ▪ Whether the result appropriately reflects the Competent Person's view of the deposit. ▪ The proportion of Probable Ore Reserves that have been derived from Measured Mineral Resources (if any).	▪ Classification of Ore Reserves has been derived by considering the Measured and Indicated Resources and the level of mine planning. – At HVO the West, Wilton, Mitchell, Carrington West, Riverview and Cheshunt Pits. Measured Coal Resources are classified as Proved Coal Reserves and Indicated Resources classified as Probable Coal Reserves, as the pits are either operating or the level of mine planning is considered adequate to support this level of certainty in the Reserves estimate. – The Carrington East, Auckland South, Southern and Auckland pits at HVO are classified as Probable for both Measured and Indicated Resources, as the pit is not currently operating, the level of mine planning is regarded as preliminary and approvals are not in place. – At MTW, Measured Coal Resources are classified as Proved Coal Reserves and Indicated Resources classified as Probable Coal Reserves, as the pits are operating and the level of mine planning is considered adequate to support this level of certainty in the Reserves

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Criteria	JORC Code explanation	Commentary
		estimate. ▪ In all pits the Inferred Coal Resources have been excluded from the Reserve estimates. ▪ The result reflects the Competent Persons view of the deposit.
Audits or reviews	▪ The results of any audits or reviews of Ore Reserve estimates.	▪ Internal peer review and reconciliation by RPM of the Reserves estimate has been completed.
Discussion of relative accuracy/ confidence	▪ Where appropriate a statement of the relative accuracy and confidence level in the Ore Reserve estimate using an approach or procedure deemed appropriate by the Competent Person. For example, the application of statistical or geostatistical procedures to quantify the relative accuracy of the reserve within stated confidence limits, or, if such an approach is not deemed appropriate, a qualitative discussion of the factors which could affect the relative accuracy and confidence of the estimate. ▪ The statement should specify whether it relates to global or local estimates, and, if local, state the relevant tonnages, which should be relevant to technical and economic evaluation. Documentation should include assumptions made and the procedures used. ▪ Accuracy and confidence discussions should extend to specific discussions of any applied Modifying Factors that may have a material impact on Ore Reserve viability, or for which there are remaining areas of uncertainty at the current study stage. ▪ It is recognised that this may not be possible or appropriate in all circumstances. These statements of relative accuracy and confidence of the estimate	▪ The pit shell is supported by approximately 80% of Measured Coal Resources. ▪ The basis of the estimate are actual AOP operating costs and first principles mining cost build up. ▪ CPP and infrastructure are in place and operating. ▪ Analysis of the coal quality has been undertaken by independent laboratories working under international standards of method and accuracy. Coal products from both MTW and HVO is produced from blended washed coal products. ▪ The level of accuracy will continue to be dependent on the ongoing update of the geological model and monitoring of the Modifying Factors affecting the coal estimate. ▪ Geotechnical studies have been completed for existing pits. Expansion pits will need geotechnical study prior to development ▪ Internal peer review and reconciliation by RPM of the Reserves estimate has been completed. ▪ Dot point 2 is not applicable for coal

Criteria	JORC Code explanation	Commentary
	should be compared with production data, where available.	

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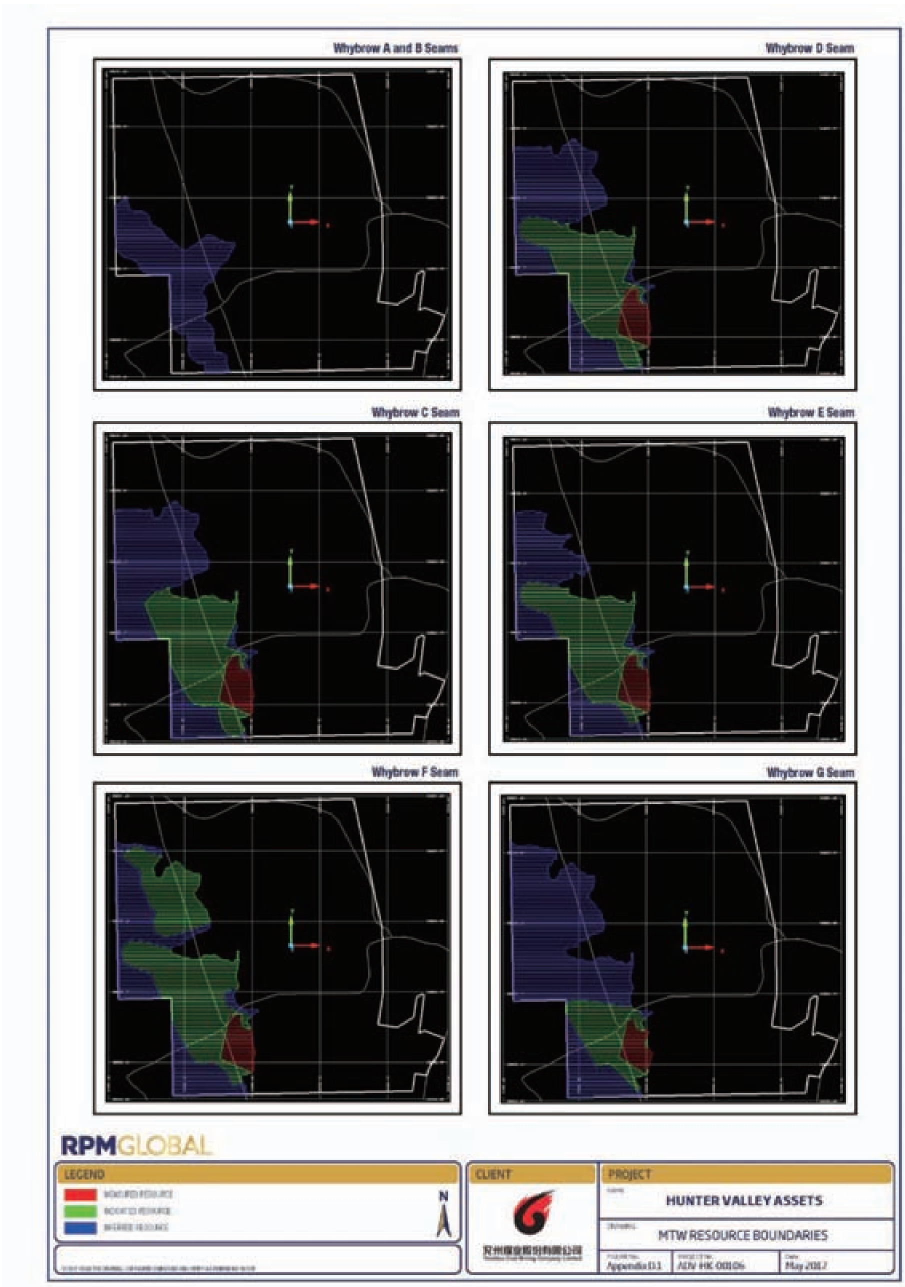
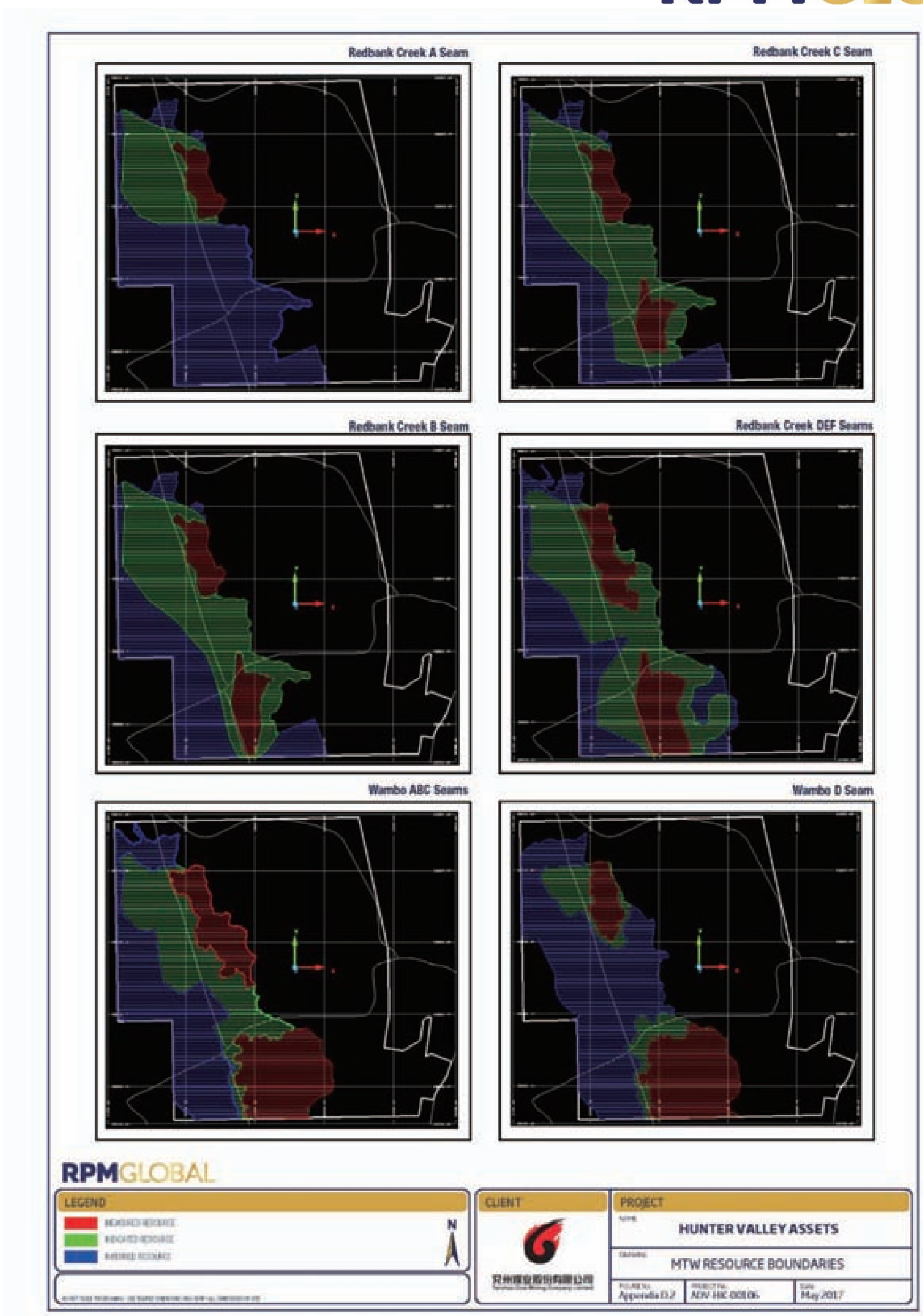
Appendix D – Coal Resource Plots




Redbank Creek A Seam
Redbank Creek C Seam
Redbank Creek B Seam
Redbank Creek DEF Seams
Wambo ABC Seams
Wambo D Seam
RPMGLOBAL
LEGEND
N
CLIENT
PROJECT
HUNTER VALLEY ASSETS
MTW RESOURCE BOUNDARIES
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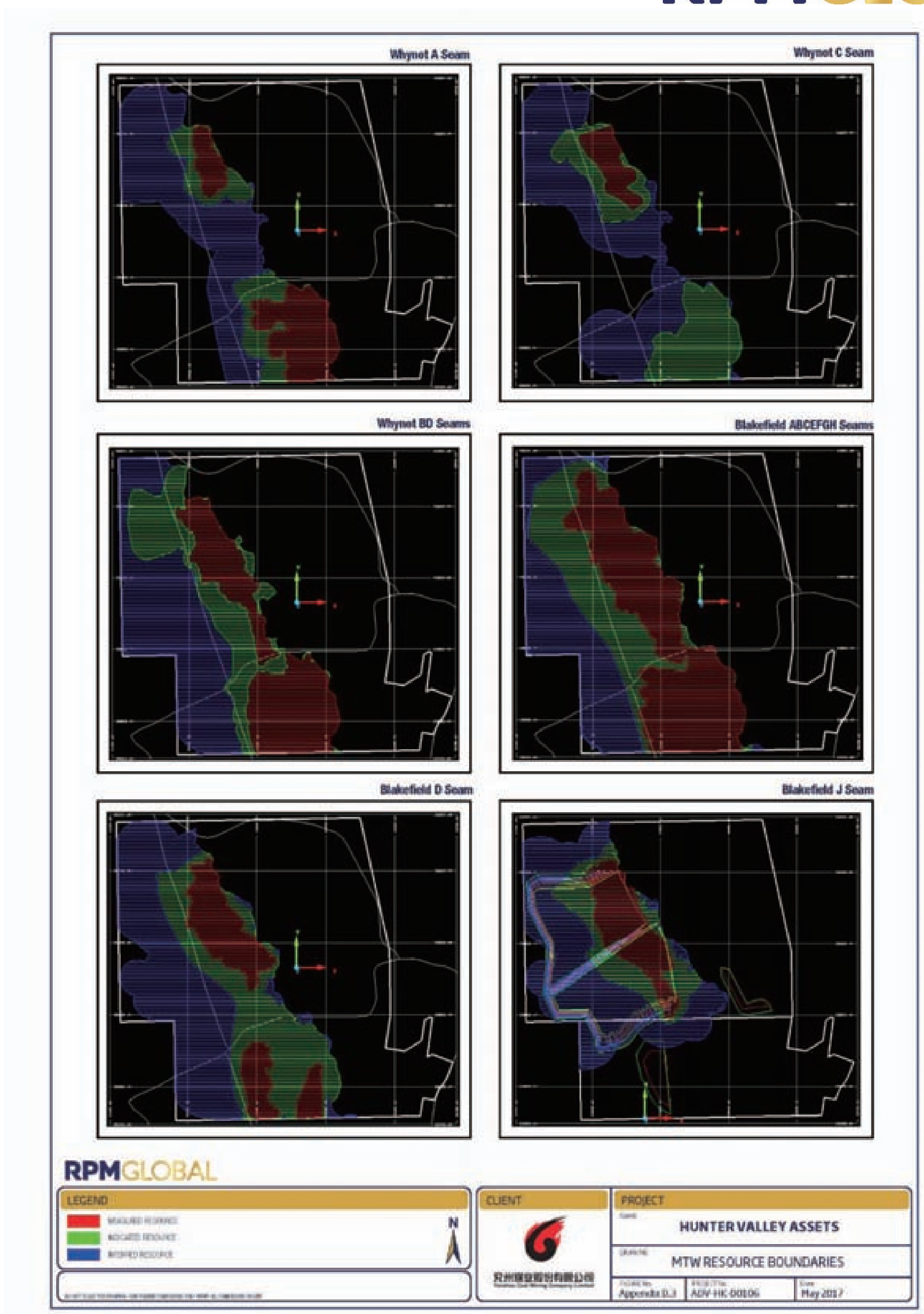
Whynot A Seam
Whynot C Seam
Whynot BD Seams
Blakefield ABCEFGH Seams
Blakefield D Seam
Blakefield J Seam
RPMGLOBAL
LEGEND
N
CLIENT
PROJECT
HUNTER VALLEY ASSETS
MTW RESOURCE BOUNDARIES
Appendix D.3
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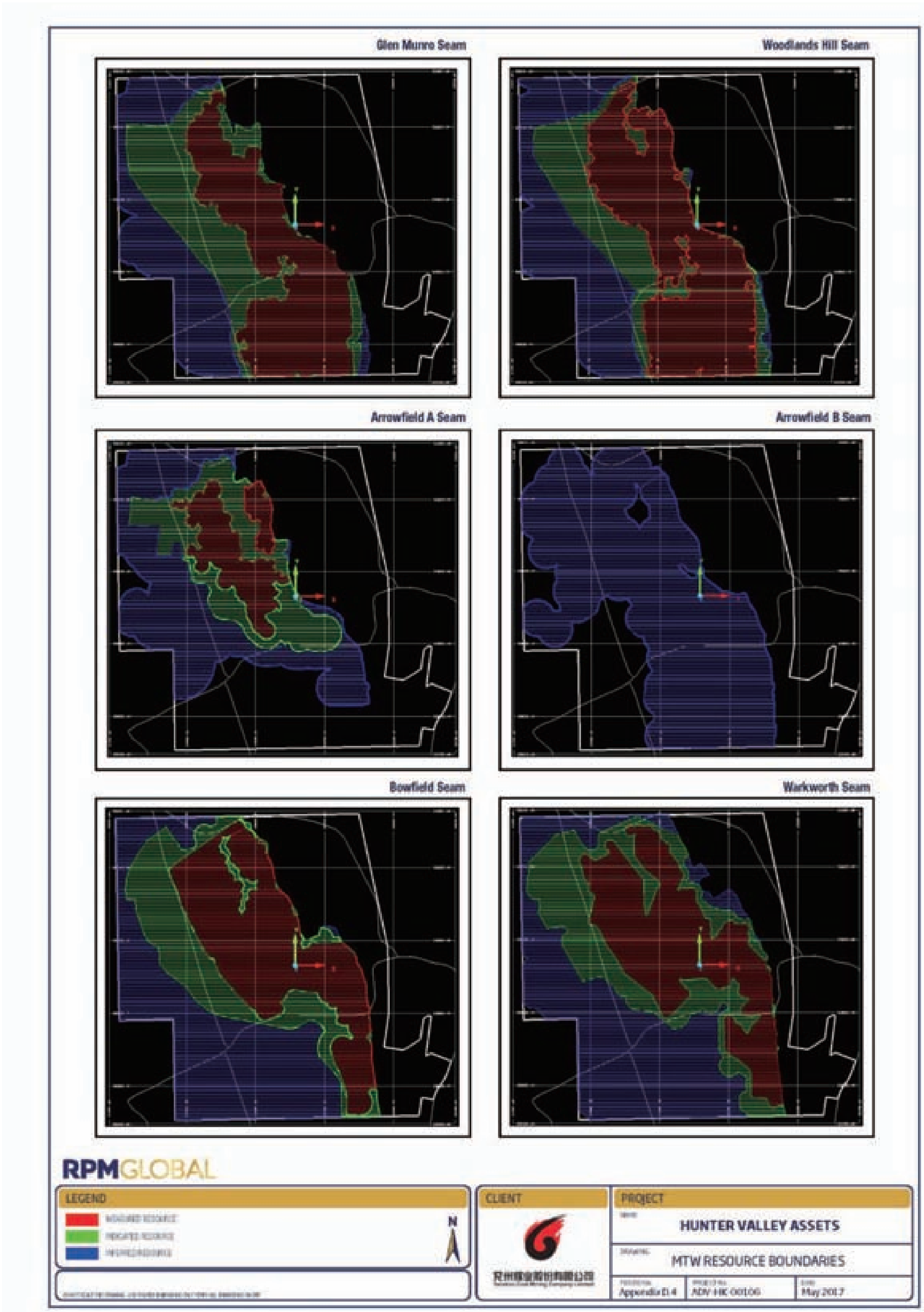
RPMGLOBAL


Glen Munro Seam
Woodlands Hill Seam
Arrowfield A Seam
Arrowfield B Seam
Bowfield Seam
Warkworth Seam
RPMGLOBAL
LEGEND
N
CLIENT
PROJECT
HUNTER VALLEY ASSETS
MTW RESOURCE BOUNDARIES
Appendix D.4
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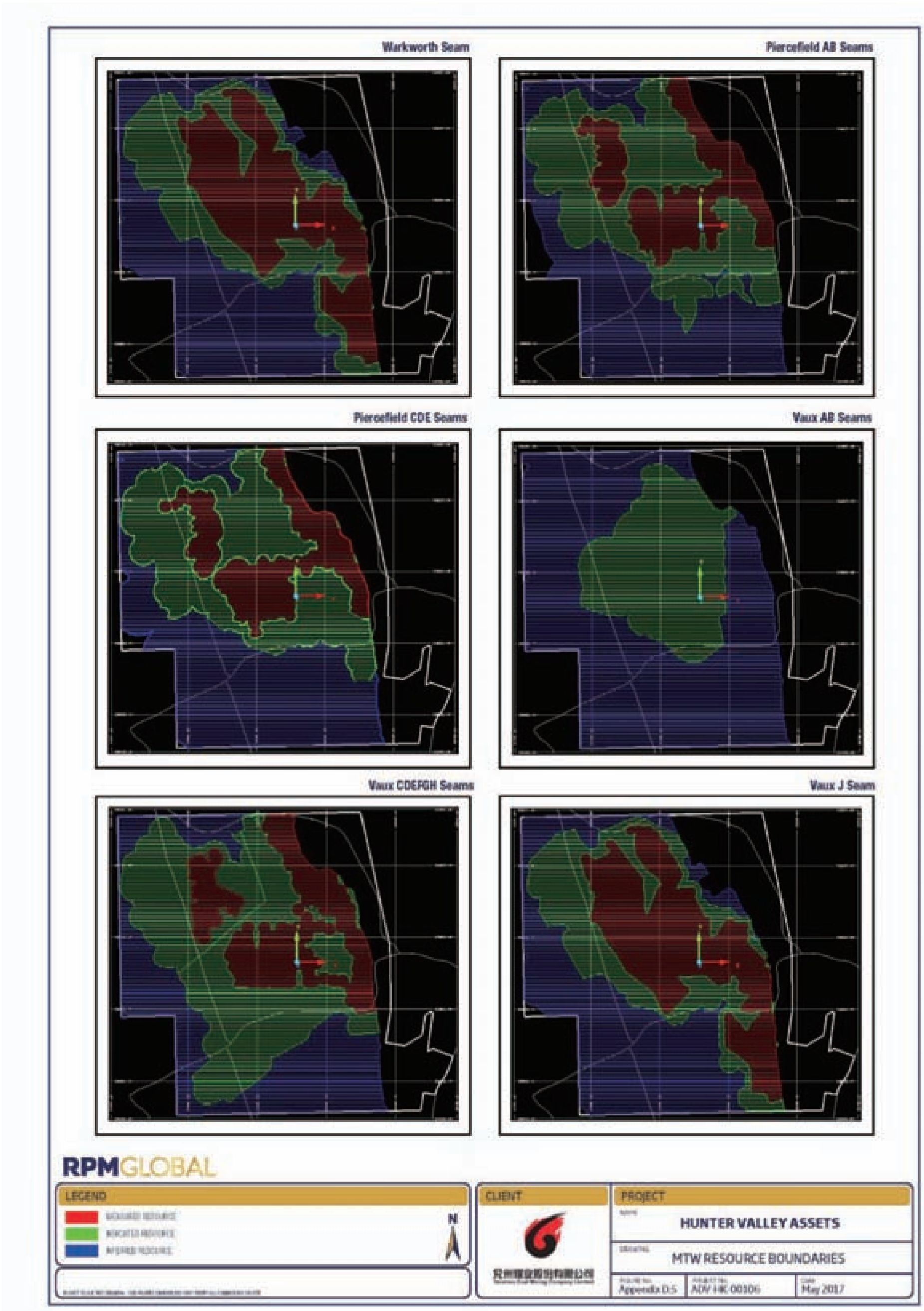
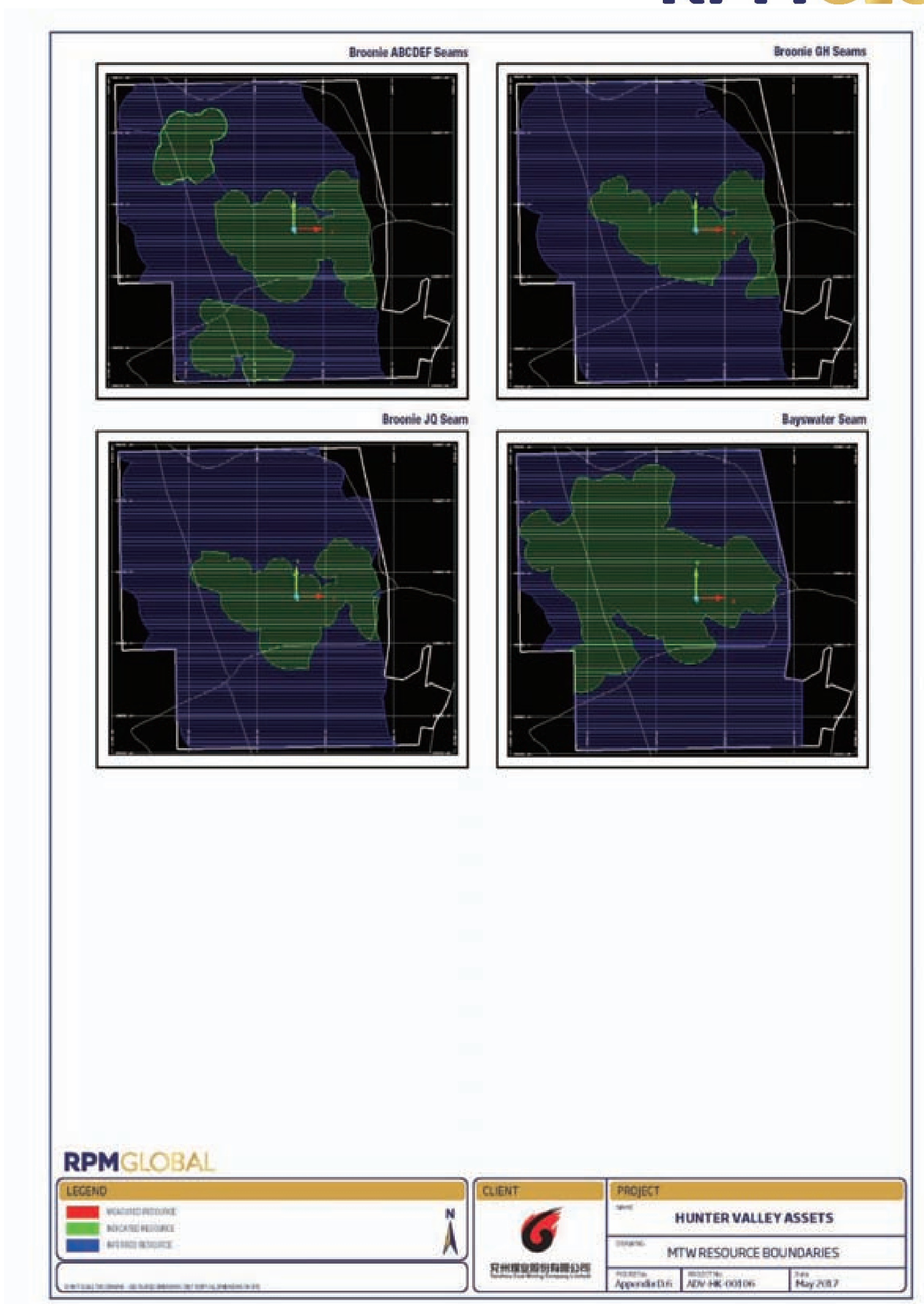
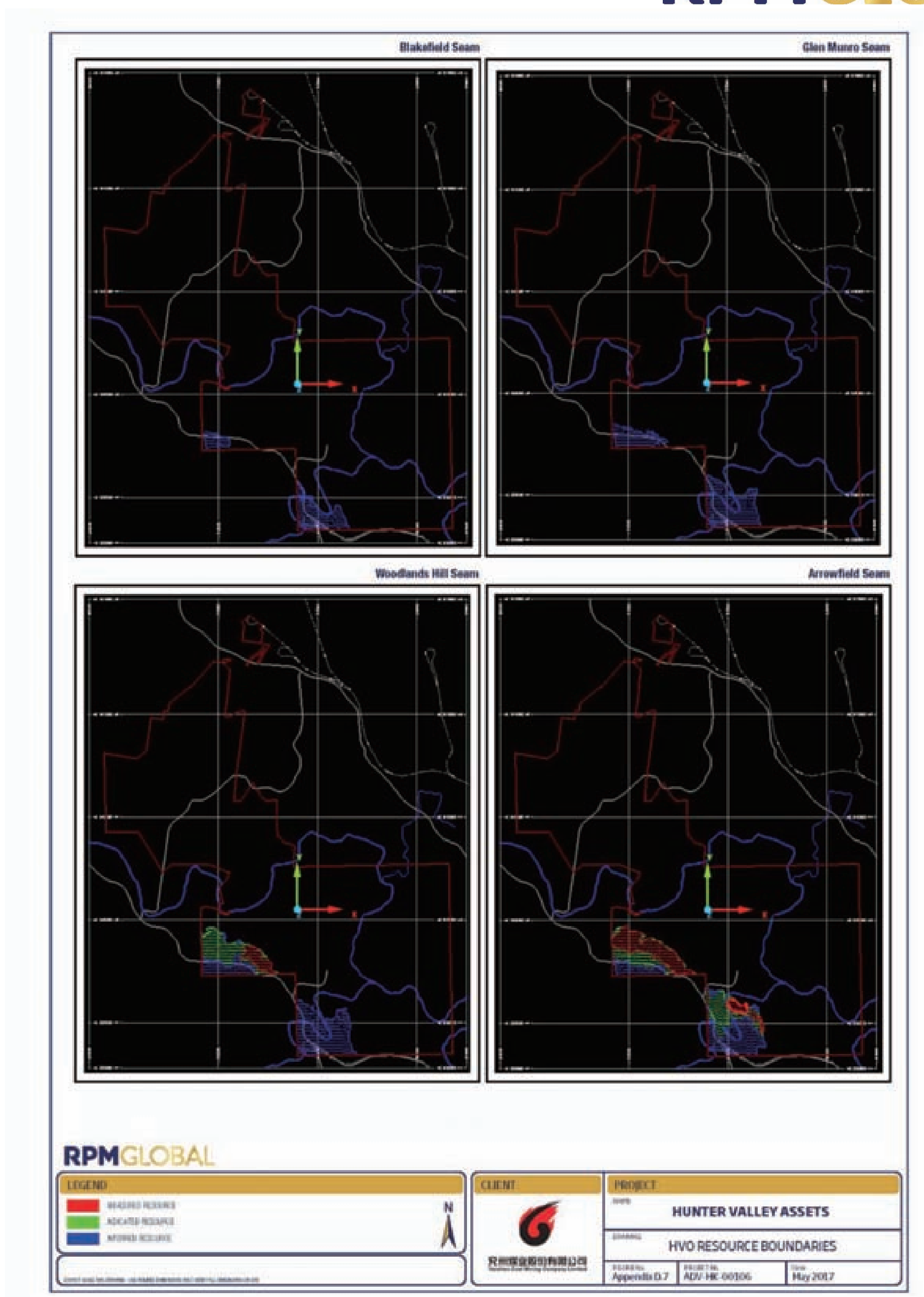

Warkworth Seam
Piercefield AB Seams
Piercefield CDE Seams
Vaux AB Seams
Vaux CDEFGH Seams
Vaux J Seam
RPMGLOBAL
LEGEND
N
CLIENT
PROJECT
HUNTER VALLEY ASSETS
MTW RESOURCE BOUNDARIES
Appendix D.5
ADV-HK-00106
May 2017


Broonie ABCDEF Seams
Broonie GH Seams
Broonie JQ Seam
Bayswater Seam
LEGEND
N
CLIENT
PROJECT
HUNTER VALLEY ASSETS
MTW RESOURCE BOUNDARIES
May 2017

RPMGLOBAL


Blakefield Seam
Glen Munro Seam
Woodlands Hill Seam
Arrowfield Seam
RPMGLOBAL
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HUNTER VALLEY ASSETS
HVO RESOURCE BOUNDARIES
Appendix D.7
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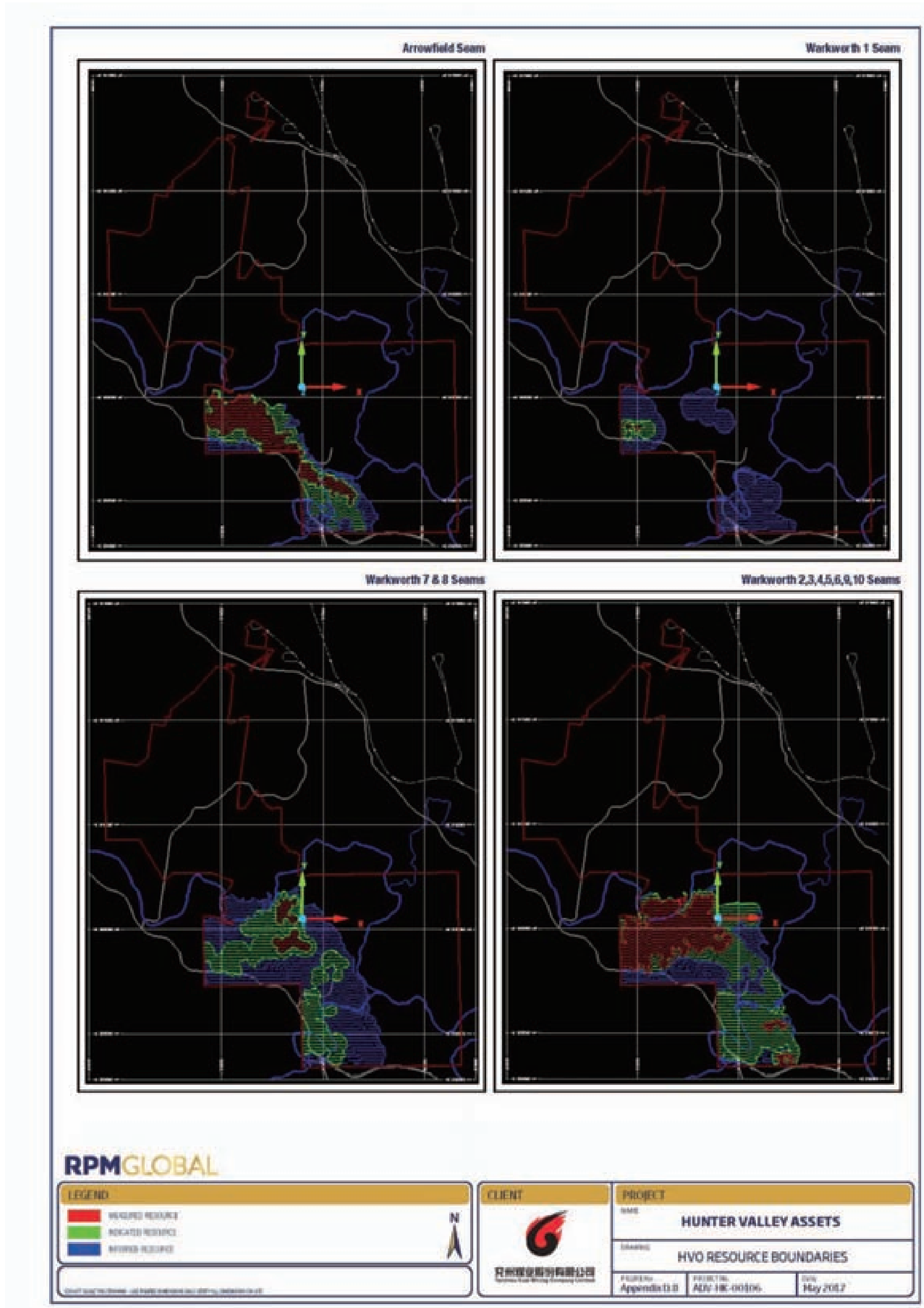
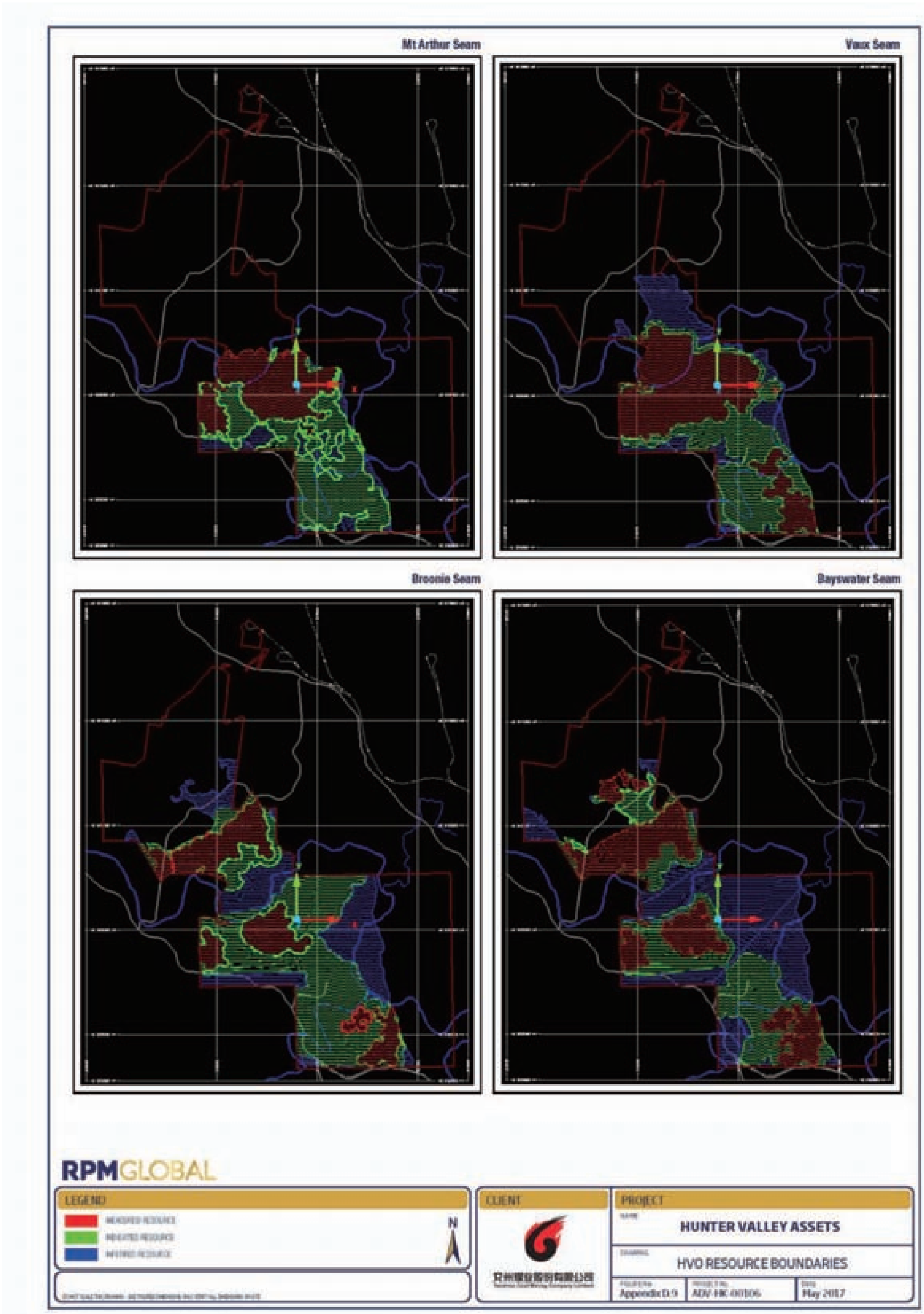

Arrowfield Seam
Warkworth 1 Seam
Warkworth 7 & 8 Seams
Warkworth 2,3,4,5,6,9,10 Seams
LEGEND
N
CLIENT
PROJECT
HUNTER VALLEY ASSETS
HVO RESOURCE BOUNDARIES
May 2017


Mt Arthur Seam
Vaux Seam
Broonie Seam
Bayswater Seam
RPMGLOBAL
LEGEND
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CLIENT
PROJECT
HUNTER VALLEY ASSETS
HVO RESOURCE BOUNDARIES
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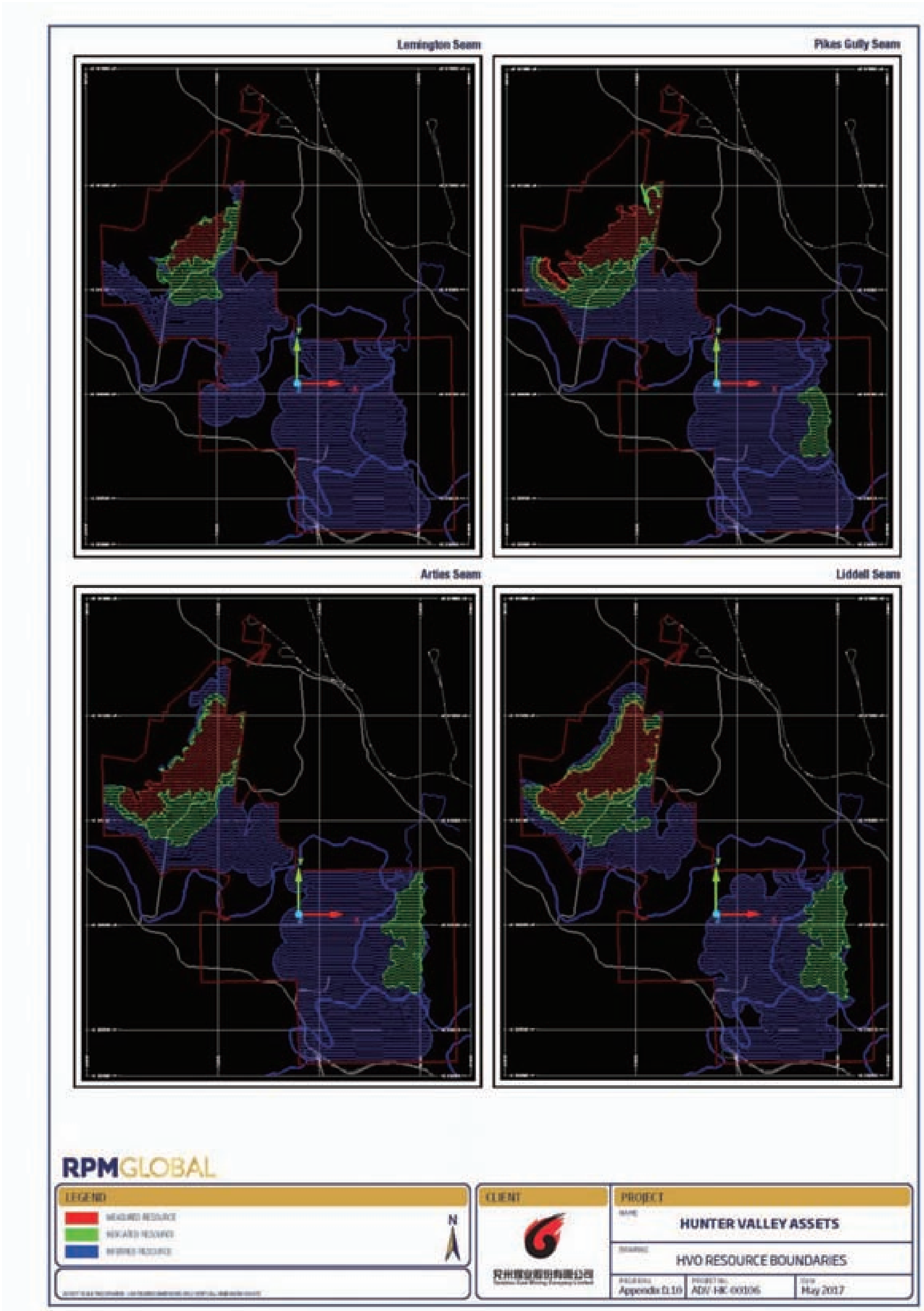
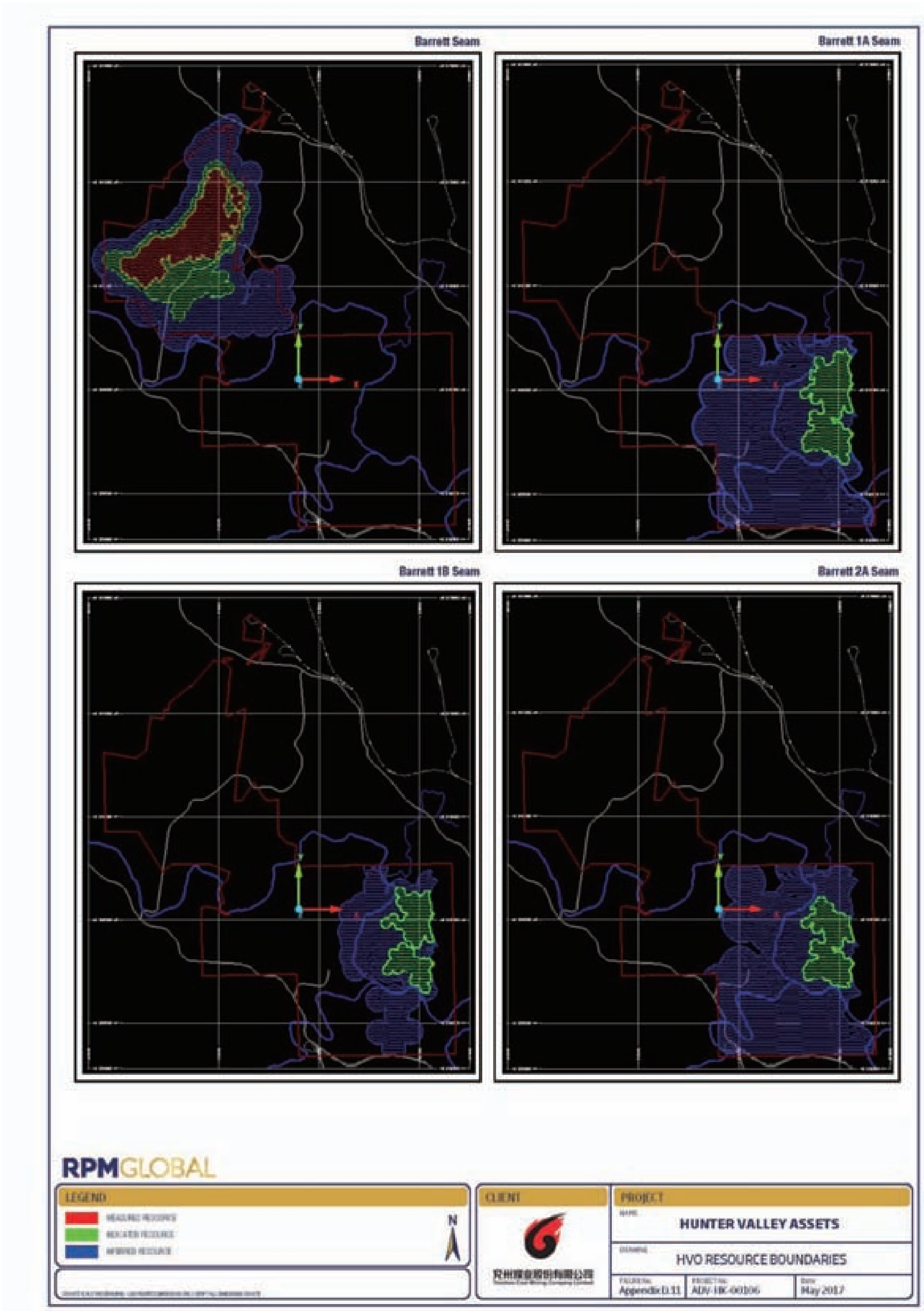

Lemington Seam
Pikes Gully Seam
Arties Seam
Liddell Seam
LEGEND
MEASURED RESOURCE
INDICATED RESOURCE
INFERRED RESOURCE
N
CLIENT
PROJECT
NAME
HUNTER VALLEY ASSETS
DRAWING
HVO RESOURCE BOUNDARIES
Appendix D.16
ADV-HK-00106
May 2017


Barrett Seam
Barrett 1A Seam
Barrett 1B Seam
Barrett 2A Seam
RPMGLOBAL
LEGEND
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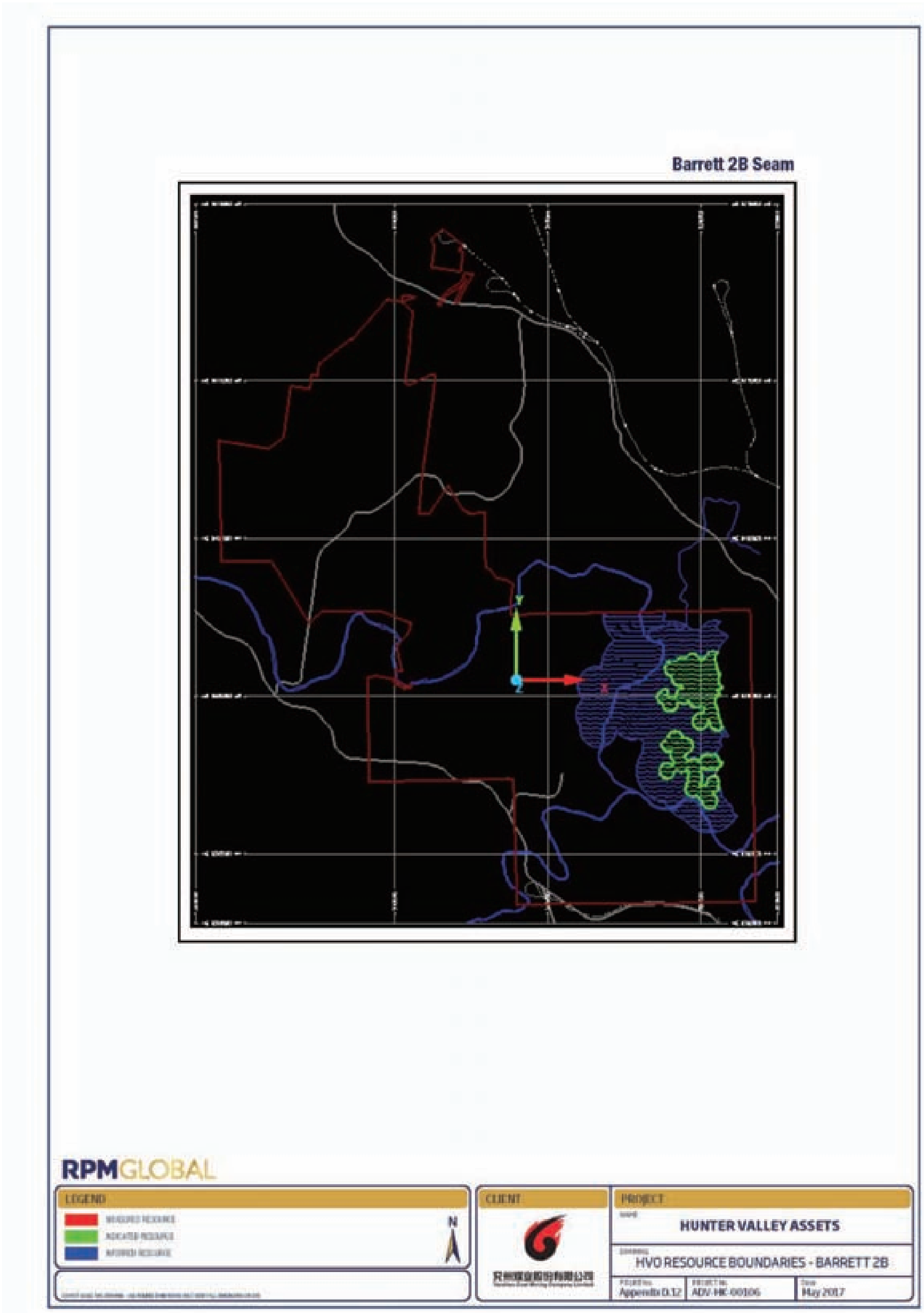
PROJECT
HUNTER VALLEY ASSETS
HVO RESOURCE BOUNDARIES
Appendix D.11
ADV-HK-00106
May 2017

RPMGLOBAL


Barrett 2B Seam
RPMGLOBAL
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PROJECT
HUNTER VALLEY ASSETS
HVO RESOURCE BOUNDARIES - BARRETT 2B
Appendix D.12
ADV-HK-00106
May 2017

END

OF

REPORT

Private and Confidential

Independent Valuation Report

For Runge Asia Limited, trading as RPMGlobal
on behalf of Yanzhou Coal Mining Company Limited
pertaining to the Mineral Assets in
Hunter Valley Operations (HVO) and Mount Thorley Warkworth (MTW)
as at
31st December 2016

Censere Reference Y00006-1-r1

2nd June 2017

Analyse Appraise Assist Advise

Censere (Far East) Limited
3/F, Tower Two, Tern Centre,
251 Queen's Road Central,
Hong Kong

Tel: +852 2511 2011
Fax: +852 2511 2005
Email: hk@censere.com
www.censere.com

Letter of Transmittal

Our reference: Y00006-1-r1

2nd June 2017

The Directors
Runge Asia Limited
13/F, East Point,
68 Yee Wo Street, Causeway Bay,
Hong Kong

Dear Sirs/Madams,

In accordance with our engagement, on behalf of Yanzhou Coal Mining Company Limited ("**Yanzhou Coal**" or the "**Company**"), we have undertaken an analysis to determine the Market Value of the mineral assets ("**Mineral Assets**") under the operations of Hunter Valley Operations ("**HVO**") and Mount Thorley Warkworth ("**MTW**", collectively termed as the "**Operations**"), located in New South Wales, Australia. The Operations are owned by members of Rio Tinto, a leading global mining and metals group which focuses on finding, mining, processing and marketing mineral resources. Yancoal Australia Limited ("**Yancoal**"), a subsidiary of Yanzhou Coal, has entered into a share purchase agreement to acquire 100% of the total issued share capital of Coal and Allied Industries Limited (the "**Target**"), which holds majority interests in the coal mining operations relating to the Operations, conditional upon approvals from shareholders in relation to the acquisition, regulatory approvals from various Government regulatory agencies and other transaction specific conditions.[1]

Yancoal, headquartered in Sydney, Australia, operates a portfolio of mining operations across New South Wales, Queensland and Western Australia. Yancoal is listed on the Australian Stock Exchange and is owned 78% by Yanzhou Coal. Yanzhou Coal is owned 56% by Yankuang Group Company Limited, a state-owned enterprise headquartered in Shandong Province in the People's Republic of China.

As requested by HKEx (as defined herein), Yanzhou Coal is required to prepare a valuation report which is part of the Competent Person's Report ("**CPR**") for any major mineral asset acquisition that must form part of the relevant circular to shareholders. The purpose of our analysis is to determine the

[1] In accordance with the announcement released by Yanzhou Coal Mining Company Limited (1171.HK) on Hong Kong Stock Exchange (HKEx) dated 25th January 2017.

Analyse Appraise Assist Advise

value of the Mineral Assets - in accordance with Chapter 18 of Hong Kong Listing Rules ("**Chapter 18**"). In that regard, we have been engaged as Competent Evaluator and have adopted VALMIN Code (as defined herein) in arriving at our valuation assessment.

Our date of valuation is 31st December 2016 ("**Valuation Date**") and our report which follows is dated 2nd June 2017 ("**Report Date**"). The Effective Date of our report is the same as the Valuation Date.

This valuation has been undertaken on a Market Value basis. For the purposes of this exercise, Market Value is defined as the estimated amount (or the cash equivalent of some other consideration) for which the Mineral Asset (as defined herein) should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after appropriate marketing where the parties had each acted knowledgeably, prudently and without compulsion.

The value of the Mineral Assets is determined in accordance with Chapter 18 of the Hong Kong Stock Exchange Listing Regulations; specifically, Rule 18.30(3) states that:

"Indicated Resources and Measured Resources are only included in economic analyses if the basis on which they are considered economically extractable is explained and they are appropriately discounted for the probabilities of their conversion to mineral Reserves. All assumptions must be clearly disclosed. Valuations for Inferred Resources are not permitted".

Note that the scope of this report is an analysis to determine the Market Value of the Mineral Assets under the Operations in accordance with Chapter 18. In this regard, other assets and liabilities owned by the Target, which fall outside the scope of this report, are not included.

Based on the analysis outlined in the report which follows, we are of the opinion that the Market Value of a 100% interest in the Mineral Assets as at the Valuation Date is within the range of US$ 4.225 billion and US$ 5.028 billion, with the preferred Value at **US$ 4.592 billion**. The Market Value of the Target's ownership interest in the Mineral Assets as at the Valuation Date is within the range of US$ 2.795 billion and US$ 3.329 billion, with the preferred Value at **US$ 3.040 billion**. For reference purposes, the Market Value of a 100% interest in HVO (which would be equivalent to the Target's ownership interest if the HVO Tag-along offer is exercised [2]) plus Target's ownership interest in MTW is within the range of US$ 3.604 billion and US$ 4.312 billion, with the preferred Value at US$ 3.927 billion.

[2] In accordance with the announcement released by Yanzhou Coal Mining Company Limited (1171.HK) on Hong Kong Stock Exchange (HKEx) dated 25th January 2017.

The following pages outline the factors considered, methodologies and assumptions employed in formulating our opinions and conclusions. Any opinions are subject to the assumptions and limiting conditions contained therein.

Yours faithfully
For and on behalf of
Censere (Far East) Limited

Brett Shadbolt
Chief Executive Officer

Censere

1. Valuer's Biography

Censere Group, comprising both Censere and Stratiqa, is a specialist valuation, forensic and advisory group head-quartered in Singapore with twenty-one offices throughout Asia Pacific and the United States. Censere offices are located at Auckland, Bangkok, Beijing, Ho Chi Minh, Hong Kong, Houston, Jakarta, Kuala Lumpur, Maldives, Seoul, Shanghai, Shenzhen, Singapore, Sydney, Taipei, Tokyo and Washington DC while Stratiqa has offices in Hong Kong, New York, San Francisco and Singapore. Censere Group was established in 2002 and offers comprehensive technical asset, intellectual property and business valuation and advisory services to major corporates and leading SME's in the Asia Pacific region. This engagement has been principally undertaken by Brett Shadbolt, Chief Executive Officer of Censere Group.

Brett Shadbolt is the Chief Executive Officer and Founder of Censere Group. He has over 30 years of dedicated valuation and advisory experience and has an MSc in Global Finance jointly conferred by NYU Stern and HKUST. Brett is a Professional Member of Royal Institute of Chartered Surveyors, Registered Business Valuer (HK), Member of the Hong Kong Securities Institute, Energy Risk Professional of GARP and Professional Member of the Australasian Institute of Mining and Metallurgy (AusIMM). Brett has conducted numerous mining rights and mineral assets valuations for companies such as Albidon Limited, Anhui Conch Cement Company Limited, Terratech Group Ltd, Sino Vanadium Inc., Ultro Technologies Ltd, China Molybdenum Co., Limited, Adventus Holdings and King Stone Energy Group Limited. He has also conducted various valuations for companies such as Advanced Micro Devices (AMD), Cafe de Coral, China.com Corporation, ExxonMobil, Keppel Corporation, Quam, Shanghai Tonva, Singapore Airline, and Tencent. He has written numerous articles about valuation and financial due diligence in emerging market, and is a regular speaker at conferences on the same topics.

2. Table of Contents

3. Definitions and Glossary

For the purpose of this report, the following terms have, where appropriate, the following meanings:

"%"	Percent
"A$"	Australian Dollar, the lawful currency of Australia
"C&A" or "Target"	Coal & Allied Industries Limited, the target company of the Share Purchase Agreement, as announced by the Company on 25 January 2017
"CAPM"	Capital asset pricing model
"Comparables"	Comparable listed companies
"Competent Person"	RPMGlobal
"Competent Person Report" or "CPR"	Competent person report dated 2nd June 2017 prepared by RPMGlobal in relation to the Operations (as defined herein)
"DCF"	Discounted cash flow
"Effective Date"	Also referred to as "Valuation Date"
"FCFF"	Free cash flow to firm
"HVO"	Hunter Valley Operations
"Rio Tinto"	Rio Tinto Group
"FY"	Financial year ended/ending 31st December
"HKEx"	Stock Exchange of Hong Kong Limited
"Indicated Mineral Resource"	Part of a mineral Resource (as defined herein) for which quantity, grade, (or quality), densities, shape and physical characteristics are estimated with sufficient confidence to allow the application of modifying factors in sufficient detail to support mine planning and evaluation of economic viability of the deposit
"IMF"	International Monetary Fund
"JORC Code"	Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2012 edition), as published by the Australasian Joint Ore Reserves Committee, as amended from time to time
"Listing Rules"	Rules governing the Listing of Securities on the Hong Kong Stock Exchange
"Management"	Management of the Company
"Market Value"	Estimated amount (or the cash equivalent of some other consideration) for which the Mineral Asset should exchange on the

	date of Valuation between a willing buyer and a willing seller in an arm's length transaction after appropriate marketing where the parties had each acted knowledgeably, prudently and without compulsion.
"Measured Mineral Resources"	Part of a mineral Resource (as defined herein) for which quantity, grade (or quality), densities, shape, and physical characteristics are estimated with confidence sufficient to allow the application of modifying factors to support detailed mine planning and final evaluation of the economic viability of the deposit
"Mineral Assets"	Mineral assets or the equivalent as defined in the VALMIN Code
"Mt"	Million tonnes
"MTW"	Mount Thorley Warkworth
"p.a."	Per annum
"Probable Reserve"	Economically mineable part of an Indicated, and in some circumstances, a Measured Mineral Resource. The confidence in the modifying factors applying to a Probable Reserve is lower than that applying to a Proved Reserve.
"Proved Reserve"	Economically mineable part of a Measured Mineral Resource. A Proved Reserve implies a high degree of confidence in the modifying factors.
"Reserves"	Economically mineable part of a Measured and/or Indicated Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined or extracted and is defined by studies at pre-feasibility or feasibility level as appropriate that include application of modifying factors.
"Resources"	Concentration or occurrence of solid material of economic interest in or on the Earth's crust in such form, grade (or quality), and quantity that there are reasonable prospects for eventual economic extraction.
"Report Date"	2nd June 2017
"ROM"	Run-of-mine
"Technical Value"	Technical Value is an assessment of a mineral asset's future net economic benefit at the Valuation Date under a set of assumptions deemed most appropriate by a practitioner, excluding any premium or discount to account for market considerations.
"US$"	US dollar, the lawful currency of United States of America
"VALMIN Code"	Code for the technical assessment and valuation of mineral and petroleum assets and securities for independent expert reports (2015 edition), as prepared by the VALMIN Committee, a joint committee of The Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Mineral Industry

	Consultants Association as amended from time to time
“Valuation Date”	31st December 2016
“WACC”	Weighted Average Cost of Capital
“Yancoal” or "Yancoal Australia"	Yancoal Australia Limited, a company with limited liability incorporated under the laws of Australia in 2004 and an approximately 78% owned subsidiary of Yanzhou Coal. The shares of Yancoal are traded on the Australian Stock Exchange
“Yanzhou Coal” or the "Company"	兗州煤業股份有限公司, Yanzhou Coal Mining Company Limited, a joint stock limited company incorporated in the PRC and the H shares, ADSs and A shares of which are listed on the Hong Kong Stock Exchange, New York Stock Exchange Inc. and the Shanghai Stock Exchange, respectively

4. Preamble

4.1 Brief Description of the Operations

The Operations comprise Hunter Valley Operations ("**HVO**") and Mount Thorley Warkworth ("**MTW**"). In this report, "Mineral Assets" are defined according to the VALMIN Code as: "all property including but not limited to real property, intellectual property, mining and exploration tenements held or acquired in connection with the exploration of, the development of, and production from those tenements together with all plant, equipment, and infrastructure owned or acquired for the development, extraction, and processing of minerals in connection with those tenements." The mineral assets relevant to the tenements considered in this valuation are those in the Operations.

HVO is a multi-pit open cut mine using dragline truck and shovel method and has been producing coal since 1949. It is located 24 kilometres north-west of Singleton in the Hunter Valley region. In 2016, the mine produced saleable coal in excess of 13.6 million tonnes. HVO is 67.6% owned by the Target. According to the CPR, HVO has 824Mt of coal reserves as at 31st December 2016.

MTW is a combined operation of two open cut mines – MTO and Warkworth- located adjacent to each other 15 kilometres south-west of Singleton in the Hunter Valley Region of New South Wales. MTO and Warkworth operations began in 1981. MTW is 64.1% owned by the Target. In 2016, the mine produced saleable coal in excess of 12.3 million tonnes. According to the CPR, MTW has combined coal reserves of 348Mt as at 31st December 2016.

The Operations are situated upon a collection of 307 and 304 different parcels of free-hold land respectively, under the following permits and approvals:

Environmental Permits

Licence Holder	Business Type of Licence	Basic Licensed Content	Location of Licensed Content	License Number	Term of Validity
HV Operations Pty Ltd	Mining Operations	Coal works, crushing, grinding or separating, extractive activities and mining for coal.	Hunter Valley Operations	Licence 640	No specified end date.
Warkworth Mining Limited	Mining operations	Coal works and mining for coal.	Warkworth	Licence 1376	No specified end date.
Coal & Allied Operations Pty Ltd	Mining operations	Coal works and mining for coal.	Mount Thorley	Licence 1976	No specified end date.
Mount Thorley Coal Loading Ltd	Mining Operations	Coal works.	Mount Thorley	Licence 24	No specified end date.

Source: CPR and Management

Planning approvals

Licenced Project	Business Type of Licence	Basic Licensed Content	Location of Licensed Content	License Number	Term of Validity
Hunter Valley Operations South Project	Mining operations	Carry out mining operations from the Cheshunt, Riverview and Lemington South Pits subject to and in accordance with approval conditions.	Hunter Valley Operations	Part 3A Project Approval 06_0261	24-Mar-30
Hunter Valley Operation North Project	Mining operations	Carry out mining operations from the Carrington and HVO West Pits subject to and in accordance with approval conditions.	Hunter Valley Operations	Development Consent 450-10-2003	12-Jun-25
Warkworth Continuation Project	Mining operations	Open cut mining operations to the west of the existing Warkworth open cut mine.	Warkworth	State Significant Development Consent - 6464	15-Feb-37
Mount Thorley Continuation Project	Mining Operations	Continued extraction of coal from existing Loders and Abbey Green North Pits and receiving ROM coal, tailings and overburden from the Warkworth project.	Mount Thorley	State Significant Development Consent - 6465	15-Feb-37

Source: CPR and Management

Details on the mining permits and licenses owned by the Target are contained in the CPR.

4.2 Purpose of VALMIN Valuation

The purpose of our assessment is to determine the Market Value of the Mineral Assets for Public Reference purposes in accordance with Chapter 18 of the Hong Kong Listing Rules ("**Chapter 18**"). In that regard, we have been engaged as Competent Evaluator and have adopted VALMIN Code in arriving at our assessment.

This report outlines the information and assumptions upon which the valuation of the Operations are based, the valuation model applied and the conclusions reached.

Our report should not be used or relied upon for any other purpose other than noted herein.

4.3 Basis of Valuation

We have conducted the valuation on a Market Value basis. The VALMIN Code states that Market Value is "the estimated amount (or the cash equivalent of some other consideration) for which the Mineral Asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after appropriate marketing where the parties had each acted knowledgeably, prudently and without compulsion".

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The Market Value comprises a technical value plus or minus, in some cases, a premium or discount to account for such factors as market, strategic considerations or special circumstances. However, it should be recognized that some assets, such as exploration areas may not have a technical value.

The VALMIN Code contains 5 fundamental Principles:

- Competence;
- Materiality;
- Transparency;
- Reasonableness; and
- Independence.

Competence or being *Competent* requires that the public report is based on work that is the responsibility of a suitably qualified and experienced person who is subject to an enforceable professional Code of Ethics.

Materiality or being *Material* requires that a public report contains all the relevant information that investors and their professional advisors would reasonably require, and reasonably expect to find in the report, for the purpose of making a reasoned and balanced judgement regarding the technical assessment or mineral asset valuation being reported.

Transparency or being *Transparent* requires that the reader of a public report is provided with sufficient information, the presentation of which is clear and unambiguous, to understand the report and not be misled by this information or by omission of material information.

Reasonableness requires that an assessment that is impartial, rational, realistic and logical in its treatment of the inputs to a valuation or technical assessment has been used, to the extent that another practitioner with the same information would make a similar technical assessment or valuation.

Independence or being *Independent* requires that there is no present or contingent interest in the mineral asset(s), nor is there any association with the commissioning entity or related parties that is likely to lead to bias.

Where the legal definition of Independence or Independent differs from the above, the legal definition takes precedence. For this assignment, we have not carried out any work in the nature of a feasibility study nor are we required to express a viability opinion on any proposed transaction. We have relied on information provided by the Company.

We have conducted the necessary checks, enquiries, analyses and verification procedures to establish reasonable grounds for establishing the soundness of the contents and conclusions of this valuation report.

Our valuation is only an indicative quantum at which interests in the Operations might be reasonably be expected to be sold at the Valuation Date and may be different from the actual transacted price.

4.4 Statement of Independence

We confirm that we have no present or contemplated interest in the assets which are the subject of the valuation and are acting independent of all parties. Further, our fees are agreed on a lump sum basis and are not contingent on the outcome.

4.5 Limitation of Circulation

This valuation report has been prepared solely for inclusion in the circular of the Company and is not intended for any legal or court proceedings without our prior written consent. We will assume no responsibility or liability for any losses incurred by you or any third party as a result of unauthorized circulation, publication or reproduction of this report in any form and/or if used contrary to the purpose stated therein. Censere understands that the valuation will be incorporated into the Company's circular for public disclosure purposes and have provided a letter of consent for the inclusion of the valuation report into the circular.

5. Sources of Information

In preparing our report, we have received and reviewed information from the Company and held discussions with them. We have relied, in some instances to a large extent, on such information in arriving at our valuation, including, but not limited to, the following:

- Announcement made by Yanzhou Coal in relation to the very substantial acquisition dated 25th January 2017;
- The Competent Person Report prepared by RPMGlobal dated 2nd June 2017;
- Historical and forecast financial information for both HVO and MTW respectively as provided by the Company;
- Coal price forecasts from various sources including brokers, banks and industry experts, provided by the Company;
- Discussions with the management personnel of RPMGlobal and Yancoal Australia, a subsidiary of Yanzhou Coal; and
- All other information and representations provided by the Company.

In addition, we have made reference to, and relied upon, other information such as:

- Market risk premium from Aswath Damodaran from the Stern School of Business at New York University;
- Chapter 18 of the Hong Kong Listing Rules;
- Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports (2015 edition), as prepared by the VALMIN Committee in Australia ("VALMIN Code");
- The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2012 edition), as published by the Joint Ore Reserves Committee, as amended from time to time ("JORC Code");
- Australian inflation rate from International Monetary Fund ("IMF");
- Historical financial information of the Comparable Companies from Bloomberg.

The valuation contains calculations and forecasts based substantially on data contained in the CPR, as well as those provided directly by the Company.

We have inspected the sites and processing facilities where the Operations operate and also considered the information in the CPR and the specialist(s) (where applicable) who contributed to the findings in the CPR have consented to matters based on their information in the form and context in which it appears in the CPR.

Censere has engaged Xenith Mining Consultants ("**Xenith**") to review the methodology adopted by RPMGlobal in preparing the CPR used to derive the Mineral Resources and Ore Reserves figure. Xenith has reviewed the CPR and concluded that the methodology followed in the compilation of the CPR is in compliance with the JORC Code.

We have no reason to doubt the truth and accuracy of the information provided to us by the Company.

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and consideration of various factors that are relevant to the operation of the Company. Considerations of various risks and uncertainties that have potential impact on the businesses have also been made.

6. Industry Overview

Coal

Coal is a combustible rock, normally found in rock strata in layers, known as coal seams. Coal is mainly comprised of carbon, along with other elements, such as hydrogen, sulfur, oxygen, and nitrogen. In general, there are several types of coal: lignite, sub-bituminous, bituminous and anthracite. Peat is a pre-cursor to coal and is the layer of vegetable material directly underlying the growing zone of a coal forming environment. The vegetable material shows very little alteration and contains the roots of living plants. Lignite, containing discernible plant material is brown and can be soft and fibrous. It also contains large amounts of moisture (around 70%) and so has low energy content. Sub-bituminous coal is a type of coal whose properties range from those of lignite to those of bituminous coal and are used primarily as fuel for steam-electric power generation. Bituminous coal is a relatively soft coal of higher quality than lignite coal but of poorer quality than anthracite. Anthracite is a hard, black, shiny form of coal that contains virtually no moisture and very low volatile content. Because of this, it burns with little or no smoke and is sold as a "smokeless fuel".

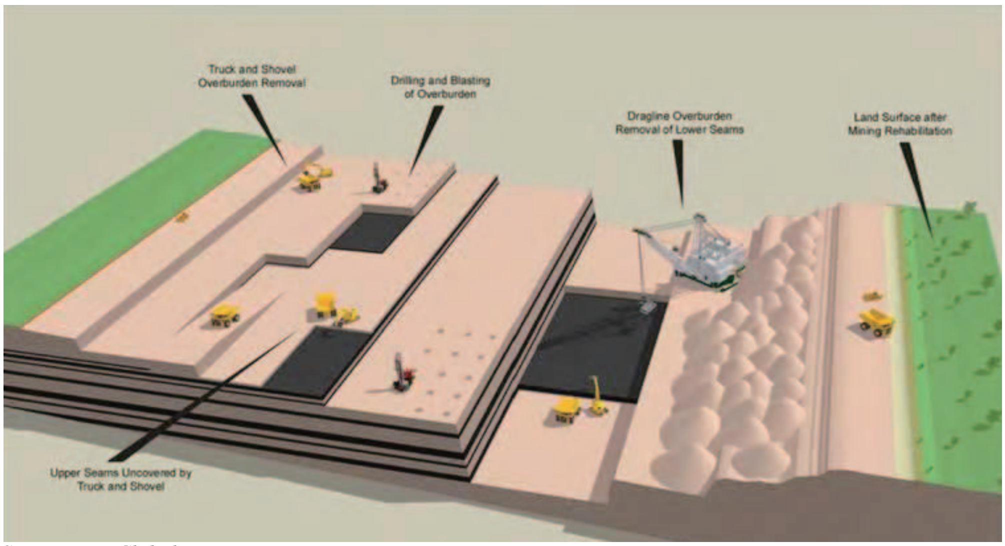
Coal has been used as an energy resource, primarily burned for the production of electricity and heat, and is also used for industrial purposes, such as refining metals. Coal is the largest source of energy for the generation of electricity worldwide. However, coal as fuel is also one of the largest worldwide sources of carbon dioxide release.

Coal extraction

Coal is extracted from the ground by coal mining and extraction. Coal mining processes depend on whether the coal seams are near the surface or deeper underground. When coal seams are near the surface, as is the case for HVO and MTW, it may be economical to extract the coal using open cut mining methods. The methodology of open cut mining is summarized below:

- Removal and storage of topsoil material via draglines or truck and shovel methods.
- Drilling of a blast pattern.
- Blasting to fragment rock.
- Excavation of waste material with truck and shovel/excavator in the upper benches to uncover coal.
- Excavation of waste material in lower benches by draglines (in certain pits), and
- Digging, loading and hauling of Coal via truck and Shovel methods.

In Canada, Australia and South Africa, open cast mining is used for both thermal and metallurgical coals, where open cut mines in the United States mostly extract bituminous coal. In New South Wales open casting for steam coal and anthracite is practiced. Surface mining accounts for around 80 percent of production in Australia. A diagram of an open cut mining operation is shown below.



Source: RPMGlobal

Strip mining

Another surface mining method is strip mining. Strip mining exposes coal by removing earth above each coal seam. This earth is referred to as overburden and is removed in long strips. The overburden from the first strip is deposited in an area outside the planned mining area and referred to as out-of-pit dumping. Overburdens from subsequent strips are deposited in the void left from mining the coal and overburden from the previous strip. This is referred to as in-pit dumping.

Underground mining

Surface mining and deep underground mining are the two basic methods of mining. The choice of mining method depends primarily on depth of burial, density of the overburden and thickness of the coal seam. Coal that occurs at depths of 180 to 300 ft (50 to 100 m) is usually deep mined.

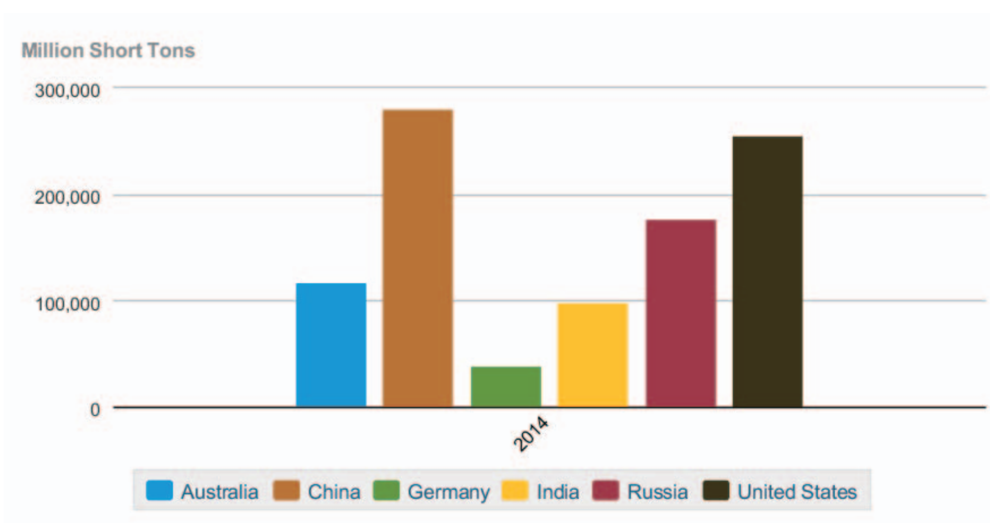
In underground mining, the room and pillar method progresses along the seam, while pillars and timber are left standing to support the mine roof. Once room and pillar mines have been developed to a stopping point, a supplementary version of room and pillar mining is commonly started. Miners remove the coal in the pillars, thereby recovering as much coal from the coal seam as possible. A work area involved in pillar extraction is called a pillar section.

The most common underground mining method is known as longwall mining. Longwall mining accounts for about 50 percent of underground production. The longwall shearer has a face of 300m or more. It is a sophisticated machine with a rotating drum that moves mechanically back and forth across a wide coal seam. The loosened coal falls onto an armored chain conveyor or pan line that takes the coal to the conveyor belt for removal from the work area. Longwall systems have their own hydraulic roof supports which advance with the machine as mining progresses. As the longwall mining equipment moves forward, overlying rock that is no longer supported by coal is allowed to fall behind the operation in a controlled manner. The supports make possible high levels of production and safety. Once the coal is removed the roof is allowed to collapse in a safe manner.

<u>World coal reserves</u>

According to the Energy Information Administration in 2014, recoverable coal reserves amounted to 1,236 billion short tons. Of those, China has the most reserves of 282 billion short tons, followed by United States (255 billion short tons), Russia (177 billion short tons) and Australia (117 billion short tons)

<u>World Coal Reserves</u>



Source: US Energy Information Administration

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Coal mining in Australia

Coal in Australia is mined primarily in Queensland, New South Wales and Victoria. While coal is used to generate electricity domestically, most of the coal mined in Australia is exported, primarily to China and Japan. In fiscal year 2013/14, 430.9 million tonnes of coal was mined, and 375.1 million tonnes was exported. Coal provides about 69% of Australia's electricity production. In 2014, Australia had the world's fourth-largest coal reserves, after China, the United States and Russia. However, in terms of proportion of production exported, Australia was the world's second largest coal exporter, with exports accounting for roughly 73% of coal production. For HVO and MTW, the coal products consist of metallurgical coal, which is mainly used for steel making, and thermal coal, which is mainly used for combustive fuel.

Metallurgical Coal

Global metallurgical coal prices reached a five-year high in December 2016, mainly driven by Government-mandated coal mine closures and restricted days of coal mine operation in China, along with production disruptions in Australia. These supply constraints coincided with increased demand from China's steel sector, multiplying the price effects. Higher prices seen in late 2016 and expected in early 2017 are forecast to add $20 billion to Australia's forecast export earnings in 2016–17. However, prices are forecast to decline over the forecast period, as China's metallurgical coal import demand stabilizes.

Historical Metallurgical Coal Price

Source: Office of the Chief Economist, Department of Industry, Innovation and Science, Australian Government

Australia is the largest metallurgical coal exporter in the world, with 186 million tonnes being exported in 2015. Australia's metallurgical coal exports in 2017-2018 are forecast to increase to 197 million tonnes, as mines restart due to a surging metallurgical coal price, including Whitehaven's Maulescreek mine, Glencore's Collinsville, Integra mines, and others.

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World Metallurgical Coal Imports and Exports (Mt)				
	2015	2016 (est)	2017 (forecast)	2018 (forecast)
Metallurgical coal imports				
European Union 28	42	42	43	44
Japan	50	53	53	53
China	48	57	51	49
South Korea	37	36	37	37
India	51	49	55	57
Metallurgical coal exports				
Australia	186	184	197	191
Canada	28	28	29	29
United States	42	34	32	31
Russia	18	22	24	26
World trade	299	314	314	313

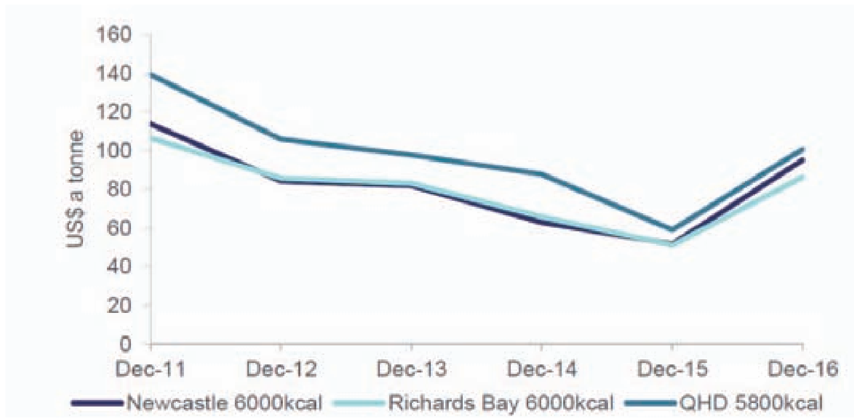
Source: Office of the Chief Economist, Department of Industry, Innovation and Science, Australian Government

Thermal coal

Thermal coal prices increased further in December 2016, driven by China's supply side reform policies and lower output from Indonesia. With likely further easing in Chinese Government coal production policies and increased production from Indonesia, it is expected that seaborne thermal coal prices will pull back over the outlook period. With higher prices and export volumes, Australia's export values are expected to increase in 2016–17 before stabilizing in 2017–18.

Benchmark thermal coal prices bottomed in 2015 and climbed over 2016, rising to near five year highs. Australia's benchmark Newcastle free on board (FOB) spot price hit highs not seen since March 2012 (US$110 a tonne).

Historical Thermal Coal Price



Source: Office of the Chief Economist, Department of Industry, Innovation and Science, Australian Government

In the quarter of September 2016, Australia's thermal coal output was an estimated 61 million tonnes, down from the June quarter but similar to September quarter 2015. In 2016–17, Australia's production is forecast to increase 0.4 per cent, to 252 million tonnes. Higher production across most mines, including the return of operations at Glencore's Collinsville mine, is the major reason for the increase of production. In 2017–18, Australia's output is forecast to be unchanged, at 253 million tonnes. The rise in output will be aided by ramp-ups at Maules Creek and Mount Thorley Warkworth, and increased production at Narrabri.

World Thermal Coal imports and Exports (Mt)				
	2015	2016 (est)	2017 (forecast)	2018 (forecast)
Imports				
China	156	164	160	159
Chinese Taipei	57	58	59	61
India	171	161	155	157
Japan	141	140	141	142
South Korea	98	99	100	100
European Union 27	191	168	163	159
Europe (Others)	53	57	58	58
Exports				
Australia	202	200	208	208
Colombia	81	85	88	95
Indonesia	366	340	341	330
Russia	133	140	142	142
South Africa	77	82	83	85
United States	25	19	19	18

Source: Office of the Chief Economist, Department of Industry, Innovation and Science, Australian Government

7. Valuation Considerations

We have inspected the sites and processing facilities where the Operations operate and note that the facilities, in general, are in good operating condition. Dimensions, measurements and areas included in the valuation report are based on information contained in the documents provided to us by the Company. We have also considered the information in the CPR and the specialist(s) (where applicable) who contributed to the findings in the CPR have each consented to matters based on their information in the form and context in which it appears in the CPR. We have no reason to doubt the truth and accuracy of the information provided to us by the Company or RPMGlobal.

The value of the Mineral Assets is determined in accordance with Chapter 18 of the Hong Kong Stock Exchange Listing Regulations; specifically, Rule 18.30(3) states that:

"Indicated Resources and Measured Resources are only included in economic analyses if the basis on which they are considered economically extractable is explained and they are appropriately discounted for the probabilities of their conversion to mineral Reserves. All assumptions must be clearly disclosed. Valuations for Inferred Resources are not permitted".

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8. Key Caveats and Assumptions

In preparing our assessment, we have made the following key limitations and assumptions as of the Valuation Date in our valuation model and these apply throughout unless otherwise stated:

- the production schedules reflect the operational status of the Operations;
- the time period between production/ processing and sales is reasonably short;
- Forecasts for capital cost throughout the forecast period have been provided. The Company is responsible for the contents, estimations, and assumptions used in the forecast;
- the Operations shall have sufficient financial liquidity and working capital to achieve the financial forecasts and projections;
- there are no other liabilities including any contingent liabilities or unusual contractual obligations or substantial commitments which would have a material effect on the value of the Mineral Assets;
- there will be no material change in the existing political, legal or regulatory (including changes in legislation, laws or regulations, government policies or rules), fiscal, market, logistic and shipping or economic conditions in Australia and elsewhere;
- there will be no material changes to inflation, interest rates or exchange rates from those prevailing as at the Valuation Date;
- there will be no material change in the bases or rates of taxation or duties in Australia and elsewhere;
- the Operations will not be severely interrupted by any force majeure event or unforeseeable factors or any unforeseeable reasons that are beyond the control of Management, including but not limited to, the occurrence of natural disasters or catastrophes, epidemics or serious accidents; and
- Other assumptions specific to a particular valuation approach or certain observations and conclusions are outlined in the ensuing sections of the report.

Any deviation from the above key limitations and assumptions may significantly vary the valuation of the Mineral Assets. Our valuation is largely based on information provided by the Company and the Company is responsible for their contents and accuracy. Notwithstanding this, we have conducted the necessary checks, enquiries, analyses and verification procedures to establish reasonable grounds for establishing the soundness of the contents and conclusions of this valuation report. We have also considered the information in the CPR and information provided by the specialist(s) who contributed to the findings in the CPR. The specialist(s) has/ have consented to matters based on their information, in the form and context in which it appears in the CPR.

For this exercise, we have obtained, and considered, published market data and other publicly available information relating to Comparables from sources which we regard to be reputable and reliable. We make no representations as to the accuracy of the content in such published market data and other publicly available information in deriving parameters used for the financial forecasts and valuations models, and have accepted such information without detailed verification.

9. Standard Limiting Conditions

Our assessment is subject to the following standard limiting conditions and these apply throughout unless otherwise stated:

- we shall not be required to give testimony or attendance in court or to any government agency by reason of this valuation, with reference to the property described herein, unless prior arrangements have been made; and
- Our report is for the use of the party to whom it is addressed and no responsibility is accepted from any third party for the whole or any part of the contents of our report.

10. The Operations

10.1 Background

Censere has been engaged by Runge Asia Limited, trading as RPMGlobal ("**RPM**"), on behalf of Yanzhou Coal Mining Company Limited, to determine the Market Value of the Mineral Assets under the Hunter Valley Operations ("**HVO**") and Mount Thorley Warkworth ("**MTW**") in New South Wales, Australia. Yancoal has entered into a share purchase agreement to acquire 100% of the total issued share capital of the Target, which holds majority interests in the coal mining operations relating to HVO and MTW, subject to approval from shareholders in relation to the acquisition and regulatory approvals from various Government regulatory agencies.

The Mineral Assets are situated upon a collection of 307 and 304 different parcels of free-hold land respectively. The sites have following permits:

Project	Planning Approval	Environment Protection License	Controlled action approval	Permitted to extract (Mtpa)
HVO	DA 450-10-2003 PA 06-0261	EPL 640	2016/7640	36
MTO	SSD 6465	EPL 24 & EPL 1976		10
Warkworth	SSD 6464	EPL 1376	2002/629 & 2009/5081	18

Source: CPR, Company

As discussed with the Company, nothing has come to our attention that the tenements cannot be renewed.

The Mineral Assets being valued under HVO and MTW are located in adjacent landholdings in the Hunter Valley region of New South Wales, Australia. Both operations are easily accessible by road from Singleton. Furthermore, an extensive rail network that services mines around the area is close to the assets.

According to the historical financial statements as provided by the Company, coal production at HVO and MTW sites from 2012 to 2016 was as follows:

Site	FY2012	FY2013	FY2014	FY2015	FY2016
HVO (Mt)	12.0	13.6	13.9	13.0	13.6
MTW (Mt)	10.9	12.5	11.9	11.7	12.3

Source: Company

10.2 Hunter Valley Operations

HVO is a multi-pit open cut mine using dragline truck and shovel method and has been producing coal since 1949. It is located 24 kilometres north-west of Singleton in the Hunter Valley region. In

2016, the mine produced saleable coal in excess of 13.6 million tonnes (Mt). HVO is 67.6% owned by the Target. According to the CPR, HVO has 824Mt of coal reserves as at 31st December 2016.

HVO produces thermal and semi-soft coking coal via 5 pits and produced 18 Mt of run-of-mine coal ("ROM") for 13.6 Mt of produced coal in year 2016. The site has two coal processing plants- Hunter Valley and Howick coal processing plants. The two coal processing plants have a combined capacity of 20 Mt per annum. After the coal is processed, the Product coal is transferred to Rail loading points. At the rail heads, the product coal is further blended, optimized to meet customer specific requirements. The final product is railed to the port facility in Newcastle for export purposes.

10.3 Mount Thorley Warkworth Operations

MTW is a combined operation of two open cut mines – MTO and Warkworth- located adjacent to each other 15 kilometres south-west of Singleton in the Hunter Valley Region of New South Wales. MTO and Warkworth operations began in 1981. In 2016, the mine produced saleable coal in excess of 12.3 million tonnes. MTW is 64.1% owned by the Target. According to the CPR, MTW has combined coal reserves of 348Mt as at 31st December 2016.

MTW produces thermal coal and semi-soft coking coal from 4 pits- North, West, Loders and South- and produced 12.3 Mt of coal from 18.1 Mt of ROM coal in year 2016. MTW also has two coal processing plants with a combined throughput capacity of 18.6Mtpa. After processing, the product coal is transferred to Mount Thorley Rail Loading point where it is further blended and optimized to meet specific requirements. The final product is conveyed to Newcastle port.

According to the CPR, the volume of Reserves and Resources at the Mines are estimated as follows. It should be noted that the JORC Code specifies that a Mineral Resources inventory is inclusive of Ore Reserves i.e. ore reserves are a subset of mineral resources and they are not additive to the Mineral Resource inventory.

Resources						
Operation	**Type**	**Area**	**Measured (Mt)**	**Indicated (Mt)**	**Inferred (Mt)**	**Total (Mt)**
MTW	Open Cut	MTW	247	550	503	1300
	Underground	MTW	0	240	178	418
	Combined		247	790	681	**1718**
HVO	Open Cut	Hunter Valley	721	1412	2656	4789
	Underground	Hunter Valley	0	0	117	117
	Combined		721	1412	2773	**4906**

Source: CPR

Reserves	Project	Proved (Mt)	Probable (Mt)	Total (Mt)
Coal Reserves	HVO	359	465	**824**
	MTW	149	199	**348**
Marketable Reserves	HVO	247	327	**574**
	MTW	104	139	**243**

Source: CPR

The above information related to the quantity and quality of Ore Reserve and Mineral Resources was extracted from CPR. We have reviewed it and we are of the opinion that it is reasonable.

10.4 Site Visit

Mr. Brett Shadbolt and Adie Gupta from Censere conducted a site visit in February 2017 to inspect the Operations. Please refer to the map and photographs of the site in Appendices 1 and 2 respectively.

During the site visit Mr. Shadbolt and Mr. Gupta inspected the mine, the coal processing plant, the tailings storage facility, the water supply system, the power distribution system, the chemical manufacturing centres, and conducted general inspections of the Mineral Assets area. The visit was also used to gain a better understanding of the Assets' status. Mr. Shadbolt and Mr. Gupta had meetings and discussions with the Company's personnel on various aspects relating to the relevant issues.

10.5 The Mining Methods

The mining operations at both sites- HVO and MTW- are carried on via large scale open pit methods that mainly use owner operator equipment. ROM coal is hauled to one of the 4 coal processing plants which produce the marketable thermal and soft coking coal. After further blending and optimizations, the Product coal is transported to Newcastle port for export.

The coal in both operations is found in the sub-horizontal layers which can extend beyond tens of kilometres. Therefore, large scale open cut mining methods are adopted. Below is a summary of operations:

1. Topsoil is removed and stored by utilizing draglines or truck and shovel method
2. Drilling is carried out
3. The top layer of rock is blasted
4. Coal is extracted by excavation utlizing truck and shovel/extractor
5. Waste material is excavated by draglines
6. Finally, the coal is loaded and hauled via trucks

11. Valuation Methodology

11.1 Valuation Considerations

The value of the Mineral Assets is determined in accordance with Chapter 18 of the Hong Kong Stock Exchange Listing Regulations; specifically, Rule 18.30(3) states that:

"Indicated Resources and Measured Resources are only included in economic analyses if the basis on which they are considered economically extractable is explained and they are appropriately discounted for the probabilities of their conversion to mineral Reserves. All assumptions must be clearly disclosed. Valuations for Inferred Resources are not permitted".

Discounted Cash Flow

We have selected the Net Present Value of Future Cash Flows as the most appropriate method for valuing the Mineral Assets; these operations are valued as their own on-going business concerns, thereby representing the value of the Mineral Assets under the Operations.

The Operations are currently operating, well established mines that have been in continuous operation for periods of since 1949 and 1981 respectively. Established and ongoing mining operations having long term mineral inventories are particularly suited to valuation on an income basis using discounted cash flow methodology, where the capital and operating costs are well defined and the likely revenue can be estimated with some degree of confidence.

The DCF technique is particularly appropriate for mineral properties having defined resources. In the minerals industry it is the usual approach to the valuation of operating mines and of mineral properties having defined mineral resources.

In this assessment, we have considered other methods of valuation that may be applied to mineral properties but which are not preferred in this instance, such as:

Comparable Transactions

Requires the valuer look to transactions recently completed on an arm's length basis where the subject business is sufficiently similar to that being valued. An active market fulfils all of the following conditions:

- The items traded within the market are homogenous;
- Willing buyers and sellers can normally be found at any time; and
- Prices are available to the public.

We have undertaken research in finding recent and comparable asset transactions, with some of the more relevant transactions as follows:

S/N	Acquirer Name	Seller Name	Target Name	Coal type	Country	Completion date	Equity Acquired	Consideration AUD (mil.)
1	South32	Peabody	Metropolitan	Hard coking coal	Australia	11/3/2016	100%	260
2	Golden Energy Mines Tbk		Era Mitra Selaras	unknown	Indonesia	9/22/2016	100%	48.67
3	Taurus Fund-led Consortium	Anglo American	Foxleigh	PCI coal	Australia	4/4/2016	70%	0
4	MACH Energy	Rio Tinto	Mount Pleasant		Australia	1/27/2016	100%	N/A
5	BatchfireResources	Anglo American	Callide	Thermal coal	Australia	1/20/2016	100%	146
6	Aus. Pacific Coal	Anglo American	Dartbrook	Thermal coal	Australia	12/24/2015	83%	50
7	New Hope Corporation Limited	Rio Tinto	Bengalla Coal mine, Hunter Valley	Thermal coal	Australia	9/30/2015	40%	865

However, it is often difficult to find sufficient number of recent and truly comparable transactions, where the assets in trading have similar type and grading to the Mineral Assets. Full details of such transactions and all relevant information are not in the public domain. We are not aware of any suitable comparable transactions for this assessment.

Orderly Realization of Assets

The value achievable in an orderly realization of assets is based on an assessment of the net realizable value of a business or asset, assuming its orderly realization. This method is not appropriate in valuing operating assets as the Operations are expected to have operating lives of 20-40 years.

11.2 Discounted Cash Flow Method

The DCF method involves projecting a series of periodic cash flows to an operating property. A discount rate is then applied to the cash flow series to arrive at a present value of the income-producing property.

$$DCF = \frac{CF_1}{(1+r)^1} + \frac{CF_2}{(1+r)^2} + \ldots + \frac{CF_n}{(1+r)^n}$$

where:

CF = cash flow

r = discount rate

n = time period (year)

To use discounted cash flow to value the Mineral Assets, it is necessary to:

- Consider the riskiness of the Operations and estimate an appropriate discount rate reflecting the riskiness of the asset and time value of money; and
- Estimate expected cash flows for the life of the Operations.

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Net Cash Flow

Cash flow refers to flow or movement of cash into or out of the asset. The DCF method is based on periodic net cash flows discounted by the discount rate. Net cash flow is defined as cash inflows minus cash outflows.

Net Cash Flow = EBIT – Tax + Depreciation & Amortization – Working Capital Additions – Capital Cost

where

EBIT = Sales revenue – Cost of Goods Sold – total operating cost

Revenue

Sales revenue is generated from the sale of coal products.

Operating Cost

Cash outflows include mining operating costs and processing operating costs.

Discount Rate

To discount the future cash flows to their present value, we have used the weighted average cost of capital ("**WACC**") as the discount rate. The discount rate reflects the expected rate of return for the investment, given its risk profile.

Net Present Value

Net present value can be calculated by summing up periodic net cash flows multiplied by the respective present value factor.

To ascertain the valuation range of the Mineral Assets based on DCF, we have performed the following:

- Reviewed the operating, environmental and social practices including but not limited to mining and process method, quantity and quality of final products, equipment availability and performance, marketability of products, pricing forecast etc;
- Conducted comparison of historical versus proposed production plan, product quality and quantity, operating expenses and capex; and
- Reviewed the proposed operating expenses and capex and of the view that the proposed services and infrastructure is adequate, realistic and achievable.

Based on the above, we are of the view that the financial projections, production forecast, operating, environmental and social practices by the Operations are reasonable to achieve the Market Value as indicated in section 14.

Mine valuations using DCF models require assumptions in respect of the tonnage and product content of the ore that is reasonably expected to be mined and processed within a time frame which is a function of the ore reserve tonnages and the projected mining rates. Ore reserves of the Operations are maintained at more than twenty years of operations. As reserves are mined they are progressively replaced as drilling, sampling and mining provide the basis for upgrading indicated and inferred resources to reserve status. This is an integral part of the mining business and a fair market valuation considers the potential value reasonably resulting from that process.

We have estimated the likely years of operation at the production rates set out in the CPR based upon the present Proven and Probable Reserves. For residual Measured and Indicated Resources that are not under the mine plan, we have considered these to be uneconomical and immaterial in value.

12. Valuation of Hunter Valley Operations

Based on our findings and conclusions presented in previous sections, we have adopted the following key parameters and assumptions for the valuation of HVO.

12.1 Discounted Cash flow method

12.1.1 Assumptions

The valuation is subject to the following assumptions:

- The mine plan from FY2017 to FY2060 according to the CPR;
- The time period between production and sales is reasonably short;
- Working capital forecast for the HVO is based on the historical trends of combined operations of HVO and MTW from FY2012– FY2016 which are as follows:

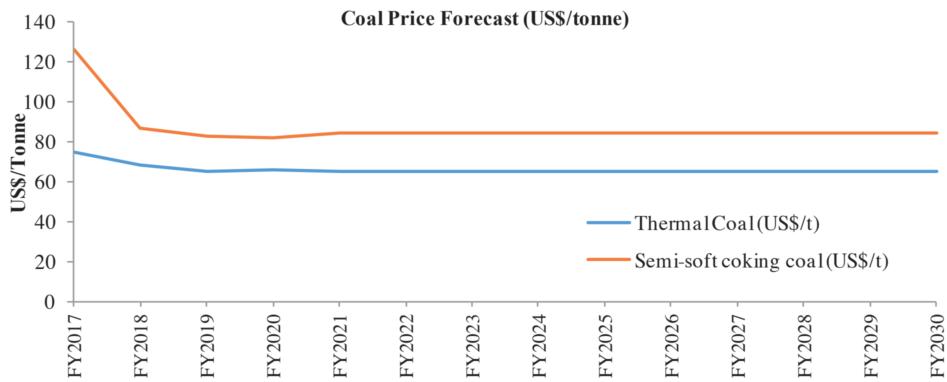
	Average number of days turnover
Accounts receivables	42 days
Accounts payables	64 days
Inventory	30 days

- Income tax rate of 30% is based on Australia's corporate tax rate as at 31st December 2016;
- Coal price projections are based on price forecast prepared by various pricing estimates from brokers, banks and industry experts;
- Production projection is based on CPR; and
- Capital cost and operating cost is based on CPR.

12.1.2 Cash inflows

Price of coal

According to the Company, revenue will be generated from the sale of coal to various customers.
We have reviewed the forecasts from various pricing sources including Wood Mackenzie, AME and consensus from various brokers and banks. Due to recent price volatility, we have adopted the average forecasted price provided by Wood Mackenzie, AME, various brokers and banks. The forecast coal prices from FY2017 to FY2021 are based on forecast coal prices (real price, basis year as at FY2016) for similar coal quality as that produced by HVO. Given the long term uncertainty of prices associated with any commodity, we have assumed stable prices from FY2021 onwards until FY2060.



Year	Thermal coal (US$/t)	Semi-soft coking coal (US$/t)
FY2017	75	126
FY2018	68	87
FY2019	65	83
FY2020	66	82
FY2021	65	84
FY2022	65	84
FY2023	65	84
FY2024	65	84
FY2025	65	84
FY2026	65	84
FY2027	65	84
FY2028	65	84
FY2029	65	84
FY2030	65	84

Source: WoodMackenzie, AME, various banks and brokers

Quantity of coal production forecast

In FY2016, HVO produced 13.6 million tonnes of coal. According to the mine plan in the CPR from FY2017 to FY2060, in FY2017 production is forecast to be approximately 13.5 million tonnes. However, it is expected that as the Company invests more in FY2017, coal production will increase to 14.7 million tonnes in FY2018, a growth of 8.5% over the previous year. An average production of 13.3 million of coal per year is forecast from FY2018 to FY2060. From FY2053 onwards, the production is forecast to gradually decrease to 4.6 million tonnes of coal in FY2060 when the mine is projected to exhaust its mineable coal resource.

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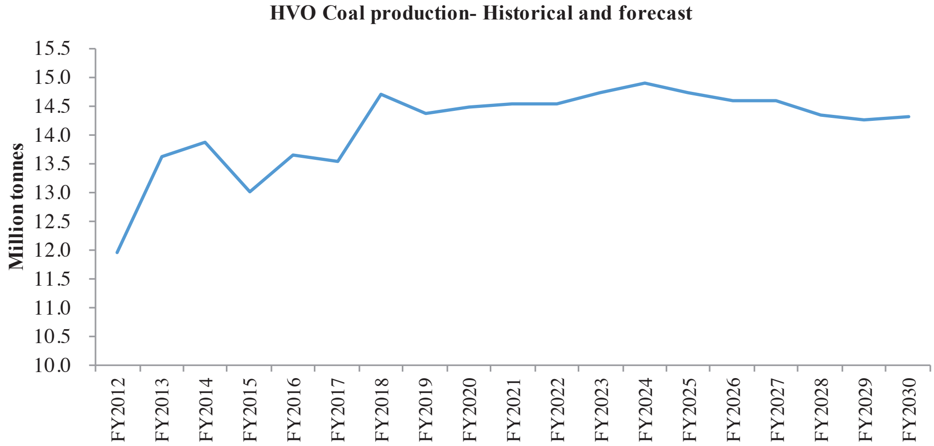


Note: Mine continues production until 2060 based on mine plan provided by CPR.

Source: CPR

<u>Quality of coal production in forecast</u>

HVO produces a semi soft coking coal that is highly regarded by major steel mills throughout Asia for various reasons, particularly the low impurities in the coal.

HVO also produces three high quality thermal coal products based on ash content, typically categorized as "low ash", "medium ash" and "high ash". Average thermal coal quality is 13.5%. The thermal coal produced is consistent with historical high quality thermal coals and customers expected requirements. As they differ in specification, they attract different customers and prices accordingly.

12.1.3 Cash outflows

<u>Operating Costs</u>

Operating costs for the Assets are reported as Free on Rail ("**FOR**" or "**Onsite Costs**") and Free on Board ("**FOB**" or "**FOR plus off site costs**") cash costs. These cost metrics incorporate the following costs:

Onsite costs: include all costs to produce the product from mining either of the rail loading facilities and incorporate the following:

- Open cut mining of waste and coal: This includes the drill and blast costs, dragline, excavators, trucks, and haulage costs to the waste dumps and production plants.
- Site Administration (G & A costs): This includes technical services and administration labour costs.

- Coal processing: All costs associated with washing of the coal and transport to the rail loading facilities.

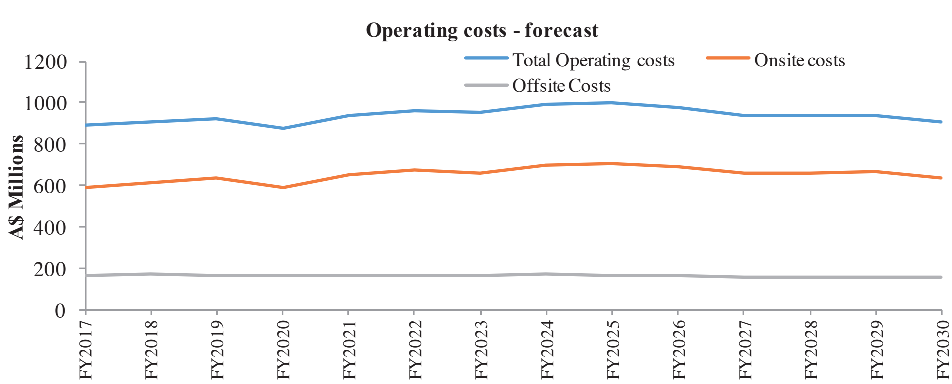
Offsite costs: includes all costs to transport the coal products to the port for loading onto ships and subsequent transfer to customers. These costs include the following:

- Rail: Costs associated with third party rail freight from the rail loading facilities to the port terminals
- Port: Costs associated with transfer of coal product from rail freight to boat via the coal handling terminals at the Port of Newcastle.
- Other costs: These include levies, corporate management, and demurrage at the port.

According to the CPR, total FOB cost is estimated at an average of A$57.2 per tonne of coal product for the life of the mine. The expected operating costs (excluding depreciation and amortization) for the period to FY2030 are as follows:

HVO Costs (A$ Million)	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Total Operating costs excl. royalties	**756**	**787**	**808**	**761**	**821**	**842**	**833**
Onsite costs	589	612	641	591	653	673	663
Offsite Costs	167	175	167	170	168	169	170

HVO Costs (A$ Million)	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
Total Operating costs excl. royalties	**873**	**879**	**856**	**825**	**820**	**824**	**794**
Onsite costs	700	709	689	663	661	666	635
Offsite Costs	173	170	167	162	159	158	159



Note: Mine continues production until 2060 based on mine plan provided by CPR.

Source: CPR

NSW Mineral Royalty

In New South Wales, Australia, a mineral royalty paid by miners is the price charged by the Crown for the transfer of the right to extract a mineral resource. According to Part 7, Clause 74 of Mining Regulation 2016, issued by Resources & Energy, Department of Industry of New South Wales Government, the base rate of royalty for coal is prescribed as 8.2% of the value of coal recovered by open cut mining. Royalty to the New South Wales Government is payable within 21 days after the beginning of each month.

Capital Expenditure

Capital Costs for the project are separated into the following cost metrics:

- Growth Capital: Includes capital required for the upgrades of the coal processing plants and site infrastructure.
- Sustaining capital: Includes capital required to replace mobile and fixed plant as part of ongoing maintenance and production requirements. This includes all site infrastructure production fleets, coal processing plants and tails storage facilities.
- Closure: Capital required for rehabilitating the site upon closure of the operations including pit and coal processing plants and tails storage facilities.

Detailed capital expenditure projection is stated as follows:

Capital Expenditure (A$ Million)	FY2017 to FY2060
Growth	516
Sustaining	4,368
Closure	122
Total Capital Expenditure	5,006

Source: CPR

The growth related expenditure primarily for growing operations is forecast in FY2017, FY2038 and FY2052 as A$22 million, A$152 million and A$342 million respectively. For sustaining the operations until year 2060, an average capital expenditure forecast each year from FY2017 to FY2060 is A$92.8 million. Finally, for the closure of operations in year 2060, capital costs of A$122 million are anticipated in FY2060.

12.1.4 Discount rate

To discount the future cash flows to their present value, we have used a real discount rate of 7.5%. The discount rate reflects the required rate of return on the investment and is based on its WACC. Please refer to Appendix 3 for details of computation of the discount rate.

12.1.5 Annuity value

We have been provided with a mine plan (from CPR report) consisting of a production schedule until year 2060. After that no production is planned. Therefore, no annuity value is determined beyond FY2060.

12.1.6 Net Present Value of Net Cash Flow (NPV)

With cash flows multiplied by the present value factor for each period, we can derive the net present value of the cash flow for each year as at the Valuation Date. The NPV is determined by summation of all present values during the projection period plus the present value of the annuity to represent cash flow from the final projection year through to the end of mine life.

12.1.7 Marketability Discount

According to the International Glossary of Business Valuation Terms, marketability means the relative ease and promptness with which a security or commodity may be sold when desired, at a representative current price, without material concession in price merely because of the necessity of the sale. Investors will price in a discount for the additional costs and risks of liquidation when valuing equity in privately held companies. For this exercise, we are of the opinion that no marketability discount is applicable for the purpose of this valuation. This is an operating mine that has been in operation for many years and has been profitable. We believe that this asset could be listed with relative ease by itself in most markets in the world and hence we concluded that no marketability discount needs to be allowed.

12.1.8 Valuation Range

We have set the upper and lower limits of the valuation range with discount rate at 1% higher, and 1% lower against the applied WACC. For purposes stated herein and subject to the limitations and assumptions as set out in this report, the Market Value of a 100% interest in HVO as at the Valuation Date is within the range of US$ 2.497 billion and US$ 3.034 billion, with the preferred Value at US$ 2.740 billion. The Market Value of the Target's ownership interest in HVO as at the Valuation Date is within the range of US$ 1.688 billion and US$ 2.051 billion, with the preferred Value at US$ 1.852 billion.

Further details of the valuation of HVO can be found in the Appendix 5.

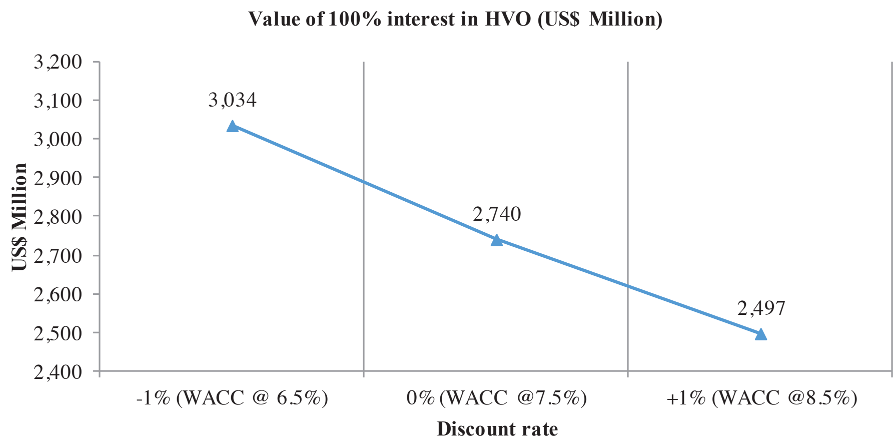
12.1.9 Scenario/ Sensitivity Analyses

Sensitivity analyses have been performed to illustrate the NPV of HVO under various scenarios. The sensitivity analyses are meant for illustration purposes only and do not necessarily imply that the NPV of HVO could be as stated below. The parameters that are being considered for the sensitivity analyses are:

- changes to the discount rate(s);
- changes in coal prices;
- changes in operating costs; and
- changes in capital costs.

Discount rate

Shown below is the sensitivity analysis for a 1% increase or decrease in discount rates with other parameters and assumptions remaining unchanged. The base case considered is with discount rate of 7.5%. The valuation for each scenario is computed and presented in the following table:



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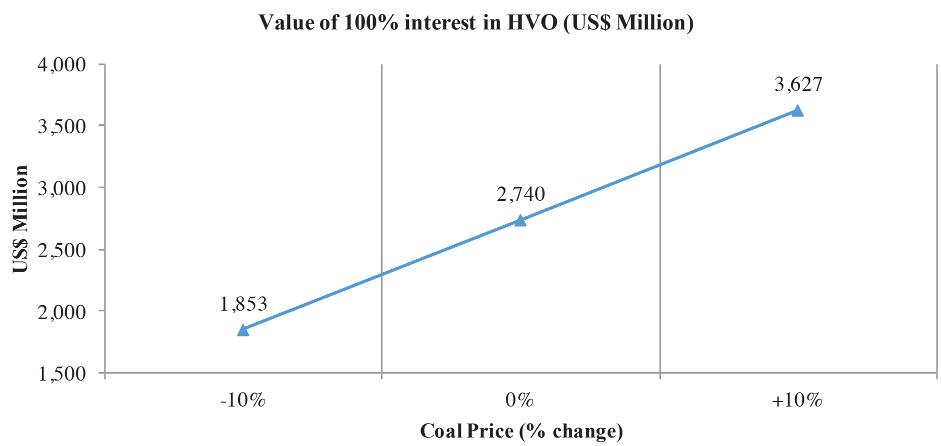
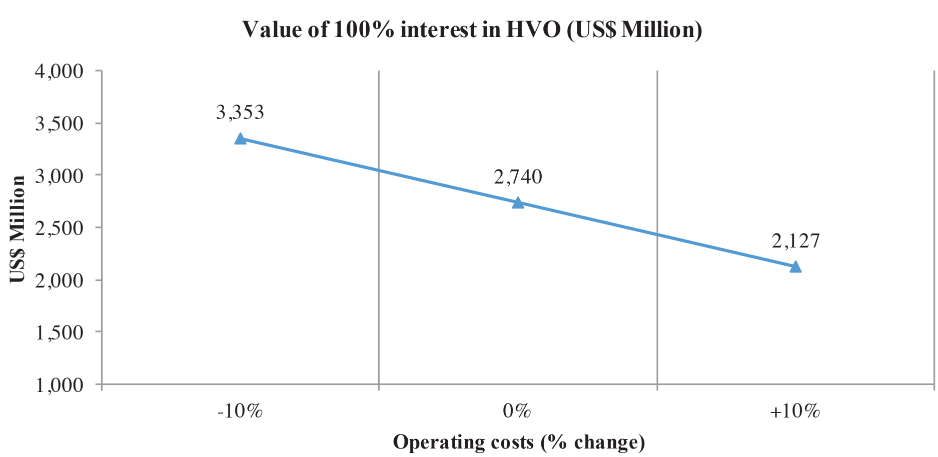
Coal prices

Shown below is the sensitivity analysis for a 10% increase or decrease in coal prices with the remaining parameters and assumptions remaining unchanged. The valuation under each scenario is computed and presented in the following table:



Operating costs

Shown below is the sensitivity analysis for a 10% increase or decrease in the operating costs (excluding depreciation and amortization) with the other parameters and assumptions remaining unchanged. The valuation under each scenario is computed and presented in the following table:



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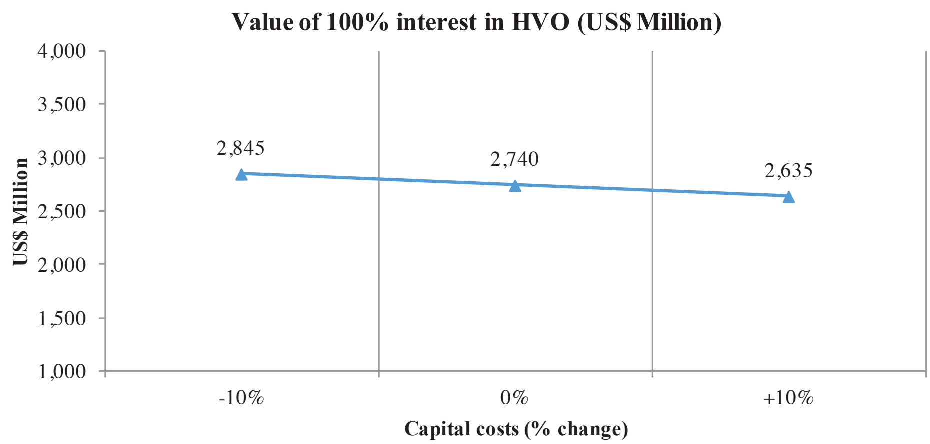
<u>Capital cost</u>

Shown below is the sensitivity analysis for a 10% increase or decrease in the capital costs with the other parameters and assumptions remaining unchanged. The valuation for each scenario is computed and presented in the following table:



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13. Valuation of Mount Thorley Warkworth

Based on our findings and conclusions presented in previous sections, we have adopted the following key parameters and assumptions for the valuation of MTW.

13.1 Discounted Cash flow method

13.1.1 Assumptions

The valuation is subject to the following assumptions:

- The mine plan from FY2017 to FY2040 according to the CPR;
- The time period between production and sales is reasonably short;
- Working capital forecast for the MTW is based on the historical trends of combined operations of HVO and MTW from FY2012– FY2016 which are as follows:

	Average number of days turnover
Accounts receivables	42 days
Accounts payables	64 days
Inventory	30 days

- Income tax rate of 30% is based on Australia's corporate tax rate as at 31st December 2016;
- Coal price projections are based on price forecast prepared by various pricing estimates from brokers, banks and industry experts;
- Production projection is based on CPR; and
- Capital cost and operating cost is based on CPR.

13.1.2 Cash inflows

Price of coal

According to the Company, revenue will be generated from the sale of coal to various customers.
We have reviewed the forecasts from various pricing sources including Wood Mackenzie, AME and consensus from various brokers and banks. Due to recent price volatility, we have adopted the average forecasted price provided by Wood Mackenzie, AME, various brokers and banks. The forecast coal prices from FY2017 to FY2021 are based on forecast coal prices (real price, basis year as at FY2016) for similar coal quality as that produced by MTW. Given the long term uncertainty of prices associated with any commodity, we have assumed stable prices from FY2021 onwards until FY2040.

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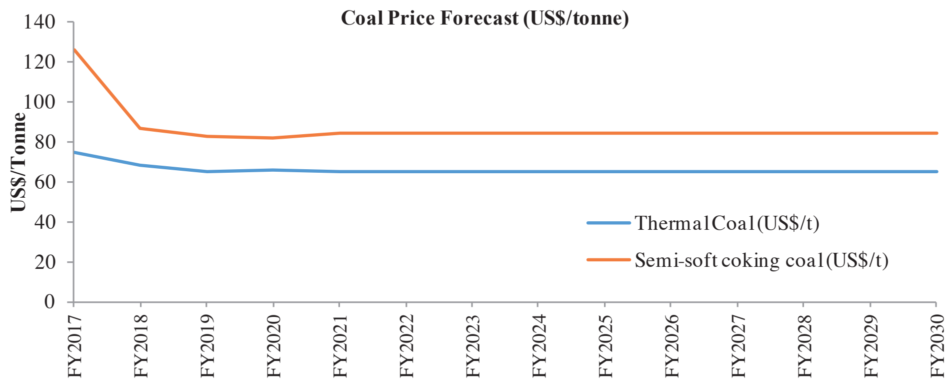
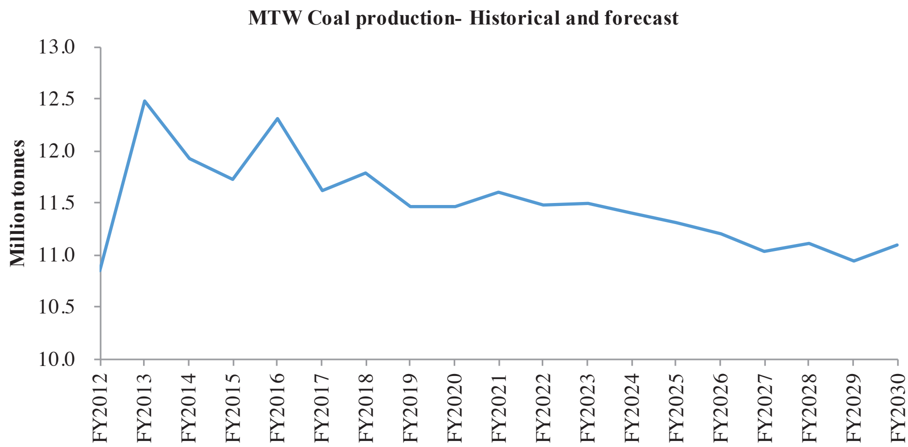


Year	Thermal coal (US$/t)	Semi-soft coking coal (US$/t)
FY2017	75	126
FY2018	68	87
FY2019	65	83
FY2020	66	82
FY2021	65	84
FY2022	65	84
FY2023	65	84
FY2024	65	84
FY2025	65	84
FY2026	65	84
FY2027	65	84
FY2028	65	84
FY2029	65	84
FY2030	65	84

Source: WoodMackenzie, AME, various banks and brokers

<u>Quantity of coal production forecast</u>

In FY2016, MTW produced 12.3 million tonnes of coal. According to the mine plan in the CPR from FY2017 to FY2040, in FY2017 production is forecast to be approximately 11.6 million tonnes. It is expected FY2018 onwards, the coal production will remain fairly stable with an average coal production at 11.3 million tonnes until FY2030. From FY2031 onwards, the production is forecast to gradually decrease to 5.3 million tonnes of coal in FY2040 according to the CPR when the mine is projected to exhaust its mineable coal resource.



Note: The mine continues production until 2040 based on mine plan provided by CPR.

Source: CPR

Quality of coal production in forecast

Similar to HVO, MTW produces a semi soft coking coal that is highly regarded by major steel mills throughout Asia for various reasons, particularly the low impurities in the coal.

MTW also produces three high quality thermal coal products based on ash content, typically categorized as "low ash", "medium ash" and "high ash". Average thermal coal quality is 13.5%. The thermal coal produced is consistent with historical high quality thermal coals and customers expected requirements. As they differ in specification, they attract different customers and prices accordingly.

13.1.3 Cash outflows

Operating Costs

Operating costs for the Assets are reported as Free on Rail ("**FOR**" or "**Onsite Costs**") and Free on Board ("**FOB**" or "**FOR plus off site costs**") cash costs. These cost metrics incorporate the following costs:

Onsite costs: include all costs to produce the product from mining either of the rail loading facilities and incorporate the following:

- Open cut mining of waste and coal: This includes the drill and blast costs, dragline, excavators, trucks, and haulage costs to the waste dumps and production plants.
- Site Administration (G & A costs): This includes technical services and administration labour costs.
- Coal processing: All costs associated with washing of the coal and transport to the rail loading facilities.

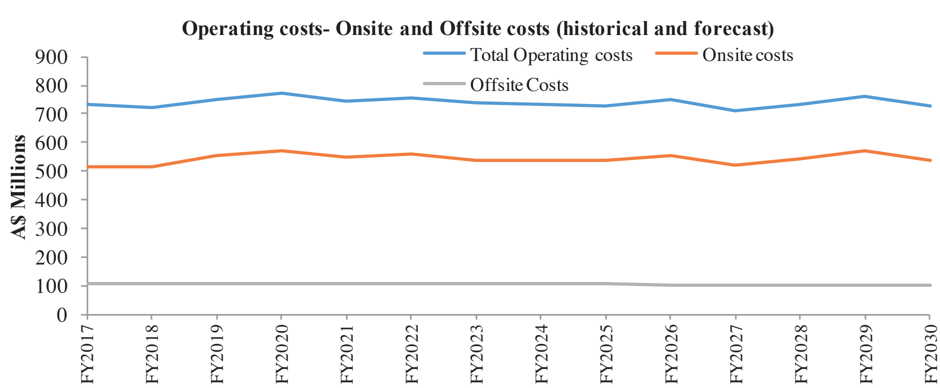
Offsite costs: includes all costs to transport the coal products to the port for loading onto ships and subsequent transfer to customers. These costs include the following:

- Rail: Costs associated with third party rail freight from the rail loading facilities to the port terminals
- Port: Costs associated with transfer of coal product from rail freight to boat via the coal handling terminals at the Port of Newcastle.
- Other costs: These include levies, corporate management, and demurrage at the port.

According to the CPR, total FOB cost is estimated at an average of A$58.6 per tonne of coal product for the life of the mine. The expected operating costs (excluding depreciation and amortization) for the period to FY2030 are as follows:

MTW Costs (A$ Million)	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Total Operating costs excl. royalties	**622**	**623**	**661**	**680**	**654**	**665**	**645**
Onsite costs	514	514	555	574	547	559	539
Offsite Costs	108	109	106	106	107	106	106

MTW Costs (A$ Million)	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
Total Operating costs excl. royalties	**644**	**639**	**659**	**625**	**644**	**673**	**641**
Onsite costs	539	535	555	523	542	572	539
Offsite Costs	105	104	104	102	102	101	102



Note: The mine continues production until 2040 based on mine plan provided by CPR.

Source: CPR

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NSW Mineral Royalty

In New South Wales, Australia, a mineral royalty paid by miners is the price charged by the Crown for the transfer of the right to extract a mineral resource. According to Part 7, Clause 74 of Mining Regulation 2016, issued by Resources & Energy, Department of Industry of New South Wales Government, the base rate of royalty for coal is prescribed as 8.2% of the value of coal recovered by open cut mining. Royalty to the New South Wales Government is payable within 21 days after the beginning of each month.

Capital Expenditure

Capital Costs for the project are separated into the following cost metrics:

- Growth Capital: Includes capital required for the upgrades of the coal processing plants and site infrastructure.
- Sustaining capital: Includes capital required to replace mobile and fixed plant as part of ongoing maintenance and production requirements. This includes all site infrastructure production fleets, coal processing plants and tails storage facilities.
- Closure: Capital required for rehabilitating the site upon closure of the operations including pit and coal processing plants and tails storage facilities.

Detailed capital expenditure projection is stated as follows:

Capital Expenditure (A$ Million)	FY2017 to FY2040
Growth	0
Sustaining	1,602
Closure	116
Total Capital Expenditure	1,718

Source: CPR

For sustaining the operations until year 2040, an average capital expenditure forecast each year from FY2017 to FY2040 is A$71.6 million.

13.1.4 Discount rate

To discount the future cash flows related to MTW to their present value, we have used an annual discount rate of 7.5% after accounting for long term inflation. The discount rate reflects the required rate of return on the investment and is based on its WACC. Please refer to Appendix 3 for details of computation of the discount rate.

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13.1.5 Annuity value

We have been provided with a mine plan (from CPR report) consisting of a production schedule until year 2040. After that no production is planned. Therefore, we have not estimated the value of potential open-pit or underground coal resources that may be extractable after FY2040. Hence, no annuity value is determined beyond FY2040.

13.1.6 Net Present Value of Net Cash Flow (NPV)

With cash flows multiplied by the present value factor for each period, we can derive the net present value of the cash flow for each year as at the Valuation Date. The NPV is determined by summation of all present values during the projection period plus the present value of the annuity to represent cash flow from the final projection year through to the end of mine life.

13.1.7 Marketability Discount

According to the International Glossary of Business Valuation Terms, marketability means the relative ease and promptness with which a security or commodity may be sold when desired, at a representative current price, without material concession in price merely because of the necessity of the sale. Investors will price in a discount for the additional costs and risks of liquidation when valuing equity in privately held companies. For this exercise, we are of the opinion that no marketability discount is applicable for the purpose of this valuation. This is an operating mine that has been in operation for many years and has been profitable. We believe that this asset could be listed with relative ease by itself in most markets in the world and hence we concluded that no marketability discount needs to be allowed.

13.1.8 Valuation Range

We have set the upper and lower limits of the valuation range with discount rate at 1% higher, and 1% lower against the applied WACC. For purposes stated herein and subject to the limitations and assumptions as set out in this report, the Market Value of a 100% interest in MTW as at the Valuation Date is within the range of US$ 1.728 billion and US$ 1.994 billion, with the preferred Value at US$ 1.852 billion. The Market Value of the Target's ownership interest in MTW as at the Valuation Date is within the range of US$ 1.108 billion and US$ 1.278 billion, with the preferred Value at US$ 1.187 billion.

Further details of the valuation of MTW can be found in the Appendix 6.

13.1.9 Scenario/ Sensitivity Analyses

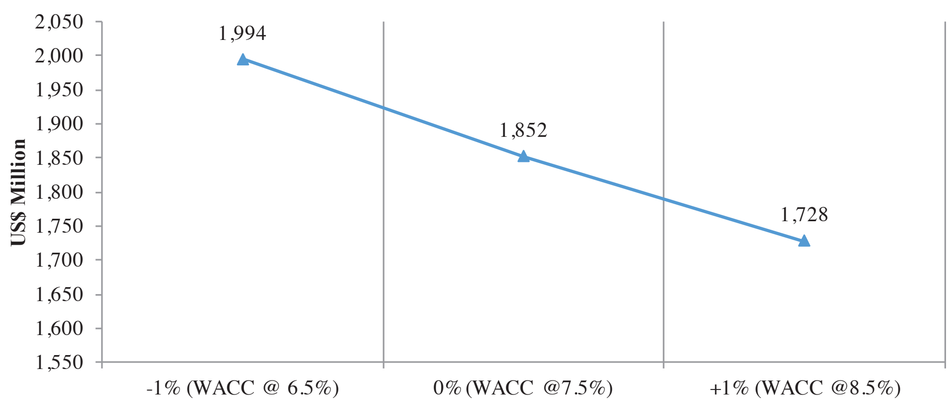
Sensitivity analyses have been performed to illustrate the NPV of MTW under various scenarios. The sensitivity analyses are meant for illustration purposes only and do not necessarily imply that the NPV of MTW could be as stated below. The parameters that are being considered for the sensitivity analyses are:

- changes to the discount rate(s);
- changes in coal prices;
- changes in operating costs; and
- changes in capital costs.

Discount rate

Shown below is the sensitivity analysis for a 1% increase or decrease in discount rates with other parameters and assumptions remaining unchanged. The base case considered is with discount rate of 7.5%. The valuation for each scenario is computed and presented in the following table:

Value of 100% interest in MTW (US$ Million)



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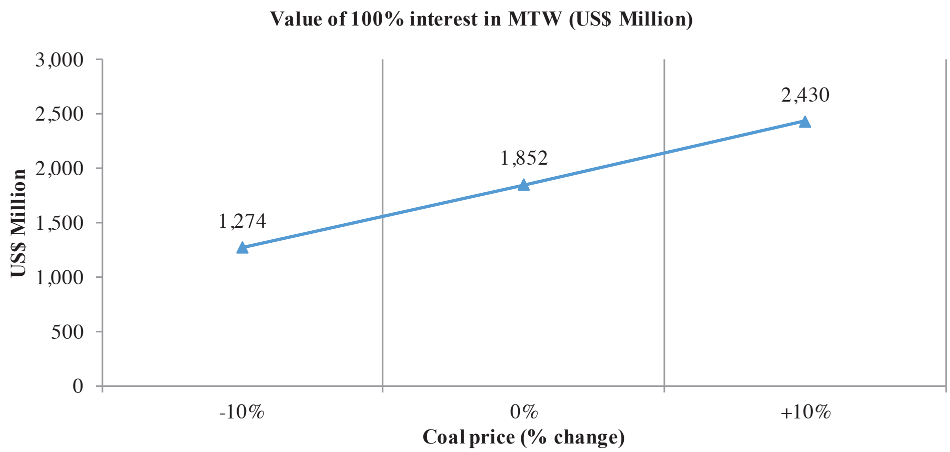
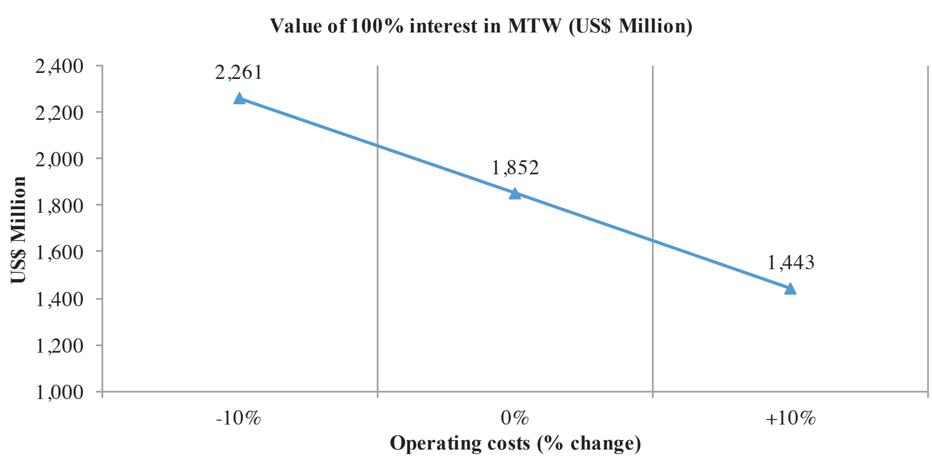
Coal prices

Shown below is the sensitivity analysis for a 10% increase or decrease in coal prices with the remaining parameters and assumptions remaining unchanged. The valuation under each scenario is computed and presented in the following table:



Operating costs

Shown below is the sensitivity analysis for a 10% increase or decrease in the operating costs (excluding depreciation and amortization) with the other parameters and assumptions remaining unchanged. The valuation under each scenario is computed and presented in the following table:



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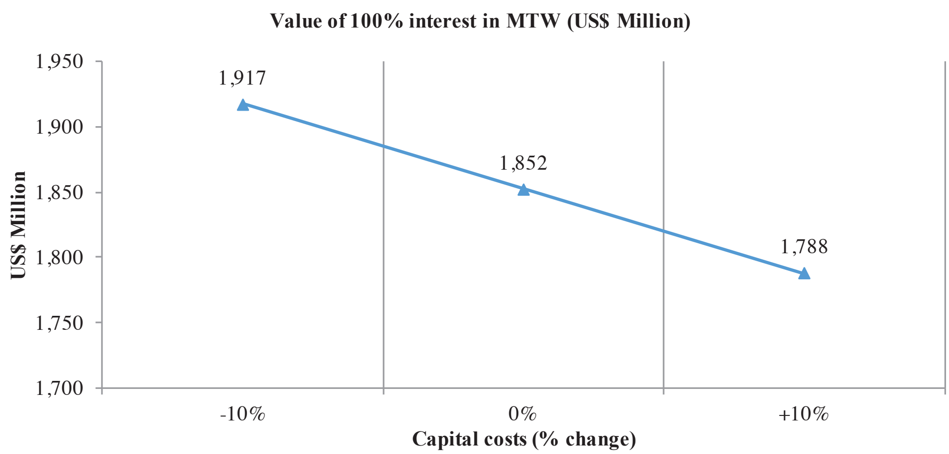
Capital cost

Shown below is the sensitivity analysis for a 10% increase or decrease in the capital costs with the other parameters and assumptions remaining unchanged. The valuation for each scenario is computed and presented in the following table:



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14. Statement of Value

14.1 Market Value- Hunter Valley Operations

For purposes stated herein and subject to the limitations and assumptions set out in this report, the Market Value of a 100% interest in HVO as at the Valuation Date is within the range of US$ 2.497 billion and US$ 3.034 billion, with the preferred Value at US$ 2.740 billion. The Market Value of the Target's ownership interest in HVO as at the Valuation Date is within the range of US$ 1.688 billion and US$ 2.051 billion, with the preferred Value at US$ 1.852 billion.

14.2 Market Value- Mount Thorley Warkworth

For purposes stated herein and subject to the limitations and assumptions as set out in this report, the Market Value of a 100% interest in MTW as at the Valuation Date is within the range of US$ 1.728 billion and US$ 1.994 billion, with the preferred Value at US$ 1.852 billion. The Market Value of the Target's ownership interest in MTW as at the Valuation Date is within the range of US$ 1.108 billion and US$ 1.278 billion, with the preferred Value at US$ 1.187 billion.

14.3 Market Value- the total Mineral Assets

For purposes stated herein and subject to the limitations and assumptions set out in this report, the Market Value of a 100% interest in the Mineral Assets as at the Valuation Date is within the range of US$ 4.225 billion and US$ 5.028 billion, with the preferred Value at **US$ 4.592 billion**. The Market Value of the Target's ownership interest in the Mineral Assets as at the Valuation Date is within the range of US$ 2.795 billion and US$ 3.329 billion, with the preferred Value at **US$ 3.040 billion**. For reference purpose, the Market Value of a 100% interest in HVO plus Target's ownership interest in MTW is within the range of US$ 3.604 billion and US$ 4.312 billion, with the preferred Value at US$ 3.927 billion.

15. Key Risk Factors

The Operations are subject to both specific risks to its business activities and risks of a general nature. Individually, or in combination, these might adversely affect the future operating and financial performance of the Operations. This section describes some, but not all, of the risks which may be associated with the Operations.

15.1 Specific Risk Factors

15.1.1 Exploration, development and production

Potential investors should understand that mineral exploration, development and mining are high-risk enterprises, only occasionally providing high rewards. There is no assurance that exploration of the mineral interests of the Mine will result in the discovery of an economically viable mineral deposit. Even if an apparently viable mineral deposit is identified, there is no guarantee that it can be profitably mined.

The discovery of mineral deposits is dependent upon a number of factors, not the least of which is the technical skill of the exploration personnel involved. The commercial viability of a mineral deposit, once discovered, is also dependent upon a number of factors, some of which are the particular attributes of the deposit, such as size, grade and proximity to infrastructure, metal prices and government regulations, including regulations relating to royalties, allowable production, importing & exporting of minerals, and environmental protection. In addition, assuming discovery of a commercial ore body, depending on the type of mining operation involved, several years can elapse from the initial phase of drilling until commercial operations are commenced.

The cost of the capital & operating expenditure, resources & reserves estimates of the mine described in the above section are based on certain estimates and assumptions with respect to the method and timing of exploration and/or production. By their nature, these estimates and assumptions are subject to significant uncertainties and accordingly, the actual costs may materially differ from these estimates and assumptions.

Accordingly, no assurance can be given that the cost estimates, resources and reserves estimates and the underlying assumptions will be realized in practice, which may materially and adversely affect viability of the Operations. Whilst the exploration, development and production program outlines the current intentions with regard to the project, the actual expenditure and exploration and production work undertaken will depend on the results generated. The priority of the prospects and accordingly expenditure may be redirected as results are obtained and therefore actual expenditure may differ materially from budgeted expenditure.

In addition there are always geotechnical risks associated with mining operations. Rock behavior can be unpredictable as highlighted in the CPR. Underground mining is especially vulnerable to these risks as ground movement can render production areas inaccessible. Larger openings that have collapsed are very difficult to return to service with no guarantee that the impacted area would not collapse again. In addition, the success of the underground mining is dependent on a product produced to be sufficiently fine for easy extraction from underground once the undercutting is completed. Since ground conditions are different from one area to the next, there is a risk that performance and extraction rates of the mine may be negatively impacted.

15.1.2 Fluctuation in coal prices

The profitability and the value of the reserves depend upon the prices of the minerals. The contract prices it may receive in the future for coal depend upon factors beyond our control, including the following:

- The domestic and foreign supply and demand for coal;
- The quantity and quality of coal available from competitors;
- Adverse weather, climatic or other natural conditions, including natural disasters;
- Domestic and foreign economic conditions, including economic slowdowns;
- Legislative, regulatory and judicial developments or environmental regulatory changes that would adversely affect the industry; and
- The proximity to, capacity of and cost of transportation and port facilities.
- A substantial or extended decline in the prices it receives for its future coal sales contracts could materially and adversely affect the valuation by decreasing its profitability and the value of its coal reserves.

15.1.3 Funding

While the Operations seem to have sufficient funds to meet its capital requirements for its proposed exploration program and other expenses, it may need additional funds, or may seek to develop opportunities of a kind that will require it to raise additional capital from equity or debt sources. It is difficult to predict the level of funding required with accuracy. Any additional equity financing may be dilutive and debt financing, if available, may involve restrictions on financing and operating activities. There can be no assurance that the Operations will be able to raise such financing on acceptable terms or at all. If the Operations are unable to obtain such additional financing, it may be required to reduce the scope of its anticipated activities, which could adversely affect its business, financial condition and operating results.

15.1.4 Performance of Equipment, Technical Personnel and Contractors

There is also a risk that hired contractors (including technical personnel) may under-perform or that equipment may malfunction, either of which may affect the progress of the Operations' exploration and mining activities. There may also be high demand for contractors providing other services to the mining industry. Consequently, there is a risk that Operations may not be able to source all the personnel and equipment required to fulfil its proposed exploration and mining activities included in its planned budgets.

15.1.5 Disruption to Business Operations

The Operations are also subject to a range of operational risks. Such operational risks include equipment failures, IT system failures, external services failure (including energy or water supply), industrial action or disputes and natural disasters. While the Target will endeavor to take appropriate action to mitigate these operational risks or to insure against them, one or more of these risks may have a material adverse impact on the performance of the Operations.

15.1.6 Occupational Health and Safety

Given project exploration activities (and especially if it achieves exploration success leading to mining activities), it will face the risk of workplace injuries which may result in workers' compensation claims, related common law claims and potential occupational health and safety prosecutions. Further, the production processes used in conducting any future mining activities of the Mine can be dangerous. The Target has, and intends to maintain, a range of workplace practices, procedures and policies which will seek to provide a safe and healthy working environment for its employees, visitors and the community.

While the Target intends to maintain appropriate safeguards in its exploration activities, serious injury to an employee or another person could occur and give rise to liability under occupational health and safety laws and regulations and also under the general law.

15.2 Environmental, Other Regulations and Legal Risk

15.2.1 Extensive environmental regulations

The coal mining industry is subjected to increasingly strict regulation by federal, state and local authorities with respect to environmental matters such as:

- Limitations on land use;
- Mine permitting and licensing requirements;
- Reclamation and restoration of mining properties after mining is completed;
- Management of materials generated by mining operations;
- The storage, treatment and disposal of waste materials (solids and liquids);
- Remediation of contaminated soil and groundwater;
- Air quality standards;
- Water pollution;
- Protection of human health, plant-life and wildlife, including endangered or threatened species;
- Protection of wetlands;
- The discharge of materials into the environment; and
- The effects of mining on surface water and groundwater quality and availability.

The costs, liabilities and requirements associated with the laws and regulations related to these and other environmental matters may be costly and time-consuming and may delay commencement or continuation of exploration or production operations. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties, the imposition of clean-up and site restoration costs and liens, the issuance of injunctions to limit or cease operations, the suspension or revocation of permits and other enforcement measures that could have the effect of limiting production from the operations. The Operations may incur material costs and liabilities resulting from claims for damages to property or injury to persons arising from the operations.

15.2.2 Mining permits

The failure to obtain and renew permits necessary for the mining operations could negatively affect the Operations. Mining companies must obtain numerous permits that impose strict regulations on various environmental and operational matters in connection with coal mining. These include permits issued by various federal, state and local agencies and regulatory bodies.

The permitting rules, and the interpretations of these rules, are complex, change frequently, and are often subject to discretionary interpretations by the regulators, all of which may make compliance more difficult or impractical, and may possibly preclude the continuance of ongoing operations or the development of future mining operations. The public, including non-governmental organizations, anti-mining groups and individuals, have certain statutory rights to comment upon and submit objections to requested permits and environmental impact statements prepared in connection with applicable regulatory processes, and otherwise engage in the permitting process, including bringing citizens' lawsuits to challenge the issuance of permits, the validity of environmental impact statements or performance of mining activities.

Accordingly, required permits may not be issued or renewed in a timely fashion or at all, or permits issued or renewed may be conditioned in a manner that may restrict the ability to efficiently and economically conduct its mining activities, any of which would materially reduce its production, cash flow and profitability.

15.2.3 Changes in the legal and regulatory environment

The conduct of the mining business is subject to various laws and regulations in Australia. These laws and regulations may change, sometimes dramatically, as a result of political, economic or social events or in response to significant events. Certain recent developments may cause changes in the legal and regulatory environment in which the Operations operate and may impact the results or increase its costs or liabilities.

Such legal and regulatory environment changes may include changes in; the processes for obtaining or renewing permits; costs associated with providing healthcare benefits to employees; health and safety standards; accounting standards; taxation requirements and competition laws.

15.3 General Risk Factors

15.3.1 Economic Conditions

The performance of the Operations may be influenced by the general economic conditions within Australia and the global economy. Changes in interest rates, employment rates, exchange rates, inflation, consumer spending, access to debt and capital markets and government fiscal, monetary and regulatory policies may affect customer's sentiment and may result in the reduction of demand for coal which will have an adverse effect on Operations' financial performance and growth.

Thus, the Operations are and will continue to be, dependent on the economic growth, foreign exchange movement, political stability and social conditions in Australia and any other countries in which it intends to operate in the future. Its growth and expansion plans may also be undermined by any labour disputes, political unrest, economic or financial crisis or disturbances occurring in Australia and any of such countries that the Operations are exposed to.

16. Exclusions and Limitation of Liability

Our work has been performed in accordance with and subject to our Standard Conditions of Engagement, a copy of which has been previously provided. For your reference, we highlight some of the more pertinent points:

- We have used due skill and care in the provision of the services set out in this report;
- We shall not under any circumstances be liable for damages, or for losses, that are not a direct result of breach of contract, or negligence, on our part in respect of services provided in connection with, or arising out of, the engagement set out in this letter (or any variation or addition thereto), or for any consequential losses or loss of profits of whatsoever nature. In any event, the liability of Censere, its related companies, partners, directors and staff (whether in contract, negligence or otherwise) shall in no circumstances exceed the fees paid specifically for the work in question which allegedly entailed a breach of contract or negligence on our part;
- In no event shall Censere, its related companies, partners, directors and staff be liable for any loss, damage, cost or expense arising in any form or in connection with the fraudulent acts or omissions, or any misrepresentations or any default on the part of the directors, employees or agents of the management of the Company and its subsidiaries;
- Without derogating from the aforesaid provisions, we shall not under any circumstances whatsoever, be liable to any third party, whether or not they are shown a copy of any work that we have done pursuant to the terms of our engagement, and whether or not we have consented to such work being shown to them, save and except where we specifically agreed in writing to accept such liability; and
- Except as a result of our own negligence or wilful default, in the event that we find ourselves subject to a claim or incur legal costs from another party as a result of false or misrepresented information provided by Management in connection with this engagement, any claim established against us and the cost we necessarily incur in defending it would form part of the expenses we would look to recover from the Management of the Company.

17. APPENDICES

Appendix 1 – Map

Hunter Valley Assets

Source: CPR

Appendix 2 – Photographs

HVO and MTW













Appendix 3 – Derivation of Discount Rate

The income approach requires the application of an appropriate discount rate that reflects the inherent risks relating to the cash flows. The discount rate for the future Free Cash Flows of both HVO and MTW operations is the return on investments required by investors.

Weighted Average Cost of Capital (WACC)

WACC is the minimum acceptable return on investments required by lenders and shareholders. It is the weighted cost of debt and equity funded capital and is the appropriate rate to discount the free cash flows of Oxide Operation. The formula for calculating WACC is:

$$WACC = K_e * W_e + K_d * (1- t) * W_d$$

where:

K_e = Cost of equity

K_d = Cost of debt

W_e = Equity weight (value of equity divided by invested capital)

W_d = Debt weight (value of debt divided by invested capital)

t = Effective tax rate

Detailed information on WACC computation is as below:

Cost of Equity

The return on equity is the minimum acceptable return on investment required by shareholders. The Capital Asset Pricing Model ("CAPM") is a model which indicates what should be the expected or required rate of return on risky assets. CAPM characterises the relationship between a common stock's expected return and risk as:

$$K_e = R_f + \beta[R_m - R_f] + \varepsilon$$

where

K_e = Cost of equity

R_f = Risk-free rate of return

β = Beta on firm that measures the co-movement of that firm's returns with those of the overall market

R_m = Expected return of the overall market

ε = Epsilon, a measure of project or company specific risk which cannot be quantified directly

Derived cost of equity is as below:

Cost of Equity	Ref:	Base case
Risk Free Rate:	a	2.77%
Equity Risk Premium:	b	6.00%
Average Unlevered Beta:	c	1.00
Relevered Beta	d	1.30
Estimated Return of Equity	e = a+d*b	**10.57%**
Add: Country/ illiquidity risk premium	f	2%
Cost of Equity	g = e + f	**12.57%**

Remarks:

a: Based on 10-year reference yield on the Australian Government Bonds as at Valuation Date (Source: Bloomberg)

b: Australia market premium was collected from Damodaran

c: Average of Unlevered Betas

d: Relevered beta from comparables debt/equity ratio and Australia corporate tax rate.

f: Illquidity risk premium is applied to the mineral asset, due to its size and marketability. Country risk premium for Australia is 0%.

Beta

Beta is derived by taking the unlevered betas of the Comparables and then re-levering by the optimal debt-equity ratio and the tax rate of the Operations. Please refer to Appendix 4 for a description of the Comparables. The Comparables beta's are as follows:

	Comparable Listed Companies	Ticker	Equity Ratio %	Loan Ratio %	Cost of Debt Before Tax %	1-Tax Rate %	Cost of Debt After Tax %	31-Dec-16 Beta * Levered	Market D (%) /E (%) Ratio	Tax Rate %	31-Dec-16 Beta Unlevered
1	Whitehaven Coal Ltd	WHC AU Equity	**53.45%**	46.5%	2.72%	74%	**2.02%**	**1.760**	87.09%	**25.97%**	1.07
2	New Hope Corp Ltd	NHC AU Equity	**98.89%**	1.1%	3.60%	70%	**2.52%**	**0.767**	1%	**30.00%**	0.76
3	Anglo American PLC	AAL LN Equity	**58.38%**	41.6%	1.65%	73%	**1.21%**	**1.808**	71%	**26.60%**	1.19
4	Glencore PLC	GLEN LN Equity	**59.74%**	40.3%	-0.24%	70%	**-0.17%**	**1.864**	67%	**30.00%**	1.27
5	BHP Billiton Ltd	BHP AU Equity	**66.99%**	33.0%	5.00%	70%	**3.50%**	**1.595**	49%	**30.00%**	1.19
6	Stanmore Coal Ltd	SMR AU Equity	**100.00%**	0.0%	0.00%	70%	**0.00%**	**1.028**	0%	**30.00%**	1.03
7	Washington H Soul Pattinson & Co Ltd	SOL AU Equity	**97.94%**	2.1%	2.33%	99%	**2.31%**	**0.596**	2%	**0.69%**	0.58
8	Rio Tinto Ltd	RIO AU Equity	**80.87%**	19.1%	1.58%	75%	**1.19%**	**1.199**	24%	**24.70%**	1.02
9	Yanzhou Coal Mining Co Ltd	1171 HK Equity	**43.29%**	56.7%	3.89%	79%	**3.06%**	**1.508**	131%	**21.42%**	0.74

Sources: Bloomberg

	Debt/Equity Ratio
Comparables	43.13%
Historical Financial statement	43%
Selected	**43%**

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Cost of Debt

Derived cost of debt is as below:

Weighted Average Cost of Capital		
Cost of Equity		**12.57%**
Cost of Debt (Pre-tax)	h	3.75%
Tax Rate	i	30.00%
Cost of Debt (After-tax)		**2.63%**

Derived WACC

Capital Structure

We have made reference to the Comparables for estimates of the long term capital structure, which consists of 70% equity and 30% debt.

Based on the above inputs for cost of equity and cost of debt, WACC is derived as follows:

WACC (nominal) = Ke * We + Kd * (1 - t) * Wd
= 12.57% * 70% + 3.75% * (1 - 30%) * 30%
= 9.6% (rounded)

Furthermore, in order to account for the inflation, we have further applied inflation factor of 2%[3] on the WACC.

Weighted Average Cost of Capital		
Cost of Equity		**12.57%**
Cost of Debt (Pre-tax)	h	3.75%
Tax Rate	i	30.00%
Cost of Debt (After-tax)		**2.63%**
Projected debt equity structure		
Percentage of equity in the capital structure	j	70%
Percentage of debt in the capital structure		30%
WACC (Nominal)		9.60%
Inflation Factor		**2.00%**
WACC (Real)		**7.45%**

h Prime lending rate from Reserve Bank of Australia
i Statutory tax rate in Australia
j Utilizing equity in the capital structure from the comparables data

[3] Long term global inflation for advanced economies from IMF. (October 2016 forecast)

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Appendix 4 – Comparable Companies

No.	Company Name	Bloomberg Ticker		Description	Country
1	Whitehaven Coal Ltd	WHC AU	WHC AU Equity	Whitehaven Coal Limited operates as a coal producer. The Company mines and sells metallurgical and thermal coals to the global steel, power generation, and metallurgical industries.	AUSTRALIA
2	New Hope Corp Ltd	NHC AU	NHC AU Equity	New Hope Corporation Limited is a thermal coal production company based in Australia. The Company also has interests in logistics and infrastructure operations in Australia as well.	AUSTRALIA
3	Anglo American PLC	AAL LN	AAL LN Equity	Anglo American PLC is a global mining company. The Company's mining portfolio includes bulk commodities including iron ore, manganese, and metallurgical coal, base metals including copper and nickel and precious metals and minerals including platinum and diamonds. Anglo American has mining operations in Africa, Europe, North and South America, Asia, and Australia.	BRITAIN
4	Glencore PLC	GLEN LN	GLEN LN Equity	Glencore plc is a diversified natural resources company. The Company operates in three groups, metals and minerals, energy products, and agricultural products. Glencore offers its products and services around the world.	SWITZERLAND
5	BHP Billiton Ltd	BHP AU	BHP AU Equity	BHP Billiton Limited is an international resources company. The Company's principal business lines are mineral exploration and production, including coal, iron ore, gold, titanium, ferroalloys, nickel and copper concentrate, as well as petroleum exploration, production, and refining. Dually-listed company with BLT LN.	AUSTRALIA
6	Stanmore Coal Ltd	SMR AU	SMR AU Equity	Stanmore Coal Ltd. explores for coal in Australia. The Company's interests include a portfolio of coal assets within Queensland's Bowen and Surat Basin coal provinces.	AUSTRALIA
7	Washington H Soul Pattinson & Co Ltd	SOL AU	SOL AU Equity	Washington H. Soul Pattinson & Company Limited is an investment holding company. The Company owns shares and properties, coal mining, bulk handling, commercial television licensee, telecommunications carrier, merchant banking, funds management, pharmaceutical retailing, manufacture, processing and marketing of biscuits and cakes.	AUSTRALIA
8	Rio Tinto Ltd	RIO AU	RIO AU Equity	Rio Tinto Limited is an international mining company. The Company has interests in mining for aluminum, borax, coal, copper, gold, iron ore, lead, silver, tin, uranium, zinc, titanium dioxide feedstock, diamonds, talc and zircon. Dually-listed company with RIO LN.	BRITAIN
9	Yanzhou Coal Mining Co Ltd	1171 HK	1171 HK Equity	Yanzhou Coal Mining Company Limited operates underground mining and coal preparation and operation businesses. Its products are sold in domestic and international markets. The Company also provides railway transportation services.	CHINA

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Appendix 5 – Valuation of Hunter Valley Operations (HVO)

(US$ Million)		FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
AUD-USD Spot rate @VD			0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72
FREE CASH FLOW TO FIRM																	
Revenue			1,208	1,107	1,053	1,066	1,079	1,069	1,079	1,093	1,092	1,060	1,056	1,034	1,030	1,035	1,043
Revenue growth (%)				*(8%)*	*(5%)*	*1%*	*1%*	*(1%)*	*1%*	*1%*	*(0%)*	*(3%)*	*(0%)*	*(2%)*	*(0%)*	*0%*	*1%*
EBIT			538	421	354	398	364	339	351	333	325	309	325	306	297	321	316
EBIT Margin			*44%*	*38%*	*34%*	*37%*	*34%*	*32%*	*33%*	*30%*	*30%*	*29%*	*31%*	*30%*	*29%*	*31%*	*30%*
Less:	Tax	30.0%	161	126	106	119	109	102	105	100	97	93	98	92	89	96	95
Add:	Depreciation & Amortization		29	30	32	34	36	38	40	43	45	48	51	53	55	58	61
	(% of revenue)		*2%*	*3%*	*3%*	*3%*	*3%*	*4%*	*4%*	*4%*	*4%*	*5%*	*5%*	*5%*	*5%*	*6%*	*6%*
Less:	Capital Spending		54	62	58	90	57	66	83	74	84	81	77	83	63	72	80
	(% of revenue)		*4%*	*6%*	*5%*	*8%*	*5%*	*6%*	*8%*	*7%*	*8%*	*8%*	*7%*	*8%*	*6%*	*7%*	*8%*
Less:	Working Capital Changes		70	(14)	(7)	4	(3)	(2)	2	(1)	(1)	(2)	2	(2)	(1)	3	(0)
	working capital	9	79	65	58	63	60	58	59	58	57	56	57	55	55	57	57
	(% of revenue)		*7%*	*6%*	*6%*	*6%*	*6%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*6%*	*5%*
Free Cash Flow to Firm			**281**	**276**	**229**	**218**	**236**	**211**	**202**	**203**	**189**	**185**	**200**	**186**	**201**	**208**	**202**

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(US$ Million)		FY2016	FY2032	FY2033	FY2034	FY2035	FY2036	FY2037	FY2038	FY2039	FY2040	FY2041	FY2042	FY2043	FY2044	FY2045
AUD-USD Spot rate @VD			0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72
FREE CASH FLOW TO FIRM																
Revenue			1,037	1,036	1,011	997	993	998	997	1,016	1,036	1,037	994	1,027	974	977
Revenue growth (%)			*(1%)*	*(0%)*	*(2%)*	*(1%)*	*(0%)*	*0%*	*(0%)*	*2%*	*2%*	*0%*	*(4%)*	*3%*	*(5%)*	*0%*
EBIT			325	346	319	328	307	331	316	307	299	283	224	238	213	219
EBIT Margin			*31%*	*33%*	*32%*	*33%*	*31%*	*33%*	*32%*	*30%*	*29%*	*27%*	*23%*	*23%*	*22%*	*22%*
Less:	Tax	30.0%	97	104	96	98	92	99	95	92	90	85	67	71	64	66
Add:	Depreciation & Amortization		48	41	43	47	51	57	68	74	82	90	96	104	104	109
	(% of revenue)		*5%*	*4%*	*4%*	*5%*	*5%*	*6%*	*7%*	*7%*	*8%*	*9%*	*10%*	*10%*	*11%*	*11%*
Less:	Capital Spending		82	99	70	102	95	117	203	108	127	121	136	70	74	54
	(% of revenue)		*8%*	*10%*	*7%*	*10%*	*10%*	*12%*	*20%*	*11%*	*12%*	*12%*	*14%*	*7%*	*8%*	*6%*
Less:	Working Capital Changes		(0)	1	(3)	1	(2)	3	(1)	0	0	(1)	(6)	3	(3)	1
	working capital	9	57	58	55	56	54	57	57	57	57	57	51	54	50	51
	(% of revenue)		*5%*	*6%*	*5%*	*6%*	*5%*	*6%*	*6%*	*6%*	*6%*	*5%*	*5%*	*5%*	*5%*	*5%*
Free Cash Flow to Firm			**194**	**183**	**200**	**174**	**173**	**169**	**86**	**181**	**165**	**168**	**123**	**198**	**182**	**207**

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(US$ Million)		FY2016	FY2046	FY2047	FY2048	FY2049	FY2050	FY2051	FY2052	FY2053	FY2054	FY2055	FY2056	FY2057	FY2058	FY2059	FY2060
AUD-USD Spot rate @VD			0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72
FREE CASH FLOW TO FIRM																	
Revenue			994	987	993	993	994	997	989	950	829	535	501	503	500	494	326
Revenue growth (%)			*2%*	*(1%)*	*1%*	*(0%)*	*0%*	*0%*	*(1%)*	*(4%)*	*(13%)*	*(35%)*	*(6%)*	*0%*	*(1%)*	*(1%)*	*(34%)*
EBIT			211	195	184	176	164	146	94	75	72	33	32	32	28	20	(88)
EBIT Margin			*21%*	*20%*	*19%*	*18%*	*16%*	*15%*	*9%*	*8%*	*9%*	*6%*	*6%*	*6%*	*6%*	*4%*	*(27%)*
Less:	Tax	30.0%	63	59	55	53	49	44	28	22	22	10	10	9	8	6	(26)
Add:	Depreciation & Amortization		118	126	136	149	158	168	225	226	199	135	129	131	131	134	179
	(% of revenue)		*12%*	*13%*	*14%*	*15%*	*16%*	*17%*	*23%*	*24%*	*24%*	*25%*	*26%*	*26%*	*26%*	*27%*	*55%*
Less:	Capital Spending		90	103	91	99	71	73	320	47	23	15	15	9	9	9	94
	(% of revenue)		*9%*	*10%*	*9%*	*10%*	*7%*	*7%*	*32%*	*5%*	*3%*	*3%*	*3%*	*2%*	*2%*	*2%*	*29%*
Less:	Working Capital Changes		0	(1)	0	0	(0)	(1)	0	(3)	(5)	(16)	(1)	0	(0)	(1)	(9)
	working capital	9	52	51	51	51	51	50	51	48	43	27	26	26	25	25	15
	(% of revenue)		*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*
Free Cash Flow to Firm			**175**	**161**	**174**	**173**	**202**	**198**	**(30)**	**233**	**232**	**159**	**138**	**144**	**142**	**139**	**33**

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Appendix 6 – Valuation of Mount Thorley Warkworth (MTW)

(US$ Million)		FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029
AUD-USD Spot rate @VD			0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72
FREE CASH FLOW TO FIRM															
Revenue			1,022	877	817	829	831	825	829	816	807	803	793	798	786
Revenue growth (%)				*(14%)*	*(7%)*	*2%*	*0%*	*(1%)*	*1%*	*(2%)*	*(1%)*	*(1%)*	*(1%)*	*1%*	*(1%)*
EBIT			468	332	246	239	255	239	253	238	231	206	215	198	160
EBIT Margin			*46%*	*38%*	*30%*	*29%*	*31%*	*29%*	*31%*	*29%*	*29%*	*26%*	*27%*	*25%*	*20%*
Less:	Tax	30.0%	140	100	74	72	76	72	76	71	69	62	65	59	48
Add:	Depreciation & Amortization		31	33	37	42	46	49	52	56	58	65	71	79	86
	(% of revenue)		*3%*	*4%*	*5%*	*5%*	*5%*	*6%*	*6%*	*7%*	*7%*	*8%*	*9%*	*10%*	*11%*
Less:	Capital Spending		46	35	81	86	56	52	52	59	32	86	74	80	78
	(% of revenue)		*5%*	*4%*	*10%*	*10%*	*7%*	*6%*	*6%*	*7%*	*4%*	*11%*	*9%*	*10%*	*10%*
Less:	Working Capital Changes		59	(16)	(9)	0	2	(1)	2	(1)	(1)	(2)	1	(1)	(3)
	working capital	9	68	52	43	43	45	43	45	44	43	41	43	42	39
	(% of revenue)		*7%*	*6%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*
Free Cash Flow to Firm			**253**	**247**	**137**	**123**	**166**	**165**	**176**	**165**	**188**	**125**	**147**	**138**	**123**

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(US$ Million)		FY2016	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035	FY2036	FY2037	FY2038	FY2039	FY2040
AUD-USD Spot rate @VD			0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72
FREE CASH FLOW TO FIRM													
Revenue			795	759	664	727	709	587	711	481	447	636	384
Revenue growth (%)			*1%*	*(5%)*	*(13%)*	*10%*	*(3%)*	*(17%)*	*21%*	*(32%)*	*(7%)*	*42%*	*(40%)*
EBIT			206	174	118	155	122	86	147	91	93	176	(14)
EBIT Margin			*26%*	*23%*	*18%*	*21%*	*17%*	*15%*	*21%*	*19%*	*21%*	*28%*	*(4%)*
Less:	Tax	30.0%	62	52	35	47	37	26	44	27	28	53	(4)
Add:	Depreciation & Amortization		70	75	73	85	88	76	95	66	61	88	139
	(% of revenue)		*9%*	*10%*	*11%*	*12%*	*12%*	*13%*	*13%*	*14%*	*14%*	*14%*	*36%*
Less:	Capital Spending		100	78	60	35	28	18	14	1	1	2	85
	(% of revenue)		*13%*	*10%*	*9%*	*5%*	*4%*	*3%*	*2%*	*0%*	*0%*	*0%*	*22%*
Less:	Working Capital Changes		3	(3)	(7)	6	(3)	(7)	10	(13)	(1)	14	(18)
	working capital	9	42	38	31	37	34	27	37	24	23	37	19
	(% of revenue)		*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*6%*	*5%*
Free Cash Flow to Firm			**112**	**122**	**103**	**153**	**148**	**126**	**175**	**141**	**126**	**195**	**62**

Appendix 7 – Valuer's Declaration

1. The information in the attached report that relates to the Valuation of Mineral Assets reflects information compiled and conclusions derived by Mr. Brett Shadbolt, who is a Member of The Australasian Institute of Mining and Metallurgy.

2. Mr. Brett Shadbolt is not a permanent employee of Runge Asia Limited, RPMGlobal, Yanzhou Coal and its subsidiaries.

3. Mr. Brett Shadbolt has sufficient experience relevant to the Valuation of the Mineral Assets under consideration and to the activity which he is undertaking to qualify as a Practitioner as defined in the 2015 edition of the 'Australasian Code for the Public Reporting of Technical Assessments and Valuations of Mineral Assets'. Mr. Brett Shadbolt consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Brett Shadbolt
Chief Executive Officer
Censere (Far East) Limited

The English version of this Appendix is an unofficial translation of its Chinese version prepared for reference only. In case of any discrepancy between the two versions, the Chinese version shall prevail.

FEASIBILITY ANALYSIS REPORT OF UTILIZING THE PROCEEDS RAISED FROM THE NON-PUBLIC ISSUANCE OF A SHARES BY YANZHOU COAL MINING COMPANY LIMITED

I. INTENDED USE OF PROCEEDS

Yanzhou Coal Mining Company Limited ("**Yanzhou Coal**" or the "**Company**") proposes to issue not more than 647,000,000 (including 647,000,000) RMB ordinary Shares to no more than ten specific investors (the "**Non-Public Issuance**"). The proceeds to be raised under the Non-Public Issuance are no more than RMB7,000,000,000 (including the issue expenses), which, after deducting the issue expenses, are intended to be utilized in the following project:

No.	Name of project	Total amount of capital required *(US$)*	Total amount of capital required *(RMB)*	Proposed amount of proceeds to be applied *(RMB)*
1	Acquisition of 100% of the share capital of C&A	2,450,000,000	17,150,000,000	7,000,000,000
Total		**2,450,000,000**	**17,150,000,000**	**7,000,000,000**

Notes:

1. The total investment amount for the Project will be US$2.35 billion or US$2.45 billion, depending on the payment structure selected by Yancoal Australia. As at the date of disclosure of the Proposal, the payment structure and the final transaction consideration have not been determined.

2. In calculating the total amount of investment for the project in the table above, an exchange rate of US$1: RMB7 was adopted to translate the amount into RMB.

The net proceeds from the Non-Public Issuance will not exceed the total amount of capital required by the project. In the event that the actual amount of proceeds from the Non-Public Issuance is less than the total amount of proceeds proposed to be applied to the project set out above, the Company will use self-raised funds to fund the shortfall. Under the circumstance the availability of proceeds cannot meet with the implementation schedule of the Project, the Company may first fund the project by other capital according to actual situations, which capital shall be replaced by the proceeds when they are available in compliance with requirements and procedures as prescribed by relevant laws and regulations.

The project to be invested in through the Non-public Issuance will be implemented by Yancoal Australia, a subsidiary of the Company. The Company intends to subscribe for the shares to be issued by Yancoal Australia to invest in the subsidiary.

II. ANALYSIS OF FEASIBILITY OF USE OF PROCEEDS

The proceeds from the Non-public Issuance will be utilized in the acquisition of 100% of the share capital of C&A. The consideration for the acquisition will be US$2.45 billion, equivalent to approximately RMB17.15 billion. Upon completion of the acquisition, the Company will indirectly hold 100% of the share capital of C&A through Yancoal Australia, a subsidiary of the Company.

(i) Project Overview

1. The Company actively acquires and consolidates overseas high-quality thermal coal and semi-soft coking coal assets

High-quality thermal coal and semi-soft coking coal products have increasingly important strategic value in the world, in particular, in the emerging markets in Asia. In China, thermal coal and semi-soft coking coal are widely applied in power generation, building materials, general industrial boilers and domestic life and are of great significance to the national economy and social development.

C&A, the target of the acquisition, is a top thermal coal and semi-soft coking coal manufacturer in Australia and one of the largest thermal coal and semi-soft coking coal manufacturers in Australia. C&A operates in Hunter Valley, New South Wales, Australia, one of the world's most recognised coal-producing areas which is also widely perceived to have the best high-quality bituminous coal resources in the world and is the major source of coal supply to power plants in developed regions such as Japan, Korea and Taiwan and other developing economy regions in Southeast Asia. Currently China has to import a large amount of thermal coal from countries such as Australia with rich resources each year. As such, the acquisition of high-quality thermal coal assets and the establishment of a long-term steady thermal coal supply facility is of great economic significance to the future development of the Company.

2. The asset restructuring of Rio Tinto Group has provided an opportunity for the acquisition

With recent volatility of global commodity price and slowdown of global economy, certain world-leading mining companies sought to dispose of their non-core assets to raise enough funds for the development of core business. Rio Tinto Group, the counterparty to this transaction, is one of them. This has also provided favourable opportunities for the strategic acquisition of overseas resources by China's large mining groups at the bottom of industry cycle.

3. Promotion and implementation of the Company's international investment strategy

In order to continuously consolidate and enhance the competitive strengths of the Company and accelerate its international development process, the Company seeks to invest and consolidate high-quality resource projects in the world and strives to develop into an international investment management group with a global vision and the ability to conduct in-depth industry consolidation in reliance of advanced management concepts, team advantage, strong credit and multi-channel financing platform.

The acquisition is an important attempt by the Company to advance and implement its international investment strategy and a key step to continue and strengthen overseas business. Yancoal Australia, a subsidiary of the Company, is the main party to implement the acquisition. Upon completion of the acquisition, C&A will become a wholly-owned subsidiary of Yancoal Australia, and the Company's business presence in Australia is expected to be further improved, leading to a significant increase in the profitability of overseas segments.

(ii) Major Terms of the Sale and Purchase Agreement (the "SPA")

Yancoal Australia and the Vendors entered into the SPA on 24 January 2017 (local time in London). Pursuant to the SPA, the Vendors agreed to sell to the Purchaser and the Purchaser agreed to purchase from the Vendors all shares of C&A, free from all security interests. Major terms of the agreement are as follows:

1. Signing parties and signing date

The Vendors: ACH and HVR

The Purchaser: Yancoal Australia

Signing date: 24 January 2017 (London time)

2. Consideration and payment method

The consideration for the transaction will be US$2.35 billion or US$2.45 billion, depending on the payment structure selected by Yancoal Australia.

(1) Yancoal Australia may choose to pay US$2.35 billion in one lump sum to the Vendors upon completion of the transaction; or

(2) Payment of first instalment of US$1.95 billion upon completion of the transaction, plus five deferred payments of US$100 million each payable annually within five years of date of completion, totalling US$2.45 billion. To secure payment of the deferred payments, upon

completion of the transaction, the Purchaser shall provide security instruments to the satisfaction of ACH, or five letters of credit each for an amount equal to a deferred payment amount.

The consideration for the transaction is payable to ACH and HVR on a pro rata basis (which is 75.71% and 24.29% respectively) and is subject to adjustments in accordance with the SPA.

As at the date of disclosure of this proposal, Yancoal Australia will elect (2) of the above payment structure for payment of the consideration.

3. Conditions precedent

Under the SPA, the transaction is conditional upon the following:

(1) obtaining by each of the parties of all necessary approvals from regulatory authorities, including:

(i) approval of the government of New South Wales;

(ii) approval of the Australian Foreign Investment Review Board;

(iii) approvals of the State-owned Assets Supervision and Administration Commission of Shandong Provincial People's Government, the National Development and Reform Commission of the PRC, the Ministry of Commerce of the PRC and the State Administration of Foreign Exchange;

(iv) offshore merger clearance from the Korea Fair Trade Commission and the Anti-Monopoly Bureau of the Ministry of Commerce of the PRC;

(v) consent from BLCP Power Limited to re-enter into an agreement with Yancoal Australia Sales Pty Ltd to replace the coal supply and transportation agreement with ACH dated 13 June 2003.

(2) approval at the general meeting of Yanzhou Coal;

(3) approval of the shareholders of each of Rio Tinto plc and Rio Tinto Limited for the transaction.

If all of the Conditions Precedent are not satisfied within nine months after the date of the SPA (the "**Long Stop Date**"), the Vendors or the Purchaser may, by giving notice to the Vendors or the Purchaser (as applicable), extend the Long

Stop Date by another 30 days, i.e. the Long Stop Date may be extended up to 60 days. None of the conditions precedent (except the condition (1)(v) above, which may be waived by the Vendors) may be waived by any party to the SPA.

4. Exclusivity

(1) Unless otherwise agreed in the SPA, during the period from the date of SPA until the earlier of Completion or termination of the SPA, the Vendor must not, and must ensure that its related persons do not, except with the prior written consent of the Purchaser, directly or indirectly:

(i) solicit, invite, initiate or encourage any competing proposal or any inquiry, expression of interest, offer, proposal, negotiations or discussions by or with any person other than members of the Group (the "**Third Party**") in relation to, or that may reasonably be expected to encourage or lead to the making of a competing proposal, or communicate any intention to any person to do any of those things;

(ii) directly or indirectly enter into, continue or participate in, negotiations or discussions with, or accept or enter into, or offer to accept or enter into, any agreement, arrangement or understanding with any Third Party in relation to, or that may reasonably be expected to lead to, a competing proposal; or

(iii) directly or indirectly, make available to any Third Party, or permit any Third Party to receive, any non-public information relating to C&A in connection with such Third Party formulating, developing or initialization, or assisting in the formulation, development or initialization of, a competing proposal.

(2) Unless otherwise agreed in the SPA, during the exclusivity period, if any of the Vendors or their associates receive a competitive offer, whether or not spontaneously made by the offeror, the Vendors must notify the Purchaser in writing within five business days of receipt of such offer.

(3) From the date of signing of the SPA to the effective date, the Vendors shall not enter into and shall procure Rio Tinto Group or any of its members not to enter into any agreement in relation to a competitive offer, unless:

(i) such competitive offer is or may be reasonably a better offer;

(ii) Rio Tinto Group has provided all substantive terms of the competitive offer to Yancoal Australia;

(iii) Yancoal Australia has provided to the Vendors a new offer in writing (the "**New Offer from Yancoal Australia**") within five business days of receipt of the notice to counter the competitive offer; and

(iv) The board of directors of Rio Tinto Group is of the opinion that the terms and conditions of the New Offer from Yancoal Australia are not favourable than those of the competitive offer and has notified Yancoal Australia of the same.

5. Termination clause

If a material adverse change occurs before the cut-off date as specified by the SPA and the Vendor does not give notice under, and within the time required by, the SPA; or if the Vendor gives notice under the SPA, but the material adverse change is not cured or has not otherwise ceased to exist on or before the cut-off date, until completion, the Purchaser may, by written notice to the Vendor, terminate the SPA. If a material adverse change occurs on or after the cut-off date, the Purchaser may, until completion, by written notice to the Vendors, terminate the SPA.

Material Adverse Change includes an event, change, condition, matter, circumstance or things occurring on or after the date of the SPA (each a Specific Event), which, whether individually or when aggregated with all such events, changes, conditions, matters, circumstances or things of a like kind that:

(1) has resulted, or would be reasonably likely to result, in, for a continuous period of at least 18 months following the Completion, the quantity of the Target Company's production share of saleable coal extracted and processed being less than 10 million tonnes per annum; or

(2) has sterilised, or would be reasonably likely to sterilise, more than 7.5% of the stated reserves of the Target Company as set out in the HVO 2015 Competent Persons Resources and Reserves Report and the MTW 2015 Competent Persons Resources and Reserves Report, as reduced by depletion for actual mining since the reserves estimation date and increased by accretion for any new published reserves since the reserves estimation date; or

(3) has caused, or would be reasonably likely to cause, a diminution in the market value of the consolidated net assets of the Target Company Group, taken as a whole, by at least US$250 million against what that value would reasonably be expected to be at the Completion Date but for the Specific Event.

The SPA is also subject to termination on other customary grounds as specified in the SPA.

6. Completion Date

The Completion Date is the latest to occur of:

(i) the first Business Day of the first month immediately following the month in which all of the Conditions Precedent have been satisfied;

(ii) if the YAL Rights Issue has not completed or occurred within the expected schedule, the first Business Day of the second month immediately following the month in which all of the Conditions Precedent have been satisfied (whether or not the YAL Rights Issue has completed or occurred by that date); and

(iii) such other date as the Vendors and the Purchaser may agree in writing.

7. Termination Fee

The Purchaser may terminate the SPA if Yancoal Australia fails to obtain sufficient funding to settle the Purchase Price under the SPA. If the SPA is terminated under such circumstance, the termination fee payable by Yancoal Australia is US$23.5 million.

8. Purchase Price Adjustment

After Completion, the Purchase Price is adjustable based on the actual net debt and working capital position of C&A as at the final calendar date of the month immediately preceding the month in which the Completion Date occurs (the "**Effective Date**"). The Purchase Price will be adjusted for:

(i) the net debt of C&A as at the Effective Date ("**Actual Net Debt Value**") (as the Purchase Price was agreed by the parties on the assumption that C&A will have nil net debt as at the Effective Date, i.e. a cash free and debt free basis); and

(ii) the difference between the actual working capital of C&A as at the Effective Date ("**Actual Working Capital Value**") and an agreed level of base working capital (being AUD161 million subject to correction in the event of manifest error) ("**Agreed Working Capital Value**") (as the Purchase Price was agreed by the parties on the assumption that C&A will have a level of working capital as at the Effective Date equal to the Agreed Working Capital Value).

In other words, (i) if the amount of cash of C&A as at the Effective Date is higher than expected, the Purchase Price shall increase accordingly; (ii) if the amount of debts of cash of C&A as at the Effective Date is higher than expected, the Purchase Price shall decrease accordingly; (iii) the Actual Working Capital Value is higher (or less) than the Agreed Working Capital Value respectively, the Purchase Price shall increase (or decrease) accordingly.

The adjusted Purchase Price as determined above is then further adjusted for the Estimated Adjustment Amount applied at Completion to determine a final amount to be payable by the Purchaser or Vendors, as applicable.

After the abovementioned adjustments are settled, there may be a downward adjustment to the Purchase Price if certain outstanding subordinate approvals relating to mining operations are not obtained.

9. Tag-along Rights of HVO Joint Venture

Under the HVO Joint Venture Agreement, HVOR has tag-along right to sell its 32.4% interests in HVO Joint Venture, which may be triggered as a result of the transaction. If the transaction fails to be completed, the tag-along right will not be acquired.

Pursuant to the SPA, the Purchaser shall make an irrevocable offer to HVOR to acquire HVOR's interest in HVO Joint Venture in accordance with terms of the HVO Joint Venture Agreement. The Purchaser must do everything to ensure compliance with the HVO Joint Venture Agreement, including entering into discussions with HVOR prior to the Completion. On and from Completion, the Purchaser must comply, and procure that CAOP and HVOR comply, with their respective obligations under the HVO Joint Venture Agreement, including executing any documents.

The HVO Joint Venture Agreement has an agreed mechanism for negotiating and agreeing on a value of any Tag-along Offer, including determination by an independent expert if required. The Purchaser and HVOR are obliged to try to agree on the fair market value of the Participating Interest (taking into account the expected future performance of HVO, market conditions etc.) and if no agreement is reached, the parties must nominate their assessment of the fair market value of the Participating Interest. If those values are within 10% of each other then the fair market value will be the average of the two values, otherwise, an independent valuer shall be appointed who must choose between the two values.

Once the fair market value has been determined, HVOR may ultimately elect to accept or reject any Tag-along Offer. It is expected that the timeframe for conclusion of discussions with HVOR and any HVOR election on whether or not it will exercise the Tag-along Rights may not occur until August 2017.

The discussions under the Tag-along Offer runs in parallel with, but are not a condition to the Acquisition. However, as the HVO Joint Venture Agreement does not prescribe any terms for the Tag-along Offer, the Purchaser has the flexibility to propose terms that it considers appropriate, which would include making the acquisition of HVOR's interest in HVO Joint Venture conditional on the Completion of the Acquisition (i.e. the Purchaser would not acquire the Participating Interest unless the Acquisition also completes).

10. Employee Placement

The Purchaser must procure that for at least 12 months following Completion, the terms and conditions of employment of employees of the Target Company Group remain, when considered on an overall basis, to be no less favourable than the Target Company employee's terms and conditions of employment under which he or she is employed immediately prior to the Completion Date.

In addition, at least 2 months before the expected Completion Date, the Purchaser must make or procure an offer of employment to certain New South Wales based employees of Rio Tinto Group or give notice to the Vendor if it elects not to make an offer of employment to the employee.

11. Royalty Deeds among Other Agreements

Certain subsidiaries wholly-owned by C&A shall each enter into a royalty deed with ACH, pursuant to which each of those subsidiaries agrees to pay royalties to ACH for the coal mined and sold from HVO and MTW, respectively, if the benchmark thermal coal price under the global NEWC Index is greater than US$75 per tonne, with escalation annually based on inflation. The royalty period is 10 years commencing from the end of the third anniversary after Completion (the "**Royalty Period**") and the initial royalty amount is US$2 per tonne payable quarterly, with escalation annually based on inflation. The royalty is payable on C&A's share of all product coal mined and sold from the specified tenements at Mount Thorley, Warkworth and HVO during the Royalty Period, other than coal supplied under the BLCP Agreement and coal extracted from any future underground mine. The aggregate amount of royalties payable by those C&A subsidiaries is capped at approximately US$650 million.

(iii) Pricing of the Acquisition

The consideration for the acquisition of the Target Company will be US$2.45 billion, equivalent to approximately RMB17.15 billion. The pricing under the Acquisition was determined by the Company, the Company's professional advisors, the management of the Target Company and its professional advisors following due diligence, financial analysis and multiple rounds of quotation and negotiations, taking into account the reserve and quality of mineral resources of the Target Company, the mining plan, the operational plan, and with reference to the financial performance, rate and assessment of companies in the market comparable to C&A in terms of business and size.

The consideration of the transaction is not determined on the basis of the results of the valuation. For the ease of the investors' judgment on the fairness of the pricing level of the transaction, the Company engaged China United Assets Appraisal Group to issue the "Valuation Report for the Acquisition by way of cash of all Share Capital of Coal & Allied Industries Limited by Yancoal Australia Limited" of China United Appraisal Report [2017] No. 648 (the "**C&A Valuation Report**"). According to the C&A Valuation Report, as at 31 December 2016, the benchmark date of the valuation, the appraised value of the equity attributable to the owners of C&A was AUD3.684 billion, equivalent to approximately USD2.79 billion[1].

Therefore, the result of the valuation is higher than the consideration for the transaction and the price of the transaction is reasonable.

(iv) Necessity for the Implementation of the project

The Company proposes to acquire 100% of the share capital of C&A. C&A owns and operate the HVO and MTW coal mines in Hunter Valley, New South Wales, Australia. The HVO and MTW assets are of world class quality and can produce thermal coal and coking coal products with their tremendous operation scales and the resources and reserves that are available for mining in the long term. The region where C&A is located has developed economy, stable investment environment, advanced infrastructure, easy accessibility, good regional relationship and outstanding modern management.

Following completion of the transaction, Yancoal Australia will become the largest independent coal producer in Australia. The existing mineral resource operations of C&A and Yancoal Australia can be coordinated to generate considerable synergies in terms of coal matching business, mining districts and corporate operation. The asset-liability structure and cash flows of Yancoal Australia will be substantially

[1] Pursuant to the C&A Valuation Report, the C&A owners' equity is of RMB19.382 billion, equivalent to approximately USD2.79 billion in accordance with the foreign exchange rate of USD1: RMB6.9370 published by People's Bank of China dated 31 December 2016.

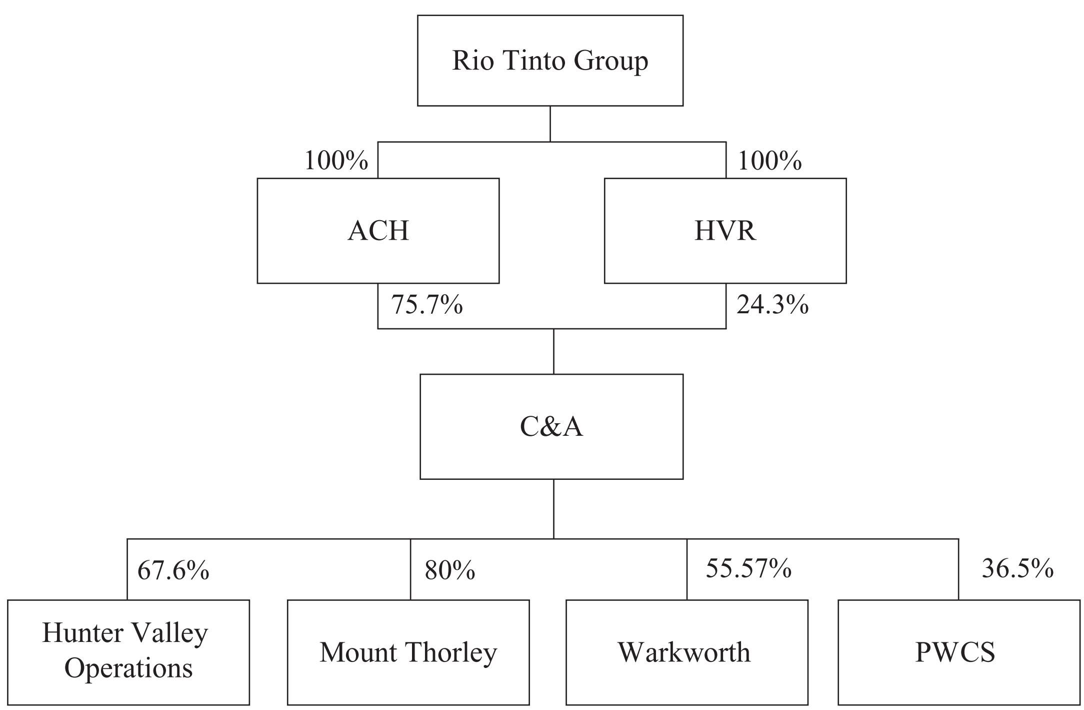
optimized, which will lay a solid foundation for the continuous growth of and value creation for Yanzhou Coal and Yancoal Australia and further improve the profitability and ability to withstand risks of Yanzhou Coal and Yancoal Australia.

(v) Project Implementation Entity

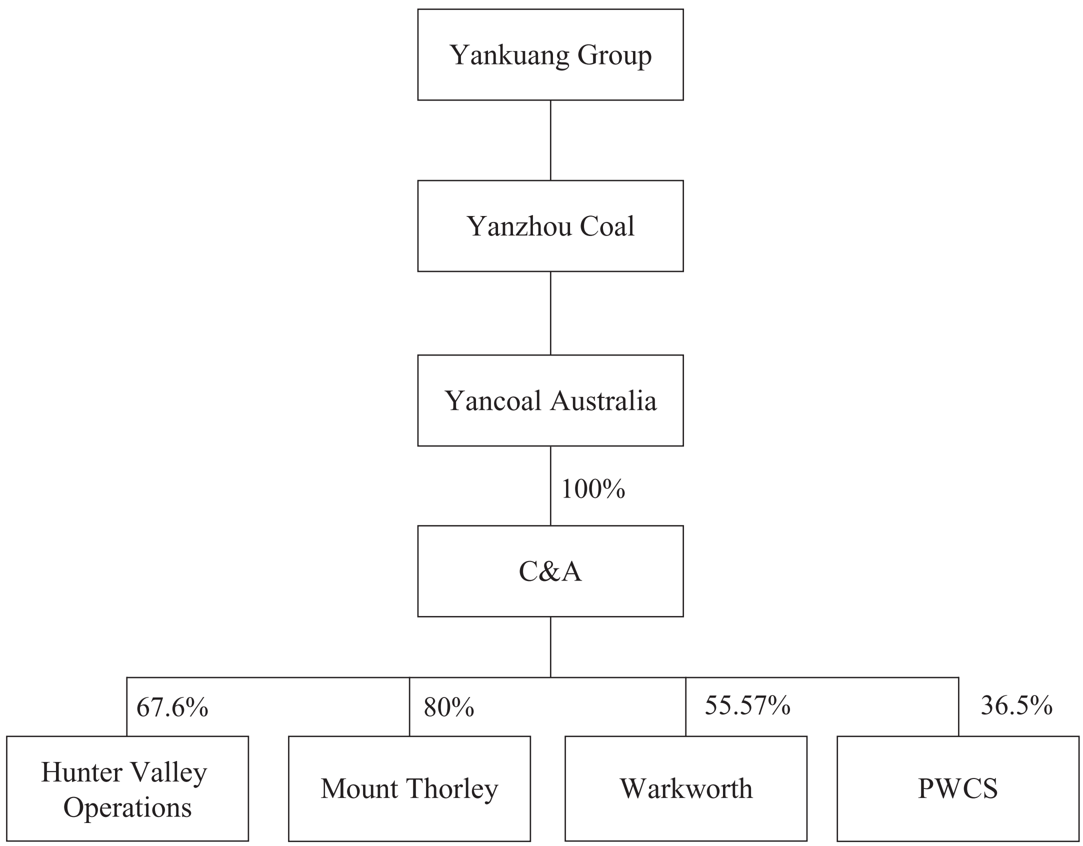
The entity to implement the Project is Yancoal Australia, an overseas subsidiary of the Company. Yancoal Australia proposes to finance the Acquisition with the proceeds from rights issue. The Company intends to subscribe for the shares to be issued by Yancoal Australia under rights issue at an amount of approximately US$1 billion. The Company may adjust the value of shares to be subscribed for, taking into account its financial position, funding required for the acquisition and prevailing market conditions.

(vi) Shareholding Structure of the Project

The controlling structure of C&A immediately preceding the acquisition is as follows:



The controlling structure of C&A immediately following competition of the acquisition will be as follows:



Notes:

1. As at 31 December 2016, Yankuang Group held an aggregate of 56.6% equity interest in Yanzhou Coal, which in turn held an aggregate of 78% equity interest in Yancoal Australia. Upon completion of the Acquisition and the Non-public Issuance, the shareholding percentage above will change accordingly.

2. HVOR has tag-along right to sell its 32.4% interests in HVO Joint Venture, which may be triggered as a result of the transaction. Upon completion of the Acquisition and the Non-public Issuance, C&A's shareholding percentage in HVO may change.

Yancoal Australia, an overseas subsidiary of the Company, is the purchaser in the Acquisition. Upon completion of the Acquisition, C&A will become a wholly-owned subsidiary of Yancoal Australia.

(vii) Business Overview of C&A

1. Basic information on C&A

Established in 1960, C&A became listed on the Australian Securities Exchange in 1962. In 1977, Rio Tinto Group acquired equity interest in C&A for the first time. In 1991, Rio Tinto Group's shareholding in C&A increased to 70%. In 2004, Rio Tinto Group took over the operation and management of C&A in accordance with a management service agreement. In December 2011, Rio Tinto Group and Mitsubishi jointly completed the privatization of C&A. In February 2016, C&A became a wholly-owned subsidiary of Rio Tinto Group.

C&A is a top thermal coal and semi-soft coking coal manufacturer in Australia and operates in Hunter Valley, New South Wales, Australia, one of the world's most recognised coal-producing areas. C&A has a large amount of high-quality coal reserves in proximity to the major export destinations and a stable operating environment, which makes it the most competitive coal enterprise in the world.

2. Major products of C&A

C&A owns and operates three large-scale, multi-seam open pit coal projects, being the Hunter Valley operating coal mine in which it owns 67.6% equity interest, the Mount Thorley coal mine in which it has 80% equity interest and the Warkworth coal mine in which it has 55.6% equity interest. C&A also owns 36.5% equity interest in PWCS. C&A's coal production in 2016 amounted to be approximately 25.9 million tonnes (on a consolidated basis), making it one of the biggest thermal coal and semi-soft coking coal manufacturers in Australia.

Hunter Valley in Australia is widely believed to have the best high-quality thermal coal resources in the world. For decades thermal coal of the Hunter Valley coal field is sold to major developed economies (such as Japan, Korea and Taiwan) and Southeast Asia. Various seams can generate various high-quality thermal coal, which are highly recognised for its advantages such as high calorific value.

In addition, C&A has a wide range of coal resources in South Hunter Valley which cover many seams and can generate a large amount of semi-soft coking coal for different customers. The semi-soft coking coal of C&A is highly recognised by many steel companies for many good characteristics.

3. Location of major customers of C&A

The major markets of C&A include the traditional thermal coal markets such as Japan, Taiwan, Korea and Southeast Asia. Many power plants in Japan, Taiwan and Korea seek coal of high calorific value and low ash, which can improve the efficiency and lower the cost of coal ash disposal. In addition, C&A's semi-soft coking coal is being increasingly used in coking coal blending in steel companies in North Asia, which is expected to develop into a major semi-soft coking coal market of C&A in the future.

4. Licenses held by C&A

As at the date of the disclosure of the Proposal, C&A holds all permits, licenses and royalty relating to its production and operation.

(viii) Mineral Resource Reserve and Mining Rights Owned

1. Mineral resource reserves of HVO and MTW

The table below sets out the mineral resources of HVO and MTW:

	HVO	MTW	
		Mount Thorley	Warkworth
Marketable Reserves (million tonnes)	616	12	206
Resources (million tonnes)	1,831	322	966
Mine life (year)	46	19	

	C&A (100% equity basis)		
	2014	2015	2016
Raw Coal production (million tonnes per annum)	35.7	34.2	36.2
Saleable Coal production (million tonnes per annum)	25.8	24.7	25.9

Notes:

1. The figures of "marketable reserves" and "resources" of HVO and MTW are derived from the 2016 annual report of Rio Tinto Group published on the website of Rio Tinto Group (riotinto.com) in 2017.

2. The "mine life" figure is estimated based on the marketable reserves and annual production set out in the unaudited management accounts of C&A.

3. The figures of "raw coal production" and "saleable coal production" of C&A are derived from the unaudited management accounts of HVO and MTW.

2. *Mining rights of HVO and MTW*

Details of the mining rights held by C&A are set out in the following table:

Certificate No.	Purpose	Description of certificate	Date of expiry	Location of certificate
ALA 52	Exploration	Conducting mineral exploration activities in the mining area	In the process of application	HVO
ALA 58	Exploration	Conducting mineral exploration activities in the mining area	In the process of application	HVO
ALA 59	Exploration	Conducting mineral exploration activities in the mining area	In the process of application	HVO
AUTH72	Exploration	Conducting mineral exploration activities in the mining area	24/03/2018	HVO
(Part) CCL 708	Coal exploration and mining	Conducting coal mining activities in the mining area	29/12/2023	HVO
CCL 714	Coal exploration and mining	Conducting coal mining activities in the mining area	30/08/2030	HVO
CCL 755	Coal exploration and mining	Conducting coal mining activities in the mining area	05/03/2030	HVO
CL327	Coal exploration and mining	Conducting coal mining activities in the mining area	05/03/2031	HVO
CL359	Coal exploration and mining	Conducting coal mining activities in the mining area	20/05/2032	HVO
CL360	Coal exploration and mining	Conducting coal mining activities in the mining area	28/05/2032	HVO
CL398	Coal exploration and mining	Conducting coal mining activities in the mining area	03/06/2034	HVO
CL584	Coal exploration and mining	Conducting coal mining activities in the mining area	31/12/2023	HVO
CML4	Coal exploration and mining	Conducting coal mining activities in the mining area	03/06/2033	HVO

Certificate No.	Purpose	Description of certificate	Date of expiry	Location of certificate
EL5291	Exploration	Conducting mineral exploration activities in the mining area	23/09/2015 (in the process of renewal)	HVO
EL5292	Exploration	Conducting mineral exploration activities in the mining area	27/04/2015 (in the process of renewal)	HVO
EL5417	Exploration	Conducting mineral exploration activities in the mining area	08/05/2015 (in the process of renewal)	HVO
EL5418	Exploration	Conducting mineral exploration activities in the mining area	08/05/2017	HVO
EL5606	Exploration	Conducting mineral exploration activities in the mining area	10/08/2019	HVO
EL8175	Exploration	Conducting mineral exploration activities in the mining area	22/09/2018	HVO
ML1324	Coal exploration and mining	Conducting coal mining activities in the mining area	18/08/2014 (in the process of renewal)	HVO
ML1337	Coal exploration and mining	Conducting coal mining activities in the mining area	09/09/2014 (in the process of renewal)	HVO
ML1359	Coal exploration and mining	Conducting coal mining activities in the mining area	31/10/2015 (in the process of renewal)	HVO
ML1406	Coal exploration and mining	Conducting coal mining activities in the mining area	10/02/2027	HVO
ML1428	Coal exploration and mining	Conducting coal mining activities in the mining area	14/04/2019	HVO
ML1465	Coal exploration and mining	Conducting coal mining activities in the mining area	20/02/2021	HVO
ML1474	Coal exploration and mining	Conducting coal mining activities in the mining area	23/11/2021	HVO
ML1482	Coal exploration and mining	Conducting coal mining activities in the mining area	14/04/2019	HVO

Certificate No.	Purpose	Description of certificate	Date of expiry	Location of certificate
ML1500	Coal exploration and mining	Conducting coal mining activities in the mining area	20/12/2022	HVO
ML1526	Coal exploration and mining	Conducting coal mining activities in the mining area	02/12/2023	HVO
ML1560	Coal exploration and mining	Conducting coal mining activities in the mining area	27/01/2026	HVO
ML1589	Coal exploration and mining	Conducting coal mining activities in the mining area	01/11/2027	HVO
ML1622	Coal exploration and mining	Conducting coal mining activities in the mining area	10/03/2027	HVO
ML1634	Coal exploration and mining	Conducting coal mining activities in the mining area	31/07/2030	HVO
ML1682	Coal exploration and mining	Conducting coal mining activities in the mining area	15/12/2033	HVO
ML1704	Mining	Conducting mining support activities in the mining area	04/12/2035	HVO
ML1705	Coal exploration and mining	Conducting coal mining activities in the mining area	16/12/2035	HVO
ML1706	Mining	Conducting mining support activities in the mining area	08/12/2035	HVO
ML1707	Coal exploration and mining	Conducting coal mining activities in the mining area	08/12/2035	HVO
ML1710	Coal exploration and mining	Conducting coal mining activities in the mining area	10/03/2027	HVO
ML1732	Mining	Conducting mining support activities in the mining area	06/04/2037	HVO
ML1734	Mining	Conducting mining support activities in the mining area	06/04/2037	HVO
ML1748	Mining	Conducting mining support activities in the mining area	05/12/2037	HVO
MLA489	Mining	Conducting mining support activities in the mining area	In the process of application	HVO

Certificate No.	Purpose	Description of certificate	Date of expiry	Location of certificate
MLA495	Mining	Conducting mining support activities in the mining area	In the process of application	HVO
MLA496	Mining	Conducting mining support activities in the mining area	In the process of application	HVO
MLA501	Mining	Conducting mining support activities in the mining area	In the process of application	HVO
MLA520	Mining	Conducting mining support activities in the mining area	In the process of application	HVO
MLA534	Mining	Conducting mining support activities in the mining area	In the process of application	HVO
MLA535	Mining	Conducting mining support activities in the mining area	In the process of application	HVO
CL219	Coal exploration and mining	Conducting coal mining activities in the mining area	23/09/2023	Mount Thorley
EL7712	Exploration	Conducting mineral exploration activities in the mining area	23/02/2020	Mount Thorley
MLA353	Coal exploration and mining and for mining purpose	Conducting coal mining activities in the mining area	In the process of application	Mount Thorley
CCL753	Coal exploration and mining	Conducting coal mining activities in the mining area	17/02/2023	Warkworth
ML1412	Coal exploration and mining	Conducting coal mining activities in the mining area	10/01/2018	Warkworth
ML1590	Coal exploration and mining	Conducting coal mining activities in the mining area	26/02/2028	Warkworth
MLA352	Coal exploration and mining	Conducting coal mining activities in the mining area	In the process of application	Warkworth

(ix) Key Financial Indicators

The major financial indicators of C&A as at the end of 2014, 2015 and 2016 were as follows:

Unit: (AUD million)

Item	31 December 2016	31 December 2015	31 December 2014
Total assets	1,926.90	2,479.19	2,713.74
Total liabilities	615.03	612.24	1,034.87
Owners' equity	1,311.87	1,866.95	1,678.86
Item	**2016**	**2015**	**2014**
Sales revenue	1,664.18	2,131.28	2,163.05
Net profit	396.90	283.78	88.75
Net profit attributable to parent company	396.29	282.78	88.20
Net profit margin for sales	23.85%	13.32%	4.10%

Notes: The figures are derived from the financial statement reviewed by ShineWing Australia in accordance with the International Accounting Standards. All the figures above are unaudited by the PRC accounting firms with securities business qualification.

As certain differences exist in the domestic and overseas accounting standards, they may affect the preparation of financial statements of the Target Company due to the differences in accounting standards. The Company prepared the reconciliation statement of the Target Company for the unaudited standards to adjust the International Accounting Standards to the PRC Accounting Standards for Business Enterprises for the year 2014, 2015 and 2016. The Compay also engaged ShineWing Certified Public Accountants to review such reconciliation statement of the standards and ShineWing Certified Public Accountants issued the "Assurance Report" (XYZH/2017BJA30209) in this regard. In accordance with the above "Assurance Report" and the reconciliation statement of the standards prepared by the Company, the financial information prepared by the Target Company in compliance with the International Accounting Standards and the unaudited PRC Accounting Standards for Business Enterprises is free from material adjustment.

(x) Environment Impact Assessment of the Project

As at the date of disclosure of the Proposal, the project involves the acquisition of 100% of the share capital of C&A and does not involve the environmental assessment of the new project.

(xi) Filing of the project

The overseas investment under the project is subject to the approval of or filing with the State-owned Assets Supervision and Administration Commission of Shandong Provincial People's Government, the Ministry of Commerce, the National Development and Reform Commission and the State Administration of Foreign Exchange.

III. DISCUSSION AND ANALYSIS OF THE BOARD CONCERNING THE FEASIBILITY OF ASSET PRICING

(i) Pricing of the Assets

The consideration for the acquisition of the Target Company will be US$2.45 billion, equivalent to approximately RMB17.15 billion. The pricing under the Acquisition was determined by the Company, the Company's professional advisors, the management of the Target Company and its professional advisors following due diligence, financial analysis and multiple rounds of quotation and negotiations, taking into account the reserve and quality of mineral resources of the Target Company, the mining plan, the operational plan, and with reference to the financial performance, rate and assessment of companies in the market comparable to C&A in terms of business and size.

The consideration of the transaction is not determined on the basis of the results of the valuation. For the ease of the investors' judgment on the fairness of the pricing level of the transaction, the Company engaged China United Assets Appraisal Group to issue the "Assets Valuation Report for the Acquisition by way of cash of all Share Capital of Coal & Allied Industries Limited by Yancoal Australia Limited" of China United Appraisal Report [2017] No. 648. According to the C&A Valuation Report, as at 31 December 2016, the benchmark date of the valuation, the appraised value of the equity attributable to the owners of C&A was AUD3.684 billion, equivalent to approximately USD2.79 billion[2].

Therefore, the result of the valuation is higher than the consideration for the transaction and the price of the transaction is reasonable.

(ii) Audit of the Assets Involved in the Non-public Issuance

As at the date of disclosure of the Proposal, taking the ultimate Target Company to be acquired by the Company involved in overseas assets into consideration, the Company faces difficulty in obtaining the detailed financial information prepared in accordance with the PRC Accounting Standards for Business Enterprises and conduct auditing, which the financial report of the Target Company and it related auditor's

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2 Pursuant to the C&A Valuation Report, the C&A owners' equity is of RMB19.382 billion, equivalent to approximately USD2.79 billion in accordance with the foreign exchange rate of USD1: RMB6.9370 published by People's Bank of China dated 31 December 2016.

report prepared in accordance with the PRC Accounting Standards for Business Enterprises could not be provided. To ensure the smooth completion of the transaction, the disclosure of the audited financial information prepared by the Target Company in accordance with the PRC Accounting Standards for Business Enterprises will be postponed. The Company will prepare the financial report and the auditor's report of the Target Company in accordance with the PRC Accounting Standards for Business Enterprises and disclose such reports to the investors as soon as practicable after the completion of closing.

The Target Company prepared the financial statement in accordance with the International Accounting Standards and it is audited by the overseas auditor. For the ease of understanding of its financial information by the investors, the Company has prepared the reconciliation statement of the Target Company for the unaudited standards to adjust the International Accounting Standards to the PRC Accounting Standards for Business Enterprises. The Company also engaged ShineWing Certified Public Accountants to review such reconciliation statement of the standards and ShineWing Certified Public Accountants issued the "Assurance Report" (XYZH/2017BJA30209) in this regard.

IV. IMPACT OF THE NON-PUBLIC ISSUANCE ON THE OPERATION AND MANAGEMENT AND FINANCIAL POSITION OF THE COMPANY

(i) Impact on the Operation and Management of the Company

The project is in line with the overall development strategy of the Company, and has great market potential and economic benefits. The project relates to the existing principal activities of the Company. The implementation of the project will further improve the operation of Yancoal Australia, expand the Company's business size and market share, improve the Company's market competitiveness in the coal sector in Australia and safeguard the long-term stable and healthy development of the Company.

(ii) Impact on the Financial Position of the Company

Upon completion of the Non-public Issuance, the Company's total assets and net assets will increase, and its ability to resist risks will improve, which is in the interests of the Company and its shareholders as a whole and has laid a solid foundation for its sustainable development. As the total share capital of the Company will increase upon this issuance, the growth of the results of operation of the Company arising from the proceeds raised will not be reflected until a period of time has elapsed, and it cannot be ruled out that the Company's earnings per share and return on equity may be diluted in the short term.

The English version of this Appendix is an unofficial translation of its Chinese version prepared for reference only. In case of any discrepancy between the two versions, the Chinese version shall prevail.

DILUTION OF IMMEDIATE RETURN AND REMEDIAL MEASURES OF THE NON-PUBLIC ISSUANCE OF SHARES BY YANZHOU COAL MINING COMPANY LIMITED

The 30th meeting of the sixth session of the board of directors (the "**Board**") of Yanzhou Coal Mining Company Limited (the "**Company**") has considered and approved resolutions in relation to the non-public issuance of shares (the "**Non-public Issuance of Shares**"). In order to further comply with the requirements of the *Opinions of the State Council on Further Promoting the Sound Development of the Capital Markets* (Guo Fa [2014] No.17), the *Notice of the General Office of the State Council on Further Strengthening Protection of the Lawful Rights of Small Investors in Capital Markets* (Guo Ban Fa [2013] No.110) and the *Guiding Opinions on Matters relating to the Dilution of Immediate Returns in Initial Public Offering, Refinancing and Major Assets Restructuring* (China Securities Regulatory Commission Announcement [2015] No.31), the Company has analyzed the dilution of immediate returns by the Non-public Issuance of Shares and amended remedial measures, and the relevant entities have made undertakings in relation to the performance of remedial measures of the Company as follows:

I. DILUTION OF THE NON-PUBLIC ISSUANCE OF SHARES ON IMMEDIATE RETURN

As approved at the 30th meeting of the sixth session of the Board, the Non-public Issuance of Shares will raise no more than RMB7,000,000,000 through issue of no more than 647,000,000 Shares at a price of no less than 90% of the average trading price of the Shares for 20 trading days prior to the Benchmark Price Determination Date.

(i) Principal Assumptions

1. Assuming that the Non-public Issuance of Shares is expected to be completed in November 2017, which represents estimate only and is subject to the date of approval of the CSRC and the date of completion of actual issuance;

2. The maximum amount of proceeds to be raised under the Non-public Issuance of Shares is RMB7,000,000,000 (including issue expenses);

3. The number of shares to be issued is no more than 647,000,000 shares;

4. The profit distribution proposal of the Company for the year 2016 is as follows: Based on the existing total share capital of the Company of 4,912,016,000 shares, RMB0.12 (inclusive of tax) per share will be

distributed to all Shareholders, assuming that the implementation of the profit distribution proposal of the Company for the year 2016 will be completed by the end of June 2017;

5. Excluding the impact of receiving the funds raised under the Non-public Issuance of Shares on the Company's production and operation, financial position (such as finance cost and investment income);

6. The following assumptions are made in respect of the net profit for 2016 and 2017:

   The net profit attributable to shareholders of the Company and the net profit after deducting extraordinary items for the year 2016 are RMB2,064,585,000 and RMB1,489,496,000, respectively, assuming that the net profit attributable to shareholders of the Company and the net profit after deducting extraordinary items for the year 2017 is the same as those for the year 2016.

7. Assuming that there will be no equity dilution matter for the Company in 2017;

8. In estimating the net assets upon completion of the issue, the dilution of other factors except the proceeds raised and net assets on net assets was excluded.

(ii) Estimation Results

Item	31 December 2016/ Year 2016	31 December 2017/ Year 2017 Before issue	After issue
Total share capital (in ten thousand shares)	491,201.60	491,201.60	555,901.60
Net profit attributable to owners of the Company (in Renminbi ten thousand)	206,458.50	206,458.50	206,458.50
Net profit attributable to shareholders of the Company, net of extraordinary items (in Renminbi ten thousand)	148,949.60	148,949.60	148,949.60
Equity attributable to owners of the Company at the beginning of the period (in Renminbi ten thousand)	3,980,767.90	4,202,305.80	4,202,305.80
Equity attributable to owners of the Company at the end of the period (in Renminbi ten thousand)	4,202,305.80	4,349,820.11	5,049,820.11
Basic earnings per share (RMB/share)	0.420	0.420	0.416
Diluted earnings per share (RMB/share)	0.420	0.420	0.416
Basic earnings per share (RMB/share, net of extraordinary items)	0.303	0.303	0.300
Diluted earnings per share (RMB/share, net of extraordinary items)	0.303	0.303	0.300
Weighted average return on equity (%)	5.046	4.828	4.763
Weighted average return on equity (%, net of extraordinary items)	3.641	3.483	3.436

Note: The above basic earnings per share and diluted earnings per share are calculated in accordance with the provisions of the Explanatory Announcement No. 9 on Information Disclosure for Companies Offering Their Securities to the Public – Calculation and Disclosure of Return Rate on Net Assets and Earnings per Share.

II. WARNINGS REGARDING THE DILUTION OF THIS ISSUANCE ON IMMEDIATE RETURN

Upon completion of the Non-public Issuance of Shares, the total share capital and equity attributable to owners of the Company will significantly increase. Under the assumption that the Company's share capital and net assets will increase, if the business of the Company does not record corresponding growth, earnings per share and weighted average return on equity will decrease to a certain extent.

III. NECESSITY AND REASON FOR THE BOARD'S SELECTION OF THIS FINANCING

The proceeds from the Non-public Issuance of Shares will be mainly utilized in the acquisition of 100% of the share capital of Coal & Allied Industries Limited (the "**C&A**") (the "**Acquisition**"). C&A owns and operate coal mines in Hunter Valley Operations (the "**HVO**"), Mount Thorley and Warkworth (together, the "**MTW**") located at Hunter Valley, New South Wales, Australia with a coverage of approximately 17,000 hectares. The HVO and MTW coal operations are of world class quality and can produce high quality thermal coal and coking coal products with their tremendous operation scales and the resources and reserves that are available for mining in the long term. The region where C&A is located has developed economy, stable investment environment, advanced infrastructure, easy accessibility, good regional relationship and outstanding modern management.

Following completion of the Acquisition, Yancoal Australia Limited (the "**Yancoal Australia**") will become the largest independent coal producer in Australia. C&A will combine the existing mineral resource operations with Yancoal Australia and create synergy in various areas such as operational management, coal matching business, mining areas, ports and taxation. The asset-liability structure and cash flow of Yancoal Australia will receive substantive optimization and its profitability will be strengthened significantly. The Acquisition will also be beneficial to Yancoal Australia to regain its independent financing ability in the capital market. The Acquisition will form a solid platform for the continuing growth and value-adding of the Company and Yancoal Australia and further improve the profitability and risk resistance ability of the Company and Yancoal Australia.

IV. MEASURES TO BE TAKEN BY THE COMPANY TO COPE WITH DILUTION OF IMMEDIATE RETURN

The Non-public Issuance of Shares may cause the decrease in immediate returns to investors. In order to ensure the efficient utilization of the raised proceeds, effectively prevent the risk of dilution of immediate returns and improve future returns, the Company intends to actively improve the efficiency of utilization of the raised proceeds through accelerating the business development of the Company, improving the profitability of the Company, strictly implementing the raised proceeds management system and actively enhancing the efficiency on the use of raised proceeds. The Company also intends to constantly improve its profit distribution policy, enhance the mechanism for returns to investors, make the corporate governance and other measures perfect, strengthen asset quality, increase revenue and future gains in order to achieve sustainable development to make up for immediate returns.

The detailed measures are as follows:

(i) Accelerate the implementation of the project to achieve expected performance as soon as practicable

The Board has conducted thorough analysis of the feasibility of the investment project to be funded, which will be an important component of the overall strategy of the Company. Upon completion of the implementation of the project, the Company's overseas operations will be optimized and strengthened which will help enhance its overall profitability and risk resistance ability. The Company's revenue and profitability will also be further increased. The Company will accelerate the implementation of the project and complete the transfer of assets of C&A as soon as practicable in order to improve returns to shareholders.

(ii) Ensure successful consolidation of the project and give full play to the synergy

Upon completion of the acquisition, C&A will become a wholly-owned subsidiary of Yancoal Australia, a subsidiary of the Company. The Company and C&A will complement each other with their respective strengths in the coal business sector in Australia and achieve better synergy in various areas such as operational management, coal matching business, mining areas, ports and taxation. In order to reduce the consolidated risk following the acquisition upon completion of the acquisition, the Company will complete the consolidation of C&A in terms of business planning, team building, management system, financial coordination and other aspects as soon as practicable in order to give full play to the synergy and protect the interests of shareholders.

(iii) Enhance management of raised proceeds and the project, and ensure the proceeds to be utilized in compliance with the laws and regulations

Upon receiving the proceeds, the Company will open a special account in accordance with the requirements of the Capital Management and Utilization System and strictly manage the utilization of proceeds, in order to ensure these raised proceeds will be fully utilized according to the intended uses. The Company and the Sponsor will continue to monitor the examination and monitoring of the proceeds raised, to ensure reasonable and regulated utilization of proceeds, and to prevent the risk relating to the utilization of proceeds.

(iv) Improve profit distribution policy to strengthen return to investors

In accordance with the Notice on Further Implementing Rules regarding Distribution of (Zheng Jian Fa [2012] No. 37), the Regulatory Guidelines for Listed Companies No.3 – Cash Dividend Distribution by Listed Companies (Zheng Jian Hui Gong Gao [2013] No.43) and the Guidelines for the Articles of Association of the Company (2014 revised) issued by the CSRC, the Company has prepared the Future Plan for Return to the Shareholders for the Coming Three Years (2016-2018) and established a sound and effective shareholder return mechanism. The Company will strictly comply with the relevant provisions of the Articles of Association of Yanzhou Coal Mining Co., Ltd. to effectively protect the lawful interests of investors, strengthen the mechanism to protect the interests of the minor investors. It will, in view of the Company's operation and development, actively facilitate the profit distribution and cash dividend to shareholders, and in order to improve returns to shareholders.

(v) Continue to improve corporate governance to provide system protection

The Company has established and improved a legal person corporate structure for regulated operation. It has sound independent operation mechanism for the general meeting, the Board, the Supervisory Committee and the management, and has established a highly-efficient corporate body meeting its production and operation, and has in place different position units to perform position duties. All corporate departments have clear division of duties with checks and balances.

The Company's organizational structure has been properly deployed and running effectively. There is a clear division of powers and duties between the general meeting, the Board, the Supervisory Committee and the management, which formed checks and balances and created a reasonable, complete and effective corporate governance and operation and management structure. The Company will continue to improve its governance structure to effectively protect the interest of investors, especially medium and small investors, and provide system protection for its development.

The Company will continue to strictly comply with the requirements of laws and regulations and regulatory documents including the Company Law of the PRC, the Securities Law of the PRC and the Governance Standards for Listed Companies, and will continue to improve corporate governance structure to ensure shareholders can fully exercise their rights.

V. UNDERTAKINGS MADE BY THE CONTROLLING SHAREHOLDER, DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY IN RELATION TO THE REMEDIAL MEASURES RELATING TO DILUTION ON IMMEDIATE RETURN BY THE NON-PUBLIC ISSUANCE OF SHARES

(i) Undertakings made by the controlling shareholder of the Company in relation to the remedial measures relating to dilution on immediate returns by the Non-public issuance of Shares

"1. We will not exceed our right to interfere with the operation and management of the Company and will not violate the interests of the Company.

2. Since the date of this undertaking up to completion of the Non-public Issuance of Shares, if the CSRC imposes other new regulatory requirement in relation to the remedial measures relating to dilution on immediate returns and such undertaking cannot meet such rules of the CSRC, the Company undertakes to issue complementary undertakings in accordance with the latest rules of the CSRC."

(ii) Undertakings made by directors and senior management of the Company in relation to the remedial measures relating to dilution on immediate returns by the Non-public Issuance of Shares

"1. I undertake not to deliver benefits to other entities and persons without consideration, under unfair condition, and will not harm the interest of the Company in any way.

2. I undertake to restrain my duty-related consumption.

3. I undertake not to utilize any assets of the Company in any investment or consumption unrelated to my performance of duties.

4. I undertake that the remuneration system established by Board or the Remuneration Committee shall be linked to the implementation of remedial measures relating to dilution on immediate returns.

5. I undertake that if the Company adopts a stock incentive plan in the future, I will accept that the conditions of exercising the right will be linked to the performance of such projects.

6. I undertake to perform the remedial measures set by the Company and my undertaking is related to any such remedial measures. If my breach has caused any loss to the Company or investors, I am willing to take the responsibility to compensate the Company or investors for such loss.

7. Since the date of this undertaking up to completion of the non-public issuance, if the CSRC imposes other new regulatory requirement in relation to the remedial measures relating to dilution on immediate returns and such undertaking cannot meet such rules of the CSRC, I undertake to issue complementary undertakings in accordance with the latest rules of the CSRC."

The English version of this Appendix is an unofficial translation of its Chinese version prepared for reference only. In case of any discrepancy between the two versions, the Chinese version shall prevail.

CERTAIN COMMITMENTS BY THE CONTROLLING SHAREHOLDER, DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY ON THE RECOVERY OF IMMEDIATE RETURN OF YANZHOU COAL MINING COMPANY LIMITED

The 30th meeting of the sixth session of the board of directors (the "**Board**") of Yanzhou Coal Mining Company Limited (the "**Company**") had considered and approved resolutions in relation to the non-public issuance of shares (the "**Non-public Issuance of Shares**") on 31 March 2017. To ensure the actual implementation of the remedial measures in relation to the Non-public Issuance of Shares and safeguard the legitimate interests of the Company and the shareholders of the Company as a whole, Yankuang Group Company Limited (the controlling shareholder of the Company), the Directors and senior management of the Company have made commitments on the actual implementation of return remedial measures in accordance with the relevant requirements by the China Securities Regulatory Commission (the "**CSRC**") as follows:

I. COMMITMENTS MADE BY THE CONTROLLING SHAREHOLDER OF THE COMPANY ON THE REMEDIAL MEASURES RELATING TO DILUTION OF IMMEDIATE RETURNS BY THE NON-PUBLIC ISSUANCE OF SHARES

"1. We commit not to exceed our rights to intervene the operation and management activities of the Company and not to violate the interests of the Company.

2. From the date of making these commitments until the completion of the Non-public Issuance of Shares, if the CSRC imposes other new regulatory requirement in relation to the return remedial measures as well as the commitments which cause the commitments unable to meet such provisions of the CSRC, the Company undertakes to issue supplementary commitments at that time in accordance with the latest provisions of the CSRC."

II. COMMITMENTS MADE BY DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY ON THE REMEDIAL MEASURES RELATING TO DILUTION OF IMMEDIATE RETURNS BY THE NON-PUBLIC ISSUANCE OF SHARES

"1. I commit not to transfer benefits to other entities and individuals without consideration or under unfair conditions, and not to harm the interests of the Company in any other ways.

2. I commit to restrain my duty-related consumption activities.

3. I commit not to utilize any assets of the Company in any investment or consumption activities irrelevant to my performance of duties.

4. I commit that the remuneration system established by the Board or the remuneration committee to be linked with the implementation of return remedial measures.

5. I commit that if the Company adopts a stock incentive plan in the future, I will support the vesting conditions of the stock incentive plan set by the Company to be linked with the implementation of the return remedial measures.

6. I commit to perform the return remedial measures set by the Company and all my commitments relating to the return remedial measures. If I breach such commitments and caused any loss to the Company or the investors, I am responsible to indemnify the Company or the investors for such loss.

7. From the date of making these commitments until the completion of the Non-public Issuance of Shares, if the CSRC imposes other new regulatory requirement in relation to the return remedial measures as well as the commitments which cause the commitments unable to meet such provisions of the CSRC, I undertake to issue supplementary undertakings at that time in accordance with the latest provisions of the CSRC."

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein this circular misleading.

2. DISCLOSURE OF INTEREST

Shareholding of Directors, chief executive and Supervisors

As at the Latest Practicable Date, save as disclosed below, none of the Directors, chief executive or Supervisors of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (ii) which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Hong Kong Stock Exchange.

Name	**Title**	**Number of A Shares held as at the Latest Practicable Date** *(Shares)*
Li Xiyong	Director, Chairman of the Board	10,000
Li Wei	Director, Vice Chairman of the Board	10,000
Wu Xiangqian	Director, General Manager	10,000
Wu Yuxiang	Director	30,000
Guo Jun	Employee Director	10,000
Zhang Shengdong	Supervisor, Chairman of the Supervisory Committee	10,000
Gu Shisheng	Supervisor, Vice Chairman of the Supervisory Committee	10,000
Jiang Qingquan	Employee Supervisory	10,000
Chen Zhongyi	Employee Supervisory	10,500
Wang Fuqi	Chief Engineer	10,000
Zhao Honggang	Deputy General Manager	10,000

All the interests disclosed above represent long position in the A Shares.

As at the Latest Practicable Date, Mr. Li Xiyong, Mr. Li Wei and Mr. Wu Yuxiang are directors/employees of Yankuang Group, which is a company having an interest in the Company's Shares required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2016, being the date to which the latest published audited accounts of the Group were made up.

4. CONSENT AND QUALIFICATIONS OF EXPERTS

The following are the qualifications of the experts who have given opinion or advice which are contained in this circular:

Name	Qualifications
Donvex Capital Limited	a corporation licensed to carry on type 6 (advising on corporate finance) regulated activities under the SFO
Beijing China Enterprise Appraisals Co. Ltd.	Qualified Assets Valuer
ShineWing Australia	Chartered Accountants, Australia
SHINEWING (HK) CPA Limited	Certified public accountants, Hong Kong
RPMGlobal	Independent technical adviser
Censere (Far East) Limited	Independent valuer

Each of the experts referred to above has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report, letter, certificate, opinion and/or the references to its name in the form and context in which they are respectively included.

As at the Latest Practicable Date, all of the above experts were not beneficially interested in the share capital of any member of the Group nor did they have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, all of the above experts did not have any direct or indirect interest in any assets which have been, since 31 December 2016 (being the date to which the latest published audited financial statements of the Group were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or Supervisors had any existing or proposed service contract with any member of the Group which will not expire or is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

6. DIRECTORS' INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS

As at the Latest Practicable Date, none of the Directors, the nominated Directors or Supervisors had any interest, direct or indirect, in any assets which have been, since 31 December 2016 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors or Supervisors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

7. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or their respective close associates (as defined under the Hong Kong Listing Rules) had any interests in the businesses, which compete or are likely to compete, either directly or indirectly, with the businesses of the Group (as would be required to be disclosed under Rule 8.10 of the Hong Kong Listing Rules if they were controlling shareholders of the Company).

8. LITIGATION

As far as the Directors are aware, except the "Significant Litigation and Arbitration Events" disclosed in pages 53 to 64 to the 2016 Annual Report of the Company and the "Litigation or Arbitration Events" disclosed in pages 10 to 11 to the Results Report for the First Quarter of 2017 of the Company, none of the members of the Group was at present engaged in any other litigation or claim or arbitration of material importance (including any litigation or claims that may have any material influence on rights to explore or mine) and there was no other litigation or claim of material importance (including any litigation or claims that may have any material influence on rights to explore or mine) known to the Directors to be pending or threatened against any member of the Group as at the Latest Practicable Date.

9. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this circular which are or may be material:

(i) On 27 July 2015, the Company and Yankuang Group entered into the Equity Transfer Agreement, pursuant to which the Company agreed to acquire from Yankuang Group 100% of the equity interest in Yankuang Donghua Heavy Industry Limited held by Yankuang Group with a consideration of RMB676,045,800. Please refer to the announcement of the Company dated 27 July 2015 for further details.

(ii) On 8 March 2016, Yancoal International (Holding) Co. Ltd. (as investor), a wholly-owned subsidiary of the Company, entered into the Cornerstone Investment Agreement with China Zheshang Bank Co., Ltd. (as issuer), CMB International Capital Limited (as underwriter's representative) and the Company (as guarantor), pursuant to which Yancoal International (Holding) Co. Ltd. agreed to acquire 400,000,000 H Shares of China Zheshang Bank Co., Ltd. at the offer price as part of the international offering. Please refer to the announcement of the Company dated 8 March 2016 for further details.

(iii) On 29 March 2016, the Company and Yankuang Group entered into the Equity Transfer Agreement, pursuant to which the Company agreed to acquire 65% equity interest held by Yankuang Group in Yankuang Group Finance from Yankuang Group at a consideration of RMB1,242,044,050. The Equity Transfer Agreement has not gone in to effect. Please refer to the announcement dated 29 March 2016, the circular dated 25 April 2016 and the announcement dated 3 June 2016 of the Company for further details.

(iv) On 29 March 2016, Yanmei Heze Neng Hua Co., Ltd., a 98.33% owned subsidiary of the Company, entered into the Wanfu Mining Right Transfer Agreement with Yankuang Group, pursuant to which Yanmei Heze Neng Hua Co., Ltd. agreed to acquire the Wanfu Mining Right from Yankuang Group at a consideration of RMB1,250,377,600. Please refer to the announcement dated 29 March 2016, the circular dated 25 April 2016 and the announcement dated 3 June 2016 of the Company for further details.

(v) On 29 March 2016, the Company and Yankuang Group entered into the Supplemental Agreement as a supplement to the Financial Services Agreement entered into between the Company and Yankuang Group on 27 March 2015. Please refer to the announcement of the Company dated 29 March 2016 for further details.

(vi) On 13 June 2016, Yanzhou Coal Ordos Neng Hua Co., Ltd., a wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with the shareholders of Jiutai Energy Inner Mongolia Co., Ltd. and Jiutai Energy Inner Mongolia Co., Ltd., pursuant to which Yanzhou Coal Ordos agreed to acquire and

Jiutai Shareholders agreed to sell 52% equity interests in aggregate in Jiutai Energy at a total consideration of RMB1,840,240,000. Please refer to the announcement of the Company dated 13 June 2016 for further details.

(vii) On 22 July 2016, the Company (as the limited partner) entered into the Joint Venture Agreement with Duanxin Investment Holding (Beijing) Co., Ltd. (as the general partner), a wholly-owned subsidiary of the Company, and Great Wall Securities Company Limited, in relation to the capital commitment to Jinan Duanxin Mingli Financial Consultation Partnership (Limited Partnership)(濟南端信明禮財務諮詢合夥企業(有限合夥)). Please refer to the announcement of the Company dated 22 July 2016 for further details.

(viii) The SPA.

(ix) The Original Financial Services Agreement.

(x) The Yankuang Group Finance Equity Transfer Agreement.

(xi) The New Financial Services Agreement.

Save as disclosed above, no material contract (not being a contract entered into in the ordinary course of business) has been entered into by any member of the Group within the two years immediately preceding the issue of this circular.

10. MISCELLANEOUS

(i) As at the date of this circular, the Directors of the Company are Mr. Li Xiyong, Mr. Li Wei, Mr. Wu Xiangqian, Mr. Wu Yuxiang, Mr. Zhao Qingchun, Mr. Guo Dechun and Mr. Guojun, and the independent non-executive Directors of the Company are Mr. Kong Xiangguo, Mr. Jia Shaohua, Mr. Wang Xiaojun and Mr. Qi Anbang.

(ii) As at the Latest Practicable Date, the registered office and principal place of business of the Company is at 298 Fushan South Road, Zoucheng, Shandong Province, the PRC.

(iii) The H Share registrar of the Company in Hong Kong is Hong Kong Registrars Limited at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(iv) Mr. Jin Qingbin and Ms. Leung Wing Han Sharon are the joint company secretaries of the Company as at the Latest Practicable Date.

Mr. Jin Qingbin is a senior accountant, a senior economist and MBA. He obtained the qualification for the board secretary of listed companies in Shanghai Stock Exchange in November 2008. Mr. Jin Qingbin graduated from Missouri State University.

Ms. Leung Wing Han Sharon is a fellow member of The Hong Kong Institute of Chartered Secretaries, the Institute of Chartered Secretaries and Administrators in the United Kingdom, and the Association of Chartered Certified Accountants in the United Kingdom and a member of the Hong Kong Institute of Certified Public Accountants. She holds a bachelor's degree majoring in law and a bachelor's degree of business administration majoring in accounting as well as a master's degree of international corporate and finance law.

(v) Unless the context otherwise requires, all references to times in this circular refer to Hong Kong times.

(vi) The English text of this circular shall prevail over the Chinese text, in case of any inconsistency.

11. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Baker & McKenzie at 14th Floor, Hutchison House, 10 Harcourt Road, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this circular up to and including the date of the AGM:

(i) the letter from the Board, the text of which is set out in the section headed "Letter from the Board" in this circular;

(ii) the letter of recommendation from the Independent Board Committee of the Company to the Independent Shareholders as set out in this circular;

(iii) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders as set out in this circular;

(iv) the Yankuang Group Finance Equity Transfer Agreement Valuation Report;

(v) the audited consolidated financial statements of the C&A Target Company Group, the text of which is set out in Appendix VIII to this circular;

(vi) the assurance report from SHINEWING (HK) CPA Limited relating to the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix X to this circular;

(vii) the Competent Person's Report on Mineral Assets, the text of which is set out in Appendix XI to this circular;

(viii) the Valuation Report on Mineral Assets, the text of which is set out in Appendix XII to this circular;

(ix) the material contracts referred to in the section headed "Material contracts" in this appendix;

(x) the written consents from the experts as set out in the section headed "Consent and Qualifications of Experts" of this appendix;

(xi) the annual reports of the Company for each of the financial years ended 31 December 2016, 31 December 2015 and 31 December 2014;

(xii) the Articles of Association; and

(xiii) this circular.