Australian Pacific Coal Limited ABN 49 089 206 986

Notice of Extraordinary General Meeting and Explanatory Memorandum

---

Date of Meeting:	Thursday, 13 April 2017
Time of Meeting:	9.00am Brisbane time
Place of Meeting:	Level 7, Waterfront Place, 1 Eagle Street, Brisbane Qld 4000 Australia

This Notice of Extraordinary General Meeting, Explanatory Memorandum and Independent Expert's Report should be read in their entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional adviser without delay.

The Independent Expert, BDO Corporate Finance (Qld) Ltd, has concluded that the Relevant Interest Acquisition is not fair but reasonable to the Non-Associated Shareholders.

The Independent Expert, BDO Corporate Finance (Qld) Ltd, has concluded that the granting of the Security is fair and reasonable to the Non-Associated Shareholders.

Notice of Extraordinary General Meeting

Notice is given that an Extraordinary General Meeting of Shareholders of Australian Pacific Coal Limited ABN 49 089 206 986 (**Company**) will be held at the offices of HopgoodGanim Lawyers, Level 7, Waterfront Place, 1 Eagle Street, Brisbane Qld 4000, Australia on Thursday, 13 April 2016 at 9.00am Brisbane time.

Terms used in this Notice of Meeting are defined in section 4 of the accompanying Explanatory Memorandum.

The Explanatory Memorandum, the Proxy Form and the Independent Expert's Report accompanying this Notice of Meeting are incorporated in and comprise part of this Notice of Meeting.

A copy of this Notice and the Explanatory Memorandum which accompanies this Notice has been lodged with the Australian Securities & Investments Commission (**ASIC**) in accordance with Section 218 of the *Corporations Act*.

Agenda

The agenda for the meeting is as follows:

1. Opening of meeting.
2. Resolution 1 – Approval of transactions with Mr Nicholas Paspaley, Mr John Robinson (Snr) and Trepang Services Pty Ltd under Chapter 2E and Section 611 (Item 7) of the *Corporations Act* and under Listing Rules 10.1 and 10.11.
3. Other business.
4. Close of meeting.

Ordinary business

1. Resolution 1 – Approval of transactions with Mr Nicholas Paspaley, Mr John Robinson and Trepang Services Pty Ltd under Chapter 2E and Section 611 (Item 7) of the Corporations Act and Listing Rules 10.1 and 10.11

To consider and, if thought fit, pass the following resolution, as an Ordinary Resolution of the Company, with or without amendment:

"That in accordance with Chapter 2E and section 611 (Item 7) of the Corporations Act 2001, and under Listing Rules 10.1 and 10.11 and for all other purposes, the Company be authorised, with effect from the passing of this Resolution 1 to proceed with:

(a) *the issue of the Robinson Convertible Note, capable of being converted into Shares in the Company, to Mr John Robinson (Snr) with a face value of $10,000,000 plus interest capitalised up to the date of completion of the Dartbrook acquisition, pursuant to the terms of the Robinson Convertible Loan Deed;*

(b) *the issue of the Paspaley Convertible Note, capable of being converted into Shares in the Company, to Mr Nicholas Paspaley with a face value of $10,000,000 plus interest capitalised up to the date of completion of the Dartbrook acquisition, pursuant to the terms of the Paspaley Convertible Loan Deed;*

(c) *the issue of the Trepang Convertible Note, capable of being converted into Shares in the Company, to Trepang Services Pty Ltd with a face value of $15,000,000, pursuant to the terms of the Trepang Convertible Loan Deed (collectively with the Robinson and Paspaley Convertible Notes, the* ***Convertible Notes****);*

(d) *the subsequent conversion of the Convertible Notes into up to 7,521,149,069 Conversion Shares and Mr Nicholas Paspaley, Mr John Robinson (Snr) and Trepang*

Services Pty Ltd acquiring a relevant interest in the Conversion Shares on conversion of the Convertible Notes;

(e) *the issue of up to 3,808,682,792 Interest Shares to Mr Nicholas Paspaley, Mr John Robinson (Snr) and Trepang Services Pty Ltd in satisfaction of the obligation of the Company to pay interest under the Secured Loan Deed, the Convertible Loan Deeds and Mr Nicholas Paspaley, Mr John Robinson (Snr) and Trepang Services Pty Ltd acquiring a relevant interest in such Interest Shares;*

(f) *the granting of the Security by the Company to Mr John Robinson Snr, Mr Nicholas Paspaley and Trepang Services Pty Ltd to secure the indebtedness associated with the Convertible Loan Deeds, the Convertible Notes and the Secured Loan Deed;*

(g) *the giving of financial benefits to Trepang Services Pty Ltd, Mr John Robinson Snr and Mr Nicholas Paspaley to the extent they are related parties of the Company;*

(h) *the commencement of the Escrow Deeds and Mr Nicholas Paspaley, Mr John Robinson (Snr) and Trepang Services Pty Ltd acquiring a relevant interest in the Shares the subject of the Escrow Deeds;*

(i) *the Voting Power of Mr Nicholas Paspaley, Mr John Robinson (Snr) and Trepang Services Pty Ltd (and their Associates) increasing up to a maximum of 84.90% pursuant to the Convertible Loan Deeds, the Secured Loan Deed and the Escrow Deeds,*

pursuant to the terms and conditions of the Convertible Loan Deeds, the Convertible Notes, the Secured Loan Deed, the Security and the Escrow Deeds, the details of which are summarised in the Explanatory Memorandum."

Notes

For the purpose of section 611 of the *Corporations Act*, an Independent Expert's Report prepared by BDO Corporate Finance (Qld) Ltd is **enclosed** with this Notice of Meeting in Annexure A.

BDO has concluded that the Relevant Interest Acquisition is not fair but reasonable to the Non-Associated Shareholders.

BDO has concluded that the granting of the Security is fair and reasonable to the Non-Associated Shareholders.

Further details regarding the Proposed Transaction are set out in the accompanying Explanatory Memorandum and Independent Expert's Report which the Directors recommend Shareholders read in full before making any decision in relation to Resolution 1.

A copy of this Notice of Meeting and the accompanying Explanatory Memorandum has been lodged with the ASIC in accordance with section 218 of the *Corporations Act*.

Voting Exclusion Statement – Listing Rules 10.1 and 10.11

For the purposes of Listing Rules 10.1 and 10.11, the Company will disregard any votes cast on this Resolution by:

(a) Mr Nicholas Paspaley, Mr John Robinson (Snr) and Trepang Services Pty Ltd; and

(b) any Associate of Mr Nicholas Paspaley, Mr John Robinson (Snr) and Trepang Services Pty Ltd.

However, the Company need not disregard a vote if:

(a) it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions in the proxy form; or

(b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

Voting Exclusion Statement – Part 2E and Item 7, Section 611 of the Corporations Act

For the purposes of Part 2E and Item 7, Section 611 of the Corporations Act, a vote on Resolution 1 must not be cast by or on behalf of:

(a) Mr Nicholas Paspaley, Mr John Robinson (Snr) and Trepang Services Pty Ltd;

(b) all of the parties signing Escrow Deeds as identified in Schedule 7; and

(c) any Associate of those persons in (a) and (b) above.

However, this does not prevent the casting of a vote on Resolution 1 if it is cast by a person as a proxy in writing that specifies how the proxy is to vote on the proposed resolution and it is not cast on behalf of a person referred to in sub-paragraphs (a), (b) or (c) directly above.

General business

To consider any other business as may be lawfully put forward in accordance with the Constitution of the Company.

By order of the Board

Kevin Mischewski
Company Secretary
13 March 2017

Explanatory Memorandum

1. Introduction

This Explanatory Memorandum is provided to shareholders of Australian Pacific Coal Limited ABN 49 089 206 986 (**Company**) in connection with the business to be considered at an Extraordinary General Meeting of Shareholders to be held at the offices of HopgoodGanim Lawyers, Level 7, Waterfront Place, 1 Eagle Street, Brisbane Qld 4000 Australia on Thursday, 13 April 2017 at 9.00am Brisbane time.

The Notice of Meeting, which is also **enclosed**, sets out details of proposals concerning the Resolution to be put to Shareholders.

The Directors recommend Shareholders read the accompanying Notice of Meeting, this Explanatory Memorandum and the Independent Expert's Report in full before making any decision in relation to the Resolution.

Unless otherwise defined, terms used in this Explanatory Memorandum are defined in Section 4.

Ordinary Business

2. Resolution 1 – Approval of transactions with Mr Nicholas Paspaley, Mr John Robinson and Trepang Services Pty Ltd under Chapter 2E and Section 611 (Item 7) of the Corporations Act and Listing Rules 10.1 and 10.11

2.1 Background

Dartbrook Joint Venture

On 24 December 2015 the Company entered into a binding agreement to acquire 83.33% interest in the Dartbrook Joint Venture under the SPA. The Company will acquire this interest through the purchase of all of the shares on issue in Anglo Coal (Dartbrook) Pty Ltd, a subsidiary of Anglo American Plc. The Company will also acquire the shares in Anglo Coal (Dartbrook Management) Pty Ltd. The balance 16.67% interest in the Dartbrook Joint Venture is held by Marubeni Coal who had a tag along right under the terms of the Dartbrook Joint Venture which they have subsequently exercised (see below for further details).

The following sets out information in respect of the funding arrangements which have been secured in order to enable the Company to complete the acquisition of the Dartbrook Joint Venture pursuant to the terms of the SPA. At present, all conditions precedent to the SPA must be satisfied by 18 April 2017, with completion anticipated to occur on 29 May 2017.

Initial Escrow Condition

As a condition precedent of the SPA, the Company was required to have a $25,000,000 cash payment held in escrow pending completion of the SPA. The Company undertook to secure this funding from various parties.

Robinson and Paspaley Convertible Loan Deeds

On 2 February 2016 the Company announced that it had successfully raised the required funding, in conjunction with existing cash reserves of the Company to satisfy the abovementioned condition of the SPA. The Company entered the Robinson and Paspaley Convertible Loan Deeds with each of Mr John Robinson Snr and Mr Nicholas Paspaley, the controllers of the Company's cornerstone investor, Trepang on 1 February 2016.

On 16 June 2016, the Company announced that it had negotiated variations to the terms of the Robinson and Paspaley Convertible Loan Deeds with the key terms outlined below:

(a) the principal amount for each of the Robinson and Paspaley Convertible Loan Deeds is $10,000,000 ($20,000,000 in total) which is to be used for completion of the SPA;

(b) the Maturity Date is 1 February 2017, with an ability for the financier to request (and for the Company to accept such request) to extend the Maturity Date by two further periods of one year (with the last possible Maturity Date being 1 February 2019). As noted below, the first extension of the Maturity Date to 1 February 2018 has been agreed;

(c) interest will be payable at 10% per annum (previously 15% per annum as announced on 2 February 2016). All interest accruing until the date of completion of the SPA will be capitalised. All interest accruing after the date of completion of the SPA will be payable in cash or Shares (at the five day VWAP prior to the relevant interest payment date) or capitalised, at the election of the Company;

(d) subject to shareholder approval, the Company will issue the Robinson and Paspaley Convertible Notes in respect of all amounts owing under the Robinson and Paspaley Convertible Loan Deeds (including capitalised interest) which may be converted into Shares at an issue price of $0.015 each at any time from the date of issue of the Convertible Notes until the Maturity Date; and

(e) subject to Shareholder approval being obtained, the Company will grant to Mr John Robinson Snr and Mr Nicholas Paspaley the following:

    (1) general security deeds over the Company and each of its subsidiaries;

    (2) mortgages over all mining tenements or rights held by the Company and each of its subsidiaries; and

    (3) mortgages over all real property rights held by the Company and each of its subsidiaries; and

(f) all required shareholder approvals were to be obtained by 24 October 2016, which has been subsequently extended to 31 May 2017.

The Company has also contributed $4,500,000 in cash reserves to meet the funding prerequisite. To date, the Company has paid a deposit of $500,000 to Anglo Coal and $100,000 to Marubeni Coal and the balance ($24,500,000) is held in an escrow account in respect of the SPA.

Secured Loan Deed

On 27 April 2016 the Company announced that it had entered into the Secured Loan Deed with Trepang to provide the necessary purchase consideration of $5,000,000 in respect of the acquisition of Marubeni Coal's interests in the Dartbrook Joint Venture if this were required. The maturity date under the Secured Loan Deed is 27 April 2019. Interest will be payable at 10% per annum. All interest will be payable in cash or Shares (at the five day VWAP prior to the relevant interest payment date) or capitalised, at the election of the Company. The Company entered a conditional General Security Deed in respect of the Secured Loan Deed on 27 April 2016, details of which are set out below.

As announced on 18 May 2016, the Company was formally notified of Marubeni Coal's decision to exercise its tag-along right for the sale of its 16.67% interest in the Dartbrook Joint Venture. As a consequence, Anglo Coal (Dartbrook) Pty Ltd will acquire the interests of Marubeni Coal in the Dartbrook Joint. The Company will then acquire a 100% interest in the Dartbrook Joint Venture by way of its acquisition of Anglo Coal (Dartbrook) Pty Ltd. The additional consideration the Company will provide for this acquisition comprises $5,000,000 cash (to be funded by the Secured Loan Deed as noted above), together with a royalty on coal from the Dartbrook Joint Venture.

On 16 June 2016, the Company announced that it had negotiated amendments to the terms of the Secured Loan Deed to include a requirement that, subject to Shareholder approval being obtained, for the Company to grant to the financier the following:

(a) general security deeds over the Company and each of its subsidiaries;

(b) mortgages over all mining tenements or rights held by the Company and each of its subsidiaries; and

(c) mortgages over all real property rights held by the Company and each of its subsidiaries.

Variation to Secured Loan Deed and Robinson and Paspaley Convertible Loan Deeds

On 10 October 2016, the Company announced that it had negotiated variations to the terms of the Secured Loan Deed and the Robinson and Paspaley Convertible Loan Deeds in order to extend the date for obtaining all required shareholder approvals, with the variations agreed as follows:

(a) extension of the date for obtaining all required shareholder approvals from 24 October 2016 to 31 January 2017; and

(b) an obligation being imposed on the Company to seek an ASX waiver to permit the grant of the Security to Mr Nicholas Paspaley, Mr John Robinson (Snr) and Trepang (on slightly amended terms to meet the usual waiver conditions of ASX) in the event that the required Shareholder approvals are not obtained by 31 January 2017 or alternatively, that prior to that date, the required resolutions are not approved at the shareholder meeting at which they are considered.

On or about 31 January 2017 the Company announced that it had negotiated further variations to the terms of the Secured Loan Deed and Robinson and Paspaley Convertible Loan Deeds as follows:

(a) extension of the date for obtaining all required shareholder approvals from 31 January 2017 to 31 May 2017;

(b) increase the principal amount under the Secured Loan Deed from $5,000,000 to $6,000,000, to be provided in two tranches, the first being $1,000,000 (**Tranche A**) to be used for working capital which was drawn down on 3 February 2017 and the second being $5,000,000 (**Tranche B**) to be used in the acquisition of the remaining interest in the Dartbrook Joint Venture presently held by Marubeni; and

(c) extension of the Maturity Date under the Secured Loan Deed, in respect of the Tranche A amount, to 1 February 2018 (or such date as extended under the terms of the Secured Loan Deed), and in respect of the Tranche B amount, the date that is three years after the date of the Secured Loan Deed.

Further details regarding the terms of the Robinson and Paspaley Convertible Loan Deeds, the Robinson and Paspaley Convertible Notes and the Security are set out in Schedule 1, Schedule 2 and Schedule 6 (respectively).

General Security Deed

The Company has entered the General Security Deed in respect of the Secured Loan Deed, with its commencement being subject to either Shareholder approval or an ASX waiver of

Listing Rule 10.1 being obtained by the Company. The Company applied for an ASX waiver of Listing Rule 10.1 on 9 February 2017, and a waiver was granted on 1 March 2017. Accordingly, the General Security Deed in respect of the Secured Loan Deed has commenced and presently includes the ASX waiver conditions set out in Item 5 of Schedule 6. In the event that Resolution 1 is passed, the ASX waiver conditions as set out in Item 5 of Schedule 6 which were included to comply with the ASX waiver granted in respect of the Security will cease to apply.

As a result of the grant of the ASX waiver referred to above, the Company and its present Subsidiaries have executed and delivered the Security (to the extent it is presently able to do so). That Security will include the ASX waiver conditions set out in Item 5 of Schedule 6. In the event that Resolution 1 is passed, the ASX waiver conditions as set out in Item 5 of Schedule 6 which were included to comply with the ASX waiver granted in respect of the Security will cease to apply.

Further details regarding the terms of the Secured Loan Deed and the Security are set out in Schedule 5 and Schedule 6 (respectively).

Alternative funding

On 8 September 2016, the Company announced it had entered into a share subscription agreement with AMCI (**AMCI Subscription Agreement**) under which AMCI conditionally agreed to subscribe for $10,000,000 in new Shares under the terms and conditions of the AMCI Subscription Agreement. On 23 November 2016, the Company announced that it had negotiated variations to the terms of the AMCI Subscription Agreement to extend the completion date to 30 November 2016. On 2 December 2016, the Company announced that the AMCI agreement conditions had not yet been satisfied, however the agreement remained on foot, and had not been terminated by either party.

Trepang Convertible Loan Deed

On 1 March 2017 the Company announced that it had entered into the Trepang Convertible Loan Deed, to conditionally secure an additional $15,000,000 in funding to assist in completing the acquisition of 100% of the Dartbrook Joint Venture. There was a further variation to the Trepang Convertible Loan Deed on 10 March 2017. The key terms of the Trepang Convertible Loan Deed are as outlined below:

(a) the principal amount is $15,000,000;

(b) the Maturity Date is 1 February 2018 with an ability for Trepang to request (and for the Company to accept such request) to extend the Maturity Date by two further periods of one year (with the last possible Maturity Date being 1 February 2020);

(c) interest will be payable at 10% per annum or in the event that the required shareholder approval or ASX waiver is not obtained by 31 May 2017, interest will accrue at 16% per annum from 31 May 2017 until such shareholder approval or ASX waiver is obtained at which point the interest rate will revert back to 10% per annum;

(d) Trepang is not obliged to advance the principal amount unless:

    (1) the required Shareholder approvals are obtained in respect of the Trepang Convertible Loan Deed and Trepang Convertible Note and the grant of the Security pursuant to the Trepang Convertible Loan Deed and Trepang Convertible Note;

    (2) each Security that can be granted by the Company and the Company Group prior to completion of the SPA has been executed by all relevant parties; and

(3) each Escrow Deed (see below) has been executed by all relevant parties,

on or before the Sunset Date (as defined in the SPA) (unless Trepang elects to do so in its absolute discretion). Further, if Shareholder approval is not obtained by 31 May 2017 and Trepang still elect to provide the funding under the terms of the Trepang Convertible Loan Deed, Trepang may demand full repayment of all funds advanced under the Trepang Convertible Loan Deed on 28 days' notice;

(e) subject to Shareholder approval, the Company will issue the Trepang Convertible Note in respect of all amounts owing under the Trepang Convertible Loan Deed which may be converted into Shares at an issue price of the lower of $0.015 or the average of the daily VWAPs per Share during the 30 Trading Days on which Shares traded in the ordinary course of business on the ASX prior to the date which is three business days prior to the date of the Meeting, at any time from the date of issue of the Convertible Notes until the Maturity Date, provided that the issue price is not lower than $0.0025 per Share. It is noted for completeness that the Company will disclose to the ASX the issue price in respect of the Trepang Convertible Note at least 72 hours prior to the Meeting; and

(f) subject to Shareholder approval being obtained, the Company will grant to Trepang the following (noting that the Company and its present Subsidiaries will, prior to the Meeting, execute and deliver the Security (to the extent it is presently able to do so) in reliance on the ASX waiver noted above, which Security will include the ASX waiver conditions set out in Item 5 of Schedule 6. In the event that Resolution 1 is passed, the ASX waiver conditions as set out in Item 5 of Schedule 6 which were included to comply with the ASX waiver granted in respect of the Security will cease to apply):

(1) general security deeds over the Company and each of its subsidiaries;

(2) mortgages over all mining tenements or rights held by the Company and each of its subsidiaries;

(3) mortgages over all real property rights held by the Company and each of its subsidiaries; and

(g) without limitation to (d) above, Shareholder approval must be sought at a meeting on or before 31 May 2017.

The Company is presently reliant upon the funding from the Trepang Convertible Note to complete the SPA. One of the outstanding conditions precedent to completion of the SPA is the Company providing reasonable evidence to Anglo of the Company's ability to replace the financial assurances of $9,245,000. As $9,245,000 of the funding provided pursuant to the Trepang Convertible Loan Deed will be used to fund the replacement of the Dartbrook Joint Venture financial assurances, the provision of this funding will assist the Company in satisfying this condition.

Further details regarding the terms of the Trepang Convertible Loan Deed and the Trepang Convertible Note are set out in Schedule 3 and Schedule 4 respectively.

Escrow Deeds

Under the terms of the Trepang Convertible Loan Deed, Trepang is not obliged to advance funds unless prior to the Sunset Date (as defined in the SPA) the Escrow Deeds have been executed by all relevant parties and the Company. The Escrow Deeds are required to be entered by each of the current Directors and Company Secretary and their associated or related entities in respect of Shares held at the commencement date of the Trepang Convertible Loan Deed and future Shares issued pursuant to incentive arrangements with the Company. Further details regarding the terms of the Escrow Deeds are set out in Schedule 7

The Company will obtain a Relevant Interest in the Shares the subject of the Escrow Deeds as a result of controlling the exercise of a power to dispose of those Shares. As the Company is required to have in place the Escrow Deeds as a condition to Trepang providing funding under the Trepang Convertible Loan Deed, it may be determined that Trepang also have a Relevant Interest in the Shares the subject of the Escrow Deeds if Trepang was also considered to control the exercise of a power to dispose of the Shares the subject of the Escrow Deed. Resolution 1 seeks Shareholder approval for Trepang obtaining a Relevant Interest in the Shares the subject of the Escrow Deed, to the extent such an interest arises. Obtaining this Shareholder approval is also a condition to the draw down of funds under the Trepang Convertible Loan Deed.

Shareholder Approval

Under the terms of the Convertible Loan Deeds and the Secured Loan Deed the Company is obliged to seek Shareholder approval of Resolution 1 by 31 May 2017 to enable the issue of the Convertible Notes, the Interest Shares, the grant of the Security and the commencement of the Escrow Deeds.

If such approval is not granted by the Sunset Date (as defined in the SPA, presently 18 April 2017), Trepang is not obliged to advance the $15,000,000 under the Trepang Convertible Loan Deed, (unless it elects to do so in its absolute discretion). As noted above, the Company is presently reliant upon the funding from the Trepang Convertible Note to complete the SPA. One of the outstanding conditions precedent to completion of the SPA is the Company providing reasonable evidence to Anglo of the Company's ability to replace the financial assurances of $9,245,000. As $9,245,000 of the funding provided pursuant to the Trepang Convertible Loan Deed will be used to fund the replacement of the Dartbrook Joint Venture financial assurances, the provision of this funding will assist the Company in satisfying this condition If Shareholders do not approve Resolution 1 and Trepang does not otherwise elect to provide the funding under the terms of the Trepang Convertible Loan Deed (which it has no obligation to do so), the Company does not presently anticipate that it will have the necessary financing to be able to complete the SPA. If Shareholder approval is not obtained by 31 May 2017 but Trepang still elects to provide the funding under the terms of the Trepang Convertible Loan Deed so that the SPA could complete, Trepang may demand full repayment of all funds advanced under the Trepang Convertible Loan Deed on 28 days' notice. At this time, the Company does not have the ability to make such repayment and would require further funding to be able to undertake this repayment should it be required. Where Trepang does not so elect, the amounts owing will continue to be repayable on the Maturity Date of 1 February 2018 (subject to extension), unless payable earlier in accordance with the terms of the Trepang Convertible Loan Deed.

In the event that Resolution 1 is not passed, however, but funding under the Trepang Convertible Loan Deed was provided and the SPA still completed, this will not accelerate payment of amounts owing under the Robinson and Paspaley Convertible Loan Deeds or the Secured Loan Deed. Amounts owing under the Robinson and Paspaley Convertible Loan Deeds would be payable on 1 February 2018 unless payable earlier in accordance with the terms of the Robinson and Paspaley Convertible Loan Deeds. There is an ability to further extend (by agreement) the Maturity Date to 1 February 2019 if notice is provided by 1 November 2017. This provides the Company with the ability to consider any extension three months in advance of the loans Maturity Date. Amounts owing under the Secured Loan Deed would be repayable on the maturity date of 27 April 2019, unless payable earlier in accordance with the terms of the Secured Loan Deed.

While the failure of Shareholders to approve the grant of the Security will not result in an event of default under the Secured Loan Deed or the Robinson and Paspaley Convertible Loan Deeds, the Company would be obliged to seek a waiver from the ASX of Listing Rule 10.1 in order to grant the Security within 10 Business Days of the date of the Meeting. However, the terms of the Trepang Convertible Loan Deed required the Company to seek such a waiver within five days of its execution. An application for a waiver was made on 9 February 2017, and the waiver was granted on 1 March 2017. As a result of the grant of the ASX waiver referred to above, the Company and its present Subsidiaries have executed and delivered the Security (to the extent it is presently able to do so). The ASX waiver decision requires the Security to contain the ASX waiver conditions set out in Item 5 of Schedule 6. In the event that Resolution 1 is passed, the ASX waiver conditions as set out in Item 5 of Schedule 6 which were included to comply with the ASX waiver granted in respect of the Security will cease to apply.

The Meeting has been convened for the purpose of, inter alia, seeking the approval of Shareholders to the issue of the Convertible Notes pursuant to the Convertible Loan Deeds, the issue of the Conversion Shares and Interest Shares, to grant the Security and to enable the Escrow Deeds to commence.

The Company engaged BDO to prepare an Independent Expert's Report on the Proposed Transaction and the granting of the Security to assist Shareholders to decide whether or not to vote in favour of Resolution 1.

Independent Expert and Non-Interested Director consideration

The Independent Expert has assessed that the Relevant Interest Acquisition is not fair but reasonable to Non- Associated Shareholders and the granting of the Security is fair and reasonable to Non- Associated Shareholders, but strongly recommends that Shareholders also have regard to all of the information set out in the balance of the Independent Expert Report which appears as Annexure A to this Explanatory Memorandum. Shareholders are also referred to sections 2.7 and 2.13 of this Explanatory Memorandum for further details as to the contents of the Independent Expert's Report.

The Non-Interested Directors (being Mr Ziegler and Mr Stone) have given detailed consideration to the Proposed Transaction. The Non-Interested Directors consider that the Proposed Transaction is in the best interests of the Company and recommend the Proposed Transaction to Shareholders.

Summary of Proposed Transaction and document terms

An explanation of the rationale of the Proposed Transaction is set out in section 2.3 and the advantages and disadvantages of the Proposed Transaction are set out in section 2.4.

A summary of the key terms of the relevant transaction documents are set out as follows:

(a) Robinson and Paspaley Convertible Loan Deeds - Schedule 1;

(b) Robinson and Paspaley Convertible Notes – Schedule 2;

(c) Trepang Convertible Loan Deed - Schedule 3;

(d) Trepang Convertible Note - Schedule 4;

(e) Secured Loan Deed – Schedule 5;

(f) Security – Schedule 6; and

(g) Escrow Deeds - Schedule 7

2.2 Acquisition of Dartbrook Coal Mine

The Company announced on 29 December 2015 that it had entered a binding agreement for the acquisition of an 83.33% interest in the Dartbrook Joint Venture consisting of:

(a) 83.33% interest in the Dartbrook Joint Venture;

(b) 100% interest in Anglo Coal (Dartbrook Management) Pty Ltd, manager of the Dartbrook Joint Venture; and

(c) 83.33% interest in Dartbrook Coal (Sales) Pty Ltd, marketing agent of the Dartbrook Joint Venture.

The consideration payable for the acquisition of Anglo's 83.33% interest in the Dartbrook Joint Venture is $25,000,000 cash together with a royalty on coal from the Dartbrook Joint Venture at a rate of $2.50 per tonne of coal sold or otherwise disposed of and $0.25 per tonne of any third party coal processed through the Dartbrook infrastructure, but capped at $25,000,000 (subject to escalation in accordance with CPI).

Under the joint venture agreement between Anglo Coal (Dartbrook Management) Pty Ltd and Marubeni Coal, Marubeni Coal had the right to 'tag' and sell its interest to Anglo Coal (Dartbrook Management) Pty Ltd on no less favourable terms. Marubeni Coal has exercised its tag-along right and Anglo Coal (Dartbrook Management) Pty Ltd has now executed formal documentation in relation to Marubeni Coal's tag-along sale of its 16.67% interest in the Dartbrook Joint Venture and its 16.67% interest in Dartbrook Coal (Sales) Pty Ltd to Anglo Coal (Dartbrook Management) Pty Ltd. The Company will then acquire a 100% interest in the Dartbrook Joint Venture and Dartbrook Coal (Sales) Pty Ltd from Anglo Coal (Dartbrook Management) Pty Ltd. The additional consideration payable following Marubeni electing to exercise its 'tag' right is $5,000,000 cash together with a royalty on coal from the Dartbrook Joint Venture at a rate of $0.50 per tonne of coal sold or otherwise disposed of and $0.05 per tonne of any third party coal processed through the Dartbrook infrastructure, but capped at $5,000,000 (subject to escalation in accordance with CPI).

At completion of the SPA, the Company will also be required to replace $9,245,000 in financial assurances in respect of the Dartbrook mining tenements.

Completion of the acquisition of Anglo America Plc and Marubeni Coal's interests in the Dartbrook Joint Venture remains subject to certain conditions precedent, including:

(a) Marubeni Coal releasing Anglo from any further liability in respect of the Dartbrook Joint Venture (which it has agreed to do on completion);

(b) receipt of New South Wales government approval to the tenement change of control and to the tenement transfers from Marubeni Coal. An application was lodged with the Minister for Industry, Resources and Energy seeking approval to the tenement change of control on 20 January 2016. An application was lodged with the Minister for Industry, Resources and Energy seeking approval to the tenement transfers from Marubeni Coal on 19 August 2016. As of the date of this Notice, such approvals have not yet been obtained; and

(c) the Company providing reasonable evidence to Anglo of the Company's ability to replace the financial assurances of $9,245,000. One of the approved purposes of the Trepang Convertible Loan Deed is to provide $9,245,000 which will be used to fund the replacement of the Dartbrook Joint Venture financial assurances. Accordingly, the provision of funding pursuant to the Trepang Convertible Loan Deed will assist the Company in satisfying this condition.

The Company and Anglo have also agreed to waive the condition precedent relating to Marubeni Coal not exercising its pre-emptive or tag-along rights under the Dartbrook Joint Venture.

The rationale for the Company's purchase of Dartbrook is to enable it to further develop its business by advancing from being a coal explorer to ultimately being the owner and operator of a significant working coal mine. The pursuit of this approach should place the Company in a stronger position to generate sizeable revenues, together with profits, hopefully in the near term. The Company believes that this business model in the longer term is more sustainable than the Company's current approach of seeking to acquire prospective coal tenements, exploring them and then realising them typically through some form of joint venture. The Company's future plans in connection with Dartbrook are to undertake the feasibility studies that are required so that it is in a position to make all necessary applications to the New South Wales Government so that the required permitting may be granted to allow the Company to undertake mining of the known Dartbrook coal deposit. This will enable the Company to be better placed to optimise the realisation of value from this asset. Additional funding will be required in the short and long term so that the Company will be able to progress its plans in connection with Dartbrook, be it by way of the undertaking of the aforementioned feasibility studies or the acquisition of necessary capital equipment to enable mining to commence. This future capital will be sought from debt, mezzanine and equity providers. The Company will seek to achieve the most appropriate risk adjusted capital structure for its holding, development and operation of the Dartbrook asset given the cyclicality of the coal market, and other competitive pressures that will influence the supply and demand for the coal produced.

Resolution 1 does not seek Shareholder approval of the acquisition of the Dartbrook Joint Venture by the Company. Rather, it seeks the approval of Shareholders in respect of the financing arrangements with Trepang, Mr Robinson Senior and Mr Paspaley which have been secured in order to complete the SPA. However, in the event that Shareholders do not approve Resolution 1, it is likely that the Company will not be able to completed the acquisition of the Dartbrook Joint Venture.

2.3 The rationale for the Proposed Transaction

The Non-Interested Directors have given detailed consideration to the Proposed Transaction. The rationale for the Proposed Transaction includes:

(a) The Company was required to have funds in escrow by 1 February 2016 to satisfy one of the condition precedents of the SPA. The Company sought to raise the funds through a broad range of alternative financing options. The Company was ultimately successful in obtaining funding under the Robinson Convertible Loan Deed and the Paspaley Convertible Loan Deed. The issue of the Convertible Notes means that the Company may not be obligated to repay all amounts owing under the Robinson and Paspaley Convertible Loan Deeds in cash. It is noted that conversion of the Robinson and Paspaley Convertible Notes is at the discretion of the Holder and the Company is not able to elect to convert the Robinson and Paspaley Convertible Notes, other than in very limited circumstances as set out in Schedule 2.

(b) The Company's rationale for undertaking the proposed funding transaction by way of a convertible, interest bearing, and fully secured note has been to enable the Company to have the funding certainty that is required in order for it to be able to complete the Dartbrook transaction. Whereas the Company has sought finance from many parties, both domestic and international, and undertaken a comprehensive roadshow in November 2016 in an attempt to raise the necessary finance, these attempts have proven unfruitful. This lack of success is considered to have been brought about by the Company having not yet settled the Dartbrook transaction leading to potential investors querying whether or not the Dartbrook acquisition is going to proceed. Given these difficulties, the Company reached out to its cornerstone shareholders seeking additional funding. This funding has been offered as outlined in section 2.1. The Company continues to seek alternative avenues for the funding of its operations in an attempt to obtain the best financial terms possible as it seeks to further progress its business objectives.

(c) Trepang is not obliged to advance the principal amount of $15,000,000 unless, amongst other things, Resolution 1 is passed on or before the Sunset Date (as defined in the SPA) (unless Trepang elects to do so in its absolute discretion). The Company is presently reliant upon the funding from the Trepang Convertible Note to complete the SPA. If Shareholders do not approve Resolution 1 and Trepang does not otherwise elect to provide the funding under the terms of the Trepang Convertible Loan

Deed (which it has no obligation to do), the Company does not presently anticipate that it will be able to complete the SPA. Further, if Shareholder approval is not obtained by 31 May 2017 and Trepang still elects to provide the funding under the terms of the Trepang Convertible Loan Deed, Trepang may demand full repayment of all funds advanced under the Trepang Convertible Loan Deed on 28 days' notice.

2.4 Key Advantages and Disadvantages of the Proposed Transaction

The Company requires immediate funding to satisfy the funding requirement under the SPA. The passing of Resolution 1 at the Meeting will allow the Company to fund its payment obligations under the SPA and subject to all other outstanding conditions of the SPA being satisfied, proceed to completion of the SPA.

The advantages to Non-Associated Shareholders of the Proposed Transaction include:

(a) **Ability to complete the Dartbrook Acquisition**

The outstanding condition precedent to the SPA completing which is within the control of the Company is the Company providing reasonable evidence to Anglo of the Company's ability to replace the financial assurances of $9,245,000. To date, the Company has been unable to secure such funding from unrelated parties (noting that it was originally intended that this funding would be provided by AMCI, however, the AMCI Subscription Agreement has not been completed).

The Company is presently reliant upon the funding from the Trepang Convertible Note to complete the SPA. One of the outstanding conditions precedent to completion of the SPA is the Company providing reasonable evidence to Anglo of the Company's ability to replace the financial assurances of $9,245,000. As $9,245,000 of the funding provided pursuant to the Trepang Convertible Loan Deed will be used to fund the replacement of the Dartbrook Joint Venture financial assurances, the provision of this funding will assist the Company in satisfying this condition.

Trepang is not obliged to advance the $15,000,000 under the Trepang Convertible Loan Deed unless, amongst other things, Resolution 1 is passed on or before the Sunset Date (as defined in the SPA) (unless Trepang elects to do so in its absolute discretion). If Shareholders do not approve Resolution 1 and Trepang does not otherwise elect to provide the funding under the terms of the Trepang Convertible Loan Deed (which it has no obligation to do), the Company does not presently anticipate that it will be able to complete the SPA. The Directors believe the acquisition of the Dartbrook Joint Venture is a key value driver for the Company as they are of the view that the Dartbrook Coal Mine is strategically located and well equipped with existing infrastructure and facilities.

Further, if Shareholder approval is not obtained by 31 May 2017 and Trepang still elects to provide the funding under the terms of the Trepang Convertible Loan Deed, Trepang may demand full repayment of all funds advanced under the Trepang Convertible Loan Deed on 28 days' notice. The Company cannot refuse to accept the funding, if Trepang so elect to provide it.

Accordingly, absent Shareholder approval of Resolution 1, if Trepang were to provide funding under the Trepang Convertible Note and the SPA still completed, the Company will be placed in a difficult financial position if it is required at short notice to repay the Trepang Convertible Loan (with a face value of $15,000,000 and accrued interest). Any funding that the Company could obtain under this scenario would likely be very expensive in terms of cost of funds, its other terms and conditions including requirement for the provision of security and also be heavily dilutive to the interests of existing shareholders.

(b) **Conversion Price**

The Robinson and Paspaley Convertible Notes have a conversion price of $0.015 per Share. The Trepang Convertible Note has a conversion price of the lower of $0.015 per Share or the average of the daily VWAPs per Share during the 30 Trading Days on which Shares traded in the ordinary course of business on the ASX prior to the date which is three business days prior to the date of the Approval Meeting, provided that the conversion price is not lower than $0.0025 per Share. The highest Share price since announcing the proposed acquisition of the 83.33% interest in the Dartbrook Joint Venture on 29 December 2015 was $0.031 (12 August 2016) with the lowest Share price since 29 December 2015 being $0.009 (8 April 2016).

The average VWAP over the 20 Trading Days prior to entering the Robinson and Paspaley Convertible Loan Deeds on 1 February 2016 was $0.020.

The average VWAP over the 20 Trading Days prior to entering the Trepang Convertible Loan Deeds on 1 March 2017 was $0.0171.

Accordingly, the conversion price in respect of the Robinson and Paspaley Convertible Notes (with a face value of at least $20,000,000 and accrued interest) of $0.015 represents:

(1) a 25% discount to the 20 Trading Day VWAP ($0.020) prior to entering the Convertible Loan Deeds on 1 February 2016;

(2) a 67% premium to the lowest trading price ($0.009) since 29 December 2015; and

(3) a 52% discount to the highest trading price ($0.031) since 29 December 2015; and

(4) a 10.71% discount to the 20 Trading Day VWAP ($0.0168) prior to 9 March 2017; and

(5) no discount to the last closing market price prior to 9 March 2017 ($0.015).

The conversion price in respect of the Trepang Convertible Note (with a face value of $15,000,000) is the lower of $0.015 and the average of the daily VWAPs per Share during the 30 Trading Days on which Shares traded in the ordinary course of business on the ASX prior to the date which is three business days prior to the date of the Meeting, provided that the conversion price is not lower than $0.0025 per Share. Accordingly, the pricing information set out above will remain true if the conversion price of the Trepang Convertible Note ultimately remains at $0.015. If it is the case that the average of the 30 trading day VWAP prior to the date of the Meeting is lower than $0.015, the conversion price will be equal to that 30 trading day VWAP. The 30 trading day VWAP prior to 9 March 2017 was $0.0168. The maximum conversion price in respect of the Trepang Convertible Note of $0.015 represents a 10.18% discount to the 30 Trading Day VWAP ($0.0167) prior to entering the Trepang Convertible Loan Deed and an 11.76% discount to the last closing market price prior to entering the Trepang Convertible Loan Deed.

The Company, given its present cash position and market conditions for future fundraisings by the Company, considers that it will currently be difficult for it to raise the necessary funds on more favourable terms so as to have the ability to repay the money owing to the holders of the Convertible Notes and the Trepang Convertible Note. Nonetheless, the Company remains hopeful that this may be possible in the longer term following its acquisition of Dartbrook and the greater level of interest that may reasonably be expected to be shown by potential investors in the Company and with respect to its key project.

(c) **Ability to convert**

Approval of the issue of the Convertible Notes provides the opportunity for the Company to ultimately be able to repay the principal amount owing (and capitalised interest to the SPA completion) under the Convertible Loan Deeds in Shares rather than in cash. The election to do so ultimately rests with the financiers (that is, the Company cannot ordinarily elect to convert the Convertible Notes), however, without Shareholder approval, this will not be possible and the money owing under the Convertible Loan Deeds will need to be repaid in cash (see section 2.5(c) below).

The ability under the Convertible Loan Deeds to exercise the prepayment rights may give the Company further flexibility in the event that the Company were to secure an offer for additional funding of at least $40,000,000. In such a case, the Company must offer to repay the principal amount of the Convertible Loan Deeds and the Secured Loan Deed. If the financier does not accept such offer, the Company may elect to have all or part of the amounts owing under the Convertible Notes converted into Shares in accordance with the conversion formula and the financier agrees to the Company providing security to the third party funder ranking in priority to the security granted under these arrangements. If approval of the issue of the Convertible Notes is not granted, the Company will not have the right, at its election, to convert the principal amount into Shares in the event that the financiers do not wish to be repaid in cash in these circumstances.

(d) **Ability to issue interest shares**

Approval of Resolution 1 provides the opportunity for the Company to ultimately be able to pay all or part of the interest accrued under the Convertible Loan Deeds and the Secured Loan Deed in Shares, rather than in cash, at the Company's election. Without Shareholder approval, this will not be possible and interest will either need to be paid in cash monthly or capitalised and paid in cash on the Maturity Date. The total amount of interest which would be payable (assuming Shareholder approval is not obtained to Resolution 1) will be as follows:

Period	Amount of Interest
To date of Meeting – Robinson and Paspaley Convertible Loan Deeds, Secured Loan Deed	$2,583,968
14 April 2017 - 1 February 2018 – Convertible Loan Deeds and Secured Loan Deed	$3,280,222
2 February 2018 - 1 February 2019 – Convertible Loan Deeds (assumes all are extended) and Secured Loan Deed	$4,799,225
2 February 2019 – 27 April 2019 – Secured Loan Deed	$138,693
2 February 2019 - 1 February 2020 – Trepang Convertible Loan Deed (assumes extended)	$1,858,668
Total interest payable (assumes all financing is extended in accordance with its terms)	$12,660,776

Note: This amount of interest is based on Shareholders not approving Resolution 1. The maximum amount of interest payable will eventuate if the interest on the Convertible Loan Deeds and the Secured Loan Deed is capitalised (and therefore compounded) each month and paid in cash on maturity.

This will adversely impact the Company's free cash balance and may lead to the Company needing to re-prioritise its commercial and strategic objectives as a result of the reduced funding that it will then have on hand.

(e) **Independent Expert**

The Independent Expert has concluded that the Relevant Interest Acquisition is not fair but reasonable to the Non-Associated Shareholders and the granting of Security is fair and reasonable to the Non-Associated Shareholders.

The disadvantages to Non-Associated Shareholders of the Proposed Transaction include:

(a) **Dilution of Shareholders' interests**

If Resolution 1 is approved and the Convertible Notes are converted into Shares and Interest Shares are issued, Shareholders will hold a diluted interest in the Company's assets and will have to share any development or exploration upside in the asset portfolio with Messrs Robinson (Snr) and Paspaley and Trepang.

Please refer below at section 2.12(b) for the potential dilutionary effect arising if Resolution 1 is approved.

(b) **Ability to pass or block a special resolution**

In order to pass a special resolution of the Company, the Company is required to obtain votes from 75% or more of the Shareholders.

Given that Trepang, Mr Robinson (Snr) and Mr Paspaley are Associates of each other, they will each have a Relevant Interest in the Shares held by the other. Accordingly, if Resolution 1 is approved, each of Trepang, Mr Paspaley and Mr Robinson (Snr) (and their Associates) will have Voting Power of up to approximately 84.90% in the Company (based on the assumptions set out in section 2.6). Accordingly, Trepang, Mr Paspaley and Mr Robinson (Snr) will, acting together, be able to block the passing of a special resolution of the Company if they together acquire Shares equal to at least 75% of the issued Shares of the Company. It is noted that it is only the case that Trepang, Mr Paspaley and Mr Robinson (Snr) move to a Share holding at least 75% in circumstances where the Conversion Price for the Trepang Convertible Note and all Interest Shares is $.0068 or less and they will hold less than 75% of the issued Shares in the Company if the Conversion Price for the Trepang Convertible Note and all Interest Shares is $0.09, $0.011, $0.013, $0.015 or higher.

Additionally, if Resolution 1 is approved, Trepang, Mr Paspaley and Mr Robinson (Snr) (acting together) will have the potential to obtain at least a 55% interest in the Shares (subject to the exercise price of the Trepang Convertible Note) and would be able to pass ordinary resolutions in this circumstance.

(c) **Influence on the strategic direction of the Company**

Trepang, Mr Robinson (Snr) and Mr Paspaley have stated to the Directors of the Company that if Resolution 1 is approved they have no intention to change the strategic direction, management or other operations of the Company. However there is no binding restriction on Trepang, Mr Robinson (Snr)and Mr Paspaley preventing them from doing so.

(d) **Takeover offer may become more difficult**

If Resolution 1 is approved, Trepang will remain a major Shareholder and Mr Robinson (Snr) and Mr Paspaley will also be major Shareholders. In this circumstance, any takeover offer for 100% of the Shares in the Company will require the support of Trepang, Mr Robinson (Snr) and Mr Paspaley. This may reduce the likelihood of the Company receiving a takeover offer in the foreseeable future.

(e) **Potential for a significant number of Shares to be sold on the open market**

If Resolution 1 is approved, Trepang, Mr Robinson (Snr) and Mr Paspaley will be issued up to 11,329,831,861 new Shares in the Company (based on the assumptions set out in section 2.12(b)). While Trepang, Mr Robinson (Snr) and Mr Paspaley have stated to the Directors of the Company that they have no intention of selling any new Shares issued to them within 12 months from the date of issue, under the terms of the Proposed Transaction, there is no binding restriction on Trepang, Mr Robinson (Snr) or Mr Paspaley selling any new Shares issued to them on the open market. If Resolution 1 is approved, Trepang, Mr Robinson (Snr) or Mr Paspaley may elect to sell some or all of the new Shares they are issued on the open market. This may place downward pressure on the Share trading price of the Company if the increased supply of Shares sufficiently outweighs the demand for the Shares.

(f) **Security over all assets**

The result of the granting of the Security will be that a security interest is granted over all of the assets of the Company and the Company Group, in favour of Trepang, Mr Robinson (Snr) and Mr Paspaley. This is likely to affect the Company's ability to secure further funding where such additional funding is contingent on the granting of security in favour of the financier. The consent of Trepang, Mr Robinson (Snr) and Mr Paspaley would be required for any further material security interests to be granted over the assets of the Company. This may adversely affect the Company's ability to obtain additional funding in the future, and particularly if this funding was proposed to occur other than by way of an issue of equity in the Company.

It is noted that the Company does have prepayment rights where it is able to secure funding of at least $40,000,000 and in certain circumstances, the Company may be permitted to grant security to an incoming financier in priority to the Security granted to Trepang, Mr Robinson (Snr) and Mr Paspaley.

(g) **Short repayment period**

Assuming Resolution 1 is passed, the Convertible Notes may be required to be repaid by the Company on 1 February 2018. The Company does not anticipate that it will be in a position to fund such repayment from internal cash flow and would need to seek external funding in order to repay such amounts (which may be in excess of $35,000,000 exclusive of any capitalised interest). The Company will have notice by 1 November 2017 of whether Trepang, Mr Robinson (Snr) and Mr Paspaley wish to extend the Maturity Date for a further 12 months in respect of the Convertible Notes. Whilst this provides the Company with three months' notice of whether or not the amounts owing under the Convertible Notes need to be repaid on 1 February 2018, the Company has no certainty as to its ability to raise funds for repayment of these funds if this was to occur on 1 February 2018.

The terms of the Robinson and Paspaley Convertible Notes do not provide for an extension to the Maturity Date beyond 1 February 2019. The terms of the Trepang Convertible Note do not provide for an extension to the Maturity Date beyond 1 February 2020. The Secured Loan Deed is repayable on 27 April 2019.

(h) **Conversion Price of Trepang Convertible Note not known, however floor price imposed**

As set out above, the Conversion Price of the Trepang Convertible Note is not currently known and will be set having regard to the prevailing market price at the time (i.e. the lower of either $0.015 or the average of the 30 trading day VWAP prior to 10 April 2017, being three business days prior to the expected date of the Meeting). Whilst the Conversion Price is not currently known, it will be known by Non-Associated Shareholders prior to voting on Resolution 1 and the current one week and one month VWAP (prior to 9 March 2017) is $0.0160 and $0.0168 respectively and, if the Conversion Price was calculated using that data, it would be $0.015. In addition, the Conversion Price of the Trepang Convertible Note will be not less than $0.0025 per Share.

(i) **Relevant Acquisition Interest is not fair**

The Independent Expert has concluded that the Relevant Interest Acquisition is not fair but that it is reasonable to the Non-Associated Shareholders.

2.5 **Potential Position of Shareholders if Resolution 1 is Not Approved**

(a) **Completion of SPA**

As outlined above, if Shareholders do not approve Resolution 1 and Trepang does not otherwise elect to provide the funding under the terms of the Trepang Convertible Loan Deed (which it has no obligation to do), the Company does not presently anticipate that it will be able to complete the SPA. If the SPA is terminated as a result of the Company's inability to replace the financial assurances for the Dartbrook Joint Venture, the Company must pay Anglo Coal a break fee of $1,000,000. As the Company currently has currently paid a $500,000 deposit to Anglo Coal, in the event that the break fee must be paid, the Company will receive no deposit back, and will be required to repay the remaining $500,000 to Anglo Coal. The Company anticipates that it would make such payment from its $4,500,000 cash reserves currently held in an escrow account in respect of the SPA which would be released to the Company if the SPA is terminated. The Company will need to then further consider its current business model of becoming a coal mine owner and operator, and would need to explore other opportunities given its reduced cash balance for investment.

If the SPA does not complete, the Company will have not drawn down on the $15,000,000 in funding pursuant to the Trepang Convertible Loan Deed or the $5,000,000 in funding pursuant to the Secured Loan Deed. The Company will be required to repay the $20,000,000 (currently held in escrow) provided under the Robinson and Paspaley Convertible Loan Deeds together with interest thereon. The Company has already drawn down $1,000,000 under the Secured Loan Deed which would be repayable by 1 February 2018 (unless extended in accordance with the terms of the Secured Loan Deed). The Company believes that it will be in a position to pay the interest as well as the $1,000,000 under the secured loan deed in accordance with the timeframes noted above, given the then cash balance that is expected to be available on the return of the net amount of the Dartbrook deposit available to it. However, the interest will need to be paid in cash, as there will not be the option available to pay in Shares.

(b) **Existing Shareholders will continue to own 100% of the Company**

Existing Shareholders will continue to own 100% of the Company and be entitled to any potential upside or downside risks associated with the future earnings and value of the Company. Existing Shareholders will receive any benefits or losses that may arise from the Company's operations and future endeavours.

(c) **The Company will require alternative capital raising**

If Trepang elects to provide the funding under the Trepang Convertible Loan Deed and the SPA still completes, the Company will be required to seek alternative methods of capital raising in order to repay the Convertible Loan Deeds and the Secured Loan Deed in accordance with their terms. The Convertible Loan Deeds would be required to be repaid in cash by 18 February 2018 (unless the Maturity Date is further extended or the early repayment is required in accordance with the terms of the Convertible Loan Deeds) or the Convertible Loan Deeds are elected by their holders to be converted into shares in accordance with their terms). For completeness, it is noted that even if Shareholder approval is obtained, the Company may still be required to repay the amounts outstanding in respect of the Convertible Notes on 1 February 2018.

The Secured Loan Deed is required to be repaid by 27 April 2019 unless early repayment is required in accordance with the terms of the Secured Loan Deed.

The Directors consider that the alternatives available to the Company in circumstances where Resolution 1 is not approved include:

(1) **Raising alternate equity capital**

This option has been considered by the Directors of the Company.

The difficulty the Company may face in raising alternative equity capital was highlighted in December 2015 and January 2016 when the Company undertook to seek funding from various parties of $20,000,000 to fund the acquisition under the SPA. As outlined above at 2.3 the only successful financing arrangements available to the Company were the Robinson and Paspaley Convertible Loan Deeds.

The Company and AMCI have entered the AMCI Subscription Agreement, which has the potential to raise $10,000,000 if completed. However, the conditions of the AMCI Subscription Agreement have not yet been met, although the agreement remains on foot.

As noted above, the Company has sought and continues to seek finance from many parties, both domestic and international, and undertaken a comprehensive roadshow in November 2016 in an attempt to raise the necessary finance, however, these attempts have proven unfruitful.

The Company has actively sought additional funding, however, as at the date of this Notice, no such funding has been secured.

Shareholders should note that further attempts to identify an alternative suitable cornerstone investor may require considerable amounts of time and even if a suitable cornerstone investor was able to be identified, there is no guarantee of the price at which they would invest in the Company or other terms and conditions that would be required.

The ongoing financial support to the Company provided by Trepang, Mr Robinson (Snr) and Mr Paspaley is welcomed by the Directors.

(2) **Raising alternate debt capital**

Alternatively, the Company may need to attempt to establish an alternate debt facility. If the Company was able to secure such a facility, there is no guarantee that it would be on terms whether with respect to pricing, security or otherwise that are favourable to the Company.

The difficulty the Company may face in raising debt was highlighted in December 2015 and January 2016 when the Company undertook to seek funding from various parties of $20,000,000 to fund the acquisition under the SPA. As outlined above at 2.3 the only successful financing arrangements available to the Company were the Convertible Loan Deeds.

The Company notes that the speed with which Mr Robinson (Snr) and Mr Paspaley made these loans available in February 2016 together with the support further shown in April 2016 and February 2017, may give Shareholders some degree of comfort as to their individual intentions to further support the Company in the future. However, there is no current legal obligation for this to occur.

(d) **ASX Waiver of Listing Rule 10.1**

Under the terms of the Robinson and Paspaley Convertible Loan Deeds, if Resolution 1 is not approved at the Meeting, the Company is required to seek an ASX waiver of Listing Rule 10.1 to permit the grant of the Security to Mr Nicholas Paspaley, Mr John Robinson (Snr) and Trepang (on slightly amended terms to meet the usual waiver conditions of ASX). Under the Terms of the Trepang Convertible Loan Deed, the Company was required to seek such a waiver within five days of the execution of the Trepang Convertible Loan Deed. Accordingly, an application for a waiver was made on 9 February 2017, and the waiver was granted on 1 March 2017.

In order to obtain the ASX waiver, each Security is required to provide that if an event of default occurs and the financer, or any of its related entities or Associates, exercises its rights under the Security, neither the financier nor any of its related entities or Associates may acquire any legal or beneficial interest in the property the subject of the Security in full or part satisfaction of the obligations under the Secured Loan Deed, or the Convertible Loan Deeds, or otherwise deal with the property the subject of the Security, without the Company first having complied with any applicable ASX Listing Rules, including Listing Rule 10.1.

However, that requirement will not restrict the financier exercising its rights under the Security at any time after an event of default has occurred through a Receiver (or any other person acting on behalf of the financier) appointed by the financier exercising a power (including a power of sale) and selling the property the subject to the Security to an unrelated third party on arm's length commercial terms and distributing the cash proceeds in accordance with the terms of the Security.

In the event that Resolution 1 is passed, the provisions outlined above which were included to comply with the ASX waiver granted in respect of the Security, will cease to apply.

In addition, the ASX waiver was granted on the following conditions:

(1) a summary of the material terms of the Securities is made in each annual report of the Company during the term of the Securities;

(2) any variation to the terms of the Securities which is not a minor change or inconsistent with the terms of the waiver, must be subject to shareholder approval;

(3) the Company must seek to discharge the Securities when the funds advanced under the Securities are repaid, or if it is not discharged, seek shareholder

approval for the continuation of the Securities for any further loan facility amount; and

(4) the Company immediately releases to the market an announcement which sets out the terms of the waiver, and the Company's plans with respect to the repayment of the funds advanced under the Securities and the discharge of the Securities, including the timeframe within which it expects the repayment and discharge to occur.

2.6 Increasing the Voting Power of Trepang, Mr Robinson and Mr Paspaley

Trepang, together with its Associates (which include Mr Robinson (Snr) and Mr Paspaley), currently are the registered holder of 1,806,166,667 Shares or 41.29% of the current issued Shares in the Company. Accordingly Trepang, together with its Associates, has Voting Power of 41.29% in the Company. If Conversion Shares and Interest Shares were issued and Trepang held a Relevant Interest in the Shares the subject of the Escrow Deeds, the Voting Power of Trepang (and its Associates including Mr Robinson (Snr) and Mr Paspaley) would significantly increase.

Shareholders are referred to Schedule 10 for detailed information on the potential Voting Power of Trepang, Mr Robinson (Snr) and Mr Paspaley (and their Associates) under various scenarios. The following provide a number of examples of the potential Voting Power of Trepang, Mr Robinson (Snr) and Mr Paspaley (and their Associates):

(a) If the Convertible Notes were converted into Shares at $0.015 per Share, and the maximum number of Interest Shares were issued at $0.015 per Share and 196,713,334 Shares were subject to the Escrow Deeds (being the present holding of the parties to the Escrow Deeds), the Voting Power of Trepang, Mr Robinson (Snr) and Mr Paspaley (and their Associates) would increase to up to approximately 68.50% (assuming that no Shareholders exercise their existing options and no further Shares in the Company are issued);

(b) If the Robinson and Paspaley Convertible Notes were converted into Shares at $0.015 per Share, the Trepang Convertible Notes were converted into Shares at $0.013 per Share and the maximum number of Interest Shares were issued at $0.013 per Share and 196,713,334 Shares were subject to the Escrow Deeds, the Voting Power of Trepang, Mr Robinson (Snr) and Mr Paspaley (and their Associates) would increase to up to approximately 69.52% (assuming that no Shareholders exercise their existing options and no further Shares in the Company are issued);

(c) If the Robinson and Paspaley Convertible Notes were converted into Shares at $0.015 per Share, the Trepang Convertible Notes were converted into Shares at $0.011 per Share and the maximum number of Interest Shares were issued at $0.011 per Share and 196,713,334 Shares were subject to the Escrow Deeds, the Voting Power of Trepang, Mr Robinson (Snr) and Mr Paspaley (and their Associates) would increase to up to approximately 70.81% (assuming that no Shareholders exercise their existing options and no further Shares in the Company are issued);

(d) If the Robinson and Paspaley Convertible Notes were converted into Shares at $0.015 per Share, the Trepang Convertible Notes were converted into Shares at $0.009 per Share and the maximum number of Interest Shares were issued at $0.009 per Share and 196,713,334 Shares were subject to the Escrow Deeds, the Voting Power of Trepang, Mr Robinson (Snr) and Mr Paspaley (and their Associates) would increase to up to approximately 72.49% (assuming that no Shareholders exercise their existing options and no further Shares in the Company are issued); and

(e) If the Robinson and Paspaley Convertible Notes were converted into Shares at $0.015 per Share, the Trepang Convertible Notes were converted into Shares at $0.0025 per Share (the minimum possible issue price) and the maximum number of Interest Shares were issued at $0.0025 per Share and 196,713,334 Shares were subject to the Escrow Deeds, the Voting Power of Trepang, Mr Robinson (Snr) and Mr Paspaley (and their Associates) would increase to up to approximately 84.90% (assuming that no Shareholders exercise their existing options and no further Shares in the Company are issued).

Accordingly, the Proposed Transaction may significantly dilute the shareholding interests of Non-Associated Shareholders in the Company and, if so, will diminish their ability to influence the future direction of the Company. For completeness it is noted that the above provides examples of the potential Voting Power of Trepang, Mr Robinson (Snr) and Mr Paspaley (and their Associates) using arbitrary Share prices. As the issue price of the Interest Shares and the Conversion Price of the Trepang Convertible Loan are variable, it may be that the applicable issue price or Conversion price differs from those used by way of example above and in Schedule 10 which may result in the potential Voting Power of Trepang, Mr Robinson (Snr) and Mr Paspaley (and their Associates) being different to that set out above. However, ultimately Resolution 1 seeks approval for a maximum increase in the Voting Power of Trepang, Mr Robinson (Snr) and Mr Paspaley (and their Associates) to 84.90%.

2.7 Conclusion of the Independent Expert

The Independent Expert has assessed that the Relevant Interest Acquisition is not fair but reasonable to the Non-Associated Shareholders and that the grant of the Security is fair and reasonable to the Non-Associated Shareholders, but strongly recommends that Shareholders also have regard to all of the information set out in the Independent Expert Report. In summary:

(a) the Independent Expert concluded the Relevant Interest Acquisition is not fair as:

(1) the value per AQC share prior to the Relevant Interest Acquisition is in a range of $Nominal to $0.0088 on a controlling interest basis;

(2) the value per AQC share following the Relevant Interest Acquisition is in a range of $Nominal to $0.0059 on a minority interest basis; and

(3) there is therefore a downward shift in the Expert's valuation of an AQC share following the Relevant Interest Acquisition.

(b) having regard to the potential advantages and disadvantages to the Non-Associated Shareholders in the event that Resolution 1 is approved (as set out in detail in sections 2.1.2, 7.1 and 7.2 of the Independent Expert Report) and other considerations set out in the Independent Expert's Report, the Independent Expert concluded the Relevant Interest Acquisition is reasonable in the absence of a superior offer or any other information.

(c) the Independent Expert concluded the grant of the Security is fair as in all circumstances where the Security is called and Secured Assets sold, Trepang, Mr Robinson (Snr) and Mr Paspaley are entitled to receive a maximum amount equal to the outstanding amount under the Convertible Loan Deeds and the Secured Loan Deed; and

(d) having regard to the potential advantages and disadvantages to the Non-Associated Shareholders in the event that the Security is granted (as set out in detail in section 9 of the Independent Expert Report), the Independent Expert concluded the grant of the Security is reasonable.

Shareholders are also referred to section 2.13 and Attachment 1 to this Explanatory Memorandum.

2.8 Substantial Shareholders

The impact on the interests of Shareholders who have advised the Company that they are substantial Shareholders following the issue of Shares on conversion of the Convertible Notes are set out in Schedule 8.

2.9 Shareholder Approval

Resolution 1 seeks Shareholder approval under Chapter 2E and section 611 (Item 7) of the Corporations Act, and under Listing Rules 10.1 and 10.11 to the Proposed Transaction and the grant of the Security.

2.10 Relevant Legislation – Chapter 2E and section 611 item 7 of the Corporations Act

Chapter 2E of the Corporations Act

Chapter 2E of the Corporations Act prohibits a public company from giving a Financial Benefit to a Related Party of the public company unless providing the benefit falls within a prescribed exception to the general prohibition. Relevantly, there is an exception if the company first obtains the approval of its Shareholders in a general meeting in circumstances where certain requirements specified in Chapter 2E in relation to the convening of that meeting have been met.

A “Related Party” is defined widely in section 228 of the Corporations Act and includes, relevantly, a Director (or proposed Director) of a public company (section 228(2)) and any entity that is controlled by a person or entity which is otherwise a Related Party (section 228(4)), or there are reasonable grounds to believe that a person/entity is likely to become a Related Party of the public company (section 228(6)). In addition, a person will be considered a related party of a company pursuant to section 228(7) of the Corporations Act if they act in concert with another related party of a company on the understanding that the other related party will receive a financial benefit if the company gives the person a financial benefit.

A “Financial Benefit” for the purposes of the Corporations Act has a very wide meaning. It includes a public company paying money or issuing securities to the Related Party. In determining whether or not a financial benefit is being given, it is necessary to look to the economic and commercial substance and effect of what the public company is doing (rather than just the legal form). Any consideration which is given for the financial benefit is to be disregarded, even if it is full or adequate.

This proposed Resolution, if passed, will confer Financial Benefits and involve the issue of Securities, namely, the Convertible Notes, the Conversion Shares and the Interest Shares.

Mr John Robinson Snr is a Related Party of the Company as his son, Mr John Robinson Jnr, is a director of the Company (section 228(3) of the Corporations Act). As such, the Proposed Transaction involves the issue of Conversion Shares, Interest Shares and the grant of Security to a Related Party. Therefore the Company seeks to obtain Shareholder approval in accordance with the requirements of Chapter 2E of the Corporations Act.

The Company understands that Mr John Robinson Snr and Mr Nicholas Paspaley are the joint owners and joint controllers of Trepang, and jointly have the capacity to determine the outcome of decisions about Trepang’s financial and operating policies. As such, neither Mr John Robinson Snr nor Mr Nicholas Paspaley control Trepang, as per section 50AA(3) of the Corporations Act, and on that basis Trepang is not a related party of the Company for the purposes of section 228(4) of the Corporations Act.

Mr Nicholas Paspaley is not considered a related party as a result of Mr John Robinson (Jnr) being on the board of the Company.

Various matters in respect of the financing the subject of the Paspaley Convertible Loan Deed, the Robinson Convertible Loan Deed, the Trepang Convertible Loan Deed and the Secured Loan Deed are all the subject of Resolution 1. As such, Shareholders will either approve various matters relating to all or none of the Convertible Loan Deeds and the Secured Loan Deed and there is not an ability for Shareholders to approve matters relating to only one or more of the Convertible Loan Deeds or the Secured Loan Deed. As a result of the Resolution 1 being a combined approval for Trepang, Mr Paspaley and Mr Robinson (Snr), Trepang and Mr Paspaley are considered Related Parties of the Company under section 228(7) of the Corporations Act for the purposes of Resolution 1, and the Company seeks to obtain Shareholder approval in respect of Trepang and Mr Paspaley in accordance with the requirements of Chapter 2E of the Corporations Act.

2.11 **Information for Shareholders - Chapter 2E of the Corporations Act**

Refer to sections 2.1 to 2.6 above for the background and circumstances in which the Financial Benefit is given and the existing interest of Trepang, Mr Robinson (Snr) and Mr Paspaley.

For the purposes of Chapter 2E of the Corporations Act and for all other purposes the following information is provided to Shareholders:

(a) **The nature of the Financial Benefit (section 219(1)(b))**

The nature of the proposed Financial Benefit is the various matters comprising the Proposed Transaction including, without limitation:

(1) the issue of the Convertible Notes;

(2) the issue of the Conversion Shares on conversion of the Convertible Notes;

(3) the issue of Interest Shares under the terms of the Convertible Loan Deeds and the Secured Loan Deed;

(4) the grant of the Security to secure the obligations under the Convertible Loan Deeds, the Convertible Notes, the and the Secured Loan Deed.

Refer also to sections 2.1 to 2.6 above, for the reason for giving the benefit and the basis for which it is given.

(b) **Directors' Recommendation (section 219(1)(c))**

Each of the Non-Interested Directors (Mr Ziegler and Mr Stone) recommends that shareholders vote in favour of Resolution 1.

The reasons for this recommendation are set out below at 2.16.

As Mr Robinson Jnr is the son of Mr John Robinson Snr he makes no recommendation with respect to Resolution 1.

(c) **Directors' Interest and other remuneration (section 219(1)(d))**

The Non-Interested Directors do not have a material personal interest in the outcome of Resolution 1, save for any interest they may have solely in their capacity as Shareholders which interest they hold in common with the other non Associated Shareholders.

John Robinson Jnr in the nominee director of Trepang Services Pty Ltd. John Robinson Jnr does not have a material personal interest in the outcome of Resolution

1, however, as the son of John Robinson Snr (who does have a material personal interest in the outcome of Resolution 1), he makes no recommendation in respect of Resolution 1. To the extent that the Directors hold any Shares, their respective percentage holding of Shares may decrease in the event that any Shares are issued pursuant to the Proposed Transaction, in the same proportion as the holding of all other Shareholders. Details regarding the current direct Share interests of each of the Directors are set out in Schedule 9.

No other Director has any interest in the outcome of Resolution 1 or any other relevant agreement.

(d) **Valuation**

(1) **Valuation at the time of the announcement**

The Shares to be issued pursuant to Resolution 1 are in a class of securities that is quoted on ASX. The issue price of the Shares is:

(A) $0.015 per Share under the terms of the Robinson and Paspaley Convertible Notes;

(B) the lower of $0.015 per Share or the average of the daily VWAPs per Share during the 30 Trading Days on which Shares traded in the ordinary course of business on the ASX prior to the date which is three business days prior to the date of the Meeting provided that the issue price is not lower than $0.0025 per Share under the terms of the Trepang Convertible Notes; and

(C) the average of the daily VWAPs per Share during the five Trading Days on which Shares traded in the ordinary course of business on the ASX prior to the relevant Interest Payment Date in respect of any interest payments satisfied by the issue of Interest Shares.

The issue price under the Robinson and Paspaley Convertible Notes of $0.015 represents a 25% discount to the volume weighted average share trading price (VWAP) for the previous 20 trading days prior to 1 February 2016 being $0.020 per Share.

The maximum issue price under the Trepang Convertible Note of $0.015 represents a 10.18% discount to the volume weighted average share trading price (VWAP) for the previous 30 trading days prior to 1 March 2017 (being the date of announcement of the Trepang Convertible Loan Deed) being $0.0167 per Share. It is of course possible that the conversion price on the Trepang Convertible Note is less than $0.015 per Share if the average of the daily VWAPs per Share during the 30 Trading Days on which Shares traded in the ordinary course of business on the ASX prior to the date which is three business days prior to the date of the Meeting is less than $0.015. The conversion price will however not be lower than $0.0025 per Share. It is noted for completeness that the Company will disclose to the ASX the issue price in respect of the Trepang Convertible Note at least 72 hours prior to the Meeting

Further details of the potential premium or discount of the Conversion Shares to the Share price are set out in section 2.4(b) above.

The issue price of the Interest Shares will be the five day VWAP prior to the relevant Interest Payment Date and will not be discounted.

(2) **Current valuation**

The issue price under the Robinson and Paspaley Convertible Notes of $0.015 and the maximum issue price under the Trepang Convertible Note of $0.015 represents a 10.71% discount to the volume weighted average share trading price (VWAP) for the previous 20 trading days prior to 9 March 2017 being $0.0168 per Share.

Further details of the potential premium or discount of the Conversion Shares to the Share price are set out in section 2.4(b) above.

(e) **Any other information that is reasonably required by Shareholders to make a decision and that is known to the Company or any of its Directors (section 219(1)(e) and 219(2))**

There is no other information known to the Company or any of its Directors save and except as follows:

(1) **Market Price movements**

The closing market price of the Shares in the Company on 8 March 2017 was $0.015. The volume weighted average share trading price (VWAP) for the previous 20 trading days prior to 9 March 2017 was $0.0168 per Share.

(2) **Trading history**

In the 14 months prior to 9 March 2017 the Company's trading history is as follows:

(A) the highest trading price was $0.031 (12 August 2016);

(B) the lowest trading price was $0.009 (8 April 2016); and

(C) the VWAP per Share over the 14 month period prior to 9 March 2017 was $0.0197.

The trading price of the Shares on the close of trading on 8 March 2017 was $0.015.

(3) **Opportunity Costs**

The opportunity costs and benefits foregone by the Company issuing the Shares pursuant to Resolution 1 and granting the Security are explained in full detail at sections 2.4 to 2.5 above.

The disadvantages are considered by the Directors to be offset by the advantages accruing to the Company in undertaking the Proposed Transaction and granting the Security.

(4) **Taxation Consequences**

No stamp duty will be payable in respect of the Proposed Transaction or the granting of the Security. No GST will be payable by the Company in respect of the Proposed Transaction or the granting of the Security.

In respect of the Dartbrook acquisition, stamp duty will be payable in New South Wales on the completion of the SPA in accordance with *ad-valorem* conveyance rates imposed by the Duties Act 1997 (NSW). This will be funded by the Trepang Convertible Loan Deed.

(5) **Dilutionary Effect**

The effect that the issue of the Conversion Shares and the Interest Shares will have on the issued Shares of the Company in various scenarios is set out in Schedule 10.

(6) **Alternative Options to the transaction and implications of not proceeding with the transaction**

Set out above at section 2.5 are the alternative available options identified by Directors if this Resolution 1 is not passed.

(7) **Impact of the transaction on the Company**

The impact of the transaction on the Company is set out in full detail at sections 2.1 to 2.6 above.

Save as set out in this Explanatory Memorandum, the Directors are not aware of any other information that will be reasonably required by Shareholders to make a decision in relation to the benefits contemplated by Resolution 1.

(f) **Voting exclusion statement**

A voting exclusion statement is set out in Resolution 1 in the Notice of Meeting.

2.12 **Information for Shareholders - Chapter 6, section 611 (Item 7) of the Corporations Act**

Section 606 of the *Corporations Act* prohibits a person from acquiring a relevant interest in issued voting shares in a listed company if the acquisition would result in that person's Voting Power in the company increasing:

(a) from 20% or below to more than 20%; or

(b) from a starting point that is above 20% and below 90%,

(**Takeover Prohibition**).

However, there are certain specified exceptions to the Takeover Prohibition. In particular, under section 611 (Item 7) of the *Corporations Act* an acquisition will not contravene the Takeover Prohibition if Shareholders approve the acquisition by passing a Resolution at a general meeting, where:

(a) no votes were cast in favour of the Resolution by the person proposing to make the acquisition or their Associates; and

(b) shareholders were given all information known to the acquirer or the company that was material to the decision on how to vote,

(**Takeover Exception**).

ASIC Regulatory Guide 74: Acquisitions Approved by Members' (**ASIC RG 74**) also specifies certain requirements where a Company seeks an acquisition to be exempt under section 611 (Item 7).

Therefore, the acquisition by Trepang, Mr Robinson (Snr) and Mr Paspaley of the Conversion Shares and Interest Shares will result in them acquiring a Relevant Interest in issued voting Shares which will cause the Voting Power of Mr Robinson (Snr), Mr Paspaley and Trepang (and their Associates) in the Company to increase from a starting point that is above 20% to below 90%.

As noted above, it may be determined that Trepang also has a Relevant Interest in the Shares the subject of the Escrow Deeds if Trepang was also considered to control the exercise of a power to dispose of the Shares the subject of the Escrow Deed which would then be considered to further increase the Voting Power of Mr Robinson (Snr), Mr Paspaley and Trepang (and their Associates) in the Company to increase from a starting point that is above 20% to below 90%.

Accordingly, Resolution 1 seeks approval for the issue of Shares to Mr Robinson (Snr), Mr Paspaley and Trepang and for any Relevant Interest Mr Robinson (Snr), Mr Paspaley and Trepang may obtain in the Escrow Shares under section 611 (Item 7).

In accordance with Listing Rule 7.2 (Exception 16), an issue of Securities approved for the purposes of section 611 (Item 7) does not require further approval under Listing Rule 7.1. Therefore, any Shares issued to Trepang will not count towards the Company’s 15% Capacity under Listing Rule 7.1.

For the purposes of section 611 (Item 7(b)), the Company advises that:

(a) **Section 611 (Item 7(b)(i)): The identity of the person proposing to make the acquisition and their Associates**

The identity of the person proposing to make the acquisition is Trepang, Mr Robinson (Snr) and Mr Paspaley. Mr John Robinson (Jnr) is an Associate of Trepang, Mr Robinson (Snr) and Mr Paspaley. Trepang, Mr Robinson (Snr) and Mr Paspaley have advised that they have no associates other than as specified in the Notice and the Explanatory Memorandum.

Under the Robinson Convertible Loan Deed, Mr Robinson (Snr) may acquire the Proposed Robinson Conversion Shares and Interest Shares.

Under the Paspaley Convertible Loan Deed, Mr Paspaley may acquire the Proposed Paspaley Conversion Shares and Interest Shares.

Under the Secured Loan Deed, Trepang may acquire the Proposed Trepang Conversion Shares and Interest Shares.

The Company is required to have in place the Escrow Deeds as a condition to Trepang providing funding under the Trepang Convertible Loan Deed. As such, it may be determined that Trepang has a Relevant Interest in the Shares the subject of the Escrow Deeds if Trepang was also considered to control the exercise of a power to dispose of the Shares the subject of the Escrow Deed.

(b) **Section 611 (Item 7(b)(ii)): The maximum extent of the increase in that person’s Voting Power in the Company that would result from the acquisition**

There are currently 4,374,684,264 Shares on issue in the Company. There are also currently 43,750,000 unlisted incentive options on issue, with an exercise price of $0.008 each, expiring on 31 March 2017. Trepang, together with its Associates (which includes Mr Robinson (Snr) and Mr Paspaley), currently holds 1,806,166,667 Shares, representing 41.29% of the issued capital of the Company.

The current registered holders of the interests of Trepang and its Associates are as follows:

(1) Trepang Services Pty Ltd – 1,677,000,000 Shares; and

(2) Mr Nicholas Paspaley – 129,166,667 ordinary Shares.

The number of Shares which may be issued pursuant to the Proposed Transaction is dependent upon the Company's Share price at different points of time as follows:

(1) The maximum number of Conversion Shares (at a fixed price of $0.015 per Share) which may be issued in respect of the Robinson and Paspaley Convertible Notes assuming a face value of $20,000,000 and accrued interest together with capitalised interest if the SPA completes on 29 May 2017 is 1,521,149,069;

(2) The number of Conversion Shares which may be issued in respect of the Trepang Convertible Note will be determined on the date of the Meeting as the conversion price is not yet set. The conversion price in respect of the Trepang Convertible Note is the lower of $0.015 per Share or the average of the daily VWAPs per Share during the 30 Trading Days on which Shares traded in the ordinary course of business on the ASX prior to the date which is three business days prior to the date of the Meeting, provided that the conversion price is not lower than $0.0025 per Share. The following table outlines a number of examples of the number of Conversion Shares that may be issued in respect of the Trepang Convertible Note depending on the ultimate conversion price, and includes the maximum number of Conversion Shares that may issued if the conversion price is the minimum of $0.0025 per Share:

Conversion Price	**Maximum number of shares for full conversion of $15,000,000 Trepang Convertible Note**
$0.015	1,000,000,000
$0.013	1,153,846,154
$0.011	1,363,636,364
$0.009	1,666,666,667
$0.0025	6,000,000,000

(3) The number of Interest Shares which may be issued in respect of the Convertible Loan Deeds and the Secured Loan Deed will be determined on the relevant Interest Payment Date as the issue price is not yet set. The issue price of the Interest Shares is the average of the daily VWAPs per Share during the 5 Trading Days on which Shares traded in the ordinary course of business on the ASX prior to the relevant Interest Payment Date. The following table outlines a number of examples of the number of Interest Shares that may be issued assuming the maximum possible interest that may be paid pursuant to the Convertible Loan Deeds and the Secured Loan Deed depending on the ultimate issue price:

Interest Share issue price	Maximum number of Interest Shares assuming interest payments of $9,521,707
$0.015	634,780,467
$0.013	732,439,001
$0.011	865,609,728
$0.009	1,057,967,445
$0.0025	3,808,682,792

Note: The above table sets out the maximum number of Interest Shares that can be issued pursuant to Resolution 1. This is calculated on the basis that in respect of the Convertible Loan Deeds and the Secured Loan Deed, Interest Shares are issued each month in satisfaction of monthly interest due and payable and assumes that all interest on the Robinson and Paspaley Convertible Loan Deeds up to the date of completion of the Dartbrook SPA is capitalised and therefore not satisfied by the issue of Interest Shares.

Ultimately, Resolution 1 seeks approval for a maximum of 3,808,682,792 Interest Shares (which assumes the issue price is $0.0025 per Share). If this is not sufficient to satisfy all interest payable by the Company, the Company has, in any event, the ability to elect to capitalise or pay in cash any of the interest.

The maximum direct and indirect holdings of each of Trepang, Mr Robinson (Snr) and Mr Paspaley would be as follows if the maximum number of Conversion Shares, and Interest Shares (as set out in the tables above by way of example only) were issued:

Issue price[1]	Trepang	John Robinson Snr	Nicholas Paspaley	Total - Direct	Escrow Shares[2]	Total – Direct and Indirect[2]
$0.015	3,056,310,773 40.59%	888,309,382 11.80%	1,017,476,049 13.51%	4,962,096,203 65.89%	196,713,334 2.61%	5,158,809,537 68.50%
$0.013	3,268,512,431 42.00%	907,960,897 11.67%	1,037,127,564 13.33%	5,213,600,891 66.99%	196,713,334 2.53%	5,410,314,225 69.52%
$0.011	3,557,878,328 43.79%	934,758,417 11.50%	1,063,925,084 13.09%	5,556,561,828 63.39%	196,713,334 2.42%	5,753,275,162 70.81%
$0.009	3,975,851,288 46.12%	973,465,947 11.29%	1,102,632,614 12.79%	6,051,949,848 70.20%	196,713,334 2.28%	6,248,663,182 72.49%
$0.0025	9,952,864,632 63.38%	1,526,983,615 9.72%	1,656,150,282 10.55%	13,135,998,528 83.64%	196,713,334 1.25%	13,332,711,862 84.90%

Notes:

1. *It is noted that the conversion price for the Robinson and Paspaley Convertible Notes is fixed at $0.015. However, the conversion price for the Trepang Convertible Note and the issue price for the Interest Shares is not fixed and this table assumes the price set out above is used as the conversion price or the issue price. The conversion price for the Trepang Convertible Note will be a minimum of $0.0025 per Share. The issue price for the Interest Shares may well be significantly different to that set out above, however, Resolution 1 only seeks approval for a maximum of 3,808,682,792 Interest Shares (which assumes the issue price is $0.0025 per Share). As a result, Resolution 1 seeks approval for the Voting Power of Trepang, Mr Robinson (Snr) and Mr Paspaley (and their Associates) to increase to a maximum 84.90%. Mr John Robinson (Jnr) is an Associate of Trepang, Mr Robinson (Snr) and Mr Paspaley. Trepang, Mr Robinson (Snr) and Mr Paspaley have advised that they have no associates other than as specified in the Notice and the Explanatory Memorandum.*

2. *It is noted that the number of Shares the subject of the Escrow Deeds is not yet known as the Escrow Deeds apply to the number of Shares held by relevant parties at the commencement date of the Trepang Convertible Loan Deed and as may be issued under future incentive arrangements with the Company. For the purposes of this table, it is assumed that the number of Shares the subject of the Escrow Deeds is the same number as those currently held by the parties to the Escrow Deeds, however, this may well significantly change in the future.*

If any of the Convertible Notes are converted or redeemed earlier than their Maturity Date, this will result in a lesser number of Interest Shares which may be issued and in such a case, the potential increase in the holding of Trepang, Mr Robinson (Snr) and Mr Paspaley in the Company will be less than that set out above.

The possible dilutionary effect of the issue of the Proposed Conversion Shares and the Interest Shares is provided in a table in Schedule 10.

(c) **Section 611 (Item 7(b)(iii)): The Voting Power that the person would have as a result of the acquisition.**

Paragraph (b) above, sets out details of the possible Voting Power of Trepang, Mr Robinson (Snr) and Mr Paspaley (and their Associates), which may be up to 84.90% as a result of the Proposed Transaction.

(d) **Section 611 (Items 7(b)(iv) and 7(b)(v)): The maximum extent of the increase in the Voting Power of each of that person's Associates that would result from the acquisition and the Voting Power that each of that person's Associates would have as a result of the acquisition.**

Mr Robinson (Snr), Mr Paspaley and Trepang are Associates. Mr Paspaley and Mr Robinson (Snr) jointly own and control Trepang. Trepang and Mr Paspaley currently hold Shares in the Company. Mr John Robinson (Jnr) is an Associate of Trepang, Mr Robinson (Snr) and Mr Paspaley. Trepang, Mr Robinson (Snr) and Mr Paspaley have advised that they have no associates other than as specified in the Notice and the Explanatory Memorandum.

Paragraph (b) above, sets out details of the possible Voting Power of Trepang, Mr Robinson (Snr) and Mr Paspaley (and their Associates), which may be up to 84.90% as a result of the Proposed Transaction.

In accordance with ASIC RG 74.25, the Company advises that:

(a) **Reasons for the proposed acquisition**

The reasons for the Proposed Transaction are set out above at sections 2.3 to 2.5.

(b) **When the proposed acquisition is to occur**

The issue of the Robinson and Paspaley Convertible Notes will take place on the business day following Shareholder approval being granted (that is 18 April 2017). The Proposed Robinson and Paspaley Conversion Shares may be issued at any time after the issue of the Robinson and Paspaley Convertible Notes until the Maturity Date of the Convertible Notes.

The issue of the Trepang Convertible Note will take place on the commencement date of the Trepang Convertible Loan Deed, currently anticipated to be 27 May 2017, subject to the matters set out below. The Proposed Trepang Conversion Shares may be issued any time after the issue of the Trepang Convertible Note until the Maturity Date of the Trepang Convertible Note.

The Interest Shares may be issued during the term of the Convertible Notes (and within two months of the maturity of the Convertible Notes) subject to the matters set out below.

The Escrow Deeds commence on the commencement date of the Trepang Convertible Loan Deed, currently anticipated to be 25 May 2017. Any Relevant Interest arising in respect of the Shares the subject of the Escrow Deed will commence on that date.

(c) **Material terms of the proposed acquisition**

The Conversion Shares and the Interest shares will rank *pari passu* with all other Shares on issue in the Company.

The material terms of the Robinson and Paspaley Convertible Loan Deeds, the Robinson and Paspaley Convertible Notes, the Trepang Convertible Loan Deed, the Trepang Convertible Note, the Secured Loan Deed and the Escrow Deeds are set out in Schedule 1, Schedule 2, Schedule 3, Schedule 4, Schedule 5 and Schedule 7 respectively.

Other than as already set out in the balance of this Explanatory Memorandum there are no other material terms.

(d) **Details of any other relevant agreement between the acquirer and the Company that is conditional or depends on members' approval of the proposed acquisition**

Apart from the Convertible Loan Deeds, the Convertible Notes, the Secured Loan Deed, the Security and the Escrow Deeds, there is no other relevant agreement between Trepang, Mr Robinson (Snr) or Mr Paspaley and the Company that is conditional or depends on members' approval of the proposed acquisition.

(e) **Acquirer's intentions regarding the future of the target entity if members approve the acquisition**

Other than as disclosed in this Explanatory Memorandum, Trepang, Mr Robinson (Snr) and Mr Paspaley have advised the Company that if Resolution 1 is approved they:

(1) have no current intention to make any significant change to the existing business of the Company;

(2) have no current intention to inject further capital into the Company;

(3) intend that the Board and management will remain as is currently the case and intends to continue to employ the current employees and consultants of the Company;

(4) do not intend for any property be transferred between the Company and Trepang, Mr Robinson (Snr) or Mr Paspaley or any person associated with any of them; and

(5) have no current intention to redeploy any of the Company's fixed assets.

(f) **Intention of the acquirer to significantly change the financial or dividend distribution policies of the entity**

Trepang, Mr Robinson (Snr) and Mr Paspaley have advised the Company that if Resolution 1 is approved they have no current intention to change the Company's financial or dividend policies.

(g) **The interests that any Director has in the acquisition or any relevant agreement disclosed above**

The Directors' interests are set out above at section 2.11(c). The Directors are also party to the Escrow Deeds, details of which are set out in Schedule 7.

2.13 **Independent Expert's Report**

For Shareholder approval sought under item 7 of section 611 of the *Corporations Act*, ASIC RG 74 also requires that Shareholders be provided with an Independent Export's Report. One of the purposes of which is to consider whether the issue of the Shares is fair and reasonable to the Shareholders who are not associated with Trepang.

The Company has engaged BDO to provide the Independent Expert's Report which appears as Annexure A to this Explanatory Memorandum. Shareholders are also referred to section 2.7 of this Explanatory Memorandum for further details as to the contents of the Independent Expert's Report. Shareholders are asked to note that the Independent Expert's Report has been prepared by the Independent Expert and the Company does not accept or assume any responsibility for the accuracy or completeness of the Independent Expert's Report or the Independent Technical Specialist Report, other than factual information provided by the Company to the Independent Expert or Xenith Consulting Pty Ltd for the purposes of the Independent Expert's Report or the Independent Technical Specialist Report.

The Independent Expert's Report concludes that the Relevant Interest Acquisition is not fair but reasonable to the Non-Associated Shareholders.

The Independent Expert's Report concludes that the grant of the Security if fair and reasonable to the Non-Associated Shareholders.

Shareholders are urged to read and consider the Independent Expert's Report in full which is Annexure A to this Explanatory Memorandum, prior to making a decision as to how to vote on Resolution 1.

Fairness – Relevant Interest Acquisition

The Relevant Interest Acquisition is considered to be fair if the value of a Share following the Relevant Interest Acquisition is equal to or greater than the value of a Share prior to the Relevant Interest Acquisition.

The Independent Expert determined the value per AQC share prior to the Relevant Interest Acquisition to be in the range of $Nominal to $0.0088, on a controlling interest basis, and following the Relevant Interest Acquisition to be in the range of $Nominal to $0.0059, on a minority interest basis. This demonstrated a downward shift in the Independent Expert's valuation, and accordingly the Independent Expert considered the Relevant Interest Acquisition to be **not fair** to the Non-Associated Shareholders.

Reasonableness – Relevant Interest Acquisition

The Independent Expert considered the advantages and disadvantages of the Relevant Interest Acquisition to determine whether it was reasonable, along with other considerations. These were as follows:

(a) Advantages:

(1) The obtaining of funding for the Dartbrook Acquisition.

(2) The option (at the election of the financiers) for the funding to be converted into Shares rather than paid in cash.

(3) The exercise price being higher than the Independent Expert's asset-based valuation.

(4) The Company potentially settling its debt in Shares, and therefore being in a better position to acquire development funding needed to commence mining operations.

(5) More highly aligned interest of cornerstone investor with the Company.

(6) The Proposed Transaction being the only available funding proposed at the current time.

(b) Disadvantages:

(1) The Relevant Interest Acquisition is not fair.

(2) The Relevant Interest Acquisition results in possible significant dilution of interests held by ordinary shareholders and loss of control.

(3) It may be possible for a smaller number of shareholders to pass a special resolution or block an ordinary resolution.

(4) Reduces the likelihood of a takeover of the Company.

(5) Conversion price under the Trepang Convertible Note is uncertain as at the date of this Report, but will be no less than $0.0025.

(6) There is potential for a significant number of AQC shares to be sold on the open market.

(c) Other considerations:

While the Independent Expert was not requested, and did not, provide an opinion or recommendation in relation to the acquisition of the Dartbrook Joint Venture, the Independent Expert's Report did set out certain considerations that may be relevant to Non-Associated Shareholders regarding that acquisition including:

(1) The value of consideration payable by AQC for the Dartbrook Joint Venture;

(2) The additional capital required for the development of the Dartbrook Coal Mine;

(3) The possibility of default;

(4) Uncertainty in relation to the future development of the Dartbrook Coal Mine; and

(5) The ability to profitably develop the Dartbrook Coal Mine is highly dependent on the prevailing economic environment, including Dartbrook Coal Mine capital, operating costs and the price achievable for Dartbrook quality coal reflect market supply and demand characteristics.

The potential position of the Company if Resolution 1 is not approved (both if the SPA completes and if the SPA does not complete) is also outlined in the Independent Expert's Report.

After considering the above, the Independent Expert considered, in the absence of a superior offer or any other information, the Relevant Interest Acquisition to be **reasonable** to the Non-Associated Shareholders.

Fairness – granting of the Security

The Independent Expert compared the value of:

(a) the proceeds flowing to Trepang, Mr Robinson (Snr) and Mr Paspaley from the sale of the Company's assets in the event of a default on the Convertible Notes and the Secured Loan Deed; and

(b) the outstanding amount (including principal, interest and enforcement costs) on the Convertible Notes and the Secured Loan Deed owing to Trepang, Mr Robinson (Snr) and Mr Paspaley in the event of a default under several scenarios.

After considering the above, the Independent Expert considered, in the absence of any further information, the granting of the Security to be **fair** to Non Associated Shareholders.

Reasonableness – granting of the Security

The Independent Expert considered the advantages and disadvantages of the granting of the Security to determine whether it was reasonable. These were as follows:

(a) Advantages:

(1) the grant of the Security is fair; and

(2) it is not unusual for companies to grant security over their assets when raising debt finance.

(b) Disadvantages:

(1) there will be greater difficulty in sourcing alternative funding from non-related third parties unless the Company can access $40 million of funding from non-related third parties; and

(2) the Company may lose control over its assets.

After considering the above, the Independent Expert considered, in the absence of any other information, the granting of the Security to be **reasonable** to the Non-Associated Shareholders.

2.14 **Listing Rules – Listing Rule 10.11**

Listing Rule 7.1 - Issues exceeding 15% of capital

Listing Rule 7.1 prohibits a listed company, except in certain cases, from issuing in any 12 month period new Equity Securities equivalent in number to more than 15% of the total number of ordinary securities on issue at the beginning of the 12 month period (**15% Capacity**) without the prior approval of a majority of disinterested Shareholders, or the issue otherwise comes within one of the exceptions to Listing Rule 7.1 (**15% Rule**). However, under Listing Rule 7.2 (Exception 14), if approval is being sought under Listing Rule 10.11, approval will not be required under Listing Rule 7.1. Therefore the issue of the Convertible Notes, Conversion Shares and Interest Shares will not count towards the Company's 15% Capacity under Listing Rule 7.1, assuming Resolution 1 is approved.

Listing Rule 10.11

Listing Rule 10.11 requires that an entity must obtain the approval of Shareholders to issue Securities to a Related Party and in doing so must provide the information specified in Listing Rule 10.13, unless an exception applies.

As noted in section 2.10 above, as a parent of John Robinson (Jnr), John Robinson (Snr) is a Related Party of the Company, as is any entity controlled by John Robinson (Snr).

The Company understands that Mr John Robinson (Snr) and Mr Nicholas Paspaley are the joint owners and joint controllers of Trepang, and jointly have the capacity to determine the outcome of decisions about Trepang's financial and operating policies. As such, neither Mr John Robinson (Snr) nor Mr Nicholas Paspaley control Trepang, as per section 50AA(3) of the Corporations Act, and on that basis Trepang is not a related party of the Company for the purposes of section 228(4) of the Corporations Act.

Mr Nicholas Paspaley is not considered a related party as a result of Mr John Robinson (Jnr) being on the board of the Company.

Various matters in respect of the financing the subject of the Paspaley Convertible Loan Deed, the Robinson Convertible Loan Deed, the Trepang Convertible Loan Deed and the Secured Loan Deed are all the subject of Resolution 1. As such, Shareholders will either approve various matters relating to all or none of the Convertible Loan Deeds and the Secured Loan Deed and there is not an ability for Shareholders to approve matters relating to only one or more of the Convertible Loan Deeds or the Secured Loan Deed. As a result of the Resolution 1 being a combined approval for Trepang, Mr Paspaley and Mr Robinson (Snr), Trepang and Mr Paspaley are considered Related Parties of the Company under section 228(7) of the Corporations Act for the purposes of Resolution 1 and the Company seeks to obtain Shareholder approval in respect of Trepang and Mr Paspaley in accordance with the requirements of Listing Rule 10.11.

Listing Rule 10.13

For the purposes of Listing Rule 10.13 and for all other purposes the following information is provided to Shareholders:

(a) **10.13.1 and 10.13.4: Name and relationship of the Related Party**

The Related Parties are:

(1) Mr John Robinson (Snr); and

(2) subject to the matters outlined in section and 2.14 above, Trepang and Mr Nicholas Paspaley, in the event they are ultimately considered to be Related Parties.

Details regarding the relationship to Mr John Robinson Jnr are detailed in section 2.14 above.

(b) **10.13.2: Maximum Number of Securities to be issued (if known) or the formula for calculating the number of Securities to be issued**

The number of Shares which may be issued pursuant to the Proposed Transaction is dependent upon the Company's Share price at different points of time. Further details in this regard are set out in section 2.12(b). The maximum number of Shares approved for issue pursuant to Resolution 1 is as follows:

(1) Proposed Robinson Conversion Shares and Proposed Paspaley Conversion Shares - 1,521,149,069;

(2) Proposed Trepang Conversion Shares - 6,000,000,000; and

(3) Interest Shares - 3,808,682,792.

(c) **10.13.3: Date by which the Securities will be issued**

The Company will issue the Robinson and Paspaley Convertible Notes within one month following the Meeting.

The Company will issue the Trepang Convertible Note on the date that is two business days prior to the completion date of the SPA, presently anticipated to be 27 May 2017. As this will be more than one month following this Meeting, the Company has made an application to ASX for a waiver of Listing Rule 10.13.3 extending the period in which the Company may issue the Trepang Convertible Note from the usual one month period following the Meeting to a period ending on the day that is five business days after the Completion Date under the SPA. In the event that this waiver is granted, the Company may issue the Trepang Convertible Note in reliance on this waiver without seeking further shareholder approval. In the event this waiver is not approved, the Company will not be able to issue the Trepang Convertible Note more than one month after this meeting.

The Conversion Shares will be issued at any time after the issue of the Convertible Notes until the Maturity Date of the Convertible Notes. The Interest Shares will be issued during the term of each Convertible Note (and within two months of the maturity of the Convertible Notes), subject to the matters below.

The Company has made an application to ASX for a waiver of Listing Rule 10.13.3 extending the period in which the Company may issue the Interest Shares from the usual one month period to a period ending on 1 April 2020 In the event that this waiver is granted, the Company may issue the Interest Shares in reliance on this waiver without seeking further shareholder approval. In the event this waiver is not approved, the Company will need to satisfy its obligation to pay interest in an alternate manner, such as:

(1) seeking further shareholder approval to issue the Interest Shares beyond one month after the Meeting to the extent that a recipient of those Interest Shares is a Related Party;

(2) electing to capitalise the accrued interest; or

(3) paying the accrued interest in cash.

(d) **10.13.5: Issue price and terms of the Securities**

Each of the Robinson and Paspaley Convertible Notes will have a face value of $10,000,000 plus interest capitalised up to the date of completion of the SPA (which is expected to be $1,408,618.02, resulting in a total face value per Robinson and Paspaley Convertible Note of $11,408,618.02). Details regarding the terms of the Robinson and Paspaley Convertible Notes are set out in Schedule 2.

The Trepang Convertible Note will have a face value of $15,000,000. Details regarding the terms of the Trepang Convertible Note are set out in Schedule 4.

The relevant Conversion Shares will be issued at:

(1) for the Proposed Robinson Conversion Shares and the Proposed Paspaley Conversion Shares, $0.015 per Share (subject to adjustments in accordance with the terms of the Convertible Note); and

(2) for the Proposed Trepang Conversion Shares, the lower of $0.015 each or the average of the daily VWAPs per Share during the 30 Trading Days on which Shares traded in the ordinary course of business on the ASX prior to the date which is three business days prior to the date of the Approval Meeting, provided that the issue price is not lower than $0.0025 per Share (subject to adjustments in accordance with the terms of the Convertible Note).

The relevant Interest Shares will be issued at the average of the daily VWAPs per Share during the 5 Trading Days on which Shares traded in the ordinary course of business on the ASX prior to the relevant Interest Payment Date in respect of any interest payments satisfied by the issue of Shares.

Each Conversion Share and Interest Share will rank, on and from issue, in all respects *pari passu* with the then existing Shares.

(e) **10.13.6A: Intended use of funds raised**

The funds raised from the Robinson and Paspaley Convertible Loan Deeds ($20,000,000) will be used in partial satisfaction of the purchase price payable pursuant to the SPA.

Of the funds raised by the Secured Loan Deed, $1,000,000 has been drawn down and is being used for working capital and the balance $5,000,000 will be used in satisfaction of the purchase price payable pursuant to the SPA in respect of the acquisition of Marubeni's interest in the Dartbrook Joint Venture.

The funds raised from the Trepang Convertible Loan Deed will be used for the replacement of environmental bonds $9,245,000, payment of stamp duty (up to $1,400,000), partial repayment of the principal amount owing pursuant to the Secured Loan Deed (being $1,000,000 recently advanced for working capital), and the remainder as working capital.

No additional funds will be raised by the issue of the Convertible Notes, the Conversion Shares or the Interest Shares.

(f) **10.13.6: Voting exclusion statement**

A voting exclusion statement is set out in Resolution 1 in the Notice of Meeting.

2.15 **Listing Rules – Listing Rule 10.1**

Listing Rule 10.1

Listing Rule 10.1 requires the Company to obtain Shareholder approval prior to the acquisition or disposal of a substantial asset from or to a Related Party, a subsidiary, a substantial holder (within the meaning of Listing Rule 10.1.3) or an Associate of any of them. A substantial asset is an asset valued at greater than 5% of the equity interests of the Company as set out in the latest accounts given to ASX by the Company.

Given the Security will extend over all of the assets and undertakings of the Company and the Company Group, the Security will relate to a "substantial asset" of the Company. Additionally, as a result of the wide ambit of the definition of "dispose" provided in ASX Listing Rule 19.12 (which includes using an asset as collateral), the grant of the Security will fall within the ambit of Listing Rule 10.1. This is because in the event that the Security was enforced, this may result in Trepang, Mr Robinson (Snr) or Mr Paspaley (or any of them) obtaining control of the assets the subject of the Security or such assets otherwise being disposed of.

Mr John Robinson Snr is a Related Party of the Company as his son, Mr John Robinson Jnr, is a director of the Company.

The Company understands that Mr John Robinson Snr and Mr Nicholas Paspaley are the joint owners and joint controllers of Trepang, and jointly have the capacity to determine the outcome of decisions about Trepang's financial and operating policies. As such, neither Mr John Robinson Snr nor Mr Nicholas Paspaley control Trepang, as per section 50AA(3) of the *Corporations Act*, and on that basis Trepang is not a Related Party of the Company for the purposes of section 228(4) of the Corporations Act.

Mr Nicholas Paspaley is not considered a Related Party as a result of Mr John Robinson (Jnr) being on the board of the Company.

Various matters in respect of the financing the subject of the Paspaley Convertible Loan Deed, the Robinson Convertible Loan Deed, the Trepang Convertible Loan Deed and the Secured Loan Deed are all the subject of Resolution 1. As such, Shareholders will either approve various matters relating to all or none of the Convertible Loan Deeds and the Secured Loan Deed and there is not an ability for Shareholders to approve matters relating to only one or more of the Convertible Loan Deeds or the Secured Loan Deed. As a result of the Resolution 1 being a combined approval for Trepang, Mr Paspaley and Mr Robinson (Snr), are considered Related Parties of the Company under section 228(7) of the Corporations Act for the purposes of Resolution 1.

In addition, Trepang, Mr Nicholas Paspaley and Mr John Robinson Snr are considered Associates of each other.

Accordingly, the Related Party and their Associates are:

(a) Mr John Robinson (Snr);

(b) Mr Nicholas Paspaley; and

(c) Trepang.

Listing Rule 10.10.2 provides that Shareholder approval sought for the purpose of Listing Rule 10.1 must include a report on the proposed acquisition from an independent expert. Accompanying this Explanatory Memorandum is an Independent Expert's Report prepared by BDO. This report provides a detailed examination of the Relevant Interest Acquisition and the granting of the Security, and BDO has concluded that the Relevant Interest Acquisition is not fair but reasonable and the granting of the Security is fair and reasonable to Non-Associated Shareholders.

The Independent Expert's Report is for the purpose of assisting the Non-Associated Shareholders' consideration and assessment of the merits of the Relevant Interest Acquisition, the granting of the Security and the making of their decision whether to vote in favour of Resolution 1. Shareholders are urged to carefully read the Independent Expert's Report, to understand the scope of the report, the methodology of the valuation and the assumptions made.

A copy of the Independent Expert's Report has been mailed to each Shareholder entitled to receive this Notice of Meeting and Explanatory Memorandum. Irrespective of this, a copy of the Independent Expert’s Report is available on the Company’s website at www.aqcltd.com and additional copies, free of charge, may be requested by a Shareholder by contacting the Company’s registered office.

2.16 **Directors’ Recommendation**

Each of the Non-Interested Directors recommend that Shareholders vote in favour of Resolution 1.

As Mr John Robinson Jnr is the son of Mr John Robinson Snr, he makes no recommendation with respect to Resolution 1.

3. Voting entitlement

For the purposes of determining voting entitlements at the Meeting, Shares will be taken to be held by the persons who are registered as holding the Shares at 7.00pm (Sydney time) on 11 April 2017. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

4. Interpretation

The following terms used in the Notice of Meeting and the Explanatory Memorandum are defined as follows:

$ means Australian dollars, unless otherwise stated.

15% Capacity has the meaning given to that term in section 2.14 of the Explanatory Memorandum.

AMCI means AMCI Investments Pty Ltd ACN 112 315 661.

AMCI Subscription Agreement means the share subscription agreement entered by the Company and AMCI on or about 8 September 2016.

ASIC means the Australian Securities & Investments Commission.

Associated Entity has the meaning given to that term in the Corporations Act.

Associates has the meaning given to that term in the Corporations Act, and **Associated** has a corresponding meaning.

ASX means the ASX Limited.

BDO means BDO Corporate Finance (Qld) Ltd of Level 10, 12 Creek Street, Brisbane Qld 4000.

Business Day means a day on which all banks are open for business generally in Brisbane.

Chair means the person chairing the Meeting.

Company means Australian Pacific Coal Limited ABN 49 089 206 986 (ASX: AQC).

Company Group means the Company and each of its Related Bodies Corporate.

Constitution means the constitution of the Company from time to time.

Conversion Shares means Shares issued on conversion of the Convertible Notes being the Proposed Paspaley Conversion Shares, the Proposed Robinson Conversion Shares and the Proposed Trepang Conversion Shares or any of them.

Convertible Loan Deeds means together, the Paspaley Convertible Loan Deed, the Robinson Convertible Loan Deed and the Trepang Convertible Loan Deed and each of them.

Convertible Notes means together, the Paspaley Convertible Note, the Robinson Convertible Note and the Trepang Convertible Note and each of them.

Corporations Act means the *Corporations Act* 2001 (Cth).

Dartbrook Joint Venture means joint venture between Anglo Coal (Dartbrook) Pty Ltd, a subsidiary of Anglo American Plc and Marubeni Coal in respect of the Dartbrook Coal Mine located in the Hunter Valley, New South Wales.

Directors or **Board** means the board of directors of the Company from time to time.

Escrow Deeds means deeds providing for the voluntary escrow of all Shares held by the following persons as at the commencement date of the Trepang Convertible Loan Deed and as may be issued under future incentive arrangements as required by, and on the terms set out in, the Trepang Convertible Loan Deed:

(a) Peter Ziegler and associated or related entities;

(b) John Robinson Jnr;

(c) Shane Stone and associated or related entities; and

(d) Kevin Mischewski and associated or related entities,

the key terms of which are summarised in Schedule 7.

Equity Securities has the meaning given to that term in the Listing Rules.

Explanatory Memorandum means the explanatory memorandum accompanying the Notice.

Financial Benefit has the meaning given to that term in section 229 of the *Corporations Act*.

General Security Deed means a general security deed granted in favour of Trepang, Mr Robinson (Snr) or Mr Paspaley (as applicable), on terms that are acceptable to Trepang, Mr Robinson (Snr) or Mr Paspaley (as applicable) acting reasonably, over all of the present and after acquired property of the Company and its Subsidiaries, including all of the present and after acquired property of AQC Investments 2 Pty Ltd ACN 609 954 734, Area Coal Pty Ltd ACN 132 643 193 and Ipoh Pacific Resources Pty Ltd ACN 104 553 504 and, immediately following Completion (as defined in the SPA), Anglo Coal (Dartbrook) Pty Ltd ACN 000 012 813. Each General Security Deed shall rank equally with all security granted in favour of Mr Nicholas Paspaley, Mr John Robinson (Snr) and Trepang.

Independent Expert means BDO.

Independent Expert Report means the Independent Expert report set out in Annexure A of the Notice.

Interest Payment Date means the last date of each month.

Interest Shares has the meaning given to that term in Schedule 1 and Schedule 4 and under the Robinson and Paspaley Convertible Loan Deeds and the Trepang Convertible Loan Deed.

Listing Rules means the official listing rules of the ASX as amended from time to time.

Marubeni Coal means Marubeni Coal Pty Ltd ACN 009 932 236.

Maturity Date means:

(a) in respect of the Robinson and Paspaley Convertible Loan Deeds and the Robinson and Paspaley Convertible Notes, the maturity date as described in Schedule 1 and Schedule 2; and

(b) in respect of the Trepang Loan Deed and the Trepang Convertible Notes, the maturity date as described in Schedule 3 and Schedule 4.

Meeting means the Extraordinary General Meeting to be held on 13 April 2017 as convened by the accompanying Notice of Meeting.

Mining Mortgage means a mortgage granted in favour of Trepang, Mr Robinson (Snr) or Mr Paspaley (as applicable), over all mining tenements or rights that the Company (or any of its Subsidiaries) holds, in registrable form and on terms that are acceptable to Trepang, Mr Robinson (Snr) or Mr Paspaley (as applicable), acting reasonably, including:

(a) such a mortgage granted by Anglo Coal (Dartbrook) Pty Ltd ACN 000 012 813 over all of its right title and interest in mining lease 1381, 1456 and 1497, Authorisation 256, Exploration licence 4574, 4575 and 5525 and Coal lease 386 immediately following Completion (as that term is defined in the SPA); and

(b) such a mortgage granted by Area Coal Pty Ltd ACN 132 643 193 over all of its right title and interest in EPC 1645, 1773, 1824, 1859, 1867 and 2011 and MDL 453; and

(c) such a mortgage granted by Ipoh Pacific Resources Pty Ltd ACN 104 553 504 over all of its right title and interest in Mining Lease 70360.

Each Mining Mortgage shall rank equally with all security granted in favour of Mr John Robinson (Snr), Mr Nicholas Paspaley and Trepang.

Mortgage of Land means a mortgage of land granted in favour of Trepang, Mr Robinson (Snr) or Mr Paspaley (as applicable), over all real property rights that the Company (or any of its Subsidiaries) holds, in registrable form and on terms that are acceptable to Trepang, Mr Robinson (Snr) or Mr Paspaley (as applicable), acting reasonably, including such a mortgage granted by Anglo Coal (Dartbrook) Pty Ltd ACN 000 012 813 over all of its right title and interest in each parcel of land specified in Schedule 9 to the SPA. Each Mortgage of Land shall rank equally with all security granted in favour of Mr John Robinson (Snr), Mr Nicholas Paspaley and Trepang.

Non-Associated Shareholders means the Shareholders whose votes are not to be disregarded on Resolution 1.

Non-Interested Directors means Peter Ziegler and Shane Stone.

Notice of Meeting or **Notice** means the notice of meeting giving notice to Shareholders of the Meeting, and accompanying this Explanatory Memorandum.

Option means an option to acquire Shares.

Ordinary Resolution means a resolution passed by more than 50% of the votes at a general meeting of Shareholders.

Paspaley Convertible Loan Deed means the convertible loan deed entered between the Company and Mr Nicholas Paspaley on or about 1 February 2016, as amended and restated on or about 15 June 2016 and 10 October 2016, the key terms of which are summarised in Schedule 1.

Paspaley Convertible Note means the convertible note to be issued to Mr Nicholas Paspaley in accordance with the terms of the Paspaley Convertible Loan Deed, the key terms of which are summarised in Schedule 2.

Proposed Conversion Shares means the Proposed Paspaley Conversion Shares, the Proposed Robinson Conversion Shares and the Proposed Trepang Conversion Shares.

Proposed Paspaley Conversion Shares means Shares at $0.015 per Share to be issued on conversion of all or part of the Paspaley Convertible Note.

Proposed Robinson Conversion Shares means Shares at $0.015 per Share to be issued on conversion of all or part of the Robinson Convertible Note.

Proposed Transaction means the issue of the Convertible Notes, the Conversion Shares and the Interest Shares, the granting of the Security and the commencement of the Escrow Deeds (and any Relevant Interest that Trepang, Mr Robinson (Snr) or Mr Nicholas Paspaley may obtain as a result of the commencement of the Escrow Deeds).

Proposed Trepang Conversion Shares means Shares at the lower of $0.015 per Share and the average of the daily VWAPs per Share during the 30 Trading Days on which Shares traded in the ordinary course of business on the ASX prior to the date which is three business days prior to the date of the meeting (provided that the issue price is not lower than $0.0025 per Share), to be issued on conversion of all or part of the Trepang Convertible Note.

Related Body Corporate has the meaning given to it in the Corporations Act.

Related Party has the meaning in section 228 of the Corporations Act.

Relevant Interest has the meaning given to it in sections 608 and 609 of the *Corporations Act*.

Relevant Interest Acquisition means Trepang, Mr Robinson (Snr) and Mr Paspaley potentially increasing their Relevant Interest in Shares from 41.29% to an amount up to 84.90%.

Resolutions means a resolution set out in the Notice of Meeting.

Robinson and Paspaley Convertible Loan Deeds means the Robinson Convertible Loan Deed and the Paspaley Convertible Loan Deed.

Robinson and Paspaley Convertible Notes means the Robinson Convertible Note and the Paspaley Convertible Note.

Robinson Convertible Loan Deed means the convertible loan deed entered between the Company and Mr John Robinson Snr on or about 1 February 2016, as amended and restated on or about 15 June 2016 and 10 October 2016, the key terms of which are summarised in Schedule 1.

Robinson Convertible Note means the convertible note to be issued to Mr John Robinson Snr in accordance with the terms of the Robinson Convertible Loan Deed, the key terms of which are summarised in Schedule 2.

Secured Assets means any assets which are the subject of the Security.

Secured Loan Deed means the secured loan deed entered between the Company and Trepang Services Pty Ltd on or about 27 April 2016,as amended and restated on or about 15 June 2016, 10 October 2016 and 31 January 2017, the key terms of which are summarised in Schedule 5.

Securities has the meaning in section 92(1) of the *Corporations Act.*

Security means the security to be granted by the Company and the Company Group to:

(a) Mr John Robinson Snr to secure the indebtedness associated with the Robinson Convertible Loan Deed and the Robinson Convertible Note;

(b) Mr Nicholas Paspaley to secure the indebtedness associated with the Paspaley Convertible Loan Deed and the Paspaley Convertible Note; and

(c) Trepang to secure the indebtedness associated with the Secured Loan Deed, the Trepang Convertible Loan Deed and the Trepang Convertible Note,

the key terms of which are summarised in Schedule 6;

Shareholder means a holder of Shares in the Company.

Shares means fully paid ordinary shares in the Company from time to time.

SPA means the sale and purchase agreement between Anglo American Metallurgical Coal Assets Pty Ltd, Anglo American Metallurgical Coal Holdings Limited, AQC Investments 2 Pty Ltd and the Company dated 24 December 2015 (as varied) to acquire the interests of the Anglo group in the Dartbrook Joint Venture.

Subsidiaries has the meaning given to that term in the Corporations Act.

Trading Day has the meaning given to that term in the Listing Rules.

Trepang means Trepang Services Pty Ltd ACN 149 489 065 in its own capacity and as trustee for the Trepang Services Unit Trust.

Trepang Convertible Loan Deed means the convertible loan deed entered between the Company and Trepang on or about 1 March 2017 (as varied), the key terms of which are summarised in Schedule 3.

Trepang Convertible Note means the convertible note to be issued to Trepang in accordance with the terms of the Trepang Convertible Loan Deed, the key terms of which are summarised in Schedule 4 .

Voting Power has the meaning given to that term in the Corporations Act.

Explanatory Memorandum

Any inquiries in relation to the Resolution or the Explanatory Memorandum should be directed to Kevin Mischewski (Company Secretary):

Level 7, 10 Felix Street, Brisbane Qld 4000
+61 7 3221 0679

Schedule 1 – Summary of terms of Robinson and Paspaley Convertible Loan Deeds

Total Principal Amount	$20,000,000 (split into two tranches of $10,000,000 each in the form of the Paspaley Convertible Loan Deed and the Robinson Convertible Load Deed).
Approved Purpose	Enabling the Company to pay a sufficient amount of money into escrow for the purposes of satisfying clause 2.1(7) of the SPA with these funds to be applied in satisfying the obligations of the Company and AQC Investments 2 Pty Ltd under the SPA.
Commencement Date	1 February 2016
Shareholder Approval	On or before 31 May 2017 the Company must convene and hold a meeting of Shareholders to seek approval for the grant of the Security and the issue of the Robinson and Paspaley Convertible Notes. If such approval is not obtained at the meeting at which the resolution is put to Shareholders, the Company must seek an ASX waiver of Listing Rule 10.1 to permit the grant of the Security (on slightly amended terms to meet the usual waiver conditions of ASX).
Issue of Convertible Note	Subject to Shareholder approval being obtained, the Company will issue the financier a convertible note (in the amount of all amounts owing under the Robinson and Paspaley Convertible Loan Deeds), which may be converted into Shares in accordance with the conversion formula at any time from date of issue of the note until the Maturity Date.
Interest Rate and Payment	10% per annum *(previously 15% per annum as announced on 2 February 2016)* payable monthly. All interest accruing until the date of completion of the Dartbrook SPA will be capitalised. All interest accruing after the date of completion of the Dartbrook SPA will be payable in cash or Shares (Interest Shares) (at the 5 day VWAP prior to the relevant Interest Payment Date with a minimum of $0.0025 per Share) or capitalised, at the election of the Company. Interest will be charged at a rate of 15% on any overdue amounts, to be paid in cash. Each Interest Share will rank equally with all existing Shares and the Company will use its reasonable endeavours to apply for quotation on the ASX of the Interest Shares.
Maturity Date	1 February 2018, with an ability for the financier to request (and for the Company to accept such request) to extend the Maturity Date by one further period of one year (with the last possible Maturity Date being 1 February 2019).
Prepayment offer	The Company is entitled to seek and obtain any third party funding. If the Company is offered funding of at least $40,000,000, the Company must offer to repay the principal amount of the Robinson and Paspaley Convertible Loan Deeds. If the financier does not accept such offer, the Company may elect to have all or part of the amounts owing under the convertible note converted into Shares in accordance with the conversion formula and the financier agrees to the Company providing security to the third party funder ranking in priority to the security granted under these arrangements. The Company is not otherwise entitled to prepay the principal amount.

Events of Default	Customary events of default including: • if the Company fails to remedy a material breach of any provisions of the Robinson and Paspaley Convertible Loan Deeds within five Business Days after receipt of notice to remedy that breach from the financier; • the Company suffers an Insolvency Event; and • the Company ceases to be listed on the ASX; If the SPA is terminated (for any reason) the money owing under the Robinson and Paspaley Convertible Loan Deeds will be repayable in full on demand of the financier. If an event of default occurs, the money owing will, at the option of the financier, become immediately payable to the financier
Security	Subject to shareholder approval or an ASX waiver of Listing Rule 10.1 being obtained, the Company is to grant (and procure its Subsidiaries to grant) to the financier: • General Security Deeds over the Company and each of its Subsidiaries; • Mortgage of Land; and • Mining Mortgage. The key terms of the Security are summarised at Schedule 6.

Schedule 2 – Summary of terms of Robinson and Paspaley Convertible Notes

Issuer	The Company
Issue date	On the Business Day following receipt of Shareholder approval (18 April 2017)
Principal Amount	$10,000,000.00 per Note ($20,000,000 in total) plus capitalised interest to completion of the SPA, which will be Interest of $1,408,618.02 per Note capitalised on issue of the Note assuming completion on 29 May 2017, bringing the total Principal Amount per Note to $11,408,618.02 ($22,817,236.04 total).
Interest Rate and Payment	As per Schedule 1.
Maturity Date	1 February 2018 or as outlined above in Schedule 1. If the convertible note has not been converted in full on the Maturity Date, the Company will repay the amount owing in respect of the convertible note on the Maturity Date.
Conversion Right	The Robinson and Paspaley Convertible Notes may be converted into Shares in accordance with the conversion formula at any time from date of issue of the note until the Maturity Date. The Conversion Shares must be issued within five Business Days of receipt of a Conversion Notice subject to compliance with all applicable laws and the Listing Rules. Each Conversion Share will rank equally with the then existing Shares of the Company. The Company will use its reasonable endeavours to apply for quotation on ASX of the Shares issued on conversion of the Convertible Notes and issue a notice under section 708A(5)(e) of the *Corporations Act* in respect of the Conversion Shares.
Conversion Price	$0.015
Conversion Formula	N = CA/IP Where: **N** is the number of Conversion Shares to be issued. **CA** is the Conversion Amount. **IP** is the Issue Price.
Redemption of Note	The Company must redeem the Robinson and Paspaley Convertible Notes and pay all moneys owing under the Robinson and Paspaley Convertible Notes on the Maturity Date.
Security	As per Schedule 1.
Events of Default	As per Schedule 1.
Rights of holder	The Robinson and Paspaley Convertible Notes will not carry a right to vote at meetings of the Company prior to any conversion of the Robinson and Paspaley Convertible Notes into Shares, nor will it carry any entitlement to participate in future issues of securities by the Company.

Conversion Price Adjustments	Subject to the Corporations Act and the Listing Rules, the number of Shares issued on conversion of the Robinson and Paspaley Convertible Notes will be adjusted if before conversion or redemption of a Robinson and Paspaley Convertible Notes there is a reorganisation of the Company's share capital (including consolidation, subdivision, bonus issue, reduction or return) (**Reorganisation Event**). The Company will procure an adjustment so that the entitlement of the Shares issued on conversion of the Note to participate in profits and assets of the Company will be the same as the entitlement of the Shares into which the Note would have been converted had there been no Reorganisation Event.

Schedule 3 – Summary of terms of Trepang Convertible Loan Deed

Total Principal Amount	$15,000,000
Approved Purpose	For the replacement of environmental bonds ($9,245,000), payment of stamp duty (up to $1,400,000), partial repayment of principal amount owing pursuant to the Secured Loan Deed (being $1,000,000 recently advanced for working capital), and the remainder as working capital.
Commencement Date	Two business days prior to the Completion Date as defined in the SPA), or such other date agreed by the parties.
Shareholder Approval	On or before 31 May 2017 the Company must convene and hold a meeting of Shareholders to seek approval for the grant of the Security, the issue of the Convertible Notes and the entry of the Escrow Deeds. The Company must also seek an ASX waiver of Listing Rule 10.1 within five business days of the execution of the Trepang Convertible Loan Deed to permit the grant of the Security (on slightly amended terms to meet the usual waiver conditions of ASX). Such a waiver has been applied for and obtained, but will be superseded by Shareholder approval, if such approval is granted at the Meeting. Trepang will not be obliged to provide the Principal Amount unless the approvals given above are provided on or before the Sunset Date under the SPA.
Other Conditions of Drawdown	Trepang is not obliged to advance the principal amount unless: • the required Shareholder approvals are obtained in respect of the Trepang Convertible Loan Deed and Trepang Convertible Note and the grant of the Security pursuant to the Trepang Convertible Loan Deed and Trepang Convertible Note; • each Security that can be granted by the Company and the Company Group prior to completion of the SPA has been executed by all Relevant Parties; and • each Escrow Deed has been executed by all Relevant Parties, on or before the Sunset Date (as defined in the SPA) (unless Trepang elects to do so in its absolute discretion). If Shareholders do not approve Resolution 1 and Trepang does not otherwise elect to provide the funding under the terms of the Trepang Convertible Loan Deed (which it has no obligation to do so), the Company does not presently anticipate that it will be able to complete the SPA. Further, if Shareholder approval is not obtained by 31 May 2017 and Trepang still elect to provide the funding under the terms of the Trepang Convertible Loan Deed, the Company cannot refuse to accept the funding and Trepang may demand full repayment of all funds advanced under the Trepang Convertible Loan Deed on 28 days' notice. The Company is presently reliant upon the funding from the Trepang Convertible Note to complete the SPA. One of the outstanding conditions precedent to completion of the SPA is the Company providing reasonable evidence to Anglo of the Company's ability to replace the financial assurances of $9,245,000. As $9,245,000 of the funding provided pursuant to the Trepang Convertible Loan Deed will be used to fund the replacement of the Dartbrook Joint Venture financial assurances, the provision of this funding will assist the Company in satisfying this condition.

Issue of Convertible Note	Subject to Shareholder approval being obtained, the Company will issue the financier a convertible note (in the amount of all amounts owing under the Trepang Convertible Loan Deed), which may be converted into Shares in accordance with the conversion formula at any time from date of issue of the note until the Maturity Date.
Interest Rate and Payment	10% per annum or in the event that the required Shareholder approval or ASX waiver is not obtained by 31 May 2017, interest will accrue at 16% per annum from 31 May 2017 until such Shareholder approval or ASX waiver is obtained at which point the interest rate will revert back to 10% per annum. All interest accruing until the Maturity Date will be capitalised or payable in AQC shares (at the 5 day VWAP prior to the relevant interest payment date) or cash, at the election of the Company. Interest will be charged at the higher of a rate of 15% or the interest rate that applied immediately prior to the Maturity Date on any overdue amounts, to be paid in cash.
Maturity Date	1 February 2018, with an ability for Trepang to request (and for the Company to accept such request) to extend the Maturity Date by two further periods of one year each (with the last possible Maturity Date being 1 February 2020). If the convertible note has not been converted in full on the Maturity Date, the Company will repay the amount owing in respect of the convertible note on the Maturity Date.
Prepayment offer	The Company is entitled to seek and obtain any third party funding. If the Company is offered funding of at least $40,000,000, the Company must offer to repay the principal amount of the Trepang Convertible Loan Deed. If Trepang does not accept such offer, the Company may elect to have all or part of the amounts owing under the convertible note converted into AQC shares in accordance with the conversion formula and Trepang agrees to the Company providing security to the third party funder ranking in priority to the security granted under these arrangements.
Immediate Repayment Events	The money owing under the Trepang Convertible Loan Deed will at the option of Trepang become immediately repayable on any of the following occurring: • if the Company fails to remedy a material breach of any provisions of the Convertible Loan Deed within five Business Days after receipt of notice to remedy that breach from the financier; • the Company suffers an Insolvency Event; and • the Company ceases to be listed on the ASX. If the Principal Amount has been advanced and the relevant Shareholder approvals are not obtained by the Approval Date (and therefore conversion shares and interest shares cannot be issued), the Holder may, by written notice to the Company, elect for the money owing to become due and payable 28 days after the Company's receipt of such notice and in that case the Company must repay to Trepang the money owing in full, within 28 days after receipt of such notice.

Security	Subject to Shareholder approval being obtained or receipt of an ASX waiver, the Company is to grant (and procure its subsidiaries to grant) to Trepang: • general security deeds over the Company and each of its subsidiaries; • mortgages over all mining tenements or rights held by the Company and each of its subsidiaries; • mortgages over all real property rights held by the Company and each of its subsidiaries.

Schedule 4 – Summary of terms of Trepang Convertible Note

Issuer	The Company
Issue date	On the Business Day on which the Convertible Loan Deed is drawn down.
Principal Amount	$15,000,000
Interest Rate and Payment	As per Schedule 3.
Maturity Date	1 February 2018 or as outlined above in Schedule 3. If the convertible note has not been converted in full on the Maturity Date, the Company will repay the amount owing in respect of the convertible note on the Maturity Date.
Conversion Right	The Convertible Notes may be converted into Shares in accordance with the conversion formula at any time from date of issue of the note until the Maturity Date. The Conversion Shares must be issued within five Business Days of receipt of a Conversion Notice subject to compliance with all applicable laws and the Listing Rules. Each Conversion Share will rank equally with the then existing Shares of the Company. The Company will use its reasonable endeavours to apply for quotation on ASX of the Shares issued on conversion of the Convertible Notes and issue a notice under section 708A(5)(e) of the Corporations Act in respect of the Conversion Shares.
Conversion Price	The lower of $0.015 and the average of the daily VWAPs per Share during the 30 Trading Days on which Shares traded in the ordinary course of business on the ASX prior to the date which is three business days prior to the date of the Meeting, provided that the issue price is not lower than $0.0025 per Share.
Conversion Formula	N = CA/IP Where: **N** is the number of Conversion Shares to be issued. **CA** is the Conversion Amount. **IP** is the Issue Price.
Redemption of Note	The Company must redeem the Convertible Note and pay all moneys owing under the Convertible Note on the Maturity Date when given written notice by Trepang. The Company may redeem all or part of the Note at any time by giving Trepang written notice.
Security	As per Schedule 3.
Events of Default	As per Schedule 3.
Rights of holder	The Convertible Notes will not carry a right to vote at meetings of the Company prior to any conversion of the Convertible Notes into Shares, nor will it carry any entitlement to participate in future issues of securities by the Company.

Conversion Price Adjustments	Subject to the *Corporations Act* and the Listing Rules, the number of Shares issued on conversion of the Convertible Notes will be adjusted if before conversion or redemption of a Convertible Note there is a reorganisation of the Company's share capital (including consolidation, subdivision, bonus issue, reduction or return) (**Reorganisation Event**). The Company will procure an adjustment so that the entitlement of the Shares issued on conversion of the Note to participate in profits and assets of the Company will be the same as the entitlement of the Shares into which the Note would have been converted had there been no Reorganisation Event.

Schedule 5 – Summary of terms of Secured Loan Deed

Total Principal Amount	$6,000,000 in two tranches, Tranche A being $1,000,000 (drawn down on 3 February 2017) and Tranche B being $5,000,000.
Approved Purpose	• In respect of the Tranche A Principal Amount, working capital. • In respect of Tranche B Principal Amount, to provide funding to acquire the interests of Marubeni under the Dartbrook JVA.
Commencement Date	In respect of Tranche A, 3 February 2017. In respect of Tranche B, 2 Business Days prior to Completion under the SPA, presently anticipated to be 29 May 2017.
Shareholder Approval	On or before 31 May 2017 the Company must convene and hold a meeting of Shareholders to seek approval for the grant of the Security. If such approval is not obtained at the meeting at which the resolution is put to Shareholders, the Company must seek an ASX waiver of Listing Rule 10.1 to permit the grant of the Security (on slightly amended terms to meet the usual waiver conditions of ASX).
Interest Rate and Payment	10% per annum, payable monthly. All interest will be payable in cash or Shares (Interest Shares) (at the 5 day VWAP prior to the relevant Interest Payment Date) or capitalised, at the election of the Company. Interest will be charged at a rate of 15% on any overdue amounts, to be paid in cash. Each Interest Share will rank equally with all existing shares and the Company will use its reasonable endeavours to apply for quotation on the ASX of the Interest Shares.
Maturity Date	• In respect of the Tranche A Principal Amount, 1 February 2018 with an ability for Trepang to request (and for the Company to accept such request) to extend the Maturity Date by two further periods of one year each (with the last possible Maturity Date being 1 February 2020). • In respect of the Tranche B Principal Amount, three years after the date of the Secured Loan Deed, being 27 April 2019.
Prepayment offer	The Company may prepay the Principal Amount at any time on notice to the financier.
Events of Default	Customary events of default including: • if the Company fails to remedy a material breach of any provisions of the Secured Loan Deed within five Business Days after receipt of notice to remedy that breach from the financier; • the Company defaults in making any payment due under the Secured Loan Deed; • the Company suffers an Insolvency Event; • the Company ceases to be listed on the ASX; and • the SPA is terminated (for any reason). If an event of default occurs, the money owing will, at the option of the financier, become immediately payable to the financier

Security	Subject to Shareholder approval or an ASX waiver of Listing Rule 10.1 being obtained, the Company is to grant (and procure its Subsidiaries to grant) to the financier: • General Security Deeds over the Company and each of its Subsidiaries; • Mortgage of Land; and • Mining Mortgage. The key terms of the Security are summarised at Schedule 6.

Schedule 6 – Summary of terms of Security

1. **Overview**

All money and obligations owed by the Company to Trepang, Mr Nicholas Paspaley and Mr John Robinson (Snr) under the Secured Loan Deed and the Convertible Loan Deeds are to be secured by comprehensive securities to be granted by the Company and each of its Subsidiaries, currently being AQC Investments 2 Pty Ltd ACN 609 954 734, Area Coal Pty Ltd ACN 132 643 193 and Ipoh Pacific Resources Pty Ltd ACN 104 553 504 and, immediately following Completion (as defined in the SPA), Anglo Coal (Dartbrook) Pty Ltd ACN 000 012 813 (**AQC Subsidiaries**) under the following documents:

(a) General Security Deed to be granted by AQC (**AQC GSD**);

(b) General Security Deed to be granted by each AQC Subsidiary (**Subsidiary GSD**);

(c) Mortgages of Land and Mining Tenement Mortgages to be granted by each of the Company and the AQC Subsidiaries who is the registered proprietor of any real property or the holder of an interest in any mining tenements or related rights

The AQC Subsidiaries also guarantee all money and obligations owed by the Company to Trepang, Paspaley and Robinson under the Secured Loan Deed and the Convertible Loan Deeds, pursuant to the Subsidiary Guarantee.

Each of Trepang, Mr Nicholas Paspaley and Mr John Robinson (Snr) are referred to as a 'Secured Party' below. A Priority Deed has also been entered by the Company and each Secured Party.

The following provides a summary of the relevant documents.

AQC GSD

Under the General Security Deed to be granted by AQC in favour of the Secured Party, AQC grants a security interest over all of its assets and undertaking (**Secured Property**) in favour of the Secured Party to secure the payment of the Secured Money and the performance of the Secured Obligations.

"Secured Money" refers to all money that AQC may become liable to pay to the Secured Party under or in relation to the Transaction Documents and "Secured Obligations" refers to all obligations of AQC under the Transaction Documents, so in effect the AQC GSD secures all payment and other obligations of AQC to the Secured Party under or in relation to the Transaction Documents.

The form of the AQC GSD is reasonably market-standard for this type of transaction. It contains a basic range of representations and warranties and undertakings requiring ACQ to keep the Secured Property in good condition and protect AQC's title in the Secured Property.

The definition of Event of Default refers to an event of default as defined under any other Transaction Document, so in other words there are no additional events of default in the AQC GSD. On an Event of Default occurring, the Secured Party may enforce its rights under this document to declare all Secured Money due and owing, sue AQC for the Secured Money, and take steps to seize or dispose of the Secured Property either directly or through the appointment of receivers.

If all the Secured Money and Secured Obligations have been paid or performed in full, the Secured Party is obliged to release the Secured Property from the security on the request of AQC.

Subsidiary Guarantee

Under the Subsidiary Guarantee each of the AQC Subsidiaries guarantees to the Secured Party the payment of the "Guaranteed Money" and the performance of the "Guaranteed Obligations". Those two terms are in all practical respects identical to the definitions of "Secured Money" and "Secured

Obligations" described in the summary of the AQC GSD, which means that under the Subsidiary Guarantee, the AQC Subsidiaries each guarantee to the Secured Party AQC's payment and other obligations under or in relation to the Transaction Documents.

If AQC does not pay the Guaranteed Money on time or perform the Guaranteed Obligations, then the AQC Subsidiaries must perform the Guaranteed Obligations without any further demand and pay the Guaranteed Money on demand as if they were the principal obligor.

In addition to the guarantee, each AQC Subsidiary also indemnifies the Secured Party for any loss that the Secured Party suffers due to the Guaranteed Money not being recoverable from AQC or the Subsidiary Guarantors due to a range of issues such as lack of capacity, the obligations of a party being void or voidable, an insolvency event or any other event or occurrence.

Each AQC Subsidiary is jointly and severally liable to the Secured Party for the payment of the Secured Money and the performance of the Secured Obligations, and it is up to the Secured Party to decide whether it wishes to enforce its rights under the Subsidiary Guarantee against all or only some of the Subsidiaries. The Secured Party does not need to enforce its rights against AQC before enforcing its rights under the Subsidiary Guarantee.

There are a range of provisions which are usual and market-standard for a subsidiary guarantee of this type which restricts the ability of the AQC Subsidiaries to reduce their liability under the Subsidiary Guarantee (for example due to an insolvency event of AQC, a security interest being voidable, the invalidity or unenforceability of an obligation of any other Subsidiary Guarantor or any other person or the grant of a time waiver or other indulgence to AQC or any other person).

2. **Subsidiary GSD**

Other than the different parties and as set out below, the Subsidiary GSD is on identical terms to the AQC GSD summarised above, which means that each AQC Subsidiary provides a security interest over all of its assets and undertaking in in favour of the Secured Party to secure the payment of the Secured Money and the performance of the Secured Obligations (as described in the summary of the AQC GSD above).

3. **Priority Deed**

The Priority Deed sets out the priority of each of the Secured Parties in the event that any Secured Party enforces its rights under the security that Secured Party holds over any asset of AQC or any AQC Subsidiary (**Security**).

In summary, where a Secured Party enforces its rights under a Security and recovers funds as part of that enforcement (**Recovered Money**), that Recovered Money must, after first paying all amounts required to be paid in priority to the Secured Parties and paying the costs of any controller appointed and the costs of the enforcement, be paid to the Secured Parties proportionately in payment to each Secured Party in payment of the Amount Owing to that Secured Party.

The Priority Deed also contains a provision where each of the Secured Parties acknowledge that the Company will be entitled to seek and obtain third party funding and, if the funding is a minimum of $40,000,000 (**Third Party Funding**) then the Company must offer to refinance the following principal amounts owing to each Secured Party:

(a) Trepang - $20,000,000;

(b) Mr Paspaley - $10,000,000; and

(c) Mr Robinson (Snr) - $10,000,000.

It is up to each Secured Party to decide whether or not it will accept the Company's offer to refinance in accordance with the provisions of the priority deed, however if the Secured Party does not accept the offer to refinance then it will be taken to have consented to the security to be provided by the Company or any AQC Subsidiary to secure the Third Party Funding ranking in priority to its Security.

4. **Mortgage of Land and Mining Tenement Mortgage**

In addition to the AQC GSD and Subsidiary GSD, each of the Company and the AQC Subsidiaries who is the registered proprietor of any real property or the holder of an interest in any mining tenements or related rights is required to grant further security over those interests. This will include:

(a) a mortgage of land granted by Anglo Coal (Dartbrook) Pty Ltd over all of its right, title and interest in each parcel of Land specified in Schedule 9 of the SPA; and

(b) a mining tenement mortgage granted by each of:

(1) Anglo Coal (Dartbrook) Pty Ltd ACN 000 012 813 over all of its right title and interest in mining lease 1381, 1456 and 1497, Authorisation 256, Exploration licence 4574, 4575 and 5525 and Coal lease 386 immediately following Completion (as that term is defined in the SPA);

(2) Area Coal Pty Ltd ACN 132 643 193 over all of its right title and interest in EPC 1645, 1773, 1824, 1859, 1867 and 2011 and MDL 453; and

(3) Ipoh Pacific Resources Pty Ltd ACN 104 553 504 over all of its right title and interest in Mining Lease 70360.

To the extent any other AQC subsidiary is the registered proprietor of any real property or holds an interest in a mining tenement, those subsidiaries will also be required to sign a Mortgage of Land or Mining Tenement Mortgage (as applicable).

Other than specific terms required to ensure that the Mortgage of Land and Mining Tenement Mortgages are registrable, it is the intention that these documents will reflect the commercial provisions of the AQC GSD and Subsidiary GSD. In other words, unless required for registrability there will not be any additional representations, warranties or undertakings in these documents and there will be no additional events of default included in these documents.

5. **ASX Waiver**

ASX has granted a waiver to the Company in respect of Listing Rule 10.1 to permit the grant of the Security to Mr Nicholas Paspaley, Mr John Robinson (Snr) and Trepang, details of which are set out in section 2.5(d).

In order to comply with the terms of the ASX waiver granted, each Security is required to provide that if an event of default occurs and the financer, or any of its related entities or Associates, exercises its rights under the Security, neither the financier nor any of its related entities or Associates may acquire any legal or beneficial interest in the property the subject of the Security in full or part satisfaction of the obligations under the Secured Loan Deed or the Convertible Loan Deeds, or otherwise deal with the property the subject of the Security, without the Company first having complied with any applicable ASX Listing Rules, including Listing Rule 10.1.

However, that requirement will not restrict, and the financier may exercise its rights under the Security at any time after an event of default has occurred through a Receiver (or any other person acting on behalf of the financier) appointed by the financier exercising a power (including a power of sale) and selling the property the subject to the Security to an unrelated third party on arm's length commercial terms and distributing the cash proceeds in accordance with the terms of the Security.

In the event that Resolution 1 is passed, the provisions outlined above which were included to comply with the ASX waiver granted in respect of the Security will cease to apply.

Schedule 7 – Summary of terms of Escrow Deeds

Parties	Escrow Deeds have been signed by the following persons: • Peter Alexander Ziegler; • Wellton Holdings Pty Ltd; • Nanla Pty Ltd atf The Ziegler Pension Fund; • John James Robinson (Jnr); • Shane Leslie Stone; • S & J Stone Pty Ltd atf Stone Family Super Fund A/c; • Kevin John Mischewski; and • Gail Edwina Mischewski.
Restricted securities	The Escrow Deeds will restrict the Shares held by each of the Holders listed above as at the Commencement Date and any other Shares issued to the holder (or a Nominated Holder) pursuant to incentive arrangements with the Company (**Restricted Securities**). Nominee Holder here means any person who is issued Shares pursuant to incentive arrangements with the Company at the direction or request of the holder (in which case the holder must first procure the execution by such person of an escrow deed on the same terms as the Escrow Deeds). As at the date of this Notice the following Shares are held by parties to the Escrow Deeds: • Peter Alexander Ziegler - Nil • Wellton Holdings Pty Ltd - 184,903,334 • Nanla Pty Ltd atf The Ziegler Pension Fund - 5,000,000 • John James Robinson (Jnr) - Nil • Shane Leslie Stone - Nil • S & J Stone Pty Ltd atf Stone Family Super Fund A/c - 6,500,000 • Kevin John Mischewski - Nil • Gail Edwina Mischewski - 310,000 It is noted that the number of Shares ultimately subject to the Escrow Deeds will depend on the number of Shares held as at the commencement date of the Trepang Convertible Loan Deed and the number of Shares (if any) issued pursuant to incentive arrangements with the Company in the future. The Company is currently considering implementing short and long term incentive arrangements and is currently reviewing the Company's long-term equity linked performance incentives.
Conditional Deeds	The Escrow Deeds are of no force and effect and are not binding on any party unless shareholder approval is obtained. If Shareholder approval is not obtained within three months of the date of the deeds, the deeds shall immediately be terminated and be at an end and no party shall have any further obligations or rights pursuant to the deeds.
Commencement Date	The Commencement Date as defined in Trepang Convertible Loan Deed, being 27 May 2017.

<table>
<tr><td>Escrow Period</td><td>The Escrow Deeds will commence on the Commencement Date to the earlier of:
the date that the Company or its Related Body Corporate obtains all licences, permits, approvals and permissions necessary or required under all relevant Laws to permit it to undertake open-cut mining operations at the Dartbrook coal mine;
the date the Company or its Related Body Corporate receives written notice that it will not be granted any licences, permits, approvals or permissions necessary or required under all relevant laws to permit it to undertake open-cut mining operations at the Dartbrook coal mine; or
three years after the Commencement Date (as defined in Trepang Convertible Loan Deed),
or until one of the following events occurs:
the Holder or a nominated individual (being the relevant officer) dies or becomes permanently incapacitated such that they are unable to perform their then current role as an officer of the Company;
the Company repays all principal amounts owing under the Convertible Loan Deeds and the Secured Loan Deed; or
Trepang ceases to be a shareholder in the Company.</td></tr>
<tr><td>Restrictions and Permitted Dealings</td><td>During the Escrow Period, the holders will not dispose of, or agree or offer to dispose of, the Restricted Securities except for the following dealings (Permitted Dealings):
a takeover bid is made in respect of the Company by a person other than a Holder;
a scheme of arrangement is implemented in respect of the Company under the Corporations Act with a view to a person other than a holder acquiring all of the issued share capital of the Company.
a capital reduction effected by the Company;
a buy-back of shares in the Company by the Company;
an off-market transfer of restricted securities to a third party where the Holder has first procured the execution by the third party of an escrow deed on the same terms as the Escrow Deeds;
a disposal of Restricted Securities over which there is a Security Interest, in accordance with the terms of that Security Interest where the Holder has first procured the execution by the Secured Party of an escrow deed on the same terms as the Escrow Deeds;
during the period commencing on the day the Escrow Period commences and ending 12 months after that day (First Anniversary), disposal of Restricted Securities to a value not exceeding $100,000;
during the period commencing on the day following the First Anniversary and ending 12 months after that day (Second Anniversary), disposal of Restricted Securities to a value not exceeding $100,000; and
during the period commencing on the day following the Second Anniversary and ending 12 months after that day, disposal of Restricted Securities to a value not exceeding $100,000.</td></tr>
</table>

Schedule 8 – Substantial Shareholders' Interest

Shareholder	Current Shares	Shares upon issue of Conversion Shares and Interest Shares[1]				
		Issue price $0.015	**Issue price $0.013**	**Issue price $0.011**	**Issue price $0.009**	**Issue price $0.0025**
Trepang Services Pty Ltd and associates[2]	Number of Shares: 1,677,000,000 ordinary shares (Trepang Services Pty Ltd) 129,166,667 ordinary shares (Nicholas Paspaley) Total:1,806,166,667	Number of Shares: 3,056,310,773 ordinary shares (Trepang Services Pty Ltd) 1,017,476,049 ordinary shares (Nicholas Paspaley) 888,309,382 ordinary shares (John Robinson, Snr) 196,713,334 ordinary shares (Escrow shares) Total:5,158,809,537	Number of Shares: 3,268,512,431 ordinary shares (Trepang Services Pty Ltd) 1,037,127,564 ordinary shares (Nicholas Paspaley) 907,960,897 ordinary shares (John Robinson, Snr) 196,713,334 ordinary shares (Escrow shares) Total:5,410,314,225	Number of Shares: 3,557,878,328 ordinary shares (Trepang Services Pty Ltd) 1,063,925,084 ordinary shares (Nicholas Paspaley) 934,758,417 ordinary shares (John Robinson, Snr) 196,713,334 ordinary shares (Escrow shares) Total:5,753,275,162	Number of Shares: 3,975,851,288 ordinary shares (Trepang Services Pty Ltd) 1,102,632,614 ordinary shares (Nicholas Paspaley) 973,465,947 ordinary shares (John Robinson, Snr) 196,713,334 ordinary shares (Escrow shares) Total:6,248,663,182	Number of Shares: 9,952, 864,632 ordinary shares (Trepang Services Pty Ltd) 1,656,150,282 ordinary shares (Nicholas Paspaley) 1,526,983,615 ordinary shares (John Robinson, Snr) 196,713,334 ordinary shares (Escrow shares) Total:13,332,711,862
	Relevant interest: 41.29%	Relevant interest: 68.50%	Relevant interest: 69.52%	Relevant interest: 70.81%	Relevant interest: 72.49%	Relevant interest: 84.90%
Nathan Tinkler and associate[3]	Number of shares: 568,741,810 ordinary shares (Leslie Norman Tinkler and Zelda Irene Tinkler) 189,442,038 ordinary shares (JVG Aust Pty Ltd) 63,500,000 ordinary shares (Bentley Resources Pte Ltd)	Number of shares: 568,741,810 ordinary shares (Leslie Norman Tinkler and Zelda Irene Tinkler) 189,442,038 ordinary shares (JVG Aust Pty Ltd) 63,500,000 ordinary shares (Bentley Resources Pte Ltd)	Number of shares: 568,741,810 ordinary shares (Leslie Norman Tinkler and Zelda Irene Tinkler) 189,442,038 ordinary shares (JVG Aust Pty Ltd) 63,500,000 ordinary shares (Bentley Resources Pte Ltd)	Number of shares: 568,741,810 ordinary shares (Leslie Norman Tinkler and Zelda Irene Tinkler) 189,442,038 ordinary shares (JVG Aust Pty Ltd) 63,500,000 ordinary shares (Bentley Resources Pte Ltd)	Number of shares: 568,741,810 ordinary shares (Leslie Norman Tinkler and Zelda Irene Tinkler) 189,442,038 ordinary shares (JVG Aust Pty Ltd) 63,500,000 ordinary shares (Bentley Resources Pte Ltd)	Number of shares: 568,741,810 ordinary shares (Leslie Norman Tinkler and Zelda Irene Tinkler) 189,442,038 ordinary shares (JVG Aust Pty Ltd) 63,500,000 ordinary shares (Bentley Resources Pte Ltd)

Shareholder	Current Shares	Shares upon issue of Conversion Shares and Interest Shares[1]				
		Issue price $0.015	**Issue price $0.013**	**Issue price $0.011**	**Issue price $0.009**	**Issue price $0.0025**
	Total: 821,683,848	Total: 821,683,848	Total: 821,683,848	Total: 821,683,848	Total: 821,683,848	Total: 821,683,848
	Relevant interest: 18.78%	Relevant interest: 10.91%	Relevant interest: 10.56%	Relevant interest: 10.11%	Relevant interest: 9.53%	Relevant interest: 5.23%

Notes:

1. Assumes that no new Shares in the Company are issued other than as contemplated by Resolution 1, including that no Shares are issued on exercise of existing options (there are presently 43,750,000 $0.008 unlisted options to subscribe for Shares expiring on 31 March 2017).
2. The number of Shares assumes the maximum number of Conversion Shares and Interest Shares as are subject to Resolution 1 are issued to Nicholas Paspaley, John Robinson (Snr) and Trepang Services Pty Ltd (as set out in the tables in section 2.12(b) above). This also includes the Shares the subject of the Escrow Deeds.
3. Mr Nathan Tinkler lodged a substantial holder notice with the Company on 2 November 2015 which identified Leslie Norman Tinkler and Zelda Irene Tinkler, JVG Aust Pty Ltd, Bentley Resources Pte Ltd and RJ Tinkler Investments Pty Ltd as the relevant holders of Shares. A subsequent substantial holder notice has not been lodged, however, the Company's share register presently shows that Leslie Norman Tinkler and Zelda Irene Tinkler, JVG Aust Pty Ltd and Bentley Resources Pte Ltd remain shareholders of the Company, however RJ Tinkler Investments Pty Ltd is no longer a Shareholder, and that their total Share holding has reduced to 821,683,848 Shares. As such, the Company is unable to confirm the present Relevant Interest of Mr Nathan Tinkler and his associates and the above information only shows those Shares directly registered in the names of Leslie Norman Tinkler and Zelda Irene Tinkler, JVG Aust Pty Ltd and Bentley Resources Pte Ltd.

Explanatory Memorandum

Schedule 9 – Directors' interest in Shares of the Company

Director	Current Shares (Direct and Indirect)	Shares upon issue of Conversion Shares and Interest Shares[1]				
		Issue price $0.015	**Issue price $0.013**	**Issue price $0.011**	**Issue price $0.009**	**Issue price $0.0025**
Mr Peter Ziegler	189,903,334 Shares (4.34%)	189,903,334 Shares (2.52%)	189,903,334 Shares (2.44%)	189,903,334 Shares (2.34%)	189,903,334 Shares (2.20%)	189,903,334 Shares (1.21%)
Mr John Robinson (Jnr) [2]	1,806,166,667 Shares (41.29%)	5,158,809,537 Shares (68.50%)	5,410,314,225 Shares (69.52%)	5,753,275,162 Shares (70.81%)	6,248,663,182 Shares (72.49%)	13,332,711,862 Shares (84.90%)
Mr Shane Stone	6,500,000 Shares (0.015%)	6,500,000 Shares (0.09%)	6,500,000 Shares (0.08%)	6,500,000 Shares (0.08%)	6,500,000 Shares (0.08%)	6,500,000 Shares (0.04%)

Notes:

1. Assumes that no Director (either directly or indirectly) acquires any further Shares in the Company other than as contemplated by Resolution 1 and no new Shares in the Company are issued other than as contemplated by Resolution 1 including that no Shares are issued on exercise of existing options (there are presently 43,750,000 $0.008 unlisted options to subscribe for Shares expiring on 31 March 2017).
2. Mr John Robinson (Jnr) does not presently hold any Shares directly. For completeness, disclosure is made of these Shares as held by Nicholas Paspaley, John Robinson (Snr) and Trepang Services Pty Ltd (the nominating shareholder of Mr John Robinson (Jnr)) as outlined elsewhere in the Explanatory Memorandum. Mr John Robinson (Jnr) does not own or control these entities. The number of Shares assumes the maximum number of Conversion Shares and Interest Shares as are subject to Resolution 1 are issued to Nicholas Paspaley, John Robinson (Snr) and Trepang Services Pty Ltd (as set out in the tables in section 2.12(b) above). This also includes the Shares the subject of the Escrow Deeds.

Schedule 10 – Dilutionary effect of the issue of the Conversion Shares and the Interest Shares

	Current		Issue price $0.015		Issue price $0.013		Issue price $0.011		Issue price $0.009		Issue price $0.0025	
Ordinary Shares	**Securities directly held**	**% directly held**	**Securities directly held**	**% directly held**	**Securities directly held**	**% directly held**	**Securities directly held**	**% directly held**	**Securities directly held**	**% directly held**	**Securities directly held**	**% directly held**
Current Shareholders[1, 2]	2,568,517,597	58.71%	2,371,804,263	31.50%	2,371,804,263	30.48%	2,371,804,263	29.19%	2,371,804,263	27.51%	2,371,804,263	15.10%
Trepang, John Robinson (Snr) and Nicholas Paspaley[3]	1,806,166,667	41.29%	5,158,809,537	68.50%	5,410,314,225	69.52%	5,753,275,162	70.81%	6,248,663,182	72.49%	13,332,711,862[4]	84.90%[4]
Total ordinary shares	4,374,684,264	100.00%	7,530,613,800	100.00%	7,782,118,488	100.00%	8,125,079,425	100.00%	8,620,467,445	100.00%	15,704,516,125	100.00%

Notes:

1. Excluding Shares held by Trepang, John Robinson (Snr) and Nicholas Paspaley.
2. Assumes that no Shares are issued other than as contemplated by Resolution 1, including that no Shares are issued on exercise of existing options (there are presently 43,750,000 $0.008 unlisted options to subscribe for Shares expiring on 31 March 2017).
3. The number of Shares assumes the maximum number of Conversion Shares and Interest Shares as are subject to Resolution 1 are issued to Nicholas Paspaley, John Robinson (Snr) and Trepang Services Pty Ltd (as set out in the tables in section 2.12(b) above). This also includes the Shares which are currently the subject of the Escrow Deeds.
4. In the event that the applicable Share price for the conversion of the Trepang Convertible Note and the Interest Shares was $0.0025 per Share, it may be the case that Nicholas Paspaley and John Robinson (Snr) do not elect to convert the Robinson and Paspaley Convertible Notes which have a Conversion Price of $0.015 per Share. If only the Proposed Trepang Convertible Shares and the Interest Shares were issued at $0.0025 per Share, this would result in a total Relevant Interest of Trepang, John Robinson (Snr) and Nicholas Paspaley in 11,811,562,793 Shares, being a Relevant Interest in 83.28% of the issued Share capital.

Proxies and representatives

Shareholders are entitled to appoint a proxy to attend and vote on their behalf. Where a Shareholder is entitled to cast two or more votes at the meeting, they may appoint two proxies. Where more than one proxy is appointed, each proxy may be appointed to represent a specific proportion or number of votes the Shareholder may exercise. If the appointment does not specify the proportion or number of votes each proxy may exercise, each proxy may exercise half of the votes. The proxy may, but need not, be a Shareholder of the Company.

Shareholders who are a body corporate are able to appoint representatives to attend and vote at the meeting under section 250D of the *Corporations Act 2001 (*Cth*).*

The proxy form must be signed by the Shareholder or his/her attorney duly authorised in writing or, if the Shareholder is a corporation, in a manner permitted by the *Corporations Act.*

The proxy form (and the power of attorney or other authority, if any, under which the proxy form is signed) or a copy or facsimile which appears on its face to be an authentic copy of the proxy form (and the power of attorney or other authority) must be **deposited at, posted to, or sent by facsimile transmission to the address listed below, or by hand to the Share Registry, Link Market Services Limited, 1A Homebush Bay Drive, Rhodes NSW 2138** not less than 48 hours before the time for holding the meeting, or adjourned meeting as the case may be, at which the individual named in the proxy form proposes to vote.

Australian Pacific Coal Limited

C/- Link Market Services Limited

Locked Bag A14

Sydney South NSW 1235 Australia

Telephone Phone**:** 1300 554 474 (Overseas: +61 1300 554 474)

Facsimile No: +61 2 9287 0309

If a representative of the corporation is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the certificate may be obtained from the Company's share registry.

A proxy form is **attached** to this Notice.

Voting entitlement

For the purposes of determining voting entitlements at the Meeting, Shares will be taken to be held by the persons who are registered as holding the Shares at 7.00pm on 11 April 2017. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

Signing instructions

You must sign the proxy form as follows in the spaces provided:

Individual:	Where the holding is in one name, the Holder must sign.
Joint Holding:	Where the holding is in more than one name, all of the security holders should sign.
Power of Attorney:	To sign under Power of Attorney, you must have already lodged this document with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.
Companies:	Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone.

Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary.

Please indicate the office held by signing in the appropriate place.

Australian Pacific Coal Limited
Independent Expert's Report

13 March 2017

BDO

Table of Contents

Financial Services Guide

The Financial Services Guide (‘FSG’) is provided to comply with the legal requirements imposed by the Corporations Act 2001 and includes important information regarding the general financial product advice contained in this report (‘this Report’). The FSG also includes general information about BDO Corporate Finance (QLD) Ltd (‘BDO CFQ’ or ‘we’, ‘us’ or ‘our’), including the financial services we are authorised to provide, our remuneration and our dispute resolution.

BDO CFQ holds an Australian Financial Services Licence to provide the following services:

(a) Financial product advice in relation to deposit and payment products (limited to basic deposit products and deposit products other than basic deposit products), securities, derivatives, managed investments schemes, superannuation, and government debentures, stocks and bonds; and

(b) Arranging to deal in financial products mentioned in a) above, with the exception of derivatives.

General Financial Product Advice

This Report sets out what is described as general financial product advice. This Report does not consider personal objectives, individual financial position or needs and therefore does not represent personal financial product advice. Consequently any person using this Report must consider their own objectives, financial situation and needs. They may wish to obtain professional advice to assist in this assessment.

The Assignment

BDO Corporate Finance (QLD) Ltd ABN 54 010 185 725, Australian Financial Services Licence No. 245513 has been engaged to provide general financial product advice in the form of a report in relation to a financial product. Specifically, BDO CFQ has been engaged to provide an independent expert’s report to the non-associated shareholders of Australian Pacific Coal Limited (‘AQC’ or ‘the Company’) in relation to the following elements:

- The proposal to allow Mr John Robinson, Mr Nicholas Paspaley and Trepang Services Pty Ltd (who are associates) to increase their relevant interest in AQC ordinary shares from 41.29% to an amount up to 84.90% depending on certain assumptions (‘the Relevant Interest Acquisition’) as set out in Section 3.4 of this Report; and

- The proposal to grant security over all AQC’s assets to Mr John Robinson, Mr Nicholas Paspaley and Trepang Services Pty Ltd (‘the Security Transaction’).

The above elements form part of Resolution 1 in the Notice of Extraordinary General Meeting and further details are set out in Section 3.0 of this Report.

This Report provides an opinion as to whether or not the Relevant Interest Acquisition is ‘fair’ and ‘reasonable’ to the non-associated shareholders of AQC and an opinion as to whether or not the Security Transaction is ‘fair’ and ‘reasonable’ to the non-associated shareholders of AQC. This Report has been prepared to provide information to non-associated shareholders of AQC to assist them to make an informed decision on whether to vote for or against Resolution 1 at the Extraordinary General Meeting. The scope of this Report is set out in more detail in Section 4.0.

This Report cannot be relied upon for any purpose other than the purpose mentioned above and cannot be relied upon by any person or entity other than those mentioned above, unless we have provided our express consent in writing to do so. A shareholder’s decision to vote in favour of or against Resolution 1 is likely to be influenced by their particular circumstances, for example, their taxation considerations and risk profile. Each shareholder should obtain their own professional advice in relation to their own circumstances.

Fees, commissions and other benefits we may receive

We charge a fee for providing reports. The fees are negotiated with the party who engages us to provide a report. We estimate the fee for the preparation of this Report will be approximately $45,000 plus GST. Fees are usually charged as a fixed amount or on an hourly basis depending on the terms of the agreement with the engaging party. Our fees for this Report are not contingent on the outcome of the transaction.

Except for the fees referred to above, neither BDO CFQ, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of this Report.

Directors of BDO CFQ may receive a share in the profits of BDO Group Holdings (QLD) Pty Ltd, a parent entity of BDO CFQ. All directors and employees of BDO Group Holdings (QLD) Pty Ltd and its subsidiaries (including BDO CFQ) are entitled to receive a salary. Where a director of BDO CFQ is a shareholder of BDO Group Holdings (QLD) Pty Ltd, the person is entitled to share in the profits of BDO Group Holdings (QLD) Pty Ltd.

Associations and relationships

From time to time BDO CFQ or its related entities may provide professional services to issuers of financial products in the ordinary course of its business. These services may include audit, tax and business advisory services. BDO CFQ has previously prepared an independent expert's report for AQC dated 11 September 2015 in relation to a proposed capital raising.

BDO CFQ is not an associate of AQC. The signatories to this Report do not hold any shares in AQC and no such shares have ever been held by the signatories.

To prepare our reports, including this Report, we may use researched information provided by research facilities to which we subscribe or which is publicly available. Reference has been made to the sources of information in this Report, where applicable. Research fees are not included in the fee details provided in this Report.

Complaints

We are members of the Financial Ombudsman Service. Any complaint about our service should be in writing and sent to BDO Corporate Finance (QLD) Ltd, GPO Box 457, Brisbane QLD 4001.

We will endeavour to resolve the complaint quickly and fairly. If the complaint cannot be satisfactorily resolved within 45 days of written notification, there is a right to lodge a complaint with the Financial Ombudsman Service. They can be contacted on 1300 780 808. This service is provided free of charge.

If the complaint involves ethical conduct, a complaint may be lodged in writing with Chartered Accountants Australia and New Zealand, Queensland Branch, GPO Box 2054, Brisbane QLD 4001. The Australian Securities and Investment Commission ('ASIC') also has an Infoline on 1300 300 630 which can be used to make a complaint and obtain information about investor rights.

Contact Details

BDO Corporate Finance (QLD) Ltd

Location Address:	Postal Address:
Level 10 12 Creek Street BRISBANE QLD 4000	GPO Box 457 BRISBANE QLD 4001
Phone: (07) 3237 5999	Email: cf.brisbane@bdo.com.au
Fax: (07) 3221 9227	

Glossary

Reference	Definition
A$ or $	Australian dollars
ABV	Asset-based valuation
Act, the	Corporations Act 2001
AREA	Area Coal Pty Ltd, a fully owned subsidiary of AQC
AQC	Australian Pacific Coal Limited
Anglo	Anglo American Plc
ASIC	Australian Securities and Investment Commission
ASX	Australian Securities Exchange
ASX Waiver, the	The waiver from ASX of Listing Rule 10.1 that the Company is seeking in order to grant the Security to the Financiers
BCC	Bowen Coking Coal Pty Ltd
Bentley	Bentley Resources Pte Ltd
Blackwood	Blackwood Resources Pty Ltd, a subsidiary of Cuesta Coal Limited
Blackwood JV	The joint venture between Blackwood and the Company
Board, the	The board of directors of the Company
BDO CFQ	BDO Corporate Finance (QLD) Ltd
BDO Persons	BDO CFQ, BDO (QLD) or any of its partners, directors, agents or associates
CEO	Chief Executive Officer
CHPP	Coal handling and processing plant
CME	Capitalisation of maintainable earnings
Company, the	Australian Pacific Coal Limited
Convertible Loans, the	The Robinson and Paspaley Convertible Loans and the Trepang Convertible Loan
Convertible Notes, the	The Robinson and Paspaley Convertible Note and the Trepang Convertible Note
Corporations Act, the	The Corporations Act 2001
Cuesta	Cuesta Coal Limited
Dartbrook Acquisition, the	The acquisition of a 100% interest in the Dartbrook JV by AQC from Anglo (83.33%) and Marubeni (16.67%)
Dartbrook JV	The Joint Venture between Anglo (83.33%) and Marubeni (16.67%) in the Dartbrook Mine
Dartbrook Mine	The Dartbrook mine being acquired as part of the Dartbrook Acquisition
Directors, the	The directors of the Company from 13 June 2016 to the 19 April 2017. We note that Mr Paul Byrne resigned as a Director of the Company on the 15 February 2017.

Reference	Definition
DCF	Discounted cash flow
EGM	Extraordinary General Meeting
EPC	Exploration Permit for Coal
EPS	Environmental Property Services
Escrow Deeds	Deeds required to be entered by each of the Directors, the company secretary of AQC and their associated or related entities in respect of AQC shares held at the commencement date of the Trepang Convertible Loan deed and any future shares issued pursuant to incentive arrangements with the Company. Further details regarding the terms of the Escrow Deeds are set out in Schedule 7 of the Notice of Meeting.
Financiers, the	Mr Robinson, Mr Paspaley and Trepang who are providing the funding for the acquisition of the Dartbrook JV
Financial Assurance, the	The $9.245 million in financial assurance that AQC has to provide for the Dartbrook Mine as part of the SPA
FSG	Financial Services Guide
FY	The financial year or 12-month period ended on 30 June
General Security Deeds	The security arrangements for the Dartbrook Acquisition granted in favour of the Financiers by the Company over its assets as set out in Schedule 6 of the Notice of Meeting
HY	Half year to the date ended on 31 December
JORC	Joint Ore Reserves Committee
km	Kilometres
Marubeni	Marubeni Coal Pty Ltd
MBV	Market-based valuation
MDL	Mineral Development Licence
MEE	Multiple of Exploration Expenditure
Messrs Robinson and Paspaley	Mr John Robinson and Mr Nicholas Paspaley
MOU	Memorandum of Understanding
Mr Paspaley	Mr Nicholas Paspaley, AC, one of the holders of the Convertible Loans to AQC with a face value of $10 million
Mr Robinson	Mr John Robinson, AO, one of the holders of the Convertible Loans to AQC with a face value of $10 million
Mt	Megaton
Mtpa	Million tonnes per annum
Non-Associated Shareholders, the	The holders of fully paid ordinary shares in the Company that do not have an interest in Resolution 1
Non-Associated Directors	The Directors of the Company that do not have an interest in Resolution 1
Notice of Meeting, the	The Notice of Extraordinary General Meeting and Explanatory Statement prepared by AQC expected to be dated on or about 13 March 2017 for the meeting held on or about 13 April 2017

Reference	Definition
NPV	Net present value
Regulations	The Corporation Regulations 2001
Relevant Interest Acquisition, the	The Financiers potentially increasing their relevant interest in AQC shares from 41.29% to an amount up to 84.90% (based on the assumptions set out in Section 3.4)
Report, this	This independent expert's report prepared by BDO CFQ and dated 13 March 2017
Resolution 1	Resolution 1 of the Notice of Meeting which includes the Relevant Interest Acquisition and the Security Transaction
RG 111	Regulatory Guide 111: Content of Expert Report, issued by ASIC
RGs	Regulatory guides published by ASIC
Robinson and Paspaley Convertible Loan	The $20 million convertible loan made by Messrs Robinson and Paspaley to the Company on 1 February 2016 for the Dartbrook Acquisition as set out in Schedule 1 of the Notice of Meeting
Robinson and Paspaley Convertible Note	The $20 million convertible note as set out in Schedule 2 of the Notice of Meeting
ROM	Run-of-mine
Secured Loan, the	The secured loan of $6 million to Trepang as set out in Schedule 5 of the Explanatory Memorandum
Security, the	The securities set out in the Convertible Loan deeds and Secured Loan deeds including the properties and assets of the Company and all its subsidiaries
Security Transaction, the	The proposal to grant security over all AQC's assets to the Financiers
SPA, the	The Sale and Purchase Agreement - Dartbrook between the Company and Anglo dated 24 December 2015 as varied
Sunset Date, the	14 April 2017 (as announced on the ASX on the 8 February 2017)
Technical Expert Report, the	The technical expert report provided by Xenith and EPS dated 28 February 2017
Tph	Tonnes per hour
Trepang	Trepang Services Pty Ltd
Trepang Convertible Loan	The $15 million convertible loan from Trepang to the Company as set out in Schedule 3 of the Notice of Meeting
Trepang Convertible Note	The $15 million convertible note to Trepang as set out in Schedule 4 of the Notice of Meeting
ULV	Ultra Low Volatile
Valmin Code, the	Valuation of Mineral Assets and Mineral Securities for Independent Expert Reports as adopted by the Australasian Institute of Mining and Metallurgy
VWAP	Volume weighted average price
WAL	Water access license
We, us, our	BDO Corporate Finance (QLD) Ltd

Tel: +61 7 3237 5999
Fax: +61 7 3221 9227
www.bdo.com.au

Level 10, 12 Creek Street
Brisbane, QLD 4000
GPO Box 457, Brisbane QLD 4001
AUSTRALIA

The Non-Associated Shareholders
C/- The Non-Associated Directors
Australian Pacific Coal Limited
Level 7, 10 Felix Street
BRISBANE QLD 4000

13 March 2017

Dear Non-Associated Shareholders,

Independent Expert's Report

1.0 Introduction

BDO Corporate Finance (QLD) Limited ('BDO CFQ' or 'we', 'us' or 'our') has been engaged by the non-associated directors of Australian Pacific Coal Limited ('AQC' or 'the Company') to prepare an independent expert's report ('this Report') to the non-associated shareholders of AQC ('the Non-Associated Shareholders') in relation to certain elements of a broader transaction that the Non-Associated Shareholders are able to vote in favour of or against as part of Resolution 1 in the Notice of Extraordinary General Meeting ('Resolution 1'). Specifically, the elements of Resolution 1 that we provide an opinion on in this Report are:

- Mr John Robinson, Mr Nicholas Paspaley and Trepang Services Pty Ltd (who are associates and collectively 'the Financiers') potentially increasing their relevant interest in AQC shares ('the Relevant Interest Acquisition') from 41.29% to an amount up to 84.90%[1] through:
  - The conversion of convertible notes and capitalised interest into AQC shares; and
  - The relevant interest that Trepang obtains in the shares of AQC through the escrow deeds; and
- The proposal to grant security over all AQC's assets to the Financiers ('the Security Transaction').

A more detailed discussion of the transactions comprising Resolution 1, including the Relevant Interest Acquisition and the Security Transaction, is set out in Section 3.0 of this Report.

In this Report we provide our opinion to AQC shareholders on whether the Relevant Interest Acquisition is fair and reasonable, and whether the Security Transaction is fair and reasonable. The scope of this Report and the basis for assessing the Relevant Interest Acquisition and the Security Transaction is detailed in Section 4.0 of this Report.

This Report has been prepared to provide information to the Non-Associated Shareholders to assist them to make an informed decision on whether to vote for or against Resolution 1 at the Extraordinary General Meeting ('EGM'). Apart from the purpose stated directly above, this Report cannot be used or relied on for any other purpose or by any other person or entity.

For clarity, we note that we have not been requested to, and we do not, provide an opinion or recommendation in relation to the Company's acquisition of the Dartbrook Joint Venture ('the Dartbrook JV') in this Report. While noting that individual AQC shareholders will have differing views on the Company's proposed acquisition of the Dartbrook JV based on their individual circumstances (i.e. taxation considerations and risk profile), we have identified factors (refer Sections 2.1.2 and 7.3) that individual AQC shareholders should take into account prior to forming a view on whether to vote in favour of or against Resolution 1. Our opinions in this Report are only provided in relation to the Relevant Interest Acquisition and the Security Transaction as defined above.

[1] The ultimate relevant interest that can be obtained will not be known until three days before the meeting date as the conversion price on the additional $15 million to be provided by Trepang is the lower of 1.5 cents and the average of the daily VWAP for the 30 trading days (with a floor price of $0.0025) prior to the date which is three business days before the EGM. The maximum relevant interest of 84.90% is based on the assumptions set out in Section 3.4 below and various sensitivities for the conversion price on the additional $15 million loan provided by Trepang.

This Report should be read in full, including the assumptions underpinning our work, together with the other information provided to the Non-Associated Shareholders in conjunction with this Report, including the Notice of Extraordinary General Meeting and Explanatory Memorandum prepared by AQC and dated on or about 13 March 2017 ('the Notice of Meeting').

APES 225 'Valuation Services' issued by the Accounting Professional & Ethical Standards Board sets out mandatory requirements for the provision of quality and ethical valuation services. BDO CFQ has complied with this standard in the preparation of this Report.

All dollar ('$') references in this Report are in Australian dollars unless otherwise stated

2.0 Summary of Opinion

This section is a summary of our opinion and does not substitute for a complete reading of this Report.

We strongly recommend that Non-Associated Shareholders consult their own professional advisers, carefully read all relevant documentation provided (including the Notice of Meeting) and consider their own specific circumstances before voting in favour of or against Resolution 1.

2.1 The Relevant Interest Acquisition

2.1.1 Fairness of the Relevant Interest Acquisition

Our assessment of the fairness of the Relevant Interest Acquisition to the Non-Associated Shareholders is set out in Section 6.0 of this Report. To assess whether the Relevant Interest Acquisition is fair to the Non-Associated Shareholders, we have:

a) Determined a value in the range of $Nominal to $0.0088 per share for AQC prior to the Relevant Interest Acquisition on a controlling interest basis (refer Section 6.2). In completing our valuation work we considered that AQC may complete the acquisition of the Dartbrook JV irrespective of whether the Non-Associated Shareholders vote in favour of or against Resolution 1 (although the ability to proceed in circumstances that Resolution 1 is not approved is dependent on the Financiers electing, at their sole discretion, to continue to provide the $15 million additional funding – refer Section 3.2 for further discussion). Specifically, we had regard to two scenarios as follows:

   i. Dartbrook Acquisition: Assumes that AQC proceeds with the Dartbrook Acquisition in circumstances that the Non-Associated Shareholders do not vote in favour of Resolution 1. The Convertible Loans provided by the Financiers will remain debt that is unable to be converted into ordinary shares in AQC. The earliest this debt would be required to be repaid is 1 February 2018 in the case of the Convertible Loans made by Messrs Robinson and Paspaley, while the Trepang Convertible Loans would be able to be called with 28 days' notice (refer to Section 3.1); and

   ii. No Dartbrook Acquisition: Assumes that AQC does not proceed with the Dartbrook Acquisition in circumstances that the Non-Associated Shareholders do not vote in favour of the Relevant Interest Acquisition. This situation will arise in circumstances that the Financiers do not elect in their absolute discretion to provide their financial support for the Dartbrook Acquisition.

b) Determined a value in the range of $Nominal to $0.0059 per share for AQC following the Relevant Interest Acquisition on a minority interest basis (refer Section 6.3). We have assumed that the Dartbrook Acquisition will proceed for the purposes of valuing AQC following the Relevant Interest Acquisition, notwithstanding that the Dartbrook Acquisition will remain subject to certain conditions (refer Section 3.1.1 for further discussion) in circumstances that the Non-Associated Shareholders approve Resolution 1. We have made this assumption as the alternative involves returning the escrowed money to the Financiers and as a result, the relevant interest that the Financiers could obtain on conversion of the Convertible Notes will no longer be able to be obtained through exercising the conversion feature under the Convertible Notes; and

c) Compared our valuation of an AQC share on a controlling interest basis prior to the Relevant Interest Acquisition to our valuation of an AQC share on a minority interest basis immediately following the Relevant Interest Acquisition (refer to Section 6.4).

The Relevant Interest Acquisition is considered to be fair if the value of an AQC share following the Relevant Interest Acquisition is equal to or greater than the value of an AQC share prior to the Relevant Interest Acquisition. Table 2.1 below summarises our assessment of the fairness of the Relevant Interest Acquisition.

Table 2.1: Fairness of the Relevant Interest Acquisition

	Reference	Low Value	Preferred Value	High Value
Value of an AQC share prior to the Relevant Interest Acquisition – controlling interest (with Dartbrook)	Section C.3	$Nominal	$Nominal	$0.0088
Value of an AQC share immediately following the Relevant Interest Acquisition – minority interest	Section D.4	$Nominal	$Nominal	$0.0059

Source: BDO CFQ analysis

Having regard to the information set out in Table 2.1, it is our view that there is a downward shift between our valuation prior to the Relevant Interest Acquisition and our valuation following the Relevant Interest Acquisition for reasons that include:

- If Resolution 1 is approved there will be additional equity instruments (albeit embedded in the Convertible Notes) on issue in the Company (i.e. the right to convert into ordinary shares at the exercise price is at the noteholders' option); and
- Our assessment is on a controlling interest basis prior to the Relevant Interest Acquisition and a minority interest basis following the Relevant Interest Acquisition.

After considering the information summarised above and set out in detail in the balance of this Report, it is our view that the Relevant Interest Acquisition is **Not Fair** to the Non-Associated Shareholders as at the date of this Report.

2.1.2 Reasonableness of the Relevant Interest Acquisition

Advantages and Disadvantages

Table 2.2 summarises the potential advantages and disadvantages to the Non-Associated Shareholders of the Relevant Interest Acquisition. Non-Associated Shareholder should refer to Sections 7.1 and 7.2 of this Report for a more detailed discussion of the advantages and disadvantages associated with the Relevant Interest Acquisition.

Table 2.2: Potential Advantages and Disadvantages of the Relevant Interest Acquisition

Advantage	Disadvantage
Funding for the Dartbrook Acquisition.	The Relevant Interest Acquisition is not fair.
The option (at the election of the Financiers) for the funding to be converted to AQC shares rather than paid out in cash.	The Relevant Interest Acquisition results in possible significant dilution of interests held by ordinary shareholders and loss of control.
The exercise price on conversion of the Convertible Loans is at a price higher than the ABV price.	It may be possible for a smaller number of shareholders to pass a special resolution or block an ordinary resolution.
The Company may potentially settle its debt in AQC shares and be in a better position to acquire additional development funding needed to commencing mining operations.	There is potential for a significant number of AQC shares to be sold on the open market as there is no escrow of shares held by the Financiers (unlike for the escrow requirements for the shares held by the Directors and Company Secretary of the Company).
More highly aligned interest of cornerstone investor with the Company.	Conversion price under the Trepang Convertible Note is uncertain as at the date of this Report with a capped maximum price payable ($0.015) and the possibility for downward revision based on AQC's average daily VWAP for the 30 trading days (with a floor price of $0.0025) prior to the date which is three business days before the EGM.
The only available funding proposal at the current time.	Reduces the likelihood of a takeover of the Company.

Source: BDO CFQ analysis

Other Matters Specific to the Dartbrook Acquisition

We have not been requested to, and we do not, provide an opinion or recommendation in relation to the Dartbrook Acquisitions in this Report. While noting that individual Non-Associated Shareholders will have differing views on the Dartbrook Acquisition based on their individual circumstances (taxation considerations and risk profile), we have set out certain considerations that may be relevant to the Non-Associated Shareholders regarding the Dartbrook Acquisition in Section 7.3 of this Report. Those considerations include:

- The value of consideration payable by AQC for the Dartbrook Acquisition;
- The additional capital required for the development of the Dartbrook Mine;
- The possibility of default;

- Uncertainty in relation to the future development of the Dartbrook Mine; and
- The ability to profitably develop the Dartbrook Mine is highly dependent on the prevailing economic environment, including Dartbrook Mine operating costs and the price achievable for Dartbrook quality coal reflecting market supply and demand characteristics.

Potential Position of the Non-Associated Shareholders if Resolution 1 is Not Approved

If the Resolution 1 is not approved, the potential position of the Non-Associated Shareholders will depend on whether the Dartbrook Acquisition is completed (which requires that Trepang provides the Convertible Loan funds to AQC) or not completed.

Table 2.3 summarises the potential position of the Non-Associated Shareholders if Resolution 1 is not approved and the Dartbrook Acquisition is completed or not completed.

Table 2.3: Potential Position of AQC Shareholders if Resolution 1 is Not Approved

Dartbrook Acquisition Completed	Dartbrook Acquisition Not Completed
▪ The Company will have a higher risk profile	▪ The monies in escrow will be returned and $5 million of the Trepang Secured loan will remain undrawn
▪ The Company will need to repay the Convertible Loans upon maturity	▪ Change in the Company's strategy
▪ The Company will need to pay interest on the Convertible Loans in cash and will not have the option to settle in shares	▪ Payment of the $1 million break fee by AQC and return of stamp duty paid to AQC
▪ The Financiers may still have security over the assets of the Company as a result of the ASX Waiver (which is on different terms to the security proposed under Resolution 1) for so long as the Convertible Loans and the Secured Loans are outstanding	▪ AQC share price may materially decrease and return to prices pre announcement of the Dartbrook Acquisition
▪ The Convertible Loans will impede the ability for the Company to raise development funding for the Dartbrook Mine unless funding of at least $40 million is able to be sourced by the Company from external sources	▪ The Non-Associated Shareholders will retain a controlling interest in AQC
▪ The Non-Associated Shareholders will retain a controlling interest in AQC	
▪ The Company's altered risk profile may have an effect on AQC's share price	

Source: BDO CFQ analysis

Please refer to Section 7.4 for further information.

2.1.3 Conclusion on Reasonableness

After considering the advantages, disadvantages and other considerations summarised above and set out in further detail in the balance of this Report, it is our view that, in the absence of a superior offer or any other information, the Relevant Interest Acquisition is **Reasonable** to the Non-Associated Shareholders as at the date of this Report.

2.1.4 Expert's Opinion on the Relevant Interest Acquisition

In our opinion, in the absence of a superior offer or any other information, the Relevant Interest Acquisition is **Not Fair but Reasonable** to the Non-Associated Shareholders as at the date of this Report.

We strongly recommend that the Non-Associated Shareholders also have regard to the information set out in the balance of this Report before deciding whether to vote in favour of or against Resolution 1.

2.1.5 Other Considerations for AQC Non-Associated Shareholders

Before forming a view on whether or not to approve Resolution 1, we strongly recommend that the Non-Associated Shareholders:

- Consult their own professional advisers;
- Carefully read all relevant documentation provided, including this Report and the Notice of Meeting; and
- Consider their specific circumstances and assess the way in which those circumstances might impact their decision to vote for or against Resolution 1.

The analysis set out in this Report has relied on certain economic, market and other conditions prevailing as at the date of this Report. We note that changes in these conditions may have a material impact on the information presented in this Report within a short period. BDO CFQ is not responsible for updating this Report in the event that those circumstances change.

2.2 The Security Transaction

2.2.1 Fairness of the Security Transaction

Our assessment of the fairness of the Security Transaction is set out in detail in Section 8.0 of this Report. In summary, to assess whether the Security Transaction is fair we have compared the value of:

- The proceeds flowing to the Financiers from the sale of the Company's assets in the event of a default on the Convertible Notes and Secured Loan; and
- The outstanding amount (including principal, interest and enforcement costs) on the Convertible Notes and Secured Loan owing to the Financiers in the event of a default under several scenarios.

After considering the information summarised above, set out in further detail in Section 8 and the balance of this Report, it is our view that in the absence of any further information, the Security Transaction is **Fair** to Non-Associated Shareholders as at the date of this Report.

2.2.2 Reasonableness of the Security Transaction

Our assessment of the reasonableness of the Security Transaction is set out in detail in Section 9.0 of this Report.

To assess whether or not the advantages of the Security Transaction outweigh the disadvantages, we have considered a number of quantitative and qualitative factors. Having regard to those matters, we have formed a view as to whether the advantages of the Security Transaction outweigh the disadvantages and whether the Security Transaction is 'reasonable' to Non-Associated AQC shareholders.

Table 2.4 below summarises our view of the advantages and disadvantages associated with the Security Transaction.

Table 2.4: Summary of Potential Advantages and Disadvantages of the Security Transaction

Advantages	Disadvantages
▪ The Security Transaction is fair	▪ AQC may lose control over its assets
▪ It is not unusual for companies to grant security over their assets when raising debt finance	▪ There will be greater difficulty in sourcing alternative funding from non-related third parties unless the Company can access $40 million of funding from non-related third parties

Source: *BDO CFQ Analysis*

After considering the information summarised above and set out in further detail in the balance of this Report, it is our view that in the absence of any further information, the Security Transaction is **Reasonable** to Non-Associated Shareholders as at the date of this Report.

2.2.3 Other Considerations of the Security Transaction

In our opinion, after considering all of the issues set out in this Report, in the absence of any other information, the Security Transaction is **Fair and Reasonable** to Non-Associated Shareholders as at the date of this Report.

2.2.4 Other Considerations of the Security Transaction

Before forming a view on the Security Transaction, we strongly recommend that AQC shareholders consider the same factors noted above for the Relevant Interest Acquisition and their position in circumstances that Resolution 1 is not approved.

3.0 Background to the Relevant Interest Acquisition and the Security Transaction

As outlined in Section 1.0, this Report provides information to the Non-Associated Shareholders of AQC to assist them to form an opinion on whether to vote for or against Resolution 1.

The Non-associated Shareholders should note that our opinion is restricted to two elements of the Resolution 1 (i.e. the Relevant Interest Acquisition and the Security Transaction) and we have not opined on all aspects of the Resolution 1. We do not provide any opinion in relation to the acquisition of the Dartbrook JV, of which the principal asset is the Dartbrook mine ('the Dartbrook Acquisition'). Notwithstanding this, in this Report we have provided a summary of the Dartbrook Acquisition and the funding arrangements underpinning the Dartbrook Acquisition to provide context to our assessment of the Relevant Interest Acquisition and the Security Transaction.

This section is set out as follows:

- Section 3.1 provides a summary of the Dartbrook Acquisition including the outstanding conditions precedent;
- Section 3.2 sets out a summary of the terms proposed for the convertible notes to be issued to the Financiers ('the Convertible Notes');
- Section 3.3 provides an overview of the transactions assessed in this Report;
- Section 3.4 provides a comparison of the shareholdings in the Company prior to the Relevant Interest Acquisition and the shareholdings after the Relevant Interest Acquisition; and
- Section 3.5 summarises the strategic rationale of the directors of AQC ('Directors') for Resolution 1.

3.1 Summary of the Dartbrook Acquisition

On 29 December 2015 the Company announced the acquisition of an 83.33% interest in the Dartbrook JV through the purchase of all shares in Anglo Coal (Dartbrook) Pty Ltd, a subsidiary of Anglo American Plc ('Anglo') for $25 million on terms announced by the Company in December 2015.

On 18 May 2016, the Company announced that the other party of the Dartbrook JV, Marubeni Coal Pty Ltd ('Marubeni'), had decided to exercise its tag-along right for the sale of the remaining 16.67% interest in the Dartbrook JV to the Company. The consideration for the remaining 16.67% interest in the Dartbrook JV is $5 million and royalties capped at a total of $5 million. Following the acquisition of interests in the Dartbrook JV from Marubeni, the Company will have a 100% interest in the Dartbrook mine.

A summary of the Dartbrook mine is provided in Section 5.2 of this Report.

The consideration for the Dartbrook Acquisition includes the amounts as set out in Table 3.1 below.

Table 3.1: Consideration for the Dartbrook Acquisition

	Anglo	Marubeni
Initial Deposit	$0.5 million	$0.1 million
Remaining Cash Payment	$24.5 million[1]	$4.9 million[2]
Royalty	Capped at $25 million: ▪ $2.50 per tonne of coal sold or otherwise disposed of (AQC's share of coal); and ▪ $0.25 per tonne of third party coal processed through the Dartbrook mine (escalated annually).	Capped at $5 million: ▪ $0.50 per tonne of coal sold or otherwise disposed of; and ▪ $0.05 per tonne of any third party coal processed through the Dartbrook mine (escalated annually).

Source: AQC Announcements

1 *Currently held in escrow*

2 *These funds will only be provided two business days prior to the completion of the final sales purchase agreement*

3.1.1 Outstanding Conditions Precedent of the Dartbrook Acquisition

We understand that completion of the Dartbrook Acquisition remains subject to certain conditions precedent as set out in the Sales Purchase Agreement ('the SPA') dated 24 December 2015, as varied, including:

- Marubeni releasing Anglo from any further liability in respect of the Dartbrook JV;
- AQC providing reasonable evidence to Anglo of AQC's ability to replace the financial assurances of $9.245 million ('the Financial Assurance') (a break fee of $1 million applies if this condition is not satisfied and all other conditions are satisfied); and
- The New South Wales government to provide its consent for the change in effective control and to the tenement transfers from Marubeni of all the tenements associated with the Dartbrook mine.

For more information refer to Section 2.2 of the Notice of Meeting.

3.1.2 Proposed Funding for the Dartbrook Acquisition

The Company's proposed funding structure in relation to the Dartbrook Acquisition includes the following:

- Cash on hand;
- An existing loan of $20 million (two tranches each equal to $10 million) from Mr Robinson and Mr Paspaley ('Messrs Robinson and Paspaley') with the terms summarised in Schedule 1 of the Notice of Meeting ('the Robinson and Paspaley Convertible Loan'). Subject to shareholder approval, AQC will issue two $10 million convertible notes plus capitalised interest (totalling $2,817,236 to the expected completion date of the Dartbrook Acquisition on 29 May 2017) which will effectively replace the loan (the terms are summarised in Schedule 2 of the Notice of Meeting);
- A convertible loan with a total principal amount of $15 million from Trepang ('the Trepang Convertible Loan') with the terms summarised in Schedule 3 of the Notice of Meeting. Subject to shareholder approval, AQC will issue a $15 million convertible note ('the Trepang Convertible Note') which will effectively replace the loan (the terms are summarised in Schedule 4 of the Notice of Meeting); and
- The secured loan from Trepang for $6 million ('the Secured Loan') with the terms summarised in Schedule 5 of the Notice of Meeting.

The convertible loans currently on issue to Messrs Robinson and Paspaley and Trepang are collectively referred to as 'the Convertible Loans'. The convertible notes proposed to be issued to replace the Convertible Loans on issue to Messrs Robinson and Paspaley and Trepang are referred to as 'the Convertible Notes'. A summary of the terms of the above agreements is included in Section 3.2 below.

3.1.3 Summary of the Financiers

Trepang Services Pty Ltd

Trepang was incorporated in 2011 and is based in Parap, Australia. As the largest shareholder in AQC, Trepang's shareholding in the Company is currently 38.44%. Trepang is controlled by Mr Robinson and Mr Paspaley and has held shares in AQC since July 2015.

Mr John Robinson, AO

Mr Robinson is an associate of the current AQC Chief Executive Officer ('CEO') and Managing Director Mr John Robinson (Jnr.). As at the date of this Report Mr Robinson does not hold any of the issued capital in AQC. Mr Robinson is an associate of Mr Paspaley and is a controller of the Company's cornerstone investor, Trepang.

Mr Nicholas Paspaley, AC

As at the date of this Report Mr Paspaley holds approximately 2.96% of the issued capital in AQC. Mr Paspaley is an associate of Mr Robinson and is a controller of the Company's cornerstone investor, Trepang.

3.2 Details of the Funding Arrangements in relation to the Dartbrook Acquisition

This section sets out a summary of the terms associated with the funding arrangements that the Non-Associated Shareholders are being asked to vote in favour of or against as part of Resolution 1.

3.2.1 Convertible Notes

Subject to shareholder approval being obtained, the Company will issue the Financiers the Convertible Notes (in respect of all amounts owing under the respective Convertible Loans), which may be converted into AQC shares in accordance with the conversion formula at any time from date of issue of the Convertible Notes until the maturity date (as defined below). The funding provided by the Financiers under this arrangement will be considered borrowings until the Convertible Notes are converted or repaid.

A summary of the terms of the Convertible Notes proposed to be issued to the Financiers is set out in Table 3.2 below (refer to Schedule 2 and Schedule 4 of the Notice of Meeting for further detail).

Table 3.2: Summary of Terms of the Convertible Notes Proposed to be Issued to the Financiers

Item	Terms	
	Messrs Robinson and Paspaley	Trepang
Total principal amount	$20 million (two separate convertible note deeds of $10 million each)	$15 million
Approved use of funds	Enabling the Company to pay a sufficient amount of money into escrow for the purposes of satisfying clause 2.1(7) of the SPA.	▪ $9.245 million for the Financial Assurance; ▪ Up to $1.4 million for stamp duty; ▪ $1 million for partial repayment of the Trepang Secured Loan; and ▪ Remainder as working capital.
Commencement date	1 February 2016. Interest accrues on the principal amount from this date.	Two business days prior to the completion date of the Dartbrook Acquisition.
Conversion formula	N = CA/IP Where: ▪ N is the number of conversion shares to be issued in AQC; ▪ CA is the conversion amount; and ▪ IP is the issue price.	
Issue price	$0.015 (the conversion price announced on 2 February 2016)	The lower of: ▪ $0.015; and ▪ Average of the daily VWAP for the 30 trading days (with a floor price of $0.0025) prior to the date which is three business days before the EGM.
Right to convert	Subject to approval from the Non-Associated Shareholders being obtained, the Company will issue to the Financiers Convertible Notes (in the amount of all amounts owing under the respective Convertible Loans), which may be converted into AQC shares in accordance with the conversion formula at any time from date of issue of the Convertible Notes until the maturity date.	
Interest rate	10% per annum (previously 15% per annum as announced on 2 February 2016).	▪ 10% per annum prior to the EGM; ▪ Post EGM the interest rate will be: – 10% per annum if the Security Transaction is approved; or – 16% per annum if the Security Transaction is not approved. (We note that the interest rate will decrease to 10% per annum on receipt of shareholder approval)

<table>
<tr><th rowspan="2">Item</th><th colspan="2">Terms</th></tr>
<tr><th>Messrs Robinson and Paspaley</th><th>Trepang</th></tr>
<tr><td>Maturity date</td><td>▪ 1 February 2017 (with the option for Messrs Robinson and Paspaley to extend the maturity by two further periods of one year, for the latest maturity date being 1 February 2019); and
▪ On 29 September 2016, the Company received and accepted a notice for extension of the Convertible Loan to 1 February 2018.</td><td>1 February 2018 (with the option for Trepang to extend the maturity by two further periods of one year, for the latest maturity date being 1 February 2020)</td></tr>
<tr><td>Prepayment offer</td><td colspan="2">▪ The Company is entitled to seek and obtain any third party funding;
▪ If the Company is offered funding of at least $40 million, the Company must offer to repay all amounts owing under the Convertible Loans to the Financiers; and
▪ If the Financiers do not accept the above offer, the Company may elect to have all or part of the amounts owing under the Convertible Notes converted into AQC shares in accordance with the conversion formula, and/or require the Financiers to accept a second ranking security for any debt outstanding.</td></tr>
<tr><td>Security</td><td colspan="2">Subject to approval from the Non-Associated Shareholders being obtained, the Company is to grant (and procure its subsidiaries to grant) to the Financiers:
▪ General security deeds over the Company and each of its subsidiaries;
▪ Mortgages over all mining tenements or rights held by the Company and each of its subsidiaries; and
▪ Mortgages over all real property rights held by the Company and each of its subsidiaries.
While the failure of approval from the Non-Associated Shareholders to grant the security as mentioned above ('the Security') will not result in an event of default under the respective Convertible Loan deeds, under the terms of the Convertible Loan deeds with Robinson and Paspaley, the Company will be obliged to seek a waiver from the Australian Securities Exchange ('ASX') of Listing Rule 10.1 ('the ASX Waiver') in order to grant the Security within 10 business days of the date of the EGM. The grant of such waiver is entirely within the discretion of the ASX.
We note for completeness, that under the terms of the Convertible Loan deed with Trepang, within five business days of the execution of the deed, the Company was obliged to seek a waiver from the ASX of Listing Rule 10.1. We understand that an application was made on 9 February 2017 and the ASX Waiver is still awaiting to be granted as at the date of this Report.</td></tr>
</table>

Source: Convertible Loan Deeds with Messrs Robinson and Paspaley and Trepang and the Notice of Meeting

In addition to the terms set out in Table 3.2 above, we note the following:

- Under the terms of the Trepang Convertible Loan deed, Trepang is not obliged to advance funds unless prior to the Sunset Date (14 April 2017) the escrow deeds have been executed by all relevant parties and the Company ('the Escrow Deeds'). The Escrow Deeds are required to be entered by each of the Directors, the company secretary of AQC and their associated or related entities in respect of AQC shares held at the commencement date of the Trepang Convertible Loan deed and any future shares issued pursuant to incentive arrangements with the Company. Further details regarding the terms of the Escrow Deeds are set out in Schedule 7 of the Notice of Meeting;
- In regards to the Trepang Convertible Note, if Resolution 1 is not approved, Trepang can continue to provide AQC the proposed $15 million (in addition to the Secured Loan, detailed in Section 3.2.2) at Trepang's sole discretion. We note however that post the provision of the Trepang Convertible Loan, Trepang can recall the full amount owing on the Trepang Convertible Loan in these circumstances by providing 28 days' notice to AQC;

- All interest accruing on the Convertible Notes to the Financiers until the date of completion of the SPA for the Dartbrook Acquisition will be capitalised and form part of the principal amount for conversion or repayment. All interest accruing after the date of completion of the SPA will be payable in cash or shares (at the five-day volume-weighted average price ('VWAP') prior to the relevant interest payment date) or capitalised, at the election of the Company; and
- If the Convertible Notes has not been converted in full on the maturity date, the Company will be required to repay in cash the amount owing (including interest) in respect to the liability outstanding to the Financiers.

3.2.2 Secured Loan entered into with Trepang Services Pty Ltd

On 27 April 2016, the Company announced that it had entered into the Secured Loan with Trepang to provide the necessary purchase consideration of $5 million in respect of the acquisition of Marubeni's interests in the Dartbrook JV, with a further $1 million loan made pursuant to the Amendment and Restatement Deed dated 1 February 2017. A summary of the terms (as amended and restated) of the Secured Loan is set out in Table 3.3 below.

Table 3.3: Summary of Terms of the Secured Loan

Item	Terms	
	Tranche A	Tranche B
Total principal amount	$1 million	$5 million
Approved use of funds	Working Capital	To provide funding to acquire the interest of Marubeni under the Dartbrook JV
Commencement date	3 February 2017	Two business days prior to the completion date of the Dartbrook Acquisition under the SPA
Interest rate	10% per annum, payable monthly Interest will be payable in cash, shares (at the five day VWAP) or capitalised at the election of the Company	
Maturity date	1 February 2018 with an ability for extension by two further one year periods. The latest maturity date being 1 February 2020	Three years after the date of the Secured Loan deed, being 27 April 2019
Prepayment offer	The Company may prepay the Secured Loan at any time on notice to Trepang	
Security	Subject to approval from the Non-Associated Shareholders being obtained, the Company is to grant (and procure its subsidiaries to grant) to Trepang the Security: ▪ General security deeds over the Company and each of its subsidiaries; ▪ Mortgages over all mining tenements or rights held by the Company and each of its subsidiaries; and ▪ Mortgages over all real property rights held by the Company and each of its subsidiaries. While the failure of approval from the Non-Associated Shareholders to grant the Security will not result in an event of default under the Convertible Loan deeds, the Company will be obliged to seek a waiver from the ASX of Listing Rule 10.1 in order to grant the Security within 10 business days of the date of the EGM. We understand that an application was made on 9 February 2017 and the ASX Waiver is still awaiting to be granted as at the date of this Report.	

Source: AQC Secured Loan Deed and the Notice of Meeting

3.3 Overview of the Transactions Assessed in this Report

This section sets out an overview of the transactions being assessed in this Report. This section is a summary only. AQC shareholders should refer to the Notice of Meeting for more information in relation to Resolution 1 (of which the transactions assessed in this Report are only a part).

3.3.1 The Relevant Interest Acquisition

The Relevant Interest Acquisition relates to the Financiers potentially increasing their relevant interest in AQC shares from 41.29% to an amount up to 84.90% (based on the assumptions set out in Section 3.4 below) through:

- The conversion of the Convertible Notes and capitalised interest into AQC shares; and
- The relevant interest that Trepang obtains in the shares of AQC through the Escrow Deeds.

3.3.2 The Security Transaction

The Security Transaction relates to the proposal by the Company to grant (and procure its subsidiaries to grant) to the Financiers:

- General security deeds over the Company and each of its subsidiaries;
- Mortgages over all mining tenements or rights held by the Company and each of its subsidiaries; and
- Mortgages over all real property rights held by the Company and each of its subsidiaries.

For completeness, we note the financing (the Convertible Loans, the Convertible Notes and the Secured Loan) from the Financiers are secured by all the assets of AQC and its subsidiaries under the Security Transaction.

3.4 Potential Shareholding in AQC through the Relevant Interest Acquisition

Table 3.4 sets out the potential increase in holdings of AQC that may be obtained by the Financiers if the Convertible Notes are converted into shares in AQC. As the price that shares will be issued to Trepang in the event of conversion for the Trepang Convertible Note is not currently known and will be set having regard to the prevailing market price at the time (i.e. the lower of either $0.015 or the average of the daily VWAP for the 30 trading days (with a floor of $0.0025) prior to the date which is three business days before the EGM), we have set out the minimum and maximum sensitivity from the Notice of Meeting below. Specifically:

- The minimum relevant interest scenario assumes a conversion price of $0.015. As set out in Section 5.5, the 1 week and 1 month VWAP (prior to 20 February 2017) is $0.0160 and $0.0168 respectively and, if the conversion price was calculated using that data, it would be $0.015; and
- The maximum relevant interest scenario assumes a conversion price of $0.0025 (being the floor price). We note that this scenario assumes that the Financiers also convert their shares under Messrs Robinson and Paspaley Convertible Notes at $0.015 which they may not do if the AQC share price remains at a level where a low Trepang Convertible Note conversion price was set.

Table 3.4: Potential Change in Shareholder Structure of AQC if the Relevant Interest Transaction is approved

Shareholder	Number of Shares prior to the Relevant Interest Acquisition	Equity Holding prior to the Relevant Interest Acquisition	Number of Shares post the Relevant Interest Acquisition[1]	Equity Holding post the Relevant Interest Acquisition	Number of Shares post the Relevant Interest Acquisition-Sensitivity[2]	Equity Holding post the Relevant Interest Acquisition-Sensitivity
The Financiers	1,806,166,667	41.29%	5,158,809,537	68.50%	13,332,711,862	84.90%
Other Shareholders	2,568,517,597	58.71%	2,371,804,263	31.50%	2,371,804,263	15.10%
Total	**4,374,684,264**	**100.00%**	**7,530,613,800**	**100.00%**	**15,704,516,125**	**100%**

Source: The Explanatory Memorandum

1 *This is the interest in AQC the Financiers can hold at an exercise price of $0.015 assuming that all Convertible Notes and capitalised interest on those Convertible Notes is converted into ordinary shares in AQC at maturity (and are not extended). Also includes 196,713,334 escrow shares from the Directors (refer to 2.12(b) of the Notice of Meeting).*

2 *This is the interest in AQC the Financiers can hold at an exercise price of $0.0025 assuming that all Convertible Notes and capitalised interest on those Convertible Notes is converted into ordinary shares in AQC at maturity (and are not extended). Also includes 196,713,334 escrow shares from the Directors (refer to 2.12(b) of the Notice of Meeting).*

With reference to Table 3.4 above, we note that the total relevant interest of Messrs Robinson and Paspaley and Trepang together will increase from 41.29% before the Relevant Interest Acquisition to 68.50% assuming the Relevant Interest Acquisition proceeds as planned and the Convertible Notes are converted at an exercise price of $0.015 (assuming that the maturity date of the Secured Loan and Convertibles Notes are not extended and all interest is capitalised).

Readers of this Report should refer to Schedule 8 to Schedule 10 of the Notice of Meeting for additional relevant interest scenarios based on an assumed conversion price for the Trepang Convertible Notes.

3.5 Directors' Strategic Rationale

The Director's rationale is set out in the Notice of Meeting and accompanying Explanatory Memorandum. A summary of the rationale put forward by the Non-Associated Directors is set out below:

- The Directors are of the view that approval of Resolution 1 is necessary in order to satisfy the condition precedents of the SPA including:
  - To assist in satisfying the conditions by the Sunset Date; and
  - Providing reasonable evidence in AQC's ability to replace the Financial Assurance.

  We are advised AQC has attempted to raise funds through a broad range of alternative financing options with no success. Ultimately, the Company obtained funding under the current Convertible Loans and Secured Loan with the Financiers;

- Without shareholders' approval of Resolution 1, the provision of the Trepang Convertible Loan will be at Trepang's sole discretion. The Directors are of the view that the SPA cannot be completed within the 14 April 2017 deadline without this funding. Furthermore, Trepang will be able to require the repayment of the Trepang Convertible Loan upon 28 days' notice if Resolution 1 is not approved. The Directors are of the view that this will significantly increase the financial risk profile of AQC as the Directors believe that they are unable to raise such a large sum of capital to repay the Convertible Loan within 28 days;

- The Directors believe that given the Company's current cash position and current market conditions for future fundraisings, it will be difficult for the Company to raise capital on more favourable terms than the current terms as stipulated in the respective agreements and deeds (refer to Schedules 1 to 5 of the Notice of Meeting);

- The issue of the Convertible Notes provides the opportunity for the Company to ultimately be able to repay the principal amount owing in AQC shares rather than cash. We note however that the election to do so solely rests with the Financiers; and

- The approval of Resolution 1 provides the opportunity for the Company to ultimately be able to repay all or part of the interest accrued under the Convertible Notes and the Secured Loan in AQC shares, rather than in cash, at the Company's election.

4.0 Scope of Report and Methodology for Assessment

4.1 Scope of Report

An independent expert, in certain circumstances, must be appointed to meet the requirements set out in the Corporations Act 2001 ('the Act'), the Corporation Regulations 2001 ('the Regulations'), the regulatory guides ('RGs') published by the Australian Securities and Investments Commission ('ASIC') and in some cases the listing requirements of the relevant exchanges. These requirements have been set out in Sections 4.1.1 and 4.1.2 below.

The purpose of this Report is to express BDO CFQ's opinion as to whether the Relevant Interest Acquisition is fair and reasonable to Non-Associated Shareholders of AQC and whether the Security Transaction is fair and reasonable to the Non-Associated Shareholders of AQC. This Report cannot be used by any other person for any other reason or for any other purpose. A copy of this Report will accompany the Notice of Meeting and Explanatory Memorandum to be distributed to AQC shareholders.

This Report is general financial product advice only and has been prepared without taking into account the objectives, risk profile, financial situation or needs of AQC shareholders. Before deciding whether to vote for or against Resolution 1, individual AQC shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situations and needs (including their taxation consequences). AQC shareholders should read in full the Notice of Meeting and the Explanatory Memorandum issued by AQC.

Whether to vote for or against the Resolution 1 is a matter for individual AQC shareholders to consider. AQC shareholders should consider their own expectations of value, their own view of future market conditions and their own particular circumstances, including risk profile, liquidity preference, investment strategy, portfolio structure and tax position when determining the appropriate action to take in relation to Resolution 1. AQC shareholders who are in doubt as to the action they should take in relation to Resolution 1 should consult their own professional adviser.

4.1.1 Requirements of the Corporations Acts

Section 606 of the Corporations Act states that a relevant interest in a listed company cannot be increased from 20% or below to more than 20%, or from a starting point that is above 20% and below 90%, unless one of the exceptions set out in section 611 of the Corporations Act is met.

If Resolution 1 is approved and the Convertible Notes are converted into shares (i.e. the Relevant Interest Acquisition proceeds), the relevant interest of the Financiers may increase from approximately 41.29% to a maximum of 84.90% (based on assumptions set out in Section 3.4). The relevant interest of Messrs Robinson and Paspaley and Trepang which could eventuate from the Relevant Interest Acquisition are summarised in further detail in Section 3.4 and Schedules 8 to 10 of the Notice of Meeting.

Section 606 would ordinarily prevent the Relevant Interest Acquisition unless it met one of the exemptions set out in Section 611 of the Corporations Act. Item 7 of Section 611 of the Corporations Act, in certain circumstances, may provide an exemption from the prohibition of the issue of securities under Section 606. Item 7 of Section 611 states that an acquisition is exempt from the regulations of Section 606 if the acquisition proposal is approved by a requisite majority of shareholders not associated with the person making the proposal or their associates by passing a resolution at a general meeting.

Non-associated shareholders voting pursuant to item 7 of Section 611 of the Corporations Act are to be provided with all information known to the person proposing to make the acquisition or their associates, or known to the company, that is material to the decision on how to vote on the resolution.

Regulatory Guide 74 'Acquisitions Agreed to by Shareholders' states that the obligation to supply shareholders with all information that is material can be satisfied by the non-associated directors by either:

- Undertaking a detailed examination of the proposed transaction themselves if they consider that they have sufficient expertise; or
- By commissioning an independent expert's report.

We have been requested by the Non-Associated Directors to prepare this independent expert's report to provide additional information to the Non-Associated Shareholders of AQC to assist them to form a view on whether to vote in favour of or against Resolution 1.

4.1.2 Listing Requirements

ASX Listing Rule 10.1

ASX Listing Rule 10.1 of Chapter 10: *Transactions with persons in a position of influence* states that an entity must ensure that neither it, nor any of its child entities, acquires a substantial asset from, or disposes of a substantial asset to, a substantial holder or a related party without the approval of holders of the entity's ordinary securities. Pursuant to ASX Listing Rule 19, the definition of 'dispose' includes using an asset as collateral.

ASX Listing Rule 10.2 defines an asset as 'substantial' if its value or the consideration for it is, or in ASX's opinion is, 5% or more of the value of the equity interests of the entity, as set out in the latest accounts given to the ASX in accordance with the ASX listing rules.

Having regard to the Security Transaction and the definitions contained in ASX Listing Rules 10.1 and 10.2:

- The granting of security to the Financiers as part of the Resolution 1 is considered to be a disposal of an asset of the Company for the purposes of ASX Listing Rule 10.1; and
- The grant by the Company to the Financiers of security over all of its (and all of its subsidiaries) assets likely constitutes the disposal of a substantial asset for the purposes of ASX Listing Rule 10.2.

ASX Listing Rule 10.10.2

Under ASX Listing Rule 10.10.2, where shareholder approval is sought for the purpose of complying with Listing Rule 10.1, the notice of meeting distributed to shareholders in relation to the transaction must include a report prepared by an independent expert, which states the expert's opinion as to whether the transaction is fair and reasonable to the non-associated shareholders.

This Report has been prepared to comply with the requirements of ASX Listing Rules 10.1, 10.2 and 10.10.2.

4.2 Methodology for Assessment- The Relevant Interest Acquisition

The Corporations Act does not provide any specific guidance in relation to the principles and content of an expert's report relating to the approval of an issue of securities under item 7 of section 611 of the Act. However ASIC are of the view that the report should follow the requirements of other expert reports under the Act and ASIC have set out specific guidance in RG 111: Content of Expert Reports ('RG 111') in relation to the approval of the issue of securities under item 7 of section 611 of the Act.

RG 111 states that, in the event that a company issues securities in exchange for cash and, as a consequence, the allottee acquires over 20% of the company, the transaction should be analysed as if it was a takeover bid. In such circumstances, references to the 'target' and 'bidder' should be taken to mean the 'company' and the 'allottee' respectively.

When analysing a takeover bid, RG 111 states that an expert is required to give an opinion as to whether the proposed transaction is 'fair and reasonable' to the shareholders. The expert's report should explain how the particulars of the proposal were evaluated as well as the results of the examination and evaluation. RG 111 also provides guidance on common valuation methodologies and certain matters which should be considered by an expert when completing a valuation.

To meet the ASIC requirements, an expert seeking to determine whether a proposal is 'fair and reasonable' should complete the steps set out below.

4.2.1 Step 1 - Assessment of Fairness - The Relevant Interest Acquisition

RG 111 states that a transaction is fair if the value of the offer price or consideration is greater than the value of the securities subject to the offer. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. When considering the value of the securities subject to an offer in a control transaction the expert should consider this value inclusive of a control premium and assume a 100% ownership interest.

In our view, it is appropriate to assess the fairness of the Relevant Interest Acquisition by:

a) Determining the value of a share in AQC prior to the Relevant Interest Acquisition on a controlling interest basis;

b) Determining the value of a share in AQC post the Relevant Interest Acquisition on a minority interest basis; and

c) Comparing our value from a) above with b) above to allow us to conclude on whether or not the Relevant Interest Acquisition is 'fair'.

In accordance with the requirements of RG 111, the Relevant Interest Acquisition can be considered 'fair' to the shareholders if the value determined in b) above is equal to or greater than the value determined in a).

Our assessment of the fairness of the Relevant Interest Acquisition is set out in Section 6.0.

4.2.2 Step 2 - Assessment of Reasonableness - The Relevant Interest Acquisition

Reasonableness examines other significant factors which shareholders may consider in relation to the Relevant Interest Acquisition. This includes comparing the likely advantages and disadvantages of the Relevant Interest Acquisition to the Company and examining the position of the shareholders if the Relevant Interest Acquisition is not approved. This step can be classified as an assessment of whether the Relevant Interest Acquisition is 'reasonable'.

Our assessment of the reasonableness of the Relevant Interest Acquisition is set out in Section 7.0. We note that as with the assessment of fairness approach summarised above, we have considered factors that would impact on reasonableness as at the date of this Report.

4.2.3 Step 3 - Expert's Opinion - The Relevant Interest Acquisition

Upon completion of steps 1 and 2 above, we will conclude whether the Relevant Interest Acquisition is 'fair' and/or 'reasonable' to Non-Associated Shareholders. We note that under RG 111, the Relevant Interest Acquisition is considered to be 'reasonable' if it is 'fair'. It may also be possible to conclude that the Relevant Interest Acquisition is 'reasonable' if there are sufficient valid reasons for the approval, notwithstanding that the Relevant Interest Acquisition may not be 'fair' to the Non-Associated Shareholders.

This Report will conclude by providing our opinion as to whether or not the Relevant Interest Acquisition is 'fair and reasonable'. While all relevant issues must be considered prior to forming an overall opinion, we will assess the fairness and reasonableness issues separately for clarity.

4.3 Assessment Methodology – The Security Transaction

Neither the Corporations Act nor the ASX listing rules provide guidance in relation to the definition of 'fair and reasonable'. In determining whether the Security Transaction is considered fair and reasonable we have had regard to the guidance provided by RG 111. RG 111 provides guidance as to what matters an independent expert should consider to assist security holders to make an informed decision about transactions.

RG 111 suggests that where an expert is to assess whether a related party transaction is 'fair and reasonable' for the purpose of complying with ASX Listing Rule 10.1, the assessment should be applied as a composite test. That is, the expert should assess separately whether the transaction is 'fair' and 'reasonable'. The expert's report should explain how the particulars of the transaction were evaluated as well as the results of the examination and evaluation.

4.3.1 Step 1 - Assessment of Fairness - The Security Transaction

RG 111 states that a related party offer is fair if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided to the entity. This comparison should be made:

- Assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length; and

- If the transaction is considered to be a control transaction, assuming 100% ownership of the target irrespective of whether the consideration is scrip or cash.

Our assessment of the fairness of the Security Transaction is set out in Section 8.0.

4.3.2 Step 2 - Assessment of Reasonableness - The Security Transaction

Reasonableness examines other significant factors which shareholders may consider prior to voting for or against the Security Transaction. This includes comparing the likely advantages and disadvantages of voting for or against the Security Transaction, with the position of the shareholders if the Security Transaction is not approved. This step can be classified as an assessment of whether the Security Transaction is 'reasonable'.

Our assessment of the reasonableness of the Security Transaction is set out in Section 9.0.

4.3.3 Step 3 - Expert's Opinion - The Security Transaction

Upon completing steps 1 and 2 above, we will conclude whether the Security Transaction is 'fair' and/or 'reasonable' to AQC shareholders. We note that under RG 111, the Security Transaction is considered to be 'reasonable' if it is 'fair'. It may also be possible to conclude that the Security Transaction is 'reasonable' if there are sufficient valid reasons for the approval, notwithstanding that the Security Transaction may not be 'fair' to the Non-Associated Shareholders.

This Report will conclude by providing our opinion as to whether or not the Security Transaction is 'fair and reasonable'. While all relevant issues must be considered prior to forming an overall opinion, we will assess the fairness and reasonableness issues separately for clarity.

4.4 Other Matters

In this Report we have not provided any tax, legal or other advice in relation to the transactions comprising Resolution 1, inclusive of the Relevant Interest Acquisition and the Security Transaction. We understand other advisors have provided advice on those matters to AQC.

When considering the Relevant Interest Acquisition and the Security Transaction, we have relied on certain economic, market and other conditions prevailing at the date of this Report. We note that changes in these conditions may have a material impact on the results presented in this Report. BDO CFQ is not responsible for updating this Report in the event that these circumstances change.

5.0 Background of AQC

This section provides background information on AQC and is set out as follows:

- Section 5.1 sets out an overview of AQC;
- Section 5.2 sets out an overview of the Dartbrook JV;
- Section 5.3 sets out an overview of AQC's other projects;
- Section 5.4 sets out an overview of the equity structure of AQC;
- Section 5.5 sets out a summary of share trading data available; and
- Section 5.6 sets out a summary of the historical financial information for AQC;

5.1 Company Overview of AQC

AQC is an Australian listed public company focused on the Australian coal sector. AQC first listed on the ASX in 1999 and currently trades under the stock ticker: AQC.

AQC entered into a binding agreement to acquire a 100% interest in the Dartbrook JV which is further described in Section 5.2 below. Apart from its agreement to acquire the Dartbrook JV, AQC also focuses on adding value to its other coal projects through evaluation of their resource potential.

AQC has a strategic holding of coal exploration tenements located in Queensland's Bowen, Galilee, Surat and Clarence-Moreton basins. These basins contain large reserves of thermal and coking coal and currently produce coal for export and domestic use. The philosophy of AQC's management has been to secure strategic tenure by identifying available tenements close to operating mines or in areas with proven or potential in-ground resources in regions suitable for short term development.

Having identified prospective areas for further exploration, AQC focuses on exploiting the commercial value of these coal projects. Exploitation opportunities include farm-in, joint venture exploration and joint venture development.

Further information in relation to AQC's projects is set out in Section 5.2 and Section 5.3 below. This information has been sourced from the technical expert's report prepared by Xenith ('the Technical Expert's Report') which is included as Appendix F of this Report.

5.2 Dartbrook JV

The main asset of the Dartbrook JV is the Dartbrook mine ('the Dartbrook Mine').

The Dartbrook Mine lies within the Hunter Valley, NSW coal region approximately 4km west of Aberdeen and 10km north-west of Muswellbrook. A coal resource estimate commissioned by AQC reported a thermal coal resource estimate of 1,209 Mt[2]. This comprises a 466Mt measured coal resource, a 449Mt indicated coal resource and a 294Mt inferred coal resource to a maximum depth of 350 metres[3].

The Dartbrook Mine's history dates back with Peabody Energy in the early 1970s during commencement of exploration drilling. Anglo later acquired 77.5% and 5.83% interest of the project in 2001 and 2009 respectively, to achieve its current level of 83.33%. The remaining 16.67% is owned by Marubeni.

Historical mining operations commenced with Longwall underground mining in 1996. This was primarily targeting the Wynn seam, however operations since 2001 have targeted the stratigraphically higher Kayuga Seam. Production rates reached over 5.5 Mt run-of-mine ('ROM') in 2005, before the Dartbrook Mine was placed under care and maintenance in 2006. The decision to place the Dartbrook Mine on care and maintenance was largely attributed to operational issues, internal competition within Anglo for capital allocation as well as volatile commodity prices.

[2] The Company has confirmed that as at the date of this Report, AQC is not aware of any new information or data that materially affects the information included in the original market announcements and, in the case of estimates of Mineral Resources or Ore Reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed.

[3] AQC ASX announcement 24 May 2016

5.2.1 Land

The Dartbrook JV holds land covering 3,038 hectares in the Upper Hunter Valley and includes grazing and agricultural lands. It is strategically located to other coal mining operations including Bengalla (New Hope and Wesfarmers), Mount Arthur (BHP Billiton) and an approved development project, Mount Pleasant (Mach Energy). The Dartbrook Mine tenure area has varied land uses including agricultural, agistment and residential purposes, however is primarily used for mining activities. The Dartbrook JV's mining leases and coal leases cover a total area of 3,268 hectares, with the exploration lease and authorisation permits covering 3,800 hectares. Any rehabilitation obligations are attached to the mining and exploration leases. A summary of AQC's current tenements is detailed in Section 2.2 of the Technical Expert's Report.

5.2.2 Water Rights

The Water Management Act 2000 defines that the entitlement to water is separate from land ownership. Access to water requires water access licensing ('WAL'), which is included in the Dartbrook Acquisition. AQC management have confirmed that the total amount of water the WAL is entitled to is 5,442 ML.

The WAL has been independently assessed by Environmental Property Services ('EPS') as part of the Technical Expert's Report. A summary of EPS's work is set out in Appendix C of the Technical Expert's Report.

5.2.3 Existing Infrastructure and Coal Processing

As outlined in the Technical Expert Report, the coal handling and process plant ('CHPP') was commissioned in 1998 with a designed throughput capacity of 1,000 tonnes per hour ('tph') of ROM coal. It includes a single-stage wash plant with bypass facility, medium cyclone spirals and flotation circuits. The aim of the CHPP is to achieve a higher quality of coal to target a wider customer base. The CHPP ceased operations in 2006 and has been under care and maintenance since that time. A contract services firm maintains the facilities, ensuring that plant equipment is started every six weeks, however limited maintenance has been undertaken. The Technical Expert Report also notes other existing surface and underground infrastructure which includes:

- A rail loop that is able to provide direct transportation of coal to the Port of Newcastle;
- The Hunter Tunnel- a 4km conveyor transporting ROM coal from underground mine to the CHPP;
- The Wynn Seam Drift- which provides access to the Wynn Seam;
- The Inter-Seam Drift- which provides coal clearance and transport access between the Kayuga, Piercefield and Wynn Seams; and
- Other auxiliary facilities including power, waste and office facilities.

5.2.4 AQC's Proposed Path Forward with the Dartbrook Mine

We understand that the Company's proposed path forward for the Dartbrook Mine at the date of this Report includes the following:

- Currently AQC is considering the option of a bord and pillar mine start-up in the Kayuga and/or Piercefield seams, potentially transitioning in the medium term to a large open cut mine. Initial pit life of the open cut mine is estimated at 40 to 50 years with potential for further extension. Early concept studies have been undertaken to evaluate the potential of open cut opportunities. We have been advised by the Company that the development of an open cut mine will require significant capital expenditure and approval periods of approximately three years; and
- In the event that the feasibility studies conducted by the Company indicate that underground or an open cut mine is not feasible, AQC may hold the asset on care and maintenance until a more favourable economic environment exists to develop the mine.

5.3 Overview of AQC's Other Significant Projects

In Queensland, AQC holds interests in six exploration permits for coal ('EPC') and one mineral development licence ('MDL') in the Bowen Basin, two EPCs in the Surat Basin and one EPC in the Galilee Basin. AQC also holds a mining lease over a small bentonite mine, Mantuan Downs No. 1, which has been on care and maintenance since 2009.

The tenements have been grouped into project areas based on close geographical proximity and targeting similar coal seams. Most of the tenements are strategically close to rail and road infrastructure and some are down-dip or along strike of operating coal mines or known coal resources. EPCs cover areas AQC believes are prospective for both metallurgical and thermal coal and exploitable by both open cut and underground mining.

In recent years, AQC have focused on the review of its exploration tenements and future drilling programs. The Company has identified the projects outlined in this section as the primary areas for further exploration and exploitation.

Refer to sections 3.0 to 11.0 of the Technical Expert's Report (attached as Appendix F) for more detailed discussion of AQC's projects and joint venture agreements.

5.3.1 Cooroorah (MDL453) (AQC 100%)

Cooroorah is located approximately 15 kilometres ('km') northeast of Blackwater in eastern central Queensland's Bowen Basin, between the operating mines of Curragh and Jellinbah. The project is located in close proximity to key supporting infrastructure such as the Central Queensland rail line and the Capricorn Highway and was granted in January 2014.

This project targets PCI and semi-soft coking coal from the Aries, Castor, Pollux and Pieces seams. 125 million tonnes ('Mt') of Joint Ore Reserve Committee ('JORC') resource (comprising 70Mt Indicated and 55Mt Inferred Resource) has been identified in accordance with the JORC Code 2012. The Cooroorah project is proposed as an underground operation, with potential for secondary shallower open cut coal in the north.

We note that the Company has granted Bowen Coking Coal Pty Ltd ('BCC') a call option over MDL453. For more information regarding this call option refer to Section 5.3.6 below of this Report.

5.3.2 South Clermont (EPC2011) (AQC 100%)

The South Clermont project is located to the south of Clermont Mine in the North Western Bowen Basin. The project targets the Permian Blair Athol Coal Measures and Back Creek Group coal seams. While historical drilling within and surrounding the tenement indicate Permian sediments in the area, the coal seams intersected have been considered to be of limited prospectivity.

Additionally, prospectivity of the project is constrained given it is located within the restricted area surrounding the town of Clermont, which prohibits coal applications.

5.3.3 Dingo (EPC1859) (AQC 100%)

Dingo is located approximately 140km west of Rockhampton in Central Queensland, targeting Rangal Coal Measures. The Central Queensland Railway and Capricorn Highway passes through Dingo.

Coal analysis results from the project's exploration activity indicate the potential for high yielding Ultra Low Volatile ('ULV') PCI coal. No JORC compliant resource estimate has been completed as at the date of this Report, however AQC's FY2016 annual report indicated potential coal target of between 19-33 Mt.

5.3.4 Mount Hillalong (EPC1824) (AQC 100%)

The Mount Hillalong project targets the Rangal and Fort Cooper Coal Measures in the northern Bowen Basin, in close proximity to Hail Creek Mine which is managed by Rio Tinto Coal Australia.

The tenement comprises 15 sub-blocks (approximately 48km^2) located to the west of the Mount Hillalong Anticline. Past work has shown isolated drill hole intercepts within tenements and geophysical surveys that defined good drilling targets as the basis for further exploration by the Company.

We note that the Company has granted BCC a call option over EPC1824. For more information regarding this call option refer to Section 5.3.6 below of this Report.

5.3.5 Other AQC Projects

Other projects held by AQC include:

- Mount Hess (EPC1645) and Mount Hess West (EPC1867) (AQC 100%) – Proximal to Mount Hillalong (EPC1824) and were granted to Rio Tinto under a joint venture agreement;
- Kemmis Creek (EPC1773) (AQC 100%) – Located approximately 8km southwest of Rio Tinto's Hail Creek Mine and was granted to Rio Tinto under a joint venture agreement;
- Mantuan Downs (ML70360) (AQC 100%) – A bentonite mining lease that operated briefly until 2009. It is currently not economical and in care and maintenance; and
- Blackwood tenements (EPC1955, EPC1957 and EPC1987) (AQC 10%) – Under a joint venture agreement with Blackwood Resources Pty Ltd ('Blackwood'). EPC1955 has Estimated JORC Resource of 44Mt (comprising 22Mt Indicated and 22Mt Inferred Resource) (refer to Section 5.3.7 below).

5.3.6 Options on Tenements

On the 30 November 2016, Area Coal Pty Ltd ('AREA'), a fully owned subsidiary of AQC entered into a binding Memorandum of Understanding ('MOU') with BCC (a fully owned subsidiary of Cape Coal Pty Ltd) for the grant of a call option on AQC's tenements MDL453 (Cooroorah) and EPC1824 (Mount Hillalong). We have been advised by the Company that the details of the MOU include:

- AREA granted BCC the option to purchase the aforementioned assets within 6 months of 30 November 2016; and
- The payment for the aforementioned assets will be in the form of ASX listed scrip for the value of $1.25 million.

As of 6 February 2017, the Company received a request by BCC to vary the terms of the exercise price for this call option. As set out in the proposed amendment to the binding MOU, BCC has offered the Company shares set at a fixed price of $0.006 per share valued at $1.25 million in a company which it plans to backdoor list on the ASX. We note if AQC accepts this variation to the MOU and BCC exercises its option to acquire Cooroorah and Mount Hillalong, the Company may hold a 12.31% interest in the proposed listed entity.

5.3.7 Blackwood Tenement Sale and Joint Venture Agreements

AQC, through its 100% owned subsidiary Mining Investments One Pty Ltd, has entered into a Tenement Sale and Joint Venture Exploration and Development agreement with Cuesta Coal Limited's ('Cuesta') subsidiary, Blackwood Resources Pty Ltd ('the Blackwood JV').

Under the agreement, Blackwood Resources Pty Ltd ('Blackwood') acquired a 90% interest in the tenements EPC1979, EPC1955, EPC1987 and EPC1957 for a total cash consideration of $500,000 (Blackwood paid $125,000 upon grant of each EPC).

AQC holds a 10% free carried interest in the tenements up until bankable feasibility study stage. AQC will then have the option to enter into a joint venture agreement with Blackwood to further explore and develop these tenements. Blackwood can withdraw at any time and offer the tenements back to AQC at no cost and is required to expend at least the minimum exploration commitment with the aim to prove up a coal resource on these tenements.

The four EPCs cover large areas over the Clarence-Moreton, Surat and Galilee Basins. As at the date of this Report, Blackwood and AQC have made the decision not to renew tenement EPC1979. For completeness, we note that Cuesta was delisted on 11 October 2016 upon its takeover by its then major shareholder. However, the Directors have informed us that the Blackwood tenements remain in place and that the tenements were to be kept in good standing by the holders.

5.4 Equity Structure of AQC

Table 5.1 below summarises the top ten shareholders of AQC as at 6 March 2017.

Table 5.1: Top 10 Shareholders in AQC

	Shareholder	Number of Shares	Percentage Holding
1	Trepang Services Pty Ltd	1,677,000,000	38.33%
2	Mr Leslie Norman Tinkler & Mrs Zelda Irene Tinkler	668,741,810	15.29%
3	Merrill Lynch (Australia) Nominees Pty Limited	337,672,878	7.72%
4	Haikos Pty Ltd	192,307,962	4.40%
5	JVG Aust Pty Ltd	189,442,038	4.33%
6	Wellton Holdings (QLD) Pty Ltd	182,903,334	4.18%
7	Moray Holdings (QLD) Pty Ltd	158,051,668	3.61%
8	Mr Nicholas Theodore James Paspaley	129,166,667	2.95%
9	Bentley Resources Pte Ltd	63,500,000	1.45%
10	Mibro (NT) Pty Ltd	43,000,000	0.98%
	Other shareholders	732,897,907	16.75%
	Total shares on issue	**4,374,684,264**	**100.00%**

Source: AQC share registry as at 6 March 2017

Having regards to Table 5.1 above, we note:

- As at 6 March 2017, AQC has 4,374,684,264 fully paid ordinary shares on issue, of which the top ten shareholders hold a 83.25% interest in the Company; and
- Trepang and Mr Paspaley (who are associates) together hold 1,806,166,667 AQC shares or 41.29% interest in AQC as at 6 March 2017.

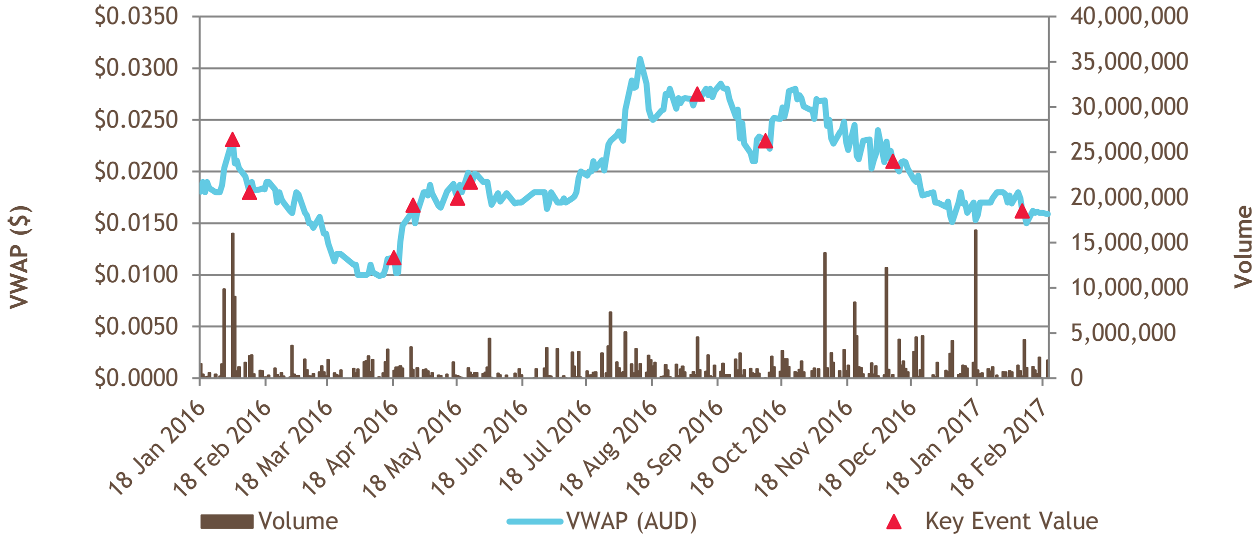
From AQC's Appendix 3B released on 3 February 2017, we also note that the Company has on issue 56,250,000 unlisted incentive options. The exercise price of these options are $0.008 per AQC share with an expiry date on 31 March 2017. We have been advised by the Company, as at 2 March 2017, 12,500,000 unlisted incentive options has been exercised at a price of $0.008. The Company as at the date of this Report has on issue 43,750,000 unlisted incentive options.

5.5 Share Performance of AQC

5.5.1 Share Price Performance

Figure 5.1 below shows the daily VWAP and daily volume of AQC shares traded on the ASX over the period of 18 January 2016 to the 20 February 2017 inclusive.

Figure 5.1: Daily VWAP and Volume of AQC Shares traded from 18 January 2016 to the 20 February 2017



Source: Capital IQ as at 20 February 2017

Over the 12 month period graphed in Figure 5.1 above, AQC's daily VWAP shows a period low of $0.0099 on 11 April 2016 and a period high of $0.0309 on 12 August 2016.

In addition to the share price and volume data of AQC shown above, we have also provided additional information in Table 5.2 below to assist readers to understand the possible reasons for the movement in the AQC share price over the analysed period. The selected ASX announcement references in Table 5.2 below correspond to those key event values displayed in Figure 5.1 above.

Table 5.2: Selected AQC ASX Announcements from 18 January 2016 to 20 February 2017

Date	Announcement
02/02/2016	AQC announced that it had raised $20 million of funding to acquire an 83.33% interest in the Dartbrook JV.
10/02/2016	AQC announced the resignation from the Company of Nathan Tinkler as Manager Director and Chief Executive Officer.
18/04/2016	AQC announced that the Company has progressed in securing funding with its cornerstone investor, Trepang, for the purpose of acquiring Marubeni's 16.67% interest in the Dartbrook JV.
27/04/2016	AQC announced that it had secured a $5 million loan from Trepang for the acquisition of Marubeni's interest in the Dartbrook JV.
18/05/2016	Marubeni has exercised its tag-along right for the sale of its interest in the Dartbrook JV to AQC.
24/05/2016	AQC announced that independent assessment commissioned by the Company estimated that the coal resource at Dartbrook is approximately 1.2 billion tonnes.
08/09/2016	AQC announced that subject to various conditions precedent it had secured an additional $10 million in funding through the entering of a binding share subscription agreement with AMCI Investments Pty Ltd.
10/10/2016	AQC received and granted an extension to the $20 million Convertible Loans from Messrs Robinson and Paspaley to the 1 February 2018.
09/12/2016	AQC and Anglo agreed to vary the SPA to extend the Sunset Date to 10 February 2017.
08/02/2017	AQC and Anglo agreed to vary the SPA to extend the Sunset Date to 14 April 2017.

Source: AQC ASX Announcements from 18 January 2016 to 20 February 2017

In Table 5.3 below we have set out AQC's VWAP for the 1 week, 1 month, 3 months, 6 months, 9 months and 12 months prior to 20 February 2017.

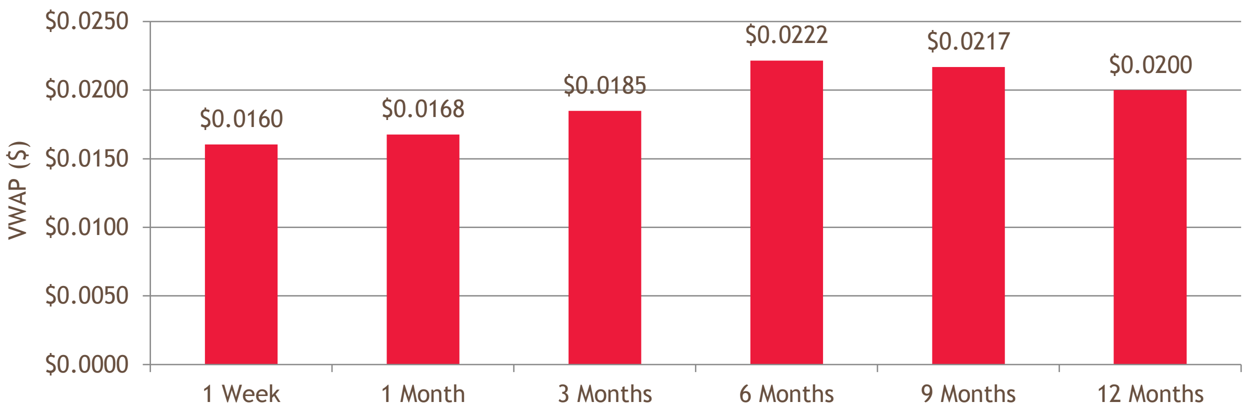
Table 5.3: AQC's VWAP for Specified Periods Prior to 20 February 2017

Period Prior to 20 February 2017	VWAP (A$)
1 Week	$0.0160
1 Month	$0.0168
3 Months	$0.0185
6 Months	$0.0222
9 Months	$0.0217
12 Months	$0.0200

Source: Capital IQ as at 20 February 2017

The information presented in Table 5.3 is shown graphically in Figure 5.2 below.

Figure 5.2: AQC's VWAP for Specified Periods Prior to 20 February 2017



Source: Capital IQ as at 20 February 2017

5.5.2 Share Liquidity

The rate at which equity instruments are traded is generally referred to as the 'liquidity' of the equity instruments. Changes in liquidity may impact the trading price of equity instruments, particularly depending on the number of equity instruments required to be bought and/or sold and the time period over which the equity instrument holder needs to buy and/or sell those equity instruments. Depending on the circumstances, a movement in market price may or may not represent a shift in value of either the equity instruments or a shift in value of the company to which the equity instruments relate as a whole.

Table 5.4 summarises the monthly liquidity of AQC shares from 18 January 2016 to 20 February 2017. Liquidity has been summarised by considering the following:

- Volume of AQC share trades per month;
- Value of total trades in AQC shares per month;
- Number of AQC shares traded per month as a percentage of total AQC shares outstanding at the end of the month; and
- Volume weighted average price per month.

Table 5.4: Liquidity of AQC Shares on the ASX

Month	Volume	Value (A$)	Shares Outstanding	Traded Volume / Shares Outstanding	Monthly VWAP (A$)
February 2017[1]	11,481,610	187,600	4,361,222,730	0.26%	$0.0163
January 2017	37,701,590	594,440	4,349,684,260	0.87%	$0.0158
December 2016	40,229,380	828,400	4,343,434,260	0.93%	$0.0206
November 2016	47,027,140	1,100,170	4,343,434,260	1.08%	$0.0234
October 2016	21,876,780	556,250	4,336,559,260	0.50%	$0.0254
September 2016	24,228,620	640,480	4,330,934,260	0.56%	$0.0264
August 2016	30,601,460	825,710	4,326,586,440	0.71%	$0.0270
July 2016	27,954,880	574,400	4,318,434,260	0.65%	$0.0205
June 2016	14,463,290	248,290	4,318,434,260	0.33%	$0.0172
May 2016	11,361,760	207,930	4,318,434,260	0.26%	$0.0183
April 2016	26,704,280	332,980	4,318,434,260	0.62%	$0.0125
March 2016	17,068,420	244,490	4,318,434,260	0.40%	$0.0143
February 2016	38,776,320	771,930	4,318,434,260	0.90%	$0.0199
Total	**349,475,530**	**7,113,070**	**4,330,466,740**	**8.07%**	**$0.0204**

Source: Capital IQ as at 20 February 2017

1 For the period up to 20 February 2017

Assuming a weighted average number of 4,330,466,740 AQC shares on issue over the period, approximately 8.07% of the total shares on issue were traded over the period 18 January 2016 to 28 February 2017. In our view, this indicates that AQC shares display a low level of liquidity.

5.6 Historical Financial Information of AQC

This section sets out the historical financial information of AQC. As this Report contains only summarised historical financial information, we recommend that any user of this Report read and understand the additional notes and financial information contained in AQC's annual reports, including the full statements of comprehensive income, statements of financial position and statements of cash flows.

AQC's annual reports have been audited by Sothertons L.L.P. Chartered Accountants. BDO CFQ has not performed any audit or review of any type on the historical financial information presented by AQC. We make no statement as to the accuracy of the information provided. However, we have no reason to believe that any of the information provided is false or misleading.

5.5.1 AQC's Statement of Comprehensive Income

Table 5.5 summarises the consolidated statement of comprehensive income of AQC for the 12-month periods ('FY') ended 30 June 2014, 2015 and 2016 and the 6-month period ended 31 December 2016 ('HY').

Table 5.5 Summarised AQC Statements of Comprehensive Income

	12 Months Ended 30-Jun-14 Audited ($)	12 Months Ended 30-Jun-15 Audited ($)	12 Months Ended 30-Jun-16 Audited ($)	6 Months Ended 31-Dec-16 Management (Unaudited) ($)
Sale of goods	7,664	-	-	-
Interest received	16,556	6,730	129,828	399,712
Government subsidies received	-	-	-	-
Rental revenue	-	-	-	-
Sale of interest in tenements	-	15,000	-	-
Net gain on disposal of property, plant and equipment	-	120,705	-	-
Revenue from continuing operations	**24,220**	**142,435**	**129,828**	**399,712**
Raw materials and consumables	(20,757)	-	(1,699)	-
Exploration and evaluation costs of tenements sold	-	-	-	-
Other expenses	(381)	-	-	-
Employee benefits expense	(211,183)	(215,201)	(1,449,277)	(814,360)
Depreciation and amortisation expense	(48,350)	(30,659)	(30,769)	(21,272)
Exploration, evaluation and development expenses	(36,878)	(49,848)	(59,723)	(28,058)
Finance costs	-	(3,282)	(847,340)	(1,086,662)
Capitalised exploration expensed on sale of tenement	-	(30,700)	-	-
Capitalised exploration expensed on surrender of tenement	-	(424,335)	(539,050)	-
Business combination expenses	-	-	(615,174)	(1,014,945)
Impairment of trade and other receivables	(181,950)	(109,170)	76,575	-
Impairment of exploration and evaluation	(71,171)	650	-	-
Impairment of other financial assets	(26,000)	(74,000)	-	-
Administration and consulting expenses	(1,218,042)	(1,128,452)	(2,654,375)	(1,335,950)
Profit before income tax	**(1,790,492)**	**(1,922,562)**	**(5,991,001)**	**(3,901,535)**
Income tax benefit / (expense)	-	-	-	-
Profit/(Loss) for the period	**(1,790,492)**	**(1,922,562)**	**(5,991,001)**	**(3,901,535)**

Source: AQC FY2014, FY2015 and FY2016 Annual Report, AQC Management accounts

Regarding Table 5.5 above, we note the following:

- AQC's revenue from continuing operations have fallen marginally in FY2016 compared to FY2015. We note that the revenue in FY2015 mainly consists of the income from the sale of assets, while in FY2016 all the revenue arose from interest received;
- AQC's employee benefits expense was significantly higher in the FY2016 relative to FY2015. Management has informed us that this increase was due in part to the increased number of senior employees following the EGM held on 30 October 2015, as well as sign on fees and share options issued to the past chief financial officer;
- Finance costs are significantly larger in FY2016 and HY2017 due to the capitalisation of interest on the Convertible Loans from Messrs Robinson and Paspaley;
- Business combination expenses in FY2016 and HY2017 relate to acquisition and evaluation costs for the Dartbrook Acquisition;
- During the half-year ended 31 December 2014, AQC incurred non-recurring expenses totalling $369,218 with the majority relating to write-offs of capitalised exploration and evaluation costs of $210,308, as a result of certain coal exploration tenements being surrendered or sold in late 2014;
- Administration and consulting expenses increased significantly in FY2016 relative to FY2015. We have been advised that the increase is due to the completion of the share subscription in October 2015 and the Dartbrook Acquisition; and
- As of the 6-month period ended on 31 December 2016, a loss of approximately $3.9 million is recorded which in part is due to interest and costs associated with the Dartbrook Acquisition.

5.5.2 AQC's Statement of Financial Position

Table 5.6 summarises AQC's statement of financial position as at 30 June 2014, 2015, 2016 and 31 December 2016.

Table 5.6: Summarised AQC's Statements of Financial Position

	As at 30-Jun-14 Audited ($)	As at 30-Jun-15 Audited ($)	As at 30-Jun-16 Audited ($)	As at 31-Dec-16 Management (Unaudited)[1] ($)
ASSETS				
Current assets				
Cash and cash equivalents	451,226	101,201	28,821,692	26,032,472
Trade and other receivables	102,589	17,389	48,615	171,469
Other assets	27,867	28,180	1,226,832	1,632,511
Total current assets	**581,682**	**146,770**	**30,097,139**	**27,836,452**
Non-current assets				
Cash and cash equivalents (restricted)	-	-	285,442	285,442
Trade and other receivables	129,063	70,773	103,105	103,105
Available-for-sale financial assets	74,000	-	-	-
Property, plant and equipment	185,448	137,169	346,994	326,643
Exploration and evaluation expenditure	2,741,917	2,440,667	1,970,793	2,017,311
Other	84,583	67,083	52,083	52,083
Total non-current assets	**3,215,011**	**2,715,692**	**2,758,417**	**2,784,584**
Total assets	**3,796,693**	**2,862,462**	**32,855,556**	**30,621,036**
LIABILITIES				
Current liabilities				
Trade and other payables	1,307,581	1,672,936	1,350,976	3,122,086
Borrowings	175,000	60,000	20,295,965	20,067,699
Total current liabilities	**1,482,581**	**1,732,936**	**21,646,941**	**23,189,785**
Non-current liabilities				
Trade and other payables	-	-	93,343	-
Borrowings	-	-	-	59,075
Total non-current liabilities	**-**	**-**	**93,343**	**59,075**
Total liabilities	**1,482,581**	**1,732,936**	**21,740,284**	**23,248,860**
Net assets	**2,314,112**	**1,129,526**	**11,115,272**	**7,372,176**
EQUITY				
Issued capital	36,957,568	37,695,544	53,179,591	
Reserves	-	-	492,700	
Retained earnings	(34,643,456)	(36,566,018)	(42,557,019)	
Total equity	**2,314,112**	**1,129,526**	**11,115,272**	**-**

Source: AQC FY2014, FY2015 and FY2016 Annual Report, AQC Management accounts

1 *Management account did not contain information relating to equity for the 6-month period ended 31 December 2016*

Regarding Table 5.6 above, we note the following:

- Capitalised exploration and evaluation expenditure make up the greatest portion of total assets in FY2014 and FY2015. AQC capitalises expenditure relating to tenement exploration and evaluation where it is considered likely to be recoverable or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. Other than these circumstances, exploration and evaluation expenses are expensed by the Company in the financial period in which they are incurred;

- Cash and borrowings increased significantly in FY2016 and in the 6-month period ended 31 December 2016. This is a result of the $20 million Convertible Loan received from Messrs Robinson and Paspaley as part of the funding required for the Dartbrook Acquisition;

- Approximately $1.38 million of trade and other payables as at 30 June 2015 relate to amounts owing to the directors of the Company in relation to deferred directors fees and consulting fees. We note that at the Company's EGM on 30 October 2015, an additional 370,050,000 ordinary shares were issued to directors of the Company for the settlement of deferred fees and expenses and outstanding directors fees; and

- As at 31 December 2016, trade and other payables are approximately $3.1 million. This is significantly higher than previous periods and is in part a result of the accrued interest of approximately $1.8 million from the Convertible Loans.

5.5.3 AQC's Statement of Cash Flows

Table 5.7 summarises AQC's statement of cash flows for FY ended 30 June 2014, 2015 and 2016 and the HY ended 31 December 2016.

Table 5.7: Summarised AQC's Statements of Cash Flow

	12 Months Ended 30-Jun-14 Audited ($)	12 Months Ended 30-Jun-15 Audited ($)	12 Months Ended 30-Jun-16 Audited ($)	6 Months Ended 31-Dec-16 Management (Unaudited) ($)
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	2,864	4,800	4,250	-
Payments to suppliers and employees	(1,094,864)	(908,616)	(5,113,008)	(2,857,252)
Interest received	16,556	6,730	125,964	399,712
Finance costs	-	-	(540)	(5,875)
Net cash (used in)/provided by operating activities	**(1,075,444)**	**(897,086)**	**(4,983,334)**	**(2,463,415)**
CASH FLOWS FROM INVESTING ACTIVITIES				
Payments for exploration, evaluation and development assets	(451,098)	(88,633)	(69,176)	(74,576)
Proceeds from sale of exploration, evaluation and development assets	-	15,000	-	-
Payments for acquisition	-	-	-	(146,122)
Proceeds from release of security deposits	-	17,500	15,000	-
Proceeds from sale of property, plant and equipment	-	142,273	-	-
Payments for property, plant and equipment	(5,868)	(7,230)	(240,594)	(1,013)
Net cash used in investing activities	**(456,966)**	**78,910**	**(294,770)**	**(221,711)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issue of shares	1,550,250	398,415	14,440,059	250,000
Proceeds from exercise of share options	-	-	-	-
Capital raising costs	(64,479)	(55,264)	(525,927)	(91,560)
Proceeds from borrowings	-	125,000	20,959,926	-
Repayment of borrowings	-	-	(590,021)	(262,534)
Net cash used in/(provided by) financing activities	**1,485,771**	**468,151**	**34,284,037**	**(104,094)**
Net increase/(decrease) in cash held	**(46,639)**	**(350,025)**	**29,005,933**	**(2,789,220)**
Cash and cash equivalents at beginning of period	497,865	451,226	101,201	29,107,134
Cash and cash equivalents at end of period	**451,226**	**101,201**	**29,107,134**	**26,317,914**

Source: AQC Annual Report FY2014, FY2015 and FY2016, Appendix 5B for the 6 month ended 31 December 2016

Regarding Table 5.7 above, we note the following:

- Over the periods analysed above, AQC has funded its operating activities through the issue of new shares, the issue of convertible securities and sale of interests in tenements;
- In FY2014, the total number of ordinary shares issued during the financial year was 258,201,869. This included ordinary shares issued to geological consultants in lieu of payment and ordinary shares issued as a result of the conversion of convertible securities;
- In FY2016, the Company issued 1.65 billion fully paid ordinary shares to each of Bentley Resources Pte Ltd ('Bentley'),and its nominees, as well as Trepang (total shares issued of 3.3 billion) at a share price of $0.004 per share to raise a total of $13.2 million. An additional 263,443,395 ordinary shares were issued under the rights issue raising approximately $1.05 million at a price of $0.004 per share;
- Proceeds from borrowings in FY2016 mainly relate to the $20 million Convertible Loan from Messrs Robinson and Paspaley for the funding of the Dartbrook Acquisition; and
- At the end the 6-month period ended on 31 December 2016, the Company had approximately $26.3 million in cash and cash equivalents. The Company has advised us that all the cash received from capital raisings in FY2016 will go towards the Dartbrook Acquisition and general working capital purposes.

6.0 Assessment of the Fairness of the Relevant Interest Acquisition

This section is set out as follows:

- Section 6.1 sets out the valuation approach we have adopted to value AQC shares in this Report;
- Section 6.2 sets out the value we have adopted for an AQC share prior to the Relevant Interest Acquisition;
- Section 6.3 sets out the value we have adopted for an AQC share assuming Resolution 1 is approved by Non-Associated Shareholders; and
- Section 6.4 sets out our opinion on the fairness of the Relevant Interest Acquisition.

6.1 Our Valuation Approach

In completing our valuation work, we have had regard to 'fair market value'. A 'fair market value' is often defined as the price that reflects a sale price negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller, with both parties at arm's length. Our work in this Report assumes this relationship.

The valuation methodologies that we have considered to determine the fair market value of AQC shares in this Report have been selected having regard to the nature of AQC's operations and the financial and other information available to us. A summary of the key valuation methodologies considered is set out in Appendix B.

In our view, it is appropriate to have regard to an asset based valuation ('ABV') methodology for the purposes of valuing AQC in this Report. In forming this view we considered the following:

- The assets of AQC can be identified and it is possible to determine the fair value of those identifiable assets with a reasonable degree of accuracy. To assist with our ABV, in addition to financial information supplied by AQC management we have relied on the Technical Expert's Report prepared by Xenith Consulting Pty Ltd ('Xenith') dated 28 February 2017, which sets out Xenith's view of the fair value of tenements of the Company and the Dartbrook JV. We have relied on the Technical Expert's Report when completing our ABV of AQC;
- Xenith have utilised a combination of the discounted cash flow ('DCF') and market based valuation ('MBV') approach to value the Dartbrook JV within the Technical Expert's Report; and
- Explanations for the divergence in our value per AQC share (calculated under the ABV) and ASX share trading data. While it is generally possible to complete a market based valuation of a company when there is a readily observable market for the trading of the company's shares, in our view the observable market prices for AQC are less relevant for assisting determine a value of AQC shares as a result of the relatively low level of liquidity on the ASX (refer to Section 5.5.2 for further information).

6.2 Adopted Value of an AQC Share Prior to the Relevant Interest Acquisition

As mentioned previously, there is no certainty as to whether AQC will complete the Dartbrook Acquisition. As a result, we have completed our valuation work having regard to two scenarios as follows:

- **Dartbrook Acquisition:**
  - The value range calculated under the ABV is $Nominal to $0.0088 per AQC share on a controlling interest basis (refer Appendix C.3 for more information in relation to this valuation). The low end of the range is $Nominal as our ABV results in a net asset deficiency value for the low and preferred scenarios;
  - It assumes that AQC proceeds with the Dartbrook Acquisition in circumstances that the Non-Associated Shareholders do not vote in favour of the Relevant Interest Acquisition. The Convertible Loans provided by the Financiers will remain debt that is unable to be converted into ordinary shares in AQC. The earliest this debt would be required to be repaid is 1 February 2018 assuming that the Financiers do not require the Trepang Convertible Loan, if advanced to the Company, to be repaid on 28 days' notice (see Section 3.2);
  - For completeness we note that AQC's ability to proceed with the Dartbrook Acquisition will require the support of the Financiers and their funding, which will be provided at the sole discretion of the Financiers;

- **No Dartbrook Acquisition:**
  - The value range calculated under the ABV is $0.0014 to $0.0021 per AQC share on a controlling interest basis (refer Appendix C.4 for more information in relation to this valuation);
  - It assumes that AQC does not proceed with the Dartbrook Acquisition in circumstances that the Non-Associated Shareholders do not vote in favour of Resolution 1; and
  - This situation will arise in circumstances that the Financiers do not provide their financial support for the Dartbrook Acquisition.

Further information in relation to the position of AQC shareholders if Resolution 1 is not approved is set out in Section 7.4 of this Report.

In our view, it is appropriate to adopt a value in the range of $Nominal to $0.0088 per share for AQC prior to the Relevant Interest Acquisition on a controlling interest basis. This range is based on our ABV assuming that the Dartbrook Acquisition proceeds. For completeness, we note that our ABV assuming the Dartbrook Acquisition doesn't proceed is at the low end of the range we have adopted.

Our assessment of the value per share of AQC prior to the Relevant Interest Acquisition is materially lower than the recent share trading data of AQC (Section 5.5.1 sets out the VWAP of AQC over varying periods of time which is in the range of $0.0160 to $0.0222), even if a premium for control is taken into account.[4] In our view, possible explanations for the differential include the following:

- AQC share prices increased significantly from $0.007 on 30 October 2015 to $0.023 on 27 November 2015 following the shareholder approval of a $13.2 million capital raise by AQC's cornerstone investors Trepang and Bentley. Bentley is an entity associated with Mr Nathan Tinkler, AQC's Managing Director and CEO from 2 November 2015 to 10 February 2016;
- Investor speculation in relation to potential asset acquisitions by AQC after a capital injection into the Company;
- Investor speculation in relation to the potential development of the Dartbrook Mine into a profitable asset;
- Investor speculation on the long term thermal coal price; and
- Illiquidity of AQC shares magnifying movements.

Based on the above analysis, we are of the opinion that the market value of AQC reflected in the current trading prices is affected by investor speculation and is less relevant than our ABV of AQC.

6.3 Adopted Value of an AQC Share Following the Relevant Interest Acquisition

We have assumed that AQC's acquisition of Dartbrook will proceed for the purposes of valuing AQC following the Relevant Interest Acquisition, notwithstanding that the acquisition will remain subject to certain conditions (refer Section 3.1.1 for further discussion) in circumstances that the Non-Associated Shareholders approve Resolution 1. We have made this assumption as the alternative involves returning the escrowed money to the Financiers and as a result, the relevant interest that the Financiers could obtain on conversion of the Convertible Notes will no longer be able to be obtained through exercising the conversion feature under the Convertible Notes.

Our ABV of AQC assumes Resolution 1 is approved as set out in Appendix D.4 and is in the range of $Nominal to $0.0059 per AQC share on a minority interest basis.[5] Our valuation methodology is broadly consistent with the methodology used to value AQC prior to the Relevant Interest Acquisition under the Dartbrook Acquisition scenario. The primary factors driving a reduction in the valuation range are:

- **Additional equity instruments**: If Resolution 1 is approved then there will be additional equity instruments embedded in the Convertible Notes (i.e. the right to convert into ordinary shares at the exercise price is at the noteholders' option). Our calculation of the value of these embedded equity instruments is discussed further in Appendix D.2; and

4 ASX share trades typically relate to minority parcels of shares and therefore reflect a value per share on a minority interest basis.

5 We also calculated a sensitivity on our ABV following the Relevant Interest Acquisition to demonstrate the impact of the Trepang Convertible Notes conversion price being $0.0025 rather than the $0.015 assumed in our base case calculations. This resulted in the value per AQC share decreasing to a range of $Nominal to $0.0036.

- **Minority interest**: We have calculated the value of AQC on a minority interest basis following the approval of Resolution 1 for the reasons set out in Section 4.2 above. Our application of a discount to reflect a minority interest is discussed further in Appendix D.3.

Further to our comments in Section 6.2 above about the relevance of an MBV, which also apply to our valuation assuming Resolution 1 is approved, we note there is a limited amount of market based information that can be observed on the price at which shares in AQC will trade at following the Relevant Interest Acquisition.

6.4 Opinion on Fairness

Table 6.1 sets out a comparison of our valuation of an AQC share on a controlling interest basis prior to the Relevant Interest Acquisition to our valuation of an AQC share on a minority interest basis immediately following the Relevant Interest Acquisition.

Table 6.1: Comparison of the Value of AQC Shares Prior to and Following the Relevant Interest Acquisition

	Reference	Low Value	Preferred Value	High Value
Value of an AQC share prior to the Relevant Interest Acquisition - controlling interest (with Dartbrook)	Section C.3	$Nominal	$Nominal	$0.0088
Value of an AQC share immediately following the Relevant Interest Acquisition - minority interest	Section D.4	$Nominal	$Nominal	$0.0059

Source: *BDO CFQ Analysis*

In considering the values set out in Table 6.1 above, we note there is a downward shift between our valuation prior to the Relevant Interest Acquisition and our valuation following the Relevant Interest Acquisition.

Having regard to the above assessment of the Relevant Interest Acquisition and after considering the information set out in the balance of this Report, it is our view that the Relevant Interest Acquisition is **Not Fair** to the Non-Associated Shareholders as at the date of this Report.

Non-Associated Shareholders should also refer to Section 7.0 of this Report which sets out additional matters that should be considered when deciding whether to vote in favour of or against Resolution 1.

7.0 Assessment of the Reasonableness of the Relevant Interest Acquisition

This section provides our opinion on the reasonableness of the Relevant Interest Acquisition to the Non-Associated Shareholders. This section is set out as follows:

- Section 7.1 outlines the advantages of the Relevant Interest Acquisition to Non-Associated Shareholders;
- Section 7.2 outlines the disadvantages of the Relevant Interest Acquisition to Non-Associated Shareholders;
- Section 7.3 sets out other matters specific to the Dartbrook Acquisition that Non-Associated Shareholders should consider prior to forming a view on whether to vote in favour of or against Resolution 1. These matters have not been considered by us in forming our view on the Reasonableness of the Relevant Interest Acquisition;
- Section 7.4 considers the position of Non-Associated Shareholders in the event the Relevant Interest Acquisition is not approved; and
- Section 7.5 provides our assessment of the reasonableness of the Relevant Interest Acquisition.

7.1 Advantages of the Relevant Interest Acquisition

Table 7.1 below outlines the potential advantages to the Non-Associated Shareholders of the Relevant Interest Acquisition in the event that Resolution 1 is approved.

Table 7.1: Advantages of the Relevant Interest Acquisition

Advantage	Explanation
Funding for the Dartbrook Acquisition	Approval of the Relevant Interest Acquisition will assist AQC to meet a condition precedent set out in the SPA in relation to funding which is required to acquire Dartbrook. The Company has sought to raise the funds through a broad range of alternative financing options as summarised in section 2.5(c) of the Notice of Meeting to meet the condition precedent for funding and the Directors ultimately formed the view that the transactions summarised in Section 3.0 of this Report are the best course of action. The Directors see the Dartbrook Acquisition as a key value driver for the Company. They are of the view that Dartbrook is strategically located and well equipped with existing infrastructure and facilities. We have separately discussed the implications of the Dartbrook Acquisition for the Non-Associated Shareholders in Section 7.3 below. For completeness we note that while the Financiers may still provide funding to AQC in circumstances where Resolution 1 is not approved, this is at their sole discretion.
The option at the election of the Financiers for the funding to be converted to AQC shares rather than paid out in cash.	The Company has in the past been unsuccessful in raising significant amounts of capital in relation to the funding of the Dartbrook Acquisition. The Relevant Interest Acquisition provides the opportunity for the Convertible Loans to be repaid in AQC shares rather than in cash. We note that while the option to convert ultimately lies with the Financiers, the Relevant Interest Acquisition potentially allows for the repayment of Convertible Loans by AQC without seeking external funding.
The exercise price on the conversion of the Convertible Loans is at a price higher than the ABV price	As outlined in Section 6.2, the value we have adopted per AQC share prior to the Relevant Interest Acquisition is in the range of $Nominal to $0.0088. We note that an exercise price of $0.015 represents a premium to this valuation range. The Directors have instructed us that the Company has been unable to raise cash at this price in the period following announcement of the Dartbrook Acquisition.

Advantage	Explanation
The Company may potentially settle its debt in AQC shares and be in a better position to acquire additional development funding needed to commence mining operations	The key conditions of future development funding required to progress the operations of the Dartbrook Mine (based on the Company's market sounding to date) are that there should be no existing debt associated with the Convertible Notes or first ranked security over the Company's assets. As set out in Section 3.2, if Resolution 1 is approved, it will allow the Company to repay a significant amount of outstanding loans in the form of shares in circumstances where the Financiers elect to convert the Convertible Notes into shares. This could put the Company in a better position to acquire future development funding to advance the Dartbrook Mine.
More highly aligned interest of cornerstone investor with the Company	The Relevant Interest Acquisition will allow a stronger shareholder register with the support of the cornerstone investor, Trepang. This will further align the interests of the Financiers with the Company. This may provide the market and other potential investors with additional confidence in the Company.
The only available funding proposal at the current time	The Directors are of the view that the funding required to meet the Company's objective/strategy of acquiring the Dartbrook JV cannot be obtained on terms superior to those offered (and summarised in Section 3.0) at the current time.

Source: *BDO CFQ analysis*

7.2 Disadvantages of the Relevant Interest Acquisition

Table 7.2 below outlines the potential disadvantages to the Non-Associated Shareholders of the Relevant Interest Acquisition in the event that Resolution 1 is approved.

Table 7.2: Disadvantages of the Relevant Interest Acquisition

Disadvantage	Explanation
The Relevant Interest Acquisition is Not Fair	As set out in Section 6.0, in our view the Relevant Interest Acquisition is not fair to the Non-Associated Shareholders as at the date of this Report.
The Relevant Interest Acquisition results in possible significant dilution of interests held by ordinary shareholders and loss of control	As set out in Section 3.4, if Resolution 1 is approved, the interest in AQC held by the Non-Associated Shareholders will be diluted from 58.71% to a level below 50% (exact percentage will depend on the conversion price for the Trepang Convertible Note) if the Convertible Notes are converted into AQC shares. Further, if all of the Convertible Notes and capitalised interest are converted to equity, the Financier's relevant interest in AQC may increase above 50% on a fully diluted basis. This will allow the Financiers to gain a controlling stake in AQC. It should be noted however that unless significant funds were sourced from existing shareholders, it is likely that any additional capital raised through the equity markets to replace the $35 million of Convertible Notes would require a significant number of shares to be issued to new shareholders. The issuance of new shares would also reduce the control by the Company's existing shareholders.
It may be possible for a smaller number of shareholders to pass a special resolution or block an ordinary resolution.	AQC must obtain in excess of 50% of votes from its shareholders to pass an ordinary resolution. In order to pass a special resolution, AQC is required to obtain votes from 75% or more of its shareholders. The Financiers collectively hold a 41.29% interest in AQC and are already able to block any special resolutions. However if Resolution 1 is approved, the Financiers will have the potential to obtain at least a 55% interest (subject to the exercise price of the Convertible Note to Trepang) in AQC and would be able to pass ordinary resolutions in this circumstance. We note that the Financiers also have the potential to gain an interest in excess of 75% dependent on the exercise price of the Convertible Note issued to Trepang.

Disadvantage	Explanation
Reduces the likelihood of a takeover of the Company	As set out in Section 3.4, the Financiers hold a 41.29% relevant interest in AQC prior to the Relevant Interest Acquisition. The Financiers will however hold an interest in AQC up to 84.90% (based on the assumptions set out in Section 3.4) in the event that all the notes and interests are converted to shares (refer to Section 3.4 of this Report). As their holdings in AQC post transaction exceeds 50%, any takeover of the Company will require the approval of the Financiers.
Conversion price under the Trepang Convertible Note is uncertain as at the date of this Report	As set out in Section 3.2 above, the price that shares will be issued at to Trepang in the event of conversion for the Trepang Convertible Note is not currently known and will be set having regard to the prevailing market price at the time (i.e. the lower of either $0.015 or the average of the daily VWAP for the 30 trading days (with a floor price of $0.0025) prior to the date which is three business days before the EGM). In relation to the uncertain price for the Trepang Convertible Note we note the following: ▪ The exercise price will be known by Non-Associated Shareholders prior to voting on Resolution 1; and ▪ As set out in Section 5.5, the 1 week and 1 month VWAP (prior to 20 February 2017) is $0.0160 and $0.0168 respectively and, if the conversion price was calculated using that data, it would be $0.015.
There is potential for a significant number of AQC shares to be sold on the open market	If Resolution 1 is approved, in excess of three billion new shares in AQC (assuming they are all converted including interest at an exercise price of $0.015) may be issued. If the holder of these shares elects to sell some (or all) of them on the open market then this may place downward pressure on the share trading price of AQC if an increased supply of AQC shares sufficiently outweighs the demand for AQC shares.

Source: *BDO CFQ analysis*

7.3 Other Matters Specific to the Dartbrook Acquisition

The Relevant Interest Acquisition as defined in this Report does not specifically consider the Dartbrook Acquisition. Rather, it relates to the possibility of the Financiers obtaining a relevant interest in up to 84.90% of shares (based on the assumptions set out in Section 3.4) as a result of the financing arrangements which have been secured by AQC to complete the transaction contemplated in the SPA.

Given that the Relevant Interest Acquisition does not specifically relate to the Dartbrook Acquisition, we have not considered matters specific to the Dartbrook Acquisition in our assessment of reasonableness. If Resolution 1 (of which the Relevant Interest Acquisition is one element) is approved by the Non-Associated Shareholders then the Directors of AQC expect the Company to acquire the Dartbrook JV, subject to the remaining conditions precedent being met. AQC may still be in a position to acquire the Dartbrook JV in circumstances where Resolution 1 is not approved although this will depend on the Financiers, at their complete discretion, continuing to provide funding.

While we have not specifically considered matters specific to the Dartbrook Acquisition in our assessment of reasonableness, in Table 7.3 below we have set out selected other considerations that shareholders may wish to have regard to in relation to the Dartbrook Acquisition. The relevance of each consideration will be specific to individual Non-Associated Shareholders having regard to their particular views and circumstances.

Table 7.3: Other Considerations Relating to the Dartbrook Acquisition

Consideration	Explanation
Value of consideration for the Dartbrook Acquisition	As part of the Dartbrook Acquisition, AQC have agreed to pay consideration to Anglo and Marubeni comprising of the following: ▪ Cash totalling $30 million, including a $0.6 million deposit; ▪ Replacement of financial assurances of $9.245 million; and ▪ Royalties capped at a total of $30 million, which will only be payable once production commences at the Dartbrook Mine or where third party coal is able to be processed through the Dartbrook JV infrastructure (refer to Section 3.1). In relation to the Technical Expert's Report (Appendix F), we note that the value of the Dartbrook JV is estimated at $20 million to $59 million, with a preferred value of $21.3 million. The preferred value of $21.3 million takes the midpoint of the land and water valuation of $30.5 million less the Financial Assurance, and reflects Xenith's view of the uncertainty associated with being able to operate a profitable mine in the current economic environment.
Additional capital required for the development of the Dartbrook Mine	After the acquisition of the Dartbrook JV, AQC will be required to raise significant capital in the immediate future for the development of the Dartbrook Mine to an operational level (refer to the Technical Expert's Report). There is no guarantee that AQC will be able to raise the capital required to develop the Dartbrook Mine as and when required on acceptable terms. This may be further complicated dependent on AQC's capital structure and debt level if the Dartbrook Acquisition is completed. Cash raisings may be dilutive or may require the sale of assets for the servicing and/or repayment of debt.
Possibility of default	Until such time as the Convertible Notes are converted into equity or are otherwise settled, AQC will have significant debt on its balance sheet. If the Financiers elect for the Company to repay the Convertible Notes in cash at the maturity dates there is no guarantee that the Company will be able to raise the cash and may default on the debt. In this circumstance the Company may become insolvent and the Financiers may exercise their rights under the Security Agreement. As a consequence, it is possible that there will be no economic interest remaining for existing shareholders.
Uncertainty in the development of the Dartbrook Mine	The Directors expect that any future development of mining operations at the Dartbrook Mine will be a key driver of positive cash flow in the long term. However, significant uncertainty exists in relation to the development of mining operations given the approval requirements to be met and the high capital expenditures required to develop the Dartbrook Mine.
Ability to develop the Dartbrook Mine profitably is highly dependent on the prevailing economic environment	The ability to profitably develop the Dartbrook Mine is highly dependent on the prevailing economic environment including thermal coal prices (which have been volatile over recent years) and the AUD/USD exchange rate. We note that the assumptions adopted in the Technical Expert's Report included a long term coal price of A$79.88/tonne (based on US$62.31/tonne and an exchange rate of US$0.78/A$) and resulted in a negative net present value ('NPV') under the base case scenario. The Technical Expert's Report has adopted a long term coal price of A$91.96/tonne (based on US$75.41/tonne and a long term exchange rate of US$0.82/A$) in their report in obtaining the high end value of the Dartbrook JV.

Source: *BDO CFQ analysis*

7.4 Position of the Non-Associated Shareholders if Resolution 1 is Not Approved

In determining the position of the Non-Associated Shareholders if Resolution 1 is not approved, we have considered the following two scenarios:

- The Relevant Interest Acquisition is not approved and the Dartbrook Acquisition is completed (refer Table 7.4 below). As mentioned previously, this scenario assumes that Trepang is still willing to provide the Convertible Loan funds to AQC if Resolution 1 (which the Relevant Interest Acquisition is part of) is not approved. The decision to provide the Convertible Loan funds is at the complete discretion of Trepang; and
- The Relevant Interest Acquisition is not approved and the Dartbrook Acquisition is not completed (refer Table 7.5 below). The Directors believe that without the Trepang Convertible Loan, the Company will be unable to replace the Financial Assurance as part of the SPA before the Sunset Date (currently 14 April 2017) and that the Company will be unable to complete the Dartbrook Acquisition.

Table 7.4: Potential Position of Non-Associated Shareholders if Resolution 1 is Not Approved and the Dartbrook Acquisition is Completed

Position of Shareholders	Explanation
The Company will have a higher risk profile	At Trepang's sole discretion, Trepang can continue to provide the Convertible Loan to AQC and enable the Dartbrook Acquisition even if Non-Associated Shareholders do not approve Resolution 1. However, as stipulated in the Convertible Loan deed, Trepang may recall the Convertible Loan at any time after providing 28 days' notice to AQC in these circumstances. We have been advised by the Directors that in the event that Trepang does require the repayment of the Convertible Loan, they are not confident that the Company will be able to raise the significant funding required within a short period of time. The option for Trepang to require the repayment of the Convertible Loan significantly increases AQC's risk profile.
The Company will need to repay the Convertible Loans upon maturity	At the maturity date of the Convertible Loans (as set out in Section 3.2) the Company will need to repay the principal to the Financiers. The Company may need to source additional funding for the repayment of the Convertible Loans. The Directors have expressed that they are not confident in raising further capital or sourcing other funding to enable the Company to repay the Convertible Loans given their experience with past capital raisings. We note that in the event of default on the Convertible Loans, the Financiers may exercise their rights to the Security (subject to the granting of the ASX Waiver- refer to Section 2.5 (d) of the Notice of Meeting). The Financiers may also renegotiate the terms of the Convertible Loans with AQC at the maturity date, however the Directors are not confident that the terms will be superior to the current terms of the Convertible Loans.
The Company will need to pay interest on the Convertible Loans in cash and will not have the option to settle in shares	The Company will be required to pay the accrued interest at 16% per annum (10% per annum if the ASX Waiver is granted) on a monthly basis on the outstanding principal balance of the Convertible Loans until they are repaid. We note that interest payments will make up a significant expense for the Company given the size of the Convertible Loans and that the Company may need additional debt or equity financing to fund these expenses. The Company will not have the option to settle in shares.
The Financiers may have security over the assets of the Company as a result of the ASX Waiver (which is on different terms to the security proposed under Resolution 1)	Under the terms of the Convertible Loan deeds, if Resolution 1 is not approved then the Company is required to seek an ASX waiver of Listing Rule 10.1 to permit the grant of the Security to the Financiers. The ASX Waiver is still awaiting to be granted as at the date of this report and will be on terms that are slightly varied (in that, the Financiers or their associates or related parties cannot acquire a legal or beneficial interest in the assets that may be required to be disposed of as a result of a potential default event) and is at the discretion of the ASX. The ASX Waiver is discussed further in section 2.5 (d) of the Notice of Meeting.

Position of Shareholders	Explanation
The Convertible Loans will impede the ability for the Company to raise development funding for the Dartbrook Mine	Market feedback from the Director's recent market sounding suggests that for the Company to access future development funding required for the development of the Dartbrook Mine that there should be no existing debt associated with the Convertible Notes. If Resolution 1 is not approved, and the Dartbrook Acquisition is completed with the Financier's funding, the Company will continue to have a significant debt relating to the Convertible Loans and the Financiers will have no ability to convert to equity. This may significantly restrict the Company in accessing additional development funding for the Dartbrook Mine and impede on the development of the Dartbrook Mine.
The Non-Associated Shareholders will retain a controlling interest in AQC	If Resolution 1 is not approved, the Non-Associated Shareholders will retain a controlling interest (above 50%) of AQC. This will continue to allow the Non-Associated Shareholders to block any ordinary resolutions proposed by the Financiers.
Effect on AQC share price	In the event that Resolution 1 is not approved, the share price of AQC may differ materially given the Company's financial risk profile. If the Company cannot demonstrate its ability to secure alternative funding in the short term (e.g. in the event that Trepang calls for the repayment of the Trepang Convertible Loan), the market may not react favourably and AQC's share price may decrease.

Source: BDO CFQ analysis

Table 7.5: Potential Position of Non-Associated Shareholders if Resolution 1 is Not Approved and the Dartbrook Acquisition is Not Completed

Position of Shareholders	Explanation
The monies in escrow will be returned and $5 million of the Trepang Secured loan will remain undrawn	As outlined in Section 3.2 the Convertible Loans from the Financiers are provided to AQC for the purposes of acquiring the Dartbrook JV. If this transaction is not completed, the monies held in escrow subject to the Dartbrook Acquisition will be returned.
Change in the Company's strategy	The Directors see the Dartbrook Acquisition as being a key value driver for AQC. If this transaction is not completed, the Directors expect that the Company's strategy will revert to one more in line with the strategy prior to the Dartbrook Acquisition.
Payment of the $1 million break fee by AQC and return of stamp duty paid to AQC	From AQC's ASX announcement on the 8 February 2017, under the amended SPA, the Company will need to pay an increased break fee of $1 million (increased from $0.5 million) to Anglo if the Dartbrook Acquisition is not completed. Additionally, the Directors have advised us that if the Dartbrook Acquisition is not completed, stamp duty fees totalling approximately $296,000 will be returned to the Company.
AQC share price may materially decrease and return to prices pre announcement of the Dartbrook Acquisition	In our view, the current AQC share price may be taking into account the potential for the Company to acquire the Dartbrook JV. If this acquisition is not completed, AQC's share price may materially decrease to price ranges before the announcement of the Dartbrook Acquisition. We note that AQC's share price was in the range of $0.002-$0.007 prior to 30 October 2015, being the date the shareholders approved the raising of $13.2 million through the share subscription agreement between the Company and its cornerstone investors. AQC's share price subsequently rose to $0.023 which in part may be due to investor optimism of a future transaction (such as the Dartbrook Acquisition). For completeness, we also note that the Company's ABV value assuming no Dartbrook Acquisition is in the range of $0.0014-$0.0021 (refer to Appendix C.3). The Technical Expert's Report (Appendix F) also indicate that the value of the other assets held by the Company is small relative to the Dartbrook JV.

Position of Shareholders	Explanation
The Non-Associated Shareholders will retain a controlling interest in AQC	If Resolution 1 is not approved, the Non-Associated Shareholders will retain a controlling interest (above 50%) in AQC. This will continue to allow the Non-Associated Shareholders to block any ordinary resolutions proposed by the Financiers.

Source: *BDO CFQ analysis*

7.5 Reasonableness of the Relevant Interest Acquisition

In our opinion, after considering all of the issues set out in this Report, it is our view that in the absence of any other information or a superior offer, the Relevant Interest Acquisition is **Reasonable** to AQC shareholders as at the date of this Report.

8.0 Fairness of the Security Transaction

This section provides our opinion on the fairness of the Security Transaction to AQC shareholders and is set out as follows:

- Section 8.1 sets out the approach we have adopted to assess the fairness of the Security Transaction; and
- Section 8.2 sets out our assessment on the fairness of the Security Transaction.

8.1 Approach Adopted to Assess Fairness

RG 111 suggests that a proposed related party transaction is 'fair' if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided to the entity. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length.

Our fairness assessment considers the circumstance where there is a default and the security for the Convertible Notes and Secured Loan is called by the Financiers. We do not consider other terms associated with the Convertible Notes and Secured Loan, including interest rates.

Under RG 111, in the case of the Security Transaction, the proceeds flowing to AQC from the sale of the assets (over which security is proposed to be granted) in the event of a default on the Convertible Notes and Secured Loan constitutes the financial benefit provided to the Financiers. The consideration provided by the Financiers to AQC is the outstanding amount on the Convertible Notes and Secured Loan which will be foregone by AQC in the event of a default on the Convertible Notes and Secured Loan.

Having regard to the above, the Security Transaction is 'fair' if the value of the security provided to the Financiers (i.e. the value of the proceeds flowing to the Financiers from the sale of the assets) is equal to or less than the value of the liabilities to be settled by the security (i.e. the outstanding amount on the Convertible Notes and Secured Loan) in the event of a default on the Convertible Notes and Secured Loan.

Under the terms of the General Security Deeds (summarised in Schedule 6 of the Notice of Meeting), the Financiers' entitlement in the event of default is limited to the outstanding amount (including principal, interest and enforcement costs) on the Convertible Notes and Secured Loan. If the proceeds received from the sale of the assets are greater than the outstanding amount on the Convertible Notes and Secured Loan then the Financiers will only receive the amount owing on the Convertible Notes and Secured Loan at the time the assets are sold. Once any amounts owing to other creditors have been repaid, any surplus funds that remain from the sale of the assets will be returned to AQC.

For completeness, we note that, in the event of a default on the Convertible Notes and Secured Loan, the Financiers may themselves enter into possession as a 'Controller'[6] or appoint a receiver or receiver and manager to recover the debt owed, which may involve a sale of the relevant assets. If appointed, a receiver has an obligation under the Corporations Act to take reasonable care to sell the secured assets at:

- 'Not less than market value' where a market value exists; and
- The 'best price that is reasonably obtainable' where a market value does not exist.

If the Financiers were to exercise their power of sale over a property without entering into possession as a Controller or appointing a receiver, their obligations under the Property Law Act 1974 (QLD) and Conveyancing Act 1919 (NSW) would be similar to those of a receiver.

We understand that in certain circumstances it is possible that a liquidator may be appointed instead of an administrator or receiver. If appointed, a liquidator's obligations under the Corporations Act are similar to that of administrators and receivers, although unlike administrators and receivers, there is no statutory instruction for liquidators to seek the market value. There is however an obligation to discharge their duties with due care and diligence and deal with the secured assets in a manner that will most benefit an entity's creditors and achieve the best price that is reasonably obtainable, having regard to the state of the asset at the time of sale. In any case, the appointment of the liquidator will be subject to the consent and agreement of the Financiers.

[6] The Corporations Act 2001 defines 'controller', in relation to property of a corporation, to mean:
(a) a receiver, or receiver and manager, of that property; or
(b) anyone else who (whether or not as agent for the corporation) is in possession, or has control, of that property for the purpose of enforcing a security interest.

Having regard to the above, in our view, it is appropriate to assume for the purposes of our analysis in this Report that, in the event of a default on the Convertible Notes and Secured Loan, any sales process pursued to divest the assets will be conducted in a manner which is bound by statute to attempt to realise fair market value as at the time of the sale, having regard to the existing state of the assets.

8.2 Assessment of Fairness

To assess whether the Security Transaction is fair, we have compared the value of the proceeds flowing to the Financiers from the sale of the assets to the value of the outstanding amount (including principal, interest and enforcement costs) on the Convertible Notes and Secured Loan owing to the Financiers in the event of a default on the Convertible Notes and Secured Loan under several scenarios. In considering the various possible scenarios, we note the following:

- In the scenario where the value of the proceeds from the sale of the assets is greater than the value of the outstanding amount on the Convertible Notes and Secured Loan, the Financiers are only entitled to receive sale proceeds equal to the amount outstanding on the Convertible Notes and Secured Loan;
- In the scenario where the value of the proceeds from the sale of the assets is equal to the outstanding amount on the Convertible Notes and Secured Loan, the Financiers are entitled to receive all of the sale proceeds; and
- In the scenario where the value of the proceeds from the sale of the assets is less than the outstanding amount on the Convertible Notes and Secured Loan, the Financiers are entitled to receive all of the sale proceeds. To the extent the amount outstanding on the Convertible Notes and Secured Loan exceeds the proceeds received from the sale of the assets, the Financiers can only recover it as an unsecured creditor of the Company.

Table 8.1 below summarises the potential outcomes from the settlement of the Convertible Notes and Secured Loan under a default scenario.

Table 8.1: Potential Settlement Scenarios for the Convertible Notes and Secured Loan

Scenario	Consequence	Fairness
Proceeds from assets > Outstanding Amount	Security provided = Liabilities settled	Fair
Proceeds from assets = Outstanding Amount	Security provided = Liabilities settled	Fair
Proceeds from assets < Outstanding Amount	Security provided < Liabilities settled	Fair

Source: *BDO CFQ Analysis*

Having regard to the potential settlement scenarios summarised above, in all circumstances the Financiers are entitled to receive a maximum amount equal to the outstanding amount on the Convertible Notes and Secured Loan, in circumstances where the assets are sold.

After considering the information above, we conclude that the Security Transaction is **Fair** to AQC shareholders as at the date of this Report.

9.0 Reasonableness of the Security Transaction

We have considered the reasonableness of the Security Transaction having regard to the advantages and disadvantages of the Security Transaction.

9.1 Advantages of the Security Transaction

Table 9.1 below outlines the potential advantages of the Security Transaction to the Non-Associated Shareholders.

Table 9.1: Advantages of the Security Transaction

Advantage	Explanation
The Security Transaction is Fair	In our view, the Security Transaction is fair to the Non-Associated Shareholders as at the date of this Report. In accordance with RG 111, a transaction is considered reasonable if it is fair. Refer to Section 8.0 of this Report for our assessment of the fairness of the Security Transaction.
It is not unusual for companies to grant security over their assets when raising debt finance	It is not unusual for companies to grant security over their assets when raising debt finance. In many cases, the granting of security assists a company to obtain the funding they require for their ongoing operations and development on terms that are more favourable than they otherwise would have acquired (if at all) if no security was granted. This is because the granting of security assists to reduce counterparty risk for the financier, or the risk to the financier of the borrower defaulting on their obligations. In addition, in the event that $40 million in third party funding is obtained by the Company, the Financiers must accept a second ranking security.

Source: *BDO CFQ Analysis*

9.2 Disadvantages of the Security Transaction

Table 9.2 below outlines the potential disadvantages of the Security Transaction to Non-Associated Shareholders. For completeness, we note that the below disadvantages will apply to some degree irrespective of whether Resolution 1 is approved subject to the granting of the ASX Waiver (refer to section 2.5(d) of the Notice of Meeting for further details).

Table 9.2: Disadvantages of the Security Transaction

Disadvantage	Explanation
Greater difficulty in sourcing alternative funding from non-related third parties	If Resolution 1 is approved, the Financiers will be granted security over AQC's assets. As a result, AQC's ability to secure further / alternative asset based debt finance from non-related third parties may be limited until the Financiers' Convertible Notes and Secured Loan is converted and/or repaid. In addition, if AQC does obtain debt finance from a non-related third party, it may be on less favourable terms than would otherwise be the case if Resolution 1 was not approved, as any additional debt provider would rank behind the Financiers.
AQC may lose control over its assets	In the event of default, AQC may be required to sell its assets in order to settle any amounts owing to the Financiers. In this circumstance, AQC will be forced to forego the potential future profits that would otherwise accrue to them from having ownership of those assets.

Source: *BDO CFQ Analysis*

9.3 Assessment of the Reasonableness of the Security Transaction

In our opinion, after considering all of the issues set out in this Report, in the absence of any other information, the Security Transaction is **Reasonable** to Non-Associated Shareholders as at the date of this Report. Non-Associated Shareholders should refer to Section 7.4 of this Report more information in relation to their position if Resolution 1 is not approved.

10.0 Sources of Information

This Report has been prepared using information obtained from sources including the following:

- AQC company website (http://www.aqcltd.com);
- AQC ASX announcements;
- AQC Annual Reports for the year ended 30 June 2014, 2015 and 2016;
- AQC Consolidated Workbooks for the 6-month ended 31 December 2016;
- Xenith Technical Expert's Report dated 28 February 2017;
- AQC Notice of Extraordinary General Meeting and Explanatory Memorandum dated on or about 13 March 2017 for the meeting on or about 13 April 2017;
- Sale and Purchase Agreement dated 24 December 2015, as varied;
- Robinson Convertible Loan Deed dated 1 February 2016, as varied;
- Paspaley Convertible Loan Deed dated 1 February 2016, as varied;
- Trepang Convertible Loan Deed dated on or about 1 March 2017;
- Trepang Secured Loan Deed dated 10 October 2016, as varied;
- Cape Coal Binding MOU dated 30 November 2016;
- Capital IQ;
- IBISWorld;
- Various other research publications and publicly available data as sourced throughout this Report; and
- Various discussions and other correspondence with the Directors and management of AQC and their advisers.

11.0 Representations, Indemnities and Warranties

AQC has agreed to our usual terms of engagement in addition to the indemnities and representations set out below.

11.1 Indemnities

In connection with BDO CFQ's engagement to prepare this Report, AQC has agreed to indemnify and hold harmless BDO CFQ, BDO (QLD) or any of the partners, directors, agents or associates (together 'BDO Persons'), to the full extent lawful, from and against all losses, claims, damages, liabilities and expenses incurred by them. AQC will not be responsible, however, to the extent to which such losses, claims, damages, liabilities or expenses result from the negligent acts or omissions or wilful misconduct of any BDO Persons.

AQC agrees to indemnify BDO Persons in respect of all costs, expenses, fees of separate legal counsel or any other experts in connection with investigating, preparing or defending any action or claim made against BDO Persons, including claims relating to or in connection with information provided to or which should have been provided to BDO CFQ by AQC (including but not limited to the directors and advisers of AQC) as part of this engagement.

11.2 Representations and Warranties

AQC has recognised and confirmed that, in preparing this Report, except to the extent to which it is unreasonable to do so, BDO Persons have used and relied on publicly available information and on data, material and other information furnished to BDO Persons by AQC, its management, and other parties, and may assume and rely upon the accuracy and completeness of, and is not assuming any responsibility for independent verification of, such publicly available information and the other information so furnished.

AQC management represent and warrant to BDO Persons that all information and documents furnished by AQC (either directly or through its advisors) in connection or for use in the preparation of this Report do not, at the time so furnished, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein.

AQC has acknowledged that the Company's engagement of BDO CFQ is as an independent contractor and not in any other capacity including a fiduciary capacity.

12.0 Experience, Disclaimers and Qualifications

BDO CFQ has extensive experience in the provision of corporate finance advice, including takeovers, valuations and acquisitions. BDO CFQ holds an Australian Financial Services Licence issued by ASIC for preparing expert reports pursuant to the Listing Rules of the ASX and the Corporations Act.

BDO CFQ and its related parties in Australia have a wide range of experience in transactions involving the advising, auditing or expert reporting on companies that have operations domestically and in foreign jurisdictions. BDO in Queensland and in Australia is a national association of separate partnerships and entities and is a member of the international BDO network of individual firms.

Mark Whittaker and Scott Birkett have prepared this Report with the assistance of staff members. Mr Whittaker and Mr Birkett are directors of BDO CFQ and have extensive experience in corporate advice and the provision of valuation and business services to a diverse range of clients, including large private, public and listed companies, financial institutions and professional organisations.

This Report has been prepared at the request of the non-associated directors of AQC to provide the Non-Associated Shareholders with information to assist them to decide whether to vote in favour of or against Resolution 1. BDO CFQ hereby consents to this Report being used for that purpose. Apart from such use, neither the whole nor any part of this Report, nor any reference thereto may be included in or with, or attached to any document, circular, resolution, statement, or letter without the prior written consent of BDO CFQ.

BDO CFQ takes no responsibility for the contents of other documents supplied in conjunction with this Report. BDO CFQ has not audited or reviewed the information and explanations supplied to us, nor has it conducted anything in the nature of an audit or a review of any of the entities mentioned in this Report. However we have no reason to believe that any of the information or explanations so supplied is false or that material information has been withheld.

Any forecast information which has been referred to in this Report has been prepared by the relevant entity and is generally based upon best estimate assumptions about events and management actions, which may or may not occur. Accordingly, BDO CFQ cannot provide any assurance that any forecast is representative of results or outcomes that will actually be achieved.

With respect to taxation implications of Resolution 1, it is strongly recommended that AQC shareholders obtain their own taxation advice, tailored to their own particular circumstances.

APES 225 'Valuation Services' issued by the Accounting Professional & Ethical Standards Board sets out mandatory requirements for the provision of quality and ethical valuation services. BDO CFQ has complied with this standard in the preparation of this Report.

The statements and opinions included in this Report are given in good faith and in the belief that they are not false, misleading or incomplete. This Report is current as at 13 March 2017.

BDO Corporate Finance (QLD) Ltd

Mark Whittaker
Director

Scott Birkett
Director

Appendix A: Industry Overview

This section of this Report is set out as follows:

- Section A.1 provides a brief overview of coal; and
- Section A.2 provides a brief overview of the coal industry in Australia.

The information presented in this appendix has been compiled from a range of publicly available sources, together with information taken from various databases to which we subscribe to.

A.1 Coal Overview

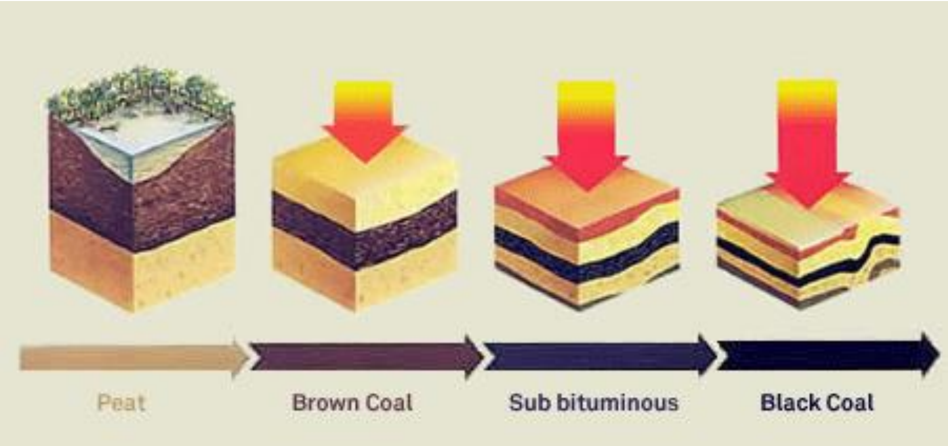
A.1.1 Coal Properties and Uses[7]

Coal is combustible, sedimentary, organic rock formed from ancient vegetation that has been compressed and transformed by the combined effects of microbial action, pressure, and heat over millions of years. This process is known as 'coalification'.

Peat, the precursor of coal, is initially converted into lignite or brown coal and is considered to have low organic 'maturity'. Over many more millions of years, the continuing effects of temperature and pressure progressively change the lignite and increase its maturity, transforming it into the range known as sub-bituminous coals. As this process continues, further chemical and physical changes take place until these coals become blacker, harder, and more mature, at which point they are classified as bituminous or hard coals. Under the right conditions and after a sufficient period of time, progressive increases in organic maturity will ultimately lead to anthracite.

Figure A.1 below illustrates the coalification process.

Figure A.1: Coalification Process



Source: Australian Coal Association

The degree of coalification undergone by a coal, as it matures from peat to anthracite, has an important bearing on its physical and chemical properties, and is typically referred to as the 'rank' of the coal.

Lower rank coals, such as lignite and sub-bituminous coal are typically softer, friable materials with a dull, earthy appearance. They have low energy content due to high moisture levels and low carbon content.

Sub-bituminous coal is generally unlikely to be of sufficient energy or combustion characteristic to satisfy export markets. Further, sub-bituminous coal is difficult to stockpile and/or transport due to its tendency to self-combust and its high moisture content. Accordingly, sub-bituminous coal is typically consumed at the point at which it is mined.

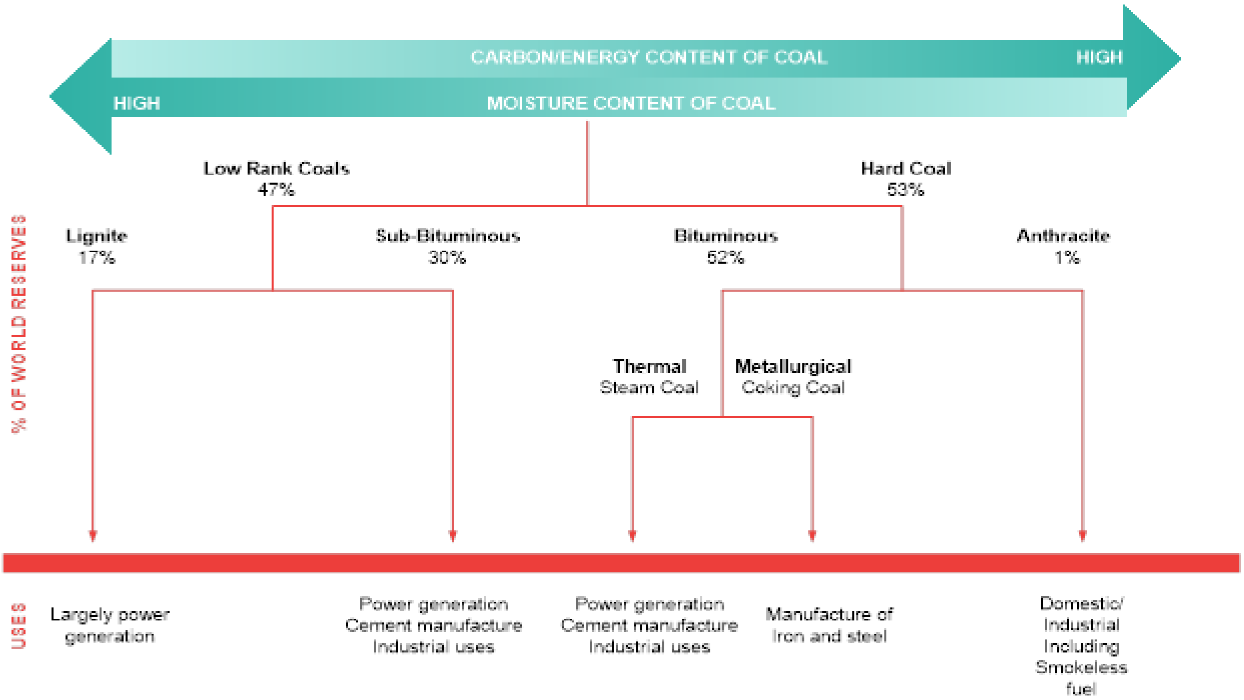
Higher rank coals, such as bituminous coal and anthracite, are typically harder and stronger and tend to have a black vitreous lustre. Higher rank coals have high energy content due to low moisture levels and high carbon

7 Information sourced from Australian Coal Association, World Coal Association and World Energy Council

content. Anthracite is the type of coal with the highest carbon content and the lowest moisture level and is therefore the type of coal with the highest energy content.

Figure A.2 below illustrates the coal classification spectrum.

Figure A.2: Coal Classification Spectrum



Source: World Coal Association

The world market for coal primarily consists of higher rank coals, including thermal coal and coking coal.

Coking (or Metallurgical) coal, due to its high carbon content and coking characteristics, is generally used for the production of metallurgical coke, which is used as a reductant in the production of iron and steel. Coking coal is further categorised in order of its level of carbon content as follows:

- Hard coking coal (which has the highest carbon content) is more favoured in the production of coke and therefore trades at a premium to lower grade coking coals; and
- Semi-soft coking coals and PCI (which has lower carbon content) are predominantly used for blending with hard coking coal where they are used as an auxiliary fuel source to increase the effectiveness of blast furnaces, ultimately resulting in lower production costs.

Thermal (or steam) coal, which generally contains less carbon than all types of coking coal, is used in the generation of electricity.

The markets for coking coal and thermal coal generally have different demand determinants and operate independently.

A.1.2 Global Coal Reserves

As at the end of 2014, it is estimated that there are over 892 billion metric tonnes of proved coal reserves worldwide.[8] Approximately 72.4% of the world's proven recoverable coal reserves are located in the following five countries:

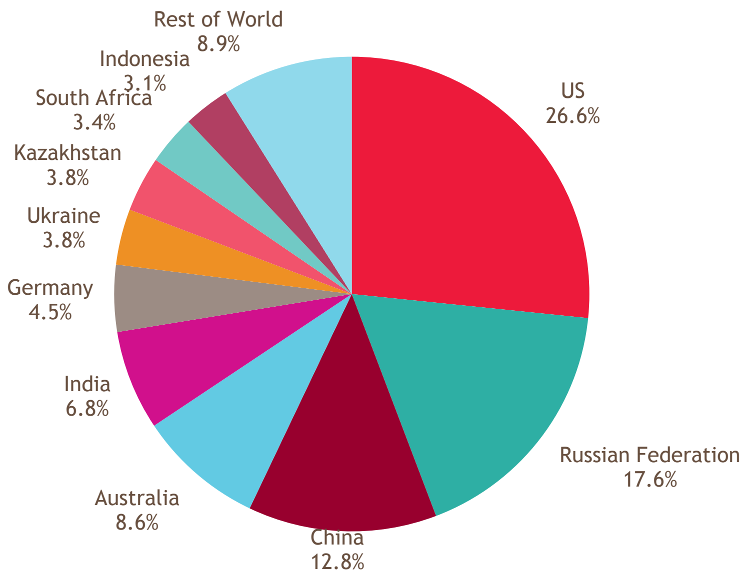
- United States (26.6%);
- Russian Federation (17.6%);
- China (12.8%);

[8] Proved reserves include reserves that are not only considered to be recoverable but that can also be recovered economically. This means that proved reserves take into account what current mining technology can achieve and the economics of recovery. Proved reserves will therefore change according to the price of coal. If the price of coal is low, proved reserves will decrease.

- Australia (8.6%); and
- India (6.8%).

Figure A.3 below shows the geographic spread of proven coal reserves by country as at the end of 2015.

Figure A.3: Global Proven Coal Reserves by Country at the end of 2015



Source: BP Statistical Review of World Energy June 2016

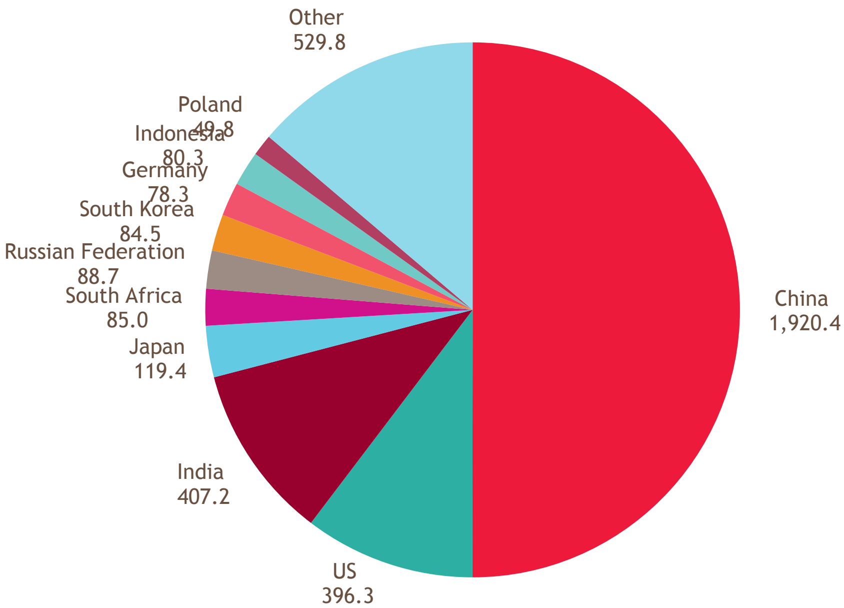
A.1.3 Global Coal Consumption

Coal's share of global primary energy consumption fell to 29.2% in 2015 from 30.0% in 2014. The five largest users of coal – China, India, the United States, Japan and Russian Federation – account for approximately 76% of total global coal use. The biggest market for coal is in Asia-Pacific which accounted for 73% of global coal consumption in 2015.

Global coal consumption fell by 1.8% in 2015, well below the ten year average of 2.1%. The weak growth in consumption was driven by a decline in consumption in the United States (-12.7%) and China (-1.5%). OECD consumption fell by 6.1% and non-OECD consumption fell by 0.2%.

Figure A.4 below sets out coal consumption in 2015 by the top coal users.

Figure A.4: Coal Consumption in 2015 (million tonnes)



Source: BP Statistical Review of World Energy June 2016

A.1.4 Coal Prices[9]

Most coal traded in international markets is bought and sold pursuant to term contract arrangements between the world's major producers (such as BHP Billiton, Xstrata, Rio Tinto and Vale) and the world's major buyers (such as Indian, Chinese, Korean and Japanese steel mills). The term contract arrangements set out a number of key terms including:

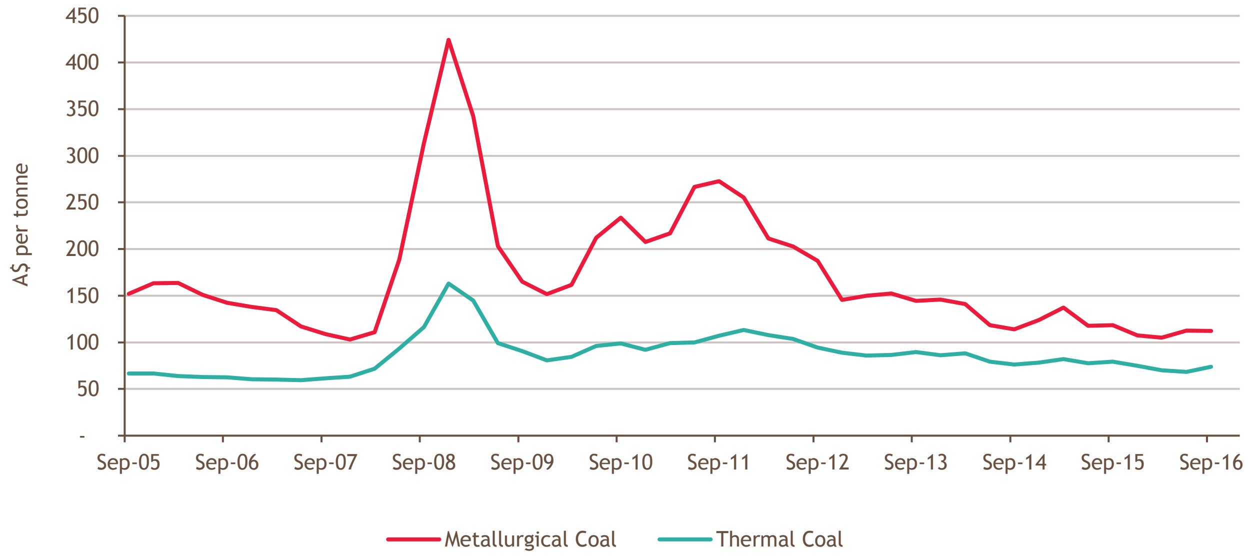
- The benchmark prices at which coal will be traded;
- The volume of coal to be traded;
- The energy content of the coal to be traded;
- The method and cost of transportation; and
- Any other specifications as required.

Existing term contracts generally serve as the reference point when negotiating updated term contract arrangements.

The benchmark prices negotiated and agreed between the major producers and buyers generally determine the price at which subsequent coal contracts will settle at following adjustments for the specific energy specifications of the coal.

Figure A.5 below shows the average export price for thermal coal and metallurgical coal from the quarter ended 30 June 2004 to the quarter ended March 2016 in Australian dollars per tonne.

Figure A.5: Average Export Price of Coal (September 2005 – September 2016)



Source: Resources and Energy Quarterly, Australian Department of Industry and Science, December 2016

Figure A.5 above shows that the average spot price of thermal and metallurgical coal has been highly volatile over the last ten years.

Reasons for the observed spike in coal prices include disruptions in supply and the surge in demand for coal from India and China. However, prices decreased significantly in 2009 following the impact of the global financial crisis on the demand for power generation and steel. Coal prices recovered in 2010 and 2011 as supply disruptions in Australia, Indonesia and South Africa limited export growth at a time of strong import demand. However, coal prices (in terms of United States dollars) trended downward throughout most of 2013 and the first half of 2014 and 2015, reflecting surplus supply, lower demand and lower production costs that reduced the price required for operations to remain viable. Coal prices in terms of A$ per tonne in Figure A.5 above appear to have increased in

[9] Information primarily sourced from Office of the Chief Economist, Australian Department of Industry and Science

the first half of 2015 due to a significantly weaker Australian dollar. Coal prices have further softened through 2015 as a result of reduced demand and increased competition among coal suppliers.

Australian thermal coal prices have stabilised in the first half of 2016 and the Australian Department of Industry and Science note that the prices are expected to remain low in the near term as the market rebalances. The relative stability is due to tighter supply from reduction in capacities and policy aimed at cutting output. Other factors including increased domestic production in India, the restarting of nuclear reactors in Japan, new plants in South Korea and low freight costs allowing Colombia to enter the Asian markets have competing effects on worldwide imports and exports. Metallurgical coal prices in Australia are set to decline due to reduced demand out of China from declining steel production.

A.2 Australian Coal Industry[10]

Australia is naturally endowed with coal resources providing an advantage for its coal production over its competitors. Australia's share in proven coal resources is the fourth-largest in the world.

Exploration and production of coal has slightly declined in Australia due to lower coal prices encouraging a reduction in capacity by Australian producers. Cost-cutting activities are being implemented nation-wide to remain viable and maintain profitability. The decline in coal prices has caused a number of operations to close down with more possible closures to occur. Industry participants expect that the decline in coal production from the closure of coal operations will be offset by the forecast increase in coal production at existing operations in the medium term.

Australia is one of the world's largest exporters of coal having exported an estimated 392 million tonnes of coal in 2013 out of its total production of 442 million tonnes.

Queensland and New South Wales coal accounted for approximately 98% of total Australian black coal production in 2014-15. Japan is the main destination of Australian coal product, accounting for approximately 38.1% of coal exports in 2014-15, closely followed by China at 31%. Other major importers of Australian coal include India, Taiwan, South Korea, as well as various countries within the European Union.

[10] Information sourced from Minerals Council of Australia, Department of Industry and Science – June 2015 Resources and Energy Quarterly, IBISWorld and World Coal Association

Appendix B: Common Valuation Methodologies

A 'fair market value' is often defined as the price that reflects a sales price negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller, with both parties at arm's length. The valuation work set out in this Report assumes this relationship.

There are a number of methodologies available to value an entity at fair market value. In preparing this Report, we have considered, amongst other metrics, the valuation methodologies recommended by ASIC in *RG 111: Content of Expert Reports*. The methodologies include those mentioned directly below.

B.1 Discounted Cash Flows ('DCF')

The DCF approach calculates the value of an entity by adding all of its future net cash flows discounted to their present value at an appropriate discount rate. The discount rate is usually calculated to represent the rate of return that investors might expect from their capital contribution, given the riskiness of the future cash flows and the cost of financing using debt instruments.

In addition to the periodic cash flows, a terminal value is included in the cash flow to represent the value of the entity at the end of the cash flow period. This amount is also discounted to its present value. The DCF approach is usually appropriate when:

- An entity does not have consistent historical earnings but is identified as being of value because of its capacity to generate future earnings; and
- Future cash flow forecasts can be made with a reasonable degree of certainty over a sufficiently long period of time.

Any surplus assets, along with other necessary valuation adjustments, are added to the DCF calculation to calculate the total entity value.

B.2 Capitalisation of Maintainable Earnings ('CME')

The CME approach involves identifying a maintainable earnings stream for an entity and multiplying this earnings stream by an appropriate capitalisation multiple. Any surplus assets, along with other necessary valuation adjustments, are added to the CME calculation to calculate the total entity value.

The maintainable earnings estimate may require normalisation adjustments for non-commercial, abnormal or extraordinary events.

The capitalisation multiple typically reflects issues such as business outlook, investor expectations, prevailing interest rates, quality of management, business risk and any forecast growth not already included in the maintainable earnings calculation. While this approach also relies to some degree on the availability of market data, the multiple is an alternative way of stating the expected return on an asset.

The CME approach is generally most appropriate where an entity has historical earnings and/or a defined forecast or budget. Further, a CME is usually considered appropriate when relevant comparable information is available.

B.3 Asset Based Valuation ('ABV')

An ABV is used to estimate the fair market value of an entity based on the book value of its identifiable net assets. The ABV approach using a statement of financial position alone may ignore the possibility that an entity's value could exceed the book value of its net assets, however, when used in conjunction with other methods which determine the value of an entity to be greater than the book value of its net assets, it is also possible to arrive at a reliable estimate of the value of intangible assets including goodwill.

Alternatively, adjustments can be made to the book value recorded in the statement of financial position in circumstances where a valuation methodology exists to readily value the identifiable net assets separately and book value is not reflective of the true underlying value. Examples of circumstances where this type of adjustment may be appropriate include when valuing certain types of identifiable intangible assets and/or property, plant and equipment.

The ABV approach is most appropriate where the assets of an entity can be identified and it is possible, with a reasonable degree of accuracy, to determine the fair value of those identifiable assets.

B.4 Market Based Valuation ('MBV')

An MBV methodology determines a value for an entity by having regard to the value at which securities in the entity have recently been purchased. This approach is particularly relevant to:

- Entities whose shares are traded on an exchange. The range of share prices observed may constitute the market value of the shares where a sufficient volume of shares is traded and the shares are traded over a sufficiently long period of time; and/or
- Entities for which it is possible to observe recent transactions relating to the transfer of relatively large parcels of shares (e.g. recent capital raisings).

For listed entities, the range of share prices observed may constitute the market value of the shares where sufficient volumes of shares are traded and the shares are traded over a sufficiently long period of time. Share market prices usually reflect the prices paid for parcels of shares not offering control to the purchaser.

B.5 Industry Based Metrics (Comparable Analysis)

It is often appropriate to have regard to industry specific valuation metrics in addition to the traditional valuation approaches outlined above. These metrics are particularly relevant in circumstances where it is reasonably common for market participants to have regard to alternative measures of value.

For resource companies, it is common for market analysts to have regard to multiples related to resources and tenement size.

Appendix C: Asset Based Valuation of AQC Prior to the Relevant Interest Acquisition

Our asset based valuation of AQC prior to the Relevant Interest Acquisition is set out as follows:

- Section C.1 summarises Xenith's fair market valuation of AQC's tenements and the Dartbrook JV;
- Section C.2 considers the fair market value of the other assets and liabilities of AQC;
- Section C.3 sets out our ABV of AQC prior to the Relevant Interest Acquisition assuming that the Dartbrook Acquisition proceeds, irrespective of whether Non-Associated Shareholders vote in favour of Resolution 1; and
- Section C.4 sets out our ABV of AQC prior to the Relevant Interest Acquisition assuming that the Dartbrook Acquisition does not proceed.

C.1 Summary of Xenith's Valuation of the AQC Assets

C.1.1 Overview of the Technical Expert's Report

We have considered the Technical Expert's Report to determine the fair value of the Dartbrook JV and AQC's existing assets. The Technical Expert's Report is dated 28 February 2017 and was commissioned by BDO CFQ. Mr Troy Turner of Xenith has valued the assets and has also prepared the Technical Expert's Report. Xenith engaged EPS to assist with the engagement and provide specialist valuation advice in relation to the value of the Dartbrook JV land holdings and water rights. The Technical Expert's Report is included as Appendix F to this Report and EPS's report is included in Appendix C of the Technical Expert's Report.

Based on our enquiries and the information provided to us, we regard Xenith and Mr Troy Turner to be Independent Specialists as referred to in the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports ('the VALMIN Code'). In our view, it is appropriate for us to consider the work of Xenith as they are a specialist firm capable of completing this valuation work and they understand the purpose of the valuation set out in this Report.

We confirm that we have been provided with express written consent by Xenith to refer to the valuations in the Technical Expert's Report as current valuations in this Report. We have made reasonable enquiries of Xenith and are satisfied that the valuations in the Technical Expert's Report are suitable for use in this Report. However, we do not take responsibility for the work of Xenith.

We have summarised the valuations which are outlined in the Technical Expert's Report in this section of this Report. We note that this is a summary only and does not substitute for a complete reading of the Technical Expert's Report. Our summary does not include all of the information that may be of interest to Non-Associated Shareholders. The Technical Expert's Report is attached to this Report in Appendix F. We recommend that Non-Associated Shareholders read the Technical Expert's Report in full.

For completeness, we have confirmed with Xenith the following regarding the Technical Expert's Report:

- Xenith has prepared the Technical Expert's Report in accordance with the VALMIN Code as far as it is relevant to the purpose and scope of the assignment;
- While some employees of Xenith and its sub consultants may have small direct or beneficial shareholdings in AQC, neither Xenith nor the contributors to the Technical Expert's Report nor members of their immediate families have any interests in AQC that could be reasonably construed to affect their independence. Xenith has no pecuniary interest, association or employment relationship with BDO CFQ or AQC; and
- Xenith's scope of work includes providing advice to BDO CFQ as to what is reasonable, for the purpose of valuing AQC, in relation to the mineral resources and ore reserves, mining plans, production profiles, costs and valuation of exploration interests.

C.1.2 Overview of the Valuation Methodologies Adopted by Xenith

Table C.1 below sets out a summary of the values determined by Xenith for AQC's assets.

Table C.1: Summary of Values Calculated by Xenith

Asset	Value Low ($m)	Preferred Value ($m)	Value High ($m)
Dartbrook JV	20.0	21.3	59.0
Other AQC Tenements	2.00	2.7	5.0
Total	22.0	24.0	64.0

Source: *The Technical Expert's Report*

We have made enquiries of Xenith in relation to the valuation methodologies adopted in the Technical Expert's Report. Xenith have confirmed to us that the valuation methodologies adopted in the Technical Expert's Report are appropriate to adopt for the purposes of determining a value for AQC's assets in the Technical Expert's Report.

In broad terms, we note the following in relation to Xenith's valuation of the Dartbrook JV:

- Xenith have estimated the value of the Dartbrook underground mine using two approaches:
  - A DCF model based on Xenith's expertise and a number of technical studies conducted within the last two years; and
  - A MBV approach based on EPS's valuation of freehold land and water licenses associated with the Dartbrook JV.
- Xenith's low value of the Dartbrook JV of $20 million assumes the low end of EPS's land and water valuation;
- Xenith's preferred value of the Dartbrook JV of $21.3 million takes the midpoint of the land and water valuation of $30.5 million less the Financial Assurance;
- Xenith's high value of the Dartbrook JV of $59 million uses the DCF methodology assuming a long term coal price of A$91.96/tonne using Consensus Economic forecasts; and
- In the event of a Dartbrook open cut mine, Xenith's valuation resulted in a negative NPV. Under sensitivity analysis, a high case, assuming coal prices of A$80.16/tonne results in a $20 million NPV.

In broad terms, we note the following in relation to Xenith's valuation of AQC's other tenements:

- The value of the other tenements are significantly less than the Dartbrook JV;
- It was determined having regard to industry metrics and valued using methodologies including:
  - Multiples of exploration expenditure method ('MEE');
  - Comparable Transactions EV/resource;
  - Comparable Transactions EV/lease area; and
- AQC's most developed assets including Mount Hillalong (EPC1824) and Cooroorah (MDL453) have been estimated by Xenith having a preferred value of $1.01 million and $1.25 million respectively.

Non-Associated Shareholders should refer to section 12 of the Technical Expert's Report (refer to Appendix F) for further information on the valuation of the Dartbrook JV and the valuation methodologies adopted by Xenith.

C.2 Value of AQC's Other Assets and Liabilities prior to the Relevant Interest Acquisition

The net value we have adopted for the other assets and liabilities held by AQC prior to the Relevant Interest Acquisition is summarised in Table C.2. We have been informed by the directors of AQC that there are no other material assets, liabilities, off-balance sheet assets and liabilities or unrecognised liabilities as at the date of this Report that have not been included in Table C.2.

Table C.2: Values Adopted for the Other Assets and Liabilities Held by AQC prior to the Relevant Interest Acquisition

Item	Value- With Dartbrook JV ($'000)	Value- Without Dartbrook JV ($'000)
Cash and cash equivalents	7,031	5,833
Trade and other receivables	198	198
Other	1,272	619
Cash and cash equivalents (restricted cash)	9,530	285
Non-current receivables	103	103
Property, plant and equipment	325	325
Other (tenement security deposits)	52	52
Total Assets	**18,512**	**7,417**
Trade and other payables	(537)	(537)
Convertible Notes	(35,000)	-
Secured Loan	(5,000)	-
Capitalised interest on Convertible Notes	(2,817)	(2,637)
Capitalised interest on Secured Loan	(32)	(24)
Other borrowings	(616)	(121)
Total Liabilities	**(44,002)**	**(3,319)**
Net Asset Surplus / (Deficiency)	**(25,491)**	**4,097**

Source: AQC Management accounts as at 31 January 2017 and BDO CFQ analysis

With reference to Table C.2, we note that the value of the other assets and liabilities held by AQC prior to the Relevant Interest Acquisition are approximately negative $25.5 million if the Dartbrook Acquisition proceeds and $4.1 million if the Dartbrook Acquisition does not proceed. We have separated key items of the other assets and liabilities held by AQC prior to the Relevant Interest Acquisition, this includes:

- The cash balance is determined as follows:
  - Value with Dartbrook Acquisition: Adopts the cash balance at 31 January 2017 and includes all the cash from the Convertible Notes and Secured Loan (fully drawn down) and excludes the outstanding amount payable ($24.5 million) for the Dartbrook JV;
  - Value without Dartbrook Acquisition: The cash balance as at 31 January 2017 less the $20 million cash held in escrow to be returned to Mr Robinson and Mr Paspaley;
- The restricted cash includes the $9.245 million Financial Assurance which is funded by the Convertible Notes;
- In trade and other payables we have excluded accrued interest relating to the Convertible Notes totalling $2 million. This has been separately calculated in the *Capitalised interest on Convertible Notes* line;
- Accrued interest from the Convertible Notes totals $2.85 million for the Dartbrook Acquisition up to the date of the proposed completion date of the Dartbrook Acquisition on or about 29 May 2017;
- The Secured Loan has been included above if the Dartbrook Acquisition proceeds as these funds will be advanced to the Company two business days before the completion of the Dartbrook Acquisition. It is noted that the Tranche A- $1 million in funds already advanced under the Secured Loan has been assumed to be repaid (with funding from the Trepang Convertible Loan – see Section 3.2.1) with a corresponding reduction in the cash balance;
- Interest on the Secured Loan relates to the $1 million draw down from 3 February 2017 up to the estimated completion date of the Dartbrook Acquisition (29 May 2017); and
- If the Dartbrook Acquisition is not completed, prepaid insurance and loan insurance premium funding is reversed, this will result in net cash of approximately $158,000.

For completeness, we note that the Share Subscription Agreement with AMCI that the Company announced on 8 September 2016 remains on foot. However, based on discussions with the Directors, it is our view that there is too much uncertainty associated with this transaction to incorporate this agreement into our valuation work.

C.3 Asset Based Valuation of AQC prior to the Relevant Interest Acquisition – Assuming Dartbrook Acquisition

The key elements of our ABV methodology can be broadly summarised as:

- The value of the mining and exploration assets; and
- The value of the other assets and liabilities of AQC.

The values calculated for the assets and liabilities of AQC in this Report are stated in Australian dollars. Our ABV of AQC prior to the Relevant Interest Acquisition assuming the Dartbrook Acquisition is set out in Table C.3 below.

Table C.3: ABV of AQC prior to Relevant Interest Acquisition – Assuming Dartbrook Acquisition

	Section Reference	Low Value	Preferred Value	High Value
Value of Dartbrook and the other AQC exploration assets ($000)	Section C.1	22,000	24,000	64,000
Value of the Other Assets and Liabilities of AQC ($000)	Section C.2	(25,491)	(25,491)	(25,491)
ABV of AQC prior to the Relevant Interest Acquisition ($000)		**(3,491)**	**(1,491)**	**38,509**
Less value of incentive options[1]		-	-	(52)
Value attributable to ordinary shareholders ($000)		**$Nominal**	**$Nominal**	**38,457**
Number of AQC Shares on Issue[2]		4,374,684,264	4,374,684,264	4,374,684,264
Value per AQC Share prior to the Relevant Interest Acquisition ($)		**$Nominal**	**$Nominal**	**0.0088**

Source: The Technical Expert's Report, AQC Management and BDO CFQ analysis

1 *The 43,750,000 incentive options have been valued using the Black-Scholes formula having regard to the following assumptions: Exercise price = $0.008, Time to maturity = 0.07, Interest rate = 1.8%, Volatility = 85%, Dividend yield = 0%. The share price adopted is the final valuation share price. We have used an iterative process to overcome the circularity that arises from relying on the final share price to value the options. We note that the value of the options would be higher if valued at the closing price of $0.018 on 27 February 2017.*

2 *Includes 12,500,000 exercised incentive options on 2 March 2017*

Table C.3 shows that our ABV of AQC prior to the Relevant Interest Acquisition is within the range of negative $3.5 million to $38.5 million, which equates to a value per AQC share prior to the Relevant Interest Acquisition within the range of $Nominal to $0.0088. We note that our ABV of AQC prior to the Relevant Interest Acquisition provides a value per share for AQC prior to the Relevant Interest Acquisition on a controlling interest basis.

C.4 Asset Based Valuation of AQC prior to the Relevant Interest Acquisition – Assuming the Dartbrook Acquisition does not proceed

Table C.4 sets out our valuation of AQC prior to the Relevant Interest Acquisition assuming that the Dartbrook Acquisition does not proceed.

Table C.4: ABV of AQC Prior to the Relevant Interest Acquisition – Assuming the Dartbrook Acquisition Does Not Proceed

	Section Reference	Low Value	Preferred Value	High Value
Value of other AQC assets excluding Dartbrook Acquisition ($000)	Section C.1	2,000	2,700	5,000
Value of the Other Asset and Liabilities of AQC without Dartbrook Acquisition ($000)	Table C.2	4,097	4,097	4,097
Break fee excluding deposit ($000)[1]		(400)	(400)	(400)
Stamp Duty Refund ($000)[2]		296	296	296
ABV of AQC prior to the Relevant Interest Acquisition ($000)		**5,993**	**6,693**	**8,993**
Less value of incentive options[3]		-	-	-
Value attributable to ordinary shareholders ($000)		**5,993**	**6,693**	**8,993**
Number of AQC Shares on Issue[4]		4,374,684,264	4,374,684,264	4,374,684,264
Value per AQC Share prior to the Relevant Interest Acquisition ($)		**0.0014**	**0.0015**	**0.0021**

Source: The Technical Expert's Report, AQC Management and BDO CFQ analysis

1 *Break fee of $1 million as announced on the 8 February 2017, $500k already prepaid to Anglo and $100k to Marubeni*

2 *Dartbrook stamp duty prepayment will be returned if Dartbrook Acquisition does not proceed*

3 *The 43,750,000 incentive options have been valued using the Black-Scholes formula having regard to the following assumptions: Exercise price = $0.008, Time to maturity = 0.07, Interest rate = 1.8%, Volatility = 85%, Dividend yield = 0%. The share price adopted is the final valuation share price. We have used an iterative process to overcome the circularity that arises from relying on the final share price to value the options. We note that the value of the options would be higher if valued at the closing price of $0.018 on 27 February 2017.*

4 *Includes 12,500,000 exercised incentive options on 2 March 2017*

Table C.4 shows that our ABV of AQC prior to the Relevant Interest Acquisition is within the range of $6.0 million to $9.0 million, which equates to a value per AQC share prior to the Relevant Interest Acquisition within the range of $0.0014 to $0.0021. We note that our ABV of AQC prior to the Relevant Interest Acquisition provides a value per share for AQC prior to the Relevant Interest Acquisition on a controlling interest basis.

Appendix D: Asset Based Valuation of AQC Following the Relevant Interest Acquisition

Our asset based valuation of AQC following the Relevant Interest Acquisition is set out as follows:

- Section D.1 sets out our adopted valuation of AQC's assets and liabilities;
- Section D.2 considers the value of the debt and equity components of the Convertible Notes;
- Section D.3 considers the application of a minority interest discount;
- Section D.4 sets out our view of the value of AQC on a minority interest basis following the Relevant Interest Acquisition;
- Section D.5 sets out the sensitivity on the value of AQC on a minority interest basis following the Relevant Interest Acquisition

D.1 Valuation of AQC's Assets and Liabilities

For the purposes of our valuation of AQC following the Relevant Interest Acquisition, we have adopted a valuation range for AQC's assets and liabilities within the range of approximately negative $4.1 million to approximately $37.9 million. This is consistent with our valuation of AQC shares prior to the Relevant Interest Acquisition (refer Table C.3 above).

For the purposes of our analysis in this Report, we have assessed our valuation of AQC on the basis that the Dartbrook Acquisition proceeds as planned. We have made this assumption as the alternative involves returning the escrowed money to the Financiers and as a result, the relevant interest that the Financiers could obtain on conversion of the Convertible Notes will no longer be able to be obtained through exercising the conversion feature under the Convertible Notes.

D.2 Adjustments for the Debt and Equity Components of the Convertible Notes

A summary of the terms and conditions of the Convertible Notes is set out in Section 3.2. The Convertible Notes have two key components of value:

- **An equity component:** The holder of the Convertible Notes can elect to convert the Convertible Notes into ordinary AQC shares at $0.015 (or the lower of $0.015 and the average of the daily VWAP for 30 trading days (with a floor price of $0.0025) prior to the date which is three business days before the EGM in the case of Trepang Convertible Notes) per share any time prior to maturity. The value of the option embedded in the Convertible Notes effectively represents the equity component of the value of the Convertible Notes; and
- **A debt component:** The holder of the Convertible Notes can request the repayment of the face value of the Convertible Notes if it elects not to convert the Convertible Notes. The holder of the Convertible Notes is also entitled to receive interest on the Convertible Notes equal to 10.0% per annum, payable monthly. The value of the principal and interest repayments on the Convertible Notes effectively represents the debt component of the value of the Convertible Notes.

Value of the Equity Component of the Convertible Notes

As discussed above, the equity component of the Convertible Notes is represented by the embedded call options over AQC provided by the conversion right. To determine the price of each call option over AQC shares, we consider it appropriate to adopt the Black Scholes Options Pricing Model. Table D.1 below sets out the key variables we have used in the Black Scholes Options Pricing Model to determine the price of each embedded call option over AQC shares.

Table D.1: Key Variables used in the Black Scholes Model to Value the Call Options Embedded in the Convertible Notes

Key Driver	Value	Calculation Method
Share Price	Low/preferred: $Nominal High: $0.0059	The share prices we have used to calculate the value of the call options embedded in the Convertible Notes are equal to the per share values we have calculated for AQC following the Relevant Interest Acquisition on a minority interest basis (refer to Table D.4). We have subtracted the values of the call options embedded in the Convertible Notes from the equity of AQC in determining the per share values of AQC following the Relevant Interest Acquisition. The share prices used in the Black Scholes Option Pricing Model therefore depend on the values calculated for the call options embedded in the Convertible Notes (i.e. circularity exists). We have used an iterative process to overcome the circularity described above. Specifically, we have repeated the valuation calculations until the per share values calculated for AQC and the share prices adopted in the Black Scholes Option Pricing Model equal (i.e. the share prices used to calculate the value of the call options embedded in the Convertible Notes are the same as the per share values calculated for AQC on a minority interest basis in Table D.4).
Exercise Price	$0.015	The conversion price of the Convertible Notes is equal to $0.015 per AQC share. For the Trepang Convertible Notes we have also assumed an exercise price of $0.015 on the basis that the AQC share price has generally traded at values in excess of $0.015 between 29 December 2015 (the date the Dartbrook Acquisition was announced) and 24 February 2017. We note that to provide additional information to shareholders we have also recalculated the embedded option value assuming an exercise price for the Trepang Convertible Notes of $0.0025 being the floor price.
Volatility of Share Price	85.0%	We have assumed a volatility of 85% is reflective of AQC's volatility over the life of the call options embedded in the Convertible Notes.
Risk Free Rate	1.8%	Having regard to the average monthly yield on a three year Commonwealth Government Treasury Bonds sourced from the Reserve Bank of Australia website, we consider it appropriate to adopt a risk free rate of 1.8% for the purposes of this Report.
Time to Maturity	1.79 years and 2.79 years	Both Convertible Notes will commence once approval from the EGM is obtained. We have assumed the conversion of the Convertible Notes at the maximum allowed maturity date. For Messrs Robinson and Paspaley Convertible Notes this is 1 February 2019 and for the Trepang Convertible Notes this is 1 February 2020.
Annual Dividend Yield	0%	We have assumed that AQC will pay no dividends before the Convertible Notes mature.
Number of options	2,521,149,067	We have adopted a number of embedded call options based on the terms of the Convertible Notes set out in Section 3.2.1. The Messrs Robinson and Paspaley Convertible Notes and the Trepang Convertible Notes have a face value of $20 million and $15 million respectively and a conversion price of $0.015 (refer to discussion on exercise price above). We have also included the capitalised interest to the expected completion date of the Dartbrook Acquisition on 29 May 2017.

Source: Capital IQ, RBA and BDO CFQ Analysis

Table D.2 below sets out our valuation of the call options embedded in the Convertible Notes adopting the inputs contained in Table D.1 above and the Black Scholes Option Pricing Model.

Table D.2: Valuation of Call Options Embedded in the Convertible Notes

	Low Value	Preferred Value	High Value
Value of a call option embedded in the Convertible Notes ($)	-	-	0.0012 and 0.0019[1]
Number of Options	-	-	2,521,149,067
Total value of call options embedded in the Convertible Notes ($000)	**-**	**-**	**3,667**

Source: BDO CFQ Analysis

1 $0.0012 for Messrs Robinson and Paspaley Convertible Notes (1,521,149,067 options) and $0.0019 for Trepang Convertible Note (1,000,000,000 options)

Table D.3 below sets out our sensitivity analysis of the call options embedded in the Convertible Notes adopting the exercise price of the Trepang Convertible Note as $0.0025, other inputs as contained in Table D.1 above and the Black Scholes Option Pricing Model.

Table D.3: Sensitivity of Call Options Embedded in the Convertible Notes

	Low Value	Preferred Value	High Value
Value of a call option embedded in the Convertible Notes[1] ($)	-	-	0.0004 and 0.0022[2]
Number of Options	-	-	7,521,149,067
Total value of call options embedded in the Convertible Notes ($000)	**-**	**-**	**13,907**

Source: BDO CFQ Analysis

1 Assumes that the Trepang Convertible Notes have a conversion price of $0.0025

2 $0.0004 for Messrs Robinson and Paspaley Convertible Notes (1,521,149,067 options) and $0.0022 for the Trepang Convertible Notes (6,000,000,000 options)

Value of the Debt Component of the Convertible Notes

The Financiers have provided total funding of $40.0 million to AQC in in relation to the Dartbrook Acquisition ($35 million by way of the Convertible Loans and $5 million by way of the Trepang Secured Loans). If Resolution 1 is approved, the Convertible Loans provided by the Financiers are able to be converted to AQC shares, generally at the election of the Financiers (albeit, AQC can elect to convert the capitalised interest into AQC shares). A summary of the proposed terms and conditions of the Convertible Notes is set out Section 3.2.

In our view, it is appropriate to adopt the face value of the debt, plus capitalised interest, for the debt component of the Convertible Notes. We have formed this view based on the assumption (set out in Section D.1) that the debt will be committed to the Company to facilitate the Dartbrook Acquisition irrespective of whether the Non-Associated Shareholders vote in favour of or against Resolution 1 (although noting if Resolution 1 is not approved, the funding is at the complete discretion of the Financiers). By approving Resolution 1, AQC shareholders are providing additional value to the Financiers in the form of the ability to convert the Convertible Notes into AQC shares.

D.3 Application of a Minority Interest Discount

An asset based valuation typically calculates the value of a company on a controlling interest basis. As the valuation of AQC set out in this section is an asset based valuation (i.e. a controlling interest basis) we are required to apply a minority discount to calculate the value on a minority interest basis. We note that a minority interest in a company is generally regarded as being less valuable than that of a controlling interest as a controlling interest may provide the owner with the following:

- Control over the operating and financial decisions of the company;
- The right to set the strategic direction of the company;
- Control over the buying, selling and use of the company's assets; and
- Control over the appointment of staff and setting of financial policies.

The increase in value for a controlling interest is often observed where an acquirer launches a takeover bid, or some other mechanism for control, for another company. Empirical research suggests that control premiums are typically within the range of 20% to 40% which is consistent with recent transactions in Australia (refer to Appendix E for our control premium research). The inverse of this range to apply for a minority discount is 16.7% to 28.6%.[11]

For the purposes of this Report, in our view it is appropriate to adopt a control premium of 30% and a minority discount of 23.1% to calculate the value of AQC on a minority interest basis.

D.4 Asset Based Valuation of AQC on a Minority Interest Basis following the Relevant Interest Acquisition

Our ABV of AQC on a minority interest basis following the Relevant Interest Acquisition is set out in Table D.4 below.

Table D.4: ABV of AQC on a Minority Interest Basis Following the Relevant Interest Acquisition

	Section Reference	Low Value	Preferred Value	High Value
Value of AQC's assets and liabilities ($000)	Section D.1	(3,491)	(1,491)	38,509
Value of the debt component of the Convertible Notes ($000)[1]	Section D.2	N/a	N/a	N/a
AQC equity value (Controlling interest) ($000)		**(3,491)**	**(1,491)**	**38,509**
Adjustment for minority discount	Section D.3	-23%	-23%	-23%
AQC equity value (Minority interest) ($000)		**(2,684)**	**(1,146)**	**29,614**
Value of the equity component of the Convertible Notes (Embedded Call Options) ($000)	Section D.2	-	-	(3,667)
Less value of incentive options ($000)[2]		-	-	(3)
Value of AQC Shares (Minority interest) ($000)		**$Nominal**	**$Nominal**	**25,944**
Number of AQC Shares on Issue[3]	Section 5.5	4,374,684,264	4,374,684,264	4,374,684,264
Value per AQC Share following the Relevant Interest Acquisition (Minority interest) ($)		**$Nominal**	**$Nominal**	**0.0059**

Source: *BDO CFQ Analysis*

1 *We have not separately adjusted for this value as it is already incorporated in the value of the liabilities that we have adopted for AQC.*

2 *The 43,750,000 incentive options have been valued using the Black-Scholes formula having regard to the following assumptions: Exercise price = $0.008, Time to maturity = 0.07, Interest rate = 1.8%, Volatility = 85%, Dividend yield = 0%. The share price adopted is the final valuation share price. We have used an iterative process to overcome the circularity that arises from relying on the final share price to value the options. We note that the value of the options would be higher if valued at the closing price of $0.018 on 27 February 2017.*

3 *Includes 12,500,000 exercised incentive options on 2 March 2017*

Table D.4 shows that our ABV of AQC on a minority interest basis following the Relevant Interest Acquisition is within the range of $Nominal to $0.0059.

[11] Calculated as: 1 – 1/(1 + control premium)

D.5 Sensitivity on Asset Based Valuation of AQC on a Minority Interest Basis following the Relevant Interest Acquisition

As stated in Table D.1 above, we have applied a sensitivity on our ABV of AQC following the Relevant Interest Acquisition to allow for the exercise price on the Trepang Convertible Notes being less than $0.015. Table D.5 below sets out the revised value per AQC share under this scenario.

Table D.5: Sensitivity on ABV of AQC on a Minority Interest Basis Following the Relevant Interest Acquisition

	Section Reference	Low Value	Preferred Value	High Value
AQC equity value (Minority interest) ($000)	Table D.4	(2,684)	(1,146)	29,614
Value of the equity component of the Convertible Notes (Embedded Call Options) ($000)	Table D.3	-	-	(13,907)
Less value of incentive options ($000)[1]		-	-	-
Value of AQC Shares (Minority interest) ($000)		$Nominal	$Nominal	15,707
Number of AQC Shares on Issue[2]	Section 5.5	4,418,434,264	4,418,434,264	4,418,434,264
Value per AQC Share following the Relevant Interest Acquisition (Minority interest) ($)		**$Nominal**	**$Nominal**	**0.0036**

Source: *BDO CFQ Analysis*

1 *The 43,750,000 incentive options have been valued using the Black-Scholes formula having regard to the following assumptions: Exercise price = $0.008, Time to maturity = 0.07, Interest rate = 1.8%, Volatility = 85%, Dividend yield = 0%. The share price adopted is the final valuation share price. We have used an iterative process to overcome the circularity that arises from relying on the final share price to value the options. We note that the value of the options would be higher if valued at the closing price of $0.018 on 27 February 2017.*

2 *Includes 12,500,000 exercised incentive options on 2 March 2017*

By comparing Table D.4 and Table D.5 it can be seen that our ABV of AQC on a minority interest basis following the Relevant Interest Acquisition decreases from a range of $Nominal to $0.0059 to a range of $Nominal to $0.0036 as a result of the reduction in the exercise price.

Appendix E: Control Premium Analysis

A controlling interest in a company is usually regarded as being more valuable than a minority interest as it provides the owner with control over the operating and financial decisions of the company, the right to set the strategic direction of the company, control over the buying, selling and use of the company's assets, and control over appointment of staff and setting financial policies.

The increase in value for a controlling interest is often observed where an acquirer launches a takeover bid for another company. For the purposes of our research on control premiums, we have defined a controlling interest to be an interest where the acquirer has acquired a shareholding of greater than 50% in the target company.

The control premium observed in a given takeover bid may be impacted by a range of factors, including:

- The specific value that may have been applicable to the acquirer at the time of the transaction;
- The level of ownership already held by the acquirer in the target;
- The level of speculation in the market about a transaction between the target and the acquirer;
- The presence of competing bids for the target; and
- The prevailing strength of the market and the economy more broadly at the time of the transaction.

To determine an appropriate control premium range to apply to AQC in this Report, we have considered the following information:

- Control premiums implied in merger and acquisition transactions of coal exploration companies operating in Australia , which indicate median control premiums in the range of 30% to 55%;
- Recent independent expert's reports which apply control premiums in the range of 20% to 40%;
- Various industry and academic research, which suggests that control premiums are typically within the range of 20% to 40%;
- Various valuation textbooks; and
- Industry practice.

Having regard to empirical evidence and our experience, we would expect a control premium in the range of 20% to 40% to be applicable with a preferred value of 30%. This implies a minority interest discount in the range of 16.7% to 28.6% with a preferred value of 23.1%, which is calculated as the inverse of the control premium[12].

[12] Calculated as: 1-1/(1 + control premium)

Appendix F: Technical Expert's Report

Australian Pacific Coal Ltd

Independent Technical Specialist's Report

Australian Pacific Coal Assets

28 February 2017

28th February 2017

BDO Corporate Finance (QLD) Pty Ltd
Level 10, 12 Creek St
Brisbane QLD 4000
AUSTRALIA

Dear Sirs,

Re: Technical Specialist Report on Australian Pacific Coal Ltd Assets

This Independent Technical Specialist Report ('ITSR') has been prepared by Xenith Consulting Pty Ltd ('Xenith') at the request of BDO Corporate Finance (QLD) Ltd ('BDO') for inclusion in the Independent Expert's report being prepared by BDO in relation to the shareholder approval for the future exercise of the convertible note into shares and for the provision of the security.

The purpose of the report is to document Xenith's Technical Assessment of the Australian Pacific Coal ('APC') assets, including the confirmation of current resource estimates and an assessment of the technical suitability of proposed exploration plans.

In addition, Xenith has estimated the Technical Value of the APC Coal assets.

Xenith has conducted its technical review in recognition of the requirements of the "Australasian Code for Reporting of Mineral Resources and Ore Reserves" (2012) published by the Joint Ore Reserves Committee ('JORC') of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and the Minerals Council of Australia (the 'JORC Code'), and also with the requirements of the Code and Guidelines for Assessment and Valuation of Mineral Assets and Mineral Securities for Independent Expert Reports as adopted by the Australasian Institute of Mining and Metallurgy (the 'Valmin Code').

Xenith has not audited the information provided to it, but has aimed to satisfy itself that all of the information has been prepared in accordance with proper industry standards and is based on data that Xenith considers to be of acceptable quality and reliability. Where Xenith has not been so satisfied, Xenith has included comment in this ITSR and considered this in the estimated Technical Value.

This Mineral Asset Valuation included in this ITSR has been prepared to conform to the Australian VALMIN Code (2015). The valuation of Mineral Assets is not precise and the conclusions arrived at in many cases will of necessity be subjective and dependent on the exercise of individual judgement. There is therefore no indisputable single value and Xenith normally expresses an opinion on the value as falling within a likely range, as required by the Code.

Xenith has adopted various valuation methods to estimate the current market value of the APC Coal Assets. Using these methods, Xenith estimates the market value of APC Coal Assets resides between **A$22M and A$64M**, with a preferred value of **A$24M**.

The range in value reflects the uncertainty in the restart plans for Dartbrook mine, the precision of the valuation methods and the underlying valuation assumptions.

The valuation is driven predominantly from the Dartbrook land and water licence assets; some of the other more advanced projects – Cooroorah, Dingo, South Clermont and Mt Hillalong add some value.

Table 1.1 – Valuation Summary

Tenement	Project Name	Preferred Valuation Method	APC Ownership	Value Low (APC Share)	Value High (APC Share)	Value Preferred (APC Share)
			%	A$M	A$M	A$M
	Dartbrook	Comparable Sales Transaction	100.0%	20.0	59.0	21.3
EPC 1645	Mount Hess	Multiples of Exploration Expenditure	100.0%	0.00	0.00	0.00
EPC 1773	Kemmis Creek	Multiples of Exploration Expenditure	100.0%	0.01	0.01	0.01
EPC 1824	Mount Hillalong	Multiples of Exploration Expenditure	100.0%	0.47	1.35	1.01
EPC 1859	Dingo	Multiples of Exploration Expenditure	100.0%	0.25	0.33	0.28
EPC 1867	Mount Hess West	Multiples of Exploration Expenditure	100.0%	0.02	0.05	0.03
EPC 1955	Bungaban Creek	Comparable Transactions EV/resource	10.0%	0.02	0.09	0.04
EPC 1957	Laguna Creek	Comparable Transactions EV/lease area	10.0%	0.00	0.00	0.00
EPC 1987	Quandong	Comparable Transactions EV/lease area	10.0%	0.00	0.00	0.00
EPC 2011	South Clermont	Multiples of Exploration Expenditure	100.0%	0.21	0.32	0.25
MDL 453	Cooroorah	Comparable Transactions EV/resource	100.0%	0.62	2.50	1.25
			Total Value	**22**	**64**	**24**

For definitions of abbreviations used in this ITSR, refer to Appendix A, and for contributors to this ITSR, refer to Appendix B.

Xenith has been paid, and has agreed to be paid, professional fees for its preparation of this report. However, none of Xenith or its directors, staff or sub-consultants who contributed to this report has any interest in:

- APC or the relevant parties and companies associated with these entities; or
- The mining assets reviewed; or
- The outcome of the BDO report.

Yours Sincerely

Troy Turner
MAusIMM (CP)

Table of Contents

List of Tables

List of Figures

List of Appendices

1 INTRODUCTION

1.1 Context

On 16 June 2016, Australian Pacific Coal ('APC') announced a funding update for the purchase of the Dartbrook Coal Mine from Anglo American and Marubeni (Dartbrook Joint Venture) which included, subject to shareholder approval, issuing a financier of APC with a convertible note secured against the mining tenements and real property of APC.

1.2 Purpose of Report

This Independent Technical Specialist Report ('ITSR') has been prepared by Xenith Consulting Pty Ltd ('Xenith') at the request of BDO Corporate Finance (QLD) Ltd ('BDO') for inclusion in the Independent Expert's report being prepared by BDO in relation to the shareholder approval for the future exercise of the convertible note into shares and for the provision of the security.

The purpose of the report is to document Xenith's Technical Assessment of APC, including a review of the prospectivity of each asset, a review of the medium term plans for the Dartbrook mine recommencement, a review of current resource estimates and an assessment of the technical suitability of any proposed exploration plans.

In addition, Xenith has estimated the Technical Value of the APC Coal assets.

1.3 Scope of Work

Xenith carried out the following scope of work for the Technical Assessment:

For Dartbrook Mine (which is currently on care and maintenance) -

- Review the proposed timeline for mine recommencement;
- Proposed mine plans and development requirements including refurbishment;
- Infrastructure capacity specifications and condition reports, to allow a fair market valuation of the existing Coal Handling and Preparation Plant and other fixed infrastructure in the condition that it is currently in;
- Current environmental and approvals status;
- Freehold land fair market valuations of the rural land;
- Water Licence valuations associated with the rural land;
- Preparation of the valuation of the Asset;
- Documenting the Technical Assessment in the Technical Specialist Report.

For the Queensland Exploration tenements -

- A review of the current title and ownership for the Coal Assets;
- A review of the geological reports, estimation methods, and coal quality data;
- Assessment of resource estimates for JORC Code [1] compliance and commenting on geological implications for future mining and coal product types;

- Assessment of the future exploration work program planned for the Coal Assets;
- Assessment of other factors such as environmental constraints which may affect future development of the Assets;
- Preparation of the valuations of the Assets;
- Documenting the Technical Assessment in the Technical Specialist Report.

Xenith has not audited the information provided to it, but has aimed to satisfy itself that all of the information has been prepared in accordance with proper industry standards and is based on data that Xenith considers to be of acceptable quality and reliability. Where Xenith has not been so satisfied, Xenith has included comment in this ITSR and considered this in the estimated Technical Value.

1.4 Location of Assets

The Dartbrook Mine is located in the Upper Hunter Valley, NSW. The closest town to the mine is Aberdeen with a population of ~2,000.

APC has also established a portfolio of coal exploration tenement areas in Queensland, Australia. APC's tenements cover approximately 1,100 square kilometers and are located in the Surat, Bowen and Galilee Basins.

1.5 Capability and Independence

This report was prepared on behalf of Xenith by the signatories to this report, details of whose qualifications and experience are set out in Appendix B to this report.

Xenith operates as an independent technical consultant providing resource evaluation, mining engineering and mining project valuation services to the resources and financial services industry. Xenith has commissioned some sub-consultants to undertake parts of this assignment. The sub-consultants are recognised as experts in their field, with relevant experience and qualifications for this type of work.

Xenith has most recently carried out an assignment for APC in August 2015. That assignment was an ITSR for the transaction when Australian Pacific Coal ('APC') announced a share placement of 3.3 billion shares in total (74.39% of APC shares on issue post-raising) equally to Bentley Resources Pte Ltd ('Bentley Resources') and Trepang Services Pty Ltd ('Trepang Services'). Xenith still believes its independence has in no way been compromised.

Xenith has been paid, and has agreed to be paid, professional fees for its preparation of this report. However, none of Xenith or its directors, staff or sub-consultants who contributed to this report has any interest in:

- APC or the relevant parties and companies associated with these entities; or
- The mining assets reviewed; or
- The outcome of the BDO report.

Drafts of this report were provided to APC, but only for the purpose of confirming the accuracy of factual material and the reasonableness of assumptions relied upon in the report.

The Specialists who contributed to the findings within this Report have each consented to the matters based on their information in the form and context in which it appears.

Information in this report that relates to Mineral Resources based on Resource Estimates has been prepared by Competent Persons as defined by the JORC Code [1]. This report conforms in all aspects, unless an aspect is specifically excluded, with the requirements of the Code and Guidelines for Assessment and Valuation of Mineral Assets and Mineral Securities for Independent Expert Reports as adopted by the Australasian Institute of Mining and Metallurgy (the “Valmin Code”) [2].

For the purposes of this report, value is defined as fair market value, being the amount for which a mineral asset should change hands between a willing buyer and a willing seller in an arm’s length transaction where each party is assumed to have acted knowledgeably, prudently and without compulsion.

1.6 Methodology

1.6.1 Technical Assessment

The following points cover the main areas that the review focussed on and a brief description of the methodology used:

- Review the ownership status of the asset;
- Review the geology, particularly the exploration completed or planned and any laboratory results for coal quality;
- Review other factors which may affect future development, such as the regulatory restrictions;
- Review the Mineral Resources for the deposit, where applicable;
- Comment on the key points for each asset, and make an assessment of the asset’s prospectivity based on the reviewed information; and
- Determine a valuation for each asset based on a credible valuation methodology, the asset’s prospectivity and other relevant information.

1.7 Site Inspection

For the purpose of this ITSR, Xenith has not visited the APC Coal assets. However, as Xenith has undertaken extensive technical evaluation work of coal assets in the Sydney, Galilee, Bowen, and Surat basins, it has a good understanding of the assets and has no reason to question the validity of the technical information supplied. Xenith is satisfied that APC has provided sufficient information for Xenith’s informed appraisal to be made without such site visits.

Xenith has an office in Singleton NSW, and the consulting team in that office has had prior experience on the Dartbrook deposit when it was operated by Anglo American Metallurgical Coal (‘AAMC’).

1.8 Limitations and Exclusions

This Report specifically excludes all aspects of legal issues, commercial and financing matters, land use agreements, excepting such aspects as may directly influence technical, operational or cost issues. Xenith has relied upon independent long term coal pricing data for the Dartbrook project valuation.

In Xenith's opinion, the information provided by APC was reasonable and nothing discovered during the preparation of this report suggested that there was any significant error or misrepresentation in respect of that information. Information generated by third parties, consultants or contractors to APC has not been independently validated by Xenith through the generation of new work or new data. Xenith has relied upon the accuracy of this information for this report.

The majority of the Dartbrook information was sourced from APC.

1.9 Inherent Minerals Exploration Risk

Coal mining and exploration is carried out in an environment where not all events are predictable. Whilst an effective management team can identify the known risks and take measures to manage and mitigate those risks, there is still the possibility for unexpected and unpredictable events to occur. It is not possible therefore to totally remove all risks or state with certainty that an event that may have a material impact on the execution of coal exploration, development and mining, will not occur.

1.10 Information Sources

In developing our assumptions for this report, Xenith has relied upon due-diligence materials provided by APC and information available in the public domain. Key sources are outlined in this report and all data included in the preparation of this report has been detailed in the references section.

In the execution of its mandate, Xenith reviewed all relevant pertinent technical and corporate information made available by the management of APC, which has been accepted in good faith as being true, accurate and complete, after having made due enquiry. Specifically, Xenith has reviewed company announcements, quarterly reports and JORC Code resource estimates provided by APC and its JV partners [3-9].

2 AUSTRALIAN PACIFIC COAL OVERVIEW

2.1 Key Outcomes

- Australian Pacific Coal (APC) has full interest in the Dartbrook Mine in NSW (subject to final conditions precedent), along with full or partial interest in exploration projects in the Bowen, Surat, and Galilee Basins in Queensland.
- The projects are at various stages of development but none are currently in production.
- The Dartbrook mine is currently on care and maintenance and is known to have historically produced a high quality thermal coal. The Queensland exploration projects have potential coking, PCI and thermal coal products.
- The company has stated publically it is finalising a business case on the potential to quickly recommence production at Dartbrook with underground mining, utilising the available site infrastructure including the coal preparation plant and rail loadout.
- The Dartbrook Mine, Mount Hillalong (EPC 1824), Dingo (EPC 1859), South Clermont (EPC 2011) and Cooroorah (MDL 453) projects have been identified as APC's most advanced.
- The Cooroorah and Mount Hillalong projects are subject to a conditional sales agreement to another party with settlement due in late May 2017. These projects are included in this report.
- APC has JV agreements on three tenements with Blackwood Resources (a 100% owned subsidiary of Cuesta Coal Ltd).

2.2 APC Asset Summary

APC has developed a strategy for exploring for bulk open-cut and underground mineable resources of high quality thermal and metallurgical coal for export markets. The company has a relatively small but nevertheless strategic holding of coal exploration tenements located in Queensland's Bowen, Galilee and Surat Basins as listed in Table 2.1 and shown in Figure 2.1. APC also holds a mining lease over a small Bentonite mine, Mantuan Downs No. 1, which has been on care and maintenance since 2009. Area Coal Pty Ltd and Mining Investments One Pty Ltd are 100% owned subsidiaries of APC.

A major development for the company was announced on 29 December 2015, when APC entered into a binding agreement to acquire an 83.33% interest in the Dartbrook JV from Anglo American. The Dartbrook Mine location is shown in Figure 2.1.

In June 2016 Marubeni (as the other JV partner in Dartbrook) exercised its tag-along rights, and APC will purchase the 16.67% from Marubeni.

APC will therefore acquire 100% of the Dartbrook JV. The consideration for the acquisition of 100% included:

- A$30 million cash payment;

- a royalty of A$3.00 per tonne of total coal sold or otherwise disposed of from the Project ($2.50 per tonne to Anglo and $0.50 per tonne to Marubeni); and
- A$0.30 per tonne of any third party coal processed through Project infrastructure ($0.25 per tonne to Anglo and $0.05 per tonne to Marubeni).
- In either case the total royalty payable is capped at $30 million.

The Dartbrook project is made up of 8 separate tenements.

In Queensland APC holds interests in 6 EPCs and one MDL in the Bowen Basin (see Figure 2.3 and Figure 2.4), 2 EPCs in the Surat Basin (see Figure 2.5) and one EPC in the Galilee Basin (see Figure 2.3).

The complete list of APC tenements is shown in Table 2.1.

Table 2.1 – APC Asset List

Tenement	Project Name	APC Ownership	Lease Area	Basin	Target Coal Formation	Nearby Projects
		%	Sq.Km			
AUTH256	Dartbrook	100.0%	811 Ha	Sydney	Wittingham Coal Measures	Hunter Valley Mines
CL386	Dartbrook	100.0%	1467 Ha	Sydney	Wittingham Coal Measures	Hunter Valley Mines
EL4574	Dartbrook	100.0%	1336 Ha	Sydney	Wittingham Coal Measures	Hunter Valley Mines
EL4575	Dartbrook	100.0%	960.6 Ha	Sydney	Wittingham Coal Measures	Hunter Valley Mines
EL5525	Dartbrook	100.0%	692 Ha	Sydney	Wittingham Coal Measures	Hunter Valley Mines
ML1381	Dartbrook	100.0%	2.635 Ha	Sydney	Wittingham Coal Measures	Hunter Valley Mines
ML 1456	Dartbrook	100.0%	5.425 Ha	Sydney	Wittingham Coal Measures	Hunter Valley Mines
ML1497	Dartbrook	100.0%	1793 Ha	Sydney	Wittingham Coal Measures	Hunter Valley Mines
EPC 1645	Mount Hess	100.0%	32	N Bowen	Fort Cooper, Moranbah CM	Hail CK,Hillalong
EPC 1773	Kemmis Creek	100.0%	6	N Bowen	Fort Cooper	Hail Creek, Kemmis Walker
EPC 1824	Mount Hillalong	100.0%	48	N Bowen	Rangal CM	Hail Creek
EPC 1859	Dingo	100.0%	16	C Bowen	Rangal CM/Burngrove FM	Dingo West
EPC 1867	Mount Hess West	100.0%	6	N Bowen	Moranbah CM	Hail CK,Hillalong
EPC 1955	Bungaban Creek	10.0%	197	NE Surat	Taroom CM	The Range, Bottletree
EPC 1957	Laguna Creek	10.0%	381	Galilee	Betts Creek Beds, Bandanna CM	Carmichael et.
EPC 1987	Quandong	10.0%	354	NE Surat	Taroom CM	The Range, Back Creek
EPC 2011	South Clermont	100.0%	57	W Bowen	Blair Athol CM/Back Creek GP	Clermont, Blair Athol
MDL 453	Cooroorah	100.0%	17	C Bowen	Rangal CM/Burngrove FM	Curragh/Jellinbah
ML 70360	Mantuan Downs No	100.0%	0	Eromanga	NA	NA

Figure 2.1 – Dartbrook Tenements Overview

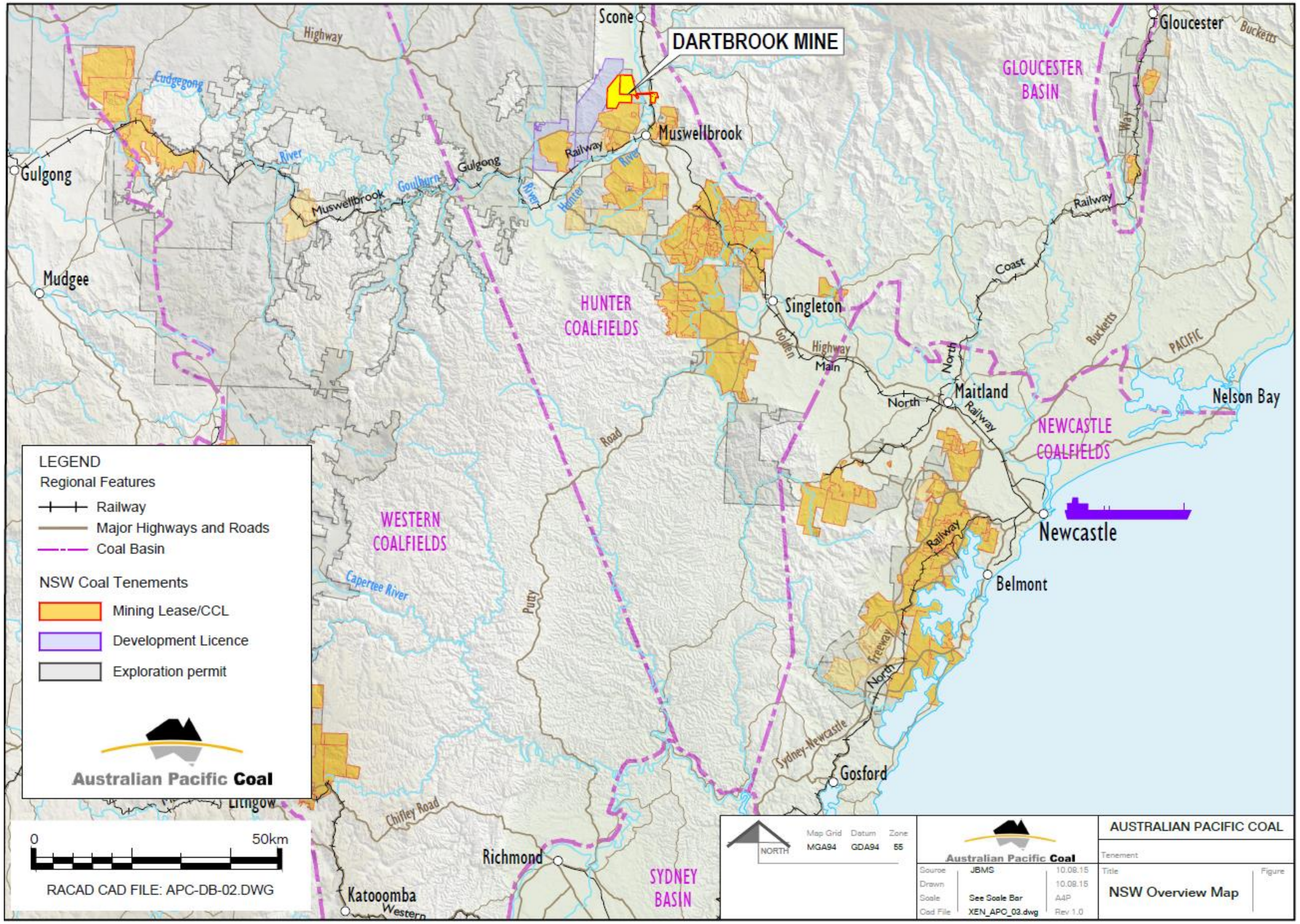


Figure 2.2 – Queensland Tenements Overview

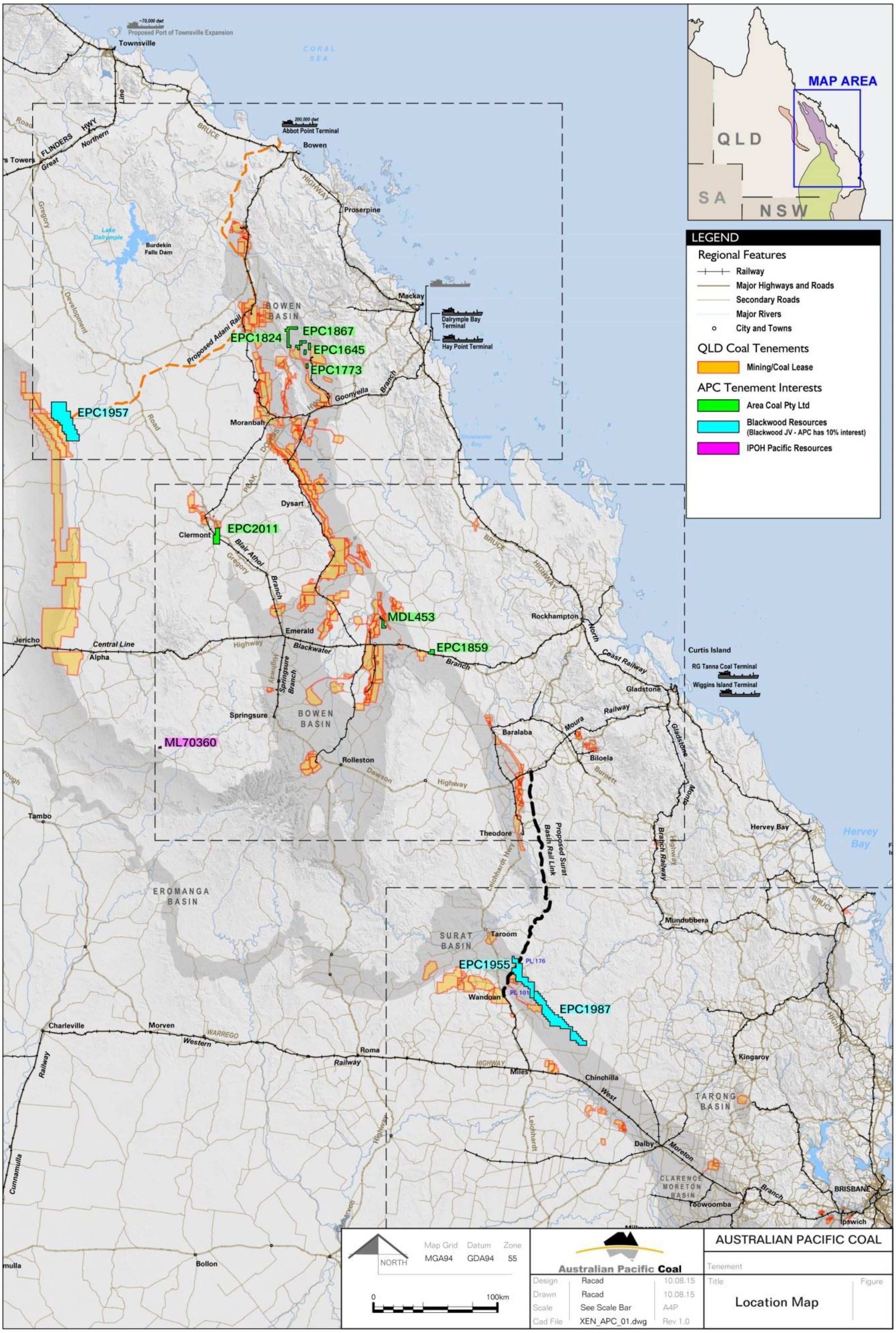


Figure 2.3 – Northern Bowen Basin and Galilee Basin Tenements

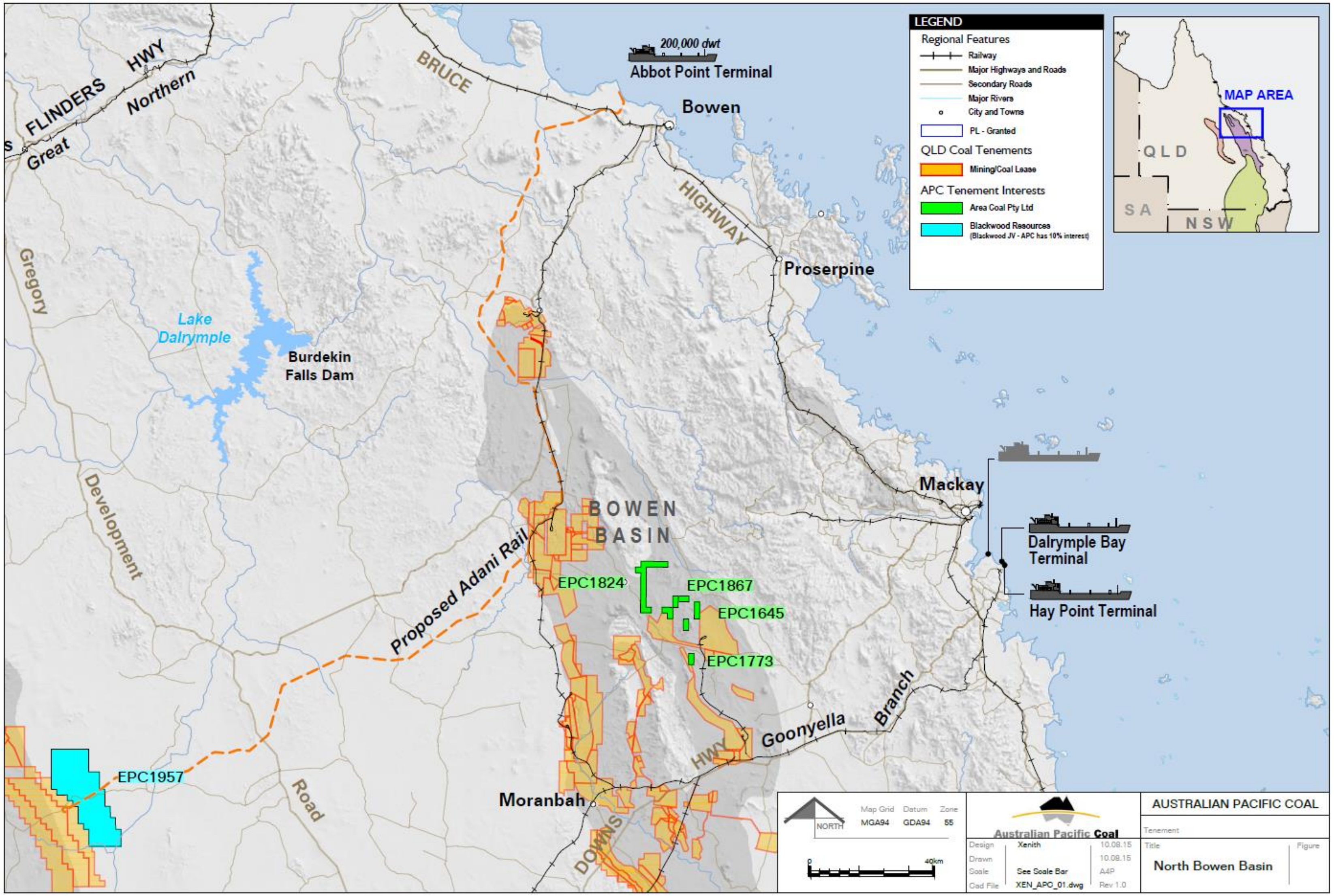


Figure 2.4 – Central and Southern Bowen Basin Tenements

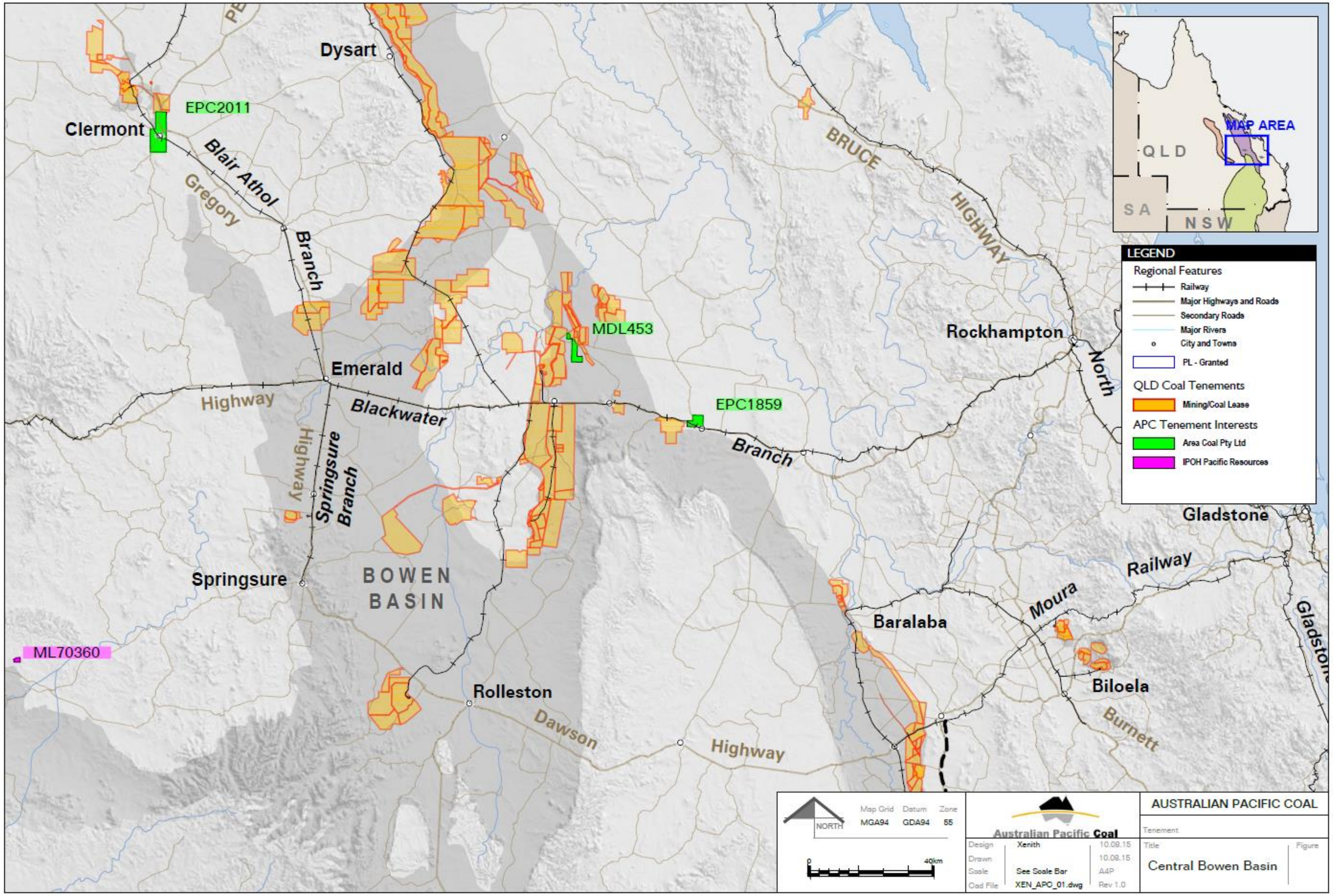
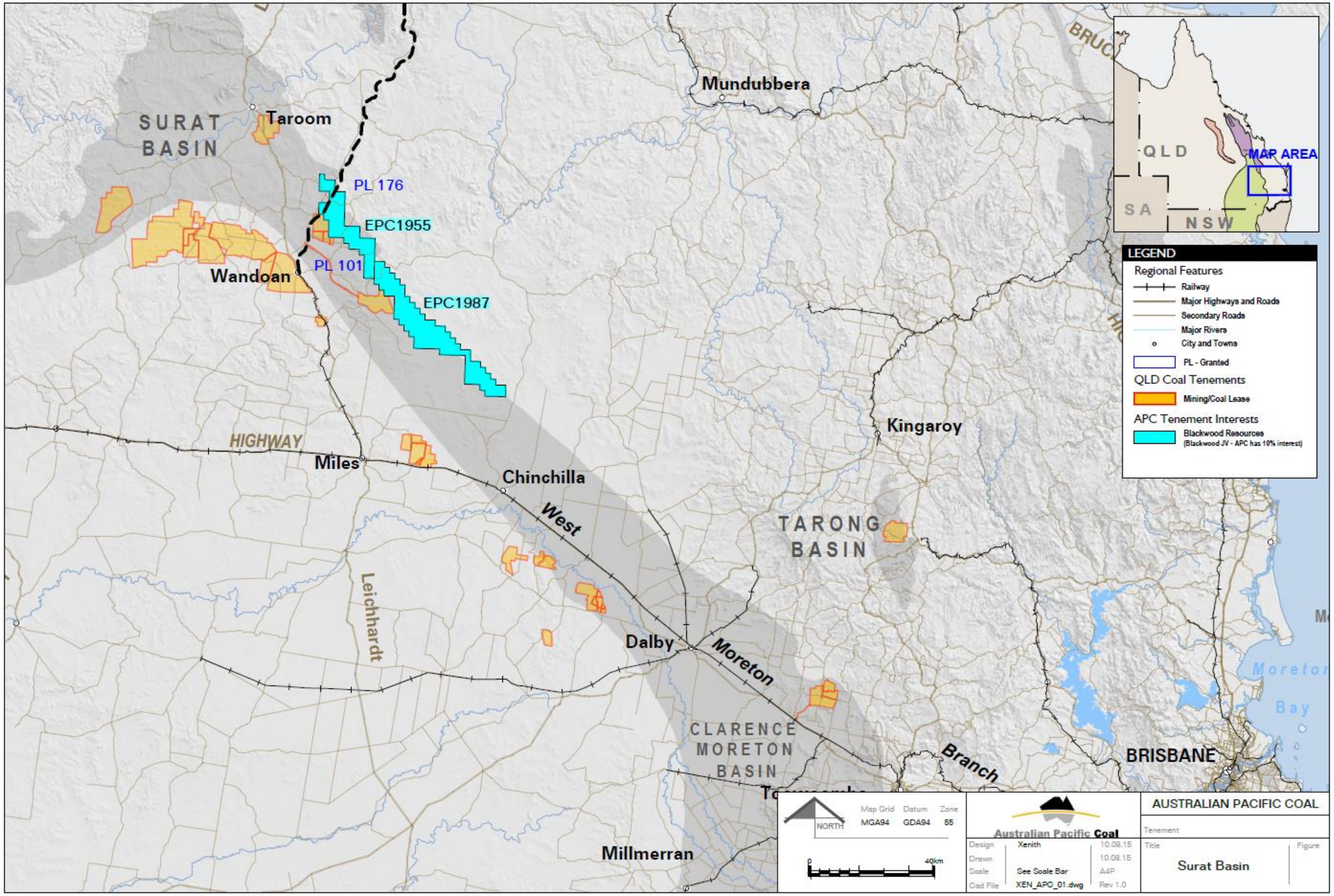


Figure 2.5 –Surat Basin Tenements



2.3 Joint Venture Agreements

APC has joint venture arrangements over a number of their projects.

In April 2010, a 90% interest in EPC 1955, 1957, 1979 and 1987 was acquired by Blackwood Resources Pty Ltd for $500,000 in cash and a commitment to fund exploration while APC retained a 10% free carried interest in the joint venture up to bankable feasibility stage. Since this transaction, a decision not to renew EPC 1979 has been announced (and therefore EPC 1979 is not included in this valuation) and relinquishments of 106 sub-blocks have occurred. Blackwood can withdraw at any time and offer the project(s) back to APC at no cost.

In August 2011, Rio Tinto Exploration (‘RIO’) and APC agreed upon a joint venture in Mt Hillalong Project. On 25 June 2015, APC announced that RIO would not exercise its option to acquire the Mt Hillalong Project resulting in the ownership and exploration data for EPCs 1773, 1824, 1867 and EPC 1645 to be transferred to APC and this was effective on 23 August 2015.

2.4 Planning Considerations

A number of high level planning considerations were examined for each mining tenement to identify potential constraints that need to be considered when developing the respective tenements. The following matters were investigated:

- Restricted areas as defined under the *Mineral Resources Act 1989*
- Overlapping petroleum lease tenements as defined under the *Petroleum and Gas (Production and Safety) Act 2004*
- Priority living areas/Priority Agricultural Areas/Strategic Environmental Areas as defined under the *Regional Planning Interests Act 2014*
- World Heritage Areas as defined under the *Environment Protection and Biodiversity Conservation Act 1999*
- Strategic Cropping Land Trigger Areas as defined under the *Regional Planning Interests Act 2014*
- National Parks/Nature Reserves/ State Forests as defined under the *Nature Conservation Act 1992*
- State Development Areas as defined under the *State Development and Public Works Organisation Act 1971.*

These searches have been reported for each tenement description in the subsequent tenement discussions by exception. Infrastructure such as roads, rail, and airports has not been reported here. Appendix D shows a complete list of all searches conducted for each tenement.

In developing the constraints assessment for this report, Xenith has relied upon information available in the public domain including on-line government databases.

3 DARTBROOK

3.1 Key Outcomes

- Located in Sydney Basin, Upper Hunter Valley. Immediately North of the Mt Pleasant deposit which has recently been announced by Rio Tinto as being sold to Mach Energy Australia Pty Ltd – a subsidiary of the Salim Group from Indonesia, for US$224 million plus future royalties.
- Underground Longwall mine previously operated by Anglo American Metallurgical Coal (AAMC). Mine was mothballed in 2006, due to prevailing market conditions and low production rates in the Kayuga Seam (mainly due to the mining equipment which was moved from the Wynn seam not being suited to the Kayuga conditions; including seam floor rock strength).
- Currently APC is considering the option of a bord and pillar mine start-up in the Kayuga and/or Piercefield seams, potentially transitioning in the medium term to a large open cut mine.
- JORC Resource of 1,209Mt estimated by JB Mining in January 2016 on behalf of APC – Measured Resource of 466 Mt, Indicated Resource of 449 Mt and Inferred Resource of 294 Mt. (JORC code, 2012).
- In 2015 an underground study identified future opportunities for underground mining in 3 seams – Kayuga, Piercefield and Wynn.
- Studies in 2015 also examined a potential large open cut mining operation; the study results showed that the allowable dust and noise limits near the township of Aberdeen would be difficult to maintain due to the large number of waste and coal truck movements required in a conventional truck and shovel mine. The preferred alternative of a shovel/conveyor system for the waste and coal mining was studied to help alleviate the dust issues, and this will be the focus of future studies and potential open cut approvals.
- The Target coal seams are expected to produce a thermal coal product comparing favourably with the Newcastle Thermal Benchmark. A semi-soft coking coal fraction was also recognised in the historical shipping results from the Kayuga seam in 2004/2005.
- Site infrastructure has been maintained in a reasonable condition to allow a modest amount of capital expenditure to be spent, before a low tonnage start-up.
- Approximately 3,000 Ha of land and significant water access licences associated with the asset

3.2 Overview

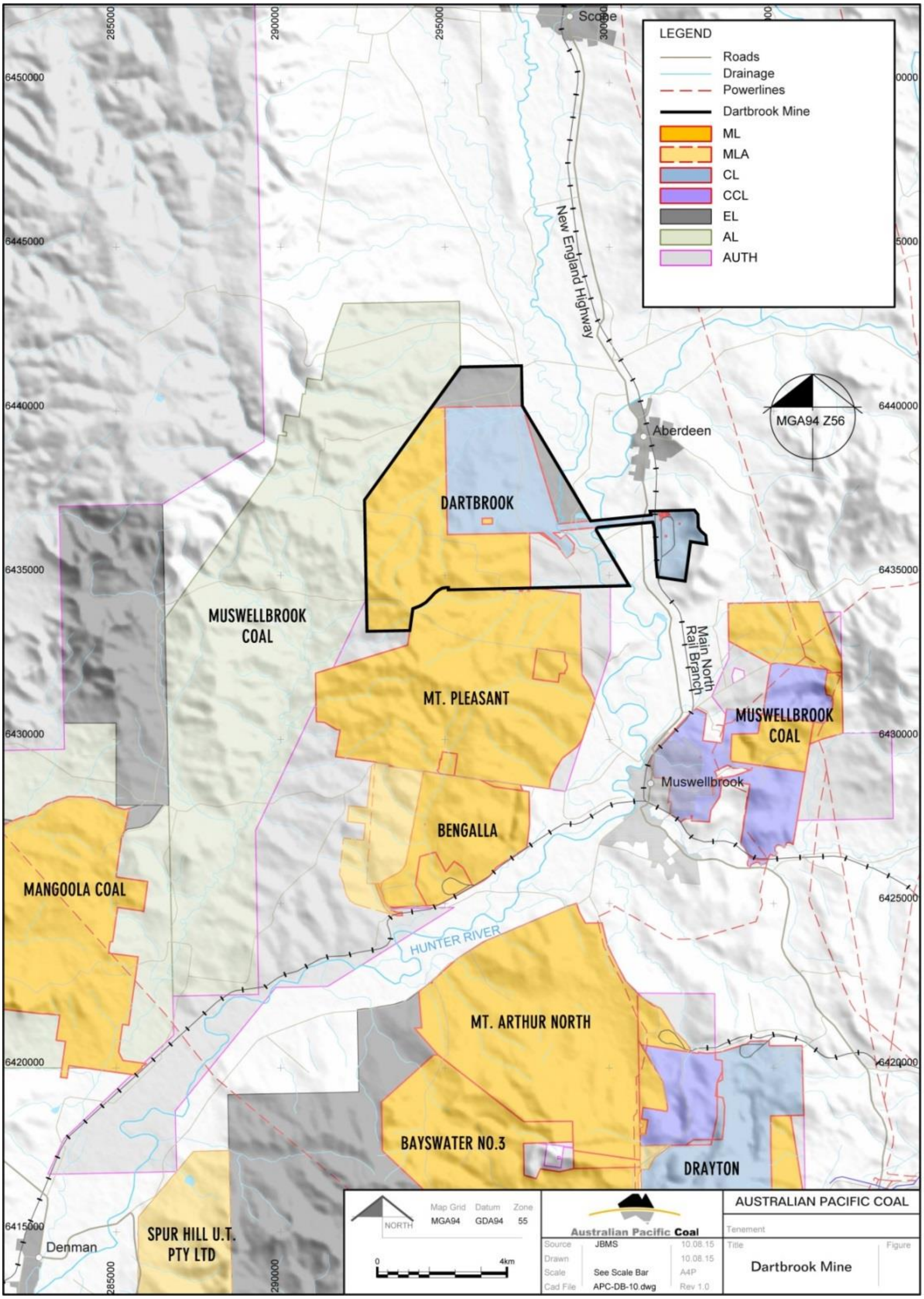
Dartbrook Mine is located in the renowned Hunter Valley region of NSW. The project is approximately 4km west of the township of Aberdeen and 10km North of the township of Muswellbrook. This location ideally places Dartbrook near world class rail and road infrastructure along with a skilled workforce and support industries.

The mine was placed on care and maintenance by AAMC in 2006 due to a combination of prevailing market conditions, geological conditions and the unsuitability of some of the underground equipment to the Kayuga seam.

3.3 Location and Background

Dartbrook is accessed via the New England Highway the transverses the project area. The rail line is connected to the port of Newcastle which is approximately 150km to the South-East. Mining operations in the immediate area include the Bengalla, Mangoola and Mt Arthur mines, as well as the advanced Mt Pleasant project. Figure 3.1 shows the regional location of the Dartbrook Mine and surrounding tenure.

Figure 3.1 – Dartbrook Mine Location



3.4 Tenure

The Dartbrook project is made up of 8 separate tenements. The tenements are shown in Table 3.1.

Table 3.1 – Dartbrook Tenement List

Tenement	Project Name	APC Ownership %	Lease Area
AUTH256	Dartbrook	100.0%	811 Ha
CL386	Dartbrook	100.0%	1467 Ha
EL4574	Dartbrook	100.0%	1336 Ha
EL4575	Dartbrook	100.0%	960.6 Ha
EL5525	Dartbrook	100.0%	692 Ha
ML1381	Dartbrook	100.0%	2.635 Ha
ML 1456	Dartbrook	100.0%	5.425 Ha
ML1497	Dartbrook	100.0%	1793 Ha

The mining leases (ML) and coal leases (CL) cover an area of approximately 3,268 hectares while the exploration leases (EL) and authorization permits (AUTH) covers an area of approximately 3,800 hectares (which includes areas that are inside the areas of the ML and CL's).

3.5 Land and water

The Dartbrook property portfolio is comprised of 13 holdings totaling 3,038 hectares, including alluvial, grazing and agricultural lands. Additionally, 5,396 units (ML) of water access licences are held, comprised of:

- unregulated river (85 ML),
- aquifer (2,044 ML),
- supplementary water (254 ML),
- regulated river – general security (2,994 ML),
- regulated river – high security (3 ML), and
- domestic and stock licences (16 ML).

Appendix A contains full details of the land and water allocation licences.

3.6 Mine History

Key Dartbrook milestones[1,2,3,4,5] are summarised below:

- Early 1970s - exploration drilling by Peabody Energy
- 1991 - Mining Lease and underground development consent obtained by Shell
- 1993 - Construction commenced
- 1994 - Development commenced
- 1996 - Hunter Tunnel conveyor commissioned. Longwall commenced
- 1998 - Coal Handling and Preparation Plant commenced operation
- 2002 - Longwall goaf fire
- 2004 - Kayuga Seam operation replaces Wynn Seam operation
- 2005 - Longwall goaf heating
- 2006 - Longwall goaf heating
- 2006 - Placed under care and maintenance

The stated reasons for placing the operation on care and maintenance were "operational issues and the prevailing commodity price environment"[6].

3.7 Geology

The geology of the deposit is very well understood[7]:

- The Hunter Valley regional geology is relatively simple and well understood
- The Dartbrook deposit is a shallow lying, high quality, deposit consisting of multiple thick and laterally extensive seams
- The deposit is subject to relatively minor, well-mapped faults and minor folding
- Regional seam dip is gentle, at 3° to 5° to the west or north-west
- The majority of the seams in the deposit show consistent, predictable coal quality and seam continuity

Dartbrook coal quality has been compared to that of other operations and the Newcastle benchmark, as shown below in Figure 3.2.

---

[1] *APC Dataroom*

[2] *APC Dataroom*

[3] *Australian Black Coal Mining Operations, K. Cram, Longwall 2003, 19-20 November 2003, Hunter Valley, NSW, Australia, p. 5*

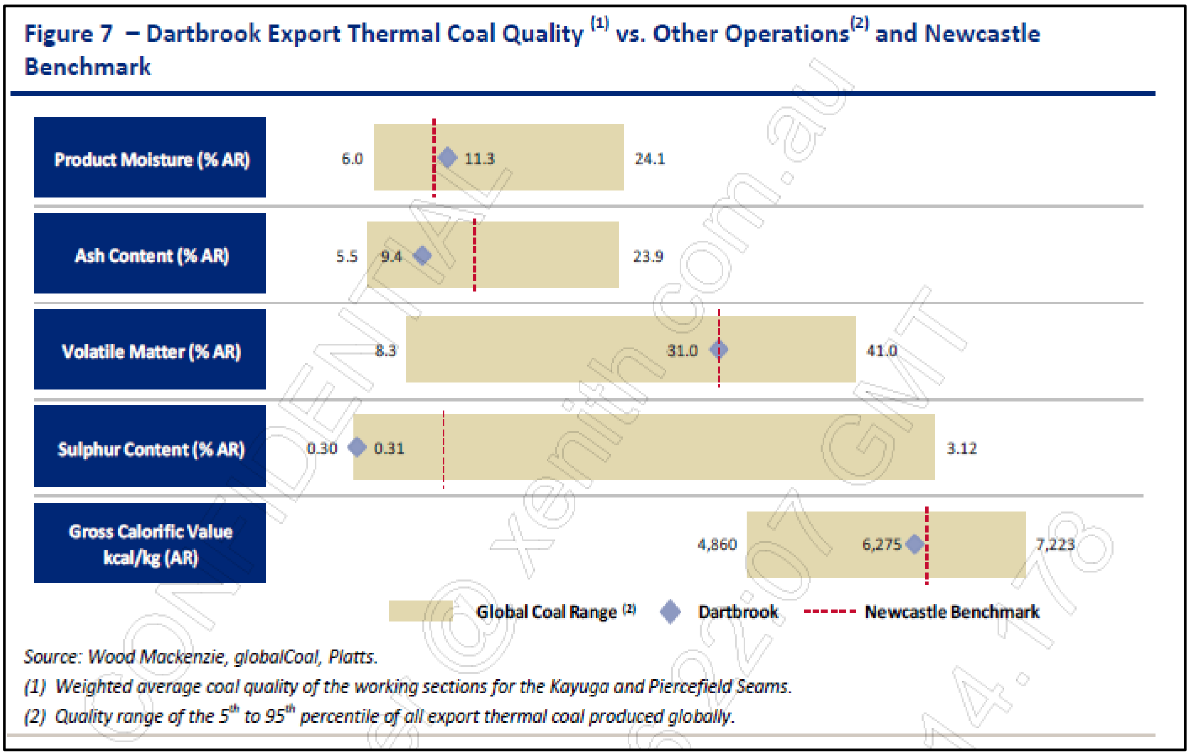
[4] *A Review of Spontaneous Combustion Incidents, B. Ham, Coal 2005, p. 242*

[5] *MGD 1006 - Technical Reference - Spontaneous Combustion Management, NSW Mine Safety Operations Branch, 2011, pp. 104-105*

[6] *APC Dataroom*

7 APC Dataroom

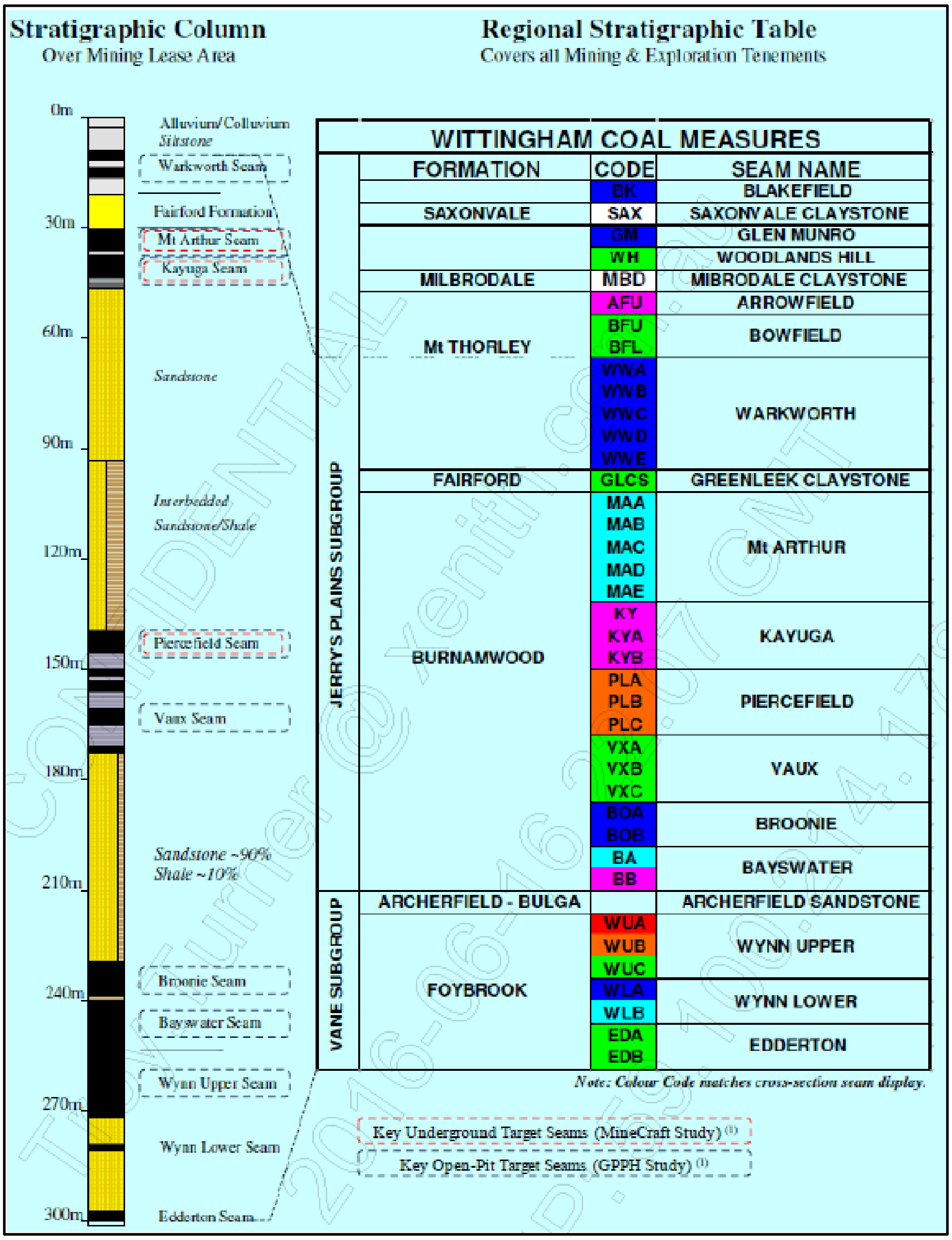
Figure 3.2 – Dartbrook Coal Quality Comparison



Source: APC Dataroom

The target seams identified in the APC due-diligence material are shown below in Figure 3.3.

Figure 3.3 – Dartbrook Stratigraphic Column



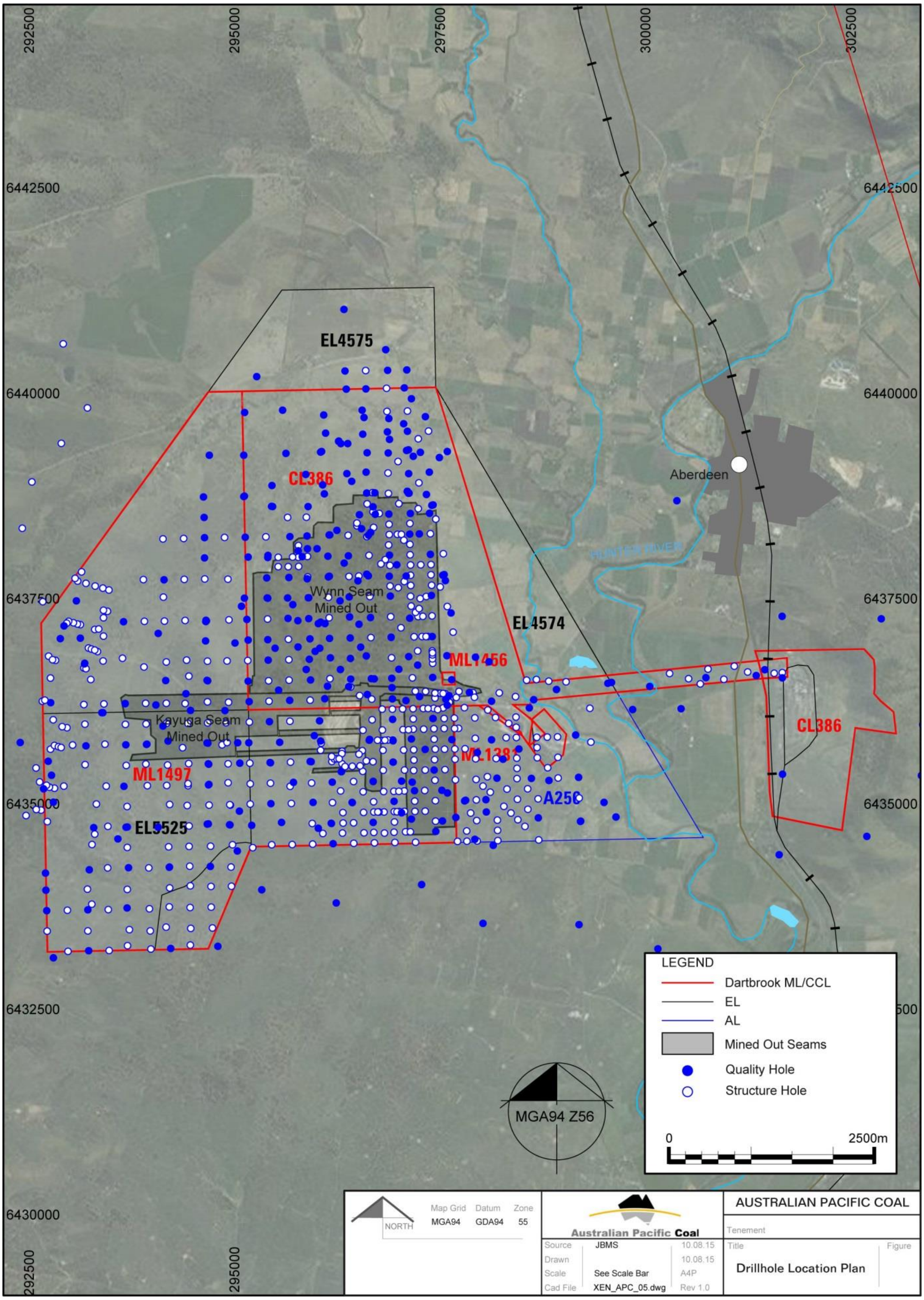
Source: APC Dataroom

The seams that have been exploited to date are the Wynn Upper seam in the original Dartbrook longwall operation and the Kayuga Seam at the Kayuga longwall operation.

3.7.1 Exploration Activity

The Dartbrook deposit has been extensively explored over many decades. Numerous exploration programs have resulted in ~1,100 drillholes. Of the 1,100 drillholes 352 have coal quality information and have been used in the coal quality model. The drilling is generally on a 250m grid pattern with a combination of chip and cored holes. The drillholes have been geophysically logged and have included both geotechnical and coal seam gas samples as necessary. The Drillhole locations for Dartbrook are displayed in Figure 3.4.

Figure 3.4 – Drillhole Location Plan



3.7.2 Geological Modeling

The most recent geological model was completed by the well regarded Brisbane based consultants JB Mining Services Pty Ltd, in January 2016. The model was completed for APC, but it recognised the contribution of the Anglo American geologists who had a long history with the project.

The geological features of the deposit are considered to be well understood. Geological structures such as dykes and faults have been located and are included in the geological model. The Wittingham Coal measures are known for extensive seam splitting over relatively short distances which does lead to variation in the full seam thicknesses. These seam variations have been adequately modeled.

The recent model was completed in Maptek Vulcan software with the structural modeling competed on a 20m grid cell size, while the coal quality modeling was completed on a 100m cell size.

3.7.3 JORC Resources

JORC resources have been estimated by JB Mining Services Pty Ltd in January 2016. Mr Mal Blaik signed the resource estimate as the competent person, in accordance with the JORC Code 2012. The Resource was estimated at 1,209Mt, and included –

- Measured Resource of 466 Mt,
- Indicated Resource of 449 Mt, and
- Inferred Resource of 294 Mt.

The resources have had all relevant constraints applied including minimum seam thicknesses, lease boundary offsets, maximum raw ash, geological structures and old workings. The resource estimate was stated as being for an opencut mine with certain depth limits. The seam by seam resources can be easily translated into the target underground seams as the depths and limits are still applicable.

The 3 target underground seams coal resources are –

- Kayuga seam with 102Mt,
- Piercefield with 140Mt, and
- Wynn with 92Mt.

These resources show an adequate tonnage for a long life underground mine, which is planned transition between the seams during the future mine life.

3.8 Mine Redevelopment Opportunities

Dartbrook was placed on care and maintenance in 2006. Anglo American completed the Dartbrook Concept Study, an investigation into possible open-pit operations, in 2011[8], and commenced a Pre-Feasibility Study (PFS). The PFS was suspended at the end of Phase 1

[8] *APC Dataroom*

(divergent phase), presumably in July 2012, the title date of the Study Suspension Report. This appears to have been issued and/or finalised in March 2015[9].

The following significant studies have been completed since that date:

1. Open cut opportunities, supported by:
   a. Summary Stage 1 Report - Dartbrook PFS - Mining Options Trade-off Study, Undated
   b. Dartbrook Study Documentation - Report, , August 2015
2. Underground opportunities, supported by:
   a. Concept Level Review of Dartbrook Underground Mine, August 2015
   b. Assessment of First Workings Opportunities - Dartbrook Underground Mine, October 2015

3.8.1 Opencut Opportunities

Most early open cut studies focused on mining to shallow seams with either dragline or truck and shovel mining equipment, with the deepest reaching the Piercefield/Vaux seams.

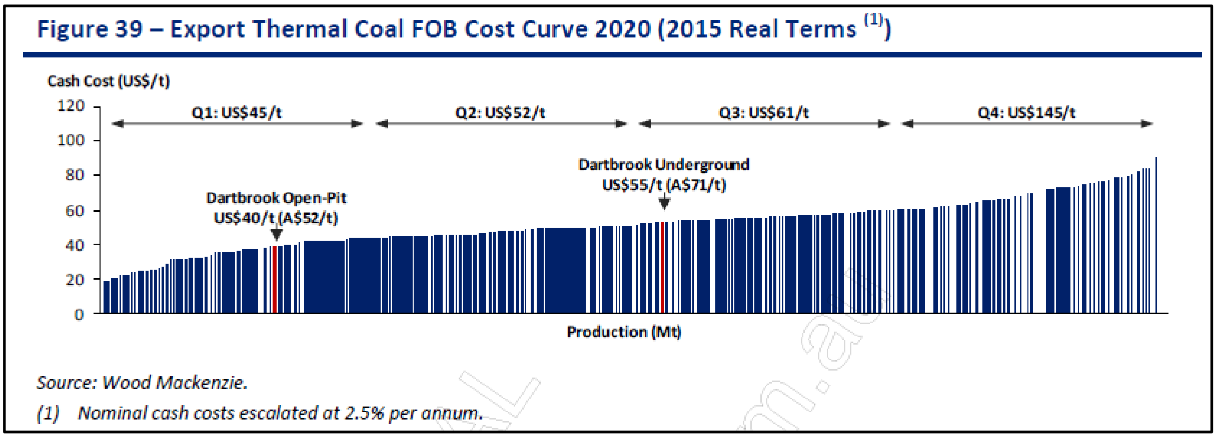
The 2015 Concept Study compared deep and shallow mines with various technologies, identifying two deep mine options for further study. Further options were added to allow the evaluation of technical risks and opportunities. Environmental impact, particularly dust emissions, was an important factor.

The option ultimately recommended was called Option 2C, which was very deep mining with shovel, truck, crusher and conveyor (STCC) equipment. Four variants of this option were evaluated, incorporating a range of CHPP and bypass capacities from 8 to 13 Mtpa ROM tonnage. The largest option considered had an initial pit life of 40 years, with potential extension for another 40 years. Cash costs were forecast to fall within the first quartile of the industry cash cost curve, and to be some 25% cheaper than the underground option.

It was recognised that this option would have substantial capital costs associated with it, including significant buffer land purchases and long life fixed infrastructure.

9 APC Dataroom

Figure 3.5 – Export Thermal Coal FOB Cost Curve 2020



Source: APC Dataroom

When Shell and its partners initially developed the Dartbrook deposit, it highlighted the contrasting attributes of underground mining and open cut mining, emphasising the positive aspects of underground operations to key stakeholders. This diminished the likely acceptance of any potential open cut operation by local stakeholders. Since then, community tolerance of open cut mining has reduced further, as demonstrated at Mount Thorley - Warkworth and Drayton South, further jeopardising the successful introduction of open cut mining at Dartbrook.

3.8.2 Underground Opportunities

Previous underground studies had noted that Dartbrook presents[11]:

- a large coal resource
- an existing development consent
- existing mining tenure
- established infrastructure including:
  - surface mine infrastructure
  - direct access to three target coal seams
  - CHPP
  - TLO facilities, and
- an opportunity to re-establish mining operations at a cost less than a greenfield site.

The preferred long wall mine plan delineates some 23 Mt ROM in the Kayuga Seam, and a further 60 Mt ROM in the Piercefield Seam.

3.8.2.1 Historical Underground Workings

The extent of mining to date at Dartbrook is shown below in Figure 3.6.

[11] *APC Dataroom*

Figure 3.6 – Underground Mining Extents

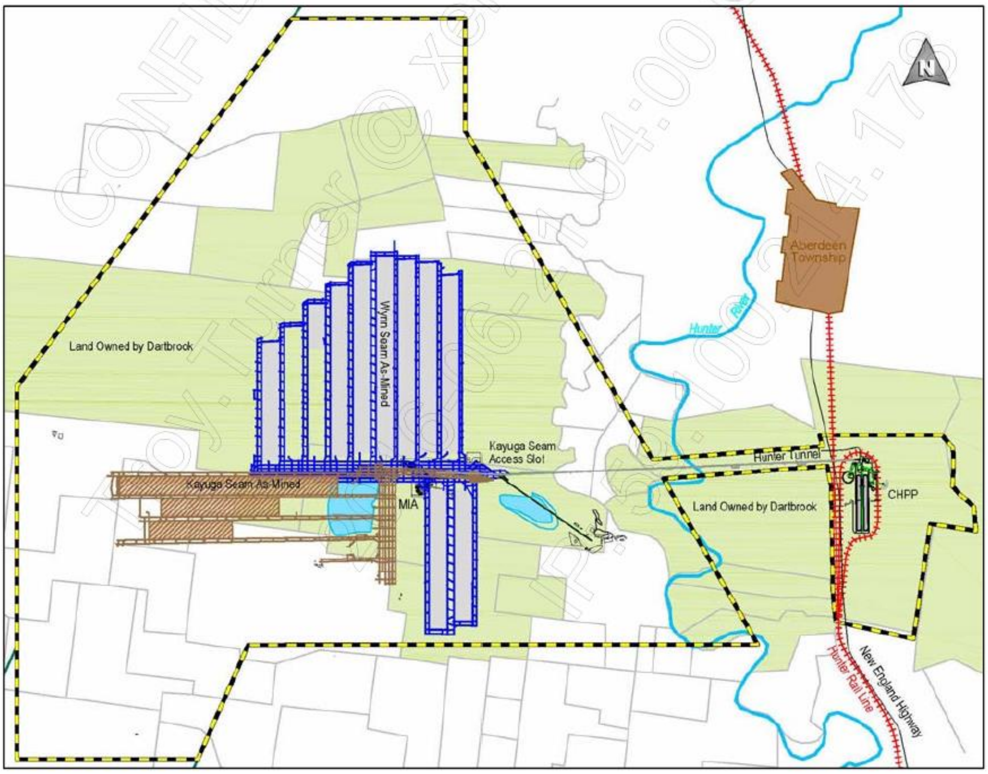


Figure 1.1
Land Owned by Dartbrook and Extent of Mining

Source: APC Dataroom

The dataroom stated[12] that the Wynn Seam contained 6-9 m^3/t of seam gas, predominantly CO_2. This, and the close proximity of the thick overlying Bayswater and Broonie seams, resulted in high specific gas emissions (m^3/t mined), hampering mine productivity. The mine managed to produce up to 4 Mtpa because of the success of advancements in seam drilling technology, and extensive pre-drainage and post-drainage of seam gas.

Ultimately operations in the Wynn Seam ceased due to:

- increasing gas content with depth
- continuing reliance on exemptions to statutory gas limits
- reducing seam permeability with depth.

The extent of the Wynn Seam mined was well below that originally planned, as shown below in Figure 3.7.

[12] *APC Dataroom*

Figure 3.7 – Actual and Proposed Underground Wynn Seam Workings

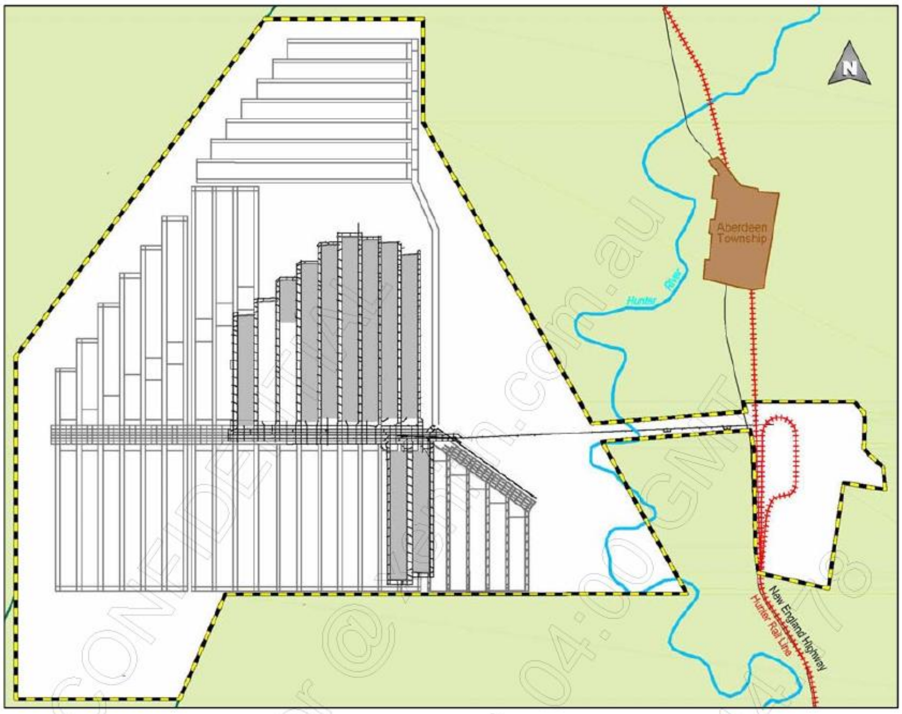


Figure 2.2
Wynn Seam Actual and Original Proposed Workings

Source: APC Dataroom

Mining operations were transferred to the overlying Kayuga Seam, some 170 m above the Wynn Seam, and it was planned for AAMC to subsequently transfer to the Piercefield Seam, some 60 m below the Kayuga Seam. A box cut was excavated to allow access to the Kayuga Seam from the surface; however an inter-seam drift was driven between the Kayuga and Wynn seams, allowing coal clearance from Kayuga via the Hunter Tunnel. A pillar was developed into the Piercefield Seam when constructing the inter-seam drift[13] to facilitate future access.

The two Wynn Seam longwall panels mined south of the main headings were extracted to maintain coal production while Kayuga Seam access was being constructed[14].

A schematic cross-section of the main seams is shown below in Figure 3.8.

[13] *APC Dataroom*

[14] *APC Datarrom*

Figure 3.8 – Underground Mining Schematic

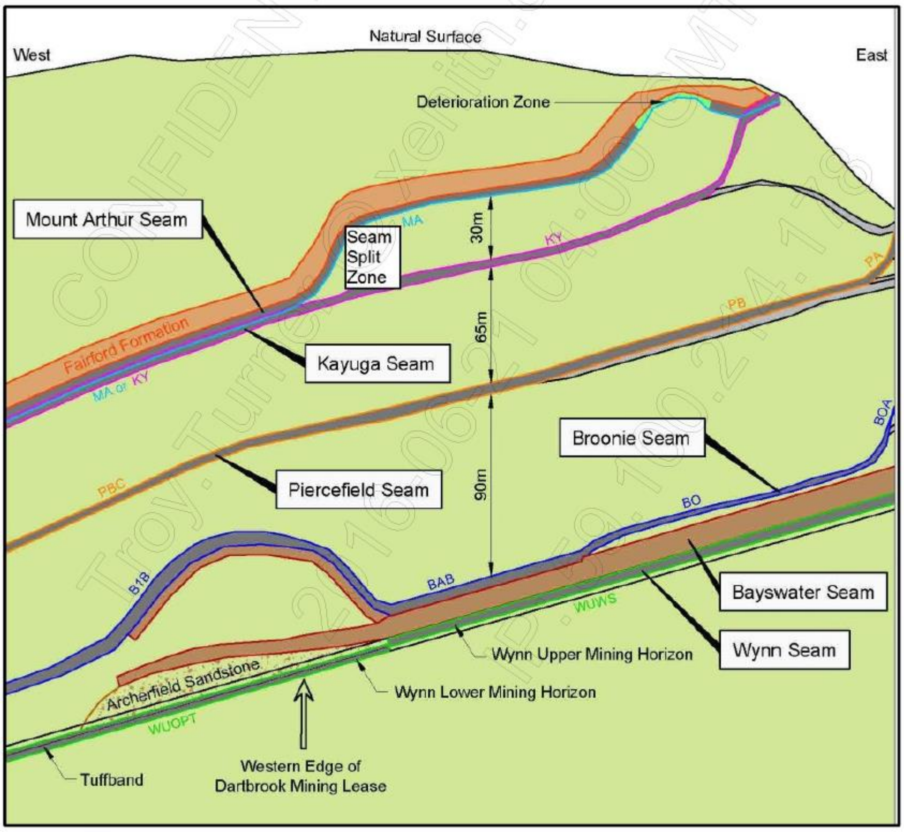


Figure 2.1
Schematic Cross Section

Source: APC Dataroom

The Kayuga Seam had a lower seam gas content at 3.0 to 3.5 m^3/t, and only required post-drainage for gas management.

The longwall equipment purchased by AAMC was originally designed for the Wynn Seam, with an operating height range of 3.3 m to 4.5 m[15]. As the Kayuga Seam was only 3.0 to 4.2 m in height, some modifications were made to alter the roof support hydraulic range to 2.2 m to 4.8 m.

Several factors ultimately led to the cessation of production at Kayuga after the extraction of LWKA103[16]:

- roof control problems in the Kayuga/Mt Arthur seam split zone constrained production
- floor control problems encountered by operating the supports designed for the 25 MPa Wynn Seam floor on the weaker 15 MPa Kayuga Seam floor constrained production and increased clay dilution contents leading to CHPP operational problems
- low prevailing thermal coal selling prices

[15] *APC Dataroom*

[16] *APC Dataroom*

- high corporate overheads, and
- AAMC was focussed on operation and development of higher margin metallurgical coal operations.

The mining extent of the Kayuga Seam was also well below that originally planned, as shown below in Figure 3.9.

Figure 3.9 – Kayuga Seam Workings

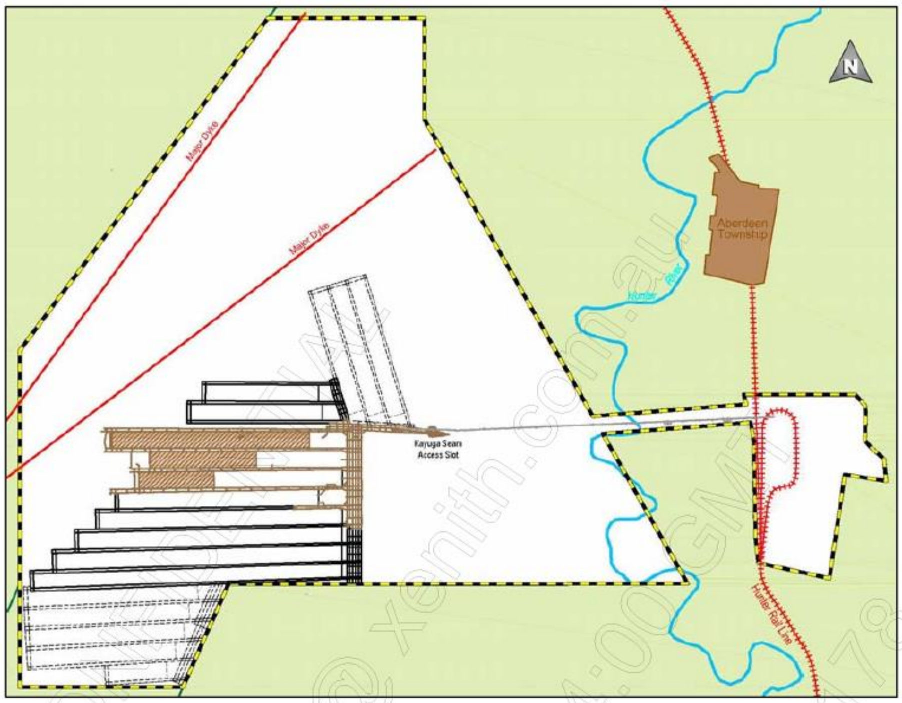


Figure 2.3
Kayuga Seam Actual and Proposed Workings

Source: APC Dataroom

The mine and CHPP were placed on care and maintenance in 2006[17], and in late 2006/early 2007 the main headings in both the Wynn and Kayuga seams were sealed inbye of the inter-seam drift. Many key items of mine equipment were then sold by AAMC, including:

- development equipment
- diesel equipment
- electrical equipment
- mine conveyors, including the inter-seam drift conveyor

3.8.2.2 Potential Longwall Workings

The dataroom materials have outlined a possible strategy for the recommencement of longwall operations at Dartbrook[18].

---

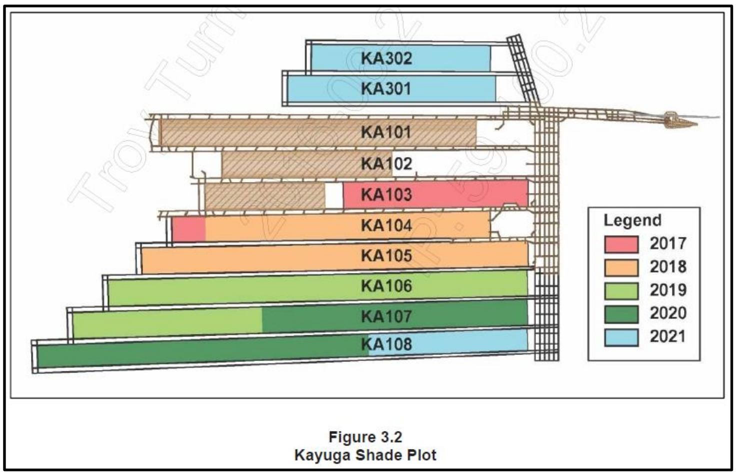
[17] *APC Dataroom*

Features of the strategy include:

- recommencing development in the Kayuga Seam, starting with MGKA104 and MGKA105
- recommencing Kayuga Seam longwall operations, starting with extraction of the remaining half of LWKA103
- relocating to the Piercefield Seam to extract twenty longwall panels after extraction of seven and a half Kayuga Seam longwall panels

Period progress plots for the seams are shown in the figures below.

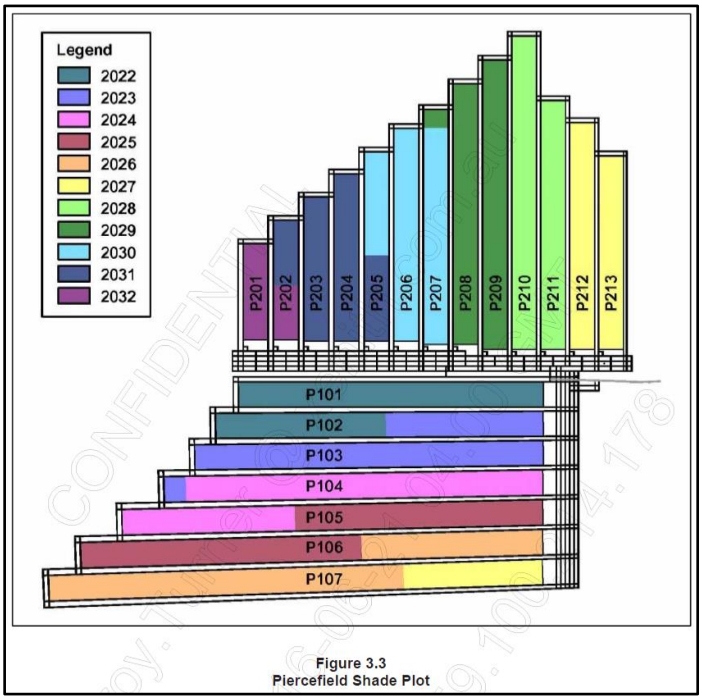
Figure 3.10 – Kayuga Seam Mine Plan Progress Plot



Source: APC Dataroom

[18] *APC Dataroom*

Figure 3.11 – Piercefield Seam Mine Plan Progress Plot



Source: APC Dataroom

General features of the mine plans are[19]:

- single retreating longwall, at nominal 200 m centres as per original Dartbrook longwall
- two heading gateroads (splayed in the southern panels to allow increasing pillar width with depth)
- three [sic] heading western mains (appears to be four increasing to five)
- six heading southern mains
- total longwall retreat of 63 km, within the capability of a single set of powered roof supports

General production assumptions are[20]:

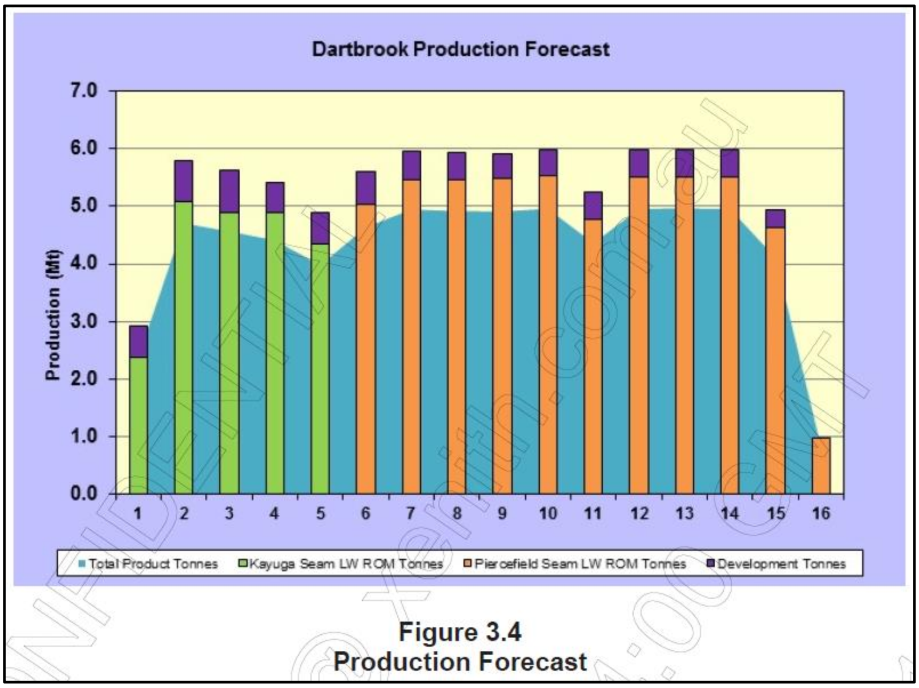
- seven day roster
- up to three development units, one in the mains (150 m/wk) and two in gateroads (180 m/wk), based on experience at Moranbah North and Grasstree
- base longwall rates of 135,000 t/wk (Kayuga) and 145,000 t/wk (Piercefield)
- five week longwall moves, including bolt-up and commissioning

This results in a mine life of 16 years at an average of 5.2 Mtpa ROM (4.3 Mtpa saleable), as shown below in Figure 3.12.

[19] *APC Dataroom*

[20] *APC Dataroom*

Figure 3.12 – Mine Plan Production Schedule



Source: APC Dataroom

The following major works were identified as being required[21]:

- re-support and seal the Hunter Tunnel [“seal” taken to be to seal to prevent water ingress]
- replace the Hunter Tunnel conveyor and discharge end ramp conveyor (alternatively seek approval to install an above ground conveyor crossing the Hunter River and New England Highway)
- replace the Kayuga/Wynn inter-seam drift conveyor
- rectification work on the surface CHPP
- inspect, overhaul or replace all electrical enclosures
- purchase new mining equipment

A significant omission to this list is re-ventilation and re-entry into the sealed workings and inspection/remediation of the main headings and gateroads flagged for re-commissioning.

The following success factors were identified as being required[22]:

- the ability to successfully manage roof control while traversing the seam split zone
- the ability to manage soft floor conditions
- the ability to consistently achieve the production rates planned
- thermal coal sales prices being sufficient to provide an acceptable return on capital invested and operating costs incurred.

21 APC Dataroom

22 APC Dataroom

A further success factor is the ability to successfully manage any inter-seam interactions when mining the Piercefield 100s and 200s longwall panels and the Kayuga 300s longwall panels. The Piercefield Seam lies approximately 60 m below the Kayuga Seam and 100 m above the Wynn Seam[23].

The dataroom materials note that the initial Piercefield panels overlie the Wynn Seam goaf, and subsequent panels underlie the Kayuga Seam goaf[24]. There are existing steel lined Wynn Seam goaf drainage holes that will have to be dealt with. The magnitude of the vertical separation combined with the time interval since mining the Wynn Seam are positive factors, however there remains a risk of geotechnical interaction between the goaves.

There is limited experience in Australia with multiple seam mining, and generally the mining sequence has been top-down (e.g. Dendrobium undermined Mt Kembla; Cumnock Lower Pikes Gully undermined Liddell). Anglo at one stage was developing the Aquila Seam for longwall mining over the German Creek Seam at Capcoal, however the operation was placed on care and maintenance in 2013. There has been extensive experience in the United States[25], both over-mining and under-mining.

23 APC Dataroom

24 APC Dataroom

25 NIOSH Information Circular 9495, Proceedings: New Technology for Ground Control in Multiple-seam Mining, 2007.

3.8.2.3 Timing of Recommencement of Longwall Operations

As noted in the dataroom the existing workings have been sealed off in the main headings, with the outbye mains placed on care and maintenance, since late 2006/early 2007. The production schedule shows 0.54 Mt ROM of development and 2.4 Mt ROM of longwall during Year 1.[26] There are no details of scheduled re-entry timings in this report - Year 1 is shown as 2017 on the period progress plot[27], 2019 in the costing appendix, and in the dataroom banker's model[28].

The dataroom provides estimated times for required actions to re-establish full scale longwall production. Times are provided for key actions[29], and note that "times overlap". Project management is estimated at 26 months. A possible critical path totalling 29 months could be:

- detailed design/tender/award - 10 months
- longwall equipment delivery - 15 months
- longwall mini-build and installation - 4 months

I.e. some two to two and a half years of set-up.

The existing workings have now been sealed for some nine and a half years, and will have been abandoned for over a decade by the time of possible recommencement. The start-up production schedule presented by is likely to be the best case possible. It is likely that significant remedial work will be required to enable recommencement, and it is possible that the existing gateroads delineating LWKA103 (MG102/MG103) may be unusable, as shown in Figure 3.13.

In the worst case, assuming that:

- the main headings can be successfully rehabilitated
- LWKA103 is inaccessible, and
- that a new tailgate is required for LWKA104

then some 1.4 km of longwall will be abandoned, (1.6 Mt ROM at 1,134 t/m retreat) and some 2,800 m of additional tailgate panel advance will be required (~ 6 km of development).

For a conceptual Xenith schedule that emulates these modifications:

- 50% of additional development has been added to Kayuga 2019
- 50% of additional development has been added to Kayuga 2022
- Kayuga longwall start-up delayed 12 months, i.e 2019 longwall tonnes = nil
- Kayuga longwall makes up difference between 2019 total and 2019 LW103 loss in 2024

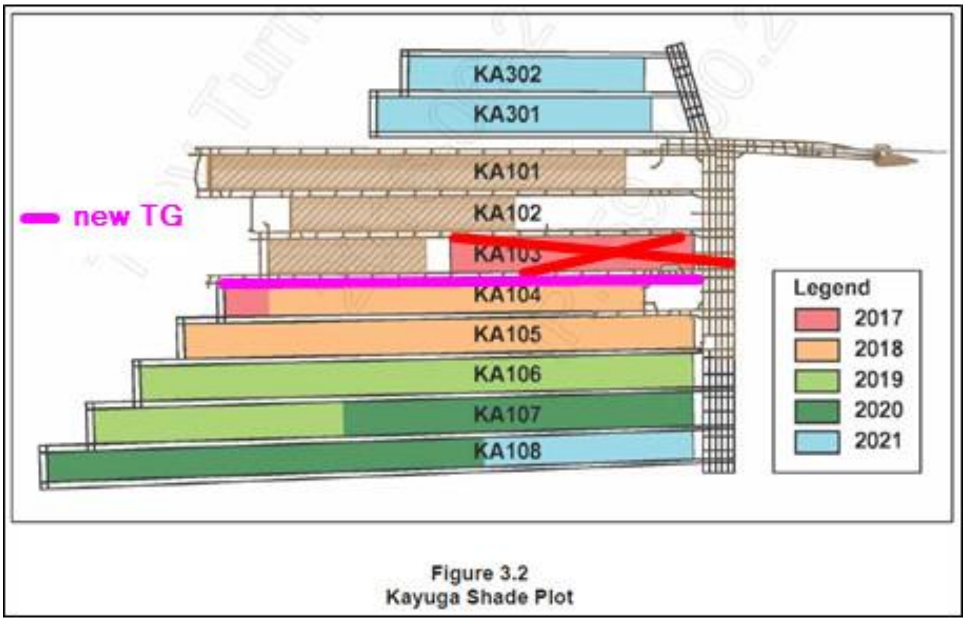
26 APC Dataroom

27 APC Dataroom

28 APC Dataroom

29 APC Dataroom

Figure 3.13 – Potential Sterilized Kayuga Seam Panel



After: APC Dataroom

3.8.2.4 Potential First Workings

A high level investigation of the opportunity of establishing first workings (bord and pillar) at Dartbrook was also studies, either as an interim step to provide production while re-establishing longwall operations, or as a supplement to longwall production[30].

The study identified two readily accessible potential domains within the Dartbrook resource which were considered unsuitable for longwall extraction[31].

These domains, Kayuga South and Wynn North, contain some 13 Mt of in situ coal. A third domain, Kayuga North, contains approximately 7 Mt and may be suitable for either longwall extraction of first workings.

The study also identified possible first workings domains in Piercefield South domain[32] providing some 1.6 Mt ROM, but discounted these as priority would be given to establishing a longwall operation in that seam.

The Kayuga South domain lies up-dip of the Kayuga South main headings at a depth of 30 to 60 m. Access would be via the existing Kayuga box cut portals, using similar infrastructure to that used during the original establishment of Kayuga, including a portal exhaust fan, a low capacity conveyor discharging at the top of the ramp, and services from the existing MIA. Coal from the ramp top stockpile would need to be periodically hauled by truck to the CHPP.

30 APC Dataroom

31 APC Dataroom

32 APC Dataroom

The Wynn North domain lies to the east of the first Wynn longwall panel, and extends to the ML boundary at depths of 150 to 200 m. This area was originally excluded from longwall mining due to subsidence constraints imposed by the overlying Hunter River alluvials. It was expected that the western fringe of this domain would already be partially degassed due to its proximity to the Wynn Seam goaf. Access would be from the Wynn Seam pit bottom area using a temporary drift conveyor slung from the roof of the Western drift, similar to that used during the original establishment of Dartbrook. Alternatively coal clearance could be via a new conveyor in the Hunter tunnel. Ventilation would be via the existing No. 1 shaft fan.

The assumed first workings only would be driven in the Kayuga South domain, providing some 1.6 Mt ROM at 35% recovery[33]. If partial pillar extraction, floor stripping or other secondary extraction were possible in the Wynn North domain, increasing recovery to 50%, some 3.6 Mt ROM could be mined.

The mine plans are shown below in Figure 3.14 and Figure 3.15.

[33] *APC Dataroom*

Figure 3.14 – Kayuga South Domain First Workings

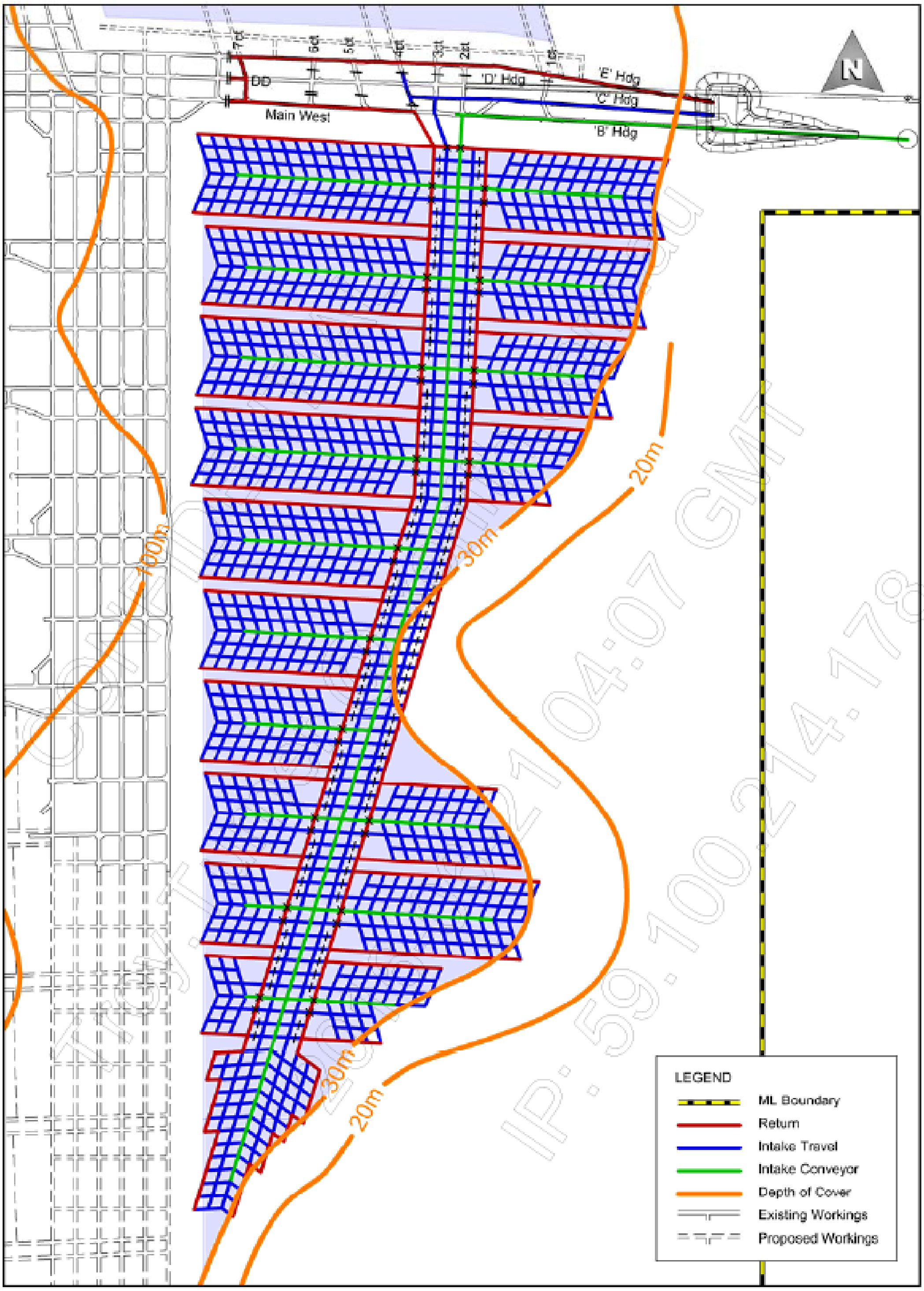
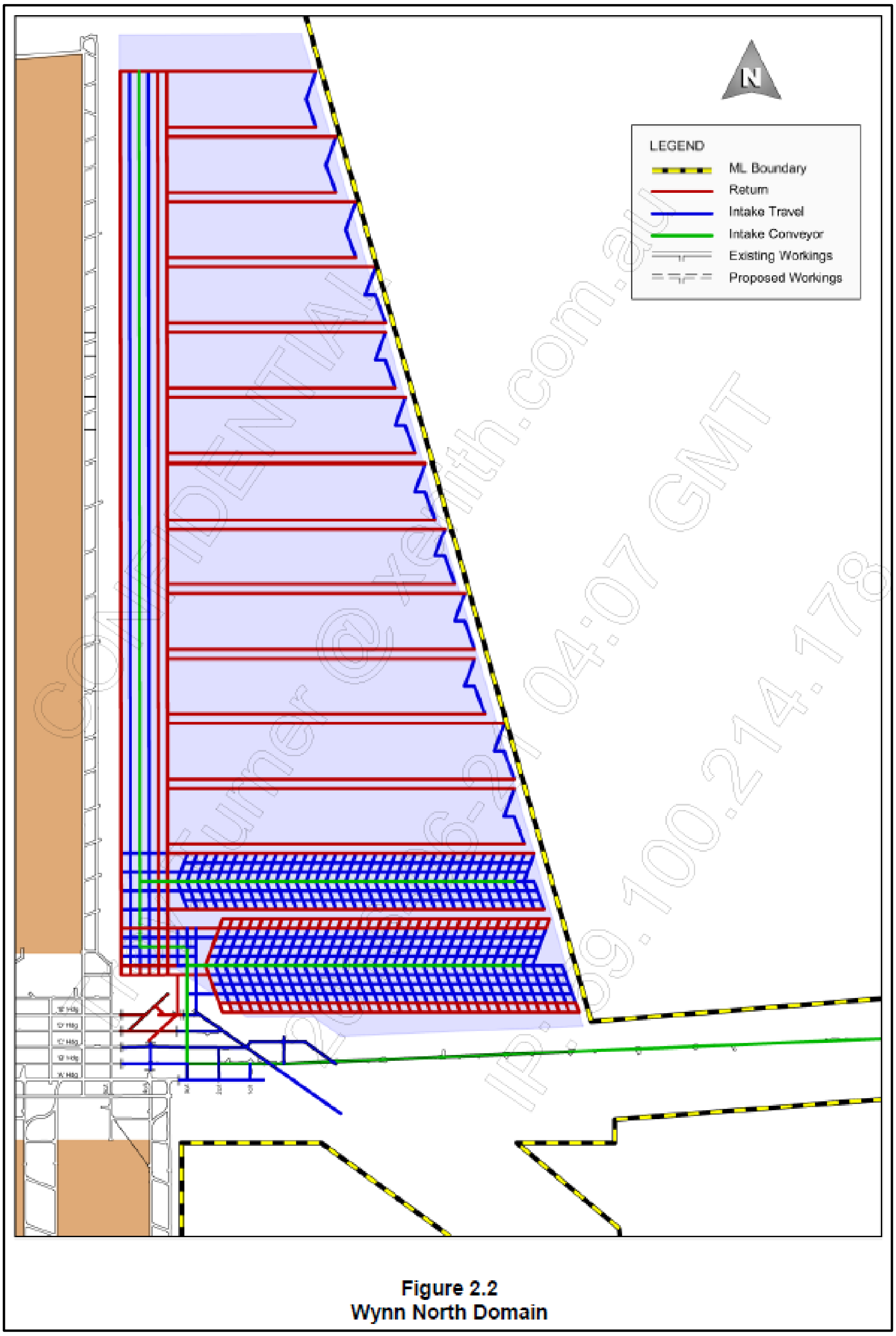


Figure 2.1
Kayuga South Domain

Source: APC Dataroom

Figure 3.15 – Wynn North Domain First Workings



Source: APC Dataroom

The Kayuga Seam workings are sealed between 7 c/t and 8 c/t[34] across the main headings (B,D and E), and the workings are ventilated by the Wynn Seam No. 1 shaft drawing air in

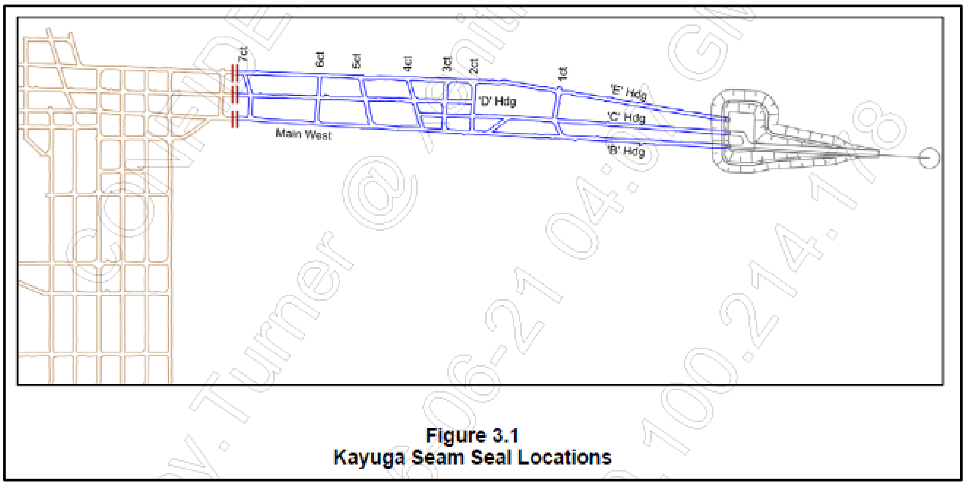
[34] *APC Dataroom*

through the box cut portals, and out through the inter-seam drift [not shown - taken to be a continuation of D heading].

The Wynn Seam workings have been sealed between 3 c/t and 6 c/t[35]across the main headings (A through E), and the workings are ventilated by the No. 1 Shaft fan drawing air in through the Kayuga entries, the Western Drift and the Hunter Tunnel.

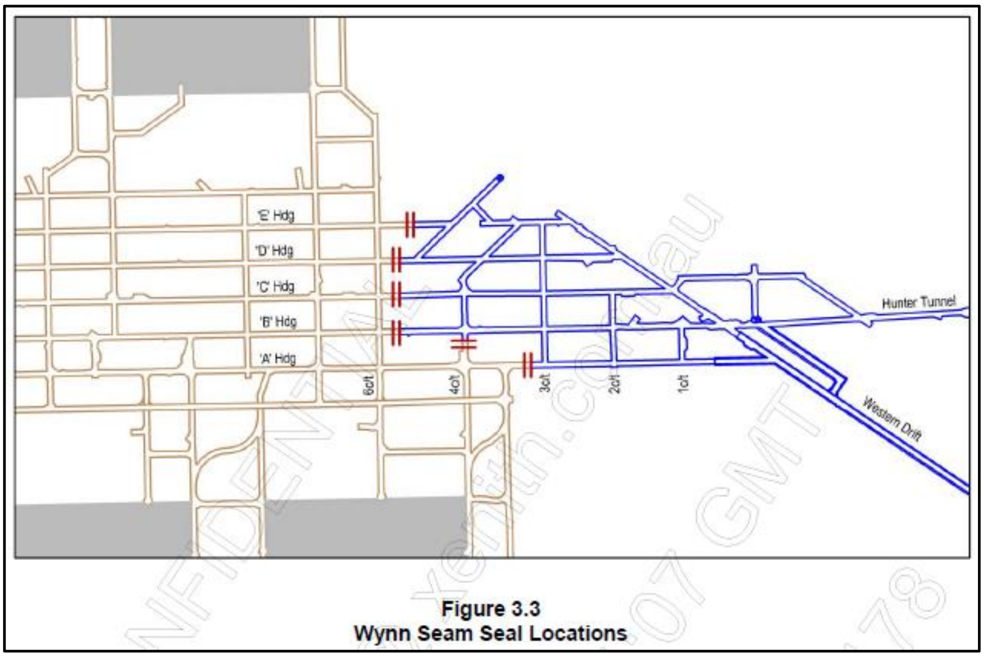
The extent of the current ventilated workings, are shown in the figures below:

Figure 3.16 – Kayuga Seam Seal Locations



Source: APC Dataroom

Figure 3.17 – Wynn Seam Seal Locations



Source: APC dataroom

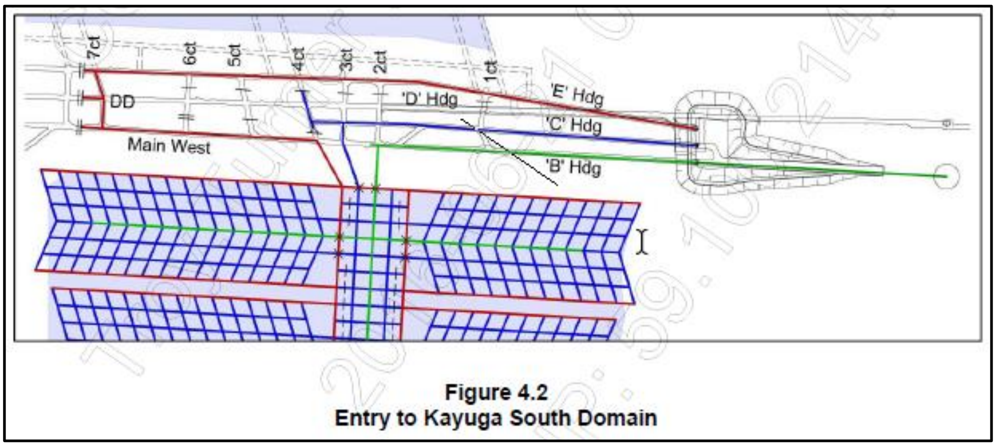
[35] *APC Dataroom*

Work required to establish first workings in the Kayuga South domain include[36]:

- install a 1,000 to 1,500 tph conveyor in B heading from the top of the ramp to 5 c/t
- install ventilation fans on D heading portal
- re-establish a ventilation circuit within the Kayuga Seam
- establish an electricity supply to a portal substation, and inbye (HT cables, isolator, DCB, etc.)
- establish compressed air supply from portal to the working area
- establish raw and pumped water lines from the portal
- re-establish monitoring and communication systems
- develop current safety systems and procedures
- mobilise mining equipment and operators, developing three entries into the domain
- establish panel ventilation, then install the panel conveyor drivehead and transfer point

Access for the Kayuga South domain is shown in the Figure 3.18 below.

Figure 3.18 – Kayuga First Working Entry Plan



Source: APC Dataroom

Work required to establish first workings in the Wynn North domain include[37]:

- install a 1,000 to 1,5000 tph conveyor in Western Drift to 3 c/t in the mains
- utilise existing ventilation shaft and fans
- reconfigure the ventilation circuit within the Wynn Seam
- establish an electricity supply to a portal substation, and inbye (HT cables, isolator, DCB, etc.). An electrical supply exists to the Hunter Tunnel pump station
- establish compressed air supply from portal to the working area
- establish raw and pumped water lines from the portal
- re-establish monitoring and communication systems
- develop current safety systems and procedures

36 APC Dataroom

37 APC Dataroom

- conduct compliance drilling to confirm seam gas content
- mobilise mining equipment and operators, developing three entries into the domain
- establish panel ventilation, then install the panel conveyor drivehead and transfer point

Access for the Wynn North domain using a roof slung conveyor in the Western Drift (i.e. re-establishing the original coal clearance system in place prior to using the Hunter Tunnel) is shown in the plan below:

Figure 3.19 – Wynn Seam Coal Clearance Schematic in Drift

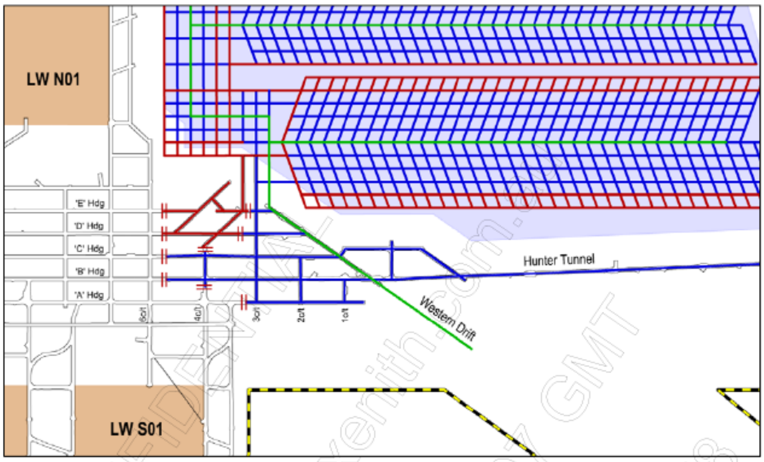


Figure 4.5
Wynn North Access Concept Using Western Drift Coal Clearance

Source: APC dataroom

Alternative coal clearance for the Wynn North domain using a new conveyor in the Hunter Tunnel is shown in the plan below:

Figure 3.20 – Wynn Seam Coal Clearance Schematic in Hunter Tunnel

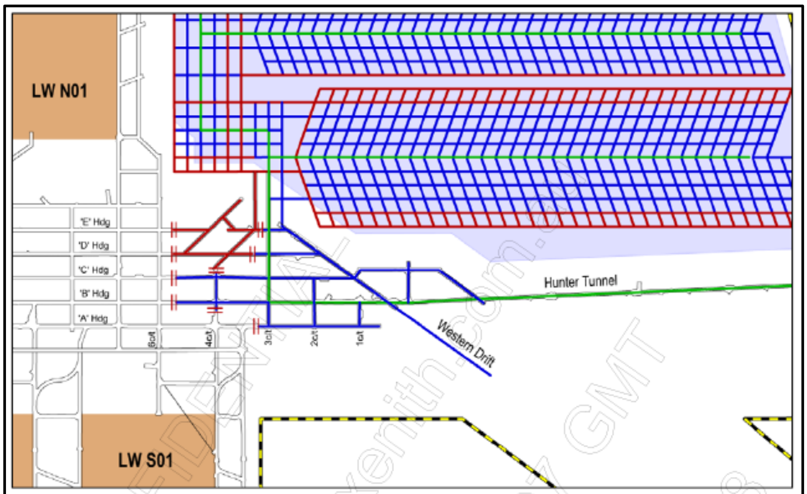


Figure 4.6
Wynn North Access Concept Using Hunter Tunnel Coal Clearance

Source: APC dataroom

The recommended further work prior to undertaking any first workings is as follows[38]:

- update the geological models and plans
- complete a geotechnical design, specifying required support
- evaluate potential inter-seam interaction
- evaluate potential subsidence impacts
- determine appropriate working methods
- review seam gas reservoir model and assess gas management controls required
- prepare detailed designs for each domain, addressing ventilation, services and coal clearance
- undertake productivity modelling and benchmarking
- assess the extent, capacity and condition of existing mine services and infrastructure
- prepares scopes of work for any required refurbishment
- prepare mining equipment specifications
- prepare workforce estimates
- prepare updated costs estimates

3.8.3 Conceptual First Workings Mining Schedule

In the dataroom materials it was noted that first workings only would be driven in the Kayuga South domain, providing some 1.6 Mt ROM at 35% recovery[39]. They also note that if partial pillar extraction, floor stripping or other secondary extraction were possible in the Wynn North domain, increasing recovery to 50%, some 3.6 Mt ROM could be mined.

In the body of the report, however, the Wynn North domain is showing as potentially delivering a slightly great tonnage - 4.4 Mt[40].

Assuming first workings only, and an overall recovery of 35%, potential ROM and saleable tonnages can be estimated as follows in Table 3.2.

---

[38] *APC dataroom*

[39] *APC dataroom*

[40] *APC dataroom*

Table 3.2 – First Workings Physicals Summary

Domain	Kayuga South	Wynn North
Area	693,000 m^2	1,446,000 m^2
Seam Thickness	4.4 m	4.25 m
Density	1.46 t/m^3	1.41 t/m^3
In Situ Tonnage	4.45 Mt	8.67 Mt
Recovery	35%	35%
ROM Tonnage	1.56 Mt	3.03 Mt
Yield[41]	80%	80%
Saleable Tonnage	1.25 Mt	2.43 Mt

The maximum total ROM tonnage available is thus only 4.59 Mt. Discounting this value by 12.5% for potential unknown geological features gives a mineable tonnage of 4.0 Mt ROM. At best practice continuous miner operation productivity of approximately one million tonnes per annum per miner[42], the mine life would be very short and unlikely to provide sufficient return on capital to justify the owner purchasing mining equipment, but may be sufficient to attract a contract miner with existing equipment.

The Ensham bord and pillar mine in central Queensland is a good example of a highly productive bord and pillar operation. The continuous miners there develop panels in a 5-6 m thick seam using the place changing method at depths of cover between 45 and 150 m. Primary development height is typically 3.5 m[43], with floor coal and bell-outs being mined on retreat. The Ensham mine is achieving 0.96 Mtpa from each of three development units.

Although a geotechnical study may demonstrate that Dartbrook is amenable to place changing, a conventional in-place development operation is assumed at Dartbrook for this study, with the following production parameters as shown in Table 3.3.

41 APC Dataroom

42 Geotechnical Aspects of Place Change Mining at Ensham, N. Gordon, 2016, p. 151 (2)

43 Geotechnical Aspects of Place Change Mining at Ensham, N. Gordon, 2016, p. 156 (7)

Table 3.3 – Key Schedule Parameters

Domain	Kayuga South	Wynn North
Calendar Hours / Week	168	168
Utilisation	55%	55%
Cutting Hours / Week	92.4	92.4
Metres / Cutting Hour	3.0	3.0
Metres / Week	277	277
Bord Width	5.2	5.2
Mining Height	4.0	4.2
Density	1.46	1.41
ROM Tonnes / Week	8,418	8,536
Weeks / Year	50	50
ROM Tonnes / Year / Unit	420,900	426,810

Assuming that one average one unit is tasked to mains (at 80% effectiveness), and two units to panels (at 100% effectiveness), total annual production from three units would be 1.2 Mtpa, resulting in a ~3.5 year mine life.

A conceptual production profile that allows for establishment of the main headings and development of panels has a possible low to high range of productivities of 0.425 Mtpa and 0.900 Mtpa per unit.

3.8.3.1 Xenith Preferred Mine Plan

Xenith have adopted a preferred mine schedule given all the previous studies by AAMC and their consultants.

Xenith have considered a number of mining options.

- The open cut options have not been included in the preferred valuation as the mine plan in the APC dataroom and costing work undertaken by Xenith, return a negative NPV when current consensus coal pricing assumptions are used.
- The first workings transitioning to longwall mine planning work undertaken in the APC dataroom also returned a negative NPV when current consensus coal pricing assumptions are used.
- The current consensus coal prices coupled with large capital estimates for both of these mining options resulted in unfavorable economics.

One possible mine plan being considered by APC is a bord and pillar mine operating in the Kayuga seam first and then the Piercefield seam, potentially moving to a larger open cut mine in the future.

The ROM coal for the bord and pillar operation would be cleared by conveyor via the interseam drifts, and then by the Hunter River tunnel underground conveyor system to the CHPP for processing.

The mining strategy nominated was to implement bord and pillar mining as an interim operation to provide coal and cash flow while re-establishing longwall mining. Although the longwall method is productive and attains high resource recovery, it is capital intensive.

A smaller mining company may consider a total bord and pillar operation a better solution for the life of the mine, given potential capital expenditure constraints.

Preparation of a new detailed mine plan is beyond this scope; however a simplistic estimate of potential mineable coal has been undertaken. Although a longwall achieves 100% recovery (area basis) within a panel, pillars are left behind in the gateroads, main headings, and barrier pillars, and overall recovery is less than that. Assuming an overall recovery of 75% for a longwall mine plan, and 25% for a bord and pillar mine plan, potentially recoverable tonnages in this case are shown below in Table 3.4.

Table 3.4 – Bord and Pillar Mine Plan Quantities

Seam	Piercefield	Kayuga	Total
Longwall Method			
Nominal Recovery	75%	75%	
ROM t	59.6 Mt	22.2 Mt	81.8 Mt
Saleable t	49.4 Mt	18.0 Mt	67.4 Mt
Bord & Pillar Method			
Nominal Recovery	25%	25%	
ROM t	19.9 Mt	7.4 Mt	27.3 Mt
Saleable t	16.5 Mt	6.0 Mt	22.5 Mt (82% yld)

A conceptual bord and pillar mining schedule based on the following parameters has been created:

- recent Ensham mine productivity benchmarking of 0.9 Mtpa ROM per continuous mining unit as a maximum case
- applying a 75% efficiency for differing gas, depth and geotechnical regimes
- maintaining one unit in main headings at 80% effectiveness
- utilising up to 4 continuous miner units

3.8.3.2 Equipment Requirements

It is envisaged that all equipment would be provided by suitably qualified underground mining contract companies.

There is currently only limited underground equipment included with the Dartbrook acquisition.

3.8.3.3 Coal Transport to CHPP

It is envisaged that the ROM Coal will be transported by underground conveyor to the surface via the reinstated Hunter Tunnel conveyor system. The conveyor would then be the ongoing mode of ROM coal transport.

3.8.3.4 Schedule Costing

Xenith have calculated an operating and capital cost estimate for the proposed Dartbrook underground start-up. Schedules developed by Xenith, and our experience from other similar projects has been used to develop the cost estimates. These estimates have been applied along with coal pricing and other economic factors to develop a range of project cash flow and Net Present Values (NPV).

The cash flow modelling is limited to quantifying project cash flows and does not incorporate financing and other detailed profit / loss and balance sheet items.

Type of estimate - the cost estimates should be read in context of being high level cost estimates with a level of accuracy of +/- 30%.

Estimating strategy – the general strategy of cost estimation has been based on applying indicative underground costing factors sourced from recent experience or in-house databases to the production schedules developed by Xenith. Xenith also had access to a number of reports in the APC dataroom.

Base date – the estimates have been developed using a base date of January 2017.

Currency – all modelling has been expressed in Australian dollars (AUD). Where the source currency was not AUD, it has been converted to AUD using an appropriate exchange rate.

Escalation – no allowance for escalation has been included in the costing estimate. All estimates reported are expressed in real dollar terms.

Calendar – the modelling has been undertaken in calendar years starting from 2017.

Operating Costs – development costs have been costed on a cash basis only and have not been capitalised and amortised. All costs presented represent cash costs.

3.8.3.4.1 Operating Costs

Costing Structure

The operating cost estimate represents a contract operation undertaking the bord and pillar operation. The operating cost estimate represents a cash cost estimate including items such as labour, consumables, materials, equipment / maintenance, fuel, lube, energy, water, contractors, services, overheads, levies/royalties and other direct and indirect costs. The estimate does not include any allowance for non-cash costs such as depreciation or amortization. The Free on Board (FOB) operating cost estimate includes the following site and off-site processes:

Site Costs

- Mining Costs (Mine Development, Outbye, Gas Management)
- Processing Costs (Crushing, Washing, Train-loadout, Rejects Disposal)
- Indirect Costs (Management, Technical Services, Commercial, OH&S, Training, Environment / Community, Mining and Maintenance Overheads)

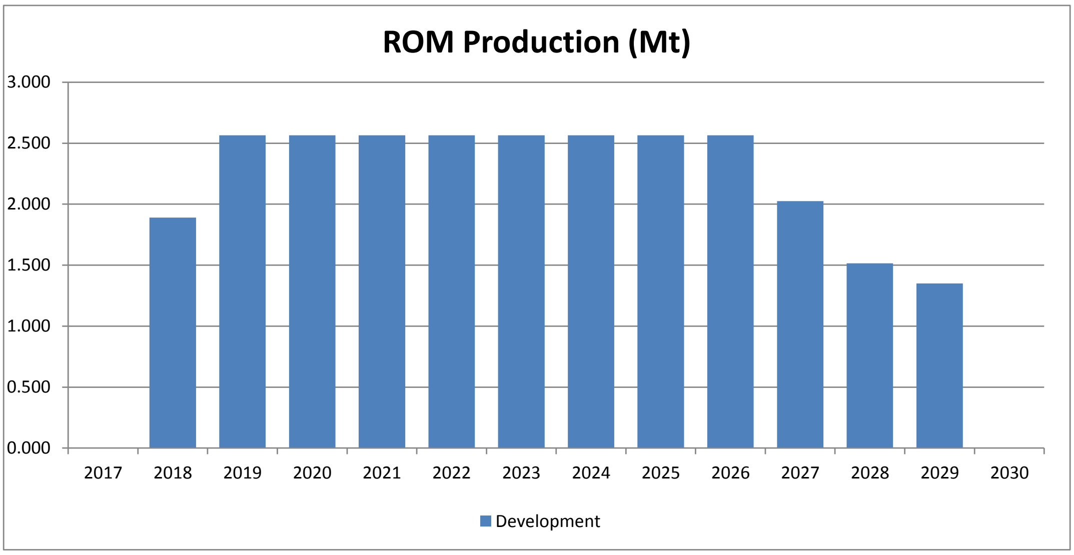
Off-site Costs

- Transport (Railing, Offload and Port Costs)
- Selling (Demurrage / Despatch, Marketing)
- Royalties and Government Levies

Conceptual Schedule

ROM production was modeled at ~2.5 million tonnes per annum with a yield of 82% producing ~2 million tonnes of product coal per annum. Production is outlined in more detail in 3.8.2.

Figure 3.21 – Dartbrook ROM Production



Operating Cost Estimate

The annual FOB operating cost is estimated to be ~$160 M once at full production as illustrated in Figure 3.22.

Figure 3.22 – Dartbrook Underground Operating Cost Estimate ($M)

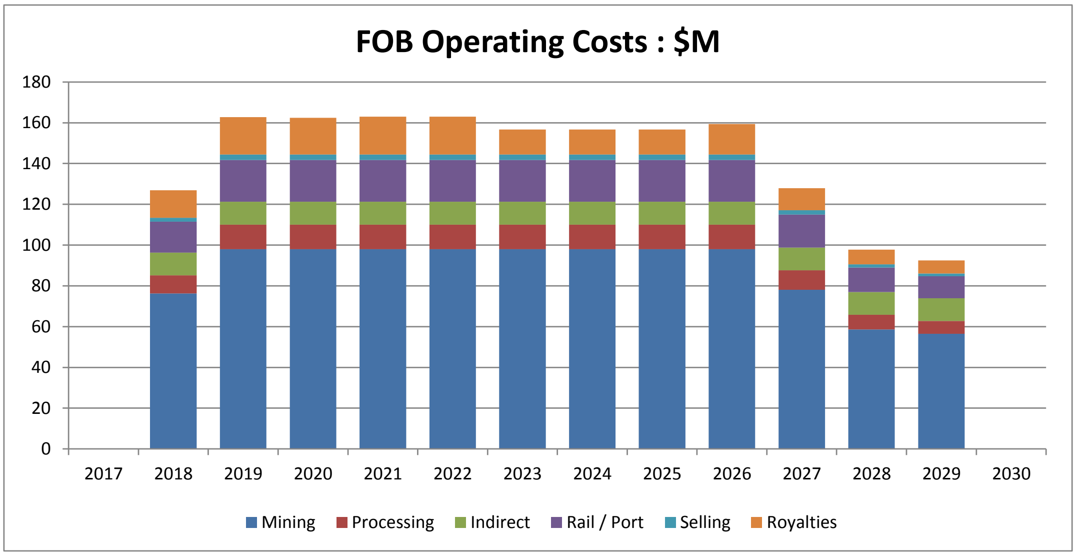
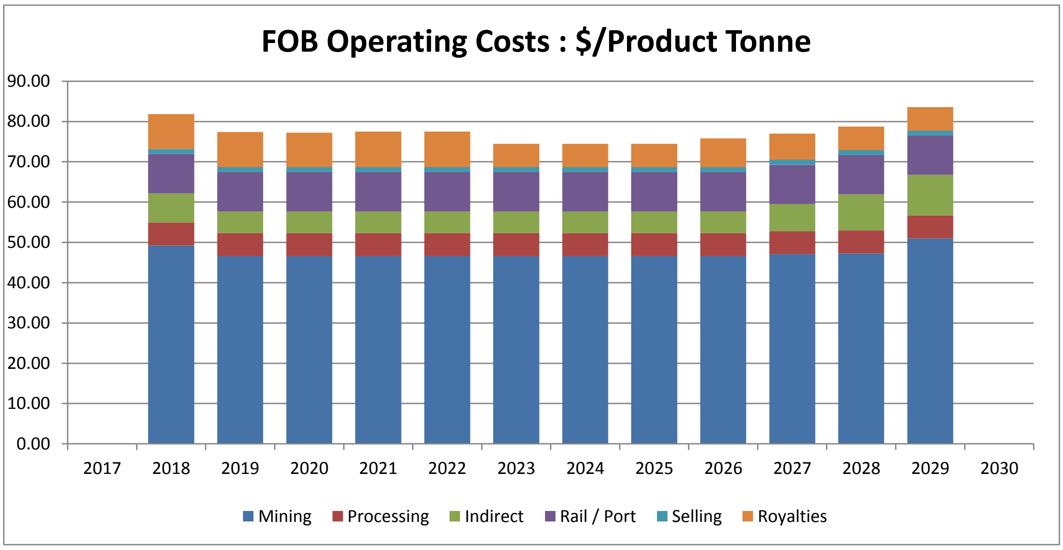


Figure 3.23 – Dartbrook Underground Operating Cost Estimate ($/t)



This equates to an FOB operating cost per product tonne of ~$77 per tonne as shown in Figure 3.23. An indicative breakup of the FOB operating costs is shown in Table 3.5. Sensitivities were run from this base estimate to develop the inputs for the high, low and preferred project cash flows.

Table 3.5 – Indicative Annual FOB Operating Cost

Typical Cost	$/ Product t
Mining	47
Processing	6
Indirect	6
Rail / Port	10
Selling	1
Royalties	7
FOB Operating Cost	**77**

3.8.3.4.2 Capital Costs

The capital cost estimate represents an estimate to ready the mine for a contract operation mining undertaking bord and pillar operations. The capital estimate was developed by sourcing dataroom documents on the Dartbrook Underground Mine, and through further estimates developed by Xenith.

The capital expenditure estimated to reopen the mine was $37 million expended between 2017 and 2018. Table 3.6 shows the breakdown of the modeled capital expenditure for mine recommencement. It was modeled to show all the mining and ancillary equipment would be supplied by the mining contractor.

Table 3.6 – Indicative Start-up Capital Expenditure

Start-up Capital	2017	2018
Contract miner mobilisation		5.0
Mine access and shafts		1.0
Underground services, IT, comms		2.0
Ventilation and gas management		1.0
Power supply and electrical	3.0	
Water management	1.0	
Safety equipment	2.0	
Mine and Infrastructure	0.5	
CHPP - preparation for restart	4.2	
Co-disposal storage	1.5	
Owners Costs	10.0	
Contingency	4.4	1.8
Total	**26.6**	**10.8**

Sustaining capital of between $2 million and $11 million per annum was modeled between 2019 and the end of the mine life to cover ongoing conveyor and sustaining capital with a further $11 million per annum incorporated into the operating costs as an equipment charge.

A closure cost of $15 million was also modeled in 2030 to cover rehabilitation and expected closure.

3.9 Rehabilitation Requirements

Redevelopment of the Dartbrook site would involve the rehabilitation of both the CHPP and the mine sites. The CHPP site would require decommissioning and removal of plant and equipment as well as associated dirty water collection dams. Similarly, the underground mine site would require decommissioning and removal of underground infrastructure including the portals and ventilation shafts, and the Hunter Tunnel conveying system. Surface infrastructure comprising offices, associated car parks, laydown area, roads and dams would also need to be decommissioned and removed (unless approved as part of the future development e.g. roads). Rehabilitation including decontamination would need to be completed in accordance with the mine closure plan as agreed with government.

A provision in the order of $15 million has been estimated to allow for decommissioning and rehabilitation of the mine and CHPP sites at the closure of the mine. This provision needs further review and will be dependent on the LOM plan being proposed. The current financial assurances for the mine in care and maintenance mode stand at $9.2 million.

3.10 Environment and Approvals

The mine has been under care and maintenance since 2006. Given the ten year timeframe since last production, there have been some changes to the legislation, as well a number of proposed operational changes. To address these changes, the following will be required:

- Project will likely need to be assessed under the *Environmental Protection and Biodiversity Conservation Act 1999*, triggered by the impacts to' matters of national environmental significance' (a water resource, in relation to coal seam gas development and large coal mining development).
- The following proposed changes to the operation would necessitate the need for additional technical assessments to be made. These changes would also trigger the need for amendment of the Development Consent and possibly the Environmental Protection Licence:
    - Move from care and maintenance (0- 500,000 tonnes) to an operational mine producing approximately ~5 Mtpa
    - Move to bord and pillar mining from longwall mining
    - ROM coal being transported in the hunter tunnel conveyor
    - Additional area for rejects emplacement
    - New tailings storage underground
    - Management of accumulated groundwater as well as ongoing groundwater management
    - Additional site water management
    - Consultation with the community and government
- Prepare a new Mine Operations Plan

Given the level of change, it is likely that an Environmental Impact Assessment will be required by government. It is estimated that the cost to undertake this approvals work would be in the order of $8 million.

3.10.1 Approvals Timeframes

The development consent is current and valid until 2021. It is therefore likely that a modification process would be required under the Environment Planning and Assessment Act. It is expected that under this process, it would take in the order of 6 to 12 months to obtain an approval to restart the project.

3.11 Infrastructure and Coal Processing

3.11.1 CHPP

The CHPP was designed with 1,000 tph capacity (nominal), and included dense medium bath, dense medium cyclone (DMC) and spirals circuits originally. An ultrafine flotation circuit was later added as a separate annexe. There is also an extensive materials handling system with stackers and reclaimers before and after the washery. As a result, the plant is relatively large and complex.

During the care and maintenance period, the facility has remained powered and staffed (by contract services firm UGM) during dayshift Monday to Friday. The plant equipment is started every 6 weeks where possible for a period of 1-2 hours, including all conveyors and process equipment. This run-up is done in a no load situation as no coal is processed and all pumps have packing and suction spools removed. Equipment is not run where it may sustain damage run under no load. Limited maintenance has been undertaken.

The rail loop has been used to store empty wagons and consequently is traversed by locomotives on an infrequent basis.

Full pressure testing and site visual inspection of all fire and hydrant water system is undertaken every 6 months.

The offices, amenities and CPP workshop are in good condition.

Transformer yards are secure and generally good visual appearance, including HV transformers and switchgear.

Soon after being placed under care and maintenance, several key items of mine equipment were sold including development equipment, diesel equipment, electrical equipment and mine conveyors, including the interseam drift conveyor.

Coal Quality experts were commissioned in 2015 to review relevant documentation, and to assess and report on the physical condition of the equipment, structure and support facilities at the Dartbrook CHPP. The experts spent 2 days on site and prepared a report. The report includes recommendation on the requirements for rectification work prior to restart and in the immediate operating period, assessment of the holding of critical spares and high level cost estimates for operating and replacement capital.

3.11.2 Mine Infrastructure

Fixed mine infrastructure generally remains in place from previous operations and appears adequate for recommencement of mining. General maintenance and fit out will be required.

3.11.3 Rejects and Tailings

Both rejects and tailings disposal areas have limited remaining capacity.

For the purpose of this report it has been assumed that the existing systems will continue during bord-and-pillar operation and that a co-disposal facility will be developed adjacent to the CHPP area prior to commencement of longwall operation. An allowance has been made to expand the tailings dewatering facility to enable dewatering of all fine rejects at full plant capacity.

3.12 Coal Quality

3.12.1 Introduction

An assessment of the likely product quality derived from bord-and-pillar mining in the Kayuga South domain was undertaken. Borecore data from the specific area was not readily available to assess the clean coal composite data from this specific mining area.

In general terms, the published information suggests that there is minimal lateral variation in coal quality by seam. This is a general pattern seen throughout many similar Hunter Valley deposits.

Thus for this overview it is assumed that CHPP and shipping data from the Kayuga seam longwall operation is the most appropriate representation of the expected quality from Kayuga South domain which is the planned to be mined first.

The shipping data spreadsheet [44] made available comprised approximately 60 shipments in excess of 4 Mt from June 2004 to November 2006. A weighted average of data covering the last 2 years' production was used to prepare an indicative coal quality table.

3.12.2 Product Quality Assessment

Key product coal properties derived from the shipping data is presented in the table below. Note that the nett CV values on an *as received* basis were not reported in the shipping data, but have been calculated from internal sources. The nett CV is used for benchmark evaluation and is thus essential. Also it is noted that the inherent moisture is set at 2.5 % (ad) for reporting consistency. Other information indicates that the actual value will higher, maybe in excess of 4 %. Figure 3.24 shows the shipping quality from 2005-2007.

---

[44] *06.03.01.02 Kayuga Shipment Quality.xlsx*

Figure 3.24 – Dartbrook Shipping Quality

Dartbrook Shipping Quality
Nominal JFY 2005-2007

Jul-16

			AS RECEIVED	AIR DRIED	DRY	DRY ASH FREE
Moisture (%):	**Total**		12.2			
Proximate Analysis (%):	**Inherent Moisture**			2.5		
	Ash		10.4	11.5	11.8	
	Volatile Matter		30.5	33.9	34.8	39.4
	Fixed Carbon		46.9	52.1	53.5	
Fuel Ratio:				1.5		
Total Sulphur (%):			0.32	0.36	0.37	0.42
Chlorine (%):			0.018	0.020	0.021	0.023
Calorific Value:	**Gross**	**(kcal/kg)**	6280	6970	7150	8110
	Net	**(kcal/kg)**	6000			
	Gross-Net	**(kcal/kg)**	280			
Ultimate Analysis (%):	**Nitrogen**		1.5	1.7	1.75	1.98
Ash Analysis:	**Fe_2O_3**	4.7				
(% in dry ash)	**CaO**	3.2				
HGI:	59					
Ash Fusion Temperatures (^oC):			**Reducing**			
	Deformation		1310			
	Flow		1490			
Trace Elements (mg/kg) db:						
			Fluorine		111	
Sizing - % - 2 mm	~23					

Key features of this dartbrook coal include:

- CV value meets exactly the *globalCoa*l NEWC thermal coal index value (6000 kcal/kg nar)
- Low sulphur content
- Attractive fuel ratio (FC/VM)
- Favourable ash chemistry (as far as shown) leading to attractive ash fusion temperatures
- HGI of 59 approx. indicates an easy-to-grind coal relative to most other Newcastle thermal coal
- Fluorine levels about half the current Chinas limit for imported coal
- Size distribution well within limits imposed by most end users
- Nitrogen levels are elevated – but similar to many other Hunter Valley coals

It is noted that the CV reported here is in accordance with the values reported in the dataroom.

3.12.3 Newcastle Index and Price Expectations for Thermal Coal

The globalCOAL NEWC 6000 nar index is now utilised for substantial quantities of traded thermal coal. The contracts specifications for key coal properties are shown in Table 3.7 below, alongside the data derived from Dartbrook shipping.

Table 3.7 – Dartbrook Quality compared to NEWC index

Comparison to globalcoal NEWC index parameters	DARTBROOK SHIPPING JFY2005-07	NEWC Index
Produced by		globalCOAL
Frequency		Daily
Basis		% as received
Total Moisture - Typical	12 - 12.5	10%
Total Moisture - Maximum		15%
Ash - Typical	10 - 11	13%
Ash - Maximum		14%
Volatile Matter - Typical	~30 - 31	27-35%
Volatile Matter - Minimum		-
Total Sulphur - Typical	0.32 approx	0.60%
Total Sulphur - Maximum		0.75%
Gross Calorific Value - Typical	6970 GAD	6700 GAD
Gross Calorific Value - Typical		-
Net Calorific Value - Typical	6000	6000 NAR
Net Calorific Value - Minimum		5850 NAR
HGI - Typical	59	45-70
AFT (Red) IDT - Minimum	1310	-
Selenium (dry basis) - Typical	0.4 *	<1.0ppm
Selenium (dry basis) - Maximum		2.0ppm
Boron (dry basis) - Typical	30 *	60ppm
CaO in ash (dry) - Maximum	3.2	7%

Note that, for all properties, the Dartbrook coal falls at or below the required specification. Moisture is slightly above the standard, but well within limits.

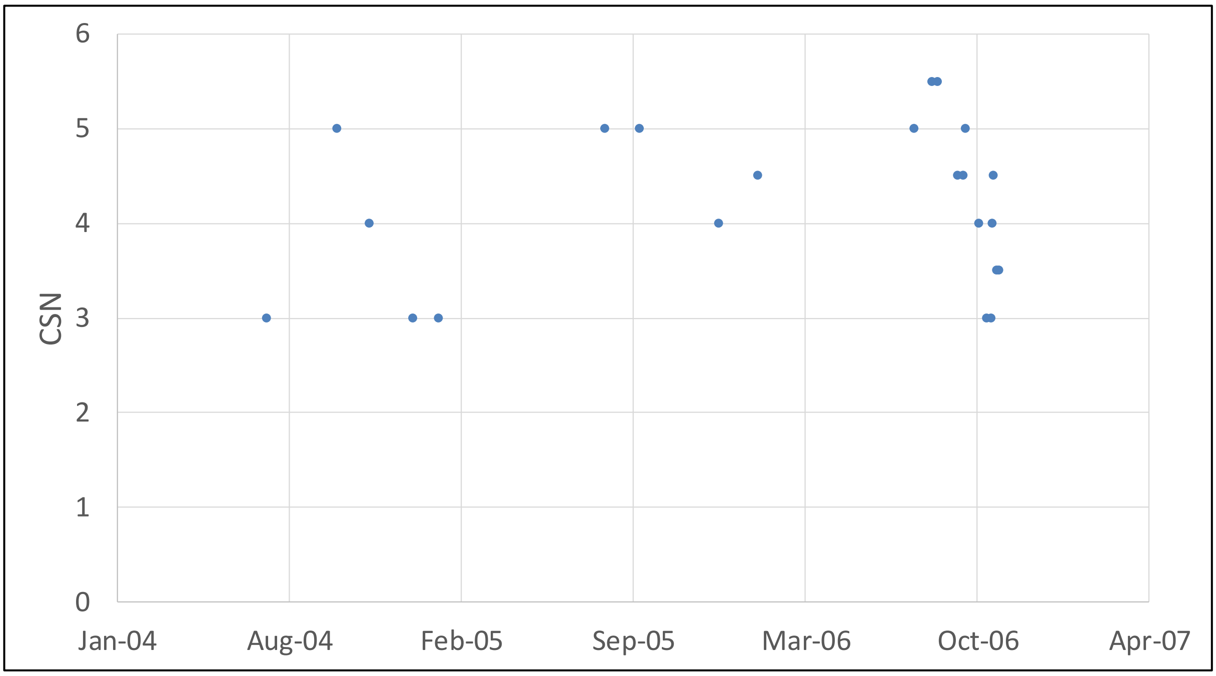
It can thus be inferred that if Kayuga South product aligns with the quality parameters shown above, then full NEWC 6000 nar index price should be achieved.

3.12.4 Potential Product Coal Upside

In the shipping database, CSN was not regularly tested, at least up until the last year. For the 22 vessels that reported CSN > 3, the average was ~4.5. Shipment results are shown in Figure 3.25 below. This represented in excess of 1 Mt. This CSN, even at the elevated ash, provides promise as means of producing a semi soft coking coal (SSCC). The ash level would have to be reduced to be competitive in the marketplace, unless Newcastle blending opportunities arose.

A low ash CHPP product from Dartbrook, would adversely impact overall yield, since there is no secondary circuit immediately apparent, to enable a middlings thermal coal product. Washability data and further base data is essential to explore this topic further. SSCC product commands a premium price over the prevailing NEWC 6000 price.

Figure 3.25 – CSN Values from Historical Shipping Data



4 MDL 453 COOROORAH

4.1 Key Outcomes

- Bowen Basin, Blackwater Area. Down dip of Curragh Mine.
- Two separate focus areas, on either side of the Jellinbah Fault zone.
- Indicated Coal Resource of 70 Mt and Inferred Resource of 55 Mt. (JORC code, 2012)
- Main resource area in the south of the lease, targeting the Aries, Castor, Pollux and Pisces of the Rangal Coal Measures
- The eastern area, targeting Shallow Burngrove Formation coals, but the extent is limited by the Jellinbah Mining Lease to the east.
- The Target coal seams are expected to produce a PCI product with a possible semi-soft coking coal fraction.
- Key threats to development are Aries seam thickness, potential faulting and due to depth of the target seams will be an underground project.
- Identified coal resource is at moderate to deep mining depth (180 – 520m), but still seen as appropriate for underground mining methods.
- The project is located in close proximity to key supporting infrastructure such as the Central Queensland Railway, which carries coal to the Gladstone Coal Terminal 300km to the east.

4.2 Overview

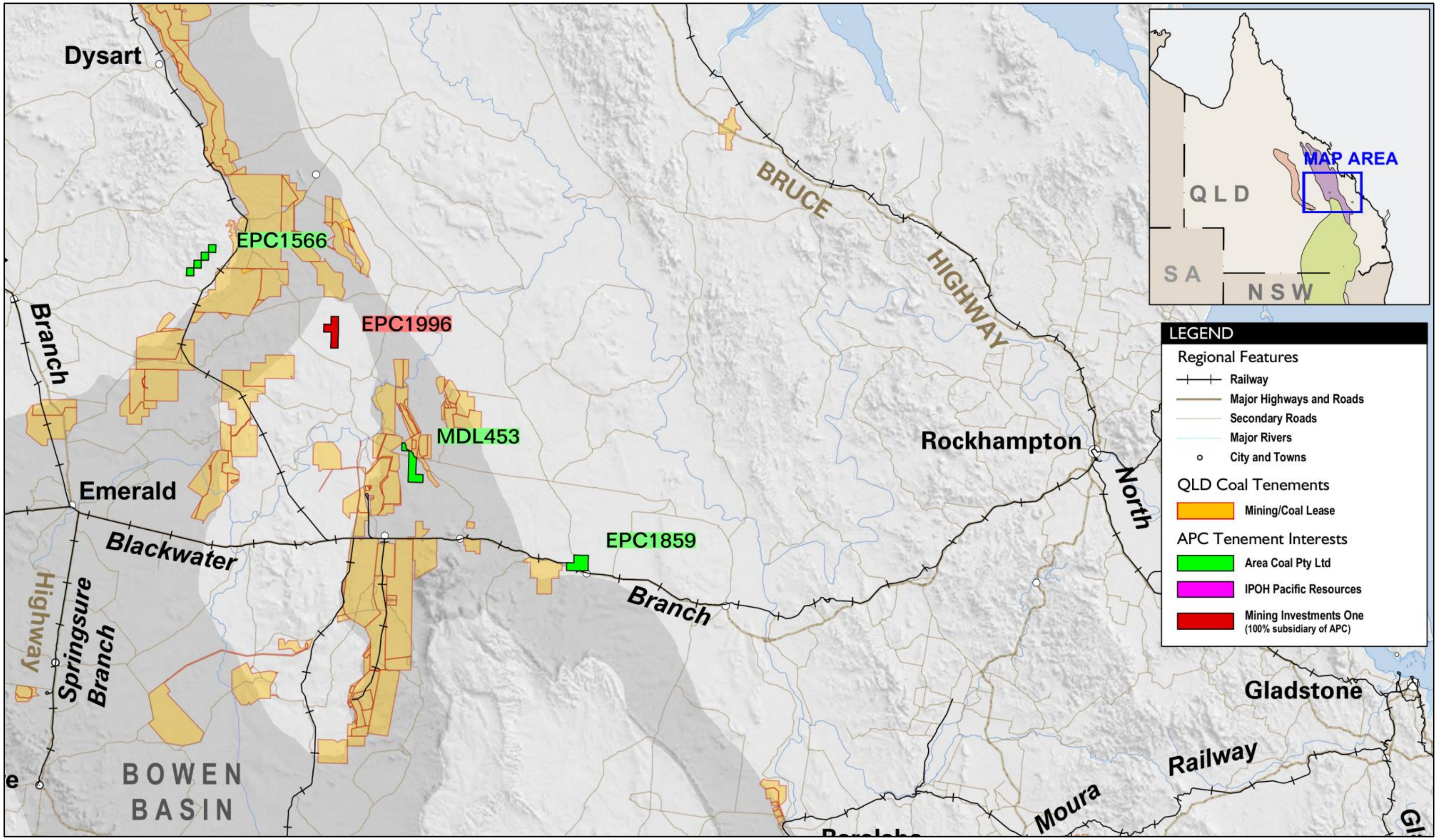
Mineral Development Licence No.453 - Cooroorah (MDL453) is located about 15km northeast of Blackwater in eastern central Queensland's Bowen Basin, between the operating mines of Curragh and Jellinbah. The tenement was granted to the Australian Pacific Coal Limited subsidiary company, Area Coal Pty Ltd, on 22 January 2014 for a period of 5 years, and covers approximately 16.66 km^2. MDL453 replaces EPC 1827, also previously held by Area Coal

4.3 Location and Background

MDL453 (Cooroorah) is located approximately 15km northeast of Blackwater in eastern central Queensland and is about 180km west of Rockhampton. The Capricorn Highway and Central Railway run through Blackwater, to the south of the tenement, where coal mined in the district is transported approximately 300km to the various Gladstone export terminals.

The MDL is located between Jellinbah to the east, and Curragh to the west, both operating open cut mines. Access to the tenement, from the Capricorn Highway, is via the Bluff-Jellinbah Road to the New Caledonia property. Figure 4.1shows the location of Cooroorah.

Figure 4.1 – Regional Location of MDL 453



4.4 Ownership Status

MDL 453 was granted to Area Coal Pty Ltd on the 22nd January 2014 for a period of 5 years, and covers an area of approximately 16.66 km^2. The tenement covers seven sub-blocks, some partially, and shares common boundaries with MDL 162 to the west and existing mining leases (ML's) to the northeast. (Figure 4.2).

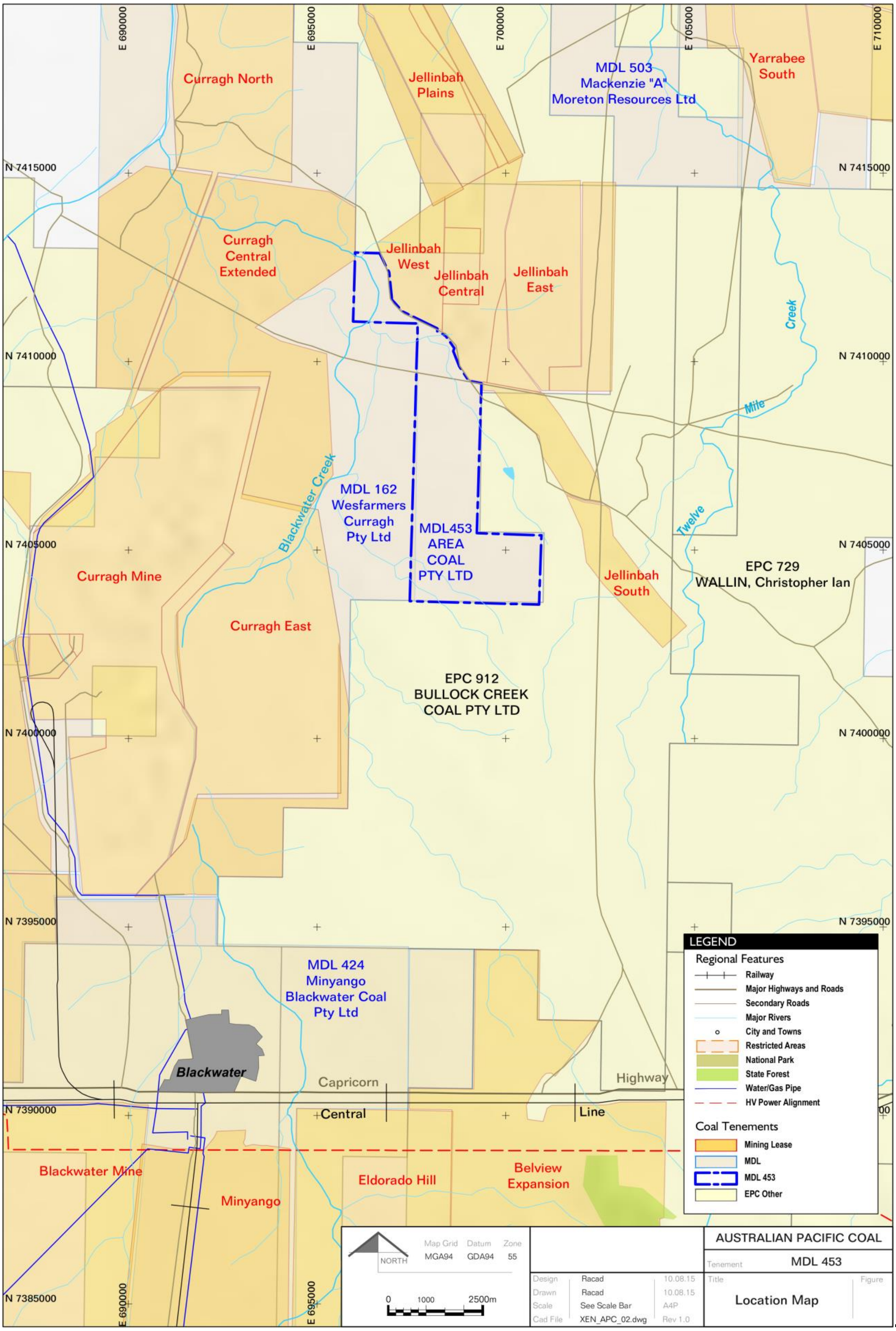
4.5 Potential Planning Constraints

The following item will require consideration when developing MDL 453:

- Strategic Cropping Land Tigger Areas were found to be mapped to the north of the tenement

None of the other criteria listed in Section 2.4 were found to be triggered for this tenement

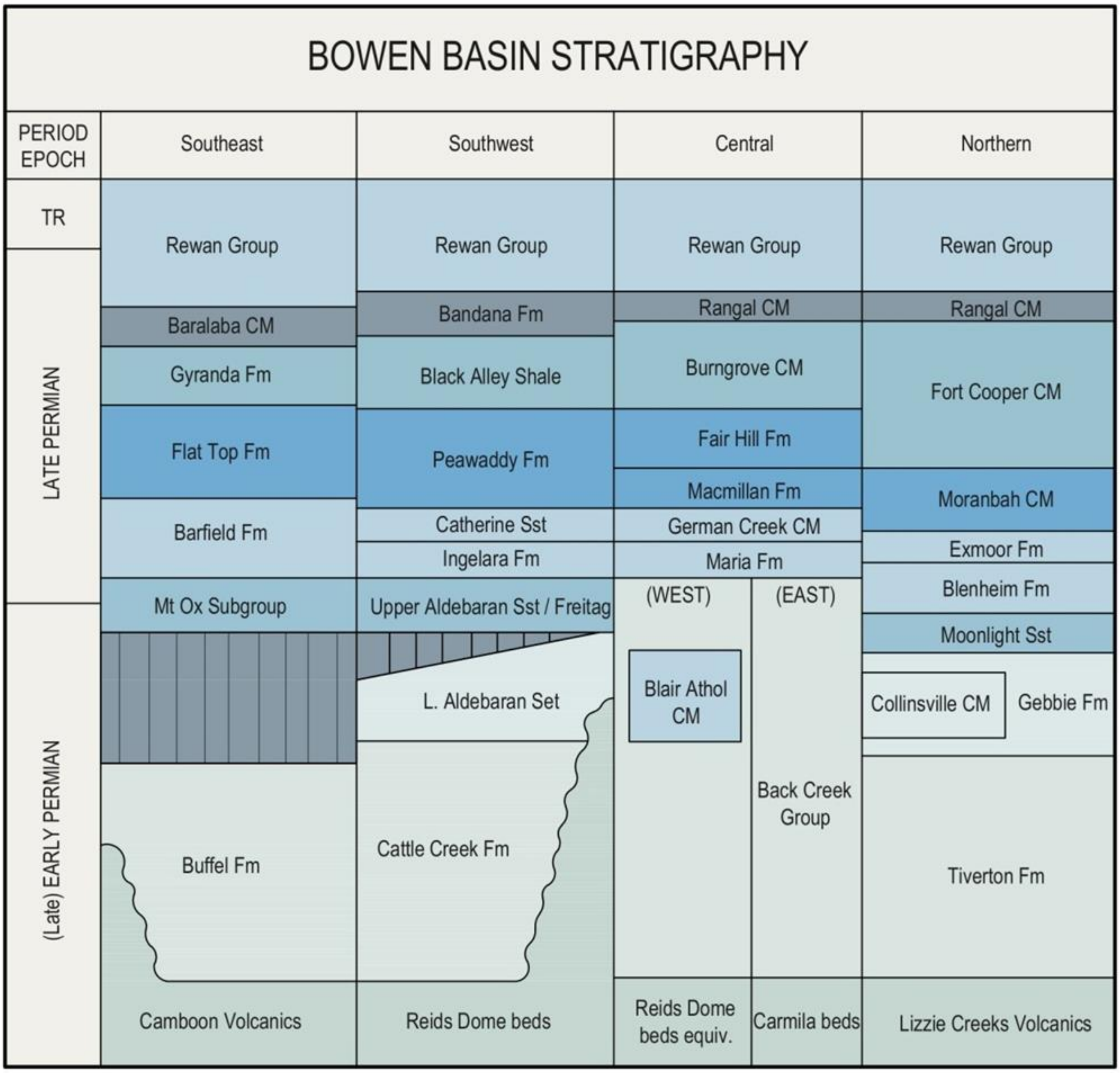
Figure 4.2 – MDL 453 Location and Nearby Leases



4.6 Geology

The Cooroorah project is located in the Central Bowen Basin within the Permian age Taroom Trough. The coal seams found within the tenement are part of the Rangal Coal Measures as well as the underlying Burngrove formation. Refer to Figure 4.3 for a summary of regional stratigraphic relationships in the Bowen Basin. Figure 4.4 shows the regional solid geology and regional structures.

Figure 4.3 – Stratigraphic Units of the Bowen Basin



The Cooroorah project has identified the Rangal Coal Measures as the main economic target and a generalised stratigraphic column for the Cooroorah project area can be seen in Figure 4.5.

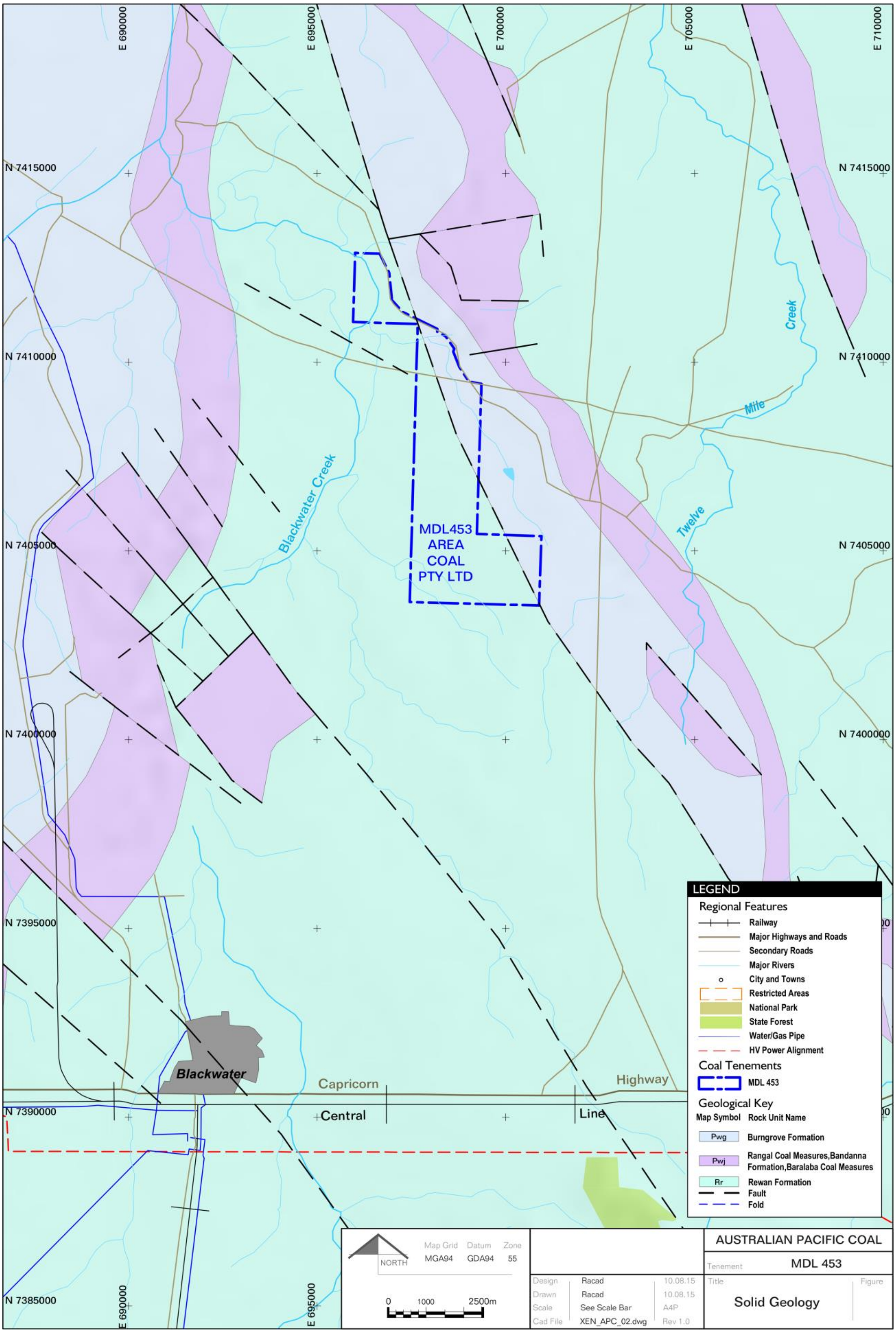
The Rangal Coal Measures were predominantly deposited in a fluvial environment on a rapidly subsiding alluvial plain. This was driven by thrust load subsidence of the retro-arc fore-land basin. The sequence accumulated under conditions of locally fluctuating sediment supply. The termination of marine conditions and establishment of widespread coal-forming conditions was the result of basin-wide oversupply. The Rangal Coal Measures represent the final stage of Coal formation within the Bowen Basin.

The Yarrabee Tuff is a laterally extensive unit located within the Pisces Seam. The Yarrabee Tuff is observed in most drill holes and represents the boundary between the Rangal Coal Measures and the Burngrove Formation [10]. The Yarrabee Tuff Bed is present over a wide area of the Bowen Basin and is generally less than 1 m thick [11]. The upper and lower boundaries of the Yarrabee Tuff bed are sharp and well defined. The Tuff is thought to represent a volcanic ash fall event which was distributed over a large area.

Below the Rangal Coal Measures, the Burngrove and Fairhill Formations also contain coal seams. The coal seams within these units are commonly banded, often abundant in tuffaceous and clayey material. These formations generally have higher lateral variability in thickness and coal quality, and have historically been considered a less attractive target for mining.

In general, the entire Permian sequence dips gently at approximately 3-5° to the east [12]. The base of the weathering profile ranges from 15m to 40m depth, although weathering up to 71m has been observed in drilling.

Figure 4.4 – Regional Solid Geology for MDL 453



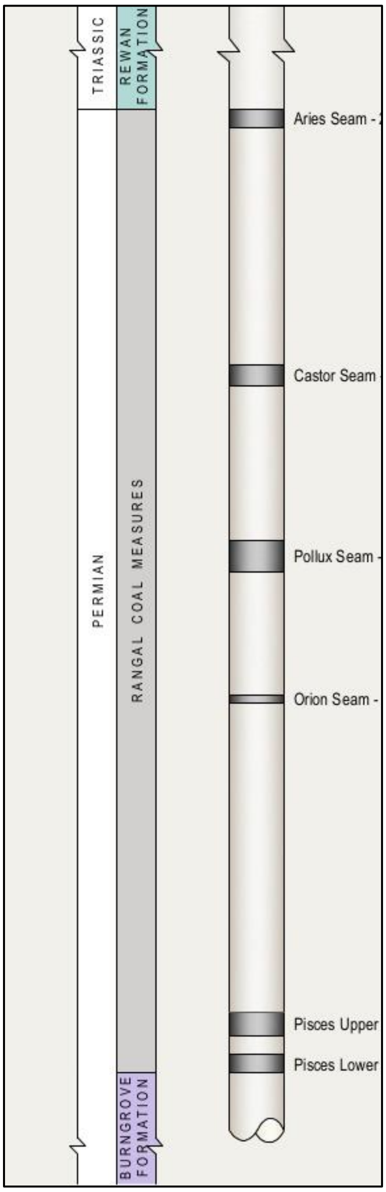
4.6.1 Coal Seams

To the east of the Jellinbah Fault the Burngrove Formation occurs at surface beneath a thin quaternary horizon. West of the fault, the Burngrove Formation has been intersected in drilling outside the MDL boundary at approximately 400m depth.

The Burngrove Formation contains a number of moderately thick coal seams with high inherent ash and abundant tuffaceous claystone and mudstone bands. These seams may contain a low yielding, hard coking coal product, but is yet to be commercialised in the region.

From the Rangal Coal Measures, the Aries, Castor, Pollux and Pisces have been identified in MDL453. The coal seams dip to the east (typically 3° to 5°), with the uppermost Aries seam intersected at 188m depth in GSQ drillhole Humboldt 7 (HU7) to the west of the MDL, and at 344m depth in GSQ drillhole HU9 further east within the MDL.

Figure 4.5 – Generalised Rangal Coal Measures Stratigraphy



The seams average between 1.5 and 2.5 metres in thickness, and the thickest occurrence of coal in a borehole (HU1941) is the Pollux seam at just over 6 metres. Mean, maximum, minimum and number of occurrences can be seen in Table 4.1

Table 4.1 – Coal Seam Thickness Statistics from Boreholes

Interval	Number of data points	Minimum		Maximum		Mean	Standard
		Hole Name	Thickness	Hole Name	Thickness	Thickness	Deviation
CA	9	HU012	0.18	BL177	1.34	0.76	0.39
AR	22	HU006	0.06	BWP008	4.35	1.54	1.23
CT	23	HU006	0.57	DDH009	4.86	2.21	1.17
PO	26	HU004	0.50	HU1941	6.11	2.49	1.16
PI	26	HU002R	0.97	HU005	4.18	2.50	0.64
YT	23	DDH011	0.54	HU011	1.45	0.92	0.24
PL	23	HU009	0.22	HU005	1.77	0.90	0.40

4.6.2 General Structure

Regionally, MDL453 lies on the eastern flank of the Comet Ridge; a broad anticlinal structure that lies between the Denison Trough and the Mimosa Syncline, in the Bowen Basin. The area is structurally complex, dominated by compressional fold-and-thrust style features.
The most prominent structural feature within the MDL is the Jellinbah Fault, a major reverse fault that dips steeply to the east and is up-thrown to the east. Maximum displacement is up to 600m, but the amount of dislocation varies according to the intensity of folding on the upthrust side of the fault (Stains, 1987). The strata have a north-north-westerly strike and regional dip of 3° to 5° to the north-east. This dip continues only as far east as the Jellinbah Fault. Immediately beyond this major break, the dip is up to 15° in drilling further to the east and the strata are folded to varying degrees of intensity within this folded zone (Stains, 1987).

4.6.3 Exploration Activity

Eight deep stratigraphic holes were drilled in or adjacent to the tenement by the Geological Survey of Qld (GSQ) in the 1970s as part of the Department's regional stratigraphic drilling program. These holes intersected seams of the Rangal Coal Measures at depths ranging from approximately 200m to in excess of 400m. The Humboldt series of holes (HU) includes 5 holes with coal quality results.

Fourteen shallow holes (NC9704-NC9707, NC9710-NC9713, and NC9901-NC9906,) were drilled in or adjacent to the tenement between 1997 and 1999 to depths ranging from 27m to 72m, in an unsuccessful attempt to find shallow RCM in up-thrown fault blocks.

In the period 2009 to 2010, BOW CSG Pty Ltd drilled one HQ corehole (BW1) and four open holes (BWP033 to BWP036, Figure 5-1) in the southern part of the EPC 1827 during exploration for coal seam gas in EPP 1025, which overlies MDL 453. BW1 has data for downhole geophysics, coal seam gas and coal quality analysis.

During year-2 of tenure, exploration was focused on the more accessible Shallow Target area on the upthrusted side of the Jellinbah Fault. A total of 636.48m were drilled between the 9 and

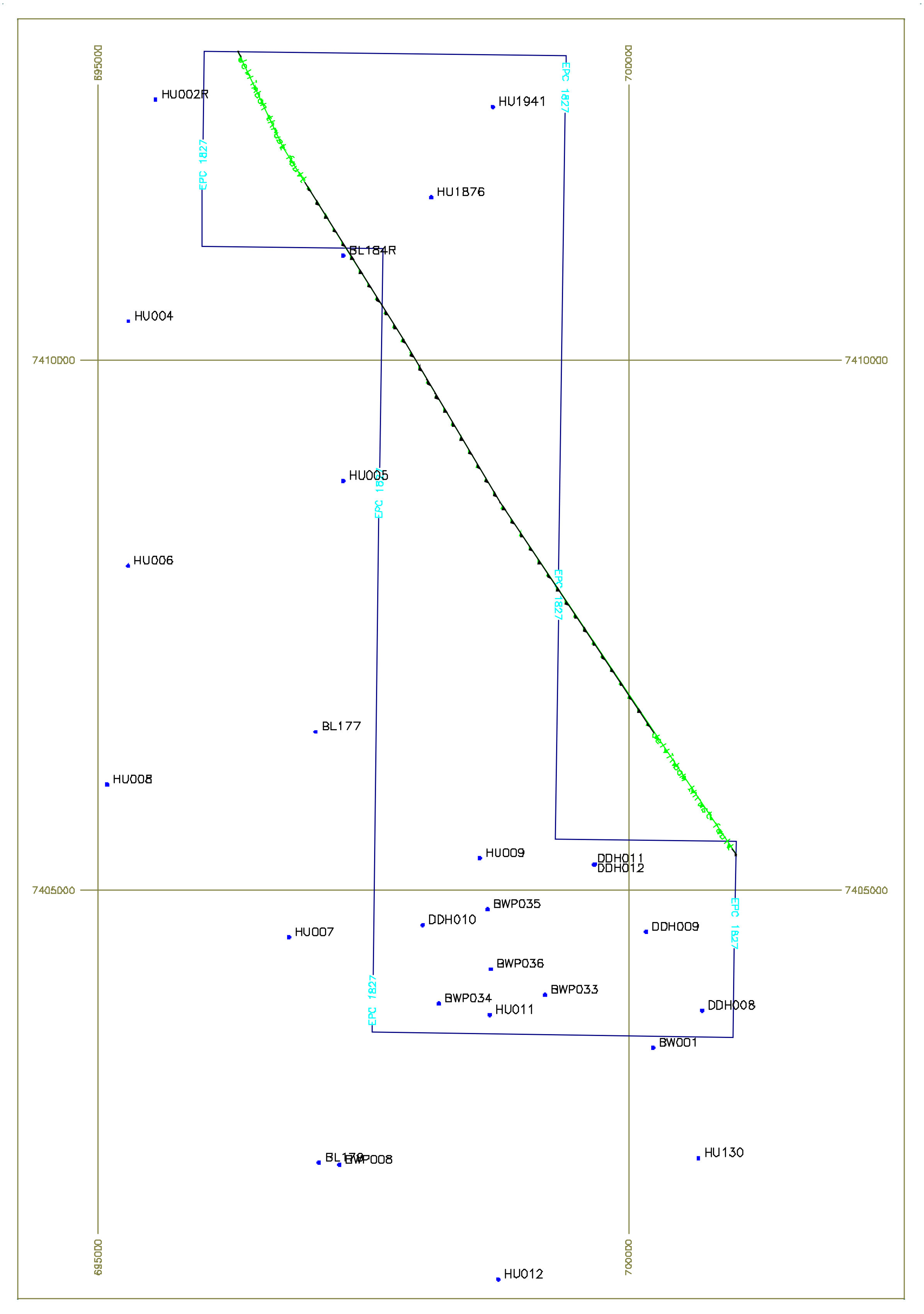
16 of July 2011 at four sites comprising 588.67m of open-hole chip drilling and 47.81m of '4C' (100mm) core drilling. The purpose of this drilling was to provide coal core samples of the shallow seams for quality analysis, and then open-hole drill to approximately 120m depth to test for additional seams.

The most recent exploration program by APC drilled between November 2012 and February 2013 includes five cored holes DDH008, DDH009, DDH010, DDH011 and DDH012. The two latter holes are drilled on the same site. All these drillholes were drilled in southern part of the tenement. These holes were all geophysically logged and sampled, inclusive of the Aries, Castor, Pollux, Pisces and Pisces Lower seams, for coal quality analysis.

A 2d seismic survey completed by Velseis in 2011 on behalf of Arrow Energy consisted of three lines passing through or close by the tenement boundary. The survey intersected the Jellinbah fault but supposedly no other significant faulting. The seismic sections have not been provided to Xenith for assessment

In the north-west of the tenement, seismic line 112 indicates a moderate level of reverse faulting and offset which is likely to be a function of its proximity to the Jellinbah Fault. In contrast, line 111, of which a significant portion lies within the tenement, shows limited normal faulting with minor offset inside the tenement boundary and minor interpreted reverse faulting to the west, outside of the tenement. The southernmost line 110 has limited overlap with the EPC in the south-western corner. A single normal fault with minor offset is interpreted in this corner but further south, towards the Jellinbah Fault and outside of the tenement, interpreted fault structures increase in abundance [13].

Table 4.2 – Drillhole Location Map



4.6.4 Coal Quality

13 coal quality holes exist for MDL 453. The raw data comprises Proximate Analysis, and in some cases:

- CSN (Crucible Swelling Number)
- SE (Specific Energy)
- Chlorine
- Sulphur
- Phosphorus
- HGI (Hardgrove Grindability Index)
- Free Moisture

Float Sink analysis has also been performed on the core samples, and F1.45 has been identified as the cut-off for a washed product.

A summary of composite raw coal qualities by seam are given below in Table 4.3. The coal quality data available continues to indicate a coal with PCI characteristics, and potential in some places for a semi-soft coking product.

Table 4.3 – Seam Raw Coal Quality Statistics

Seam	Category	IM % ad	ASH % ad	VM % ad	FC % ad	RD g/cc ad	CSN ad	SE MJ/kg	CHL % ad	TS % ad	Phos % ad	HGI ad
Aries	Valid Rows	6	6	6	6	3	5	6	3	6	6	3
	Min	0.80	10.40	17.70	52.80	1.42	2.5	24.68	0.02	0.39	0.04	97.00
	Max	1.50	28.00	21.10	70.40	1.57	8.0	31.29	0.04	0.64	0.08	98.00
	Mean	1.12	15.90	18.82	64.00	1.50	5.5	29.06	0.03	0.51	0.06	97.33
Castor	Valid Rows	6	6	6	6	5	6	6	5	6	6	5
	Min	0.80	9.49	16.10	65.35	1.39	1.0	29.29	0.02	0.38	0.06	87.34
	Max	1.80	15.89	18.76	72.40	1.48	4.5	32.63	0.05	0.50	0.14	92.59
	Mean	1.17	12.65	17.31	68.86	1.44	2.0	30.73	0.04	0.44	0.07	90.35
Pollux	Valid Rows	8	8	8	8	5	8	8	5	8	7	5
	Min	0.87	11.85	13.41	57.38	1.42	1.5	25.20	0.02	0.38	0.05	83.52
	Max	1.40	27.90	17.60	70.51	1.56	5.0	31.36	0.06	0.56	0.19	89.08
	Mean	1.21	16.59	16.00	66.19	1.49	2.5	29.50	0.03	0.43	0.13	87.01
Pisces	Valid Rows	8	8	8	8	5	7	7	5	7	7	5
	Min	0.85	12.50	15.20	60.34	1.45	1.0	26.98	0.02	0.30	0.05	83.84
	Max	1.90	22.21	17.40	70.50	1.49	3.5	31.30	0.04	0.39	0.09	86.84
	Mean	1.32	16.03	16.45	66.19	1.46	2.5	29.62	0.03	0.36	0.06	85.25
Pisces Lower	Valid Rows	2	2	2	2	2	2	2	1	2	2	1
	Min	1.20	20.20	16.60	43.70	1.48	1.0	19.79	0.01	0.22		92.00
	Max	1.20	38.50	16.90	61.70	1.74	5.0	27.92	0.01	0.35		92.00
	Mean	1.20	29.35	16.75	52.70	1.61	3.0	23.85	0.01	0.28		92.00

The shallow target of Burngrove Coal seams on the east side of the Jellinbah fault was explored in 2011. Nine holes over four sites were drilled, collecting bulk samples that were sent to RecyCoal Ltd in the United Kingdom.

On the basis of the coal core analysis results the yield was assessed as unlikely to be above 5%, by weight, of coking coal with a low non-commercial yield of thermal coal. Given the likely mining costs involved in pre-processing the samples, it was concluded that a commercially viable proposition was unlikely to be justified at the time.

APC was approached by Barrow Resources Pty Ltd to investigate suitability of the low yielding Burngrove Formation coal seams to their non-traditional coal beneficiation process ('Barrow Process'). Barrow Resource was subsequently engaged to undertake testing of the upper and lower sections of the Aquarius seam intersected in the 2011cored drillhole RDH002C. The interval tested comprised an upper coal section of 1.65m thickness and a lower coal section of 1.03m thickness, between 18.84m and 22.30m depth (refer to Appendix 7 – year-3 annual report). These intervals contained both coal and stony parting material. The analysis resulted in substantially higher net yields than those obtained from previous RecyCoal or conventional testing, producing up to 39.2% yield at 10% ash.

It should be noted that the Barrow Process is not yet a commercially utilised coal benefaction process, and the technique of finely grinding the coal has the potential to affect the coking properties.

A petrographic study of two representative samples of the coal was also undertaken by Coal Petrology Services Pty Ltd. Work included maceral group analysis, mean maximum vitrinite reflectance and photomicrography (refer to Appendix 8 – year-3 annual report). Mean maximum reflectance in the two samples was determined to be 1.96 and 1.95, indicating semi-anthracite coal. This coal type is considered to be similar to those mined at the South Walker Creek, Coppabella and Foxleigh mines, sold mainly as metallurgical coal for pulverised coal injection (PCI).

4.6.5 JORC Resources and Reserves

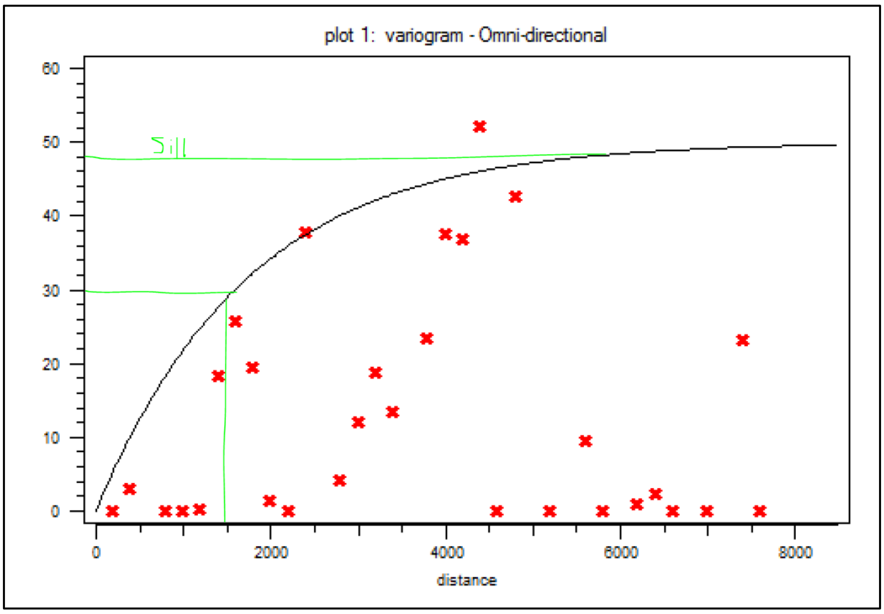
HDR/Salva Resources Pty Ltd completed a resource estimate in accordance with the JORC code 2012, in July 2013 for EPC 1827/MDL 453). The geological model was created using Mincom Minescape/Stratmodel. There is no detailed information on the topographic surface used in the model, but this should not be an issue considering the depths at which the target coal seams are present.

All seams within the Rangal Coal Measures, Burngrove Formation and Fairhill Formation (from the Cancer seam to the Fairhill seam) were modelled.

25 drillholes have been included in the model, 10 of which are located within or immediately adjacent to MDL 453. The 10 boreholes are all located in the Southern part of the tenement.

A maximum distance between Points of Observation was defined for each of the resource categories. The distances were derived using the Australian Guidelines for Estimating and Reporting of Inventory Coal, Coal Resources and Coal Reserves ("the Guidelines") (2003). Additionally, variogram modelling of the Pollux seam Raw Ash was used to determine the appropriate maximum distance between POBs for the Indicated category. The rationale was the raw ash was directly related to the main economic driver such as Yield. It was decided to use 2/3rd of the variogram sill from the Pollux seam raw ash% variogram, as the basis for the classification of Indicated Coal Resources for all reported seams within the tenement. This distance is 1,500 metres. (Figure 4.6)

Figure 4.6 – Variogram for Pollux Seam Raw Ash %



It should be noted that this approach does not consider any variation in seam thickness or structural complexity/ faulting within the resource. Furthermore, the Pollux seam Raw Ash % shows very little variability. However, the Competent Person has used this particular parameter to define the maximum POB distance for all seams.

The Coal Guidelines (2003) suggested distances have been used for Measured and inferred Resources.

- Measured Resources 500m between POB's
- Inferred Resources 4000m between POB's

The resource estimate was limited to include:

- the area inside the EPC 1827 tenement boundary,
- the area to the west of the Jellinbah thrust fault,
- the Aries to Pisces Lower seams,
- areas where a seam has a minimum thickness of 1m,
- areas where a seam has a maximum raw ash of 40%,

Resources have been reported on an air-dried basis, and the tonnages estimated without converting the relative density to insitu moisture. Nearby deposits use an insitu density of 3 – 4% [14]. If the same was to be applied to the Cooroorah project, a decrease in the total resource of approximately 1% - 1.5% could be expected. Xenith does not see this potential change as material.

The Aries seam does not reach 1m thickness in any hole within the tenement boundary. It is questionable whether any indicated resource is justified for this seam given the uncertainty related to the thickness. However, the thin interburden between the Aries and Castor could mean that these seams could be mined together. As such, there is a potential for increasing the resource where the parting is sufficiently thin.

The Castor and Pollux seams have reasonable coverage in the South area, and show moderate variability in seam thicknesses. The Pisces seam is very uniform in thickness within the focus area.

The project is currently estimated to contain a total resource of 125Mt, comprising 70 Mt of the Indicated and 55 Mt of the Inferred resource.

Table 4.4 – Resource Summary

Seam	Classification	Volume (1000 CU Metres)	Area (Hectares)	Mass (Mt)	True Vertical Thickness (Metres)	Raw Ash %	Raw CSN	Raw Volatile Matter %	Raw Inherent Moisture %	Raw Relative Density g/cc	Raw Specific Energy MJ/Kg	Raw Total Sulphur %	Product (f1.45) Ash %	Product (f1.45) Yield %
AR	IND	409	41	0.6	1.0	22.0	7	20.5	0.9	1.51	28.5	0.53	8.2	74.3
AR	INF	4779	339	7.0	1.4	17.6	5	21.0	0.9	1.47	28.5	0.53	8.2	73.3
CT	IND	19039	624	27.2	3.1	12.8	3	17.5	1.0	1.43	29.3	0.54	8.3	84.3
CT	INF	5537	298	7.9	1.9	12.9	2	17.4	1.1	1.43	29.3	0.54	8.4	85.2
PO	IND	12019	542	17.5	2.2	16.5	2	15.7	1.2	1.45	30.5	0.36	8.2	83.4
PO	INF	7156	383	10.4	1.9	16.0	2	15.8	1.2	1.45	29.2	0.39	8.2	83.5
PI	IND	16449	625	24.3	2.6	16.0	3	16.4	1.1	1.48	29.5	0.38	9.7	77.2
PI	INF	16525	598	29.9	2.7	16.1	3	16.3	1.4	1.50	29.5	0.38	9.7	77.4
TOTAL	INDICATED			69.6										
TOTAL	INFERRED			55.3										
TOTAL				124.9										

The Cooroorah project is expected to produce low ash PCI coal with a potential semi-soft coking coal fraction. The Aries seam is the best candidate for making a coking coal with the highest CSN and low phosphorus. However, the seam is thin, and would possibly only be a target when mined together with the Castor seam given the thin interburden.

It should also be emphasised that the Pollux seam is the thickest and most consistent seam in the deposit, both in terms of thickness and coal quality. It has the highest potential for economic extraction.

4.7 Mine Plan

4.7.1 Proposed Operations

The Cooroorah project is proposed as an underground operation.

4.8 Mining Implications

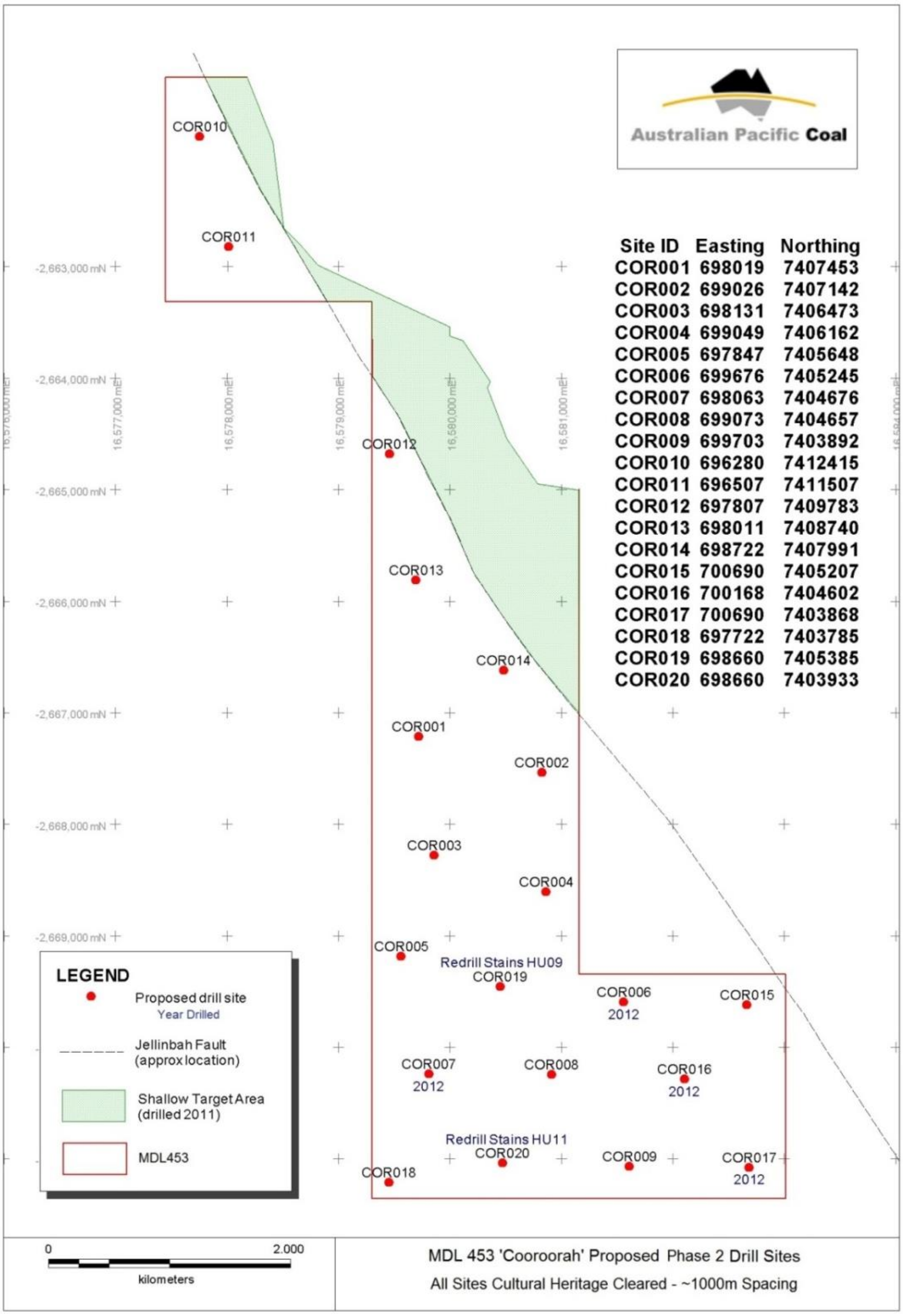
- Project located in close proximity to key supporting infrastructure such as the Central Queensland rail line and the Capricorn Highway.
- Faulting could be an issue considering the close proximity to the Jellinbah fault. Further work is warranted to investigate this.

4.9 Future Work

APC has developed plans and budgets for stage 2 and 3 drilling programs. The stage 2 program includes drilling 16 cored holes with the objective to upgrade existing resources from Inferred to Indicated and Indicated to Measured. The budget for this drilling program is approximately $1.7 Million. The plan does not specify when the drilling program is intended to commence.

The Stage 2 planned core hole locations can be seen in Figure 4.7.

Figure 4.7 – Stage 2 Exploration Plan

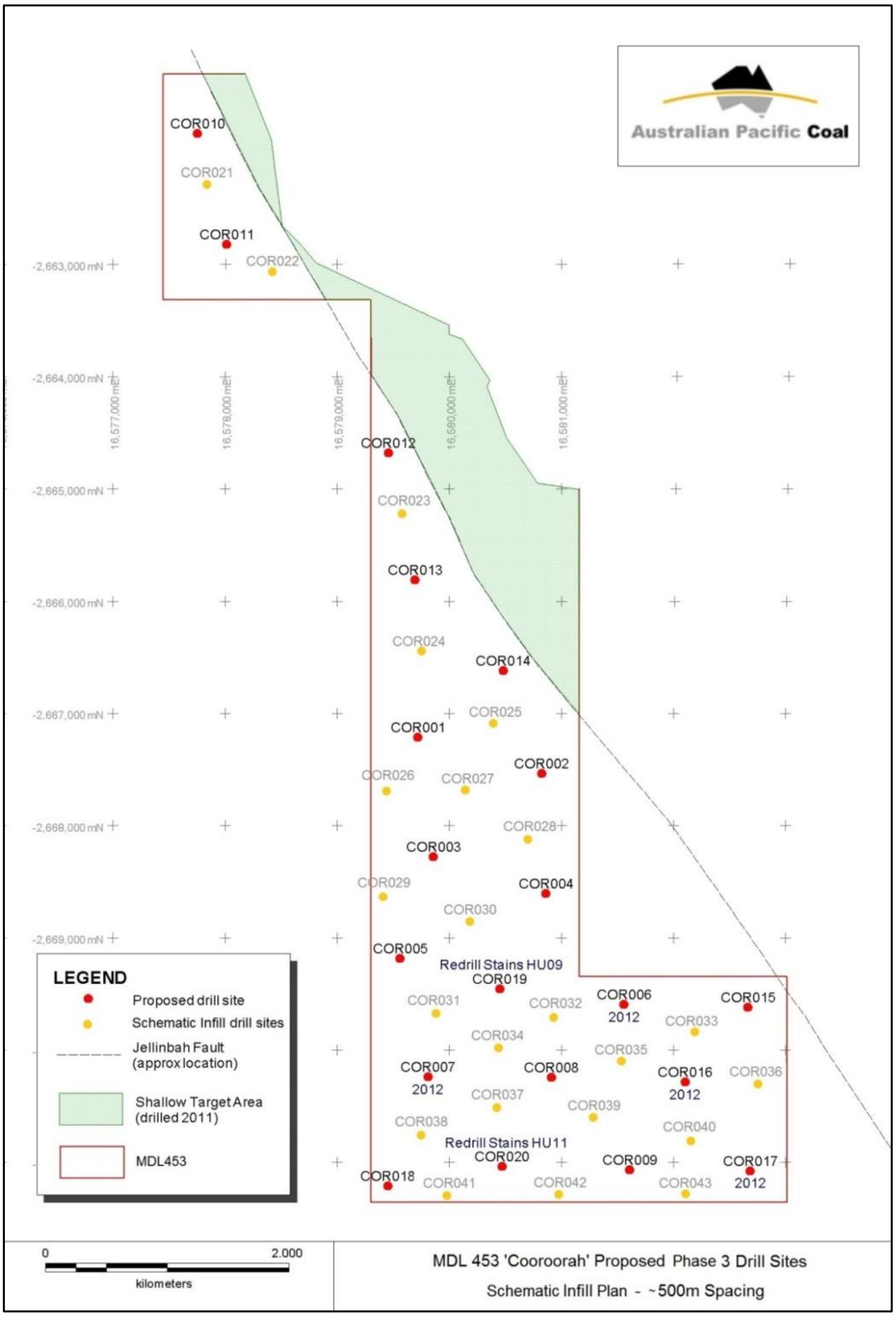


A plan for the next stage (Stage 3) of exploration has also been developed. The plan involves drilling 20 cored holes (estimated 5,700m chip and 2,500m core) in order to convert the Indicated resource to Measured. The budget for this exploration plan is approximately $1.8 Million.

The holes planned for the Stage 3 Drilling Program can be seen in the known faults in the area (Figure 4.8).

The size of the exploration plans appears to be reasonable considering the prospectivity of the deposit. The stage 3 program should be revised based on the stage 2 exploration results. A seismic program should also be considered given the known faults in the area.

Figure 4.8 – Stage 3 Exploration Plan



5 EPC 2011 SOUTH CLERMONT

5.1 Key Outcomes

- Tenement is held by Area Coal and located to the South of Glencore operated Clermont Mine in the North Western Bowen Basin.
- No advanced (field) activities have been completed to date.
- Reprocessed gravity surveys have shown gravity lows in the north and eastern flank of the tenement, which could indicate the presence of Permian coal seams.
- Historical drilling within and surrounding the tenement totals over 100 holes, but the coal seams intersected have been considered to be of limited prospectivity.
- Significantly, the tenement is located within the restricted area (RA 391) surrounding the Town of Clermont, which prohibits coal applications. The far North of the tenement is overlapped by the Clermont Mine ML.

5.2 Overview

The South Clermont Project incorporates EPC 2011 and is located between Bowen Basin deposits to the east, and basement volcanic, intrusive and metamorphic rocks to the west and is targeting the Permian Blair Athol Coal Measures and Back Creek Group coal seams.

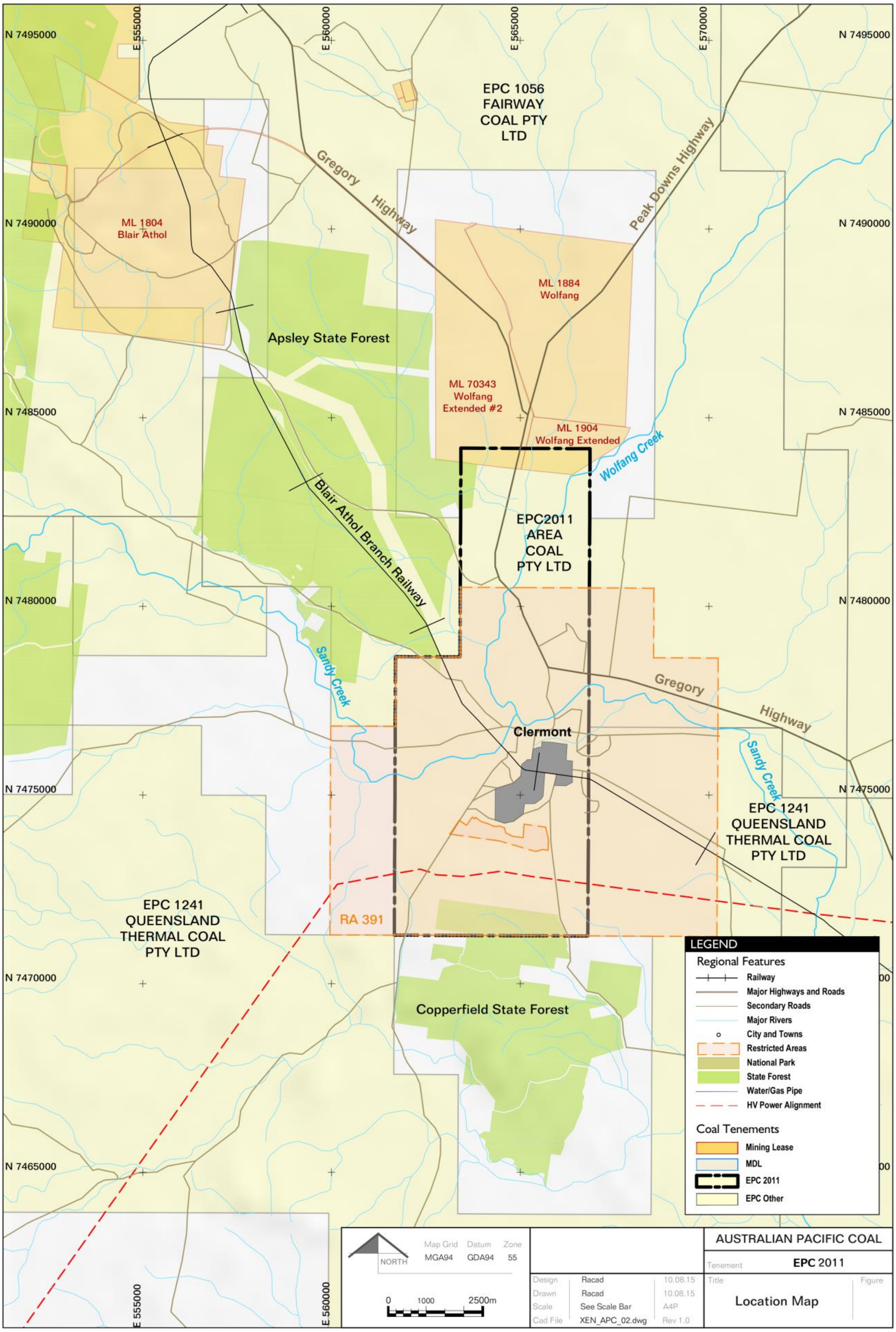
There is a potential for such a deposit given the close proximity to the Clermont mine. Gravity lows have also been found in these areas. Historical drilling within and close to EPC 2011 (approximately 115 holes) has shown Permian sediments in the area, but no low strip ratio coal seams have been intersected to date .

The prospectivity of the tenement is highly constrained, with most of it being within RA 391 prohibiting coal applications.

5.3 Location and Background

EPC 2011 is located approximately 80km north-west of Emerald in Central Queensland. The Gregory Highway passes through the tenement, which is approximately 270km from Mackay and 365km from Rockhampton by road. The township of Clermont is centred in eastern half of the tenement (Figure 5.1). Rail access, to coal export facilities at Gladstone, approximately 450km away, also traverses the tenement.

Figure 5.1 – EPC 2011 Location



5.4 Tenure

EPC 2011 was granted Area Coal on the 1 May 2014 for a period of 5 years, and comprises eighteen sub-blocks covering approximately 56.8km^2.

Table 5.1 – EPC 2011 Sub-blocks

BIM	Block	Sub-Block
CLER	2420	C D H J N O R S T W X Y
CLER	2492	B C D G H J
Total		**18**

5.5 Potential Planning Constraints

The following items will require consideration when undertaking development of EPC 2011:

- Restricted areas 189 and 391 exist over a significant proportion of the tenement due to the tenement overlying the township of Clermont
- Strategic Cropping Land Trigger Areas were found to be mapped to the north and south of the tenement
- State Forests intersect the tenement to the north (Aspley State Forest) and to the south (Copperfield State Forest).

None of the other criteria listed in Section 2.4 were triggered for this tenement.

5.6 Geology

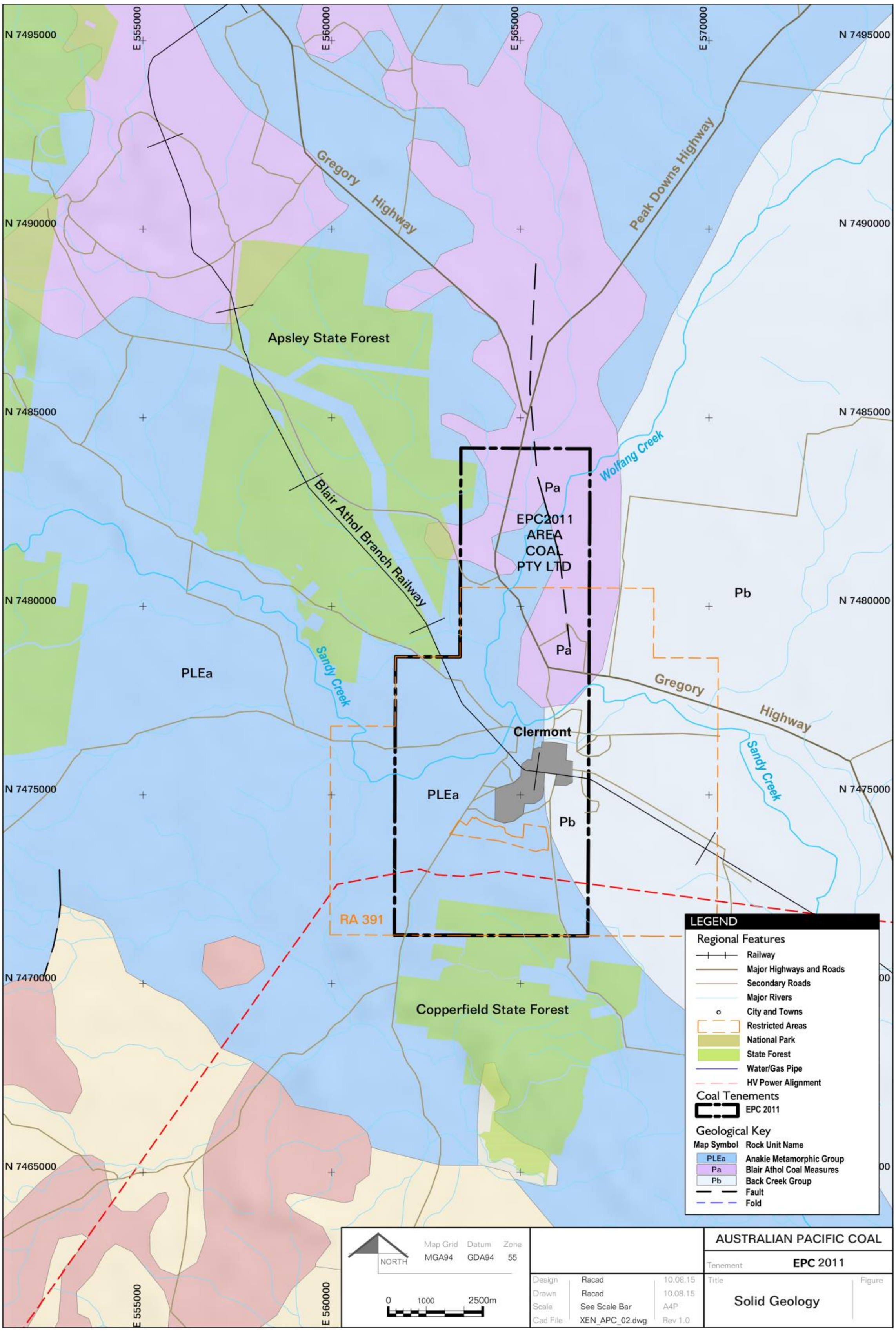
EPC 2011 is within surface mapped Anakie Metamorphics that possess isolated Permian Basins along the eastern margin. These isolated basins form coal seam target areas within the tenement.

Permian sequences within the EPC include the Blair Athol Coal Measures and the Back Creek Group. Permian sediments are also mapped to the east of the permit area and dip gently east. These Permian sediments may contain coal bearing Back Creek Group sediments and underlying Reids Dome Beds. See Table 5.2 and Figure 5.2.

Table 5.2 – EPC 2011 Stratigraphic Sequence

Age	Formation (Map Symbol)	Rock Type
Quaternary	Undifferentiated (Qa)	Mud, sand and gravel / Calcrete and magnesium limestone or dolomite
Tertiary	Undifferentiated (T)	Sand, mud and gravel / Silcrete / Olivine basalt, minor agglomerate, tuff, some inter-bedded sediments
Permian	Back Creek Group (Pb)	Quartz sandstone, siltstone, Carbonaceous shale and minor coal
	Birimgan Formation (Pi)	Sandstone, shale, mudstone, Conglomerate and coal
	Blair Athol Coal Measures (Pa)	Sandstone, shale, mudstone, Quartz-pebble to polymictic, Conglomerate and coal
Mid to Late Devonian	Undifferentiated	Granodiorite
Neo Proterozoic - Early Cambrian	Hurleys Metamorphics (PLEh)	White fine to coarse-grained, strongly foliated quartzite and fine-grained quartz-mica schist grading to phyllite
	Bathampton Metamorphics (PLEb/p&g)	Phyllite, schist, quartzite, greenstone, and calc-silicate rocks

Figure 5.2 – EPC 2011 Solid Geology



5.6.1 General Structure

Regionally, the most significant structure is that of the north-northwest trending Anakie Inlier. The major fold axes observed in both the Drummond Basin to the west and the Bowen Basin to the east are controlled by the Anakie Inlier which also trends in a north north-westerly direction. Tertiary flood basalts are also controlled in part by this regional trend.

Locally, the Clermont Basin to the north of the EPC is known to be fault bounded on its western margin. This fault is interpreted to continue in a north north-westerly strike direction, through EPC 2011 and represents the western boundary of the target area.

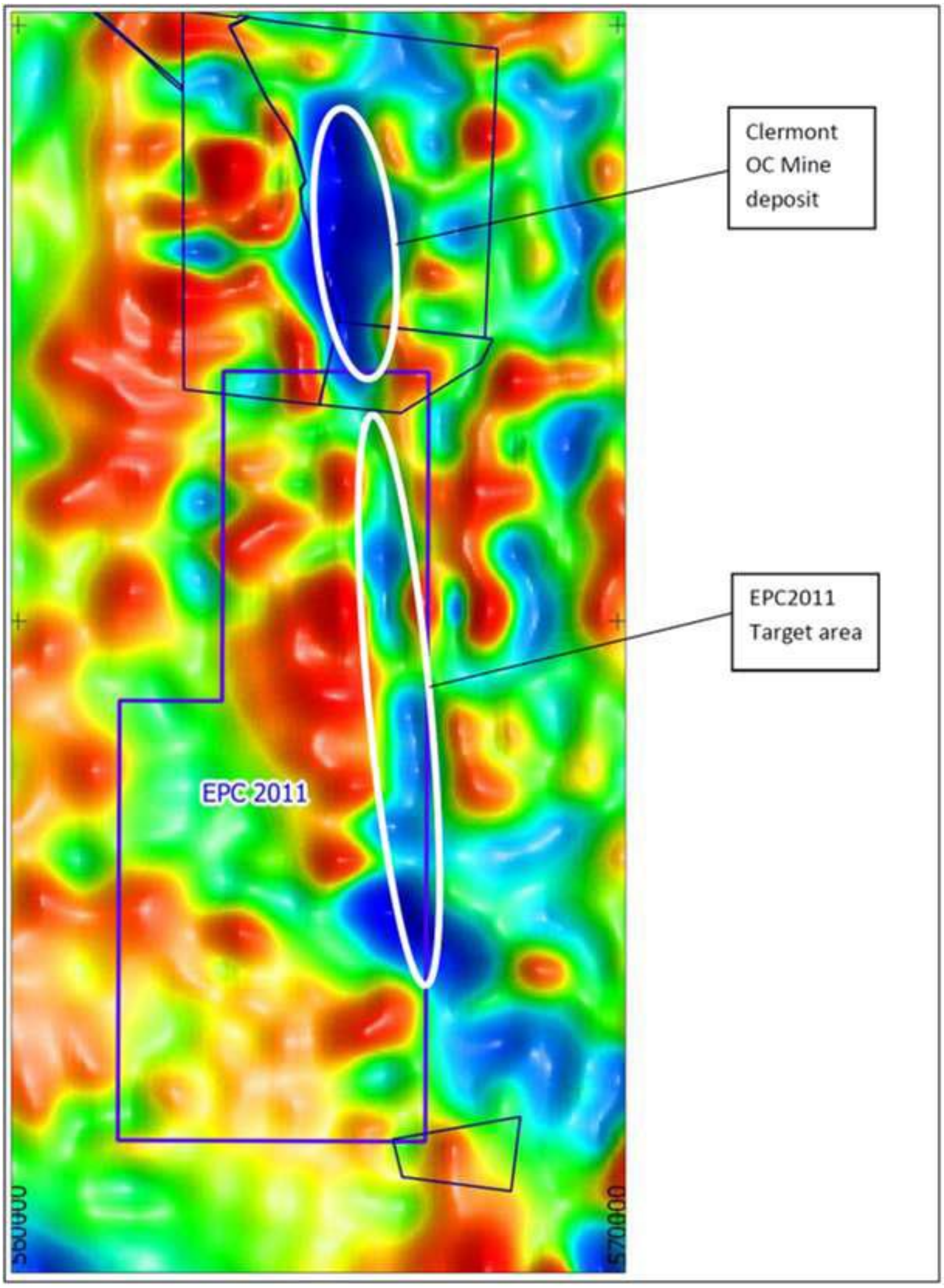
5.6.2 Historical Drilling

Area Coal has not conducted any drilling to date. A number of historical exploration permits have existed where EPC 2011 is located. These have been reviewed by Area Coal with the assistance of Geoconsult. Up to 1.5m Permian coal intersections have been found in some of the boreholes, but generally results have shown thin coal seams only.

5.6.3 Gravity Surveys

In 2014, RAMA Geoscience was commissioned to reprocess existing gravity data, incorporating all available open source data. The reprocessed gravity data identified gravity-lows that extend over 10km of strike length within EPC 2011, on-strike and immediately south of the Clermont Mine (Figure 7). The density of gravity observation points over the Clermont deposit is significantly higher compared with data collected south of the Mining Lease and within EPC 2011. Data collected inside the EPC boundary is 50% or less of the data density to the north, thereby reducing the resolution of gravity data in the identified target area.

Figure 5.3 – Reprocessed Gravity Data



The gravity lows seen in Figure 5.3 have the potential to host Permian coal seams warranting further exploration drilling, however parts of this area are covered by restrictions for coal applications (RA 391).

5.6.4 Coal Quality

No coal quality has been reviewed. A Blair Athol/Clermont style deposit would likely produce a low ash Thermal Coal product.

5.6.5 Geological Modelling and Resources

There is currently no geological model or resources for EPC 2011.

5.6.6 Exploration Target

Two coal exploration targets were identified by GeoConsult (2013).

Target 1:

- *50-75 Mt target ("1st Pass") roughly estimated exploration target. Max lateral extent = $10km^2$*
- *Probability: Structure within the EPC may result in small, localised coal basin with thick coal seams – Blair Athol/Clermont style, depth range surface ~ 300m [poorly defined, no intersections within EPC],*
- *Possible seam thickness = 5m [very conservative thickness estimate based on surrounding pod style* deposits], RD=1.5).

Target 2:

- *5-10 Mt target ("1st Pass") roughly estimated exploration target. Max lateral extent = $10km^2$, depth range surface-300m [poorly defined, no intersections within EPC], possible seam thickness = 1m [conservative thickness estimate], RD=1.5)*
- *Probability: Speculation - no supporting evidence. Target would need to be coal development in coal poor Permian Marine sequence, concealed beneath Tertiary Sediments.*

Cautionary Statement - The potential quantity and grade is conceptual in nature, that there has been insufficient exploration to estimate a Mineral Resource and that it is uncertain if further exploration will result in the estimation of a Mineral Resource.

5.7 Future Work

5.7.1 Proposed Drillholes

Three chip holes are proposed in the initial drilling proposed in EPC 2011, plus one twinned core hole if warranted. Proposed drill holes will to test for potentially thick coal seam in a setting similar to that of the Clermont Mine.

Within the current tenement, proposed sites CMT001, CMT02 and CMT003, target comparable shallow coal seams.

Table 5.3 below lists the initial phase 1 proposed sites. See Figure 5.4 for the location of the planned holes. The Stage 1 exploration plan has a total budget of $145,000.

Table 5.3 – Proposed Drill Hole Locations and Planned Depth

Site ID	Zone GDA94	Easting	Northing	Depth (Approx)	Comments
CMT01	55k	566406	7481862	200	Option B site north of fence line.
CMT02	55k	566293	7480769	200	
CMT03	55k	566626	7480964	200	Optional – based on outcomes of CMT001 and CMT02

The program was scheduled to commence in early to mid-October 2014. Xenith is aware of that program remains on hold at this time. This phase is not affected by RA 391.

A second stage exploration drilling program has also been proposed. This plan involves drilling 17 cored holes in the north of the tenement, presumably on the condition that Stage 1 results are positive. The aim is to develop an Indicated resource. This plan has a budget of approximately $1.5 Million. See Figure 5.5. The proposed sites CMT18, 19, 20 and 21 are all affected by RA391.

Xenith recommend completing at least 7 – 8 chip holes to confirm the extent of a potential deposit before committing to a sizeable exploration program, as proposed in Stage 2.

Figure 5.4 – Proposed Stage 1 Drill Plan

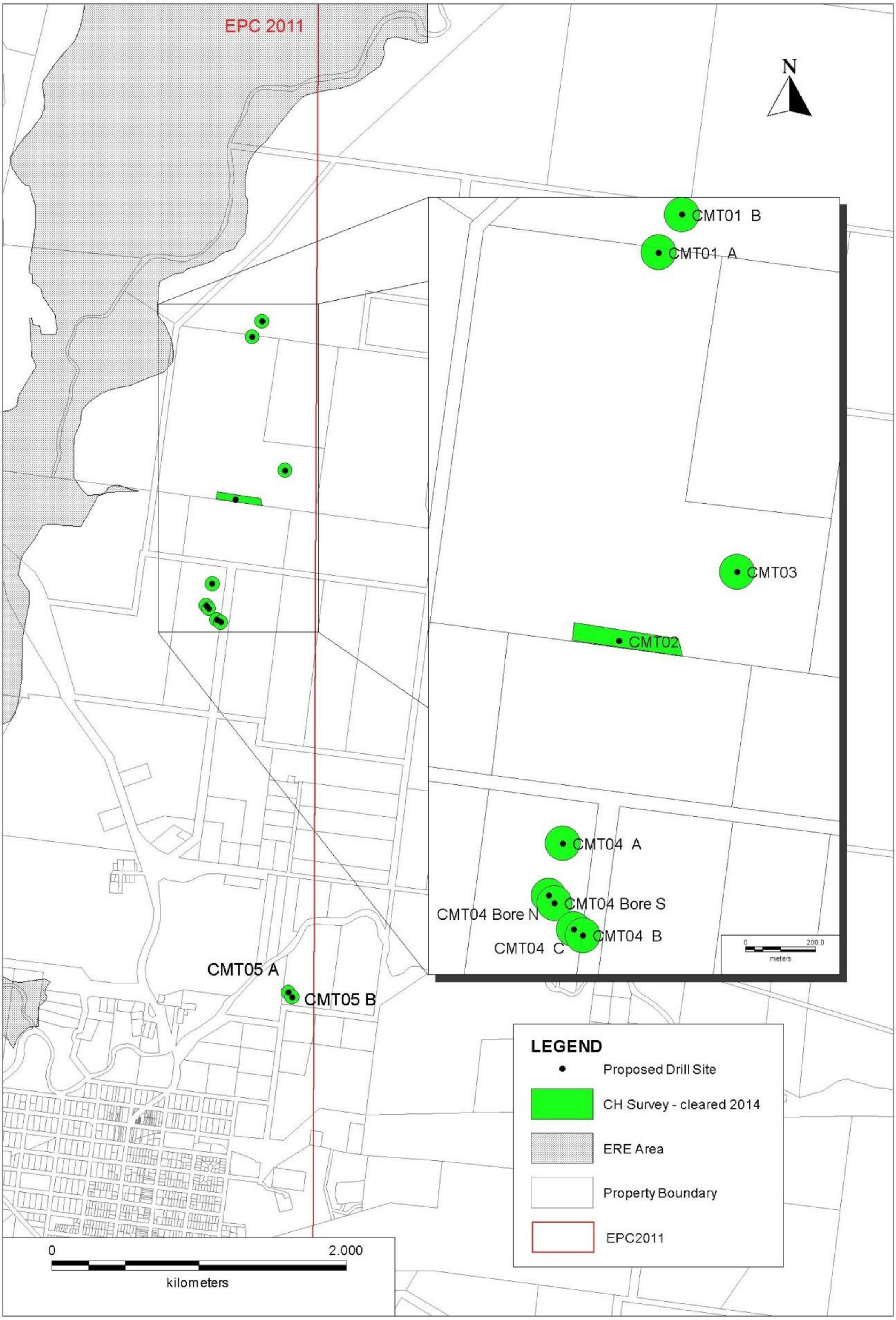
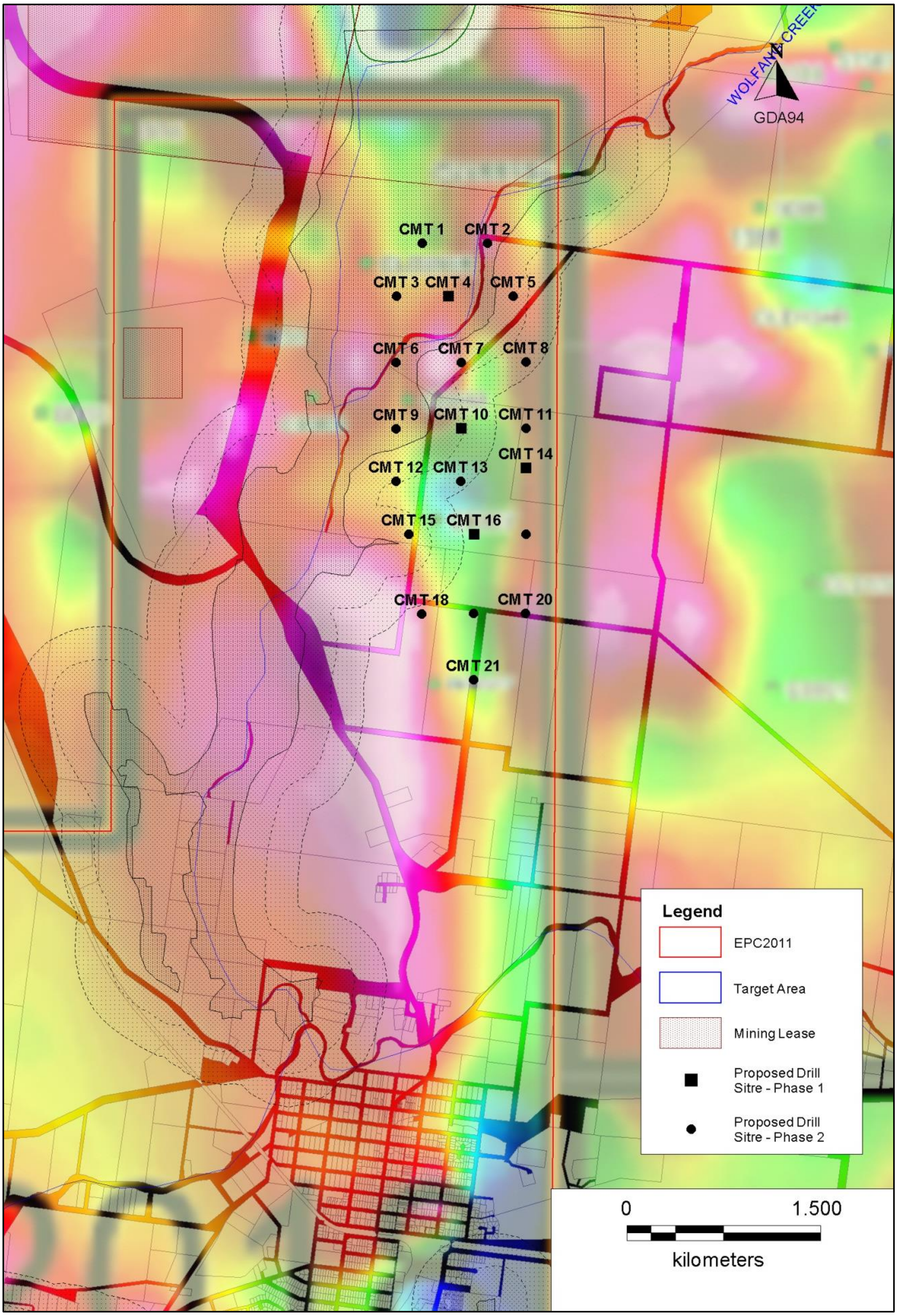


Figure 5.5 – Stage 2 and 3 Proposed Drilling



6 EPC 1859 DINGO

6.1 Key Outcomes

- EPC 1859 is held by Area Coal, consists of 5 sub-blocks, and is located near to and over the Township of Dingo in the Central Highlands of Queensland.
- The tenement contains coal seams from the Permian age Rangal Coal Measures.
- The structural setting between the Jellinbah and Yarrabee faults named the Dingo Fold Belt is known to be structurally complex with abundant thrust faulting and folding in parts.
- Coal Quality results suggest a low volatile high yielding PCI product is possible, with a possible secondary thermal fraction.
- Due to faulting, interpreted steep dips and marginal incremental strip ratios, the lease will require further exploration to define areas with sufficiently low cumulative strip ratio, between fault blocks.
- No JORC Resource has been identified. The geological model has not been supplied for review.
- Exploration Target estimated between 19 – 33 Mt. **Cautionary Statement** - The potential quantity and grade is conceptual in nature, that there has been insufficient exploration to estimate a Mineral Resource and that it is uncertain if further exploration will result in the estimation of a Mineral Resource.

6.2 Overview

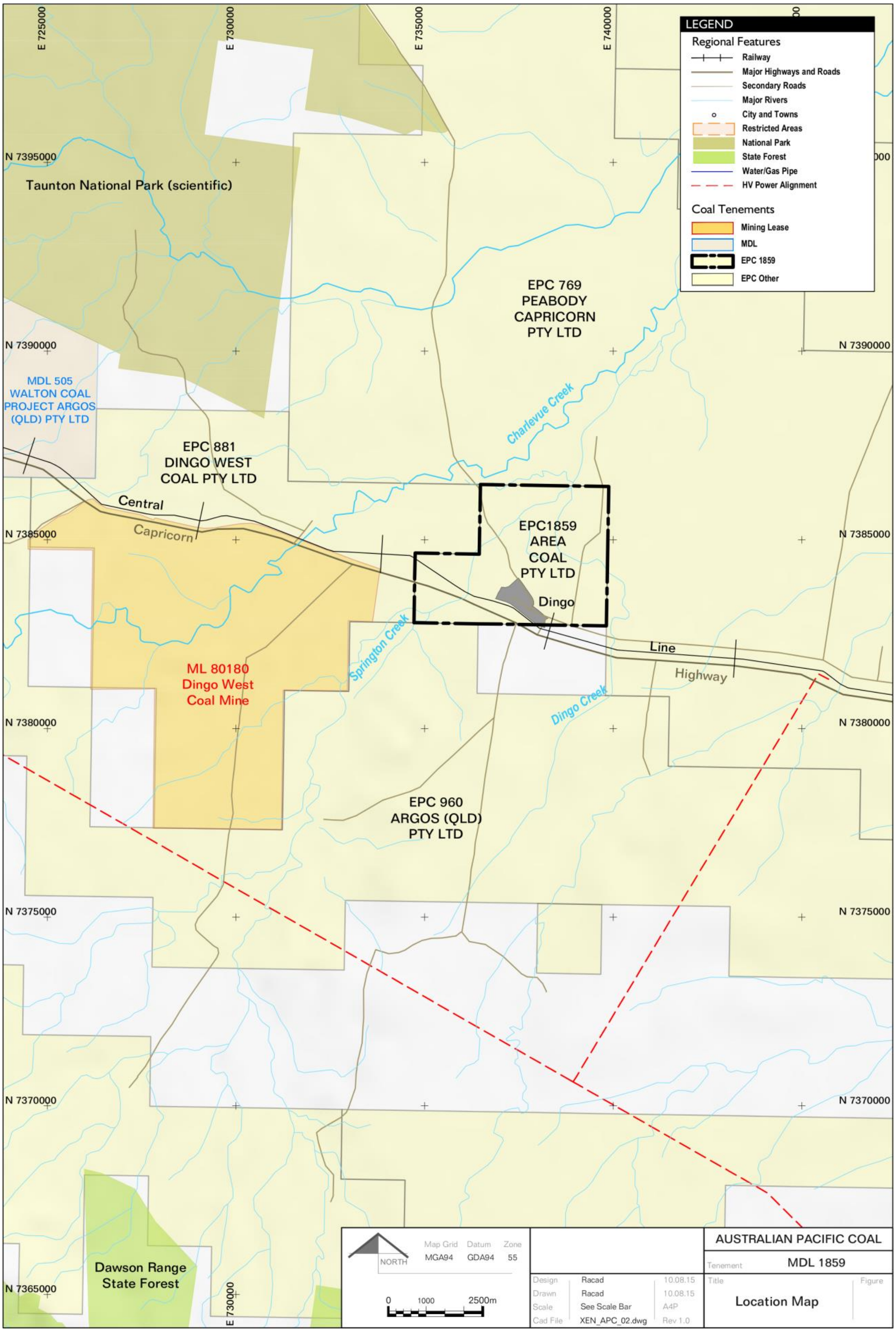
EPC 1859 is located approximately 140km west of Rockhampton in Central Queensland. The Dingo Exploration Permit for Coal (EPC 1859) is situated in the south-eastern Bowen Basin, within the Dingo Fold Belt. The deposit is known to host the Rangal Coal Measures which is mined in several open cut mines in the district. In terms of infrastructure the project is conveniently situated with the Capricorn Highway passing through the tenement and from Dingo the Fitzroy Developmental Road provides access to the north of the EPC. The Central Queensland Railway also passes through Dingo and is approximately 290km from export port facilities at Gladstone.

Although the tenement overlays part of the Dingo township, there is currently no priority living restrictions overlapping it.

6.3 Location and Background

EPC 1859 is located approximately 140km west of Rockhampton in Central Queensland's Bowen Basin. The town of Dingo is centred in the southern half of the EPC. The Capricorn Highway passes through the tenement and from Dingo the Fitzroy Developmental Road provides access to the north of the EPC. The Central Railway also passes through Dingo and is approximately 290km from export port facilities at Gladstone. Regional location of the Project is given in Figure 6.1.

Figure 6.1 – Dingo Project Location



6.4 Ownership Status

EPC 1859 was granted to wholly owned Australian Pacific Coal Ltd subsidiary, Area Coal Pty Ltd, on the 31 May 2011 for a period of 5 years, and comprised seven sub-blocks. Two sub-block were later relinquished. The 5 remaining sub-blocks covers approximately 15.5km2. Sub-block details are as follows:

Table 6.1 – EPC 1859 Sub-blocks

BIM	Block	Sub-Block
CLER	3160	P T U
CLER	3161	L Q
Total		**5**

6.5 Potential Planning Constraints

None of the criteria listed in Section 2.4 were triggered for this tenement.

6.6 Geology

EPC 1859 is situated on the Permo-Triassic sedimentary rocks of the south-eastern Bowen Basin. These are overlain by Tertiary sediments that cover much of the EPC to depths of up to 60m. The Permo-Triassic units include, from oldest to youngest, the Late Permian Burngrove Formation and Rangal Coal Measures and the Triassic Rewan Formation. Elsewhere in the basin, the Rangal Coal Measures are equivalent to the Baralaba Coal Measures and Bandanna Formation.

The Late Carboniferous to Middle Triassic Galilee Basin is an intra-cratonic, foreland basin that occurs stratigraphically above the Drummond Basin and below the Jurassic to Cretaceous Eromanga Basin. It is believed that the primary infilling material was recycled from a cratonic source such as the Thomson Fold Belt. The Basin formation was initiated by the Anakie Arch subsiding and has largely been influenced by the Hunter-Bowen Orogeny over a period of time. This has resulted in intense deformation of the underlying basement rocks but only slight deformation of the sedimentary deposits, with the western portion of the basin remaining relatively undisturbed.

6.6.1 Coal Bearing Formations

The Burngrove Formation typically consists of light green, light grey and grey mudstone and siltstone with minor fine grained sandstone beds. The top of the Formation is marked by the Virgo seam, the uppermost member of the formation. The Burngrove Formation contains a number of thick coal seams with high inherent ash and numerous tuffaceous claystone and mudstone bands. Within the EPC the Virgo, Leo, Aquarius and Libra seams have been interpreted in previous drilling.

The Rangal Coal Measures (RCM) conformably overlies the Burngrove Formation, and consists of grey mudstone and siltstone, light grey fine lithic sandstone and numerous coal seams. Within EPC 1859, seams previously identified by drilling include the Castor, Pollux, Orion and Pisces. RCM coal seams are targeted in the laterally equivalent Baralaba North

Mine which produces thermal and low volatile PCI coal products. West of the EPC, RCM are worked at the Blackwater, Curragh, Jellinbah and Yarabee mines where low to medium volatile thermal, PCI and coking coal are produced.

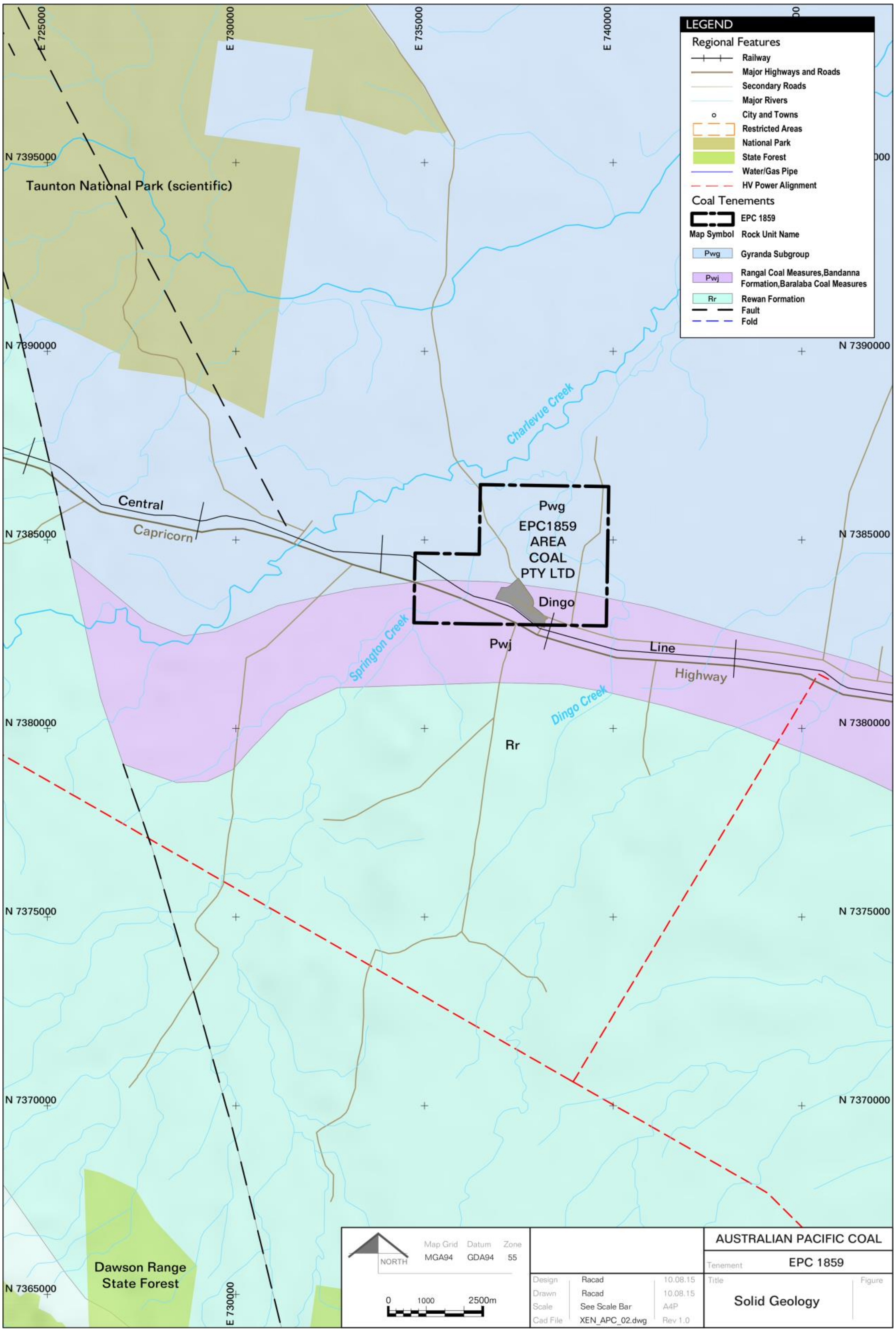
Table 6.2 – EPC 1859 Stratigraphic Sequence

<table>
<tr><th colspan="5">Local Stratigraphy</th></tr>
<tr><th>Age</th><th>Group</th><th colspan="2">Formation</th><th>Main seams</th></tr>
<tr><td>Quaternary</td><td></td><td colspan="2"></td><td></td></tr>
<tr><td>Tertiary</td><td></td><td colspan="2"></td><td></td></tr>
<tr><td>Triassic</td><td></td><td colspan="2">Rewan Formation</td><td></td></tr>
<tr><td rowspan="3">Late Permian</td><td rowspan="3">Blackwater Group</td><td colspan="2">Rangal Coal Measures</td><td>Cancer
Aries (Mammoth)
Castor (Mammoth)
Pollux
Orion
Pisces</td></tr>
<tr><td rowspan="2">Fort Cooper Coal Measures (North Bowen Basin)</td><td>Burngrove Formation</td><td>Virgo/Girrah
Leo
Aquarius
(Libra)
Scorpio
Centaur</td></tr>
<tr><td>Fairhill Formation</td><td>Pheonix
Pegasus
Hercules
Canis
Lepus
Fairhill</td></tr>
</table>

6.6.2 Coal Seams

Coal seams in the area include Aries, Castor, Pollux, Orion, Pisces of the Rangal Coal Measures, as well as several seams of the Burngrove Formation. The Castor and Pollux seams are regarded as the most prospective. Many of these seams contain several sub seams/plies. Figure 6.2 shows the Regional Solid Geology of the Dingo Project, and how the Rangal Coal Measures are expected to subcrop in the area.

Figure 6.2 – Dingo Project Solid Geology



6.6.3 Weathering Profile

Drill hole information in the EPC area indicate that Tertiary sediments are completely weathered to an average depth of approximately 30m. The underlying Late Permian sequence has an average depth of weathering of 47m below surface in the EPC.

6.6.4 General Structure

The EPC 1859 area is immediately east of the Yarrabee fault, which is a major NW – SE oriented thrust fault. Locally the area has been previously summarised as structurally complex with common thrust faults and folding.

6.6.5 Historical Exploration Activity

The area has been explored by several companies over the last thirty years, including Mt Morgan, J.A.B.A.S Pty Ltd and New Hope Collieries.

Table 6.3 – EPC 1859 Stratigraphic Sequence

Period	Company	Number of Holes	Company Report
1994	New Hope Collieries Pty Ltd	15	CR26214
1995-1996	New Hope Collieries Pty Ltd	14	CR28461
1997-1998	New Hope Collieries Pty Ltd	13	CR30957
2007	Dingo West Coal Pty Ltd (Bandanna)	2	CR49112

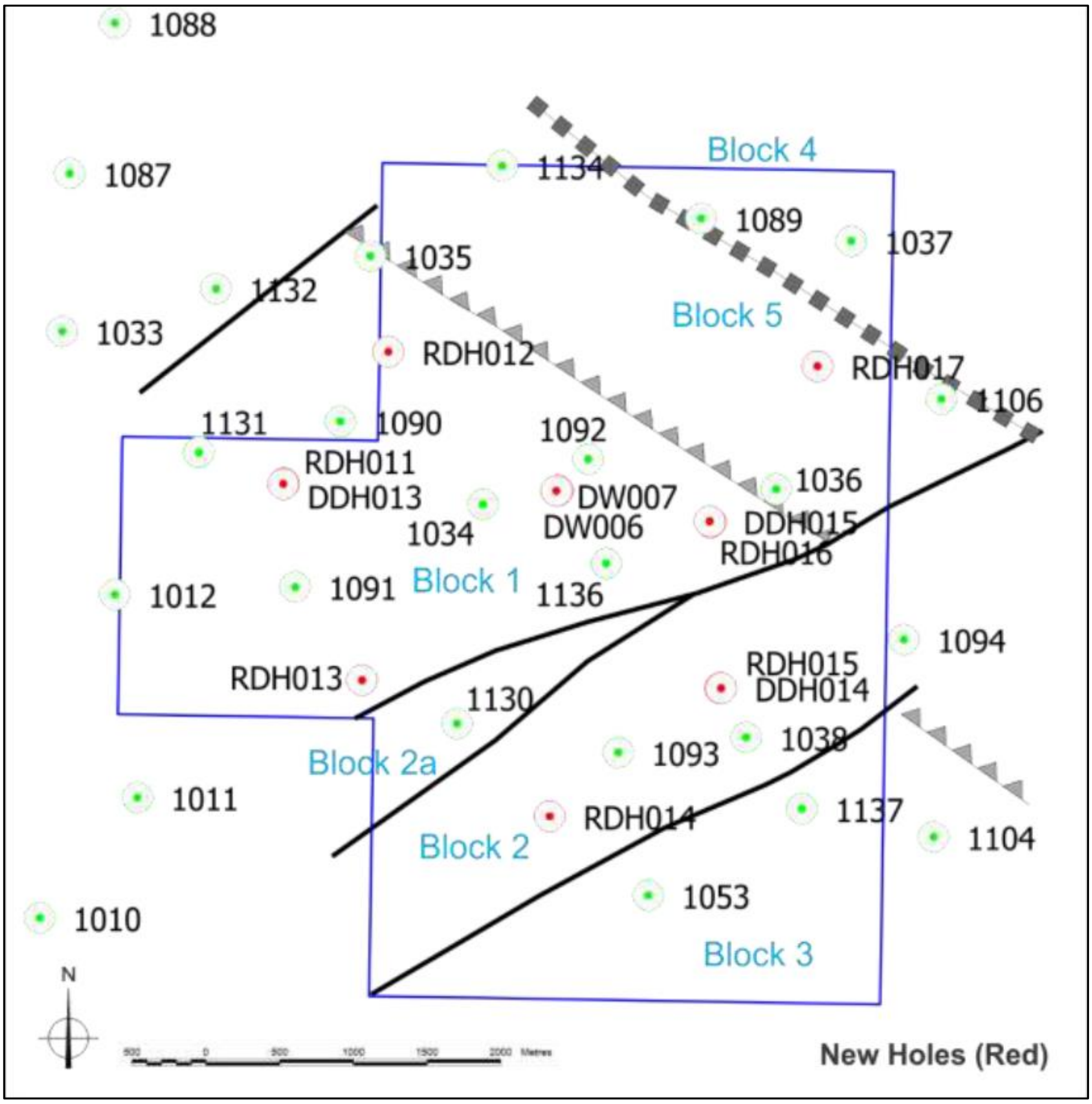
New Hope Collieries Pty Ltd drilled a total of 138 holes in the area of which 42 holes were within approximately 1km of EPC 1859. Available data for the forty-two holes drilled by New Hope Collieries included lithology logs and scanned down-hole geophysical logs. Bandanna Coal, drilled two closely spaced holes in the centre of the current tenement, one of which was a cored hole, provided lithology and geophysical logs, and some core photos.

The forty-two holes drilled by New Hope Collieries, including lithology logs and printed down-hole geophysical logs, were subsequently used to complete a structural model. The geological model has not been reviewed by Xenith.

6.6.6 Recent Exploration Activity

During the 2013/14 exploration activity period, a series of 10 chip and core holes were drilled by Area Coal in the Dingo tenement, totalling 1,840m. Three of these were cored holes. In the 2014/15 period, the samples were submitted for raw coal analysis, and subsequent washability testing. Following a review of these results by two independent coal specialists (McMahon Coal Quality Resources and Cape Coal), sample composites from two holes were submitted for clean coal analyses.

Figure 6.3 – Dingo Project Drill Hole Locations



6.6.7 Coal Quality

Three core holes contain coal quality data within the tenement. Results from these suggest a high rank, low volatile coal, with low to moderate ash. The CSN is regarded as being too low for a coking product, but the coal would be suitable as a PCI coal, particularly if washed, with a possible secondary thermal product.

Original laboratory data for the three core holes have been supplied, but samples are listed without corresponding seam names.

6.6.8 Conclusions and Recommendations

The following conclusions and recommendations are summarised in the 2015 exploration report for the Dingo project. The conclusions and recommendations are the result of collaboration between Area Coal and GDD, as reported in the *GDD Exploration Activity Report:*

"Coal Seams and Structure

- *The drilling has identified / confirmed coal seams up to 10m in apparent thickness (RDH015).*
- *Very significant dips exist in two of the three cored holes (DDH013 and DDH014), and in the optically logged chip hole in Block 5 (RDH017).*
- *Deformation is evident in DDH014, along with very steep dips, probably excluding this immediate area from consideration for further work. The sub-block corresponding with this drillhole has subsequently been dropped from the tenement on the basis of the thick overlying Rewan sediments to the south, and the potentially steeply dipping strata to the north.*
- *While potential in other blocks has been reduced due to structural complexity, a significant area of Block 1 remains prospective (*Figure 6.4*) in particular given the coal quality results.*

Coal Quality

- *Consistent low ash values are seen within the Rangal Coal Measures seams.*
- *Low volatiles (very low in places) are also encouraging, indicating the potential for a premium PCI product.*

Potential Coal Target

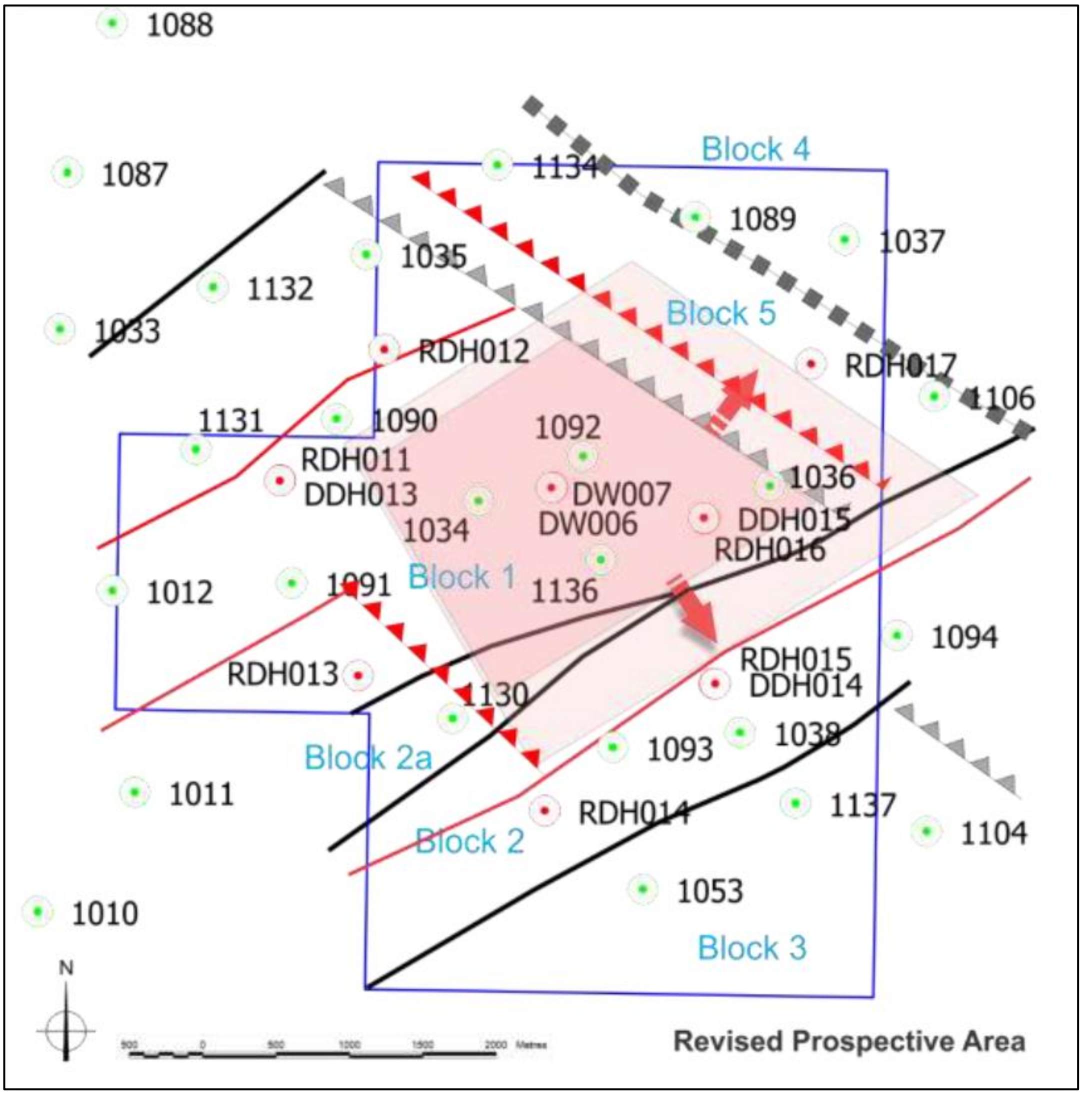
- *Given the encouraging coal quality results discussed above, and the potential for lower dips in the central target zone, an estimate of 19Mt to 33Mt (of raw coal) has been made of the potential target that is possible in this zone.*

Cautionary Statement - The potential quantity and grade is conceptual in nature, that there has been insufficient exploration to estimate a Mineral Resource and that it is uncertain if further exploration will result in the estimation of a Mineral Resource.

- *It is important to understand however that this potential target estimate is based on a number of assumptions, the validity of which will only be determined following additional exploration work. These assumptions and related cautions are as follows –*
  - *The area for which this potential estimate is made is shown in* Figure 6.4*, in the Revised Prospective Area (pink shaded zone).*
  - *The estimate has been determined only for the primary seam, (identified as the Pollux seam in the Rangal Coal Measures), on which the current coal quality analysis work has been performed.*
    - *The possibility for additional coal from other seams remains.*
  - *Based on the average seam thickness for this seam, and the associated dips where these are known, an average true seam thickness of 4.5-5.0m metres has been derived.*
    - *An average in-situ density of 1.4-1.45 is assumed; this has been derived following consideration of the average RD for this seam in adjacent areas, along with calculations using the laboratory results from the current program."*
    - *It is important to recognise the structural complexity of this domain, which will add a degree of difficulty to further exploration and interpretation.*

- *Other Considerations*
  - *Prospect area limitations are compounded by local infrastructure and ERE aspects.*

Figure 6.4 - Revised Prospective Area



- *An average insitu density of 1.4-1.45 is assumed; this has been derived following consideration of the average RD for this seam in adjacent areas, along with calculations using the laboratory results from the current program.*
- *It is important to recognise the structural complexity of this domain, which will add a degree of difficulty to further exploration and interpretation.*

Figure 6.5 - Coal Target Estimate

Coal Target Estimate											
E-W Length (km)		N-S Length (km)		Seam Thickness (m)		Est. Insitu Density		Est Volume (Mm^3)		Est Tonnage (Mt)	
Min	Max	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max
1.75	2.25	1.75	2.00	4.50	5.00	1.40	1.45	14	23	19	33

Other Considerations:

- *Prospect area limitations are compounded by local infrastructure and ERE aspects."*

6.6.9 JORC Resources and Reserves

No JORC Resource Estimate has been completed to date.

6.7 Future Work

Plans for future work include Geophysical Surveys, and two stages of exploration drilling.

6.7.1 Geophysical Surveys

Geophysical surveys are planned to improve the definition of the structure in the area to aid with phase 2 drill site selections. The planned budget includes:

- 6-12 km^2 of Helicopter Borne Electromagnetic Emission (EM) Survey ($50k - $75k cost)
- 6 2d seismic lines, approximately 20km total length ($200k - $300k cost) - See Figure 6.6.

6.7.2 Exploration Drilling

Stage 2 of exploration drilling has been planned and budgeted. The objective of the drilling program is to develop an indicated resource within the target area. It is planned to include drilling 40 chip holes and 10 core holes on 40 sites. The locations of the drillholes are yet to be decided, and will be based on the results from the planned geophysical surveys (See Figure 6.7). The budget for the drilling program is approximately $1.4 Million.

The exploration plan for the second stage could be reduced, or spread out over two or three stages. This will allow for the plan to be re-evaluated between each stage once the data has been interpreted. To reduce cost in stage two, the 6 seismic lines 20km length could be reduced to 4 over a shorter distance, given the small target area of approximately 5-6 km^2. The drilling program costs could also be reduced, particularly in terms of drilling chip holes. An exploration spend of no more than $1 Million per year (including geophysical surveys and drilling costs) would be more appropriate considering the limited size of the project.

Figure 6.6 - Proposed Seismic Lines

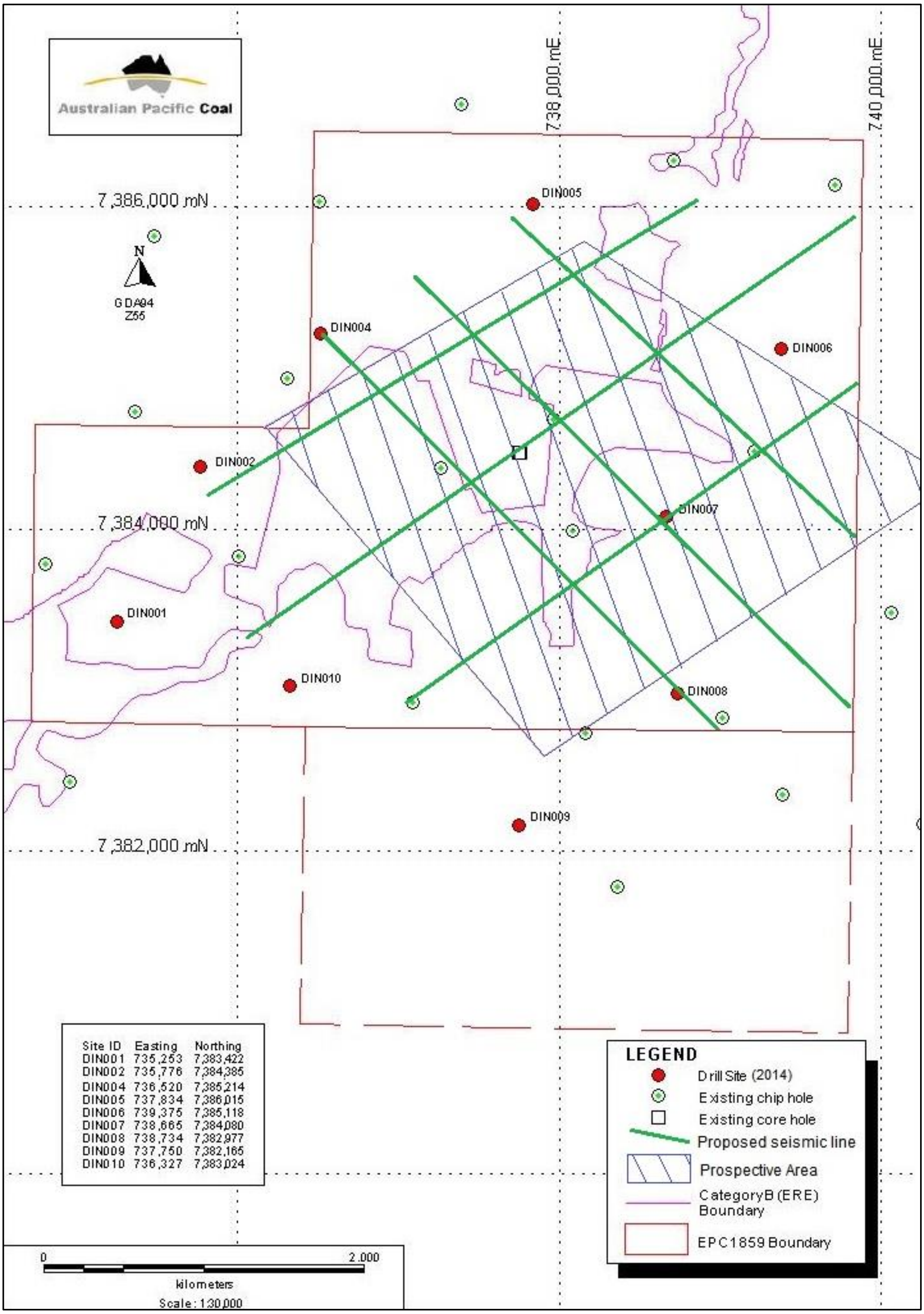
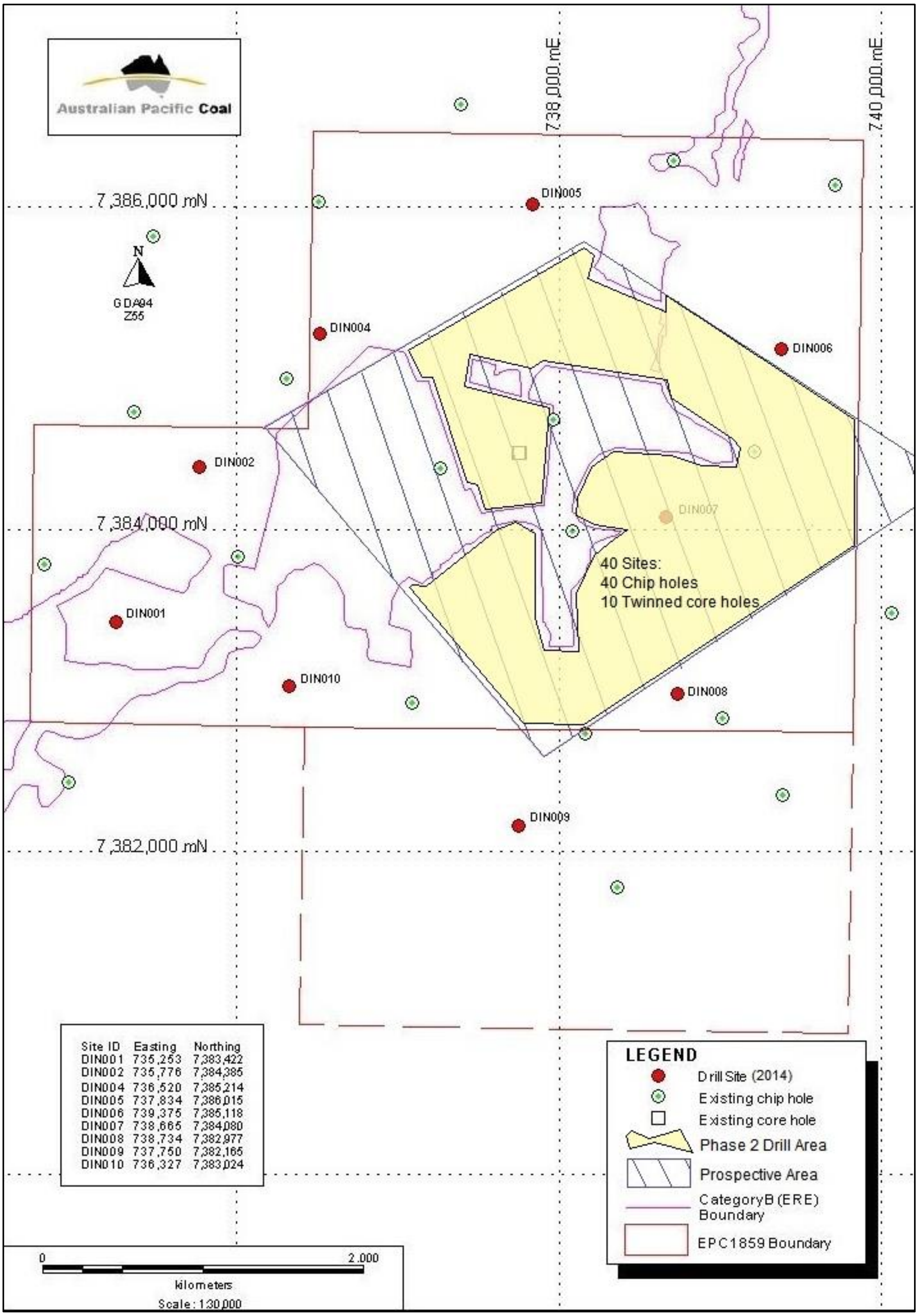


Figure 6.7 - Proposed Stage 2 Drilling Plan



7 EPC 1824 MOUNT HILLALONG

7.1 Key Outcomes

- EPC 1824 consists of 15 sub-blocks, and is located to the west of the Mount Hillalong Anticline
- According to historical works done by Rio Tinto, the Rangal Coal Measures, where not intruded, are typically of thermal coal rank.
- The seam thickness has been observed to have thinned in the northern part of the Hillalong Anticline when compared to other projects in the area.
- Drilling is scarce within EPC 1824, but seismic data shows the RCM at depths greater than 150m, deepening to the North and West.

7.2 Overview

All information in this section is sourced from the Rio Tinto Exploration Report 2015 [15], and other open file data.

The Exploration Permit for Coal (EPC) 1824, known as Mt Hillalong, is owned by Area Coal. RIO had a previous Exploration Option and Joint Venture Agreement with Area Coal to explore for coal on the tenement.

APC were informed that RIO has opted not to exercise the option to acquire their 75% interest in EPC 1824. RIO consequently transferred their 100% interest back to Area Coal together with all exploration data. This occurred on the 23rd of August 2015.

The tenement contains the Rangal Coal Measures at depths of at least 150m. The seams sub-crop in the adjacent lease to the East and steeply dip to the west at the limb of the Hillalong anticline. Within the EPC 1824 the strata are interpreted to flatten out. The shallowest coal is believed to occur in the far north and south. Intruded coal seams are known to be common in the area.

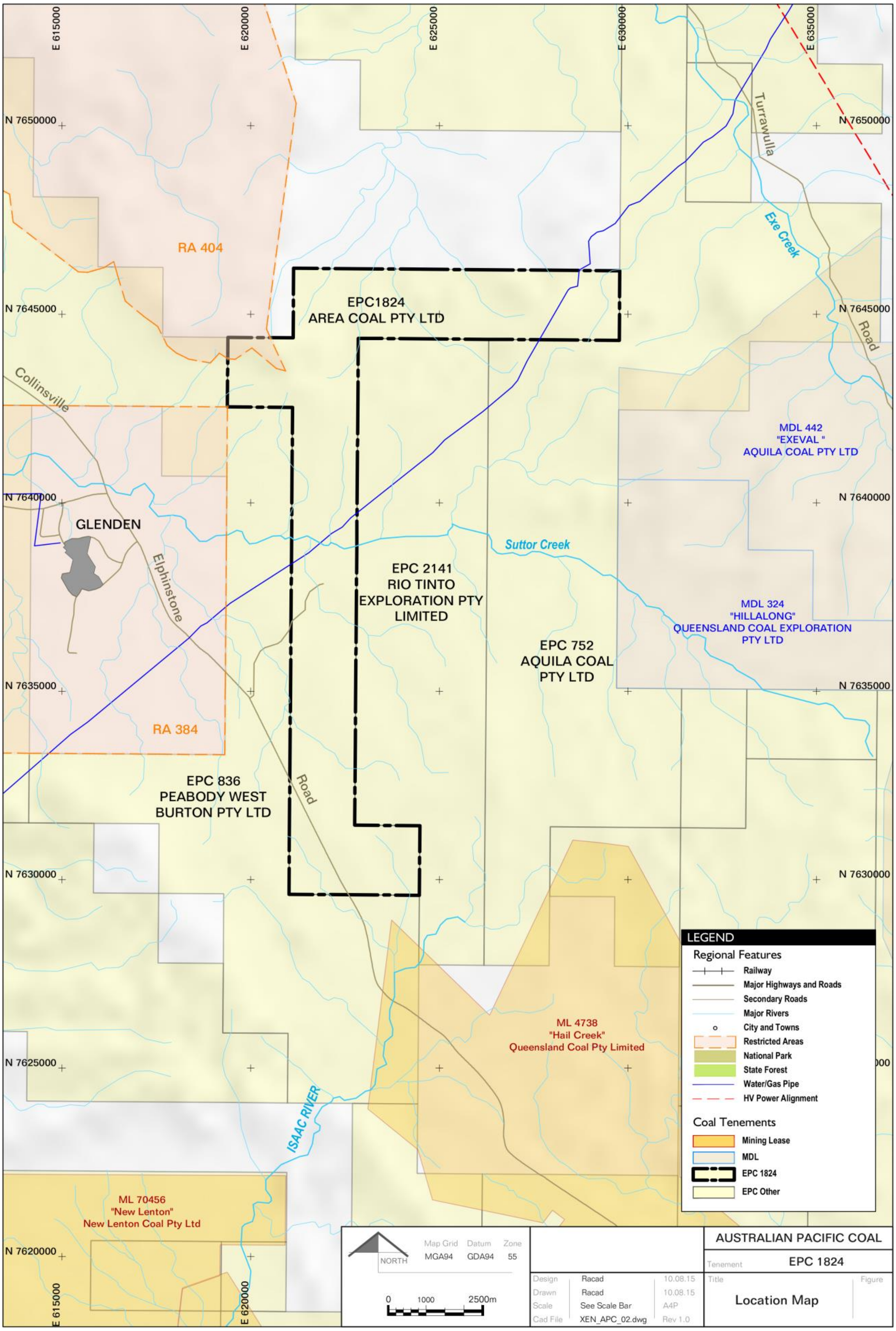
7.3 Location and Background

EPC 1824 is located 100 km south west of Mackay in central Queensland. The EPC is 10 km by road Southeast of Glenden and approximately 65 km by road Northwest of Nebo. The EPC is located in Nebo Shire, part of the Isaac Regional Council (Figure 2). Access is via the sealed Suttor Development and Collinsville-Elphinstone Roads and then via unsealed access roads through pastoral properties.

There are a number of exploration and mining projects within the region. The major projects within closest proximity include Burton Coal Mine and New Lenton to the West, and Hail Creek and Walker Creek Mines towards the south-east. All target the Rangal and upper Fort Cooper Coal Measures.

Figure 7.1 shows the location of the Mount Hillalong Project.

Figure 7.1 – EPC 1824 Location



7.4 Ownership Status

The Mount Hillalong Project consists of EPC's 1824, 1645, 1773 and 1867.

EPC 1824 consists of 15 sub-blocks, which equals an area of approximately 46km^2. EPC 1824 was initially granted on 31st March 2011 and is due to expire on 30th March 2021. Sub-block status can be seen in Table 7.1.

Table 7.1 – EPC 1824 Sub-Blocks

BIM	Block	Sub-Blocks	No.
Clermont	1130	U	1
Clermont	1131	L M N O P Q V	7
Clermont	1203	A F L Q V	5
Clermont	1275	A B	2
		Total	**15**

7.5 Potential Planning Constraints

The following items will require consideration when developing EPC 1824:

- Restricted areas 404 (located to the north due to potential future declaration of a Nature Reserve) and possibly 384 (located to the west due to the presence of Township of Glenden) exist over a small component of the tenement. The level of overlap between the latter and the tenement appears unclear from the government mapping tool and will require further investigation to confirm if any overlap exists.
- Strategic Cropping Land Trigger Areas were found to be mapped to the north and south of the tenement.

None of the other criteria listed in Section 2.4 were found to be triggered for this tenement.

7.6 Geology

EPC 1824 is located in the northern Bowen Basin, within the Nebo Synclinorium. The Bowen Basin evolved throughout the Permo-Triassic, forming in the final stages of the Tasman Orogeny (Fielding, 1990). During the Early Permian an influx of marine sediments took place which resulted in widespread coastal and alluvial plain depositional systems in the Late Permian. Triassic sediments were predominately coeval and alluvial with westward spreading of thrust sheets due to the eastern margin compression (Fielding, 1990).

A high degree of tectonic instability occurred further north in areas such as Hillalong due to the major compressional forces that were happening at the time (Fielding, 1990). Widespread fluvial environments with volcanic influence also resulted in such deposits as the Rangal and Fort Cooper Coal Measures (Fielding, 1990). Vast swamplands formed across the Basin and were responsible for the numerous coal seams that formed. The sea retreated due to recommencement of arc volcanism and compression dominated the region (Fielding, 1990). The degree of compression is evident by the series of synclines and anticlines that dominate the Basin. The Rewan Group was deposited and high angle reverse faults were reactivated from what were once normal faults (Fielding, 1990).

The Mt Gotthardt dome formed during the Cretaceous. The Gotthardt Granodiorite is a large biotite-hornblende composition intrusion which outcrops over at least 5-6 km^2 coinciding with the axis of the Bee Creek Anticline. Associated sills and dykes are spread throughout the area. Coal quality results from holes adjacent to Mt Gotthardt reveal that rank decreases away from the Mt Gotthardt dome.

7.6.1 Local Geology and Stratigraphy

The Rangal Coal Measures (RCM) which conformably overly the FCCM are approximately 150m thick and are composed of light grey, fine to medium grained litho-feldspathic sandstones, interbedded with grey to dark grey siltstones and mudstones. Two economic coal seams, Elphinstone and Hynds (Leichardt and Vermont equivalents) within the RCM are currently being mined within the Mining Leases that surround the EPCs. These two seams coalesce in some areas where they are termed the Main Seam. The Rangal Coal measures have historically been the main target for exploration in the northern part of the basin.

The Fort Cooper Coal Measures (FCCM) are approximately 560m in apparent drill thickness within the area and are composed of sandstone, conglomerate, mudstone, carbonaceous shale, coal and cherty tuff. Coal seams in the FCCM are characteristically high in ash, and historically have not been considered economic. A large tuff band, known as the Yarrabee Tuff Bed, marks the transition from the RCM into the FCCM.

The Moranbah Coal Measures are composed of labile sandstone, siltstone, mudstone, coal and conglomerate. A marker tuff, termed the ‘p-tuff’ is a stratigraphic marker that occurs within the P seam which usually sits stratigraphically above the Goonyella Middle seam. The GM seam is the main target for exploration within the Moranbah Coal Measures is approximately 240m (apparent drill thickness) from the top of the formation. Erosion of the formations within the area is estimated to be ~150m, but is largest subject to variation. A geological map of the area can be seen below in Figure 7.2 – EPC 1824 Solid Geology.

Figure 7.2 – EPC 1824 Solid Geology

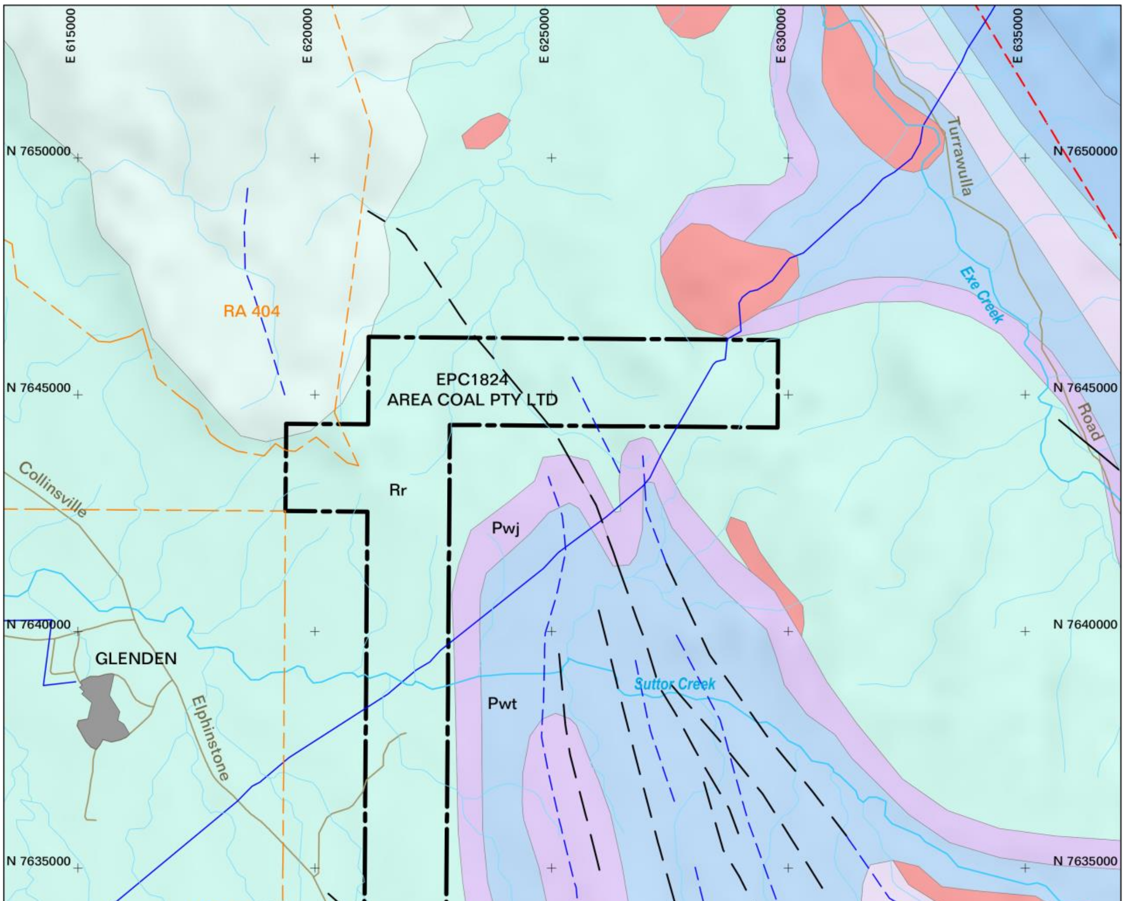
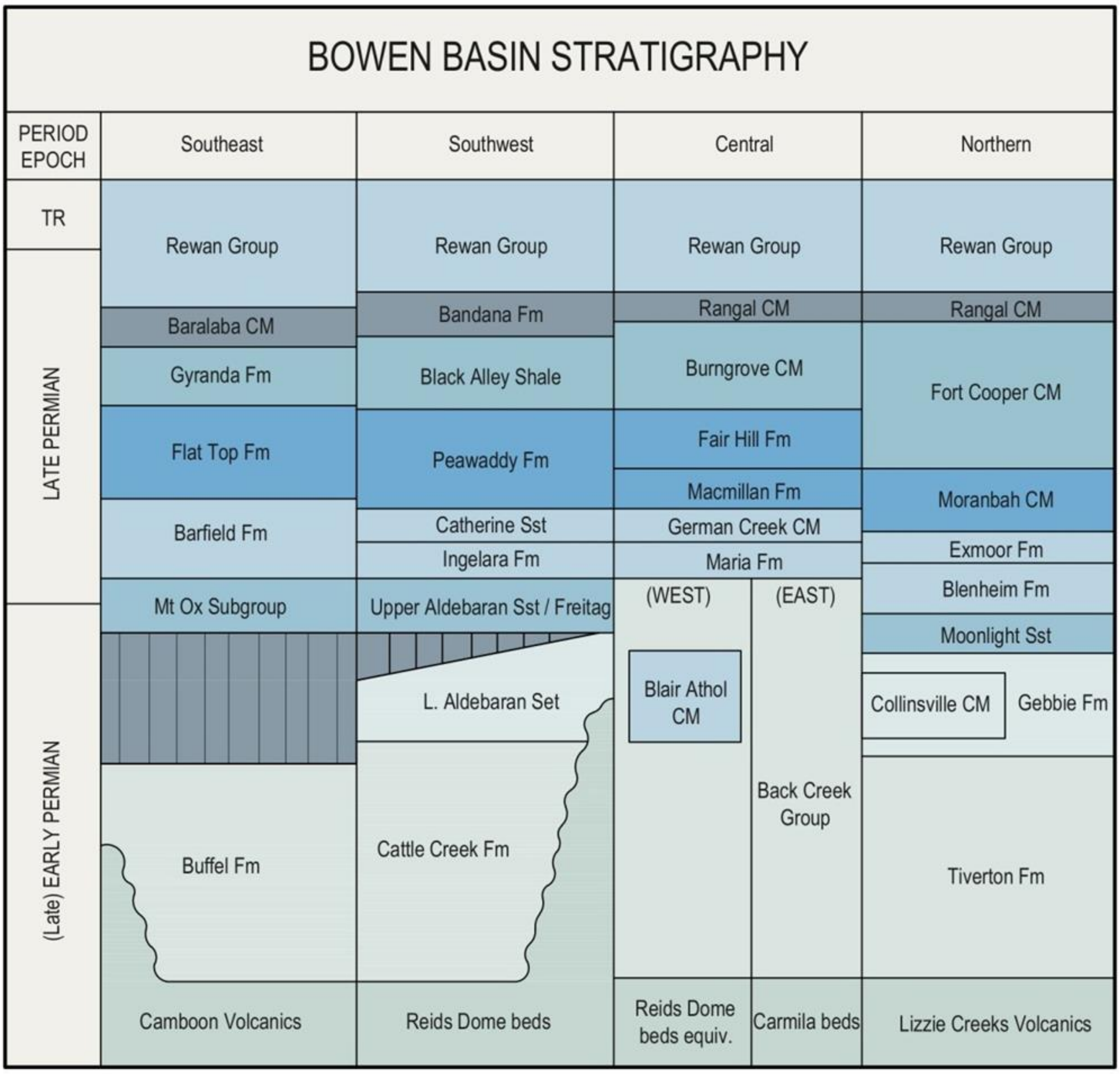


Figure 7.3 – Stratigraphic Column of the Bowen Basin



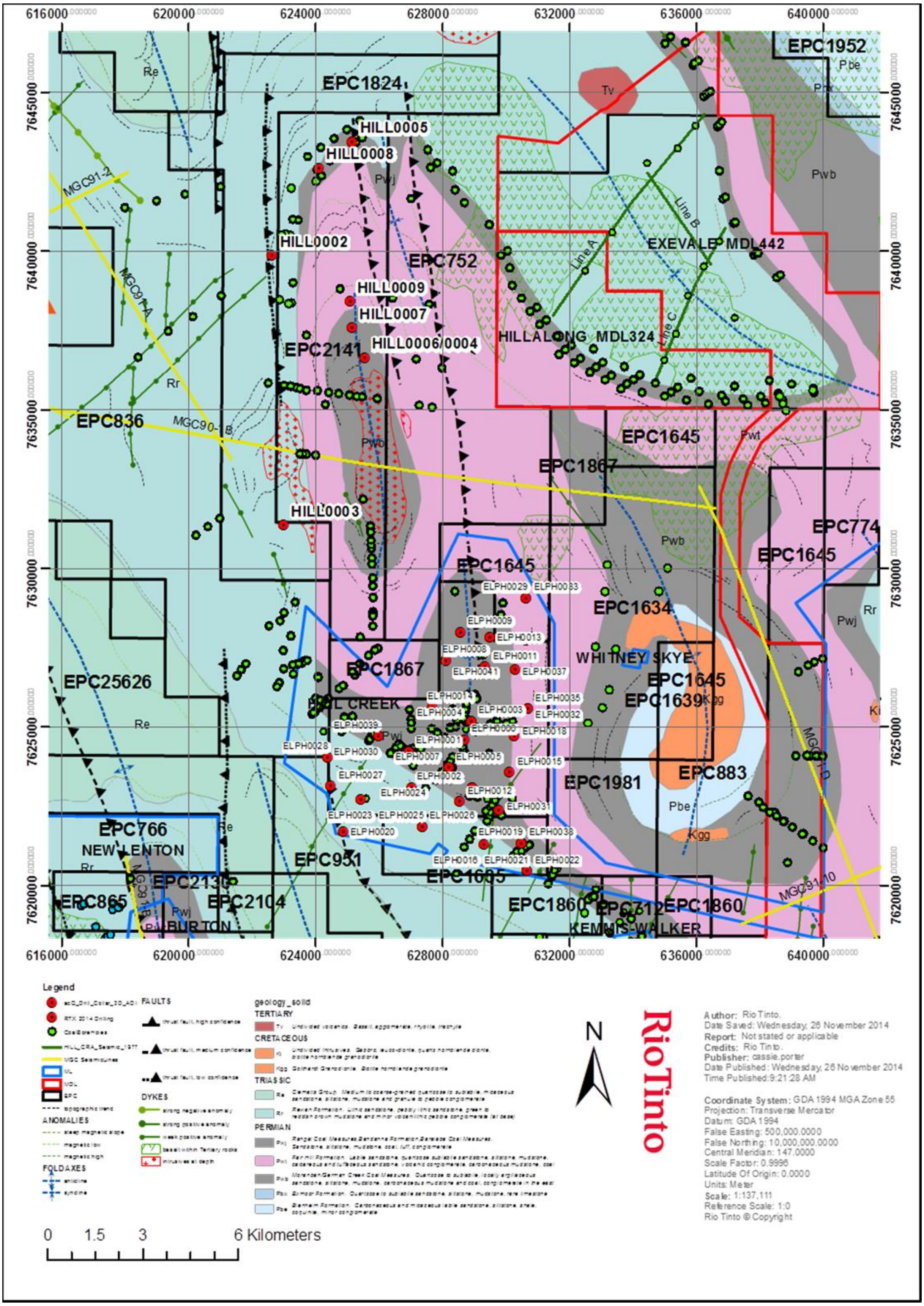
7.6.2 Exploration Activity

Rio Tinto has undertaken an in-depth desktop study to compile open file data relating to the tenements within the Hillalong orbit area. Based on this work RIO conducted its first exploration program on EPC 2141 (neighbouring EPC 1824 to the east) and EPC 1824 in 2013.

Three PCD drillholes, 2 diamond drillholes (HILL0002 and HILL0003), a 2D seismic survey and ground mag survey was undertaken. A second ground mag survey on Mt Hillalong and Lake Elphinstone properties was conducted in the first quarter of 2014. A drill program targeting the Rangal and Moranbah Coal Measures was also undertaken in 2014. A total of 5 holes were drilled as part of this program. A map of all exploration drillholes within the Hillalong area is shown below in Figure 7.4.

There are very few holes within EPC 1824. Most are to the east where the Rangal seams subcrop.

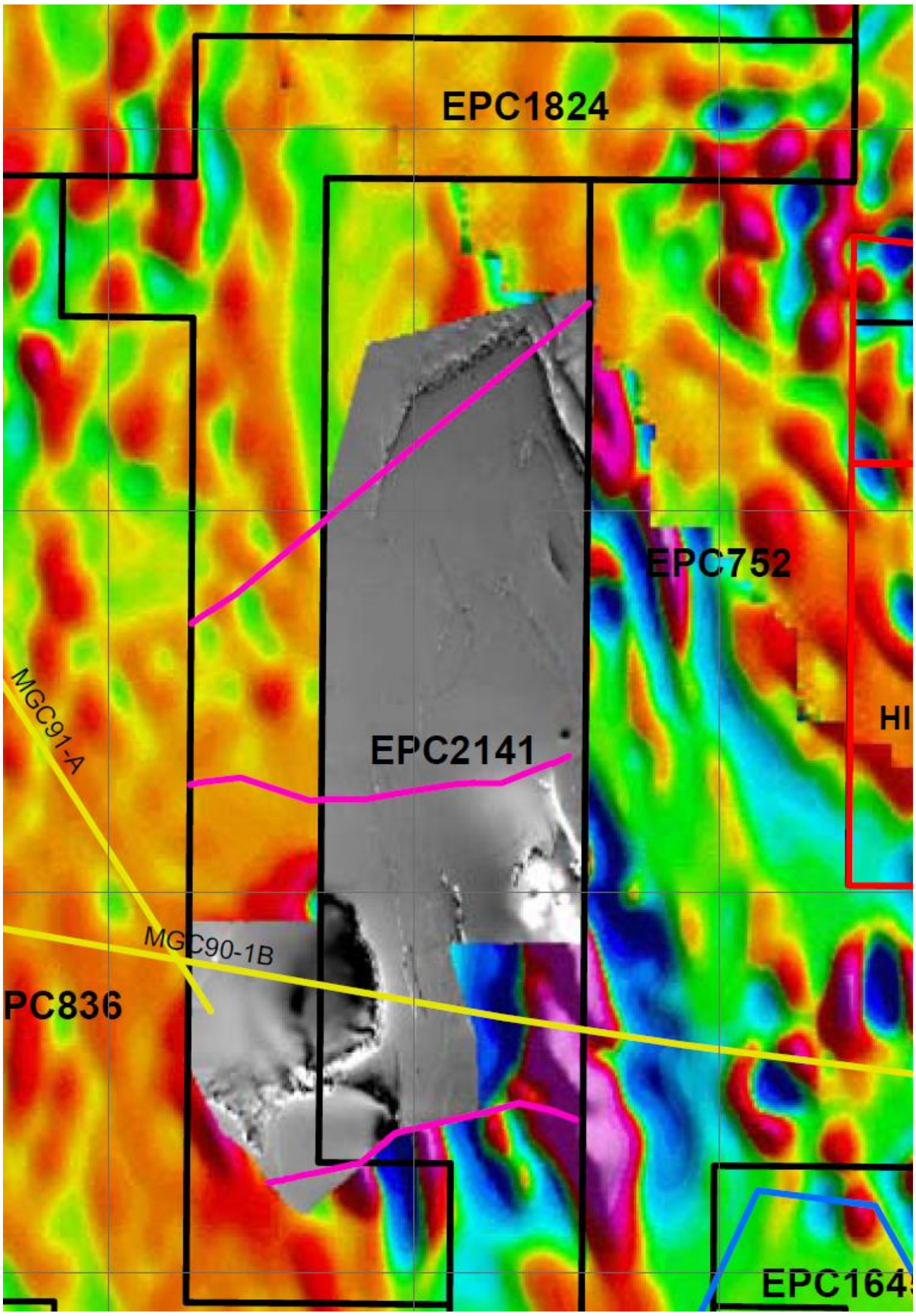
Figure 7.4 – Historical Drillhole Locations



7.6.3 Seismic Survey

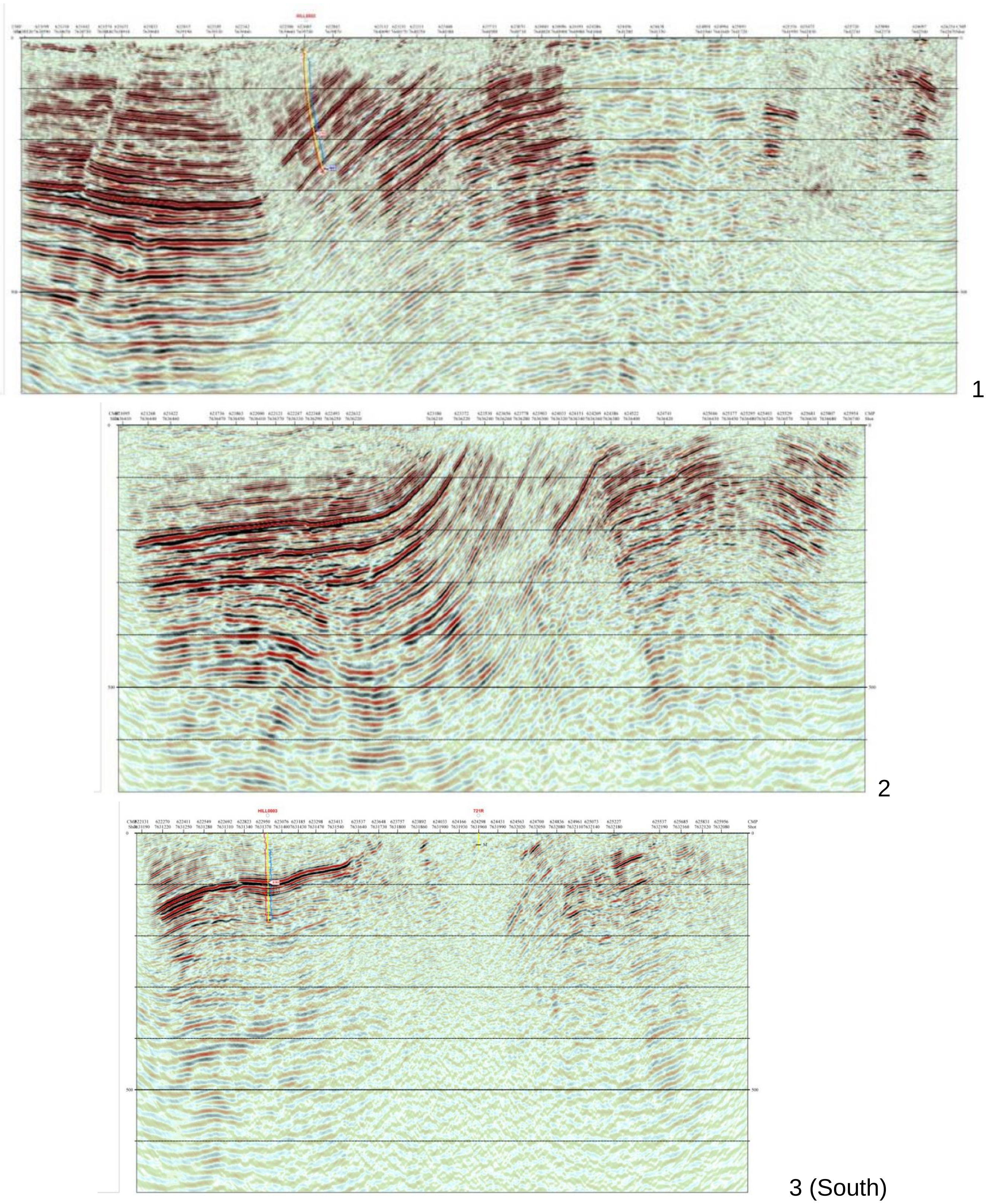
RIO shot three seismic lines over EPC 1824 and 2141 in 2013. The location of these lines can be seen in Figure 7.5.

Figure 7.5 – Seismic Lines Location



The lines show extreme dips in the western limb of the anticline (EPC 2141). Within EPC 1824 the seam dips flatten, but do not appear at shallow depths. The Southernmost line (line 3) coincides with drillhole HILL0003 close to the eastern boundary, has the Elphinstone seam at approximately 160m depth. In the other two lines (Line 2 and 1) the seam appears at approximately 320m and 480m.

Figure 7.6 – Seismic Lines Location



7.6.4 Airborne and Ground Geophysical Digital Data

A ground magnetic survey was undertaken in 2014 and has been overlain on the regional magnetic data, as shown in Figure 7.5**.** Magnetic anomalies are prevalent throughout the area highlighting the occurrences of intrusives in the area.

7.6.5 JORC Resources and Reserves

The project does not currently have a resource or reserve estimate completed.

7.6.6 Geological Modelling

No geological model has been reviewed.

7.7 Future Plans

No exploration plans have been developed but future exploration work is expected following transfer of the exploration data and ownership from RIO.

8 EPC 1645 MOUNT HESS AND EPC 1867 MOUNT HESS WEST

8.1 Key Outcomes

- EPC 1645 was granted on 31 August 2016.
- EPC 1645 consists of 10 sub blocks, over 4 separated areas. Significant parts of the tenement are covered by intrusives and existing mining leases (Hail Creek, Rio Tinto).
- Coal seams within the tenement are most likely from the Fairhill Formation, Fort Cooper Coal Measures and the Moranbah Coal Measures.
- EPC 1867 has the potential to host reasonably shallow Moranbah Coal Measures, but no exploration drilling has been conducted to date.

8.2 Overview

Area Coal applied for EPC 1645 on 03/11/2008. The application has been accepted and recently had agreement on the Native Title Application Assessment. Under a commercial agreement the tenement was to be 100% transferred to RIO. APC has been informed that RIO has not elected to exercise this option and the tenement will remain with Area Coal when granted.

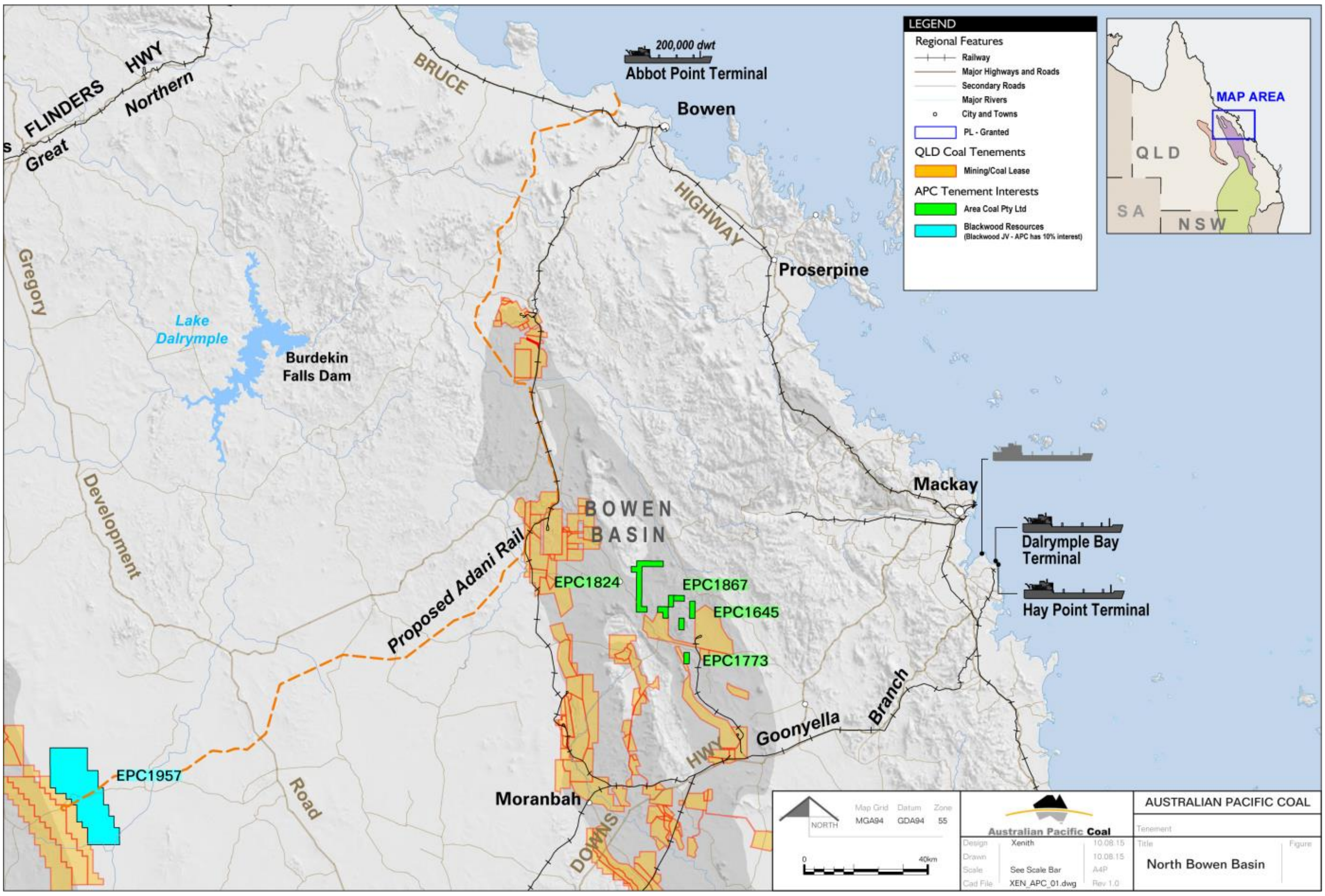
EPC 1645 is located in the Queensland's Bowen Basin, consists of 10 sub-blocks over 4 separate areas (2x3 sub-blocks + 2x2 sub-blocks).

EPC 1867 consists of two sub-blocks adjacent to the north.

8.3 Location and Background

EPC 1645 and EPC 1867 are proximal to the Mt. Hillalong project (EPC 1824) and are sitting between the two main areas that make up the Hail Creek Mining Lease (Rio Tinto). See Chapter 7.3 for a description of the location.

Figure 8.1 – EPC 1645 Location



8.4 Ownership Status

Area Coal applied for EPC 1645 on 03/11/2008. The application has been accepted and is currently undergoing Native Title Application Assessment. Under a commercial agreement the tenement will be 100% transferred to RIO.

EPC 1867, 'Mt Hess West', was granted to Area Coal on May 15 2012 for a five year period. RIO entered into an Exploration Option and Joint Venture Agreement (exploration agreement) with APC on 08 August 2011. Under the terms of the agreement APC transferred 100% of the tenement to RIO who agreed to sole fund and manage exploration.

RIO did not exercise the option to acquire their 75% interest in EPC 1824 (see chapter 7.4) and they have transferred their 100% interest in the four tenements that were included in the agreements back to Area coal together with all exploration data.

EPC 1867 was transferred to Area Coal on the 23/08/2015.

8.5 Potential Planning Constraints

The following items will require consideration when developing EPC 1645:

- Strategic Cropping Land Trigger Areas were found to be mapped on the northern and western areas of this tenement
- A Nature Reserve is mapped at the south of the tenement (Kemmis Creek Nature Reserve)

None of the other criteria listed in Section 2.4 were found to be triggered for this tenement.

8.6 Geology

EPC 1645 is located in the northern Bowen Basin, on the eastern margin of the Nebo Synclinorium, characterised by a series of broad, open, doubly-plunging fold and dome structures and faults (Ward et al, 1995). In the Broughton area, the Nebo Synclinorium contains sediments of Permian and Triassic age which can be affected by Cretaceous intrusions.

8.6.1 Coal Seams

The Elphinstone and Hynds seams of the Rangal and Fort Cooper Coal Measures are coal seams of the Fort Cooper Coal Measures are known to exist to the west of the prospective zone of Rangal Coal Measures. Two coal seams of the Fort Cooper Coal Measures (Hynds Lower and Girrah seams) occur near the base of the Rangal Coal Measures although they have not been sampled or tested. The coal seams of the Fort Cooper Coal Measures typically have a high proportion of stone partings and are not currently mined within the Bowen Basin.

The Moranbah Coal Measures were intersected at depth (greater than 250 metres) in several deeper historical and recent boreholes which were drilled in the central-western parts of the tenement. There may be potential for underground mining opportunities for coal seams of the Moranbah Coal Measures occurring at shallower depths in the central-western parts of the tenement which remains relatively untested by drilling. An unpublished report commissioned by U&D in June 2013 indicates there is likely to be a series of north to north-east trending dykes and one buried Cretaceous intrusive in the centre of the tenure. Dykes cut across the eastern resource area in the Rangal Coal Measures and have locally affected the Elphinstone and Hynds seams.

8.6.2 General Structure

The two tenements sit on and surround the Mt Gotthardt dome. The Mt Gotthardt dome formed during the Cretaceous. The Gotthardt Granodiorite is a large biotite-hornblende composition intrusion which outcrops over at least 5-6km^2 coinciding with the axis of the Bee Creek Anticline. Associated sills and dykes are spread throughout the area.

8.6.3 Exploration Activity

No exploration activity has been reviewed.

8.6.4 Constraints

The western group of three sub-blocks is significantly (> 50 %) overlapped by mining lease ML4738 (Hail Creek). Additionally, parts of this area contain strategic cropping land (Trigger Area).

8.6.5 JORC Resources and Reserves and Coal Quality

No resources or detailed coal quality exists for the tenements to date.

9 EPC 1773 KEMMIS CREEK

9.1 Key Outcomes

- EPC 1773 consists of 2 sub-blocks (6.4km²) to the southeast of Glenden in the north-eastern Bowen Basin.
- Sediments within the tenement are within the lower Rangal Coal Measures (RCM) and the Fort Cooper Coal Measures.
- Targeting the Rangal Coal Measures. Tenement covers approximately 3.1km² of Rangal sediments for a total strike length of 4km.
- Tenement overlaps BHP Mitsui Coal Pty Ltd ML 4750 “Kemmis-Walker” by 0.7km².
- Historical boreholes drilled on overlapping ML 4750. No boreholes have been drilled in the remaining EPC 1773 tenure.
- The coal bearing part of the RCM sub-crop to the West, not expected within EPC 1773.
- The project appears to be of limited prospectivity at this point.

9.2 Overview

EPC 1773 is located in the northern Bowen Basin, immediately adjacent to, and partially overlapping the BHP Mitsui Coal Pty Ltd owned ML 4750, “Kemmis-Walker” mining lease. The EPC lies approximately 8km southwest of Hail Creek coal mine and 17km northwest of South Walker Creek coal mine.

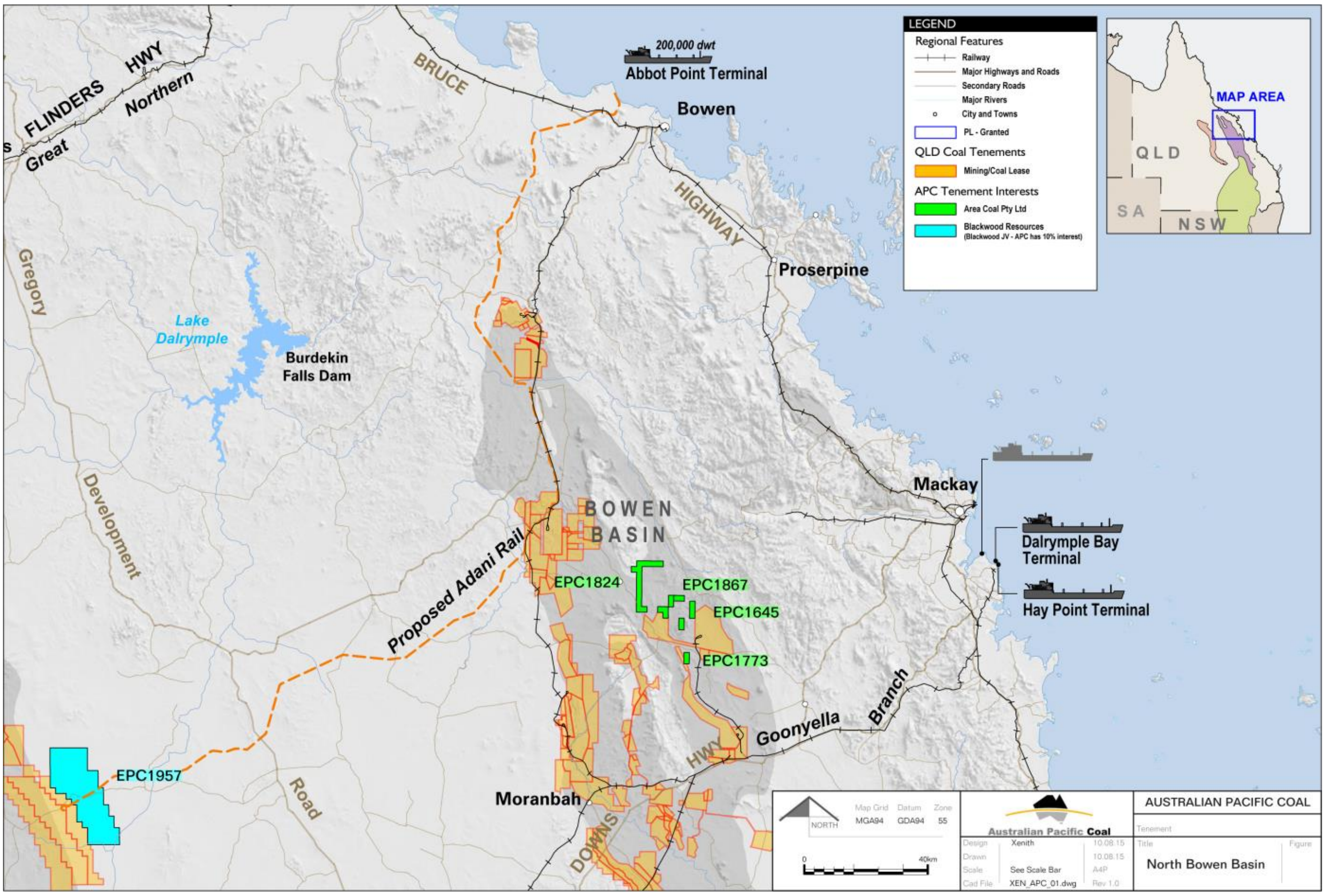
The main coal bearing sediments covered by EPC 1773 include the Rangal Coal Measures and the Fort Cooper Coal Measures. The Rangal Coal Measures are economically exploited in the area however the Fort Cooper Coal Measures are not considered economic due to high ash content.

The Rangal Coal Measures are the most widely extracted coal measures in the Bowen Basin. Rangal sediments underlying EPC 1773 dip at approximately10° southwest.

9.3 Location and Background

EPC 1773, “Kemmis Creek”, is located approximately 100km southwest of Mackay in the north-eastern Bowen Basin, Central Queensland. The nearest townships are Glenden, situated about 32km to the northwest and Nebo 40km to the southeast. Access to the tenement from Mackay is via the sealed Suttor Developmental Road which traverses the north-eastern corner of the EPC).

Figure 9.1 - EPC 1773 Regional Location



9.4 Ownership Status

EPC 1773 was granted to Area Coal on 29 October 2010 for a period of 5 years and currently comprises two sub-blocks as shown in Figure 9.1**.** A renewal was sought prior to the end of the first 5 year period and was subsequently granted. The tenement in its current period is scheduled to expire on 28 October 2020. The tenement consists of two sub-blocks in a rectangular configuration. The area comprising the tenure is approximately 6.8 km^2, however there is an overlap of 0.7km^2 with ML 4750 which excludes this area from use.

EPC 1773 was part of an Exploration Option and Joint Venture Agreement in place between Area Coal and RIO (See Chapter 7.4 for details). The tenement was transferred back to Area Coal.

Table 9.1 – Kemmis Creek Project Tenure and Ownership

BIM	Block	Sub-Blocks	No.
CLER	1348	U, Z	2
Total			**2**

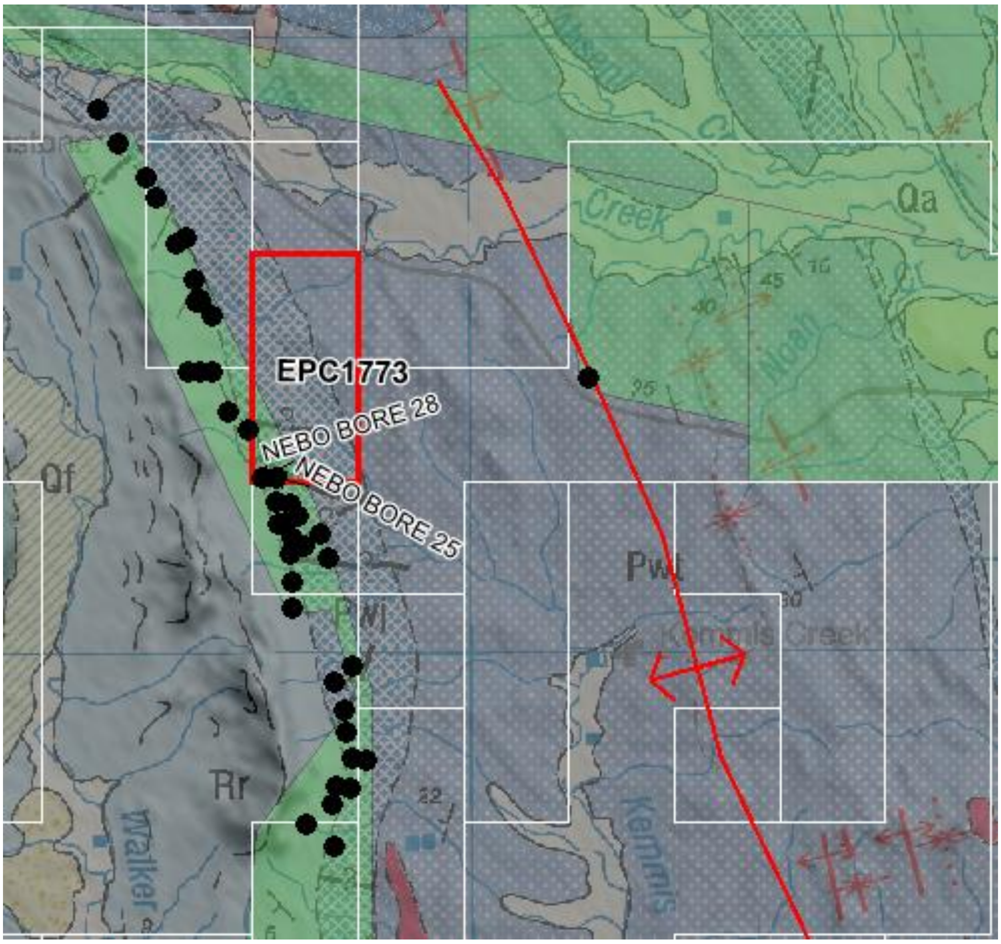
9.5 Potential Planning Constraints

None of the planning criteria listed in Section 2.4 were found to be triggered for this tenement.

9.6 Geology

EP1773 covers coal bearing, late Permian sediments from the Rangal Coal Measures and the Fort Cooper Coal Measures. The tenement is situated on the western limb of a major anticlinal structure that strikes NNW-SSE. The sediments covered by EPC 1773 dip locally to the south west at 5-10º.

Figure 9.2 - EPC 2031 Solid Geology



There has been no exploration activities conducted in EPC 1773 for the term of the tenement, however two coal boreholes were drilled by the government in the 1950's, and located within the overlap of EPC 1773 and ML4750 intersected coal with the following depths and thicknesses.

Table 9.2 – Borehole drillholes in EPC 1773

Borehole	Top of Coal m (approx.)	Thickness m (approx.)
Nebo Bore 25	17m	8m
Nebo Bore 28	47m	7m

Nebo Bore 25 was drilled approximately 230m due east of Nebo Bore 28 confirming the dip of the coal bearing strata to the west.

Although there is approximately 3.1km² of sub-cropping Rangal coal measures covered by EPC 1773, due to the regional structure, dip of the sediments and coverage of ML4750 over the main coal-bearing strata, the likelihood of further economic coal seams occurring within the tenement is low as the remainder of the sub-cropping Rangal sediments are likely to be below the occurrence of the main exploitable seam.

9.6.1 General Structure

The major regional structural feature in the area is a north-north-west striking anticlinal structure which is mapped to the north and east of the EPC. EPC 1773 is situated on the western limb of the structure.

9.6.2 Exploration Activity

There has been no exploration drilling conducted within the tenement by the current holder.

9.6.3 JORC Resources and Reserves

There is currently no JORC Resource estimate for this project.

9.6.4 Coal Quality

No drilling has yet been completed, and consequently no coal quality results.

10 ML 70360 MANTUAN DOWNS

10.1 Key Outcomes

- ML70360 is owned by APC's 100% owned subsidiary Ipoh Pacific Resources Pty Ltd.
- ML70360 is a bentonite mining lease that operated briefly until 2009.
- The ML has an area of 2.74 km^2.
- The mine is an open pit approximately 10 metres deep, and 25 metres square.
- The mine is currently not producing and is placed under Care and Maintenance.

10.2 Potential Planning Constraints

While it is noted that the tenement operates under a mining lease, the following item may require further consideration when undertaking future development:

- Strategic Cropping Land trigger Areas are mapped across a portion of the tenement.

None of the other criteria listed in Section 2.4 were found to be triggered for this tenement.

11 BLACKWOOD TENEMENTS - EPC 1955, EPC 1957 & EPC 1987

11.1 Key Outcomes

- Mining Investments One (MIO - a 100% subsidiary of APC), has a Tenement Sale and Joint Venture Agreement with Blackwood Resources Pty Ltd (Blackwood), which is a subsidiary of Cuesta Coal Limited (Cuesta).
- The tenements were transferred to Blackwood on grant.
- Mining Investments One Pty Ltd retains a 10% free carry interest in the tenements until a Feasibility Study has been completed.
- EPC 1955 and 1987 are located in the Surat Basin, to the South East of Wandoan.
- EPC 1957 is located in the Galilee Basin.
- EPC 1955 (the Thorn Hill Project) is the most prospective and currently contains an Estimated Resource in accordance with the JORC code of 44Mt total, including 22 Mt Indicated and 22 Mt Inferred.

11.2 Overview

These tenements will only be given a brief summary, as APC currently only holds a 10% interest in these tenements, and the value is believed to be less material than the other tenements.

11.3 Surat Basin Tenements

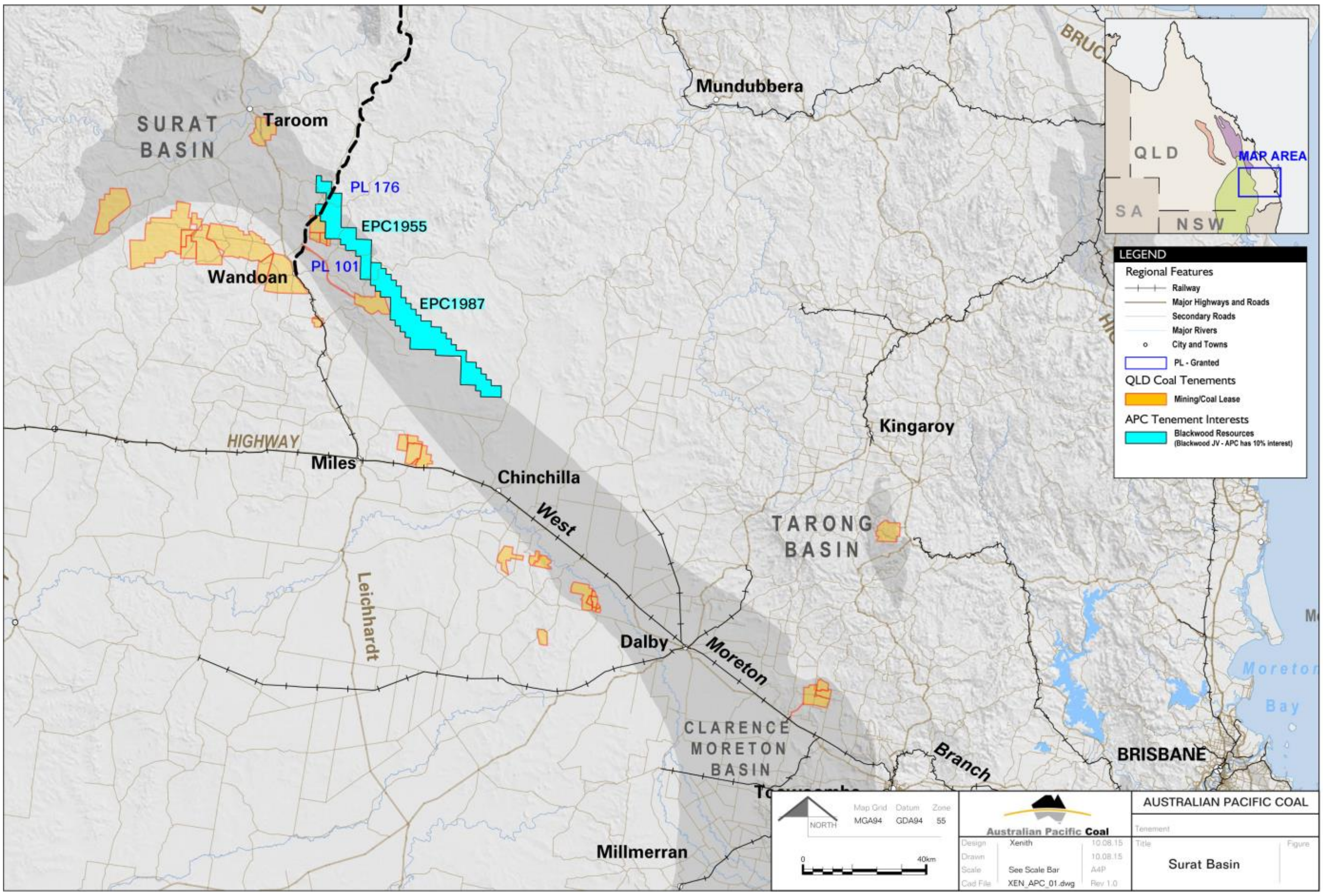
EPC 1955 and 1987 make up the two Blackwood leases in the Surat Basin (Figure 11.1).

Geographically the tenements lie in an area centred some 400km north-west of Brisbane. The tenements are approximately 30kms North-East of the township of Wandoan, located on the Western Darling Downs of Queensland.

The Walloon Coal Measures in this part of the Surat Basin, the Western (Darling) Downs, consist of the upper and lower coals known as the Juandah Coal Measures (JCM) and the Taroom Coal Measures (TCM) respectively. They are separated by a barren unit known as the Tangalooma Sandstone. Locally the coal measures are on the north-eastern side of a structural feature known as the Mimosa Syncline and they gently dip to the south-west. As a result the JCM and the TCM each sub-crop in a parallel belt to the north-east of the syncline.

The TCM being the lower unit is therefore the focus of exploration in EPCs 1955 and 1987. In general it is thought that 1987 are too far east for the sub-crop to occur and likewise much of EPC 1955; however, it is the hope that various structural elements being present causing the lower horizons of the TCM to be present in EPC 1987.

Figure 11.1 – Surat Basin Tenements



11.3.1 EPC 1955, Thorn Hill

- EPC 1955 consists of 64 sub-blocks, and covers approximately 200 km^2.
- The lease is approximately 40 km long and between 5 -10 km wide.
- Taroom Coal Measures, Seams are named A, B, C, D and E.
- Exploration focus and Resource in the south west of the tenement. (Figure 11.2)
- Seams found here are the same as the seams found in MDL433 – Bottletree (Cockatoo Coal) and ML 55001 - The Range (Stanmore Coal).
- To date 59 drillholes, 8 with coal quality
- 44 Mt total Resource, 22.1 Indicated, and 22.5 Inferred as at June 2012. (Table 11.1)
- Thermal coal, moderate ash, Raw Specific Energy ~24Mj/kg. (Table 11.1)

Figure 11.2 – Borehole Locations and Resource Outline

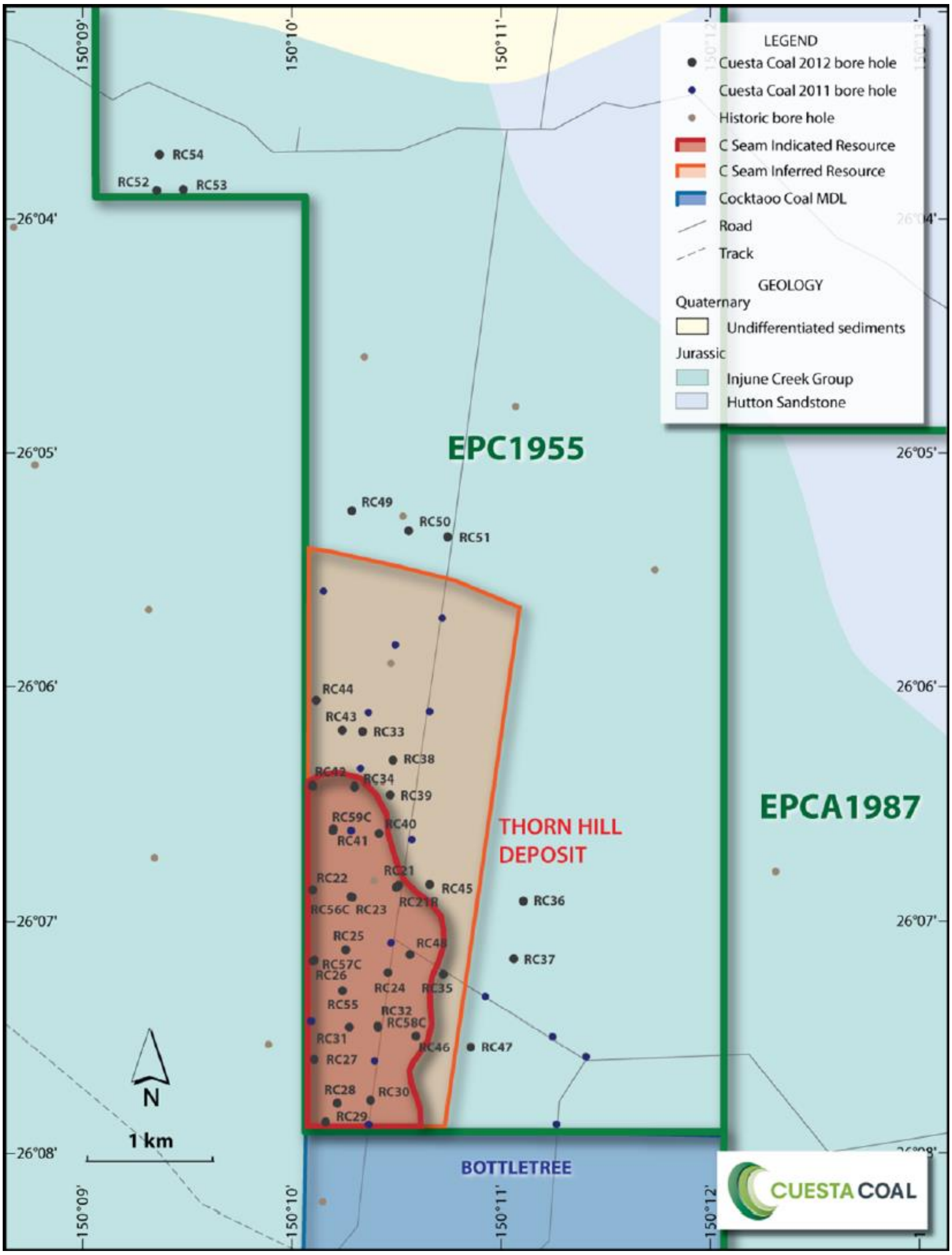


Table 11.1 – EPC 1955 Raw Coal Quality Summary

Seam	No. of Cored Holes	Inherent Moisture % (a.d)	Ash % (a.d)	Volatile Matter % (a.d)	Fixed Carbon % (a.d)	Relative Density g/cc (a.d)	Specific Energy Mj/kg (a.d)	Total Sulphur % (a.d)
A	3	7.8	20.0	39.8	32.5	1.44	23.26	0.45
B	8	7.6	18.7	39.3	34.5	1.44	23.81	0.44
C	7	7.4	20.0	37.8	34.8	1.46	23.42	0.45
D	4	6.7	18.1	38.9	36.3	1.43	24.55	0.46
E	1	5.4	19.7	38.8	36.1	1.44	24.62	0.50

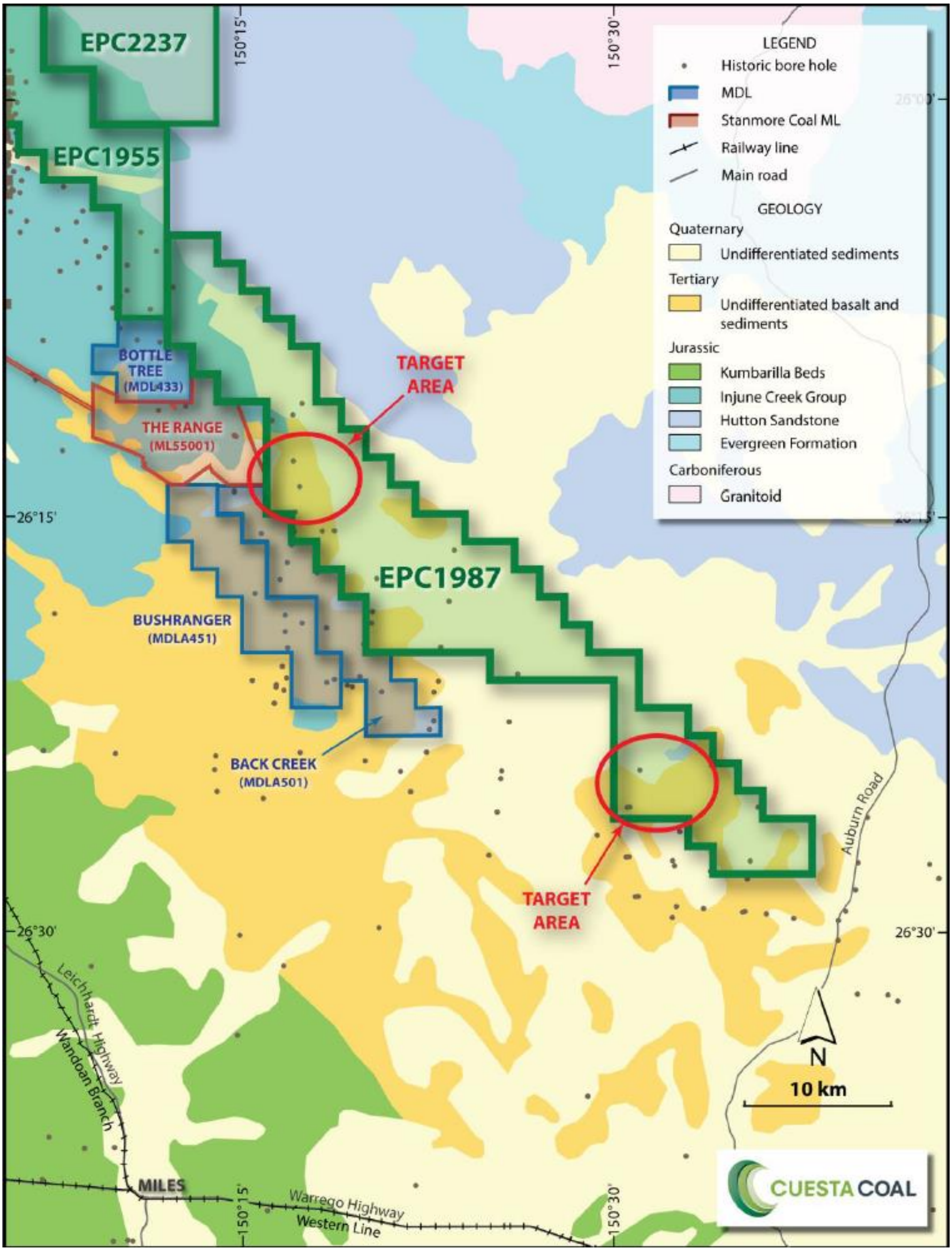
Table 11.2 – EPC 1955 Resource Summary

Resource Category	Value	Taroom Coal Measures					Total Tonnes (Mt)
		A	B	C	D	E	
Measured	Volume (Mm^3) Relative Density (t/m^3)	- -	- -	- -	- -	- -	
	Sub-total Tonnes (Mt)	-	-	-	-	-	-
Indicated	Volume (Mm^3) Relative Density (t/m^3)	- -	6.0 1.42	7.1 1.40	2.6 1.44	- -	
	Sub-total Tonnes (Mt)	-	**8.5**	**9.9**	**3.7**	-	**22.1**
Inferred	Volume (Mm^3) Relative Density (t/m^3)	2.6 1.45	3.0 1.42	5.9 1.40	4.2 1.44	- -	
	Sub-total Tonnes (Mt)	**3.8**	**4.3**	**8.3**	**6.1**		**22.5**
Grand Total Tonnes (Mt)		**3.8**	**12.8**	**18.2**	**9.9**	-	44.6

11.3.2 EPC 1987, Quandong

- EPC 1987 consists of 115 sub-blocks, and covers approximately 355 km^2. 46 sub-blocks are scheduled to be relinquished on 27/09/2015.
- EPC 1987 is elongate NW-SE following the eastern boundary of the Surat Basin. The tenement is some 60km long and between 3 to 15kms wide.
- Explorations focus to the west of ML 55001 - The Range (Stanmore Coal), and Back Creek (Allegiance Coal), and the south part of the tenement. (Figure 11.3)
- Because the TCM is sub cropping within the leases to the west, intersecting the same seams within EPC 1987 heavily relies on the presence of structural elements.
- No drilling has been completed by Blackwood in the area.

Figure 11.3 – EPC 1987 Target Areas



11.4 Galilee Basin Tenement – EPC 1957 – Laguna Creek Project (aka Karura)

The information listed in this section is sourced from the EPC 1957 Annual Report [9], and other open source documents. Some of the information may be out of date.

- EPC 1957 (Galilee), lies adjacent to the eastern flank of the Galilee Basin.(Figure 11.4)
- The tenement consists of 120 sub-blocks, 135 km Northwest of Clermont.
- No drilling has been conducted in EPC 1957 by Cuesta Coal to date
- As part of the Carmichael survey, Canso Resources Ltd conducted a Seismic exploration program in 1983. EPC 1957 is very well covered by an extensive array of seismic lines. The lines suggest syncline structures present that have the potential to preserve the Permian coal measures of the Betts Creek Beds east of the known sub crop. Magnetic Anomaly mapping also supports the possibility of such a structure to be present (Figure 11.5).
- This has been the case in EPC 1802 (Cuesta Coal) directly to the North of EPC 1957, where Cuesta has drilled 39 holes including 5 partially cored holes and intersected coal seams in the north-western sector of EPC 1802. In 2013 Cuesta announced a Maiden Inferred JORC Resource of 364Mt in Q4 2013.
- Drilling was scheduled in 2013, but no reports of any drilling results within EPC 1957 have been reviewed.

Figure 11.4 – EPC 1957 Location

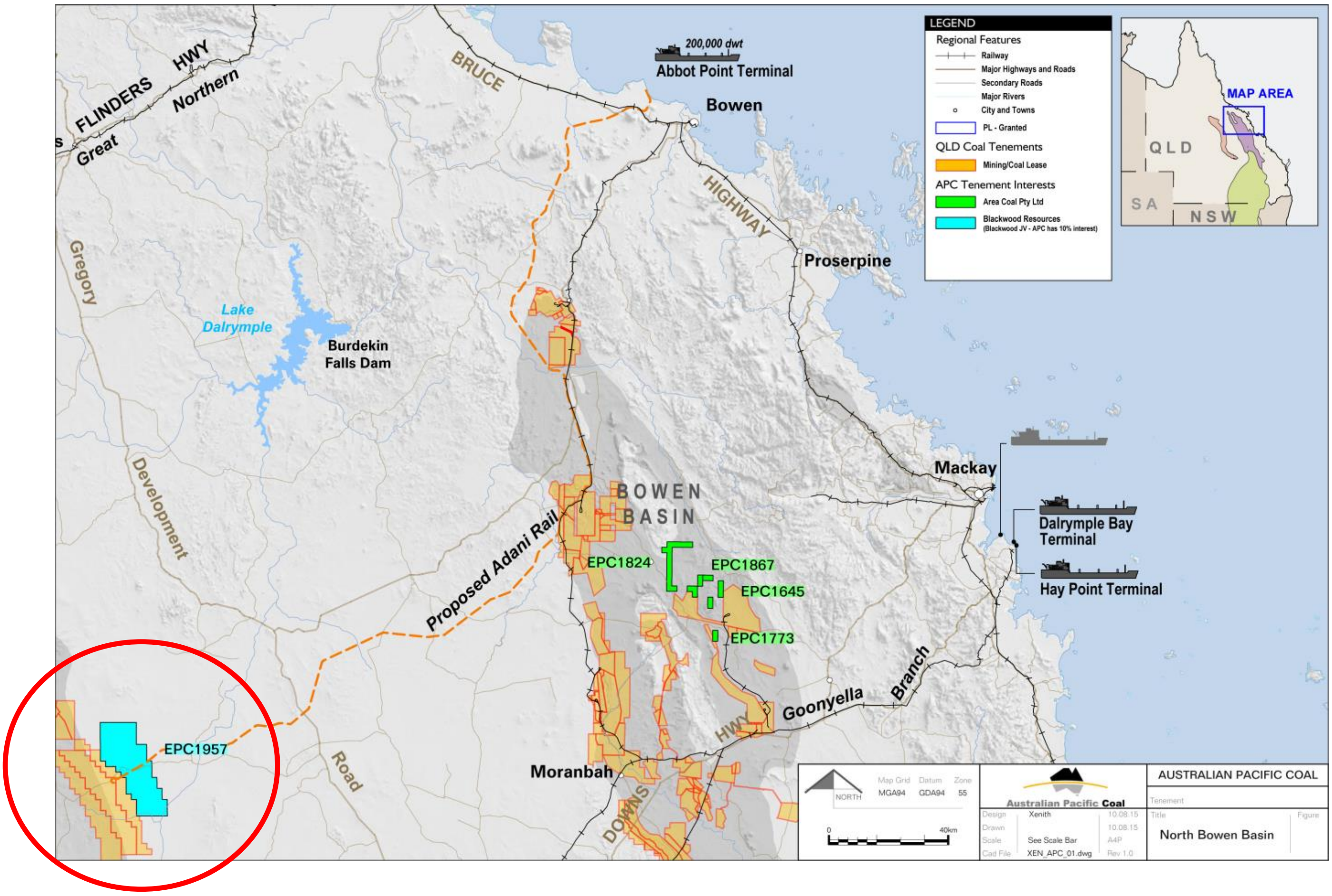
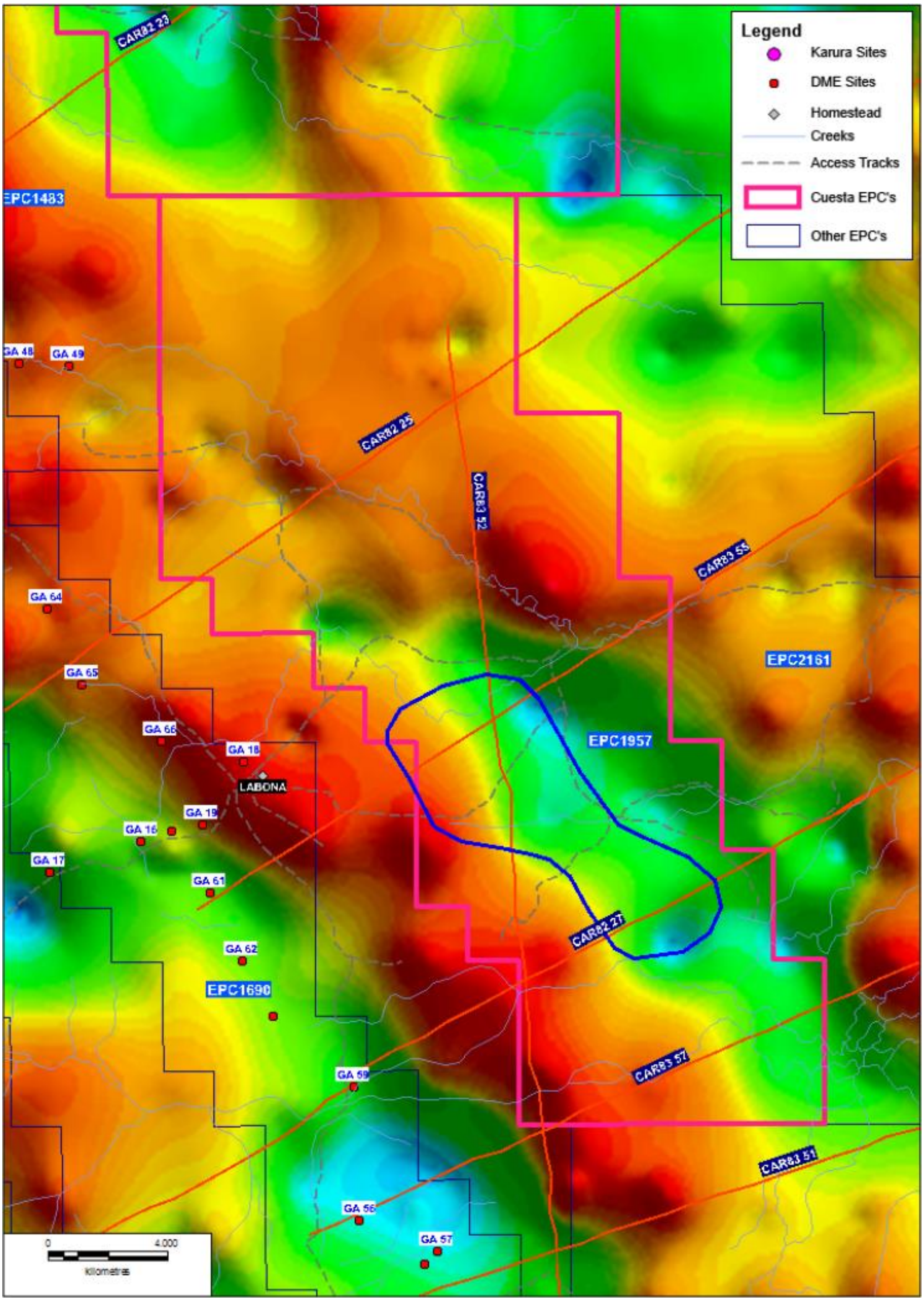


Figure 11.5 – EPC 1957 Seismic Lines and Gravity Anomaly Map



11.5 Potential Planning Constraints

The following items will require consideration when undertaking development of EPC 1955:

- Petroleum Lase tenements PL 176 and PL 101 significantly overlap the tenement
- Surat Basin Infrastructure State Development Area passes through the tenement
- Strategic Cropping Land Trigger Areas are mapped across a significant portion of the tenement
- The tenement overlaps a small portion of the Barakula State Forest.

None of the other criteria listed in Section 2.4 were found to be triggered for this tenement.

The following items will require consideration when developing EPC 1957:

- Galilee Basin Infrastructure State Development Area occupies a significant portion of the tenement

None of the other criteria listed in Section 2.4 were found to be triggered for this tenement.

The following items will require consideration when developing EPC 1987:

- Strategic Cropping Land Trigger Areas are mapped to the north of the tenement
- The tenement overlaps a significant portion of the Barakula State Forest

None of the other criteria listed in Section 2.4 were found to be triggered for this tenement.

12 VALUATION

12.1 Key Outcomes

- Valuation has been prepared to conform to the Australian VALMIN Code (2015)
- In Xenith's opinion, the APC Coal Assets are valued at between A$22M and A$64M, with a preferred value of A$24M.
- The Dartbrook mine comprises the majority of the preferred value at A$21.3M, with the market based approach being used as the preferred approach, rather than the revenue approach.
- The Cooroorah (MDL 453) Project value ranges from A$0.62M to A$2.5M, with a preferred value of A$1.25M.
- The Hillalong Project (EPCs 1773, 1824, 1867 and 1645) accounts for A$1.06M of the preferred value, predominantly in EPC 1824.
- The Dingo Project (EPC 1859) accounts for A$0.28M of the preferred value.
- APC's interest in the Blackwood JV is valued at A$0.04M, the majority of which is attributable to the resources identified in EPC 1955.

This Mineral Asset Valuation included in this ITSR has been prepared to conform to the Australian VALMIN Code (2005).

The valuation of Mineral Assets is not a precise science and the conclusions arrived at in many cases will of necessity be subjective and dependent on the exercise of individual judgement. There is therefore no indisputable single value and Xenith normally expresses an opinion on the value as falling within a likely range, as required by the Code.

There are a number of methods that can be used for valuing mines and mineral deposits. Generally the method adopted depends on the available data and more importantly the stage of the deposit life cycle. These methodologies include asset based, earnings multiples and discounted cash flow.

In relation to the development status of a mineral asset, the VALMIN Code (2014) provides the following categories:

- **Exploration Areas** – properties where mineralisation may or may not have been identified, but where a Mineral or Petroleum Resource has not been identified.
- **Advanced Exploration Areas** – properties where considerable exploration has been undertaken and specific targets have been identified that warrant further detailed evaluation, usually by drill testing, trenching or some other form of detailed geological sampling. A resource estimate may or may not have been made but sufficient work will have been undertaken on at least one prospect to provide both a good understanding of the type of mineralisation present and encouragement that further work will elevate one or more of the prospects to the resource category.
- **Pre-Development Projects** – properties where Mineral or Petroleum Resources have been identified and their extent estimated (possibly incompletely) but where a decision to proceed with development has not been made. Properties at the early assessment stage, properties for which a decision has been made not to proceed with development,

properties on care and maintenance and properties held on retention titles are included in this category if Mineral or Petroleum Resources have been identified, even if no further Valuation, Technical Assessment, delineation or advanced exploration is being undertaken.

- **Development Projects** – properties for which a decision has been made to proceed with construction and/or production, but which are not yet commissioned or are not yet operating at design levels.
- **Operating Mines** – mineral properties, particularly mines and processing plants that have been commissioned and are in production.

12.2 Valuation Methods

There are a number of methods that can be used for valuing mines and mineral deposits. Generally the method adopted depends on the available data and more importantly the stage of the deposit life cycle. These methodologies are market-based, income-based or cost-based. Typical methods considered for this Technical Assessment that have been used at various stages of project assessment and development are shown in Table 12.1.

Table 12.1 – Summary of Typical Mineral Resource Valuation Methods [17-19]

Valuation Approach	Method	Summary of Method	Suitability of Method
Cost	Appraised Value	1. Sum the productive past exploration expenditure plus warranted future exploration costs. 2. Generally up to 5 years past expenditure is included.	Very early to early stage exploration (few holes to several holes drilled with encouraging results) that are under active exploration.
	Multiples of Exploration Expenditure (MEE)	1. Estimate the Appraised Value of the asset as above. 2. Apply a prospectivity enhancement multiplier, typically between 0.5 to 3.0	Very early to early stage exploration that are under active exploration.
	Geoscience Factor – Kilburn method	1. Score asset against key characteristics (0.1-5.0) 2. Multiply score against a standard unit value ($/ha)	Very early to early stage exploration. Sensitive to property value and area of the asset which may neglect exploration potential.
Income	Discounted Cash Flow (DCF)	1. Estimate the future cashflows of the operating asset. 2. Discount those cashflows at a required rate of return.	Late stage exploration (scoping to pre-feasibility) through to late stage producing mine
	Option Pricing	Value the options available to management using financial option techniques.	For developed assets where DCF results in low or negative values Complex and requires DCF calculations.
	Geological risk probability	1. Estimate a resource target. 2. Value this resource using a separate valuation method. 3. Apply a probability of success	Very early to early stage exploration.
Market	Comparable Transactions - $/resource or $/km^2$	1. Determine enterprise values for recent transactions in comparable assets. 2. Determine unit value in $/tonne or $/ha. 3. Apply unit value to target asset to estimate value.	Very early stage exploration to late stage producing mine. Generally used to estimate valuations within regions. No true comparables available and limited transactions.
	Option agreement / JV terms	Estimate the 100% value based on a pro-rata of the value of commitments and payments proscribed in an option or JV agreement.	Very early stage exploration to late stage exploration where the property is subject to an existing option agreement.

APC Coal Assets range in status from very early exploration to pre-development. The valuation method applied depends on the relative maturity of the exploration for each asset as outlined in Table 12.1.

For the early stage projects without any recent exploration carried out, the multiples of historical exploration expenditure have been adopted.

For the very early stage projects with limited geological data, the comparable market transactions per lease area have been adopted.

For the more advanced projects with either a JORC coal resource estimated or an exploration target tonnage, the comparable market transactions per resource tonne has been adopted.

The Market based and Income based (Discounted Cash Flow method) have been used to value the Dartbrook mine.

Three methods have been used to value the APC Queensland Coal Assets:

- Multiples of Exploration Expenditure (MEE);
- Comparable Transactions using Multiples of coal resources (A$/t); and
- Comparable Transactions using Lease Area (A$/km^2).

12.2.1 Multiples of Exploration Expenditure (MEE)

MEE is a cost approach which relies on a correlation between capital expended on a project and the intrinsic value of that project. MEE sums the value of previous meaningful exploration expenditure plus the warranted future exploration expenditure. A limit of five years of historical expenditure is generally applied by Xenith. A Prospectivity Enhancement Multiplier (PEM), generally between 0.5 and 3.0, is applied to this exploration expenditure according to the future prospectivity of each asset as judged by the Specialist.

12.2.2 Comparable Transactions

The Comparable Transaction method is a market based method which relies on comparing the multiples (EG. $/resource tonne or $/km^2 of lease area) associated with recent transactions and/or publicly listed companies and then applying these multiples to other comparable projects. Ideally, comparable projects will have similar locations, infrastructure access, regulatory frameworks, and geological environments. No two projects are exactly the same and the range of valuation multiples is broad. Therefore, judgement is required by the Specialist to determine the valuation multiples to apply.

The following valuation factors have been considered by Xenith in selecting comparable transaction multiples for the APC Coal Assets:

- Size of the comparable companies/transactions coal resources relative to APC;
- The status of exploration and the resource classification;
- The quality of the coal which varies from coking and PCI to thermal;
- The nature of the resource with respect to mining potential and mining method by underground or open cut;

- The location of the tenement and proximity to existing mine operations and infrastructure;
- Market potential for the coal; and
- The forecast coal price trends at the time of the transaction.

Coal Resources – EV/Resource

Figure 12.1 displays comparable ASX-listed coal exploration companies on an EV / Resource basis. Figure 12.2 displays comparable market transactions of coal assets on an enterprise value per tonne of coal resource (EV / Resource) basis.

Figure 12.1 – Comparable ASX-Listed Coal Exploration Companies - EV / Resource

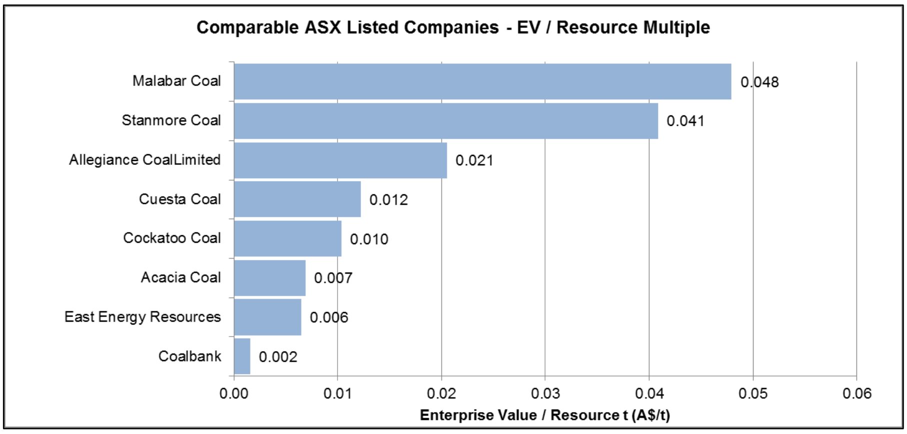
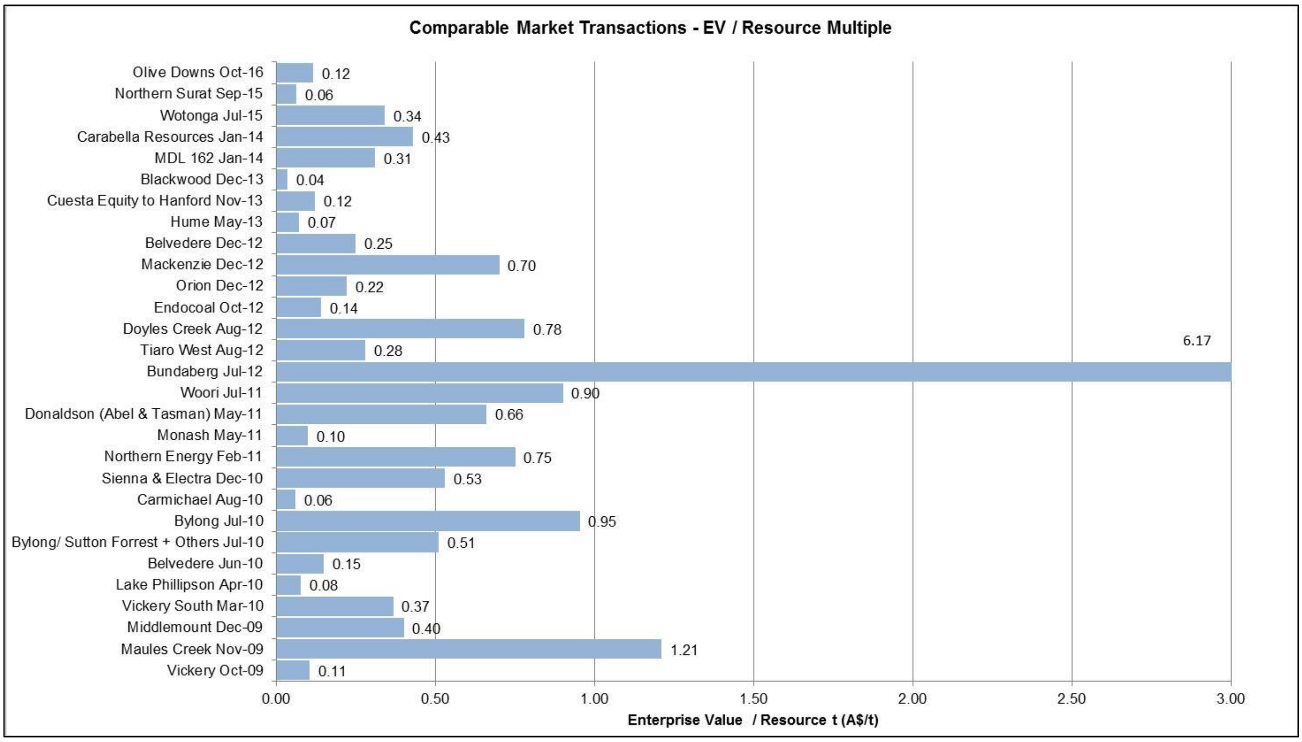


Figure 12.2 – Comparable Market Transaction of Coal Assets EV / Resource



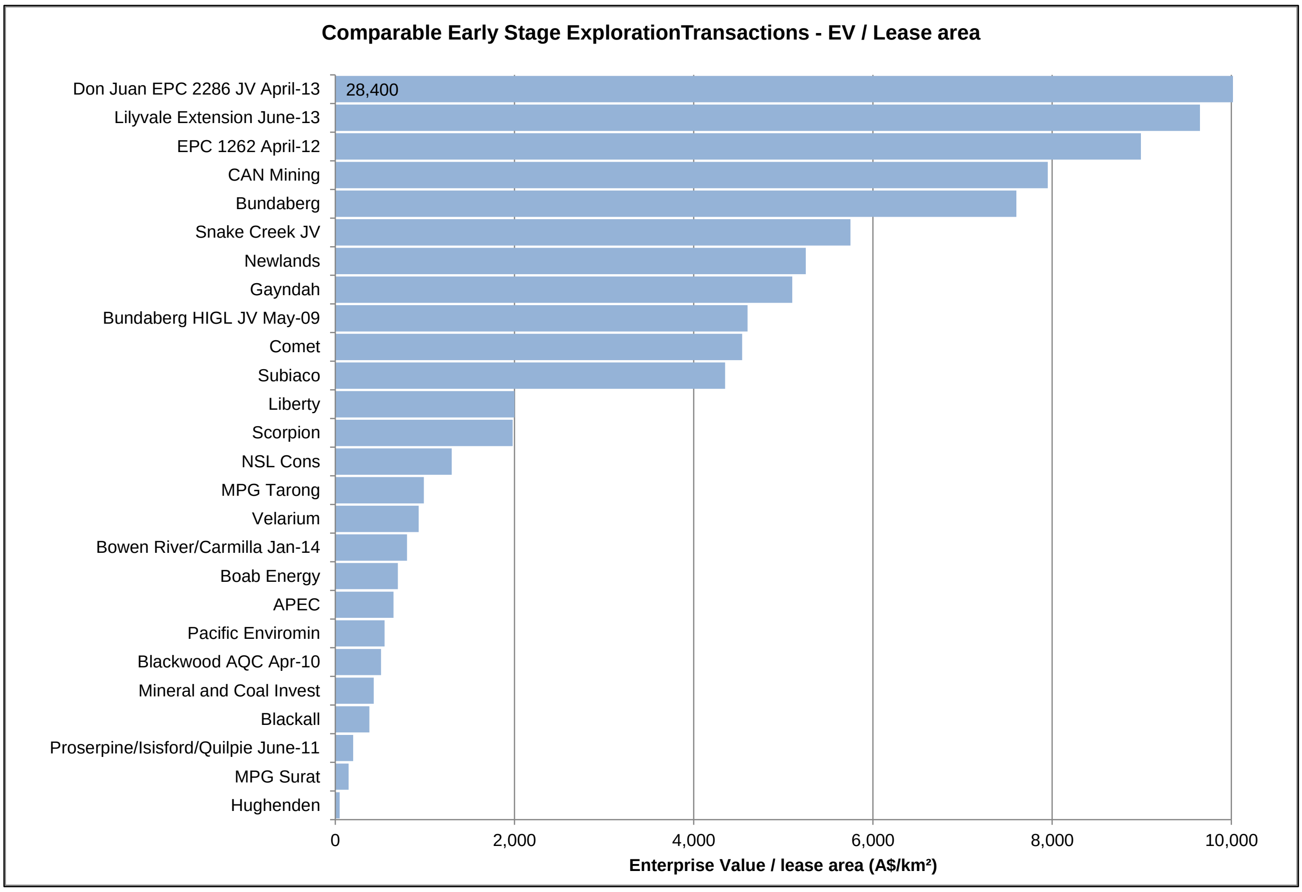
Using the range of multiples identified in Figure 12.1 and Figure 12.2, Xenith has analysed the range, mean and recent trends. Transaction multiples occurring between January 2013 and December 2015 range from A$0.04/t to A$0.43/t with a median of A$0.22/t. ASX-listed multiples range from A$0.002/t to A$0.048/t. We have judged the ASX-listed multiples as representing the most current indicator of market value of exploration coal projects.

Xenith has estimated an indicative value for coal exploration projects with a JORC coal resource at between A$0.005/t to A$0.02/t with a preferred value of A$0.01/t. The range varies for each project in the APC Assets based on the valuation factors as discussed in the valuation factors highlighted above.

Lease Area – EV/km^2

The use of lease area as a valuation multiple disregards the prospectivity of the coal asset and is suitable only for very early stage exploration projects where information for other more suitable valuation methods is not available. Figure 12.3 displays comparable market transactions of coal assets on an enterprise value per km^2 of lease area (EV / km^2) basis.

Figure 12.3 – Comparable Early Stage Exploration Transactions – EV / Lease Area



Xenith has estimated an indicative value for coal exploration projects with minimal exploration undertaken at between A$200 to A$4,350 per km^2 of lease area, with a preferred value of between A$400 to A$2,000 per km^2.

The range varies for each project in the APC Coal Assets based on the valuation factors as discussed in the valuation factors highlighted above.

12.3 Valuation of APC Assets

The results of each valuation method applied to the APC Coal Assets (100% basis) are displayed in Table 12.2, Table 12.3 and Table 12.4.

Table 12.2 – Valuation Summary using Multiples of Exploration Expenditure (100% basis)

Tenement	Project Name	Reported Expenditure	PEM Low	PEM High	PEM Preferred	MEE Value Low	MEE Value High	MEE Value Preferred
		A$M				A$M	A$M	A$M
EPC 1645	Mount Hess	0.00	0.5	0.5	0.5	0.00	0.00	0.00
EPC 1773	Kemmis Creek	0.02	0.5	0.5	0.5	0.01	0.01	0.01
EPC 1824	Mount Hillalong	0.68	0.7	2.0	1.5	0.47	1.35	1.01
EPC 1859	Dingo	0.17	1.5	2.0	1.7	0.25	0.33	0.28
EPC 1867	Mount Hess West	0.05	0.5	1.0	0.7	0.02	0.05	0.03
EPC 1955	Bungaban Creek	0.03	1.5	2.0	1.7	0.05	0.07	0.06
EPC 1957	Laguna Creek	0.01	1.0	1.5	1.2	0.01	0.01	0.01
EPC 1987	Quandong	0.01	0.5	1.0	0.7	0.00	0.01	0.00
EPC 2011	South Clermont	0.21	1.0	1.5	1.2	0.21	0.32	0.25
MDL 453	Cooroorah	2.86	2.0	2.5	2.2	5.72	7.15	6.30

Table 12.3 – Valuation Summary using Comparable Transactions (EV/Resource multiple) (100% basis)

Tenement	Project Name	Total Resource	Resource Multiple Low	Resource Multiple High	Resource Multiple Preferred	Resource Value Low	Resource Value High	Resource Value Preferred
		Mt	A$/t	A$/t	A$/t	A$M	A$M	A$M
MDL 453	Cooroorah	124.9	0.005	0.020	0.010	0.6	2.5	1.25
EPC 1955	Bungaban Creek	44.6	0.005	0.100	0.010	0.2	4.5	0.4
EPC 1859	Dingo	33*	0.005	0.020	0.010	0.2	0.7	0.3

* Dingo resource based on upper range of exploration target.

Table 12.4 – Valuation Summary using Comparable Transactions (EV/Lease Area multiple) (100% basis)

Tenement	Project Name	Lease Area	Lease Area Multiple Low	Lease Area Multiple High	Lease Area Multiple Preferred	Lease Area Value Low	Lease Area Value High	Lease Area Value Preferred
		km^2	A$/$km^2$	A$/$km^2$	A$/$km^2$	A$M	A$M	A$M
EPC 1645	Mount Hess	32	380	4350	2000	0.012	0.139	0.064
EPC 1773	Kemmis Creek	6	380	4350	2000	0.002	0.028	0.013
EPC 1824	Mount Hillalong	48	380	4350	2000	0.018	0.208	0.096
EPC 1859	Dingo	16	380	4350	2000	0.006	0.068	0.031
EPC 1867	Mount Hess West	6	380	4350	2000	0.002	0.028	0.013
EPC 1955	Bungaban Creek	197	300	1000	600	0.059	0.197	0.118
EPC 1957	Laguna Creek	381	200	600	400	0.076	0.229	0.152
EPC 1987	Quandong	354	300	1000	600	0.106	0.354	0.212
EPC 2011	South Clermont	57	380	4350	2000	0.022	0.247	0.114
MDL 453	Cooroorah	17	380	4350	2000	0.006	0.072	0.033

12.3.1 Valuation of Dartbrook Underground mine

Two valuation approaches have been adopted to estimate the Dartbrook Underground Mine.

Initially an income based valuation approach was used given the publically stated opportunity by APC to restart the mine. The project is currently in care and maintenance, however a number of studies ~18 months ago and presented in the dataroom to assess re-opening the mine. Xenith have utilised these studies along with Xenith's industry knowledge to develop a revised production schedule and an associated operating and capital cost estimate. These have been used in conjunction with pricing and economic assumptions to develop a project cash flow and associated NPV.

In addition to this, Xenith also adopted a market based approach to value the mine in the event the mine was not viable to reopen due to a negative business case. The market based approach adopted covered the freehold land and water licences associated with the mine.

12.3.1.1 Income Based Approach

<u>Revenue</u>

The January 2017 Consensus Economics Inc. mean (real) steaming coal prices for 2018 to 2021 were $US66.61/tonne, $US62.81/tonne, $US61.42/tonne and $US58.21/tonne respectively. The Long Term (2022-2026) steaming coal price was $US62.31/tonne (real terms). The long term high price (real) was $US75.41/tonne and the long term low price $US55.00/tonne.

When the mean consensus pricing was applied with a USD exchange rate of 0.78 to the estimated schedule, operating and capital costs a negative NPV resulted. Sensitivities were undertaken for discount rate, with a rate of 8%, 10% and 15% real being run, all sensitivities returned a negative NPV. Given this, the preferred case using the income based approach has been set at a value of zero assuming the mine does not progress at this stage.

A high case using the income based approach was run applying a long term coal price of $US75.41/tonne in line with the high case Consensus forecast and a long term high USD exchange rate of 0.82 has been applied.

Valuation

The project cash flow is made up of four streams, revenue, operating costs, capital and taxation. The modelling has been undertaken on a real basis.

The high case incorporated a long term coal price of $US75.41/tonne, and lower operating costs of $4-5/tonne.

- The coal price was based on the High range from Consensus Economics Inc. steaming coal price,
- The operating costs assumed lower mining costs of $5/tonne through improved contractor rates, lower wages and improved productivity as the main developed.
- Overhead costs have also been decreased by $1.50/tonne assuming further savings can be made in this area.
- A 15% real discount rate was used to reflect higher risk than an operating mine.

The NPV@15% (real) for the high case was A$59 million and the cash flow was ~$20 million per annum. The high case project cash flow streams are illustrated on Figure 12.4, with the discounted cash flow illustrated on Figure 12.5

Figure 12.4 – Project Cash Flow (High Case)

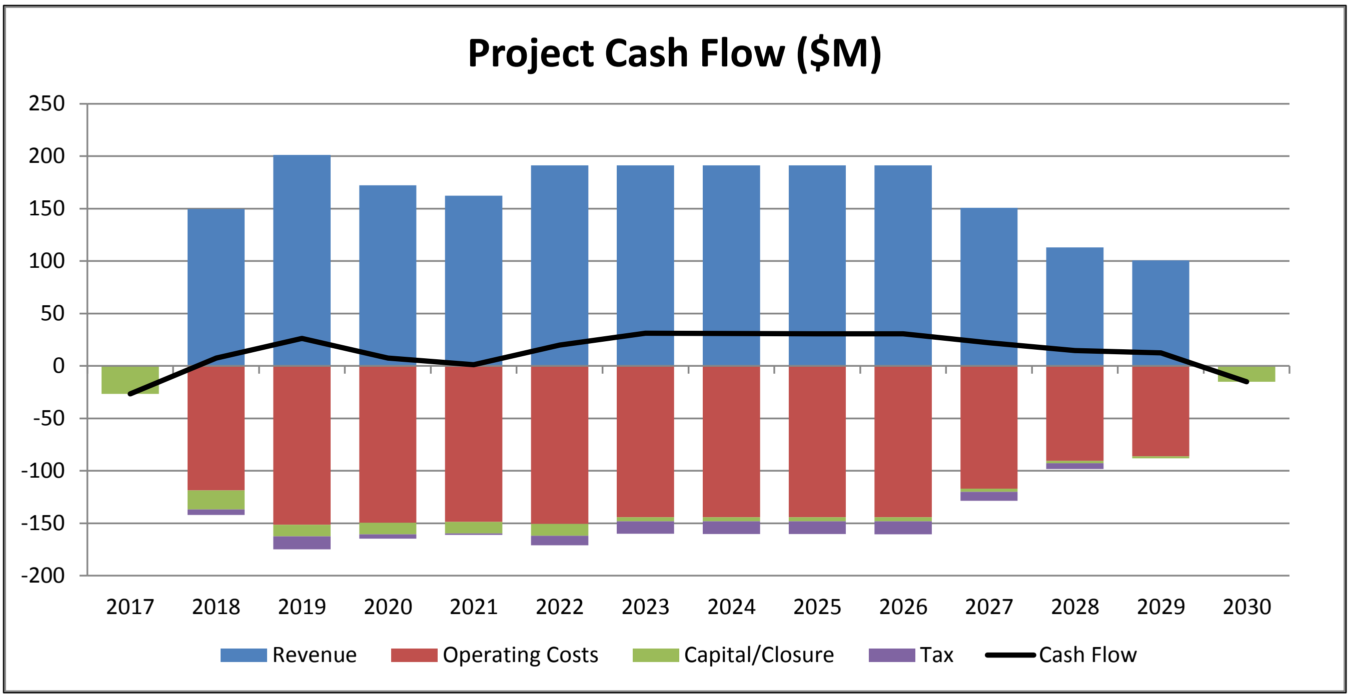
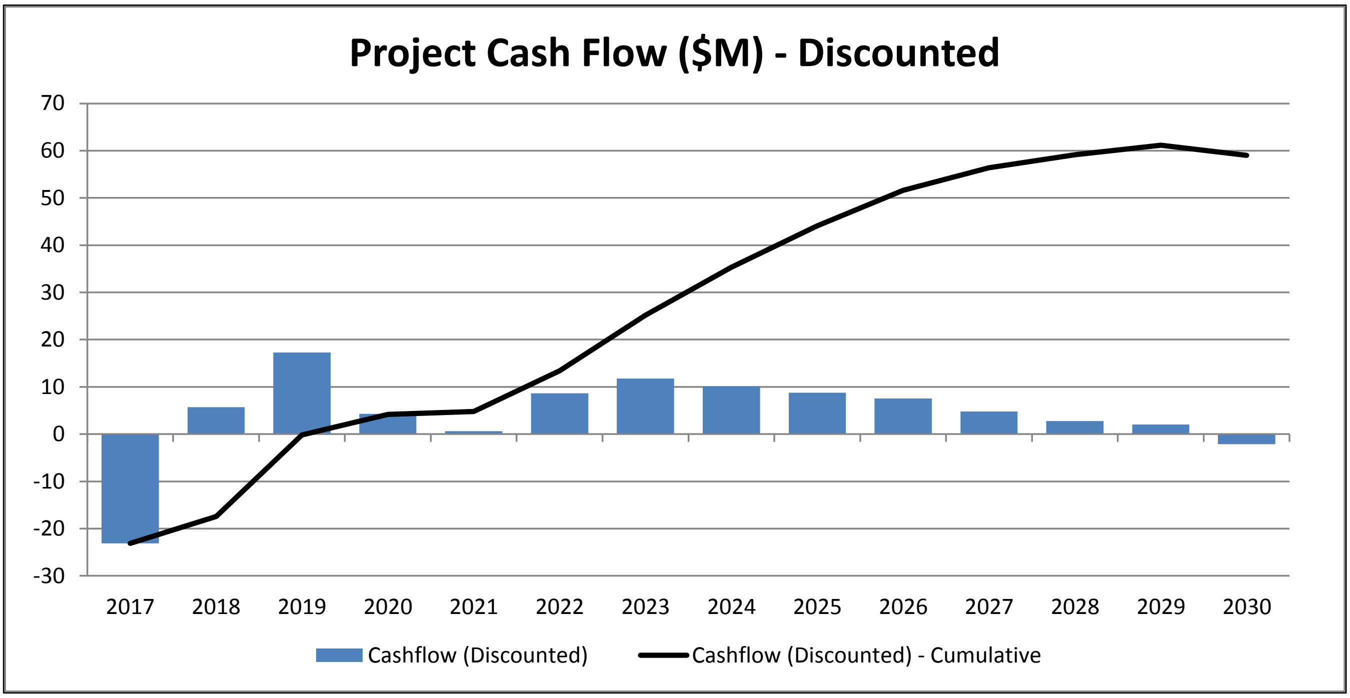


Figure 12.5 – Project Cash Flow (High Case) - Discounted



12.3.1.2 Market Based Approach

The market based approach was undertaken to value the freehold land and water licences.

The substantial land portfolio AAMC acquired during the years of development and mining at Dartbrook, and its suitability for further intensive rural production is significant.

The land and water licences have had numerous valuations undertaken over the last decade or so. The value of these assets has been the basis of the Market Based Approach.

The details of the Market Based Approach are highlighted below in section 12.4. The land and water valuation has a range of $29.2M to $31.9M. The valuation has been undertaken by licenced property valuers Environmental Property Services (EPS) on behalf of Xenith.

The preferred value adopted by Xenith is $21.3M. This value is estimated by taking the midpoint of the land and water ($30.5M), less the financial assurances held for the site rehabilitation to the value of $9.2M.

The rationale for this approach is that to attain the full value of the land and water ($30.5M) in an arms-length transaction with a willing buyer, the nearby land parcels would need to be in a rehabilitated state, with no visual detractions that would normally be associated with a mining or heavy industry land use. This value would also most likely require the mining and exploration tenements to be relinquished.

12.3.2 Valuation of Dartbrook Open Cut mine

An open cut mine valuation model (01-07.01 Open Pit Model dated 13.10.15) was provided in the dataroom by APC. This was done to assess the economic viability of Dartbrook as a future open cut operation, without any start up underground coal mining taking place. The mining and financial assumptions in the valuation model were replicated in a Xenith in-house financial model to establish a base case in real A$. The discount rate of 10% was used to match to the valuation model. In line with the underground modelling risk assumption, a 15% discount rate was applied to the base case. At a 15% discount rate the base case NPV was negative (-A$54M). Other pricing and costing scenarios modelled were based on a 10% discount rate.

The open cut mine was based on a shovel/ excavator operation utilising an In Pit Crusher Conveyor (IPCC) system to move both mining waste and coal from the pit to stockpile areas. The IPCC system was also supported by conventional haul trucks. In terms of mine life the open cut mine life was double the underground mine life at 26 years, Coal production for the open cut scenario was also at a much higher rate running at approximately 5.6Mt pa compared to 1.7Mt pa for the underground mine.

12.3.2.1 Pricing Assumptions

Using the Consensus Economics Inc steaming coal forecast published in January 2017, high, mid and low price scenarios were modelled with costing assumptions in line with the AAMC valuation model. The Mid case price and foreign exchange assumptions were based on an average price of US$58.31/t; A$70.29/t and resulted in a negative NPV of –A$174M at a 10% discount rate.

For the high price and high foreign exchange scenario, the average coal price was US$70.16/t; A$80.16/t with a positive NPV of A$20M. This was also used as the upside scenario as the Anglo cost base was viewed as a low cost scenario.

The low price and low foreign exchange assumptions scenario resulted in the coal price of US$51.52/t; A$66.17/t and a negative NPV of –A$259M.

12.3.2.2 Alternate Case

Cost assumptions in the valuation model were reviewed against similar operations to ensure the cost base was reasonable. In general the mining cost assumptions used were reasonable. However, coal processing cost rates were considered low and there appeared to be no allowance for drill and blast costs (despite drills being listed in the mining equipment capital listing). Further there appeared to be no allowance for coal rehandle or rejects handling. In terms of the mining schedule 1.1Mt of coal remained in the pit at the end of the mine life.

A case modelling the additional costs and extracting the remaining coal inventory from the pit was developed assuming mid case pricing. This case resulted in a negative NPV –A$395M with an FOB unit cost rate of A$58.23/Product tonne.

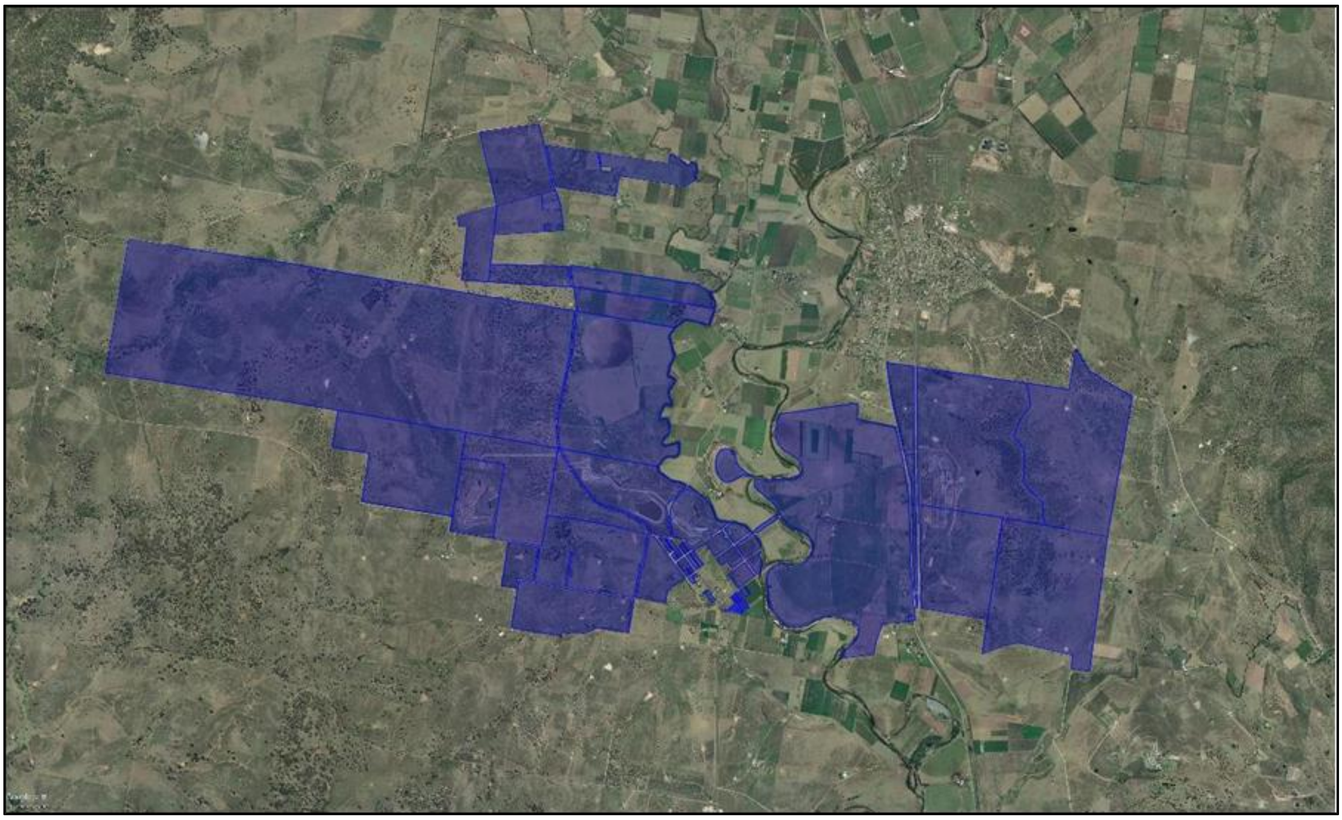
Figure 12.6 Dartbrook Open Cut Financial Outcomes – Price and WACC

Dartbrook Open Cut Mine		Option 1 - Anglo Model assumptions	Option 1a - Anglo Model assumptions 15% WACC	Option 2 - Consensus Economics Inc. Mid Price assumptions	Option 2 - Consensus Economics Inc. High Price assumptions	Option 2 - Consensus Economics Inc. Low Price assumptions	Option 3 - Consensus Economics Inc. Mid Pricing, Revised Opex, Pit Inventory
Real / Nominal		Real	Real	Real	Real	Real	Real
Discount Rate		10.00%	15.00%	10.00%	10.00%	10.00%	10.00%
Physicals							
Total Stripping	Mbcm (LoM)	1,163	1,163	1,163	1,163	1,163	1,163
Total Prime Stripping	**Mbcm (LoM)**	**671**	**671**	**671**	**671**	**671**	**671**
Coal Uncovered	Mt (LoM)	193	193	193	193	193	193
Strip Ratio - Prime	ratio	3.5	3.5	3.5	3.5	3.5	3.5
Coal Mined	**Mt (LoM)**	**192**	**192**	**192**	**192**	**192**	**193**
Yield	%	71.3%	71.3%	71.3%	71.3%	71.3%	71.3%
Product Coal	**Mt (LoM)**	**137**	**137**	**137**	**137**	**137**	**137**
Financials							
Sales Price	**US$/t**	**72.36**	**72.36**	**58.31**	**70.16**	**51.52**	**58.31**
	A$/t	86.38	86.38	70.29	80.16	66.17	70.29
D&B Cost	$/bcm	0.00	0.00	0.00	0.00	0.00	0.68
Truck Shovel Cost	$/bcm	2.64	2.64	2.64	2.64	2.64	2.64
Conveyor	$/bcm	1.59	1.59	1.59	1.59	1.59	1.59
Waste Removal Cost	$/bcm	2.21	2.21	2.21	2.21	2.21	2.60
Waste Cost - Prime	**$/bcm**	3.79	3.78	3.79	3.79	3.79	4.47
Coal Mining - Conveyor	A$ / ROM t	1.26	1.26	1.26	1.26	1.26	1.26
Coal Mining - Total	**A$ / ROM t**	**3.80**	**3.81**	**3.80**	**3.80**	**3.80**	**4.77**
CHPP	A$ / Feed t	3.38	3.38	3.38	3.38	3.38	5.88
Waste Removal	A$ / Prod t	19.19	19.51	19.19	19.19	19.19	22.58
Coal Mining	A$ / Prod t	5.38	5.40	5.38	5.38	5.38	6.75
CHPP	A$ / Prod t	4.78	4.80	4.78	4.78	4.78	8.32
Indirects	A$ / Prod t	4.98	5.19	4.98	4.98	4.98	5.13
Site Costs	**A$ / Prod t**	**34.33**	**34.90**	**34.33**	**34.33**	**34.33**	**42.78**
Rail	A$ / Prod t	5.56	5.56	5.56	5.56	5.56	5.56
Port	A$ / Prod t	2.44	2.44	2.44	2.44	2.44	2.44
FOB Cash Costs	**A$ / Prod t**	**42.33**	**42.90**	**42.33**	**42.33**	**42.33**	**50.78**
Selling / Other	A$ / Prod t	2.34	2.34	2.10	2.23	2.04	2.10
Royalty	A$ / Prod t	6.76	6.75	5.44	6.18	5.13	5.44
Total Opex	**A$ / Prod t**	**51.43**	**51.99**	**49.86**	**50.74**	**49.49**	**58.32**
Capital (Life of Mine)	A$ M	1,540	1,540	1,540	1,540	1,540	1,540
	A$/ROMt Equiv	8.04	8.04	8.04	8.04	8.04	7.99
Revenue	**A$ M NPV**	**2,810**	**1,640**	**2,282**	**2,579**	**2,158**	**2,286**
Opex	A$ M NPV	-1,459	-864	-1,451	-1,456	-1,449	-1,730
Capex	A$ M NPV	-764	-603	-764	-764	-764	-764
Closure	A$ M NPV	-4	-1	-4	-4	-4	-4
Tax & Govt Charges	A$ M NPV	-410	-226	-237	-335	-200	-182
NPV	**A$ M NPV**	**173**	**-54**	**-174**	**20**	**-259**	**-395**

12.4 Freehold Land and Water Licence Valuation

The Dartbrook property is comprised of 13 holdings with a total of 3,038 hectares. The holding includes some very good alluvial, grazing and agricultural lands some of which have already been the subject of underground longwall coal mining. Figure 12.7 shows the Dartbrook Mine freehold land area.

Figure 12.7 – Dartbrook Mine Land Location



In preparation of this assessment, Xenith engaged Environmental Property Services (EPS) as a specialist in land valuation in NSW. EPS's full report is annexed as Appendix A.

The assessment has also taken into consideration the land value movement of the properties within the Dartbrook holding as ascribed by the Valuer General for the period 2011 to 2016. As part of this market movement assessment, the transactional activity of comparable properties within the Upper Hunter and Muswellbrook areas has also been researched. Based on assessment of this information, a 0 to1% annual growth rate, since the 2010 valuation, was found to be applicable to the site. This equates to an unimproved land value for the portfolio in the range of $17.8M to $18.9M for the Dartbrook Mine holding, as at February 2017.

The previous real property values of Dartbrook Mine assigned by reports in the dataroom by specialist property valuer, pertinent as at 1 May 2010, were relied upon as a basis of assessing current value.

Inspection of the land has not been undertaken as part of this valuation. As a result, no specific comment on the existence, conditions and subsequent value of any improvements on the property can be made. A land improvement value of $3.1M for the Dartbrook holding has been applied. APC have confirmed in writing that "*they are not aware of any significant changes to the land parcels and associated improvements since the 2010 report*".

Water licence values have also been assessed. As an overarching trend, it is noted that the value of water has increased from 2010 to 2016. Localised abnormalities attributed to mining downturn and associated water licence release have neutralised this upward trend in the Dartbrook region. It is therefore concluded, in relation to water licences, the value is generally consistent with the 2010 valuation. The value of the property water licences ranges from $8.3M to $9.9M

Table 12.5 – Land Valuation

Unimproved Land Value Range		General Improvements	Water Licence Value Range		Improved Land Value Range	
Lower	Upper		Lower	Upper	Lower	Upper
$17,800,000	$18,900,000	$3,100,000	$8,300,000	$9,900,000	$29,200,000	$31,900,000

Accordingly, the overall improved value of the land, incorporating the value of water licences and general improvements, ranges from $29.2M to $31.9M, with a preferred valuation of $30.5M.

12.4.1 Valuation of Cooroorah (MDL 453)

The Comparable Transaction methodology using coal resource multiples has been adopted to estimate the value of the Cooroorah Project. The project is at advanced exploration to pre-development stage. 125Mt of coal resources have been identified in MDL 453 and a significant proportion is an indicated resource. This valuation is summarised in Table 12.3. Cooroorah is a potential underground PCI and SSCC project located in the highly productive Bowen Basin. It is located nearby transport infrastructure in a well-developed coal mining province.

In estimating a range of valuation multiples, Xenith has considered positive factors including location with a coal mining province, access to infrastructure and a favourable regulatory regime. Key negative considerations are the depth of seams and the significant operating and capital costs of extraction typical of underground operations as well as the current low coal price environment.

Xenith has used a valuation range from A$0.005/t to A$0.02/t with a preferred value of A$0.01/t. APC's 100% interest has a valuation range of A$0.6M to A$2.5M.

12.4.2 Valuation of Hillalong Project (EPCs 1773, 1824, 1867 and EPCa 1645)

On 22 August 2011, RIO and APC agreed upon a joint venture in Mt Hillalong Project. On 25 June 2015, APC announced that RIO would not exercise its option to acquire the Mt Hillalong Project resulting in EPCs 1773, 1824, 1867 and EPCa 1645 being transferred to APC effective 23 August 2015.

The MEE methodology has been adopted to estimate the value of the Hillalong Project. The PEM range is relatively wide to reflect the lack of available data. The project is at exploration stage. No coal resources have been identified. This valuation is summarised in Table 12.2.

RIO exploration expenditure as at February 2015 (EPC 1824 and 1867) and APC accounts have been relied upon to estimate exploration expenditure. As little data is available from this historical exploration work, Xenith has limited the value of previous exploration work to 70% of actual cost for valuation purposes and to reflect the current coal market conditions.

The Hillalong project potentially holds a deep Rangals coal target over its 93km^2 of lease area in the northern Bowen Basin. Little drilling and exploration data within the lease is available. Hail Creek Mine is located nearby and these tenements may be attractive to the Hail Creek owners (RIO) in the event of expansion.

APC's 100% interest in the Hillalong Project has a valuation range of A$0.5M to A$1.4M.

12.4.3 Valuation of Dingo Project (EPC 1859)

The MEE methodology has been considered to estimate the value of the Dingo Project. The project is at exploration stage. No coal resources have been identified. This valuation is summarised in Table 12.2. APC historical accounts and the costs of the proposed stage 2 drilling and seismic acquisition program have been relied upon to estimate exploration expenditure.

A geological model of Dingo is reported to exist, however, this model was not provided to Xenith. Dingo is located in the central Bowen Basin, nearby transport infrastructure in a well-developed coal mining province. Exploration suggests highly faulted geology and the lease overlaps the township of Dingo.

Xenith has considered the reported potential coal target of 19Mt to 33Mt compared to the required costs of exploration to identify these resources in accordance with the JORC Code. Current market conditions provide a potential market value on 33Mt of resource at between A$0.2M to A$0.8M (see Table 12.3). As the value of the high range of the potential target resource is not significantly higher than the cost of the exploration work, we have not included this exploration work in the valuation of the Dingo Project and have based the valuation on historical exploration costs only. Xenith has also limited the value of previous exploration work to 30% of actual cost due to the value of the potential resource target identified by this exploration in the current market.

Xenith has used a PEM range from 1.5 to 2.0 with a preferred PEM of 1.7. APC's 100% interest in this project has a valuation range of A$0.2M to A$0.3M. This valuation has been cross- checked by valuing the reported potential exploration target against an EV/Resource multiple which provides a secondary valuation of A$0.2M to A$0.8M.

12.4.4 Valuation of South Clermont (EPC 2011)

The MEE methodology has been adopted to estimate the value of the South Clermont Project. The project is at exploration stage. No coal resources have been identified. This valuation is summarised in Table 12.2. APC historical accounts and the costs of the proposed phase 1 drilling program have been relied upon to estimate exploration expenditure.

South Clermont is located in the western Bowen Basin, nearby transport infrastructure in a well-developed coal mining province. This tenement contains the township of Clermont which has been declared a Restricted Area by the QLD Government.

Xenith has used a PEM range from 1.0 to 1.5 with a preferred PEM of 1.2. APC's 100% interest in this project has a valuation range of A$0.2M to A$0.3M.

12.4.5 Valuation of Blackwood Resources JV (EPC 1955, 1957, 1987)

In April 2010, a 90% interest in EPC 1955, 1957, 1979 and 1987 was acquired by Blackwood Resources Pty Ltd for $500,000 in cash and a commitment to fund exploration while APC retained a 10% free carried interest in the joint venture up to bankable feasibility stage. This transaction implied a $510/km^2 valuation multiple. Since this transaction, a decision not to renew EPC 1979 has been announced (and therefore EPC 1979 is not included in this valuation) and relinquishments of 106 sub-blocks have occurred.

Valuation of EPC 1955

The Comparable Transaction methodology using coal resource multiples has been adopted to estimate the value of EPC 1955. EPC 1955 project is at advanced exploration stage. 45Mt of coal resources have been identified in EPC 1955 and a significant proportion is an indicated resource.

EPC 1955 is located in the Surat Basin which contains current mining operations in the Eastern areas. However, development of EPC 1955 requires significant investment in transport infrastructure in the Surat Basin. This project is a potential open cut thermal coal project.

Xenith has used a valuation range from A$0.005/t to A$0.10/t with a preferred value of A$0.010/t. APC's 10% interest has a valuation range of A$0.02M to A$0.09M.

Valuation of EPC 1957 and 1987

The Comparable Transaction methodology using lease area multiples has been adopted to estimate the value of these tenements. No coal resources have been identified in these assets and little information is available on actual exploration spending to date. These tenements are at exploration stage. This valuation is summarised in Table 12.4.

EPC 1957 is located in the Galilee Basin with no access to transport infrastructure and little prospect of infrastructure development in the foreseeable future. The geology has potential to house a prospective target of the Bandanna Coal Measures.

EPC 1987 is located in the Surat Basin which contains current mining operations in the Eastern areas. However, development of EPC 1987 requires significant investment in transport infrastructure in the Surat Basin and is likely too far east to contain the prospective Taroom Coal Measures.

For EPC 1957, Xenith has used a valuation range from A$200/km^2 to A$600/km^2 with a preferred value of A$400/km^2. For EPC 1955 and 1987, Xenith has used a valuation range from A$300/km^2 to A$1000/km^2 with a preferred value of A$600/km^2. APC's 10% interest in these projects has a valuation of less than $0.1M.

12.4.6 Valuation of Mantuan Downs Project (ML 70360)

All industrial metals tenements previously held by APC have been surrendered with the exception of the Mantuan Downs Project. Mantuan Downs is a very small, uneconomic open pit bentonite mine that ceased operating in 2009. Due to the very small size of the project, we do not expect a material rehabilitation cost. There are no immediate plans for exploration or redevelopment of this project. Divestment has been considered with little worthwhile interest.

A zero value is apportioned to this asset.

12.5 Valuation Summary

The APC Coal Asset valuations are summarised in Table 12.6. In Xenith's opinion, the APC Coal Assets are valued between A$22M and A$64M, with a preferred value of A$24M.

The value reflects the uncertainty regarding the restart of Dartbrook mine and the precision of the valuation methods and the underlying valuation assumptions.

The proposed Dartbrook mine plan has not formed the basis of the valuation, as given the forecast consensus coal prices the base case mine plans for both the underground and open cut has zero value.

The low case Dartbrook valuation of $20M has been based on the low range for the land and water ($17.8M and $8.3M) plus the improvements ($3.1M) less the financial guarantees ($9.2M).

The preferred case Dartbrook valuation of $21.3M is quite similar to the low case, but has instead used the midpoint of the land and water valuations ($30.5M).

The high case Dartbrook valuation of $59M is based on the bord and pillar mine plan and a long term coal price of $US75.41/tonne, as well as lower operating costs of $4-5/tonne.

The Dartbrook land and water assets comprises the bulk of Xenith's estimated value, then the Queensland exploration assets add some value including Cooroorah (MDL 453) ranging from A$0.62M to A$2.5M, with a preferred value of A$1.25M.

APC's interest in the Blackwood JV is valued at A$0.04M, of which all is attributable to the resources identified in EPC 1955.

The value of each tenement is shown below in Table 12.6.

Table 12.6 – Valuation Summary – Preferred Valuation Methodology

Tenement	Project Name	Preferred Valuation Method	APC Ownership	Value Low (APC Share)	Value High (APC Share)	Value Preferred (APC Share)
			%	A$M	A$M	A$M
	Dartbrook	Comparable Sales Transaction	100.0%	20.0	59.0	21.3
EPC 1645	Mount Hess	Multiples of Exploration Expenditure	100.0%	0.00	0.00	0.00
EPC 1773	Kemmis Creek	Multiples of Exploration Expenditure	100.0%	0.01	0.01	0.01
EPC 1824	Mount Hillalong	Multiples of Exploration Expenditure	100.0%	0.47	1.35	1.01
EPC 1859	Dingo	Multiples of Exploration Expenditure	100.0%	0.25	0.33	0.28
EPC 1867	Mount Hess West	Multiples of Exploration Expenditure	100.0%	0.02	0.05	0.03
EPC 1955	Bungaban Creek	Comparable Transactions EV/resource	10.0%	0.02	0.09	0.04
EPC 1957	Laguna Creek	Comparable Transactions EV/lease area	10.0%	0.00	0.00	0.00
EPC 1987	Quandong	Comparable Transactions EV/lease area	10.0%	0.00	0.00	0.00
EPC 2011	South Clermont	Multiples of Exploration Expenditure	100.0%	0.21	0.32	0.25
MDL 453	Cooroorah	Comparable Transactions EV/resource	100.0%	0.62	2.50	1.25
			Total Value	**22**	**64**	**24**

Appendix A. LIST OF ABBREVIATIONS

Item	Description
$/t	Australian dollar / tonne
A$	Australian dollars
alluvial	Relatively recent deposits of generally poorly consolidated sedimentary material laid down in river beds, flood plains and lakes.
anticline	A line or axis to which strata rise from both directions in an arch shape.
ar	As received basis, defining the moisture basis for coal quantity and quality parameters
ash	The inorganic residue remaining after a pulverised sample of coal is incinerated under standard laboratory conditions
APC Coal Assets	All coal leases owned by APC
APC	Australian Pacific Coal Ltd
Area Coal	Area Coal Pty Ltd, a 100% owned subsidiary of APC
attributable resources	That part of the resources from a mine or project in which APC has an economic interest. It therefore excludes resources attributable to the interests of any other partners.
basalt	Fine grained igneous rock from an extrusive lava flow
basement	The older rock mass which underlies an ore body or a sedimentary basin. Often refers to rocks of Precambrian age which may be covered by younger rocks.
BDO	BDO Corporate Finance (QLD) Ltd
Bentley Resources'	Bentley Resources Pte Ltd, a proposed participant in the APC capital raising.
Carboniferous	The period from about 345 to 280 million years ago. It is part of the Paleozoic era
coal measures	A sequence of strata deposited within the same geological period that contains coal seams
coal mine	coal mine means an operating mine producing coal
coal, bituminous	A rank of black coal
coal, coking	Coal which is suitable for marketing and use as metallurgical coal, which is generally used in the steel making process
coal, PCI	Coal which is suitable for direct injection into blast furnaces in a pulverized state and which has a high level of volatile matter
coal, metallurgical	A broader term for describing coal which comprises both coking coals and PCI coals, both of which are used in the steel making process
coal, SSCC	Coal which is not suitable as a hard coking coal but is suitable as a component in coke oven blends
coal, thermal	Coal which is combusted to provide heat for steam generation and subsequent power generation, or burned for heat generation only
Competent Person	A professionally qualified specialist defined by the JORC Code.
conglomerate	A coarse grained sedimentary rock comprising large fragments set in a fine grained matrix of sand and cementing material
CSN	Crucible Swell Number; a measure of the swelling properties of coal when heated; one of the most common tests to determine coal suitability for coking
daf	daf means dry ash free
dyke	Igneous material cutting across the strata usually in a vertical or near vertical plane
fault	A fracture in the earth one side of which is displaced with respect to the other in any direction
FC	FC means fixed carbon
fluvial	Pertaining to rivers. River environment for deposition of material
fold	Deformation of the strata due to tectonic forces

Item	Description
gar	Gross as received basis
geotechnical	The engineering properties of rocks
Igneous	Material that has originated from a molten state
IM	IM means Inherent Moisture,
In situ or insitu	Material in the ground in its natural state; not mined, not processed
interburden	Rock material separating coal seams
ISO	International Standard Organization
ITSR	Independent technical specialist report
joint	Natural fractures in rock generally vertical
JORC Code	Australian Code for Reporting of Mineral Resources and Ore reserves, prepared by Joint Ore Reserves Committee of Australian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Mineral Council of Australia (JORC 2012). International accepted.
JV	Joint venture
km	Kilometre (s)
kt	kt means thousand (kilo) tonnes
lithological	Description of the features of sedimentary rocks such as colour, grain size and composition
lithology	General description relating to the physical composition of rock forming materials
m	Metre
M	Million (s)
magnetic survey	A geophysical technique that measures the earth's magnetic field and its changes
Measured Resources	for which quantity and quality can be estimated with a high degree of confidence. The level of confidence is such that detailed mine plans can be generated, mining and beneficiation costs, and wash plant yields and quality specifications, can be determined
metallurgical coal	metallurgical coal means coking coal and pulverised coal used in making steel,
Mining Investments One, (MIO)	Mining Investments One Pty Ltd, a 100% owned subsidiary of APC.
mm	Millimetres
moisture, air dried	Moisture in the analysis sample (as determined) or the residual moisture in equilibrium with the prevailing laboratory conditions
moisture, as received	Moisture determined on the as-received coal.
moisture, in situ	Bed moisture; natural moisture content of the coal in situ in the seam, that exists as an integral part of the coal seam in its natural state.
moisture, inherent	Moisture that exists as part of the coal seam in its natural state. In the case of most coals, the inherent moisture may be equated to the bed moisture and to the total moisture. In South Africa however, the term inherent moisture generally refers to the moisture in the analysis sample or the residual moisture.
moisture, residual	Moisture content that remains in the coal after it has been air-dried at room temperature and that can be removed by heating at 105 °C.
Mt	million metric tonnes
Mt Hillalong Project	The coal tenements comprising EPCs 1773, 1824, 1867 and EPCa 1645
outcrop	An exposure of strata projecting through the overlying cover of detritus and soil
overburden	Strata that lies above the coal seam
paleo	Ancient reference to past geological times
paleozoic	An era of geological time from about 570 to 225 million years ago
PCI	Pulverized Coal Injection
Permian	The period from 280 to 225 million years ago. It is sometimes considered part of the Carboniferous period. It is part of the Paleozoic era
ply	A layer of a coal seam of distinguishing properties formed from different plant and sediment material deposited separately

Item	Description
Quaternary	The period following the Tertiary extending to the present
relative density (RD)	
Resources, Indicated	As per Chapter19, “..that portion of a mineral resource for which quantity and quality can only be estimated with a lower degree of certainty than for a measured mineral resource because the sites used for inspection, sampling and measurement are too widely or inappropriately spaced to enable the material or its continuity to be defined, or its grade throughout to be established.”
Resources, Inferred	A third classification of Mineral Resources with lower confidence than both Measured Resources and Indicated Resources which is defined in many international mineral estimating codes; including both the JORC (Australian) and the SAMREC (South African) codes. Note that Inferred Resources are not mentioned in Chapter19.
Resources, Measured	As per Chapter19, “..that portion of a mineral resource for which tonnage or volume can be calculated from outcrops, pits, trenches, drill-holes or mine workings, supported where appropriate by other exploration techniques. The sites for inspection, sampling and measurement must be so spaced that the geological character, size, shape, quality and mineral content will be established with a high degree of certainty;”
Resources, Mineral	As per Chapter19, “..include metallic and non-metallic ores, mineral concentrates, industrial minerals, construction aggregates, mineral oils, natural gases, hydrocarbons and solid fuels including coal;”
RL	Reference Level
RIO	Rio Tinto Exploration
sandstone	A sedimentary rock comprising sand set in a matrix of silt or clay united by a cementing material. Contains 85%-90% quartz
seam	A stratum of coal
SSCC	SSCC means semi-soft coking coal which is a coal unable to make a strong coke in its own right but is suitable as a component blend in coke ovens
sub-basin	A regional low area within a wider basin structure
subcrop	A mineral occurrence, including coal seams and plies, which comes near the surface but is covered by a thin layer of non-mineral overburden
syncline	A line or axis towards which strata dip or slope down from both directions
t	metric tonnes
TC	Total carbon
tectonic	Relates to the movement and structural features of the earth’s crust
Tertiary	The period between about 65 million and 2 million years ago
TM	TM means Total Moisture content of coal as sampled,
Triassic	The period from 225 to 190 million years ago. It is part of the Mesozoic era
Trepang Services’	Trepang Services Pty Ltd, a proposed participant in the APC capital raising.
TS	Total sulphur
tuff	A general term for consolidated material ejected from a volcanic vent
VALMIN Code	“Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports, The VALMIN Code, 2005 Edition”, 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 with the participation of the Australian Securities and Investment Commission, the Australian Stock Exchange Limited, the Minerals Council of Australia, the Petroleum Exploration Society of Australia, the Securities Association of Australia and representatives from the Australian finance sector.
VM	VM means volatile matter, the loss in mass of a coal sample when it is heated under laboratory conditions
Xenith	Xenith Consulting Pty Ltd

Appendix B. PROJECT TEAM

Troy Turner – Troy is a Geologist with over 20 years' experience in exploration, geology and operations for the open cut coal and mineral sands sectors. With a solid combination of technical skills, coal geology expertise and mining business management acumen. Troy specialises in the planning of exploration programs, resource assessments, 3D modelling and conceptual evaluations as well as being a qualified competent person under the JORC Code.

Rob Simpson – With extensive experience in the provision of mine infrastructure consulting services from due diligence through studies to detailed design and project execution, Robert manages Xenith Consulting's infrastructure and environmental management and approvals business. Over the past decade, Robert has held various senior roles in the consulting industry and has provided management and oversight to in excess of $100m of consulting services to the resources industry.

Rob Stephenson – With over 20 years' experience in Business Analysis, Management Reporting and Consulting within the coal, iron ore and steel industries, Rob's expertise encompasses Project Evaluation, Mine Optimisation and Management Reporting. As a Consultant, Rob has delivered quality Business Analysis services ranging from the compilation and review of site based capital projects to analysis of detailed financial models for major mining projects. Rob specialises in financial modelling, analysis, due diligence and project valuations.

Gregor Carr – Gregor Carr is a Mining Engineer Professional with significant experience in the underground and open cut coal mining sectors in Australia since 1982. With specialised knowledge of longwall operations in the Bowen Basin and Hunter Valley, Gregor draws on extensive practical mining experience to enhance concept studies, life of mine plans, technical evaluations and optimisation studies.

Garry Gough – Garry is a chemical engineer with over 27 years of experience in environmental approvals and management across the resources, energy, linear infrastructure, and property sectors. Garry has sound working relationships with statutory authorities at commonwealth, state and regional levels, is very experienced in negotiating with government and other stakeholders. He possesses a firm understanding of state and commonwealth environmental legislation. Garry sits on the Queensland Resource Council's Environment Committee which is a leading industry body involved in development of environmental legislation.

Ross Stainlay (MResources) – Ross is a Mining Engineer with over 40 years' experience with a particular focus on coal resources assessments , matching coals to end-users needs, coal testing and technical evaluation to maximize coal utilization advice, training courses on coal testing and utilization, pilot scale testing programs, quality control and logistics optimization. Ross has been involved in numerous Due diligence activities conducted on Australian and overseas projects and operations.

Jeff Burns (Environmental Property Services Pty Ltd) – Jeff is a Principal of Environmental Property Services (EPS), Jeff brings in excess of 25 years property and major development project advisory experience to EPS clientele. With qualifications in property valuation and environmental law Jeff focuses on public, corporate, institutional and private clients. Jeff's advice is frequently used by clients to improve operational efficiency, evaluate and implement real estate and business initiatives that deliver measurable results. Jeff has particular experience acting in an advisory capacity to organisations whose core business is not property but which involve substantial property interests.

Jeff’s areas of expertise include environmental & planning law, valuation and property consultancy, land economics advisory, investment and property portfolio performance analysis; feasibility studies, demographic analysis and due diligence studies; asset performance optimisation, cost benefit and scenario analysis, acquisition and disposal, litigation and compulsory acquisition; consultancy and management assignments in respect of various infrastructure, landfill, mining and property development projects.

Appendix C. DARTBROOK LAND AND WATER VALUATION REPORT

EPS

DARTBROOK LAND VALUE REVIEW

To:	Rob Simpson – Xenith Consulting
From:	Jeff Burns – Environmental Property Services (EPS)
Date:	28.02.17
RE:	**Market Movement Assessment of Real Property and Water Licence Value**

1 INTRODUCTION

EPS are pleased to provide this memorandum detailing the market movement of real property and water licences applicable to Dartbrook Mine from 1 May 2010 to the present date. The movement calculations presented have been substantiated by detailed property and water licence value research. The results of research are presented in Sections 2 and 3, with conclusions drawn about market movement within the region relevant to Dartbrook Mine presented in Section 4.

2 REAL PROPERTY VALUE REVIEW

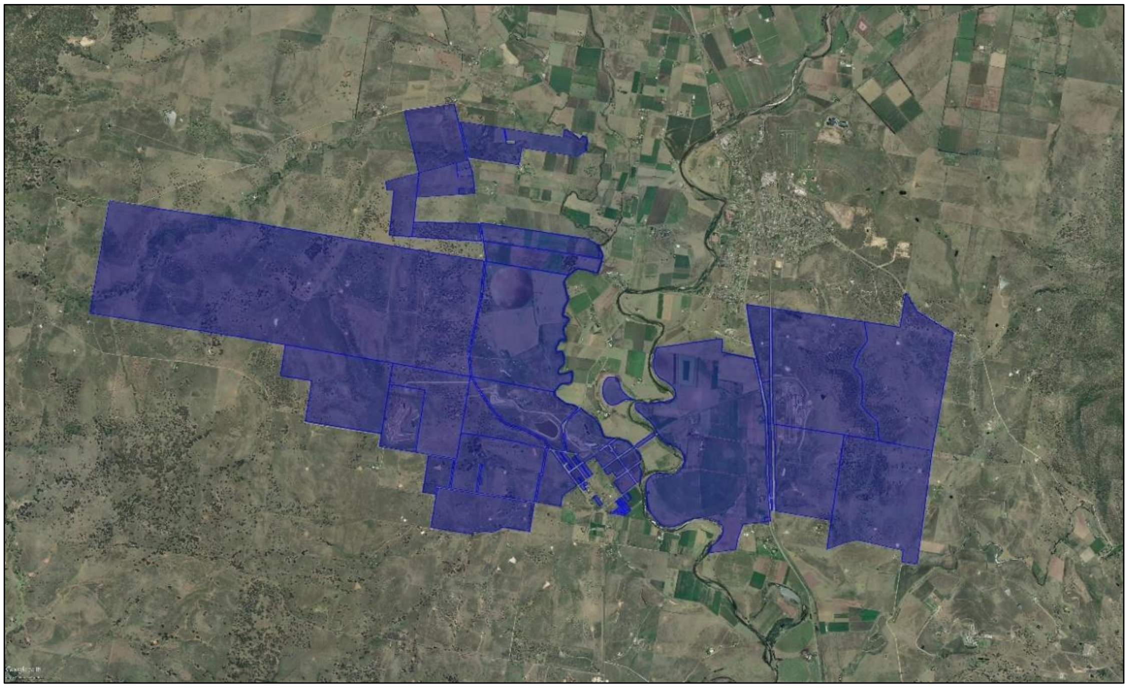
2.1 Location

Dartbrook Mine is located approximately 10 kilometres north of Muswellbrook, and 5 kilometres south-west of Aberdeen, New South Wales. It is located within both the Upper Hunter Shire Council and Muswellbrook Local Government Area's (LGA's). The area has strong regional links to major centres such as Newcastle (which includes Newcastle Port) and Sydney. The area is typified by coal mining, thoroughbred horse breeding and rural landholdings used for grazing and dairy farming.

2.2 Dartbrook Property

The Dartbrook property is comprised of 13 holdings with a total of 3,038 hectares. The holding includes alluvial, grazing and agricultural lands some of which have been the subject of underground long-wall coal mining. Figure 1 on the following page indicates the subject area of Dartbrook Mine.

Figure 2-1: Dartbrook Mine Subject Site



2.3 Previous Value Assessment (2010)

In preparation of this assessment, EPS has examined the previous real property values of Dartbrook Mine as detailed by a property report prepared by a specialist property valuer and dated 1 May 2010 (the 2010 report). The Author and title of the 2010 report have been withheld from this EPS review on the instruction of the client, due to commercial considerations.

As part of this analysis EPS has derived a total unimproved land value used as baseline market movement data. EPS considers the 2010 report as providing reasonable baseline value for the purposes of assessing market value movement over time.

The table following, demonstrates the valuation breakdown of Dartbrook Mine's real property into improved land and unimproved land values for each of the properties within the holding.

Table 1: 2010 Property Values

Value Breakdown			
Real Property	**Price Allocation**	**Price ($/ha)**	**Area(ha)**
Garoka	Alluvial Dartbrook	$10,000	460.00
	Grazing Slopes	$4,000	261.51
	Improvements	$1,005,000	-
Total			**$6,651,044**
Unimproved Land Value			**$5,646,044**
Kayuga	Alluvial Dartbrook	$12,500	160.00
	Alluvial Dartbrook	$3,750	1,278.10
	Improvements	$1,004,000	
Total			**$7,796,875**
Unimproved Land Value			**$6,792,875**

Value Breakdown			
Real Property	**Price Allocation**	**Price ($/ha)**	**Area(ha)**
Ladino	Alluvial Dartbrook	$15,000	85.4
	Improvements	$20,000	-
Total			**$1,301,000**
Unimproved Land Value			**$1,281,000**
Karoona	Grazing Slopes	$8,000	50.3
	Improvements	$250,000	-
Total			**$652,400**
Unimproved Land Value			**$402,400**
Redrock	Alluvial Dartbrook	$16,000	60.57
	Improvements	$270,000	-
Total			**$1,239,120**
Unimproved Land Value			**$969,120**
River Ridge	Block Value	$175,000	-
	Improvements	$265,000	-
Total			**$440,000**
Unimproved Land Value			**$175,000**
Dartmount	Block Value	$75,000	0.429
	Improvements	-	-
Total			**$75,000**
Unimproved Land Value			**$75,000**
11 Halls Road	Undulating Grazing	$7,500	60.88
	Improvements	$15,000	-
Total			**$471,600**
Unimproved Land Value			**$456,600**
Browns House	2ha Block Value	$140,000	2.018
	Improvements	$140,000	-
Total			**$280,000**
Unimproved Land Value			**$140,000**
Byfield House	2ha Block Value	$140,000	2.022
	Improvements	$150,000	-

Total			**$290,000**
Unimproved Land Value			**$140,000**
Lot 10 Dartbrook Road	26.48ha Block Value	$280,000	26.48
	Improvements	-	-
Total			**$280,000**
Unimproved Land Value			**$280,000**
Lot 1852 Dartbrook	Block Value	$140,000	2.023
	Improvements	-	-
Total			**$140,000**
Unimproved Land Value			**$140,000**
Browns Mountain	Steep Green Timber	$750	200
	Hilly Grazing	$3,000	395.1
	Improvements	-	-
Total			**$1,335,300**
Unimproved Land Value			**$1,335,300**
Total Unimproved Land Value for Holding			**$17,833,339**

2.4 Valuer Generals Assessment of Land Value

EPS has taken into consideration the land value movement of the properties within the Dartbrook holding as ascribed by the Valuer General for the period 2011 – 2016. The table below illustrates this movement and exemplifies the difference in value for each of the Dartbrook holdings. As shown, there is a wide variance of land value movement over the 5-year period with no discernable trend in which to draw meaningful conclusions.

Table 2: VG Land Value Assessment

	Valuer General Land Value Assessment							
Property ID	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**Difference**	**(%)**
295564	$3,600,000	$3,550,000	$3,550,000	$3,600,000	$3,600,000	$3,600,000	-	0%
3532948	$394,000	$390,000	$394,000	$394,000	$420,000	$420,000	$26,000	7%
3521723	$3,450,000	$3,930,000	$3,930,000	$3,850,000	$3,852,000	$3,852,000	$402,000	12%
295588	$609,000	$602,000	$602,000	$602,000	$602,000	$602,000	-$7,000	-1%
295604	$273,000	$273,000	$273,000	$273,000	$273,000	$246,000	-$27,000	-10%
295683	$287,000	$287,000	$287,000	$287,000	$287,000	$258,000	-$29,000	-10%
295598	$140,000	$154,000	$160,000	$160,000	$20,000	$18,000	-$122,000	-87%
295596	$140,000	$154,000	$160,000	$160,000	$160,000	$144,000	$4,000	3%
295595	$140,000	$154,000	$160,000	$160,000	$160,000	$144,000	$4,000	3%
295592	$372,000	$372,000	$372,000	$372,000	$372,000	$335,000	-$37,000	-10%
295582	$613,000	$606,000	$606,000	$606,000	$606,000	$606,000	-$7,000	-1%
3532947	$4,040,000	$4,040,000	$4,040,000	$4,040,000	$4,040,000	$4,040,000	-	0%
3532949	$948,000	$945,000	$945,000	$945,000	$945,000	$985,000	$37,000	4%

Additional to undertaking individual Land Value assessment, the Valuer General provides an indication of general land value trends for Local Government Areas (LGA). The following graphs specify land value movement overtime for the Muswellbrook and Upper Hunter LGAs derived from the Valuer Generals assessment of land values and contrasts them to median sale prices.

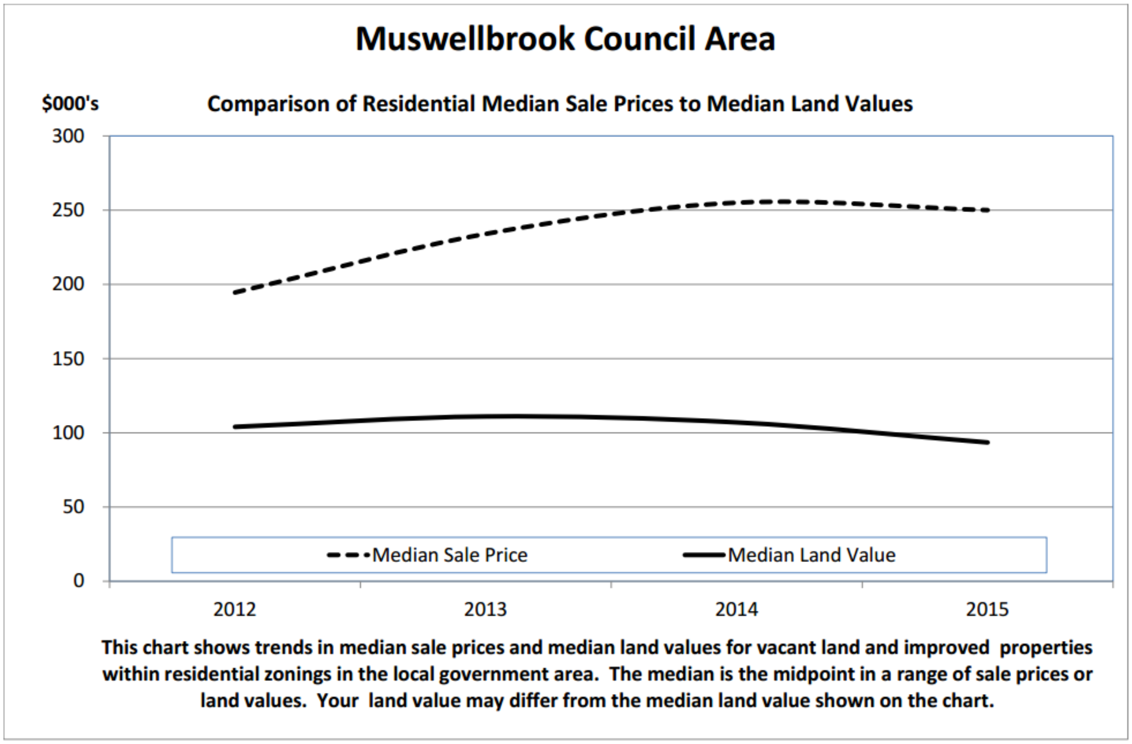


Figure 2-2: Muswellbrook Council Area Source: valuergeneral.nsw.gov.au

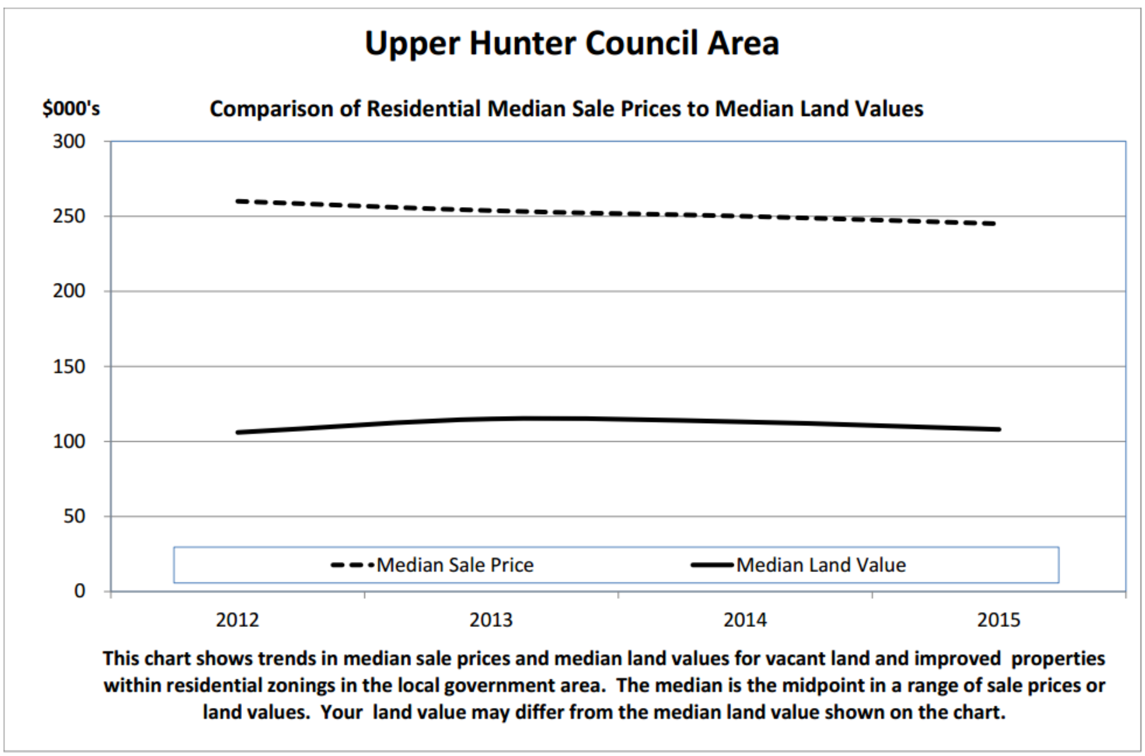


Figure 2-3: Upper Hunter Council Area Source: valuergeneral.nsw.gov.au

As shown above, median sales prices and land values, although not linearly related, appear to be correlated. The above tables indicate no heightened movement in land values over a 4-year period for Muswellbrook and the Upper Hunter. Notwithstanding, these comparisons are intended to provide an indicative overview and are limited by their wide scope of assessment.

2.5 Sales Research

As part of this market movement assessment, EPS has researched the transactional activity of comparable properties within the Upper Hunter and Muswellbrook areas. Sales considered in this review are represented in the following table.

Table 3: Adjusted Land Value Sale Evidence

Sales Research (Adjusted Land Value)							
Property Address	**Suburb Name**	**Zone Code**	**Area (ha)**	**Purchase Price**	**Adjusted LV**	**Adjusted Rate/ha**	**Contract Date**
Upper Hunter							
Upper Rouchel Rd	Upper Rouchel	RU1	828.4	$780,000	$607,160	$732.93	15.05.2015
Shannandore, 2624 Ridgelands Rd	Bunnan	RU1	588.6	$2,250,000	$1,225,222	$2,081.59	23.06.2015
Gibbergunyah Rd	Owens Gap	RU1	155.81	$300,000	$277,314	$1,779.82	23.06.2014
Bhima' Moobi Rd	Scone	RU4	165.9	$5,180,000	$2,491,935	$15,020.71	10.07.2015
Rouchel Gap Rd	Mccullys Gap	RU1	146.8	$465,000	$416,641	$2,838.15	31.07.2014
1245 Sandy Creek Rd	Mccullys Gap	RU1	167.9	$475,000	$437,128	$2,603.50	08.10.2015
Muswellbrook							
380 Yarraman Rd	Wybong	RU1	32	$632,000	$280,429	$8,763.41	10.06.2015
109 Martindale Rd	Denman	RU1	40	$640,000	$351,796	$8,795	31.07.2015
1183 Yarrawa Rd	Denman	RU1	41	$630,000	$230,751	$5,628.07	13.03.2015
578 Sandy Creek Rd	Muswellbrook	RU1	43	$660,000	$356,453	$8,289.60	23.04.2014
90 Yarraman Rd	Muswellbrook	RU1	49	$1,030,000	$364,630	$7,441.43	29.08.2014
76 Goulburn Dr	Sandy Hollow	RU1	56	$620,000	$419,822	$7,496.82	11.12.2014
Rouchel Gap Rd	McCullys Gap	RU1	147	$465,000	$416,641	$2,834.29	31.07.2014
511 Dalswinton Rd	Dalswinton	RU1	342	$840,000	$786,000	$2,298.25	05.11.2015

Table 4: Unadjusted Sale Evidence

Sales Research (Unadjusted Land Value)						
Property Address	**Suburb Name**	**Zone Code**	**Area (ha)**	**Purchase Price**	**Rate/ha**	**Contract Date**
Upper Hunter						
62 Blairmore Lane	Aberdeen	RU4	20.2	$564,400	$27,954	09.11.2015
Rouchel Road	Aberdeen	RU1	186.3	$983,434	$5,278	14.12.2015
193 Rouchel Road	Aberdeen	RU4	15.4	$735,000	$47,820	20.08.2015
251 Halls Road	Dartbrook	RU4	147.2	$525,000	$3,567	27.05.2016
141 Nandowra Road	Moobi	RU4	50.9	$1,050,000	$20,633	02.12.2015
788 Nandowra Road	Moobi	RU4	174.4	$575,000	$3,296	04.04.2016
Muswellbrook						
1156 Castlerock Road	Castle Rock	RU1	40.0	$405,000	$10,117	21.10.2015
1431 Wybong Road	Castle Rock	RU1	27.0	$650,000	$24,074	29.06.2016
1820 Wybong Road	Castle Rock	RU1	170.0	$1,375,000	$8,088	08.10.2015

The sales represented above demonstrate comparable properties which have most recently transacted in the area. Sales indicate an applicable unimproved value range for RU1 zoned land of between $700 - $8,700 per hectare. Transactional activity demonstrates a large variation of land value on a rate per hectare basis, as a result, recent sales evidence is a poor indicator of market movement.

There is a lack of robust and directly comparable evidence with regard to sales surrounding the Dartbrook Mine holding due to the infrequent nature of market activity and complex land uses of the subject site and surrounding holdings. Acknowledging the absence of directly comparable sales, EPS considers the best market movement evidence to be property that has transacted more than once over the analysed period.

The following table illustrates properties which have sold twice between 2010 and present date.

Table 5: Multiple Sales

Property Sold Twice between 2010-2017									
Property Address	**Suburb Name**	**Zone**	**Area (ha)**	**Purchase Price**	**Adjusted Land Value**	**Adjusted Rate/ha**	**Contract Date**	**Change**	**% Change**
Bickwar Park	Scone	RU4	58.09	$530,000	$480,000	$8,263.04	29/10/2010		
Bickwar Park	Scone	RU4	58.09	$645,000	$599,000	$10,311.59	19/3/2015	$119,000	24.79%
Shannandore 2624 Ridgelands Rd	Bunnan	RU1	588.6	$1,750,000	$1,149,780	$1,953.41	05/3/2010		
Shannandore 2624 Ridgelands Rd	Bunnan	RU1	588.6	$2,500,000	$1,225,222	$2,081.59	23/06/2015	$75,442	6.56%
380 Yarraman Rd	Wybong	RU1	32	$585,000	$267,548	$8,361	19/02/2009		
380 Yarraman Rd	Wybong	RU1	32	$632,000	$280,429	$8,763	29/04/2015	$12,881	4.81%
1183 Yarrawa Rd	Denman	RU1	43	$549,000	$223,938	$5,208	27/08/2009		
1183 Yarrawa Rd	Denman	RU1	43	$630,000	$230,751	$5,366	13/03/2015	$6,813	3.04%

Data presented above helps to provide an indication of market movement in the area by comparing the difference of market value over a period of time. For the purposes of this assessment, Bickwar Park has been excluded from analysis as it is differently zoned and is residentially orientated, and therefore is not considered comparable to the Dartbrook holding. The percentile difference of the more comparable properties, indicated above and highlighted green, indicates a market movement of approximately 3-7% growth in preceding years.

2.6 Real Property Valuation Review

Given the variance and porosity of data within the Dartbrook Mine locale, there is a lack of robust market movement evidence in which to draw meaningful conclusions. EPS considers the sales of a comparable property occurring more than once in the analysed period to constitute the best available evidence. In this regard EPS estimates, from a conservative perspective, a growth rate of between 0-1% per annum would likely be the applicable movement growth of the site.

The following table provides a summary of the baseline valuation provided in the 2010 Report, for comparative consideration.

Table 6: Valuation Summary

2010 Valuation Summary			
Real Property	**Land Area (ha)**	**Market Value Upstream**	**Improved $/ha**
Dartmount	0.429	$75,000	$174,825
Lot 1852 Dartbrook	2	$140,000	$70,000
Browns House	2.018	$280,000	$138,751
Byfield House	2.088	$290,000	$138,889
River Ridge	3.55	$440,000	$123,944
Lot 10 Dartbrook Road	26.48	$280,000	$10,574
Karoona	50.3	$652,000	$12,962
Redrock	60.57	$1,239,000	$20,456
11 Halls Road	60.88	$472,000	$7,753
Ladino	85.4	$1,301,000	$15,234
Browns Mountain	595.1	$1,335,000	$2,243
Garoka	711.511	$6,651,000	$9,348
Kayuga	1438.1	$7,797,000	$5,422
Totals			
Land Area (ha)	**3038.426**		
Improved Value	**$20,952,000**		
Unimproved Value	**$17,833,339**		

In EPS's professional opinion, a 0-1% annual growth rate, since the 2010 valuation, should be applied to the site, for an overall range of growth between $0 and $1,100,000 for the holding. This equates to an unimproved land value for the portfolio in the range of **$17,800,000 - $18,900,000** for the Dartbrook Mine holding as at 28 February 2017.

2.7 Land Improvements

As part of this market movement review, EPS has not undertaken an inspection of the land. As a result, we are unable to provide comment on the existence, conditions and subsequent value of any improvements on the property. Therefore, and for the purposes of this assessment, we have assumed no change in land improvement value.

Australian Pacific Coal (APC) has advise via letter dated 17.02.2017, that they are unaware of any significant changes to land parcels and associated improvements since the 2010 value assessment.

We note that the previous valuation, provided in the 2010 report, adopted a land improvement value in the order of **$3,100,000** for the Dartbrook holding**.** It is EPS's professional, opinion, given the above advice, that the improvement value added to the property is unlikely to have changed significantly since this time.

3 Water Licences

Water Access Licences (WAL's) are a tradeable commodity and can significantly alter market value of a property. The following tables detail the number of water licences relevant to the subject property, the category of licence, the value presented in the 2010 Report, and the current value based on information from water brokers. The tables also include a total value and percentage difference contrasting the 2010 value and 2016 value. It is noted that no significant exchanges have occurred for the year 2017.

Unregulated River Licences

WAL Number	Water Source	Water Use Approval #	Units (ML)	$/Unit (2010)	$/Unit (2016)	Value (2016)
17889	Dartbrook Water Source	20CA207132	17	$2,500	$1000	$17,000
11797	Dartbrook Water Source	20CA207134	68	$2,500	$1000	$68,000
						Total: $85,000
						% Difference: - 60%

Aquifer Licences

WAL Number	Water Source	Water Use Approval #	Units (ML)	$/Unit (2010)	$/Unit (2016)	Value (2016)
18126	Hunter Regulated River Alluvial	20CA207969	98	$1,000	$1,000	$98,000
18134	Hunter Regulated River Alluvial	20CA208003	297	$1,000	$1,000	$297,000
18174	Hunter Regulated River Alluvial	20CA207915	37	$1,000	$1,000	$37,000
18225	Hunter Regulated River Alluvial	20CA207907	121	$1,000	$1,000	$121,000
18228	Hunter Regulated River Alluvial	20CA208045	90	$1,000	$1,000	$90,000
17739	Hunter Regulated River Alluvial	20CA206920	30	$1,000	$1,000	$30,000
17762	Hunter Regulated River Alluvial	20CA206948	254	$1,000	$1,000	$254,000
17896	Hunter Regulated River Alluvial	20CA207062	50	$1,000	$1,000	$50,000
17781	Hunter Regulated River Alluvial	20CA206894	278	$1,000	$1,000	$278,000
18210	Hunter Regulated River Alluvial	20CA207821	235	$1,000	$1,000	$235,000
18239	Hunter Regulated River Alluvial	20CA207979	371	$1,000	$1,000	$371,000
17790	Hunter Regulated River Alluvial	20CA207010	228	$1,000	$1,000	$228,000
						Total: $2,089,000
						% Difference: 0%

Supplementary Water

WAL Number	Water Source	Water Use Approval #	Units (ML)	$/Unit (2010)	$/Unit (2016)	Value (2016)
9055	Hunter Regulated River	20CA200229	35	$500	$500	$17,500
14605	Hunter Regulated River	20CA201572	89	$500	$500	$44,500
1267	Hunter Regulated River	20CA200738	6	$500	$500	$3,000
1313	Hunter Regulated River	20CA201336	30.2	$500	$500	$15,100
1316	Hunter Regulated River	20CA201382	10	$500	$500	$5,000
1317	Hunter Regulated River	20CA201387	42.1	$500	$500	$21,050
1318	Hunter Regulated River	20CA201392	23.8	$500	$500	$11,900
13336	Hunter Regulated River	20CA201477	18.7	$500	$500	$9,350
						Total: $127,400
						% Difference: 0%

Regulated River – General Security

WAL Number	Water Source	Water Use Approval #	Units (ML)	$/Unit (2010)	$/Unit (2016)	Value (2016)
1055	Hunter Regulated River	20CA201336	171	$2,500	$2000	$342,000
1021	Hunter Regulated River	20CA201380	480	$2,500	$2000	$960,000
1022	Hunter Regulated River	20CA201382	264	$2,500	$2000	$528,000
1024	Hunter Regulated River	20CA201387	228	$2,500	$2000	$456,000
1025	Hunter Regulated River	20CA201390	3	$2,500	$2000	$6,000
1027	Hunter Regulated River	20CA201392	63	$2,500	$2000	$126,000
1235	Hunter Regulated River	20CA201916	270	$2,500	$2000	$540,000
13386	Hunter Regulated River	20CA201477	270	$2,500	$2000	$540,000
759	Hunter Regulated River	20CA200738	24	$2,500	$2000	$48,000
955	Hunter Regulated River	20CA201217	3	$2,500	$2000	$6,000
956	Hunter Regulated River	20CA201217	176	$2,500	$2000	$352,000
996	Hunter Regulated River	20CA201305	120	$2,500	$2000	$240,000
9048	Hunter Regulated River	20CA200229	135	$2,500	$2000	$270,000
14607	Hunter Regulated River	20CA201572	328	$2,500	$2000	$656,000
506	Hunter Regulated River	20CA200120	261	$2,500	$2000	$522,000
1066	Hunter Regulated River	20CA201489	99	$2,500	$2000	$196,000
491	Hunter Regulated River	20CA20074	99	$2,500	$2000	$196,000
						Total: $5,988,000
						% Difference: - 20%

Regulated River – High Security

WAL Number	Water Source	Water Use Approval #	Units (ML)	$/Unit (2010)	$/Unit (2016)	Value (2016)
1023	Hunter Regulated River	20CA201387	3	$3,000	$3,000	$9,000
						Total: $9,000
						% Difference: 0%

Domestic and Stock

WAL Number	Water Source	Water Use Approval #	Units (ML)	$/Unit (2010)	$/Unit (2016)	Value (2016)
1026	Hunter Regulated River	20CA201390	3	$500	$0	$0
838	Hunter Regulated River	20CA200952	8	$500	$0	$0
14609	Hunter Regulated River	20CA201572	5	$500	$0	$0
						Total: $0
						% Difference: - 100%

It is acknowledged that this assessment has not examined the veracity of Dartbrook's WAL holdings or values assigned to said holdings in the 2010 Report. In the seven-year period following the previous valuation report there have been few WAL transactions in the locality equating to a lack of sales evidence from which to draw a trend. In lieu of transaction evidence it has been assumed that values have remained stable. Where transactions have occurred they have been analysed and a $/Unit price has been inferred.

As an overarching trend, it is noted that the value of water has increased from 2010 – 2016. Localised abnormalities attributed to mining downturn and associated WAL release have neutralised this upward trend in the Dartbrook region. It is therefore concluded, in relation to WAL's, the value is generally consistent with the 2010 valuation.

4 CONCLUSIONS

From the value research above it is evident that the market movements for real property and water licence value in the region relevant to Dartbrook Mine can be summarised as follows:

4.1 Real Property

In EPS's professional opinion a 0-1% growth per annum should be applied to the Dartbrook Mine holding as drawn from available market evidence. Application of this growth rate range suggests an approximate unimproved land value in the order of $17,800,000-$18,900,000 as at 28 February 2017. EPS has assumed no change in land improvement value for the purposes of this assessment.

4.2 Water Licences

EPS considers the value of water licences associated with the Dartbrook Holding to have remained consistent with the 2010 assigned values.

5 LIMITATION AND DISCLAIMERS

The valuation reviews provided within this report are intended to be a general indication of real property and water licence market movement trends. Given the porous nature of available evidence and the lack of robust market movement data within the Dartbrook Mine locale, there is a lack of consistent data to draw clear value conclusions. As a result, it is advised that this report should not act in place of an in-depth valuation that would take into consideration the individual and unique complexities of the Dartbrook Mine holding.

Appendix D. QUEENSLAND PROJECT CONSTRAINTS

Tenure Type	No.	Name	Restricted Area No. (RA)	Overlapping PL	PLA	PAA	SEA	SCL Trigger Area	World Heritage Area or National Park	Nature Reserve	SDA	State Forrest
EPC	1566	Bee Creek	NA	No	No	No	No	No	No	No	No	No
EPC	1645	Mount Hess	NA	No	No	No	No	yes	No	Kemmis Creek	No	No
EPC	1773	Kemmis Creek	NA	No	No	No	No	no	No	no	No	No
EPC	1824	Mount Hillalong	404/384	No	No	No	No	yes	No	no	No	No
EPC	1859	Dingo	NA	No	No	No	No	no	No	no	No	No
EPC	1867	Mount Hess West	NA	No	No	No	No	yes	No	no	No	No
EPC	1896	Bottle Tree Creek	NA	No	No	No	No	yes	No	no	No	No
EPC	1955	Bungaban Creek	NA	PL176 and PL 101	No	No	No	yes	No	no	Surat Basin Infrastructure SDA	Barakula State Forrest
EPC	1957	Laguna Creek	NA	No	No	No	No	no	No	no	Galilee Basin SDA	No
EPC	1965	Kanga Creek	NA	No	No	Yes	No	yes	No	no	No	No
EPC	1987	Quandong	NA	No	No	No	No	yes	No	no	No	Barakula State Forrest
EPC	1996	Churchyard Creek	NA	No	No	No	No	yes	No	no	No	No
EPC	2011	South Clermont	391 / 189	No	No	No	No	Yes	No	no	No	Aspley State Forest and Copperfield State Forrest
EPC	2037	Almoola	384	No	No	No	No	no	No	no	Galilee Basin SDA	Sonoma State Forrest
MDL	453	Cooroora	NA	No	No	No	No	yes	No	no	No	No
ML	70360	Mantuan Downs No. 1	NA	No	No	No	No	yes	No	no	No	No

Legend SDA = State Development Area
SCL = Strategic Cropping Area
PLA = Priority Living Area
PL = Petroleum Lease
PAA = Priority Agricultural Area
SEA = Strategic Environmental Area

Appendix E. REFERENCES

1. JORC, Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves - The JORC Code. 2012, Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (JORC).

2. The VALMIN Committee, Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports 2005, The VALMIN Committee, Editor. 2005.

3. APC, Rio Tinto - Mt Hillalong Exploration Agreement, in Company Announcements - Australian Stock Exchange. 22 August 2011.

4. APC, Rio Tinto Exploration Program - Mt Hillalong Project (EPC 1824), in Company Announcements - Australian Stock Exchange. 30 October 2012.

5. APC, Rio Tinto Exploration Confirm Commencement of First Option Period - Mt Hillalong Project, in Company Announcements - Australian Stock Exchange. 26 August 2013.

6. APC, Rio Tinto Exploration - Mt Hillalong Project Update, in Company Announcements - Australian Stock Exchange. 25 June 2015.

7. APC, Entitlements Issue and Share Placement to Cornerstone Investors, in Company Announcements - Australian Stock Exchange. 29 July 2015.

8. APC, Quarterly Activities Report - April to June 2015, in Company Announcements - Australian Stock Exchange. 31 July 2015.

9. Cuesta Coal, Annual Report to Shareholders 2013. 2013.

10. Anderson, J.C. Geology of the Fort Cooper Coal Measures Interval. in Bowen Basin Coal Symposium November 1985. 1985. GSA Cal Geology Group.

11. Matheson, S.G., Definition of the Yarrabee Tuff Bed. 1987.

12. Galligan, G.A., Department Drilling in the Curragh Area, North of Blackwater. Queensland Government Mining Journal, 74, 1977.

13. Annual and Final Report for the period 25th November2012 - 31st July 2013. 2013.

14. Belview Project Resource Estimate. 2013.

15. Hillalong 2015 Exploration Report. 2015, Cassie Porter.

16. APC1965 Kanga Creek Annual Report - Year 4. 2015.

17. Lilford, E., Advanced methodologies for mineral project valuation. AIG Bulletin, 2011. 53.

18. Roscoe, W.E., *Valuation of Non-Producing Mineral Properties.* The Journal of Business Valuation, 2003: p. 305-327.

19. Dartbrook Information Memorandum, Anglo American Metallurgical Coal Pty Ltd, November 2015

20. Dartbrook Mine - A Case Study, J. Hayward, Coal 1998, p. 224

21. Australian Black Coal Mining Operations, K. Cram, Longwall 2003, 19-20 November 2003, Hunter Valley, NSW, Australia,

22. A Review of Spontaneous Combustion Incidents, B. Ham, Coal 2005,

23. MGD 1006 - Technical Reference - Spontaneous Combustion Management, NSW Mine Safety Operations Branch, 2011,

24. APC dataroom - various materials on Dartbrook Mine

29. NIOSH Information Circular 9495, Proceedings: New Technology for Ground Control in Multiple-seam Mining, 2007.

34. Geotechnical Aspects of Place Change Mining at Ensham, N. Gordon, 2016,

35. Dartbrook Project Resource Update as at January 2016 - Volume 1, JB Mining Services Pty Ltd, January 2016.

37. Dartbrook land value review, Jeff Burns – Environmental Property Services (EPS), 12 July 2016.

Australian Pacific Coal

ABN 49 089 206 986

LODGE YOUR VOTE

ONLINE
www.linkmarketservices.com.au

BY MAIL
Australian Pacific Coal Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia

BY FAX
+61 2 9287 0309

BY HAND
Link Market Services Limited
1A Homebush Bay Drive, Rhodes NSW 2138;

ALL ENQUIRIES TO
Telephone: 1300 554 474 Overseas: +61 1300 554 474

X99999999999

PROXY FORM

I/We being a member(s) of Australian Pacific Coal Limited and entitled to attend and vote hereby appoint:

STEP 1

APPOINT A PROXY

☐ **the Chairman of the Meeting *(mark box)***

OR if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate you are appointing as your proxy

or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the Meeting, as my/our proxy to act on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given and to the extent permitted by the law, as the proxy sees fit) at the Annual General Meeting of the Company to be held at **9:00am on Thursday, 13 April 2017 at Level 7, Waterfront Place, 1 Eagle Street, Brisbane Qld 4000** (the **Meeting**) and at any postponement or adjournment of the Meeting.

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

STEP 2

VOTING DIRECTIONS

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the Meeting.

Please read the voting instructions overleaf before marking any boxes with an ☒

Resolutions	**For**	**Against**	**Abstain***
1 Approval of transactions with Mr Nicholas Paspaley, Mr John Robinson and Trepang Services Pty Ltd under Chapter 2E and Section 611 (Item 7) of the Corporations Act and Listing Rules 10.1 and 10.11	☐	☐	☐

* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

STEP 3

SIGNATURE OF SHAREHOLDERS – THIS MUST BE COMPLETED

Shareholder 1 (Individual)	Joint Shareholder 2 (Individual)	Joint Shareholder 3 (Individual)
Sole Director and Sole Company Secretary	Director/Company Secretary (Delete one)	Director

This form should be signed by the shareholder. If a joint holding, all shareholders must sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

AQC PRX1701A

HOW TO COMPLETE THIS SHAREHOLDER PROXY FORM

YOUR NAME AND ADDRESS

This is your name and address as it appears on the Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

APPOINTMENT OF PROXY

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the name of that individual or body corporate in Step 1. A proxy need not be a shareholder of the Company.

DEFAULT TO CHAIRMAN OF THE MEETING

Any directed proxies that are not voted on a poll at the Meeting will default to the Chairman of the Meeting, who is required to vote those proxies as directed. Any undirected proxies that default to the Chairman of the Meeting will be voted according to the instructions set out in this Proxy Form.

VOTES ON ITEMS OF BUSINESS – PROXY APPOINTMENT

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

APPOINTMENT OF A SECOND PROXY

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

(a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and

(b) return both forms together.

SIGNING INSTRUCTIONS

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, all shareholders must sign.

Power of Attorney: to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's share registry or online at www.linkmarketservices.com.au.

LODGEMENT OF A PROXY FORM

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **9:00am on Tuesday, 11 April 2017,** being not later than 48 hours before the commencement of the Meeting. Any Proxy Form received after that time will not be valid for the scheduled Meeting.

Proxy Forms may be lodged using the reply paid envelope or:

ONLINE

www.linkmarketservices.com.au

Login to the Link website using the holding details as shown on the Proxy Form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the Proxy Form).

BY MOBILE DEVICE

QR Code

Our voting website is designed specifically for voting online. You can now lodge your proxy by scanning the QR code adjacent or enter the voting link **www.linkmarketservices.com.au** into your mobile device. Log in using the Holder Identifier and postcode for your shareholding.

To scan the code you will need a QR code reader application which can be downloaded for free on your mobile device.

BY MAIL

Australian Pacific Coal Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia

BY FAX

+61 2 9287 0309

BY HAND

delivering it to Link Market Services Limited*
1A Homebush Bay Drive
Rhodes NSW 2138

* During business hours (Monday to Friday, 9:00am–5:00pm)

IF YOU WOULD LIKE TO ATTEND AND VOTE AT THE ANNUAL GENERAL MEETING, PLEASE BRING THIS FORM WITH YOU. THIS WILL ASSIST IN REGISTERING YOUR ATTENDANCE.