

Australian Pacific Coal Limited ABN 49 089 206 986

Notice of Annual General Meeting and Explanatory Memorandum

Date of Meeting: 29 November 2018

Time of Meeting: 10.00am Darwin time

Place of Meeting: Rydges Palmerston, 15 Maluka Drive, Palmerston City, NT
0830

This Notice of Annual General Meeting, Explanatory Memorandum and Independent Expert 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, Ernst & Young Transaction Advisory Services Limited, has concluded that:

- the Proposed Amendments (including the Relevant Interest Acquisition, the Proposed Conversion, the granting of the JV Royalty and the granting or continued grant of the Security) are fair and reasonable to the Non-Associated Shareholders (Resolution 4); and
- the granting of the Group Royalty in exchange for the release of the Security is fair and reasonable to the Non-Associated Shareholders (Resolution 5).

Notice of Annual General Meeting

Notice is given that an Annual General Meeting of Shareholders of **Australian Pacific Coal Limited** ABN 49 089 206 986 (**Company**) will be held at Rydges Palmerston, 15 Maluka Drive, Palmerston City, NT 0830, Australia on 29 November 2018 at 10.00am Darwin time.

Terms used in this Notice of Meeting are defined in section 9 of the accompanying Explanatory Memorandum.

The Explanatory Memorandum, the Proxy Form and the Independent Expert 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. Financial Reports.
3. Resolution 1 – Re-election of Shane Stone as a director.
4. Resolution 2 – Remuneration Report.
5. Resolution 3 – Approval for issue of securities under Listing Rule 7.1A.
6. Resolution 4 – 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 Listing Rules 10.1 and 10.11.
7. Resolution 5 – Approval of the grant of the Group Royalty to Trepang Services Pty Ltd, Mr John Robinson (Snr) and Mr Nicholas Paspaley in exchange for the release of security.
8. Other business.
9. Close of meeting.

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Financial Reports

To receive and consider the Company's Annual Report comprising the Directors' Report and Auditors' Report, Directors' Declaration, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and notes to and forming part of the financial statements for the Company and its controlled entities for the financial year ended 30 June 2018.

1. Resolution 1 – Re-election of Share Stone as a director

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

“That Shane Stone, who retires by rotation in accordance with Rule 38.1 of the Company’s Constitution and, being eligible, offers himself for re-election, be re-elected as a Director.”

2. Resolution 2 – Remuneration Report

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

“That, the Remuneration Report for the year ended 30 June 2018 (as set out in the Directors Report) is adopted.”

Notes

The vote on this Resolution 2 is advisory only and does not bind the Directors or the Company.

Voting Restriction Statement pursuant to section 250R(4) of the Corporations Act

A vote in favour of Resolution 2 must not be cast (in any capacity) by or on behalf of either of the following persons:

- (a) a member of the Key Management Personnel details of whose remuneration are included in the Remuneration Report;
- (b) a Closely Related Party of such a member.

However, the above persons may cast a vote on Resolution 2 if:

- (a) the person does so as a proxy; and
- (b) the vote is not cast on behalf of a member of the Key Management Personnel details of whose remuneration are included in the Remuneration Report or a Closely Related Party of such a member; and
- (c) either:
 - (1) the voter is appointed as a proxy by writing that specifies the way the proxy is to vote on the resolution; or
 - (2) the voter is the chair of the meeting and the appointment of the chair as

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proxy:

- (A) does not specify the way the proxy is to vote on the resolution; and
- (B) expressly authorises the chair to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the Company or, if the Company is part of a consolidated entity, for the entity.

Voting Intention of Chair

Shareholders should be aware that any undirected proxies given to the Chair will be cast by the Chair and counted in favour of the Resolutions the subject of this Meeting, including Resolution 2, subject to compliance with the Corporations Act. In exceptional circumstances, the Chair of the Meeting may change his voting intention on any resolution, in which case an ASX announcement will be made.

3. Resolution 3: Approval for issue of securities under Listing Rule 7.1A

To consider and, if thought fit, pass the following Resolution, with or without amendment, as a Special Resolution of the Company:

*“That, pursuant to and in accordance with Listing Rule 7.1A, and for all other purposes, the Shareholders approve the issue of Equity Securities of up to 10% of the issued capital of the Company (at the time of issue) calculated in accordance with the formula prescribed in Listing Rule 7.1A.2 over a 12 month period from the date of this Meeting, at a price not less than that determined pursuant to Listing Rule 7.1A.3 and otherwise on the terms and conditions in the Explanatory Memorandum (**Placement Securities**).”*

Voting Exclusion Statement

The Company will disregard any votes cast in favor of this Special Resolution by

- (a) any person who is expected to participate in, or who will obtain a material benefit as a result of, the issue of the Placement Securities (except a benefit solely by reason of being a holder of Shares); or
- (b) an associate of those persons.

However, this does not prevent the casting of a vote on Resolution 3 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) or (b) directly above.

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4. Resolution 4 – 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 Listing Rules 10.1 and 10.11.

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

“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 4, to proceed with:

- (a) *the variation of the Robinson Convertible Note, the Paspaley Convertible Note and the Trepang Convertible Note in the following manner:*
 - (1) *to extend their respective Maturity Dates;*
 - (2) *to amend their respective Conversion Prices; and*
 - (3) *to include the automatic redemption or conversion of the respective Existing Convertible Notes contemporaneously with completion of the SNR Agreement,*
- (b) *the entry of the New Convertible Note Deed and the issue of the New Convertible Note, replacing the Secured Loan Deed and the Unsecured Loan Deed and being capable of being converted into Shares in the Company, to Trepang Services Pty Ltd with a face value of approximately \$7,447,673, pursuant to the terms of the New Convertible Note Deed (the New Convertible Note together with the Existing Convertible Notes are referred to as the **Convertible Notes**);*
- (c) *the subsequent conversion of the Convertible Notes into up to 64,258,400 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;*
- (d) *the issue of up to 19,019,250 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 Existing Convertible Loan Deeds and the New Convertible Note Deed and Mr Nicholas Paspaley, Mr John Robinson (Snr) and Trepang Services Pty Ltd acquiring a relevant interest in such Interest Shares;*
- (e) *the granting of or continued grant 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 Existing Convertible Loan Deeds, the New Convertible Note Deed and the Convertible Notes;*
- (f) *in the event that completion of the SNR Agreement occurs, the entry of the JV Royalty Deed and the granting of the JV Royalty by the Company to Mr John Robinson (Snr) and Mr Nicholas Paspaley;*
- (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; and*
- (h) *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 78.74% pursuant to the Existing Convertible Loan Deeds, the New Convertible Note Deed and the Convertible Notes,*

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pursuant to the terms and conditions of the Variation Deeds, the Existing Convertible Loan Deeds, the New Convertible Note Deed, the Convertible Notes, the Security and the JV Royalty Deed, the details of which are summarised in the Explanatory Memorandum.”

Notes

Shareholders approved the issuing of the Existing Convertible Notes, the subsequent conversion of the Existing Convertible Notes, the issuing of Interest Shares and the granting of the Security pursuant to resolution 1 of the Extraordinary General Meeting of the Company held on 13 April 2017 (**April EGM**). Given the proposed changes to the terms of the Existing Convertible Notes, the issue of the New Convertible Note and the potential entry of the JV Royalty Deed, it is necessary to seek further Shareholder approval to permit these variations to be made and new arrangements to be entered. If the event that this Resolution 4 is not passed, the terms of the Existing Convertible Notes and the Secured Loan Deed will remain in accordance with their current terms and resolution 1 of the April EGM will continue to be relied on.

For the purpose of section 611 of the Corporations Act and Listing Rule 10.10.2, an Independent Expert Report prepared by Ernst & Young Transaction Advisory Services Limited is **enclosed** with this Notice of Meeting in Attachment 1.

The Independent Expert, Ernst & Young Transaction Advisory Services Limited, has concluded that the Proposed Amendments (including the granting of the JV Royalty and the granting or continued grant of the Security) are fair and reasonable to the Non-Associated Shareholders (Resolution 4).

Further details regarding the Proposed Transaction are set out in the accompanying Explanatory Memorandum and Independent Expert Report which the Directors recommend Shareholders read in full before making any decision in relation to Resolution 4.

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 in favor of 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 of the Corporations Act

For the purposes of Part 2E of the Corporations Act, a vote on Resolution 4 must not be cast by or on behalf of:

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

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

However, this does not prevent the casting of a vote on Resolution 4 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) or (b) directly above.

Voting Exclusion Statement –Item 7, Section 611 of the Corporations Act

For the purposes of Item 7, Section 611 of the Corporations Act, a vote in favour of Resolution 4 must not be cast by or on behalf of:

- (a) Mr Nicholas Paspaley, Mr John Robinson (Snr) and Trepang Services Pty Ltd; and
- (b) any Associate of those persons in (a) above.

5. Resolution 5 – Approval of the grant of the Group Royalty to Trepang Services Pty Ltd, Mr John Robinson (Snr) and Mr Nicholas Paspaley in exchange for the release of security

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

“That, in accordance with Chapter 2E of the Corporations Act and under Listing Rule 10.1 and for all other purposes the Company is authorised, with effect from the passing of this Resolution 5, to:

- (a) *vary the Existing Convertible Loan Deeds and the Existing Convertible Notes to permit the grant of the Group Royalty on the terms and conditions set out in the Explanatory Memorandum;*
- (b) *permit the New Convertible Note Deed and the New Convertible Note to provide for the grant of the Group Royalty on the terms and conditions set out in the Explanatory Memorandum; and*
- (c) *enter into the Group Royalty Deed, the terms and conditions of which are summarised in the Explanatory Statement and grant the Group Royalty to Mr Nicholas Paspaley, Mr John Robinson (Snr) and Trepang Services Pty Ltd.*

Notes

For the purpose of Listing Rule 10.10.2, an Independent Expert Report prepared by Ernst & Young Transaction Advisory Services Limited is enclosed with this Notice of Meeting in Attachment 1.

Ernst & Young Transaction Advisory Services Limited has concluded that the grant of the Group Royalty is fair and reasonable to the Non-Associated Shareholders.

Voting Exclusion Statement – Listing Rules 10.1

For the purposes of Listing Rules 10.1 the Company will disregard any votes cast in favour of 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.

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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 of the Corporations Act

For the purposes of Part 2E of the Corporations Act, a vote on Resolution 5 must not be cast by or on behalf of:

- (a) Mr Nicholas Paspaley, Mr John Robinson (Snr) and Trepang Services Pty Ltd; and
- (b) any Associate of those persons in (a) above.

However, this does not prevent the casting of a vote on Resolution 5 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) or (b) 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



Andrew Roach
Company Secretary
Australian Pacific Coal Limited

Explanatory Memorandum

1. Introduction

This Explanatory Memorandum is provided to shareholders of **Australian Pacific Coal Limited** ABN 49 089 206 986 (**Company**) to explain the Resolutions to be put to Shareholders at the Annual General Meeting to be held at Rydges Palmerston, 15 Maluka Drive, Palmerston City, NT 0830 on 29 November 2018 at 10.00am Darwin time.

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

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

Unless otherwise defined, terms used in this Explanatory Memorandum are defined in Section 9.

2. Consider the Company's annual report

The Company's Annual Report comprising the Directors' Report and Auditors' Report, Directors' Declaration, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and notes to and forming part of the financial statements for the Company and its controlled entities for the financial year ended 30 June 2018 were released to the ASX Limited on 27 September 2018 and subsequently dispatched to Shareholders. The Company's Annual Report is placed before the shareholders for discussion. No voting is required for this item.

3. Resolution 1 – Re-election of Shane Stone as a director

The Hon. Shane Stone retires in accordance with Rule 38.1 of the Company's Constitution and, being eligible, offers himself for re-election as a Director.

The Hon. Shane Stone was appointed as a director on 1 August 2016. The Hon. Shane Stone is a Non-Executive Director of the Company and Chairman of the Audit Committee.

Shane has a strong commercial and legal background and considerable experience in dealing with Commonwealth and State governments. Shane has at various times acted as an independent director to various public and private companies. Formerly Deputy Chairman UK listed Impellam plc, Chairman of ASX listed Regalpoint Resources Limited and Chairman of Mayfair Limited (Anne Street Partners and QNV Constructions). Former Chief Minister of the Northern Territory and Federal President of the Liberal Party of Australia. Formerly a barrister he is a graduate of Australian National University, Sturt, Adelaide and Melbourne Universities. He is a Fellow of the Australian Institute of Management, Australian College of Education and Australian Institute of Company Directors. He was made a Companion of the Order of Australia in 2006. He has also been conferred national awards from Indonesia and Malaysia.

The Directors (with The Hon. Shane Stone abstaining) recommend that you vote in favour of this Ordinary Resolution.

4. Resolution 2 - Remuneration Report

The Board has submitted its Remuneration Report to Shareholders for consideration and adoption by way of a non-binding Advisory Resolution in accordance with section 250R of the *Corporations Act*.

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The Remuneration Report is set out in the Directors' Report section of the Annual Report. The Report, amongst other things:

- (a) explains the Board's policy for determining the nature and amount of remuneration of Key Management Personnel of the consolidated entity;
- (b) explains the relationship between the Board's remuneration policy and the Company's performance;
- (c) sets out remuneration details for each Key Management Personnel of the consolidated entity including details of performance related remuneration and options granted as part of remuneration; and
- (d) details and explains any performance conditions applicable to the remuneration of Key Management Personnel of the Company.

A reasonable opportunity will be provided for discussion of the Remuneration Report at the meeting.

The Directors abstain, in the interests of corporate governance, from making a recommendation in relation to this Resolution. A vote on this resolution is advisory only and does not bind the Directors or the Company.

There are restrictions on members of the Key Management Personnel and their Closely Related Parties and their proxies voting (in any capacity) on Resolution 2, details of which are set out in the Voting Restriction Statement included in Resolution 2 of the Notice of Meeting.

Shareholders should be aware that any undirected proxies given to the Chair will be cast by the Chair and counted in favour of the Resolutions the subject of this Meeting, including this Resolution 2, subject to compliance with the Corporations Act. In exceptional circumstances, the Chairman of the Meeting may change his voting intention on any resolution, in which case an ASX announcement will be made.

5. Resolution 3: Approval for issue of securities under Listing Rule 7.1A

5.1 Introduction

Resolution 3 seeks Shareholder approval to issue an additional 10% of issued capital over a 12 month period pursuant to Listing Rule 7.1A. If passed, this Resolution will allow the Company to allot and issue up to the number of new Equity Securities calculated in accordance with Listing Rule 7.1A.2 (**Placement Securities**) each at an issue price of at least 75% of the VWAP for the Company's Equity Securities in that class (calculated over the last 15 days on which trades in the Equity Securities are recorded immediately before the date on which the price at which the Placement Securities are to be issued is agreed, or if the Placement Securities are not issued within five trading days of that date, the date on which the Placement Securities are issued) (**Issue Price**).

This approval is sought pursuant to Listing Rule 7.1A. Under Listing Rule 7.1A, small and mid cap listed entities that meet the eligibility threshold and have obtained the approval of their ordinary shareholders by special resolution at the annual general meeting, are permitted to issue an additional 10% of issued capital over a 12 month period from the date of the annual general meeting (**Additional 10% Placement**). The Additional 10% Placement under Listing Rule 7.1A is in addition to the ability of the Company to issue 15% of its issued capital without shareholder approval over a 12 month period pursuant to Listing Rule 7.1. The Company may issue the Placement Securities to raise funds for the Company and as non-cash consideration (further details of which are set out below).

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The Directors of the Company unanimously recommend that shareholders vote in favour of Resolution 3.

5.2 Listing Rule 7.1A

(a) General

(1) Eligibility

An entity is eligible to undertake an Additional 10% Placement if at the time of its annual general meeting it has a market capitalisation of \$300 million or less and it is not included in the S&P/ASX300 Index.

For illustrative purposes only, on 2 October 2018, the Company's market capitalisation was \$37.4 million based on the closing trading price on that date. The calculation of market capitalisation will be based on the closing price of the shares, on the last trading day on which trades in the shares were recorded before the date of the AGM, multiplied by the number of shares on issue (excluding restricted securities and securities quoted on a deferred settlement basis).

The Company is also not included in the S&P/ASX300 Index as at the time of this AGM, however, it should be noted that the S&P/ASX300 Index is rebalanced twice a year in March and September.

The Company is therefore an Eligible Entity (under Listing Rule 7.1A) and able to undertake an Additional 10% Placement under Listing Rule 7.1A.

In the event that the Company for any reason ceases to be an Eligible Entity after the Company has already obtained shareholders' approval pursuant to this Resolution 3, the approval obtained will not lapse and the Company will still be entitled to issue the Placement Securities.

(2) Special Resolution

Listing Rule 7.1A requires this Resolution 3 to be passed as a Special Resolution, which means that it must be passed by at least 75% of the votes cast by members entitled to vote on the resolution. Pursuant to Listing Rule 7.1A, no Placement Securities will be issued until and unless this Special Resolution is passed at the meeting.

(3) Shareholder approval

The ability to issue the Placement Securities is conditional upon the Company obtaining shareholder approval by way of a Special Resolution at the meeting.

(4) Equity Securities

Any Equity Securities issued under the Additional 10% Placement must be in the same class as an existing quoted class of Equity Securities of the Company.

As at the date of this notice of meeting, the classes of Equity Securities in the Company quoted on the ASX are Shares. The Company presently has 49,234,810 Shares on issue at the date of this Notice of Meeting.

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(b) **10% Placement Period - Listing Rule 7.1A.1**

Assuming Resolution 3 is passed, Shareholder approval of the Additional 10% Placement under Listing Rule 7.1A is valid from the date of the AGM and expires on the earlier to occur of:

- (1) the date that is 12 months after the date of the AGM; or
- (2) the date of the approval by shareholders of a transaction under Listing Rule 11.1.2 (a significant change to the nature or scale of activities) or 11.2 (disposal of main undertaking),

or such longer period if allowed by ASX.

If approval is given for the issue of the Placement Securities then the approval will expire on 29 November 2019 unless Shareholder approval is granted pursuant to Listing Rules 11.1.2 or 11.2 prior to that date.

(c) **Calculation for Additional 10% Placement - Listing Rule 7.1A.2**

Listing Rule 7.1A.2 provides that Eligible Entities which have obtained shareholder approval at an annual general meeting may issue or agree to issue, during the 12 month period after the date of the annual general meeting, a number of Equity Securities calculated in accordance with the following formula:

$(A \times D) - E$

Where:

A is the number of ordinary securities on issue 12 months before the date of issue or agreement:

- (1) plus the number of fully paid ordinary securities issued in the 12 months under an exception in Listing Rule 7.2;
- (2) plus the number of partly paid ordinary securities that became fully paid in the 12 months;
- (3) plus the number of fully paid ordinary securities issued in the 12 months with approval of holders of ordinary securities under Listing Rules 7.1 or 7.4 (but note that this does not include an issue of fully paid ordinary securities under the entity's 15% placement capacity without shareholder approval); and
- (4) less the number of fully paid ordinary securities cancelled in the 12 months.

D is 10 percent.

E is the number of Equity Securities issued or agreed to be issued under Listing Rule 7.1A.2 in the 12 months before the date of the issue or agreement to issue that are not issued with the approval of shareholders under Listing Rules 7.1 or 7.4.

(d) **Information to be given to ASX - Listing Rule 7.1A.4**

If Resolution 3 is passed and the Company issues any Placement Securities under Listing Rule 7.1A, the Company will give to ASX:

- (1) a list of allottees of the Placement Securities and the number of Placement Securities allotted to each (this list will not be released to the market); and

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- (2) the following information required by rule 3.10.5A, which will be released to the market on the date of issue:
 - (A) details of the dilution to the existing holders of Equity Securities caused by the issue;
 - (B) where the Equity Securities are issued for cash consideration, a statement of the reasons why the Company issued the Equity Securities as a placement under rule 7.1A and not as (or in addition to) a pro rata issue or other type of issue in which existing shareholders would have been eligible to participate;
 - (C) details of any underwriting arrangements, including any fees payable to the underwriter; and
 - (D) any other fees or costs incurred in connection with the issue.

(e) **Listing Rules 7.1 and 7.1A**

The ability of an entity to issue Equity Securities under Listing Rule 7.1A is in addition to the entity's 15% placement capacity under Listing Rule 7.1.

At the date of this Notice of Meeting, the Company has on issue 49,234,810 Shares. The Company will have the capacity to issue the following shares on the date of the Meeting:

- (1) 7,385,221 Shares under Listing Rule 7.1; and
- (2) subject to shareholder approval being obtained under Resolution 3, 4,923,481 Shares under Listing Rule 7.1A.

The actual number of Equity Securities that the Company will have the capacity to issue under Listing Rule 7.1A will be calculated at the date of issue of the Equity Securities in accordance with the formula prescribed in Listing Rule 7.1A.2 (as described above).

5.3 Specific Information required by Listing Rule 7.3A

(a) **Minimum Price of securities issued under Listing Rule 7.1A - Listing Rule 7.3A.1**

Pursuant to and in accordance with Listing Rule 7.1A.3, the Placement Securities issued pursuant to approval under Listing Rule 7.1A must have an issue price of not less than 75% of the VWAP for the Equity Securities over the 15 trading days immediately before:

- (1) the date on which the price at which the Placement Securities are to be issued is agreed; or
- (2) if the Placement Securities are not issued within five trading days of the date in paragraph (1) above, the date on which the Placement Securities are issued.

The Company will disclose to the ASX the issue price on the date of issue of the Placement Securities.

(b) **Risk of economic and voting dilution - Listing Rule 7.3A.2**

As provided by Listing Rule 7.3A.2, if Resolution 3 is passed and the Company issues the Placement Securities, there is a risk of economic and voting dilution to the existing

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Shareholders. The Company currently has on issue 49,234,810 Shares. The Company could issue 4,923,481 Shares on and from the date of the meeting if Resolution 3 is passed (however, it is important to note that the exact number of Equity Securities which may be issued will be calculated in accordance with the formula contained in Listing Rule 7.1A.2 details of which are set out above). Any issue of Placement Securities will have a dilutive effect on existing Shareholders.

There is a specific risk that:

- (1) the Market Price for the Company's Equity Securities may be significantly lower on the date of the issue of any Placement Securities than it is on the date of the meeting; and
- (2) the Placement Securities may be issued at a price that is at a discount to the Market Price for the Company's Equity Securities on the issue date,

which may have an effect on the amount of funds raised by the issue or the value of the Placement Securities.

As required by Listing Rule 7.3A.2, the table below shows the potential economic and voting dilution effect, in circumstances where the issued share capital has doubled and the Market Price of the shares has halved. The table below also shows additional scenarios in which the issued share capital has increased (by both 50% and 100%) and the Market Price of the shares has:

- decreased by 50%; and
- increased by 100%.

Issued Share Capital	Share Capital	50% decrease in Market Price \$0.38		Current Market Price \$0.76		100% increase in Market Price \$1.52	
		Full 10 % Voting Dilution	Capital Raised	Full 10 % Voting Dilution	Capital Raised	Full 10 % Voting Dilution	Capital Raised
Present Issued Share Capital = 49,234,810 shares		4,923,481	1,870,923	4,923,481	3,741,846	4,923,481	7,483,691
50% Increase in Share Capital = 73,852,215 shares		7,385,222	2,806,384	7,385,222	5,612,769	7,385,222	11,225,537
100% Increase in Share Capital = 98,469,620 shares		9,846,962	3,741,846	9,846,962	7,483,691	9,846,962	14,967,382

Assumptions and explanations

- *The Market Price is \$0.76 based on the closing price of the Shares on ASX on 2 October 2018.*
- *The above table only shows the dilutionary effect based on the issue of the Placement Securities (assuming only shares are issued), and not any shares issued under the 15% placement capacity available under Listing Rule 7.1.*
- *The 10% voting dilution reflects the aggregate percentage dilution against the issued share capital at the time of issue.*
- *The Company issues the maximum number of Placement Securities.*

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- *The issued share capital has been calculated in accordance with the formula in Listing Rule 7.1A(2) as at 2 October 2018.*
- *The issue price of the Placement Securities used in the table is the same as the Market Price and does not take into account the discount to the Market Price (if any).*

(a) **Final date for issue - Listing Rule 7.3A.3**

As required by Listing Rule 7.3A.3, the Company will only issue and allot the Placement Securities during the 12 months after the date of this Meeting which the Company anticipates will end on 29 November 2019. The approval under Resolution 3 for the issue of the Placement Securities will cease to be valid in the event that shareholders approve a transaction under Listing Rule 11.1.2 (a significant change to the nature or scale of activities of the Company) or Listing Rule 11.2 (the disposal of the main undertaking of the Company) before the anniversary of the AGM.

(b) **Purpose - Listing Rule 7.3A.4**

As noted above, the purpose for which the Placement Securities may be issued include to raise funds for the Company and as non-cash consideration (further details of which are set out below). Funds raised from the issue of Placement Securities, if undertaken, would be applied towards:

- (1) general working capital;
- (2) acquisition of new assets or investments (including expense associated with such acquisition); and
- (3) continued exploration, feasibility study and development expenditure on the Company's current assets.

(c) **Shares Issued for Non-cash consideration - Listing Rule 7.3A.4**

The Company may issue Placement Securities for non-cash consideration, such as the acquisition of new assets or investments or payment for services. If the Company issues Placement Securities for non-cash consideration, the Company will release to the market a valuation of the non-cash consideration that demonstrates that the issue price of the Placement Securities complies with Listing Rule 7.1A.3.

(d) **Company's Allocation Policy - Listing Rule 7.3A.5**

The Company's allocation policy is dependent on the prevailing market conditions at the time of any proposed issue of the Placement Securities. The identity of the allottees of Placement Securities will be determined on a case-by-case basis having regard to a number of factors including but not limited to the following:

- (1) the methods of raising funds that are available to the Company including, but not limited to, rights issue or other issue in which existing shareholders can participate;
- (2) the effect of the issue of the Placement Securities on the control of the Company;
- (3) the financial situation and solvency of the Company; and
- (4) advice from corporate, financial and broking advisers (if applicable).

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The allottees of the Placement Securities have not been determined as at the date of this Notice but may include existing substantial Shareholders and new Shareholders who are not Related Parties or associates of a Related Party of the Company.

Further, if the Company is successful in acquiring new assets or investments for which Placement Securities are issued as consideration, it is likely that the allottees of some of the Placement Securities will be the vendors of the new assets or investments.

(e) **Company has previously obtained shareholder approval under listing rule 7.1A**

The Company has previously obtained Shareholder approval under Listing Rule 7.1A. In accordance with Listing Rule 7.3A.6 the Company confirms it has not issued any Equity Securities in the previous 12 months preceding the date of the AGM (that is, since 28 November 2017), which represents 0% of the Shares on issue as at 29 November 2017.

5.4 Directors recommendations

The Directors of the Company unanimously recommend that shareholders vote in favour of Resolution 3.

6. Resolution 4 - 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 Listing Rules 10.1 and 10.11.

6.1 Overview

Acquisition of Dartbrook

The Company completed the acquisition of 100% of the Dartbrook Coal Mine from Anglo American Plc and Marubeni Coal on 29 May 2017.

Financing for acquisition and working capital

The Company entered into a number of financing arrangements in order to fund its acquisition of the Dartbrook Coal Mine which completed in May 2017, with Mr John Robinson (Snr), Mr Nicholas Paspaley and Trepang Services Pty Ltd (**Trepang**) (together, the **Existing Financiers**) as well as to fund ongoing working capital requirements of the Company.

The financing arrangements with the Existing Financiers currently comprise the following:

- the Robinson and Paspaley Convertible Loan Deeds with Mr John Robinson (Snr) and Mr Nicholas Paspaley, entered on 1 February 2016 (and subsequently varied), each with an original principal amount of \$10 million, which was used for the acquisition of the Dartbrook Coal Mine;
- the Trepang Convertible Loan Deed with Trepang, entered on 1 March 2017 (and subsequently varied), with an original principal amount of \$15 million, which was used for the acquisition of the Dartbrook Coal Mine;
- the Secured Loan Deed with Trepang, entered on 27 April 2016 (and subsequently varied), with an original principal amount of \$6 million (of which \$1million was repaid by the funds raised from the Trepang Convertible Loan Deed, leaving a principal amount of \$5 million), which was used for working capital; and
- the Unsecured Loan Deed with Trepang, entered on 31 July 2018, with an original principal amount of \$2 million, to be used for working capital,

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(the **Existing Facilities**). Each of the Existing Facilities is fully drawn down.

The key terms of:

- the Robinson and Paspaley Convertible Loan Deeds, the Trepang Convertible Loan Deed and the Secured Loan Deed are set out in Schedule 1, Schedule 3 and Schedule 5 respectively. Further details about each document, and various amendments that have been made to them, were set out in the Company's Notice of Meeting dated 13 March 2017;
- the Existing Convertible Notes are set out in Schedule 2 and Schedule 4;
- the Unsecured Loan are set out in Schedule 14;
- the New Convertible Note Deed and the New Convertible Note are set out in Schedule 10 and Schedule 11 respectively. The Company is now proposing to convert the Unsecured Loan Deed, as well as the Secured Loan Deed, into the New Convertible Note. The terms of the New Convertible Note Deed will be substantially similar to those of the existing Convertible Note Deeds.

Security

All money and obligations owed by the Company to the Existing Financiers under the Secured Loan Deed and the Existing Convertible Loan Deeds are secured by the Security, which has been granted by the Company and each of its Subsidiaries. The key terms of the Security are set out in Schedule 6. As at the date of this Notice, the Company and its Subsidiaries have granted the following Security to the Existing Financiers:

- a General Security Deed granted in favour of Trepang by the Company on or about 27 April 2016;
- a General Security Deed granted in favour of Trepang by AQC #2, Area Coal, Ipoh Pacific and Mining Investments One on or about 2 March 2017;
- General Security Deeds granted in favour of each of Mr John Robinson (Snr) and Mr Nicholas Paspaley by the Company, AQC #2, Area Coal, Ipoh Pacific and Mining Investments One on or about 2 March 2017;
- deeds of guarantee and indemnity granted in favour of each of the Existing Financiers by AQC #2, Area Coal and Ipoh Pacific on or about 2 March 2017; and
- mortgages of mining tenements granted in favour of each of the Existing Financiers by Area Coal and Ipoh Pacific on or about 2 March 2017;
- deeds of guarantee and indemnity granted in favour of each of the Existing Financiers by ACDP and ACDAM;
- a mortgage of mining tenements granted in favour of each of the Existing Financiers by ACDP;
- a mortgage of land granted in favour of each of the Existing Financiers by ACDP; and
- a mortgage of land granted in favour of each of the Existing Financiers by ACDAM.
- General Security Deeds granted in favour of each of the Existing Financiers by ACDP and ACDAM; and

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- a mortgage of land parcel 180/750951 granted in favour of Trepang and John Robinson (Snr) by ACDAM. The Unsecured Loan is not secured by the Security.

Previous Shareholder Approval – April EGM

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

Resolution 1 of the April EGM (held on 13 April 2017) sought this Shareholder approval and Shareholders approved that resolution. That resolution approved, amongst other matters:

- (a) the issue of up to 3,808,682,792 Interest Shares and up to 7,521,149,069 Conversion Shares to Trepang, Mr Robinson (Snr) and Mr Paspaley; and
- (b) the Voting Power of Trepang, Mr Robinson (Snr) and Mr Paspaley increasing up to a maximum of 82.18%.

The Company had engaged BDO Corporate Finance (Qld) Ltd to prepare an independent expert report for the purposes of the April EGM on the issuing of the Existing Convertible Notes, the Conversion Shares and the Interest Shares, the granting of the Security, the commencement of the Escrow Deeds (and any Relevant Interest that Trepang, Mr Robinson (Snr) or Mr Nicholas Paspaley would obtain as a result of the commencement of the Escrow Deeds) and the granting of the Security, to assist Shareholders to decide whether or not to vote in favour of the resolution at the April EGM. Shareholders approved Resolution 1 of the April EGM unanimously on a show of hands.

Anglo Loan

To secure additional funding for the carrying out of the feasibility studies referred to in section 6.2, the Company entered into an arrangement with Anglo American Metallurgical Coal Assets Pty Ltd (**AAMCA**), a subsidiary of Anglo American Plc, for AAMCA to provide \$7.7 million in vendor funding to the Company (**Anglo Loan**) under the Vendor Loan Agreement. The Anglo Loan was secured by the following arrangements:

- (a) the Specific and Featherweight Security Deed, granted by the Company; and
- (b) the AQC #2 General Security Deed, granted by the Company's wholly owned subsidiary, AQC Investments 2 Pty Ltd (**AQC #2**).

The Specific and Featherweight Security Deed and AQC #2 General Security Deed were entered on or about 29 May 2017.

In addition, AQC #2 was required to ensure that, within 90 days of the completion of the acquisition of the Dartbrook Joint Venture, ACDP and ACDAM:

- (a) accede to the Vendor Loan Agreement;
- (b) grant to AAMCA a general security deed over all of their present and after-acquired assets; and
- (c) grant to AAMCA a mortgage over their real property.

To grant the securities (together the **Anglo Security**) set out directly above, the Company required Shareholder approval pursuant to the financial assistance provisions of the Corporations Act. This approval was given at an Extraordinary General Meeting of the Company held on 11 August 2017, and the Anglo Security was granted on 28 August 2017.

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The maturity date pursuant to the Vendor Loan Agreement is 29 May 2020 (**Anglo Maturity Date**). Other key terms of the Anglo Security and the Vendor Loan Agreement are summarised in Schedule 10 and Schedule 13 respectively.

AAMCA and the Existing Financiers have entered into an Intercreditor Deed providing that the Anglo Security will rank first in priority, ahead of the Security held or to be held by the Existing Financiers. A summary of the key terms of the Intercreditor Deed are set out in Schedule 10.

Anglo have confirmed that they do not object to the transactions proposed under the SNR Agreement, on the condition that the Anglo Loan is first repaid in full.

SNR Agreement for a new Dartbrook Joint Venture

As announced by the Company on 6 August 2018, the Company entered into a binding agreement (**SNR Agreement**) with SNR Minerals Assets Ltd (**SNR**), a wholly owned subsidiary of Stella Natural Resources, to form the Dartbrook Joint Venture (**Dartbrook JV**). The SNR Agreement provides for the acquisition by SNR of a 50% interest in the Dartbrook Coal Mine, via the transfer of 50% of the Company's shares in AQC #2 to SNR, subject to various conditions being satisfied or waived on or before 5 April 2018 (being 8 months after the date of the SNR Agreement). Under the SNR Agreement, SNR will pay \$20 million to the Company (**Purchase Price**) for a 50% interest in AQC #2 shares which provides the Company with the opportunity to repay part of the Existing Financier Arrangements. The Company intends to use the Purchase Price proceeds to repay the money owing under Trepang Convertible Note, and to obtain the Existing Financier's agreement to the conversion of all remaining Existing Convertible Notes and the New Convertibles Note to Shares in accordance with their terms.

In addition, SNR will provide a \$10 million dollar loan to AQC #2, who will in turn provide a \$10 million loan to the Company (**Dartbrook JV Loan**) to pay out the existing Anglo Loan. In order to complete the SNR Agreement, at completion AQC must be able to provide evidence to SNR of the release of the Anglo Security and the Security.

Shareholders are referred to section 6.3 for further information.

Existing Repayment Dates

Regardless of the status of the Dartbrook JV and whether or not the SNR Agreement completes, under the current terms of the Existing Facilities:

- (a) the Existing Convertible Notes (with an original principal amount of \$35 million plus interest) are due for repayment in full on 1 February 2019 (unless Trepang agrees to a maximum 12 month extension in respect of the Trepang Convertible Note of an original principal amount of \$15 million plus interest only); and
- (b) the Secured Loan Deed and the Unsecured Loan Deed (with a combined principal amount of \$7 million plus interest) are due for repayment in full on 27 April 2019.

In addition, repayment of any of the Existing Facilities will also trigger repayment of the Anglo Loan early (which otherwise may not be payable until 29 May 2020).

As announced by the Company on 17 October 2017, the Company and the Existing Financiers agreed in October 2017 that, subject to obtaining all necessary Shareholder approvals, the Maturity Date of the Existing Convertible Notes and the Secured Loan Deed would in certain circumstances be extended to 29 May 2020 to align with the maturity date of the Anglo Loan. To date Shareholder approval has not been sought for this extension, and such approval will not be necessary if the Maturity Dates are extended as proposed under Resolution 4.

Amendments to Existing Facilities

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To facilitate the completion of the SNR Agreement (which as noted above has a cutoff completion date of 5 April 2019 unless extended by the parties) and the extension of the maturity dates of all of the Existing Facilities, the Company proposes to:

- (a) convert the money owing under the existing Secured Loan Deed (original principal amount of \$5 million plus interest) and Unsecured Loan Deed (original principal amount of \$2 million plus interest) into (and the issue of) the New Convertible Note and to extend the Security to cover all money and obligations owing under the New Convertible Note Deed and the New Convertible Note (**Proposed Conversion**);
- (b) amend the Robinson, Paspaley and Trepang Convertible Loan Deeds to (**Proposed Amendments**):
 - (1) extend their respective maturity dates to 1 February 2021;
 - (2) vary the conversion price of each Convertible Note to \$0.80,
 - (3) allow for early repayment of the respective Existing Convertible Notes at the Company's election;
 - (4) require the Company to redeem the Trepang Convertible Note in cash on completion of the SNR Agreement (with an original principal amount of \$15 million and interest of approximately \$3.1 million to 5 April 2019); and
 - (5) require the:
 - (A) Robinson Convertible Note (with an original principal amount of \$10 million and interest of approximately \$3.7 million to 5 April 2019);
 - (B) Paspaley Convertible Note (with an original principal amount of \$10 million and interest of approximately \$3.7 million to 5 April 2019); and
 - (C) New Convertible Note (with a principal amount of \$7,447,673.11 and interest of approximately \$260,000 to 5 April 2019),to be converted into Shares on completion of the SNR Agreement.
- (c) obtain the necessary approvals to grant the Existing Financiers the JV Royalty.

This will put the Company in a position where it can:

- (a) if the SNR Agreement completes (**Scenario 1**):
 - (1) pay out the Anglo Loan in full;
 - (2) pay out the Trepang Convertible Note in full;
 - (3) grant the JV Royalty;
 - (4) force the full conversion of the Robinson Convertible Note, the Paspaley Convertible Note and the New Convertible Note into Shares; and
 - (5) obtain the release of the Security,

meaning that the Company will be in a position where it has no debt or encumbrances and is able to complete the SNR Agreement.

- (b) if the SNR Agreement does not complete (**Scenario 2**);

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- (1) continue with the Existing Facilities under the varied terms, including the extended Maturity Dates and the New Convertible Note replacing the Secured Loan Deed and the Unsecured Loan Deed.

To give effect to the above, as per the Company's announcement of 27 September 2018 the Company has entered deeds of variation to vary the Existing Convertible Notes and the Security (the **Variation Deeds**) and has entered the New Convertible Note Deed, however, each of the Variation Deeds and the New Convertible Note Deed are conditional upon Shareholder approval being obtained by 30 November 2018 and, in the case of variations to the Security, the New Convertible Note being issued. It is for this reason that Resolution 4 is proposed.

The Proposed Transaction which is the subject of this Resolution 4 encompasses the Proposed Amendments, the Proposed Conversion, the grant of the JV Royalty, the issue of the Conversion Shares and the Interest Shares and the continued grant of the Security (and any Relevant Interest that Trepang, Mr Robinson (Snr) or Mr Nicholas Paspaley may obtain as a result of those matters).

Resolution 4 will update the approval previously given by Shareholders under resolution 1 of the April EGM, so as to allow the Company the flexibility to carry out the Proposed Transaction. If this Resolution 4 is not passed by 30 November 2018, the Maturity Dates of the Existing Convertible Notes, the Secured Loan Deed and the Unsecured Loan Deed will remain in accordance with their current terms and resolution 1 of the April EGM will continue to be relied upon.

Shareholder Approval

The Company is seeking Shareholder approval to:

- (a) the Proposed Amendments;
- (b) the Proposed Conversion; and
- (c) the grant of the JV Royalty,

in order to implement the Proposed Transaction. Shareholders should be aware that the issue of Shares on conversion of the Convertible Notes and the issue of Interest Shares will result in an increased shareholding of the Existing Financiers, specifically the Relevant Interest Acquisition, set out in greater detail in section 6.7 below.

Note that in the event that Resolution 4 is not approved, the Maturity Dates of each of the Existing Convertible Notes will remain as they currently are and the Secured Loan Deed and Unsecured Loan Deed will remain in place, and accordingly the Company will be required to make repayments of the amounts loaned under the Existing Convertible Notes and the Secured Loan Deed as each Maturity Date falls due. This will impact the repayment of the Anglo Loan, as under the terms of the Anglo Loan it must be fully repaid before the Convertible Notes and the Secured Loan Deed can be repaid (as set out above). The following table sets out the current Maturity Date of each of the existing Convertible Notes, the Secured Loan Deed and the Unsecured Loan Deed.

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Agreement	Current Maturity Date	Existing option to extend Maturity Date	Proposed new extended Maturity Date under Resolution 4
Trepang Convertible Loan Deed/Trepang Convertible Note (\$15 million original principal plus interest)	1 February 2019	By one further period of one year, to 1 February 2020 subject to agreement of both the Company and the Trepang.	1 February 2021
Robinson and Paspaley Convertible Loan Deed/ Robinson and Paspaley Convertible Notes (combined \$20 million original principal plus interest)	1 February 2019	Nil	1 February 2021
Secured Loan Deed: Tranche A amount (Capitalised interest on the original principal amount of \$1million plus interest thereon)	1 February 2019	By one further period of one year, to 1 February 2020 subject to agreement of both the Company and the Trepang	To be replaced with the New Convertible Note Deed with an expiry date of 1 February 2021
Secured Loan Deed: Tranche B amount (\$5 million original principal plus interest)	27 April 2019	Nil	To be replaced with the New Convertible Note Deed with an expiry date of 1 February 2021
Unsecured Loan Deed (\$2 million original principal plus interest)	27 April 2019	Nil	To be replaced with the New Convertible Note Deed with an expiry date of 1 February 2021

Note also that in the event that Resolution 4 is not approved, the Conversion Prices of the Existing Convertible Notes will remain as they currently are. The following table sets out the current and proposed Conversion Price of the Existing Convertible Notes.

Agreement	Current Conversion Price	Proposed new Conversion Price under Resolution 4
Trepang Convertible Loan Deed/Trepang Convertible Note (\$15 million original principal plus interest)	\$1.38	\$0.80
Robinson and Paspaley Convertible Loan Deed/ Robinson and Paspaley Convertible Notes (combined \$20 million original principal plus interest)	\$1.50	\$0.80

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The Company has engaged Ernst & Young Transaction Advisory Services Limited to prepare an Independent Expert Report, in part on the Proposed Amendments (including the Relevant Interest Acquisition, the Proposed Conversion, the granting of the JV Royalty and the granting or continued grant of the Security) to assist Shareholders to decide whether or not to vote in favour of Resolution 4.

Independent Expert and Non-Interested Director consideration

The Independent Expert has assessed that:

- (a) the Proposed Amendments (including the Proposed Conversion are fair and reasonable to Non- Associated Shareholders;
- (b) the granting of or continued granting of the Security is fair and reasonable to Non- Associated Shareholders; and
- (c) the granting of the JV Royalty 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 Attachment 1 to this Explanatory Memorandum. Shareholders are also referred to sections 6.8 and 6.14 of this Explanatory Memorandum for further details as to the contents of the Independent Expert Report.

The Non-Interested Directors (being The Hon. Shane Stone and Mr Munro) 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.

6.2 Acquisition of Dartbrook Coal Mine and Dartbrook JV

The Company completed its acquisition of the Dartbrook Coal Mine on 29 May 2017. The rationale for the Company's purchase of Dartbrook was 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.

Since acquiring the Dartbrook Coal Mine, the Company has undertaken studies on the potential to develop the mine utilising open cut methods and assessed the potential to recommence underground mining via limited bord & pillar workings. In respect of the underground mining proposition, the Company submitted an application to modify its existing approvals to allow, amongst other things, an alternate mining method to extract coal, an alternate coal clearance route to haul coal and an extension of all applicable approvals for a further five years. At the date of this notice, the modification is still progressing through the respective NSW State Government departments with determination anticipated in the coming months.

On 6 August 2018, the Company entered into a joint venture arrangement with SNR to progress development of the Dartbrook Coal Mine. The involvement of SNR as a development partner provides the joint venture with significant underground coal mining expertise and access to capital markets to deliver the Dartbrook Coal Mine into operation. On completion of the SNR Agreement (which remains subject to a number of conditions being satisfied or waived key details of which are set out in the ASX announcement of 6 August 2018), SNR will be appointed as manager of the Dartbrook Coal Mine, and will be responsible for all aspects of development and operations, including the procurement of all required funding for the life of the operation. A condition for completion of the SNR Agreement is SNR developing (and the Company approving) a development plan for the Dartbrook Coal Mine.

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Resolution 4 does not seek Shareholder approval of either the acquisition of the Dartbrook Coal Mine by the Company or the entry or completion of the SNR Agreement which will give rise to the Dartbrook JV commencing. Rather, it seeks the approval of Shareholders in respect of varying the financing arrangements with the Existing Financiers, which have already been approved by Shareholders, and to refresh the approval obtained pursuant to resolution 1 of the April EGM to allow the Company to undertake the Proposed Transaction.

However, in the event that Shareholders do not approve Resolution 4, the Maturity Dates of each of the Existing Convertible Notes will remain as they currently are and the Secured Loan Deed and Unsecured Loan Deed will remain in place, and accordingly the Company will be required to make repayments of the amounts loaned under the Existing Facilities as each Maturity Date falls due. This will impact the repayment of the Anglo Loan, as under the terms of the Anglo Loan it must be fully repaid before the Existing Facilities can be repaid (as set out in section 6.1 above). The nearest Maturity Date is 1 February 2019 and, absent any approval to extend that date or vary the terms of the Anglo Loan, the Company will need to pursue alternative funding arrangements to meet its repayment obligations.

6.3 Summary of Proposed Transaction and document terms

An fuller explanation of the rationale of the Proposed Transaction is set out in section 6.4 and the advantages and disadvantages of the Proposed Transaction are set out in section 6.5.

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;
- (g) New Convertible Note Deed – Schedule 10;
- (h) New Convertible Note - Schedule 11;
- (i) Anglo Security – Schedule 12;
- (j) Vendor Loan Agreement - Schedule 13; and
- (k) Unsecured Loan - Schedule 14.

6.4 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 Proposed Transaction will allow the Company to complete the SNR Agreement as a condition to completion is the repayment of the Anglo Loan and the release of the Security.
- (b) Under the SNR Agreement, SNR will be appointed as manager of the Dartbrook Coal Mine, and will be responsible for all aspects of development and operations, including the procurement of all required funding for the life of the operation. The Company

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views SNR as a strong development partner with the appropriate mining expertise to return the Dartbrook Coal Mine to an active mining operation

- (c) To obtain additional funding on completion of the acquisition of the Dartbrook Coal Mine the Company entered into the Anglo Loan. The terms of the Anglo Loan include a 3 year term, which extends beyond the existing Maturity Dates under the Existing Facilities. As the terms of the Anglo Loan require that it be paid out in full before the Existing Facilities can be repaid, in the event that the SNR Agreement does not complete and if the Maturity Dates are not extended, the Anglo Loan will need to be paid out early in order for the Company to comply with the requirement to repay the Existing Facilities on the relevant Maturity Dates. As such, the Company will not have access to the full term of the Anglo Loan.
- (d) Extending the Maturity Dates will provide the Company additional time before it is required to repay the Existing Facilities in the event that the SNR Agreement does not complete.
- (e) Converting the Secured Loan Deed and Unsecured Loan Deed into the New Convertible Note will reduce the number of types of instruments on issue to the Existing Financiers to one, being convertible notes;
- (f) Shareholders approved resolution 1 at the April EGM and therefore approved the terms of the Existing Convertible Loan Deeds, the Existing Convertible Notes, the Secured Loan Deed and the Security on the terms that were in place as at the date of the April EGM. Since the April EGM, the only variation to those terms has been to:
 - (1) extend the draw down date of the \$5 million original principal amount of the Secured Loan Deed until 6 months following completion of the acquisition of the Dartbrook Joint Venture and to vary the approved purpose of these funds from acquiring the interests of Marubeni under the Dartbrook Joint Venture Agreement to working capital; and
 - (2) subject to all necessary Shareholder approvals, undertake the amendments as detailed above.
- (g) the Voting Power of the Existing Financiers under the Proposed Transaction will increase up to a maximum of 78.74% (as set out in section 6.7), which is lower than the 82.18% approved at the April EGM, and may turn out to be significantly lower, for example if the SNR agreement completes.

6.5 Key Advantages and Disadvantages of the Proposed Transaction

The passing of Resolution 4 at the Meeting will allow the Company the flexibility to undertake either of the two scenarios contemplated under the Proposed Transaction (i.e. whether or not the SNR Agreement completes). In either scenario, the Secured Loan Deed and Unsecured Loan Deed will be converted into a convertible note, and the Maturity Dates and Conversion Prices of the Trepang, Robinson and Paspaley Convertible Loan Deeds extended.

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

(d) **Allow for Dartbrook JV Completion**

The Proposed Transaction will put the Company in a position where it will be able to complete the SNR Agreement. The Dartbrook Joint Venture, through the involvement of SNR, will be better positioned to deliver on a mining recommencement strategy given the significant underground mining expertise of SNR.

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(e) **No debt or encumbrances**

If the Proposed Transaction proceeds to completion, the Company will be left in a position where it has no debt owing to the Existing Financiers and Anglo and no encumbrances over its assets in favour of the Existing Financiers and Anglo. The Company will have no outstanding convertible securities which will provide an improved understanding of the Company's share capital structure and potentially improved interest from investors.

(f) **Extension and alignment of Maturity Dates**

The proposed extension will extend the Maturity Dates of the Existing Facilities. Accordingly, the Company will not be required to pay out the Robinson, Paspaley and Trepan Convertible Notes in February 2019 or the Secured Loan Deed and Unsecured Loan Deed in April 2019. If the Company had to raise funding to pay out the respective facilities, it is likely that a significant capital raising would have to be undertaken and given the quantum and nature of the raising, the pricing of the raising would likely be at a material discount to current trading of the Company's ordinary shares. Any such raising could therefore be more dilutive to all shareholders compared to the proposed revised conversion price of respective facilities, being \$0.80 per share. The proposed extension will also have the side effect of aligning the Maturity Dates of each of the financing arrangements.

(g) **Increased time to repay**

The proposed extension may give the Company additional time to repay the Existing Facilities.

(h) **Repayment with Shares rather than cash**

The issue of the New Convertible Note will provide for the possibility that all of the money owing in respect of the New Convertible Note may be converted into Shares, whereas under the terms of the Secured Loan Deed and the Unsecured Loan Deed the money owing on the relevant Maturity Dates must be repaid in cash.

(i) **Change in amount covered by Security**

While the Security will also operate to secure money and obligations owed under the New Convertible Note, the amount secured by the Security will increase only slightly (to cover the \$2 million original principal plus interest under the Unsecured Loan Deed). The assets over which the Security is granted remain the same as is presently the case.

(j) **Independent Expert**

The Independent Expert has concluded that the Proposed Amendments (including the Proposed Conversion), the granting of (and continuing grant of) Security and the granting of the JV Royalty 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 4 is approved and:

- the Conversion Price of the Existing Convertible Notes is decreased to \$0.80 per Share;

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- the New Convertible Note is issued in lieu of the debt under Secured Loan Deed and the Unsecured Loan Deed with a Conversion Price of \$0.80 per Share; and
- the Maturity Dates are extended, in which case the Company will incur additional interest on the amounts loaned under the Existing Facilities and additional Interest Shares may be issued,

Shareholders will hold a further-diluted interest in the Company's assets.

Please refer below at section 6.7 for the potential dilutionary effect arising if Resolution 4 is approved.

(d) 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 4 is approved and the Proposed Transaction proceeds, each of Trepang, Mr Robinson (Snr) and Mr Paspaley (and their Associates) will have Voting Power of up to approximately 78.74% in the Company (based on the assumptions set out in section 6.7). Accordingly, Trepang, Mr Robinson (Snr) and Mr Paspaley 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.

Additionally Trepang, Mr Robinson (Snr) and Mr Paspaley (acting together) have the potential to obtain at least a 69.76% interest in the Shares in the event that the SNR Agreement proceeds to completion on 5 April 2018 and would be able to pass ordinary resolutions in this circumstance.

(e) 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 4 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.

(f) Takeover offer may become more difficult

If Resolution 4 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. However, it is noted that this will remain the case in the event that Resolution 4 is not approved, as a result of the approval given by Shareholders at the April EGM.

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

If Resolution 4 is approved, Trepang, Mr Robinson (Snr) and Mr Paspaley will be issued up to 79,780,474 new Shares in the Company (based on the assumptions set out in section 6.7). 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

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Mr Paspaley selling any new Shares issued to them on the open market. If Resolution 4 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. However, it is noted that this will remain the case in the event that Resolution 4 is not approved, as a result of the approval given by Shareholders at the April EGM.

(h) **Security over all assets**

The result of the previous granting of the Security had been that a security interest is granted over all of the assets of the Company and the Company Group, in favour of the Existing Financiers. If Resolution 4 is approved this will allow the Security to also secure amounts owing under the New Convertible Note Deed and the New Convertible Note.

The Security has already been granted in reliance on the approval given by Shareholders at the April EGM. In addition, security has been granted to AAMCA pursuant to the terms of the Vendor Loan Agreement.

The grant of the Security 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 the Existing Financiers (and any other security holders, such as AAMCA) 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. However, it is noted that this will remain the case in the event that Resolution 4 is not approved, as a result of the approval given by Shareholders at the April EGM and the Security already granted in reliance on that approval.

It is noted that the Company does have prepayment rights where it is able to secure funding of at least \$40,000,000 (proposed to be increased to \$42,000,000 subject to approval of Resolution 4) and in certain circumstances, the Company may be permitted to grant security to an incoming financier in priority to the Security granted to the Existing Financiers.

It should be noted that the Security is second in ranking to the Anglo Security, as detailed in Schedule 10.

6.6 **Potential Position of Shareholders if Resolution 4 is Not Approved**

As outlined above, if Shareholders do not approve Resolution 4 the Company will not be able to undertake the Proposed Transaction. This will have a number of consequences.

(a) **Non-completion of the SNR Agreement**

The Company will not be able to complete the SNR Agreement. The Company will continue to sole fund the holding and development costs of the Dartbrook Coal Mine, which will require further capital to the Company, while it investigates alternate development options for recommencement of underground mining. The time and cost to undertake the investigations are uncertain and have the potential to delay production at the Dartbrook Mine.

(b) **Early repayment of Anglo Loan**

The agreed extension of the Maturity Date of the Existing Convertible Notes, the Secured Loan Deed and the Unsecured Loan Deed will not take effect. As the Anglo

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Loan must be repaid in full before the Convertible Notes and the Secured Loan Deed can be repaid, this means that the Anglo Loan will need to be repaid early (which otherwise may not be payable until 29 May 2020), i.e. before the relevant Maturity Dates.

Currently, the closest Maturity Date is 1 February 2019 (for the Convertibles Notes). While the Trepang Convertible Loan Deed and the Secured Loan Deed (Tranche A only) does contain provision for the Company and Trepang to agree to extend the relevant Maturity Date, Trepang is not required to do so. As such, without an extension of the Maturity Dates, the Company will be placed into a position where it is required to repay the Anglo Loan on or before 1 February 2019. A table setting out the Maturity Dates of the Convertible Notes, the Secured Loan Deed and the Unsecured Loan Deed can be found in section 6.1.

(c) **The Company will require alternative capital raising to repay the Anglo Loan**

If the Company is required to repay the Anglo Loan early and to repay the Existing Convertible Notes on 1 February 2019 and the Secured Loan Deed and the Unsecured Loan deed on 29 April 2019, the Company will be required to seek alternative methods of capital raising in order to do so.

The Directors consider that the alternatives available to the Company in circumstances where Resolution 4 is not approved and the Company is required to repay the Anglo Loan early (which otherwise may not be payable until 29 May 2020) include:

(1) **Raising additional equity capital**

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

The difficulty the Company may face in raising additional 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 of the Dartbrook Coal Mine. As outlined in the Notice of Meeting published on 13 March 2017 the only successful financing arrangements available to the Company were the Robinson and Paspaley Convertible Loan Deeds.

The Company has actively sought additional funding, however, as at the date of this Notice, aside from the Anglo Loan, \$5 million raised from a placement to an unrelated sophisticated investor announced by the Company on 29 March 2017 and \$50,000 raised from a placement announced by the Company on 8 June 2017, no such funding has been secured. Whilst additional funding offers have been proposed by various third parties from time to time, these offers have been deemed to be opportunistic, relatively expensive and inequitable to existing shareholders of the Company. Further details of the Company's efforts to raise additional funding are set out in the Notice of Meeting for the April EGM.

Shareholders should note that further attempts to identify alternative investors on terms reasonable to the Company may require considerable amounts of time and even if an alternative 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.

(2) **Raising additional debt capital**

Alternatively, the Company may need to attempt to establish an additional debt facility. If the Company was able to secure such a facility, there is no

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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 of the Dartbrook Coal Mine and when the Company subsequently sought further financing to assist in funding the acquisition of the Dartbrook Coal Mine. As outlined above previously the only successful financing arrangements available to the Company prior to March 2017 were the Existing Convertible Loan Deeds, with a further amount of only \$5,050,000 raised from unrelated parties pursuant to placements since that date.

The existing security arrangements granted in favour of Anglo American and Trepang & Associates adds complexity to refinancing discussions with potential debt providers.

(d) Repayment of money owing under the Secured Loan Deed and Unsecured Loan Deed with Shares

The Company will not be able to shift the existing money owing under the Secured Loan Deed and the Unsecured Loan Deed to the New Convertible Note Deed. The Secured Loan Deed and Unsecured Loan Deed will continue in accordance with their terms, and all money owing these deeds will be repayable by the Company in cash on their respective Maturity Dates, as is presently the case, and the Company will be required to seek alternative methods of capital raising in order to make this repayment.

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

Trepang, together with its Associates (which include Mr Robinson (Snr), Mr Paspaley), currently are the registered holder of 21,061,667 Shares or 42.78% of the current issued Shares in the Company. Accordingly Trepang, together with its Associates, has Voting Power of 42.78% in the Company. If the Conversion Shares and Interest Shares were issued, the Voting Power of Trepang (and its Associates including Mr Robinson (Snr) and Mr Paspaley) would increase still further.

Shareholders are referred to Schedule 8 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 completion of the SNR Agreement takes place on 5 April 2019, the Trepan Convertible Note is redeemed for cash in full and the Robinson and Paspaley Convertible Notes and the New Convertible Note were fully converted into Shares, the Voting Power of Trepan, Mr Robinson (Snr) and Mr Paspaley (and their Associates) would increase to up to approximately 69.76% (assuming that no further Shares in the Company are issued);
- (b) if completion of the SNR Agreement did not occur, and the Convertible Notes were fully converted into Shares, the maximum number of Interest Shares were issued at \$0.60 per Share, the Voting Power of Trepan, Mr Robinson (Snr) and Mr Paspaley (and their Associates) would increase to up to approximately 78.74% (assuming that no further Shares in the Company are issued);
- (c) if completion of the SNR Agreement did not occur, and the Convertible Notes were fully converted into Shares, the maximum number of Interest Shares were issued at \$0.80 per Share, the Voting Power of Trepan, Mr Robinson (Snr) and Mr Paspaley (and their Associates) would increase to up to approximately 77.95% (assuming that no further Shares in the Company are issued);

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- (d) if completion of the SNR Agreement did not occur, and the Convertible Notes were fully converted into Shares, the maximum number of Interest Shares were issued at \$1.00 per Share, the Voting Power of Trepang, Mr Robinson (Snr) and Mr Paspaley (and their Associates) would increase to up to approximately 77.44% (assuming that 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. Having said that, at the April EGM, Shareholders approved the potential increase in the Voting Power of the Existing Financiers up to a maximum of 82.18%, which is greater than the maximum increase to the Voting Power of the Existing Financiers the subject of Resolution 4 (being 78.74%).

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 is variable, it may be that the applicable issue price differs from those used by way of example above and in Schedule 8, 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 4 seeks approval for a maximum increase in the Voting Power of Trepang, Mr Robinson (Snr) and Mr Paspaley (and their Associates) to 78.74%.

It is also noted that the above assumes the maximum number of Interest Shares are issued. If the Proposed Transaction occurs promptly, the Existing Facilities will be largely paid out and as such much fewer (if any) Interest Shares will be issued.

6.8 Conclusion of the Independent Expert

The Independent Expert has assessed that the Proposed Amendments (including the Relevant Interest Acquisition, the Proposed Conversion, the granting of the JV Royalty and the grant or continued grant of the Security) are 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 Proposed Amendments (including the Relevant Interest Acquisition, the Proposed Conversion, the granting of the JV Royalty and the grant or continued grant of the Security) are fair as:
 - (1) the assessed fair value range of an AQC share on a controlling interest basis under Scenario 1 and the pro forma value determined under Scenario 2, are substantially less than the \$0.80 per share conversion price being proposed for the Existing Convertible Notes and the New Convertible Notes under the Proposed Amendments;
 - (2) the equity value per share of AQC on a controlling interest basis increases at both low and high end valuations;
 - (3) the equity value per share received by the Existing Financiers under Scenario 1, including the JV Royalty, is between \$0.10 and \$0.51, which is below the conversion price of \$0.80 per share at which the Existing Financiers must convert under Scenario 1;
 - (4) even with the grant of the continued security, the Existing Financiers under no circumstance are entitled to an amount greater than the Existing Debt; and
- (b) having regard to the potential advantages and disadvantages of the Proposed Amendments (including the the Relevant Interest Acquisition, Proposed Conversion, the granting of the JV Royalty and the grant or continued grant of the Security) to the

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Non-Associated Shareholders (as set out in detail in sections 7.1 and 7.2 of the Independent Expert Report), the position of AQC if the Proposed Amendments are not approved (as set out in detail in section 7.3 of the Independent Expert Report) and other considerations set out in the Independent Expert Report, the Independent Expert concluded the Proposed Amendments (including the Relevant Interest Acquisition, the Proposed Conversion, the granting of the JV Royalty and the grant or continued grant of the Security) are reasonable to the Non-Associated Shareholders.

Shareholders are also referred to section 6.14 and Attachment 1 to this Explanatory Memorandum.

6.9 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 and the issue of Interest Shares are set out in Schedule 7.

6.10 Shareholder Approval

Resolution 4 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 (including the Relevant Interest Acquisition).

6.11 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 4, if passed, will confer Financial Benefits and involve the issue of Securities, namely, 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 (or continuing grant) of Security to a Related Party. Therefore the Company seeks to obtain

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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.

The approval of the Proposed Conversion, the Proposed Amendments and the grant of the JV Royalty are all the subject of Resolution 4. As such, Shareholders will either approve the suggested amendment to (or issue of) all or none of the Convertible Notes, the Secured Loan Deed and the Unsecured Loan Deed and there is not an ability for Shareholders to approve matters relating to only one or more of the Convertible Notes or the Secured Loan Deed and Unsecured Loan Deed. As a result of Resolution 4 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 4, and the Company also seeks to obtain Shareholder approval in respect of Trepang and Mr Paspaley in accordance with the requirements of Chapter 2E of the Corporations Act.

6.12 Information for Shareholders - Chapter 2E of the Corporations Act

Refer to sections 6.1 to 6.7 above for the background and circumstances in which the Financial Benefit is given and the existing interests of Trepang, Mr Robinson (Snr), 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 amendment of the Conversion Price of the Existing Convertible Notes resulting in the issue of additional Shares on conversion of the Existing Convertible Notes above those approved by Shareholders at the April EGM,;
- (2) the issue of the New Convertible Note in lieu of the money owing pursuant to the Secured Loan Deed and the Unsecured Loan Deed;
- (3) the issue of the Conversion Shares on conversion of the Convertible Notes;
- (4) the issue of additional Interest Shares above those approved by Shareholders at the April EGM, under the terms of the Existing Convertible Loan Deeds and the Secured Loan Deed due to the extended Maturity Dates as well as Interest Shares under the New Convertible Note Deed;
- (5) the grant (or continuing grant) of the Security to secure the obligations under the Existing Convertible Loan Deeds and the Convertible Notes;
- (6) in the event the SNR Agreement completes, the obligation on the Company to redeem in cash all money owing pursuant to the Trepang Convertible Note;
and

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(7) in the event the SNR Agreement completes, the grant of the JV Royalty.

Refer also to sections 6.1 to 6.7 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 (The Hon. Shane Stone and Mr Munro) recommends that shareholders vote in favour of Resolution 4.

The reasons for this recommendation are set out above at 6.4.

As Mr Robinson (Jnr) is the son of Mr John Robinson (Snr) he makes no recommendation with respect to Resolution 4.

(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 4, 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) is 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 he is the son of John Robinson (Snr) (who does have a material personal interest in the outcome of Resolution 4). As such, he makes no recommendation in respect of Resolution 4.

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 8.

No other Director has any interest in the outcome of Resolution 4 or any other relevant agreement.

(d) **Valuation**

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

The Shares to be issued pursuant to Resolution 4 are in a class of securities that is quoted on ASX. The issue price of the Shares is:

- (A) \$0.80 per Share under the amended terms of each of the Convertible Notes; and
- (B) 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 on a periodic basis, or in the case of Interest Shares issued in respect of capitalised interest on the Convertible Notes, the issue price if converted on Maturity Date will be the relevant Conversion Price.

The proposed amended issue price under the Convertible Notes of \$0.80 represents a 5.3% premium to the VWAP for the previous 20 trading days prior to and including 2 October 2018, being \$0.76 per Share.

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

(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 2 October 2018 was \$0.76. The VWAP for the previous 20 trading days up to 2 October 2018 was \$0.74 per Share.

(2) **Trading history**

In the 14 months prior to and including 2 October 2018 the Company's trading history is as follows:

- (A) the highest trading price was \$1.30 (20 November 2017 and other dates);
- (B) the lowest trading price was \$0.60 (29 June 2018 and other dates); and
- (C) the VWAP per Share over the 14 month period prior to and including 2 October 2018 was \$1.07.

Note: the above prices are adjusted to account for the Company's 100:1 share consolidation, approved by Shareholders on 28 November 2017.

(3) **Opportunity Costs**

The opportunity costs and benefits foregone by the Company issuing the Shares pursuant to Resolution 4 and granting the Security are explained in full detail at sections 6.5 to 6.6 above.

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

(4) **Taxation Consequences**

No stamp duty or GST will be payable in respect of the Proposed Transaction.

(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 9.

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

Set out above at section 6.6 are the alternative available options identified by Directors if this Resolution 4 is not passed.

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

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The impact of the transaction on the Company is set out in full detail at sections 6.1 to 6.7 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 4.

(f) **Voting exclusion statement**

A voting exclusion statement is set out in Resolution 4 in the Notice of Meeting.

6.13 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 the Existing Financiers 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 the Existing Financiers (and their Associates) in the Company to increase from a starting point that is above 20% to below 90%.

Accordingly, Resolution 4 seeks approval for the issue of Shares to the Existing Financiers and for any Relevant Interest the Existing Financiers may obtain in the such 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 or Mr Paspaley will not count towards the Company's 15% Capacity under Listing Rule 7.1.

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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 Note, Mr Robinson (Snr) may acquire the Proposed Robinson Conversion Shares and Interest Shares.

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

Under the Trepang Convertible Note and the New Convertible Note, Trepang may acquire the Proposed Trepang Conversion Shares and Interest Shares.

Under the Secured Loan Deed, Trepang may acquire Interest Shares (noting that, under the Proposed Transaction, the Company's intention is to convert the Secured Loan Deed to the New Convertible Note 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 49,234,810 Shares on issue in the Company. There are currently no options or other convertible securities on issue, other than the Existing Convertible Notes. Trepang, together with its Associates (which includes Mr Robinson (Snr) and Mr Paspaley), currently holds 21,061,667 Shares, representing 42.78% 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 – 19,770,000 Shares; and
- (2) Mr Nicholas Paspaley – 1,291,667 Shares.

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

- (1) The number of Conversion Shares which may be issued in respect of the Robinson and Paspaley Convertible Notes, which each have a face value of \$11,266,401 + \$1,989,284 capitalised interest as at 29 November 2018, and a conversion price of \$0.80 is per Note, is 20,572,111 each;
- (2) The number of Conversion Shares which may be issued in respect of the Trepang Convertible Note with a face value of \$15,000,000 + \$6,662,290 capitalised interest as at 29 November 2018 and a conversion price of \$0.80 is 27,077,862;
- (3) The number of Conversion Shares which may be issued in respect of the New Convertible Note with a face value of \$7,000,000 + \$447,663 capitalised interest as at 29 November 2018 and a conversion price of \$0.80 is 11,558,390;

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- (4) The number of Interest Shares which may be issued in respect of the Convertible Notes 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 five Trading Days on which Shares traded in the ordinary course of business on the ASX prior to the relevant Interest Payment Date unless interest is capitalised in respect of the Convertible Notes in which case the issue price will be the applicable Conversion Price. 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 New Convertible Note depending on the ultimate issue price:

Interest Share issue price	Maximum number of Interest Shares assuming interest payments of \$11,411,550
0.60	19,019,250
0.80	14,264,438
1.00	11,411,550

Note: The above table sets out the maximum number of Interest Shares that can be issued pursuant to Resolution 4. This is calculated on the basis that in respect of the Convertible Notes, Interest Shares are issued each month in satisfaction of monthly interest due and payable with a Maturity Date of 1 February 2021. It is noted that interest in an amount of \$1,266,401 in respect of each of the Robinson and Paspaley Convertible Loan Deeds was capitalised on issue of those Convertible Notes and therefore not satisfied by the issue of Interest Shares. It is also noted that as at the date of this notice all interest on the Existing Convertible Notes has been capitalised, and that to date no Interest Shares have as yet been issued. In the event that completion of the SNR Agreement occurs, all interest will be capitalised and as such will be converted into Shares at the applicable Conversion Price.

Ultimately, Resolution 4 seeks approval for a maximum of 19,019,250 Interest Shares (which assumes the issue price is a minimum of \$0.60 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 (subject to the terms of the Intercreditor Deed) any of the interest. The maximum total Interest Shares that may be issued under Resolution 4 is higher than the maximum approved Interest Shares at the April EGM (which was 3,808,683 Interest Shares, after adjustment for the November 2017 100:1 consolidation) due to the proposed extension of maturity from 1 February 2019 to 1 February 2021.

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 pursuant to Resolution 4 (as set out in the tables above by way of example only) were issued:

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Issue price ¹	Trepang	John Robinson (Snr)	Nicholas Paspaley	Total – Direct and Indirect ²
\$0.60	60,309,980 45.51%	21,368,835 16.13%	22,660,502 17.10%	104,339,317 78.74%
\$0.80	57,954,782 45.36%	20,169,027 15.79%	21,460,694 16.80%	99,584,503 77.95%
\$1.00	56,541,664 45.27%	19,449,143 15.57%	20,740,810 16.61%	96,731,617 77.44%

Notes:

1. *It is noted that, if Resolution 4 is approved, the conversion price for the Convertible Notes will be fixed at \$0.80. However, the issue price for the Interest Shares is not fixed and this table assumes the price set out above is used as the issue price. The issue price for the Interest Shares may well be significantly different to that set out above, however, Resolution 4 only seeks approval for a maximum of 19,019,250 Interest Shares (which assumes the issue price is \$0.60 per Share). As a result, Resolution 4 seeks approval for the Voting Power of Trepang, Mr Robinson (Snr) and Mr Paspaley (and their Associates) to increase to a maximum of 78.74%. 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.*

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 the Existing Financiers in the Company will be less than that set out above. Note that this will also occur if completion of the SNR Agreement occurs - under that scenario, the Trepang Convertible Note will be repaid in full, and the Robinson and Paspaley Convertible Notes and the New Convertible Note will be fully converted on completion of the SNR Agreement, and so will not accrue any interest after that date.

The possible dilutionary effect of the issue of the Proposed Conversion Shares and the Interest Shares is provided in a table in Schedule 9.

- (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 the Existing Financiers (and their Associates), which may be up to 78.74% 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 the nominee Director of, and 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 78.74% as a result of the Proposed Transaction.

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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 section 6.4.

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

The Robinson and Paspaley Convertible Notes were issued on 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 Trepang Convertible Note was issued on 25 May 2017. 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 New Convertible Note will be issued on the Business Day following the approval of Resolution 4. The Proposed Trepang Conversion Shares that may be issued on conversion of the New Convertible Note can be issued at any time after the issue of the New Convertible Note, until the Maturity Date of the New Convertible Note.

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

The variation of the Maturity Dates and Conversion Price of the Existing Convertible Notes will take effect from the date of approval of Resolution 4.

Subject to the SNR Agreement completing, as described in section 6.1 the Robinson and Paspaley Convertible Notes and the New Convertible Note will be fully converted into Shares (with the Trepang Convertible Note being fully redeemed in cash).

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

The Proposed Transaction is summarised in section 6.1.

All material terms of the Existing Convertible Loan Deeds and the Existing Convertible Notes will remain as they currently are, with the following amendments subject to the passing of Resolution 4:

- The extension of the Maturity Dates as set out in section 6.1.
- The variation of the Conversion Prices as set out in section 6.1.
- The inclusion of an ability to repay the Robinson and Paspaley Convertible Notes early at the Company's election (as is currently in place under the Trepang Convertible Loan Deed).
- The inclusion of a forced redemption of the Trepang Convertible Loan Deed and the forced conversion of the Robinson and Paspaley Convertible Loan Deeds in the event of the SNR Agreement completing.
- The requirement to grant the JV Royalty on completion of the SNR Agreement.

Subject to the passing of Resolution 4, the Secured Loan Deed and the Unsecured Loan Deed will be converted into the New Convertible Note Deed.

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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, the New Convertible Note Deed, the New Convertible Note and the Unsecured Loan Deed are set out in Schedule 1, Schedule 2, Schedule 3, Schedule 4, Schedule 5, Schedule 10, Schedule 11 and Schedule 14 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 Existing Convertible Loan Deeds, the Existing Convertible Notes, the Secured Loan Deed, the Unsecured Loan Deed, the Security and, subject to the passing of Resolution 4, the New Convertible Note Deed and the New Convertible Note, there is no other relevant agreement between Trepang, Mr Robinson (Snr) and 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 4 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,

however there is no binding restriction on Trepang, Mr Robinson (Snr) and Mr Paspaley preventing them from acting otherwise.

(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 4 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 6.12.

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6.14 Independent Expert 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 Expert's Report. One of the purposes of which is to consider whether the issue of the Shares in respect of the Relevant Interest Acquisition is fair and reasonable to the Shareholders who are not associated with Trepang, Mr Robinson (Snr) and Mr Paspaley.

The Company has engaged the Independent Expert to provide the Independent Expert Report which appears as Annexure A to this Explanatory Memorandum. Shareholders are also referred to section 6.8 of this Explanatory Memorandum for further details as to the contents of the Independent Expert Report. Shareholders are asked to note that the Independent Expert 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 Report or the Independent Technical Specialist Report dated 28 February 2017 prepared by Xenith Consulting Pty Ltd ("Technical Expert Report") and the addendum dated 5 October 2018 ("Technical Expert Addendum"), other than factual information provided by the Company to the Independent Expert or Xenith Consulting Pty Ltd for the purposes of the Independent Expert Report, the Technical Expert Report, or the Technical Expert Addendum.

The Independent Expert Report concludes that the Proposed Amendments (including the Relevant Interest Acquisition, the Proposed Conversion, the granting of the JV Royalty and the granting or continued grant of the Security) are fair and reasonable to the Non-Associated Shareholders.

Shareholders are urged to read and consider the Independent Expert Report in full which is Attachment 1 to this Explanatory Memorandum, prior to making a decision as to how to vote on Resolution 4.

Fairness – Proposed Amendments

The Proposed Amendments (including the Relevant Interest Acquisition, the Proposed Conversion, the granting of the JV Royalty and the granting or continued grant of the Security) are considered to be fair if the consideration being paid, being the proposed conversion price of \$0.80 per Share is higher than the equity value per Share on a controlling interest basis plus the value of any other benefit being provided to the Existing Financiers

The Independent Expert determined that the assessed fair value range of an AQC share either on a controlling interest basis under the SNR Agreement completing or the pro forma value determined if the SNR Agreement does not complete are substantially less than the \$0.80 per share conversion price being proposed for the Existing Convertible Notes and the New Convertible Note under the Proposed Amendments.

This analysis also illustrates that under either scenario set out above, effectively being the two most dilutive scenarios for the Non-Associated Shareholders, if the Proposed Amendments are approved, the equity value per Share on a controlling interest basis increases at both the low and high end. This is of benefit to the Non-Associated Shareholders.

Accordingly, the Independent Expert considered the Proposed Amendments (including the Relevant Interest Acquisition, the Proposed Conversion, the granting of the JV Royalty and the granting or continued grant of the Security) to be **fair** to the Non-Associated Shareholders.

Reasonableness – Proposed Amendments

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

- (a) Advantages:

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- (1) the Proposed Amendments are fair;
- (2) the Proposed Amendments will allow for the SNR Agreement to complete;
- (3) if the SNR Agreement is completed, AQC will have no debt owing to the Existing Financiers or Anglo and all current encumbrances will be released;
- (4) the Proposed Amendments, if approved, will extend the maturity dates of the Existing Convertible Notes and New Convertible Note to 1 February 2021. This will also have the effect of aligning the maturity dates for each of the separate financing arrangements;
- (5) the Proposed Amendments will give AQC additional time with which to repay the Existing Financiers;
- (6) issuing the New Convertible Note will allow the Company to convert the outstanding face value and any capitalised interest on the Secured loan Deed and the Unsecured Loan Deed to equity rather than having to repay this amount with cash;
- (7) the change in the Security will be only a slight change, and the assets over which the Security is granted will remain the same; and
- (8) the Proposed Amendments are the best and only proposal to amend the upcoming maturities of the Existing Convertible Notes and if not approved there are limited other options available to the Company.

(b) Disadvantages:

- (1) the Non-Associated Shareholders interests in AQC will be diluted;
- (2) if the Existing Financiers holder more than a 75% interest, acting together they will be able to pass a special resolution and if they holder more than a 50% interest, acting together they will be able to pass ordinary resolutions of the Company;
- (3) there is no restriction on the Existing Financiers preventing them from changing the Company's strategic direction and management of other operations;
- (4) reduces the likelihood of a takeover of the Company;
- (5) there is the potential for a significant number of Shares to be sold on the open market; and
- (6) the increase in the Security will likely adversely affect the Company's ability to secure further funding.

(c) Position of AQC if the Proposed Amendments are not approved:

As abovementioned, one of the key advantages of the Proposed Amendments is that the Company has limited options with respect to the repayment and / or refinancing of the Existing Debt. The Independent Expert report set out a number of consequences AQC is likely to face in the instance that the Proposed Amendments are not approved:

- (1) the SNR Agreement will not be able to be completed;
- (2) the Anglo Loan will need to be repaid early;

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- (3) there will be a requirement for AQC to source alternate capital to repay the Anglo Loan, for example by raising additional equity capital or debt capital;
- (4) AQC will not be able to convert the Secured Loan Deed and the Unsecured Loan Deed to the New Convertible Note, and will therefore need to satisfy those arrangements with cash rather than equity.

After considering the above, the Independent Expert considered the Proposed Amendments (including the Relevant Interest Acquisition, the Proposed Conversion, the granting of the JV Royalty and the granting or continued grant of the Security) to be **reasonable** to the Non-Associated Shareholders.

6.15 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. 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 Conversion Shares and Interest Shares will not count towards the Company's 15% Capacity under Listing Rule 7.1, assuming Resolution 4 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.

Shareholders have already approved the issue of the Existing Convertible Notes and the Interest Shares in respect of the Existing Convertible Notes and the Secured Loan Deed at the April EGM. However, as the proposed variation of Maturity Dates and the Conversion Price will result in an amendment to the terms of the Existing Convertible Notes and the Secured Loan Deed and a greater number of Conversion Shares and Interest Shares may be issued than was anticipated under the April EGM Notice of Meeting, the Company again seeks Shareholder approval for the variation of the terms of the Existing Convertible Notes already on issue and the issue of the Conversion Shares and the Interest Shares. The Company also seeks approval for the issue of the New Convertible Note and the issue of Conversion Shares and Interest Shares in respect of the New Convertible Note.

As John Robinson (Jnr) is a Director he is a Related Party of the Company. As noted in section 6.11 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.

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The approval of the Proposed Conversion, the Proposed Amendments and the grant of the JV Royalty are all the subject of Resolution 4. As such, Shareholders will either approve various matters relating to all or none of the Convertible Notes, the Secured Loan Deed and the Unsecured Loan Deed and there is not an ability for Shareholders to approve matters relating to only one or more of the Convertible Notes, the Secured Loan Deed or the Unsecured Loan Deed. As a result of the Resolution 4 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 4 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 6.15 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 6.15 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 on approval of 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 (b).

The maximum number of Shares approved for issue by Shareholders at the April EGM were 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.

Note that each of the numbers above are as originally approved at the April EGM, and does not take into account the Company's 100:1 share consolidation, approved by Shareholders on 28 November 2017.

The maximum number of Shares approved for issue pursuant to Resolution 4 is as follows:

- (1) Proposed Robinson Conversion Shares and Proposed Paspaley Conversion Shares – 33,139,210;
- (4) Proposed Trepang Conversion Shares – 21,809,598;

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(5) Conversion Shares on conversion of the New Convertible Note – 9,309,592;
and

(6) Interest Shares – 19,019,250.

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

The Company issued the Robinson and Paspaley Convertible Notes on 18 April 2017.

The Company issued the Trepang Convertible Note on 25 May 2017.

The Proposed Amendments will take effect on the day following Resolution 4 being passed.

The Proposed Conversion will take effect on the business day following Shareholder approval of Resolution 4, on which date the New Convertible Note will be issued.

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 had 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. This application was granted on 4 April 2017 (**Original Waiver**).

The Company will apply for a fresh waiver of Listing Rule 10.13.3 extending the period in which the Company may issue the Interest Shares to a period ending two months after 1 February 2021.

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 rely only on the Original Waiver and will need to satisfy its obligation to pay interest to the extent it is not permitted to issue Interest Shares 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, subject to the terms of the Intercreditor Deed.

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

Each of the Robinson and Paspaley Convertible Notes were issued with a face value of \$11,266,401.29, and currently have a face value of \$1.50. Details regarding the terms of the Robinson and Paspaley Convertible Notes are set out in Schedule 2.

The Trepang Convertible Note was issued with a face value of \$15,000,000, and currently has a face value of \$1.38. Details regarding the terms of the Trepang Convertible Note are set out in Schedule 4.

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The New Convertible Note will be issued with a face value of \$0.8, being the money owing under the Secured Loan Deed and the Unsecured Loan Deed. Details regarding the terms of the New Convertible Note are set out in Schedule 10.

The relevant Conversion Shares were originally to be issued at:

- (1) for the Proposed Robinson Conversion Shares and the Proposed Paspaley Conversion Shares, \$1.50 per Share (taking into consideration the Company's 100:1 share consolidation, approved by Shareholders on 28 November 2017); and
- (2) for the Proposed Trepang Conversion Shares to be issued pursuant to the Trepang Convertible Note, \$1.38 per Share (taking into consideration the Company's 100:1 share consolidation, approved by Shareholders on 28 November 2017),

but following the approval of Resolution 4 will all be issued at \$0.80 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 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 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) were used in partial satisfaction of the purchase price payable pursuant to the SPA.

The funds raised by the Secured Loan Deed were used for working capital.

The funds raised from the Trepang Convertible Loan Deed were 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 previously advanced for working capital), and the remainder as working capital.

The funds raised by the Unsecured Loan Deed were and continue to be used for working capital.

No additional funds will be raised by the issue of the New Convertible Note, the Conversion Shares and the Interest Shares .

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

A voting exclusion statement is set out in Resolution 4 in the Notice of Meeting.

6.16 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

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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 extends 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.

Based on the Independent Experts Report, the JV Royalty has a value of between \$10 million and \$20 Million. This is therefore likely to be more than 5% of the equity interests of the Company, and as such the granting of the JV Royalty will be considered a disposal of a substantial asset of the Company pursuant to Listing Rule 10.2. Accordingly, the grant of the JV Royalty will fall within the ambit of Listing Rule 10.1.

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.

The approval of the Proposed Conversion, the Proposed Amendments and the grant of the JV Royalty are all the subject of Resolution 4. As such, Shareholders will either approve various matters relating to all or none of the Convertible Notes, the Secured Loan Deed and the Unsecured Loan Deed and there is no ability for Shareholders to approve matters relating to only one or more of the Convertible Notes, the Secured Loan Deed or the Unsecured Loan Deed. As a result of the Resolution 4 being a combined approval for Trepang, Mr Paspaley and Mr Robinson (Snr), each are considered Related Parties of the Company under section 228(7) of the *Corporations Act* for the purposes of Resolution 4.

In addition, Trepang, Mr John Robinson (Snr) and Mr Nicholas Paspaley 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.

Shareholders have already approved the granting of the Security to Mr John Robinson (Snr), Mr Nicholas Paspaley and Trepang Services Pty Ltd, at the April EGM. However, as the Proposed Amendments effect the Maturity Dates and will result in the Security being in place for a longer period than was anticipated under the April EGM notice of meeting and the Proposed Conversion will extend the Security to also secure money owing under the New Convertible Note Deed and the New Convertible Note, the Company again seeks Shareholder approval for the granting of (and the continued grant of) the Security. If Resolution 4 is not passed, the Company and its Subsidiaries will still be permitted to grant (or to continue the

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grant of) the Security in reliance on the Shareholder approval provided pursuant to resolution 1 of the April EGM.

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 Report prepared by Ernst & Young Transaction Advisory Services Limited. This report provides a detailed examination of the Proposed Amendments (including the Relevant Interest Acquisition, the Proposed Conversion, the granting of the JV Royalty and the granting or continued grant of the Security), and Ernst & Young Transaction Advisory Services Limited has concluded that the Proposed Amendments (including the Relevant Interest Acquisition, the Proposed Conversion, the granting of the JV Royalty and the granting or continued grant of the Security) are fair and reasonable, to Non-Associated Shareholders.

The Independent Expert Report is in part for the purpose of assisting the Non-Associated Shareholders' consideration and assessment of the merits of the Proposed Amendments (including the Relevant Interest Acquisition, the Proposed Conversion, the granting of the JV Royalty and the granting or continued grant of the Security) and the making of their decision whether to vote in favour of Resolution 4. Shareholders are urged to carefully read the Independent Expert Report, to understand the scope of the report, the methodology of the valuation and the assumptions made.

A copy of the Independent Expert 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 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.

6.17 Directors' Recommendation

Each of the Non-Interested Directors recommend that Shareholders vote in favour of Resolution 4.

As Mr John Robinson (Jnr) is the son of Mr John Robinson (Snr), he makes no recommendation with respect to Resolution 4.

7. Resolution 5 – Approval of the grant of the Group Royalty to Trepang Services Pty Ltd, Mr John Robinson (Snr) and Mr Nicholas Paspaley in exchange for the release of security

7.1 Background

Separate to the Dartbrook JV contemplated by the SNR Agreement, the Board believes that it would be advantageous for the Company to have the option to request that the Existing Financiers to release their security held over the Company Group without having to repay the Existing Facilities. If the Existing Financiers accepted this request and released the relevant Security, the Company would grant to the Existing Financiers a royalty on coal produced from the Dartbrook Coal Mine. The Company and the Existing Financiers agreed to implement this process in respect of the Existing Convertible Loan Deeds and the Secured Loan Deed in October 2017 by revising the terms of the then-existing financial arrangements to permit the Company to offer to the Existing Financiers (which the Existing Financiers could accept at their absolute discretion) a production royalty of \$2.50 per tonne of Dartbrook coal, subject to all necessary shareholder approvals being obtained by 30 November 2018. Further, the New Convertible Loan Deed also contemplates this process being implemented, subject to all necessary shareholder approvals being obtained by 30 November 2018. It is for this reason that Resolution 5 is proposed. The Group Royalty can be granted even if the amendments proposed under Resolution 4 do not take place, and as such Resolution 5 is independent of Resolution 4.

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Shareholders are referred to the background information set out in section 6.1 for information in relation to the securities given by the Company and currently held by the Existing Financiers, the terms of which are summarised in Schedule 6.

The Company is seeking shareholder approval for the ability to require the Existing Financiers to release certain security (including the Security) in exchange for the grant of the Group Royalty.

If Resolution 5 is approved, the terms of the Existing Convertible Loan Deeds, the Existing Convertible Notes and the Secured Loan Deed will be varied and the relevant provisions in the New Convertible Note Deed and the New Convertible Note will commence to include an ability for the Company to offer to the Existing Financiers a royalty in exchange for the release of specified security granted by the Company Group (**Group Royalty Offer**), which the Existing Financiers may accept at their absolute discretion. If the Existing Financiers accept the Group Royalty Offer, they and the Company will enter into the Group Royalty Deed and to release the Security and any other security interests over Company Group assets held by the Existing Financiers. This option will be conditional upon the Anglo Security having been released or assigned to the Existing Financiers and in the latter case, the Anglo Security would also need to be released by the Existing Financiers in consideration for the grant of the Group Royalty.

It is noted that, if the SNR Agreement completes, the Convertible Notes will be either repaid (in the case of the Trepang Convertible Note) or converted (all other Convertible Notes) and all Security released, so in that situation there would be no reason to make the Group Royalty Offer.

7.2 **Independency of Resolutions**

The Company will undertake the Group Royalty pursuant to this Resolution 5 even if Shareholders do not approve the Group Transaction pursuant to Resolution 4.

7.3 **The terms of the Group Royalty**

The Group Royalty is for an amount of \$2.50 per product tonne (subject to escalation). The Group Royalty is to be granted to Trepang, Mr Robinson (Snr) and Mr Paspaley jointly. A summary of the terms of the Group Royalty Deed is set out in Schedule 15.

7.4 **The rationale for the Group Royalty**

The Non-Interested Directors have given detailed consideration to the Group Royalty. The rationale for the grant of the Group Royalty includes:

- (a) If Resolution 5 is passed, the Company gives the Group Royalty Offer to the Existing Financiers and it is accepted by the Existing Financiers, the Security will be released. 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 no longer be required for any further material security interests to be granted over the assets of the Company. This may beneficially affect the Company's ability to obtain additional funding in the future.
- (b) The Group Royalty provides the Company with a means to discharge the security position held by the Existing Financiers over current and future assets of the Company. As the Company can only grant the Group Royalty once the Vendor Loan security is discharged, by acceptance of the Group Royalty and based on its financing arrangements the Company will have no secured debtors with a potential claim on the Company's assets. This allows the Company further financing flexibility with arranging future funding for the Company to progress the Dartbrook Coal Mine.

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- (c) If the Existing Financiers accept the Group Royalty Offer, the Existing Financiers remain aligned with the broader interests of other shareholders as the Existing Financiers are taking significant project development risk given the value of the Group Royalty is only realised on coal produced and sold.

The disadvantages to Non-Associated Shareholders of the grant of the Group Royalty include:

- (a) If Resolution 5 is passed, the Company gives the Group Royalty Offer to the Existing Financiers and it is accepted by the Existing Financiers, the Company will be required to pay the Group Royalty to the Existing Financiers for the life of the Dartbrook Coal Mine. This will in turn reduce the profit the Company earns from the Dartbrook Coal Mine.
- (b) In the event of a disposal of 80% or more of the tenements the subject of the Group Royalty, the applicable parties may have to factor up-front compensation to the Group Royalty Holders, based on the provisions within the Group Royalty Deed. This may reduce the value and transaction consideration that flows to Shareholders of the Company. In addition, as the buy back of the Group Royalty by the Company is in the hands of the Existing Financiers, the Group Royalty will be considered an encumbrance on the tenements the subject of the Group Royalty and may act as a disincentive to a potential third party acquiring such tenements.
- (c) Relevant Legislation – Chapter 2E of the Corporations Act

Shareholders are referred to section 6.11 for a summary of Chapter 2E of the Corporations Act.

This proposed Resolution 5, if passed, will confer Financial Benefits, namely, the granting of the Group Royalty.

As noted above in section 6.11, for the purposes of Resolution 4 Trepang, Mr John Robinson (Snr) and Mr Nicholas Paspaley are considered Related Parties of the Company. For the purposes of consistency the Company proposes to treat them as such for the purposes of Resolution 5 also. As such, the Group Royalty involves the giving of a Financial Benefit to a Related Party, and therefore the Company seeks to obtain Shareholder approval in accordance with the requirements of Chapter 2E of the Corporations Act.

7.5 Independent Expert Report

The Independent Expert has assessed that the grant of the Group Royalty to the Existing Financiers in exchange for the release of the Security is fair and reasonable to the Non-Associated Shareholders,

Fairness – Grant of the Group Royalty for the release of the Security

The granting of the Group Royalty in exchange for the release of the Security would be fair if the value of the assets available for distribution to the Existing Financiers (i.e. after the Anglo Loan and the Anglo Royalty have been repaid) (**Default Proceeds**) are equal to or less than the value of the Existing Debt. For this purpose, the Independent Expert adopted a valuation for the Group Royalty of between \$10 million and \$25 million.

If the Default Proceeds are less than or equal to any debt, the Existing Financiers do not receive an amount greater than the existing debt and this is therefore fair to the Non-Associated Shareholders.

In order for the Default Proceeds to at least equal the Existing Debt the implied required value of the Dartbrook Mine is approximately \$69 million, which is above the high end of the valuation range for the Dartbrook Mine adopted in the Independent Expert report of \$40

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million. For the Dartbrook Mine value to increase to above the implied minimum value there would need to be significant additional development activities undertaken. This would require substantial capex and more than likely unencumbered or unsecured assets to raise the required debt financing. This would only be possible in the event that the Group Royalty is granted in exchange for the release of security by the Existing Financiers. As such, the grant of the Group Royalty in exchange for the release of the Security is **fair** to the Non-Associated Shareholders.

Reasonableness – Group Royalty

The Independent Expert considered the advantages and disadvantages of the grant of the Group Royalty for the release of the Security to determine whether it was reasonable, along with other considerations. These were as follows:

(a) Advantages:

- (1) the grant of the Group Royalty is fair;
- (2) the release of the Security and the Anglo Security is likely to increase AQC's ability to secure further funding;
- (3) the granting of the Group Royalty will further align the interests of the Existing Financiers with the broader interests of AQC; and
- (4) if the Group Royalty is not granted, the options available to the Company will be restricted by the security held by the Existing Financiers.

(b) Disadvantages:

- (1) the grant of the Group Royalty will represent a loss of future profits of the Company;
- (2) there will be a reduction in proceeds from any sale of the tenements subject to the Group Royalty; and
- (3) the Group Royalty will be considered an encumbrance on the tenements the subject of the Group Royalty which may be a disincentive to a potential third party acquiring such tenements.

After considering the above, the Independent Expert considered the grant of the Group Royalty for the release of the Security to be reasonable to the Non-Associated Shareholders.

7.6 Information for Shareholders - Chapter 2E of the Corporations Act

Shareholders are referred to sections 7.1 to 7.4 above for the background and circumstances in which the Financial Benefit is to be given and to Schedule 8 which sets out the existing interests of Trepang, Mr John Robinson (Snr) and Mr Nicholas Paspaley as well as their potential interests if Resolutions 4 and 5 are approved.

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

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

The nature of the proposed Financial Benefit is the grant of the Group Royalty , the terms of which are set out in Schedule 15.

Refer also to sections 7.1 to 7.4 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 (The Hon. Shane Stone and Mr Munro) recommends that shareholders vote in favour of Resolution 5.

The reasons for this recommendation are set out above in Section 7.2.

As Mr Robinson (Jnr) is the son of Mr John Robinson (Snr) he makes no recommendation with respect to Resolution 5.

(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 5, 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) is the nominee director of Trepang Services Pty Ltd. John Robinson (Jnr) does not have a material personal interest in the outcome of Resolution 5, however, as the son of John Robinson (Snr) (who does have a material personal interest in the outcome of Resolution 5) he makes no recommendation in respect of Resolution 5.

No other Director has any interest in the outcome of Resolution 5 or any other relevant agreement.

(d) **Valuation**

Based on the Independent Experts Report, the Group Royalty has a value of between \$10 million and \$25 Million.

(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) **Opportunity Costs**

The opportunity costs and benefits foregone by the Company granting the Group Royalty pursuant to Resolution 5 are explained in full detail at section 7.4 above.

The disadvantages in granting the Group Royalty are considered by the Directors to be offset by the advantages accruing to the Company in the removal of the Security.

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(2) **Taxation Consequences**

No stamp duty will be payable by the Company in respect of the Group Royalty. No GST will be payable by the Company in respect of the Group Royalty.

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 5.

(f) **Voting exclusion statement**

A voting exclusion statement is set out in Resolution 5 in the Notice of Meeting.

7.7 **Relevant Legislation – 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. Shareholders are referred to section 6.16 for a summary of Listing Rule 10.1 and the position of Trepang as a Related Party of the Company. In addition, Trepang is a substantial holder within the meaning of Listing Rule 10.1.3, having together with its Associates' Voting Power of 42.78% in the Company.

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.

Based on the Independent Experts Report, the Group Royalty has a value of between \$10 million and \$25 million. This is therefore likely to be more than 5% of the equity interests of the Company, and as such the granting of the Group Royalty will be considered a disposal of a substantial asset of the Company pursuant to Listing Rule 10.2. Accordingly, the grant of the Group Royalty will fall within the ambit of Listing Rule 10.1.

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. The Independent Expert Report accompanying this Explanatory Memorandum prepared by Ernst & Young Transaction Advisory Services Limited provides a detailed examination of the Group Royalty, and the Independent Expert has concluded that the granting of the Group Royalty in exchange for the release of the Security is fair and reasonable to Non-Associated Shareholders.

The Independent Expert Report is in part for the purpose of assisting the Non-Associated Shareholders' consideration and assessment of the merits of the Group Royalty and the making of their decision whether to vote in favour of Resolution 5. Shareholders are urged to carefully read the Independent Expert Report, to understand the scope of the report, the methodology of the valuation and the assumptions made.

A copy of the Independent Expert 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 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.

7.8 **Directors' Recommendation**

Each of the Non-Interested Directors recommend that Shareholders vote in favour of Resolution 5.

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As Mr John Robinson (Jnr) is the son of Mr John Robinson (Snr), he makes no recommendation with respect to Resolution 5.

8. 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 27 November 2018. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

9. Interpretation

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

\$ means Australian dollars, unless otherwise stated.

AAMCA means Anglo American Metallurgical Coal Assets Pty Ltd ABN 59 081 022 246.

AAMCH means Anglo American Metallurgical Coal Holdings Limited ACN 079 017 940.

ACDAM means AQC Dartbrook Management Pty Ltd ACN 007 377 577 (formerly Anglo Coal (Dartbrook Management) Pty Ltd).

ACDP means AQC Dartbrook Pty Ltd ACN 000 012 813 (formerly Anglo Coal (Dartbrook) Pty Ltd).

AGM means an annual general meeting.

Anglo Loan means the \$7.7 million in vendor funding provided by AAMCA under the Vendor Loan Agreement.

Anglo Maturity Date means, in respect of the money owing pursuant to the Vendor Loan Agreement, 29 May 2020, as set out in Schedule 13.

Anglo Royalty means the \$30 million royalty payable by ACDP to:

- (a) AAMCA in accordance with the royalty deed between ACDP and AAMCA dated 29 May 2017; and
- (b) Marubeni in accordance with the royalty deed between ACDP and Marubeni dated 29 May 2017.

Anglo Security means the security granted or to be granted by the Company and the Company Group to AAMCA under the Vendor Loan Agreement, as described in Schedule 13.

April EGM means the Extraordinary General Meeting of the Company held on 13 April 2017.

AQC #2 means AQC Investments 2 Pty Ltd ACN 609 954 734.

AQC #2 General Security Deed means a general security deed granted in favour of AAMCA by AQC #2 dated 29 May 2017 over all of its present and future property of any kind.

Area Coal means Area Coal Pty Ltd ACN 132 643 193.

ASIC means the Australian Securities & Investments Commission.

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

ASX means ASX Limited ABN 98 008 624 691 or the Australian Securities Exchange (as applicable).

Board means the board of directors of the Company.

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

Chair means the person chairing the Meeting.

Company or **AQC** 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 Price means the price at which the convertible notes issued by the Company are converted into Shares, and for each of the Robinson, Paspaley and Trepang Convertible Notes and the New Convertible Note are as set out in Schedule 2, Schedule 4 and Schedule 11.

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

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

Dartbrook Coal Mine means the Dartbrook Coal Mine located in the Hunter Valley, New South Wales, which was acquired pursuant to the SPA.

Dartbrook JV means the incorporated joint venture between the Company and SNR Minerals Assets Ltd (**SNR**), a wholly owned subsidiary of Stella Natural Resources, via AQC #2 in which each of the Company and SNR will hold 50% of the shares in AQC #2 subject to the terms of the SNR Agreement.

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.

EGM means an Extraordinary General Meeting.

Escrow Deeds means deeds that provided 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) John Robinson (Jnr);
- (b) Shane Stone and associated or related entities;
- (c) Peter Ziegler and associated or related entities; and

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(d) Kevin Mischewski and associated or related entities,

all of which were terminated or have ceased to have effect, as per the Company's announcement dated 20 September 2018.

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

Existing 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.

Existing Convertible Notes means the Robinson, Paspaley and Trepang Convertible Notes.

Existing Facilities means the Robinson, Paspaley and Trepang Convertible Notes, the Secured Loan Deed and the Unsecured Loan Deed.

Existing Financiers means Trepang, Mr John Robinson (Snr), AO, and Mr Nicholas Paspaley, AC.

Existing Security means the security granted by the Company and the Company Group to the Existing Financiers.

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), 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 #2, Area Coal and Ipoh Pacific and ACDP and ACDAM. Each General Security Deed shall rank equally with all security granted in favour of Trepang, Mr John Robinson (Snr) and Mr Nicholas Paspaley.

Group Royalty means the royalty to be granted on the terms provided in the Group Royalty Deed.

Group Royalty Deed means a royalty deed to be entered by the Company and the Existing Financiers, the material terms of which are set out in Schedule 15.

Group Royalty Offer has the meaning set out in section 7.2.

Independent Expert means Ernst & Young Transaction Advisory Services Limited.

Independent Expert Report means the Independent Expert report set out in Attachment 1 of the Notice.

Intercreditor Deed means the intercreditor deed between the Company, AQC Investments 2 Pty Ltd, AAMCA and the Existing Financiers dated 29 May 2017.

Interest Payment Date means the last date of each month.

Interest Shares has the meaning given to that term in Schedule 1, Schedule 3, Schedule 5, Schedule 11 and Schedule 14 and under the Robinson and Paspaley Convertible Loan Deeds, the Trepang Convertible Loan Deed and the New Convertible Note Deed.

Ipoh Pacific means Ipoh Pacific Resources Pty Ltd ACN 104 553 504.

JV Royalty means means the royalty to be granted on the terms provided in the JV Royalty Deed.

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JV Royalty Deed means a royalty deed to be entered by the Company, Robinson and Paspaley, the material terms of which are set out in Schedule 16.

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.

Market Price means the closing price of Shares in the Company on the ASX Market on a particular day.

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;
- (b) in respect of the Trepang Loan Deed and the Trepang Convertible Notes, the maturity date as described in Schedule 3 and Schedule 4; and
- (c) in respect of the New Convertible Note, the maturity date as described in Schedule 10.

Meeting means the AGM to be held on 29 November 2018 as convened by the accompanying Notice of Meeting.

Mining Investments One means Mining Investments One Pty Ltd ACN 123 222 266.

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 ACDP 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 over all of its right title and interest in EPCs 1645, 1773, 1824, 1859, 1867 and 2011 and MDL 453; and
- (c) such a mortgage granted by Ipoh Pacific 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 ACDP 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.

New Convertible Note Deed means the convertible note deed to be entered between the Company and Trepang, the key terms of which are summarised in Schedule 10.

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New Convertible Note means the convertible note to be issued to Trepang in accordance with the terms of the New Convertible Note Deed, the key terms of which are summarised in Schedule 10.

New Conversion Shares means Shares issued at \$0.80 per Share on conversion all or part of the New Convertible Note being the New Conversion Shares.

Non-Associated Shareholders means the Shareholders whose votes are not to be disregarded on Resolutions 4 and 5.

Non-Interested Directors means Shane Stone and Bruce Munro.

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

Obligor means AQC #2, the Company and, subject to accession to the Vendor Loan Agreement, the Target Companies.

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 and varied on 20 January 2017, 1 March 2017, 29 May 2017 and 27 September 2018, the key terms of which are summarised in Schedule 1.

Paspaley Convertible Note means the convertible note issued to Mr Nicholas Paspaley in accordance with the terms of the Paspaley Convertible Loan Deed on 18 April 2017, the key terms of which are summarised in Schedule 2.

Proposed Amendments means the proposed amendments to the Robinson, Paspaley and Trepang Convertible Loan Deeds as detailed in section 6.1 and provided for in the Variation Deeds.

Proposed Conversion means the conversion of the money owing under the existing Secured Loan Deed (original principal amount of \$5 million plus interest) and Unsecured Loan Deed (original principal amount of \$2 million plus interest) into (and the issue of) the New Convertible Note and to extend the Security to cover all money and obligations owing under the New Convertible Note Deed and the New Convertible Note.

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 \$0.80 per Share to be issued on conversion of all or part of the Paspaley Convertible Note.

Proposed Robinson Conversion Shares means Shares at \$0.80 per Share to be issued on conversion of all or part of the Robinson Convertible Note.

Proposed Transaction means the Proposed Amendments, the Proposed Conversion, the grant of the JV Royalty, the issue of the Conversion Shares and the Interest Shares and the continued grant of the Security (and any Relevant Interest that Trepang, Mr Robinson (Snr) or Mr Nicholas Paspaley may obtain as a result of those matters).

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Proposed Trepang Conversion Shares means Shares at \$0.80 per Share, to be issued on conversion of all or part of the Trepang Convertible Note and the New Convertible Note.

Purchase Price means the \$20 million SNR will pay to the Company for the transfer of 50% of the shares in AQC #2.

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 42.78% to an amount up to 78.74%.

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 and varied on 20 January 2017, 1 March 2017, 29 May 2017 and 27 September 2018, the key terms of which are summarised in Schedule 1.

Robinson Convertible Note means the convertible note issued to Mr John Robinson (Snr) in accordance with the terms of the Robinson Convertible Loan Deed on 18 April 2017, 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 1 February 2017 and varied on 29 May 2017 and 27 September 2018, 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.

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

SNR means SNR Mineral Assets Ltd (Federal Business Number 741234116BC0001).

SNR Agreement means the share sale agreement between the Company and SNR dated 5 August 2018.

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.

Specific and Featherweight Security Deed means a specific and featherweight security deed granted to AAMCA by the Company dated 29 May 2017.

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

Target Companies means ACDP and ACDAM.

Target Company GSD means the general security deed to be granted by the Target Companies to AAMCA, as described in Schedule 12.

Target Company Mortgages means the mortgages to be granted by the Target Companies to AAMCA, as described in Schedule 12.

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

Tranche A Principal Amount means the amount of \$1 million under the Secured Loan Deed as set out in Schedule 5.

Tranche B Principal Amount means the amount of \$5 million under the Secured Loan Deed as set out in Schedule 5.

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 and varied on 1 March 2017 and 29 May 2017 and 27 September 2018, the key terms of which are summarised in Schedule 3.

Trepang Convertible Note means the convertible note issued to Trepang in accordance with the terms of the Trepang Convertible Loan Deed on 25 May 2017, the key terms of which are summarised in Schedule 4 .

Unsecured Loan Deed means the unsecured loan deed entered between the Company and Trepang Services Pty Ltd on or about 31 July 2018 and varied on 27 September 2018, the key terms of which are summarised in Schedule 14 .

Variation Deeds means deeds providing for the variation of the Existing Facilities and the Security entered into by the Company (and where relevant, its subsidiaries), Trepang, Mr Robinson (Snr) and Mr Paspaley on 27 September 2018, to be effective following shareholder approval of Resolution 4.

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

Vendor Loan Agreement means the vendor loan agreement between AAMCA, AQC Investments 2 Pty Ltd and the Company dated 29 May 2017.

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VWAP means, in relation to a Trading Day, the volume weighted average price of the Shares traded in the ordinary course of business on the ASX on that Trading Day, excluding crossings executed outside the open session state, special crossings, overseas trades and trades pursuant to exercise of options over Shares.

Any inquiries in relation to the Resolutions or the Explanatory Memorandum should be directed to Andrew Roach (Company Secretary):

*Level 4, 10 Felix Street, Brisbane Qld 4000
+61 7 3221 0679*

Explanatory Memorandum

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

Initial 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	<p>The Company was required to convene and hold a meeting of Shareholders on or before 31 May 2017 to seek approval for the grant of the Security and the issue of the Robinson and Paspaley Convertible Notes.</p> <p>Approval was given by Shareholders at the April EGM for the grant of the Security and the issue of the Robinson and Paspaley Convertible Notes.</p>
Issue of Convertible Note	The Robinson and Paspaley Convertible Notes were issued on 18 April 2017, and 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	<p>10% per annum payable monthly.</p> <p>All interest accruing until the date of completion of the Dartbrook SPA was capitalised. All interest accruing after the date of completion of the Dartbrook SPA will be, at the election of the Company and subject to the terms of the Vendor Loan Agreement, capitalised or payable in cash or Shares (Interest Shares), with such interest shares issued at the five day VWAP prior to the relevant Interest Payment Date or at the Conversion Price in respect of capitalised interest converted at the Maturity Date.</p> <p>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.</p>
Maturity Date	<p>Currently the Maturity Date is 1 February 2019.</p> <p>The Company is proposing to extend this to 1 February 2021 subject to approval of Resolution 4.</p>
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 (proposed to be increased to \$42,000,000 subject to approval of Resolution 4), 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.

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<p>Events of Default</p>	<p>Customary events of default including:</p> <ul style="list-style-type: none"> • 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. <p>If an event of default occurs, the money owing will, at the option of the financier, become immediately payable to the financier.</p>
<p>Security</p>	<p>The Company and its Subsidiaries have granted) to the financier:</p> <ul style="list-style-type: none"> • General Security Deeds over the Company and each of its Subsidiaries; • Mortgage of Land; and • Mining Mortgage. <p>The key terms of the Security are summarised at Schedule 6.</p>

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

Issuer	The Company
Issue date	18 April 2017
Principal Amount	\$13,255,683.89 each (\$26,511,367.78 total). This reflects an initial principal amount of \$10,000,000.00 per Note (\$20,000,000 in total) plus capitalised interest of \$3,255,683.89 per Note to the date of the AGM.
Interest Rate and Payment	As per Schedule 1.
Maturity Date	Currently, the Maturity Date is 1 February 2019. The Company is proposing to extend this to 1 February 2021 subject to approval of Resolution 4.
Conversion Right	<p>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.</p> <p>Subject to approval of Resolution 4, the Company has agreed to amend the terms of the Robinson and Paspaley Convertible Notes to require the conversion of the Notes on completion of the SNR Agreement.</p> <p>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.</p> <p>Each Conversion Share will rank equally with the then existing Shares of the Company.</p> <p>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 <i>Corporations Act</i> in respect of the Conversion Shares.</p>
Conversion Price	Currently the conversion price is \$1.50. The Company is proposing to reduce this to \$0.80 subject to approval of Resolution 4.
Conversion Formula	$N = CA/IP$ <p>Where:</p> <p>N is the number of Conversion Shares to be issued.</p> <p>CA is the Conversion Amount.</p> <p>IP is the Issue Price.</p>
Redemption of Note	<p>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.</p> <p>Subject to approval of Resolution 4, the Company has agreed to amend the terms of the Robinson and Paspaley Convertible Notes to allow the Company to (in whole or in part) redeem the Notes at a time of its choosing.</p>
Security	As per Schedule 1.
Events of Default	As per Schedule 1.

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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	<p>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).</p> <p>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.</p>

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Schedule 3 – Summary of terms of Trepang Convertible Loan Deed

Initial 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	25 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, the issue of the Convertible Notes and the entry of the Escrow Deeds. Approval was given by Shareholders at the April EGM for the grant of the Security, the issue of the Convertible Notes and the entry of the Escrow Deeds.
Issue of Convertible Note	The Trepang Convertible Note was issued on 25 May 2017, and 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	<p>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.</p> <p>All interest accruing until the Maturity Date will be, at the election of the Company and subject to the terms of the Vendor Loan Agreement, capitalised or payable in cash or shares (Interest Shares) with such Interest Shares issued at the five day VWAP prior to the relevant interest payment date or at the Conversion Price in respect of capitalised interest converted at the Maturity Date.</p> <p>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.</p>
Maturity Date	<p>Currently the Maturity Date is 1 February 2019, with an ability for Trepang to request (and for the Company to accept such request) to extend the Maturity Date by one further period of one year (so the last possible Maturity Date is 1 February 2020).</p> <p>The Company is proposing to extend this to 1 February 2021 subject to approval of Resolution 4.</p>
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 (proposed to be increased to \$42,000,000 subject to approval of Resolution 4), 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 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.

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Immediate Repayment Events	<p>The money owing under the Trepang Convertible Loan Deed will at the option of Trepang become immediately repayable on any of the following occurring:</p> <ul style="list-style-type: none">• 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.
Security	<p>The Company and its subsidiaries have granted) to Trepang:</p> <ul style="list-style-type: none">• 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. <p>The key terms of the Security are summarised at Schedule 6.</p>

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Schedule 4 – Summary of terms of Trepang Convertible Note

Issuer	The Company
Issue date	25 May 2017
Principal Amount	\$17,447,678.56, This reflects an initial principal amount of \$15,000,000 plus capitalised interest of \$2,447,678.56 to the date of the AGM.
Interest Rate and Payment	As per Schedule 3.
Maturity Date	<p>Currently the Maturity Date is 1 February 2019 or as outlined above in Schedule 3.</p> <p>The Company is proposing to extend this to 1 February 2021 subject to approval of Resolution 4.</p>
Conversion Right	<p>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.</p> <p>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.</p> <p>Each Conversion Share will rank equally with the then existing Shares of the Company.</p> <p>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.</p>
Conversion Price	<p>\$1.38.</p> <p>The Company is proposing to reduce this to \$0.80 subject to approval of Resolution 4.</p>
Conversion Formula	<p>$N = CA/IP$</p> <p>Where:</p> <p>N is the number of Conversion Shares to be issued.</p> <p>CA is the Conversion Amount.</p> <p>IP is the Issue Price.</p>
Redemption of Note	<p>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.</p> <p>The Company may redeem all or part of the Note at any time by giving Trepang written notice.</p> <p>Subject to approval of Resolution 4, the Company has agreed to amend the terms of the Trepang Convertible Note to require the Company to redeem the Note in full on completion of the SNR Agreement.</p>
Security	As per Schedule 3.
Events of Default	As per Schedule 3.

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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	<p>Subject to the <i>Corporations Act</i> 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).</p> <p>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.</p>

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Schedule 5 – Summary of terms of Secured Loan Deed

Initial 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.
Principal Amount as at the date of the AGM	\$5,387,271.72. This reflects the initial principal Tranche B amount of \$5,000,000, capitalised interest of \$351,507.64 on the Tranche B amount to the date of the AGM and capitalised interest of \$35,764.08 on the Tranche A amount to the date of the AGM (noting that the initial principal Tranche A amount of \$1,000,000 was repaid on 25 May 2018).
Approved Purpose	Working Capital.
Commencement Date	In respect of Tranche A, 3 February 2017. In respect of Tranche B, 26 March 2018.
Shareholder Approval	The Company was required to convene and hold a meeting of Shareholders on or before 31 May 2017 to seek approval for the grant of the Security. Approval was given by Shareholders at the April EGM for the grant of the Security.
Interest Rate and Payment	10% per annum, payable monthly. All interest will be, at the election of the Company and subject to the terms of the Vendor Loan Agreement, capitalised or payable in cash or Shares (Interest Shares), such Interest Shares being issued at the five day VWAP prior to the relevant Interest Payment Date where not capitalised. 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. Interest accrued on the Tranche A Principal Amount between its draw down on 3 February 2017 and repayment of that Principal Amount on 25 May 2017 was capitalised at the Company's election and remains payable to Trepang.
Maturity Date	\$1 million of the Tranche A Principal Amount was repaid on drawdown of the Trepang Convertible Loan. As noted above, interest accrued on the \$1 million Tranche A Principal Amount between its draw down on 3 February 2017 and repayment of that Principal Amount on 25 May 2017 remains payable in accordance with the Maturity Date of the Tranche A Principal Amount. This Maturity Date is 1 February 2019, with an ability for Trepang to request (and for the Company to accept such request) to extend the Maturity Date by one further period of one year (so the last possible Maturity Date will be 1 February 2020). Currently, the Maturity Date in respect of the Tranche B Principal Amount is three years after the date of the Secured Loan Deed, being 27 April 2019. The Company is proposing to extend both Maturity Dates to 1 February 2021 subject to approval of Resolution 4.
Prepayment offer	The Company may prepay the Principal Amount at any time on notice to the financier. A voluntary repayment of \$1,000,000 of the Tranche A Principal Amount was made by the Company on 29 May 2017 from the funds drawn down under the Trepang Convertible Loan Deed.

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Events of Default	<p>Customary events of default including:</p> <ul style="list-style-type: none">• 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; and• the Company ceases to be listed on the ASX. <p>If an event of default occurs, the money owing will, at the option of the financier, become immediately payable to the financier</p>
Security	<p>The Company and its Subsidiaries have granted to the financier:</p> <ul style="list-style-type: none">• General Security Deeds over the Company and each of its Subsidiaries;• Mortgage of Land; and• Mining Mortgage. <p>The key terms of the Security are summarised at Schedule 6.</p>

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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 secured by comprehensive securities which have been granted by the Company and each of its Subsidiaries, being AQC #2, Area Coal, Ipoh Pacific, ACDAM and ACDP (**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 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

Approval was given by Shareholders at the April EGM to grant the Security.

The AQC Subsidiaries have also guaranteed 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. An Intercreditor Deed has been entered by each Secured Party and AAMCA, the key terms of which are summarised in Schedule 12. The following provides a summary of the relevant documents.

If Resolution 4 is passed, each of the above documents will be extended to secure money and obligations owing under the New Convertible Note Deed also.

AQC GSD

Under the General Security Deed 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 AQC 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.

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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 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 (proposed to be increased to \$42,000,000 subject to approval of Resolution 4) (**Third Party Funding**) then the Company must offer to refinance the following principal amounts owing to each Secured Party:

- (a) Trebang - \$20,000,000 (proposed to be increased to \$22,000,000 subject to approval of Resolution 4);

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- (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.

The Priority Deed is subject to the terms of the Intercreditor Deed.

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 have granted further security over those interests. This includes:

- (a) mortgages of land granted by ACDP 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) ACDP 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 over all of its right title and interest in EPC 1645, 1773, 1824, 1859, 1867 and 2011 and MDL 453; and
 - (3) Ipoh Pacific 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.

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Schedule 7 – Substantial Shareholders’ Interest following approval of Resolution 4

Shareholder	Current Shares	Shares upon issue of Conversion Shares and Interest Shares ¹			
		Interest Share issue price \$0.60	Interest Share issue price \$0.80	Interest Share issue price \$1.00	No interest Shares issued - all interest capitalised
Trepang Services Pty Ltd and associates²	Number of Shares: 19,770,000 ordinary shares (Trepang Services Pty Ltd) 1,291,667 ordinary shares (Nicholas Paspaley) Total: 21,061,667	Number of Shares: 60,309,980 ordinary shares (Trepang Services Pty Ltd) 22,660,502 ordinary shares (Nicholas Paspaley) 21,368,835 ordinary shares (John Robinson, Snr) Total: 104,339,317	Number of Shares: 57,954,782 ordinary shares (Trepang Services Pty Ltd) 21,460,694 ordinary shares (Nicholas Paspaley) 20,169,027 ordinary shares (John Robinson, Snr) Total: 99,584,503	Number of Shares: 56,541,664 ordinary shares (Trepang Services Pty Ltd) 20,740,810 ordinary shares (Nicholas Paspaley) 19,449,143 ordinary shares (John Robinson, Snr) Total: 96,731,617	Number of Shares: 58,406,252 ordinary shares (Trepang Services Pty Ltd) 21,863,778 ordinary shares (Nicholas Paspaley) 20,572,111 ordinary shares (John Robinson, Snr) Total: 100,842,141
	Relevant interest: 42.78%	Relevant interest: 78.74 %	Relevant interest: 77.95%	Relevant interest: 77.44%	Relevant interest: 78.16%
Jet Arm Limited	Number of Shares: 5,000,000 ordinary shares	Number of Shares: 5,000,000 ordinary shares	Number of Shares: 5,000,000 ordinary shares	Number of Shares: 5,000,000 ordinary shares	Number of Shares: 5,000,000 ordinary shares
	Relevant interest: 10.16%	Relevant interest: 3.77%	Relevant interest: 3.91%	Relevant interest: 4.00%	Relevant interest: 3.88%

Notes:

1. Assumes that no new Shares in the Company are issued other than as contemplated by Resolution 4.

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2. The number of Shares assumes the maximum number of Conversion Shares and Interest Shares as are subject to Resolution 4 are issued to Nicholas Paspaley, John Robinson (Snr) and Trepang Services Pty Ltd (as set out in the table in section (b) above).

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Schedule 8 – Directors’ interest in Shares of the Company following approval of Resolution 4

Director	Current Shares (Direct and Indirect)	Shares upon issue of Conversion Shares, Interest Shares ¹			
		Issue price \$0.60	Issue price \$0.80	Issue price \$1.00	No Interest Shares issued - all interest capitalised
Mr John Robinson (Jnr)²	21,061,667 (42.78%)	104,339,317 (78.74%)	99,584,503 (77.95%)	96,731,617 (77.44%)	100,842,141 (78.16%)
The Hon. Shane Stone	72,000 (0.15%)	72,000 (0.05%)	72,000 (0.06%)	72,000 (0.06%)	72,000 (0.06%)
Mr Bruce Munro	100,000 (0.20%)	100,000 (0.08%)	100,000 (0.08%)	100,000 (0.08%)	100,000 (0.08%)

Notes:

1. Assumes that no Director (either directly or indirectly) acquires any further Shares in the Company other than as contemplated by Resolution 4 and that no new Shares in the Company are issued other than as contemplated by Resolution 4.
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 4 are issued to Nicholas Paspaley, John Robinson (Snr) and Trepang Services Pty Ltd (as set out in the table in section (b) above).

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Schedule 9 – Dilutionary effect of the issue of the Conversion Shares and the Interest Shares pursuant to Resolution 4

Ordinary Shares	Current		Issue price \$0.60		Issue price \$0.80		Issue price \$1.00		No interest Shares issued - all interest capitalised	
	Securities directly held	% directly held	Securities directly held	% directly held						
Current Shareholders^{1, 2}	28,173,143	57.22%	28,173,143	21.26%	28,173,143	22.05%	28,173,143	22.56%	28,173,143	21.84%
Trepang, John Robinson (Snr) and Nicholas Paspaley³	21,061,667	42.78%	104,339,317	78.74%	99,584,503	77.95%	96,731,617	77.44%	100,842,141	78.16%
Total ordinary shares	49,234,810	100.00%	132,512,460	100.00%	127,757,646	100.00%	124,904,760	100.00%	129,015,284	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 4.
3. The number of Shares assumes the maximum number of Conversion Shares and Interest Shares as are subject to Resolution 4 are issued to Nicholas Paspaley, John Robinson (Snr) and Trepang Services Pty Ltd (as set out in the table in section (b) above).

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Schedule 10 – Summary of terms of New Convertible Note Deed

Total Principal Amount	\$7,447,673.11 (being the unpaid original principal amount under the Secured Loan Deed and the Unsecured Loan Deed of \$7 million plus interest of \$447,673.11 to the date of the AGM)
Approved Purpose	For the repayment of money owing under the Secured Loan Deed and the Unsecured Loan Deed
Commencement Date	29 November 2018
Shareholder Approval	The New Convertible Note Deed is conditional on shareholder approval being obtained to issue the New Convertible Note, associated Conversion Shares and the extension of the Security to secure the money owing and obligations under the New Convertible Note Deed. Resolution 4 seeks this approval.
Issue of Convertible Note	The New Convertible Note will be issued the business day following the day on which shareholder approval is received, and 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	<p>10% per annum payable monthly.</p> <p>All interest accruing will be, at the election of the Company and subject to the terms of the Vendor Loan Agreement, capitalised or payable in cash or Shares (Interest Shares), with such interest shares issued at the five day VWAP prior to the relevant Interest Payment Date or at the Conversion Price in respect of capitalised interest converted at the Maturity Date.</p> <p>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.</p>
Maturity Date	1 February 2021
Prepayment offer	The Company is entitled to seek and obtain any third party funding. If the Company is offered funding of at least \$42,000,000, the Company must offer to repay the principal amount of the New Convertible Note 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 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	<p>The money owing under the New Convertible Loan Deed will at the option of Trepang become immediately repayable on any of the following occurring:</p> <ul style="list-style-type: none"> • if the Company fails to remedy a material breach of any provisions of the New Convertible Note 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.
Security	<p>The Company and its subsidiaries will extend the Security to secure the New Convertible Note Deed.</p> <p>The key terms of the Security are summarised at Schedule 6.</p>

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Schedule 11 – Summary of terms of New Convertible Note

Issuer	The Company
Issue date	29 November 2018
Principal Amount	\$7,447,673.11 (being the unpaid original principal amount under the Secured Loan Deed and the Unsecured Loan Deed of \$7 million plus interest of \$447,673.11 to the date of the AGM (estimated assuming the New Convertible Note is issued on the day shareholder approval is given to Resolution 4)
Interest Rate and Payment	<p>10% per annum payable monthly.</p> <p>All interest accruing will be, at the election of the Company and subject to the terms of the Vendor Loan Agreement, capitalised or payable in cash or Shares (Interest Shares), with such Interest Shares issued at the five day VWAP prior to the relevant Interest Payment Date or at the Conversion Price in respect of capitalised interest converted at the Maturity Date.</p> <p>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.</p>
Maturity Date	1 February 2021.
Conversion Right	<p>The New Convertible Note may be converted into Shares (New Conversion Shares) in accordance with the conversion formula at any time from date of issue of the note until the Maturity Date.</p> <p>The New Convertible Note must be converted on completion of the SNR Agreement.</p> <p>The New 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.</p> <p>Each New Conversion Share will rank equally with the then existing Shares of the Company.</p> <p>The Company will use its reasonable endeavours to apply for quotation on ASX of the Shares issued on conversion of the New Convertible Note and issue a notice under section 708A(5)(e) of the Corporations Act in respect of the New Conversion Shares.</p>
Conversion Price	\$0.80
Conversion Formula	<p>$N = CA/IP$</p> <p>Where:</p> <p>N is the number of New Conversion Shares to be issued.</p> <p>CA is the Conversion Amount.</p> <p>IP is the Issue Price.</p>
Redemption of Note	<p>The Company must redeem the New Convertible Note and pay all moneys owing under the New Convertible Note on the Maturity Date.</p> <p>The Company may redeem all or part of the New Convertible Note at any time by giving Trepang written notice.</p>

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<p>Security</p>	<p>Subject to shareholder approval security arrangements already in place will be extended to secure the New Convertible Note, these being:</p> <ul style="list-style-type: none"> • General Security Deeds over the Company and each of its Subsidiaries; • Mortgage of Land; and • Mining Mortgage. <p>The key terms of the Security are summarised at Schedule 6.</p>
<p>Events of Default</p>	<p>Customary events of default including:</p> <ul style="list-style-type: none"> • if the Company fails to remedy a material breach of any provisions of the New Convertible Note 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. <p>If an event of default occurs, the money owing will, at the option of the financier, become immediately payable to the financier.</p>
<p>Rights of holder</p>	<p>The New Convertible Note will not carry a right to vote at meetings of the Company prior to any conversion of the New Convertible Note into Shares, nor will it carry any entitlement to participate in future issues of securities by the Company.</p>
<p>Conversion Price Adjustments</p>	<p>Subject to the <i>Corporations Act</i> and the Listing Rules, the number of Shares issued on conversion of the New Convertible Note will be adjusted if before conversion or redemption of the New Convertible Note there is a reorganisation of the Company's share capital (including consolidation, subdivision, bonus issue, reduction or return) (Reorganisation Event).</p> <p>The Company will procure an adjustment so that the entitlement of the Shares issued on conversion of the New Convertible Note to participate in profits and assets of the Company will be the same as the entitlement of the Shares into which the New Convertible Note would have been converted had there been no Reorganisation Event.</p>

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Schedule 12 – Summary of terms of Anglo Security

1. Overview

All money and obligations owed by AQC #2 to AAMCA under the Vendor Loan Agreement are secured by comprehensive securities:

- granted by AQC #2 and the Company on 29 May 2017;
- granted by the Target Companies on 28 August 2017.

The Target Companies acceded to the Vendor Loan Agreement as a 'Guarantor' (as defined under the Vendor Loan Agreement) and granted general security deeds (**Target Company GSD**) and mortgages (**Target Company Mortgage**) in favour of AAMCA on 28 August 2017.

The following provides a summary of:

- the Target Company GSD;
- the Target Company Mortgages;
- the AQC #2 General Security Deed;
- the Specific and Featherweight Deed; and
- the Intercreditor Deed.

A summary of the key terms and conditions of the Vendor Loan Agreement is set out in Schedule 13.

In this Schedule:

Accession Deed Poll means a deed poll under the Vendor Loan Agreement by which an entity becomes a party to the Finance Documents as an additional guarantor.

Finance Documents means:

- (a) the Vendor Loan Agreement;
- (b) the Intercreditor Deed;
- (c) each Anglo Security;
- (d) each Accession Deed Poll;
- (e) a document that AQC #2 and AAMCA agree is a 'Finance Document'; and
- (f) a document entered into for the purpose of amending or novating, any document referred to in a paragraph above.

2. Target Company General Security Deed

Under the Target Company GSD, granted by the Target Companies in favour of AAMCA, the Target Companies grant a security interest in all of their "Collateral" to secure payment of the Anglo Secured Money. Where the Anglo Secured Money comprises indebtedness of either of the Target Companies, each of the Target Companies is jointly and severally liable to AAMCA for the payment of the Anglo Secured Money.

"Collateral" refers to any present and future property of the Target Companies of any kind, including anything in respect of which it has at any time a sufficient right, interest or power to grant a security interest. "Anglo Secured Money" refers to all money that the Target Companies or an Obligor is or may become liable to pay to AAMCA in connection with a Finance Document.

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The Target Company GSD restricts the manner in which the Target Companies can deal with their Collateral. In particular, unless permitted to do so under the Target Company GSD or another Finance Document, the Company and ACDM must not:

- (a) create or allow another security interest in any of the Collateral; or
- (b) dispose of any Collateral.

Under the Target Company GSD, if a “Default” or an “Event of Default” (as defined in a Finance Document) occurs and is subsisting, AAMCA may declare that any or all of the Anglo Secured Money is immediately due and payable, while all security interests created under the Target Company GSD will become enforceable. In addition, a default under any of the Anglo Security will be considered a default under the Target Company GSD.

The form of the Target Company GSD is reasonably market-standard for this type of transaction. It contains a basic range of representations and warranties and undertakings including requiring the Target Companies to keep the Collateral in good condition and protect their title in the Collateral.

If all the Anglo Secured Money has been paid in full and the Target Companies have complied with their obligations under each Finance Document in full, the Target Companies may require AAMCA to release the Collateral.

3. Target Company Mortgages

Under the Target Company Mortgages, the Target Companies agree to mortgage the Mortgaged Property and to mortgage by assignment all rents payable to the Target Companies in respect of the Mortgaged Property, to secure payment of the Anglo Secured Money.

“Mortgaged Property” refers to:

- (a) each Target Companies’ estate or interest from time to time in:
 - (i) the real property described in the Target Company Mortgages, together with the benefit of any easements, paths, rights of way, mines, quarries, water, trees, timber and other benefits on or used with that real property;
 - (ii) any present or future improvements on the real property; and
 - (iii) any present or future lease of the real property or any part of it, together with any extension or renewal of that lease, and any agreement to enter into a new lease of the same property;
- (b) any other property deemed by the Target Company Mortgages to form part of the Mortgaged Property; and
- (c) any certificate, registration, title or other evidence of ownership of, or rights to, anything described in a paragraph above.

Under the Target Company Mortgages, if a “Default” or an “Event of Default” (as defined in a Finance Document) occurs and is subsisting, AAMCA may declare that any or all of the Anglo Secured Money is immediately due and payable.

The form of the Target Company Mortgages is reasonably market-standard for this type of transaction. It contains a basic range of representations and warranties and undertakings including requiring the Target Companies to keep the Mortgaged Property in good condition and protect their title in the Mortgaged Property.

If all the Anglo Secured Money has been paid in full and the Target Companies have complied with their obligations under each Finance Document in full, the Target Companies may require AAMCA to release the Mortgaged Property.

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4. AQC #2 GSD

Under the general security deed granted by AQC #2 to AAMCA (executed on 29 May 2017), AQC #2 grants a security interest in all of their “Collateral” to secure payment of the Anglo Secured Money.

In relation to the AQC #2 GSD, “Collateral” refers to any present and future property of AQC #2 of any kind, including anything in respect of which it has at any time a sufficient right, interest or power to grant a security interest. “Anglo Secured Money” refers to all money that AQC #2 is or may become liable to pay to AAMCA in connection with a Finance Document.

The terms of the AQC #2 GSD are substantially similar to those of the Target Company GSD as described above.

5. Specific and Featherweight Deed

Under the Specific and Featherweight Deed granted by the Company to AAMCA, the Company grants a security interest in all of their Collateral to secure payment of the Anglo Secured Money.

In relation to the Specific and Featherweight Deed, “Collateral” means:

- (a) Full Resource Collateral – all of the shares (present and future) held by the Company in AQC #2 together with all rights to acquire further marketable securities as a result of AQC holding those shares or any other proceeds arising as a result of the Company holding those shares; and
- (b) Featherweight Collateral - all of the Company’s present and future property of any kind, excluding Full Recourse Collateral.

“Anglo Secured Money” refers to all money that the Company or an Obligor is or may become liable to pay to AAMCA in connection with a Finance Document.

The Specific and Featherweight Security Deed restricts the manner in which the Company can deal with its Collateral, with more stringent restrictions being imposed on Full Recourse Collateral. Unless permitted to do so under the Specific and Featherweight Security Deed or another Finance Document, the Company must not:

- (a) create or allow another security interest in any of the Full Recourse Collateral; or
- (b) transfer or dispose of any Full Recourse Collateral.

The Company may dispose of, permit or create a security interest in, or otherwise deal with any of the Featherweight Collateral. However, if an administrator is appointed to the Company, the security interest created in respect of the Featherweight Collateral becomes immediately enforceable and as a result the Company’s right to so deal with the Featherweight Collateral ends and the Company must not sell or dispose of any of the Collateral unless AAMCA first consents.

If all the Anglo Secured Money has been paid in full and the Company has performed its obligations under the Finance Documents, AAMCA must discharge the security of the Company at the Company’s written request.

The form of the Specific and Featherweight Security Deed is reasonably market-standard for this type of transaction.

6. Intercreditor Deed

AQC #2, the Company, AAMCA and the Existing Financiers entered into the Intercreditor Deed, to set out the relative priorities of the securities granted (or to be granted) by the Company and its subsidiaries to AAMCA and the Existing Financiers.

Under the Intercreditor Deed, money owing to any Existing Financier (**Second Debt**) will be subordinated to and rank in priority after money owing to AAMCA under each Finance Document (**First Debt**) until either:

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- (a) the First Debt is paid in full and AAMCA is satisfied that no payment will be void or voidable; or
- (b) the First Debt is transferred to the Existing Financiers (or their nominee) and AAMCA is satisfied that no payment will be void or voidable,

(the **Subordination Period**).

During the Subordination Period, none of the Second Debt is payable, except for certain permitted payments. Permitted payments include the \$1,000,000 repayment under the Trepang Secured Loan Deed on 29 May 2017, the capitalisation of interest, fees, costs or charges in respect of the Second Debt, the issue of Shares in lieu of interest payable on the Second Debt and the issue of Shares on conversion of the Convertible Notes in respect of the Second Debt. In addition, unless AAMCA otherwise first consents in writing, the Existing Financiers must not do a number of things in relation to the Second Debt or security held in respect of the Second Debt including:

- (a) demand or accept payment or discharge of any of the Second Debt other than for a permitted payment or conversion of the Second Debt into Shares;
- (b) change an Existing Financier's rights or obligations in respect of the Second Debt, other than to convert the Second Debt into Shares;
- (c) take any steps to recover or accelerate payment of any Second Debt or enforce their security interests in relation to the Second Debt; or
- (d) increase their debt, except by way of capitalisation of interest.

The Intercreditor Deed provides for AAMCA and the Existing Financiers to consent to the security granted or to be granted to each of them. Additionally, the Existing Financiers agree that the Anglo Security granted (or to be granted) in favour of AAMCA has priority over and ranks ahead of any security granted to the Existing Financiers (**Existing Security**) for all amounts secured under the Existing Security.

The Intercreditor Deed contains provision for one or more of the Existing Financiers (or their nominee) to purchase the entire First Debt from AAMCA at par. In addition, if AAMCA wishes to sell all or any part of the First Debt it must first offer to sell such part of the First Debt to the Existing Financiers (or their nominees) at the same offer price.

The Company, AQC #2 and the Target Companies have waived their right to claim or exercise a right of subrogation or contribution in respect of the finance documents with AAMCA and the Existing Financiers unless the Subrogation Period has ended.

7. **Deed of Accession**

Under the Vendor Loan Agreement, AQC #2 was required to ensure that, within 90 days of drawdown of the Anglo Loan, each of the Target Companies have acceded to the Vendor Loan Agreement via a deed of accession (**Deed of Accession**), the form of which is contained in the Vendor Loan Agreement. This occurred on 28 August 2017.

Under the Deed of Accession, the Target Companies each agreed to become a party to the Finance Documents as a new 'Guarantor'. As a new Guarantor, the Target Companies acquired all rights and benefits of, and agree to comply with and be bound by all present and future obligations of, a Guarantor under the Finance Documents. In addition, as new Guarantors the Target Companies agreed to do all things that a Guarantor is required under a Finance Document to procure or ensure are to be done by it in connection with becoming a Guarantor.

As Guarantors, the Target Companies irrevocably and unconditionally guarantee to AAMCA the payment of the Anglo Secured Money, and the performance by each Obligor of all its other obligations, under the Finance Documents.

If an Obligor does not pay any Anglo Secured Money when required, each Guarantor (including the Target Companies) must pay that money on demand as if they were the principal obligor. In addition, if any Obligor does not perform any of its other obligations under a Finance Document, each Guarantor (including the Target Companies) must perform, or procure the performance of, those obligations.

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In addition, each Guarantor (including the Target Companies) indemnifies AAMCA for any loss that AAMCA suffers due to any obligation or liability of a Guarantor being or becoming unenforceable, an Obligor failing to pay any Anglo Secured Money or perform any obligations under the Finance Documents, any Anglo Secured Money not being recoverable, or an insolvency event in respect of any Obligor (but only to the extent the loss relates to the Anglo Secured Money).

AAMCA does not need to enforce its rights against any other person before enforcing its rights against the Guarantor.

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 Company to reduce their liability under the guarantee (for example due to an insolvency event of an Obligor, an Obligor's obligation under any Finance Document being void or voidable or the grant of a waiver to an Obligor or any other person).

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Schedule 13 – Summary of terms of Vendor Loan Agreement

Total Principal Amount	\$7.7 million
Purpose	An amount equal to the Total Principal Amount is to be applied towards meeting the costs of conducting a feasibility study into the potential for the open-cut development of the Dartbrook Coal Mine as soon as practicable after Financial Close.
Commencement Date	The date the Anglo Loan is provided ('Financial Close'), which occurred simultaneously with completion of the Company's acquisition of the Dartbrook Coal Mine (i.e. 29 May 2017).
Conditions Subsequent	Subsequent to the Commencement Date, AQC #2 and the Company are required to ensure that: <ul style="list-style-type: none"> • within 90 days of Financial Close the Target Companies have acceded to this Vendor Loan Agreement (this occurred on 28 August 2017); and • an amount equal to the Total Principal Amount is applied towards a study for the feasibility of conducting an open-cut development of the Dartbrook Coal Mine as soon as practicable after Financial Close.
Interest Rate	10% per annum (increasing to 16% per annum if the Target Companies have not acceded and all Security referred to below has not been granted and registered within 90 days after Financial Close, dropping back to 10% once the Target Companies have acceded and all Security referred to below has been granted and registered). All interest will be capitalised monthly and will be payable at maturity.
Loan Maturity Date	The date which is 36 months from the date of Financial Close (29 May 2020), unless repayable earlier in accordance with the mandatory repayment regime below.
Prepayment and mandatory repayment	AQC #2 may prepay all or part of the outstanding amount at any time. If AQC #2 (or any other Obligor) raises any new equity, obtains any new debt (other than certain permitted debt) or disposes of certain key assets, then it must first apply the proceeds to the repayment of the Anglo Loan, except where, in the case of new equity or debt, the funds have been raised for working capital purposes (provided no more than \$10 million has been raised for working capital purposes since the date of the Anglo Loan (which is to be a lower amount of \$2 million until the Target Companies have acceded and the full suite of Securities set out below are granted and registered). If Resolution 4 is not passed, then AQC #2 (or any other Obligor) will have to repay the Anglo Loan as early as 1 February 2019 (when the Company will be required to pay out the Robinson and Paspaley Convertible Notes).
Security	The following first ranking security has been granted in favour of: <ul style="list-style-type: none"> • the Specific and Featherweight Security Deed; • the AQC #2 General Security Deed; • the Target Company GSD; and • the Target Company Mortgages. Details of the Security are set out in Schedule 12 above.
Events of Default	If a Default (as set out below) occurs and subsists, AAMCA may by notice to AQC #2 declare that the Anglo Secured Money is immediately

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	<p>due and payable.</p> <p>A Default includes, but is not limited to, any of the following occurring:</p> <ul style="list-style-type: none">• an Obligor fails to pay any of the Anglo Secured Money payable by it when due, or to comply with an obligation under a Finance Document and does not remedy this failure within 10 business days;• a statement, representation or warranty made in a Finance Document is incorrect or misleading;• a Finance Document is terminated, or a provision of a Finance Document becomes void or impossible to perform;• a debt of an Obligor or the Target Companies (for an amount exceeding \$500,000) becomes payable before its maturity, or is not paid when due;• an Insolvency Event occurs in respect of an Obligor;• any judgement is obtained against an Obligor or a Target Company for an amount exceeding \$500,000;• an Anglo Security ceases to have the priority ranking contemplated in it;• the Company ceases to hold all shares in AQC #2, or AQC #2 ceases to hold all shares in the Target Companies without AAMCA's prior approval;• There is a change in the persons who control, or one or more persons acquire control of, AQC #2 or the Target Companies.
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Schedule 14 - Terms of the Unsecured Loan Deed

Initial Principal Amount	\$2,000,000
Approved Purpose	Working Capital
Commencement Date	31 July 2018
Shareholder Approval	<p>None required, but note Resolution 4 which seeks the approval of Shareholders to replace the Unsecured Loan with the New Convertible Note and to extend the Security to moneys owing under the New Convertible Note.</p> <p>The Company will not be able to issue Interest Shares pursuant to the Unsecured Loan Deed unless it obtains the necessary Shareholder approvals and any required ASX waivers.</p>
Interest Rate and Payment	<p>10% per annum, payable monthly.</p> <p>All interest will be, at the election of the Company and subject to the terms of the Vendor Loan Agreement, capitalised or payable in cash or Shares (Interest Shares), such Interest Shares being issued at the five day VWAP prior to the relevant Interest Payment Date where not capitalised. The Company will not be able to issue Interest Shares pursuant to the Unsecured Loan Deed unless it obtains the necessary Shareholder approvals and any required ASX waivers.</p> <p>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.</p>
Maturity Date	<p>Prior to Resolution 4 being passed, the Maturity Date is 27 April 2019.</p> <p>On and from the date on which Resolution 4 is passed, the Unsecured Loan Deed will be replaced with the New Convertible Note which will have a Maturity Date of 1 February 2021.</p>
Immediate Repayment Event	<p>In the event that:</p> <ul style="list-style-type: none">• 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 Unsecured Loan Deed;• the Company suffers an Insolvency Event; or• the Company ceases to be listed on the ASX, <p>the money owing will, at the option of the financier, become immediately payable to the financier</p>
Prepayment offer	The Company may prepay the Principal Amount at any time on notice to the financier.
Security	Unsecured.

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Schedule 15 - Terms of the Group Royalty Deed

Grantor	ACDP
Royalty Holders	The Existing Financiers
Royalty Amount	\$2.50 per product tonne (subject to escalation). For clarity, the Group Royalty Amount is paid to the Group Royalty Holders together and not to each Group Royalty Holder individually.
Commencement Date	Not less than five Business Days after the giving of the Group Royalty Notice, at a time, date and place specified in the Group Royalty Notice.
Payments	<p>The Group Royalty is payable within 40 Business Days of the end of each calendar quarter.</p> <p>If the Anglo Royalty has not been discharged, the Group Royalty will not be payable, but will instead notionally accrue each calendar quarter in an account established by the Grantor (Financier Royalty Account). For the avoidance of doubt, the Financier Royalty Account is notional and no cash is required to be held on account for the potential payment of any amounts owed from the notional Financier Royalty Account.</p> <p>If the Anglo Royalty has been discharged, the Group Royalty is payable with the amount payable dependant on the arithmetic average of the price of Newcastle 6000 Net As Received coal from the globalCOAL NEWC Index on each business day of a given calendar quarter (Coal Price) and a price threshold of \$USD60 (subject to escalation) (Price Threshold), as follows:</p> <ul style="list-style-type: none"> • if the Coal Price is less than the Price Threshold, the Group Royalty payable for a calendar quarter will be: <ul style="list-style-type: none"> ○ \$A0.50 per tonne paid to the Group Royalty Holder; and ○ \$A2.00 per tonne accruing to the Financier Royalty Account, • If the Coal Price is equal to or more than the Price Threshold, the Group Royalty payable for a calendar quarter will be: <ul style="list-style-type: none"> ○ \$A2.50 per tonne paid to the Group Royalty Holder; and ○ an additional \$A1.00 per tonne, paid out of the Financier Royalty Account to the Existing Financiers, until the balance of the Financier Royalty Account is zero.
Escalation	Any amount or rate in the Group Royalty Deed which is subject to escalation is increased on 31 January each year in accordance with the Consumer Price Index (Brisbane All Groups)
Interest	If the Grantor fails to pay all or any part of the Group Royalty on or before a relevant due date, the Grantor must also pay to the Group Royalty Holders on demand, interest on the amount from the due date (up to and including the date upon which the monies are paid), calculated on a daily basis at the Agreed Rate (defined below).
Agreed Rate	1% per annum above the Bank Bill Rate, which is on any day: <ul style="list-style-type: none"> • the rate (expressed as a percentage maturity per annum rounded upwards, if necessary, to the nearest one hundredth of one per cent) published by the Reserve Bank of Australia that day (or if that day is not a business day then on the business day which immediately precedes that day) for bank accepted bills of exchange having a term to maturity of ninety days; or • if the Bank Bill Rate cannot be determined in accordance with the above paragraph, the rate per cent per annum determined by application of a rate that is the Commonwealth Bank of Australia's Corporate overdraft reference rate (monthly cycle) as published at http://www.commbank.com.au/business/rates-

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	fees#corporateoverdraft.
Buy-Back	<p>The Grantor may make an offer to the Group Royalty Holders to release the Grantor from the obligation to pay the Group Royalty, by paying the Group Royalty Holders the remaining royalty value and releasing any amounts in the Financier Royalty Account. The 'Remaining Royalty Value' in this case means the value of the Group Royalty to the Group Royalty Holders, excluding any amount in the Financier Royalty Account, calculated by an independent expert. The Group Royalty Holders may, in their sole discretion, accept such an offer.</p> <p>If the Group Royalty Holders accept such an offer, they will, subject to the receipt of all necessary shareholder approvals or required ASX waivers, release the Group Royalty in exchange for the payment of the Remaining Royalty Value. If the Group Royalty Holders do not accept such an offer, the Group Royalty will continue in existence.</p>
Tag Along	<p>If the Grantor is disposing of 80% or more of its interest in the tenements that make up the Dartbrook Coal Mine (Tenements) then the Group Royalty Holders may give the Grantor a notice (Tag Along Notice), advising that they require the Grantor to pay the Group Royalty Holders the Remaining Royalty Value and any amounts in the Financier Royalty Account in exchange for releasing the Royalty (Tag Along Release).</p> <p>Within 30 business days of the Group Royalty Holders' giving a Tag Along Notice, the Royalty Holders must obtain an independent expert valuation of the Remaining Royalty Value.</p> <p>The Tag Along Release will be conditional on:</p> <ul style="list-style-type: none"> • completion of the transfer of the Grantor's 80% or more interest in the Tenements; and • the receipt of any necessary shareholder approvals or ASX waivers.

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Schedule 16 - Terms of the JV Royalty Deed

Grantor	The Company
Royalty Holders	John Robinson (Snr) and Nicholas Paspaley (Royalty Holders)
Royalty Amount	\$2.00 per tonne for a percentage of the coal which is extracted from the Dartbrook Mine (whether processed or not) (subject to escalation), being \$1.00 to John Robinson (Snr) and \$1.00 to Nicholas Paspaley, where that percentage is the higher of 50% or the Company's shareholding interest in AQC #2.
Commencement Date	Not less than five Business Days after the giving of the Royalty Notice, at a time, date and place specified in the Royalty Notice.
Payments	<p>The JV Royalty is payable within 40 Business Days of the end of each calendar quarter.</p> <p>If:</p> <ul style="list-style-type: none"> • the Anglo Royalty has not been discharged; or • the Company has not itself received sufficient distributions (by way of dividend or return of capital) from the Dartbrook JV to cover the JV Royalty that the Company is required to pay as calculated below either in the corresponding quarter or on a cumulative basis (Required Capital Return), <p>the JV Royalty will not be payable, but will instead notionally accrue each calendar quarter in an account established by the Grantor (Financier Royalty Account). For the avoidance of doubt, the Financier Royalty Account is notional and no cash is required to be held on account for the potential payment of any amounts owed from the notional Financier Royalty Account.</p> <p>If the Anglo Royalty has been discharged and a Required Capital Return has been made, the JV Royalty is payable with the amount payable dependant on the arithmetic average of the price of Newcastle 6000 Net As Received coal from the globalCOAL NEWC Index on each business day of a given calendar quarter (Coal Price) and a price threshold of \$USD60 (subject to escalation) (Price Threshold), as follows:</p> <ul style="list-style-type: none"> • if the Coal Price is less than the Price Threshold, the JV Royalty payable for a calendar quarter will be: <ul style="list-style-type: none"> ○ \$A0.25 per tonne paid to Nicholas Paspaley; ○ \$A0.25 per tonne paid to John Robinson (Snr); and ○ \$A1.50 per tonne accruing to the Financier Royalty Account, • If the Coal Price is equal to or more than the Price Threshold, the JV Royalty payable for a calendar quarter will be: <ul style="list-style-type: none"> ○ \$A1.00 per tonne paid to Nicholas Paspaley; ○ \$A1.00 per tonne paid to John Robinson (Snr); and ○ an additional \$A1.00 per tonne, paid out of the Financier Royalty Account to the Existing Financiers, until the balance of the Financier Royalty Account is zero.
Escalation	Any amount or rate in the JV Royalty Deed which is subject to escalation is increased on 31 January each year in accordance with the Consumer Price Index (Brisbane All Groups)
Interest	If the Grantor fails to pay all or any part of the JV Royalty on or before a relevant due date, the Grantor must also pay to the Royalty Holders on demand, interest on the amount from the due date (up to and including the date upon which the monies are paid), calculated on a daily basis at the Agreed Rate (defined below).

Explanatory Memorandum

<p>Agreed Rate</p>	<p>1% per annum above the Bank Bill Rate, which is on any day:</p> <ul style="list-style-type: none"> • the rate (expressed as a percentage maturity per annum rounded upwards, if necessary, to the nearest one hundredth of one per cent) published by the Reserve Bank of Australia that day (or if that day is not a business day then on the business day which immediately precedes that day) for bank accepted bills of exchange having a term to maturity of ninety days; or • if the Bank Bill Rate cannot be determined in accordance with the above paragraph, the rate per cent per annum determined by application of a rate that is the Commonwealth Bank of Australia's Corporate overdraft reference rate (monthly cycle) as published at http://www.commbank.com.au/business/rates-fees#corporateoverdraft.
<p>Tag Along</p>	<p>If AQC #2 or ACDP is disposing of 80% or more of its interest in the tenements that make up the Dartbrook Coal Mine (Tenements) or if the Company is disposing of 80% or more of its interest in its shares in AQC #2 (AQC #2 Shares), then the Royalty Holders may give the Grantor a notice (Tag Along Notice), advising that they require the Grantor to pay the Royalty Holders the Remaining Royalty Value and any amounts in the Financier Royalty Account in exchange for releasing the Royalty (Tag Along Release). The 'Remaining Royalty Value' in this case means the value of the JV Royalty to the Royalty Holders, excluding any amount in the Financier Royalty Account, calculated by an independent expert.</p> <p>Within 30 business days of the Royalty Holders' giving a Tag Along Notice, the Royalty Holders must obtain an independent expert valuation of the Remaining Royalty Value.</p> <p>The Tag Along Release will be conditional on:</p> <ul style="list-style-type: none"> • completion of the transfer of the 80% or more interest in the Tenements or the AQC #2 Shares (as is relevant); and • the receipt of any necessary shareholder approvals or ASX waivers.

Explanatory Memorandum

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 27 November 2018. 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:

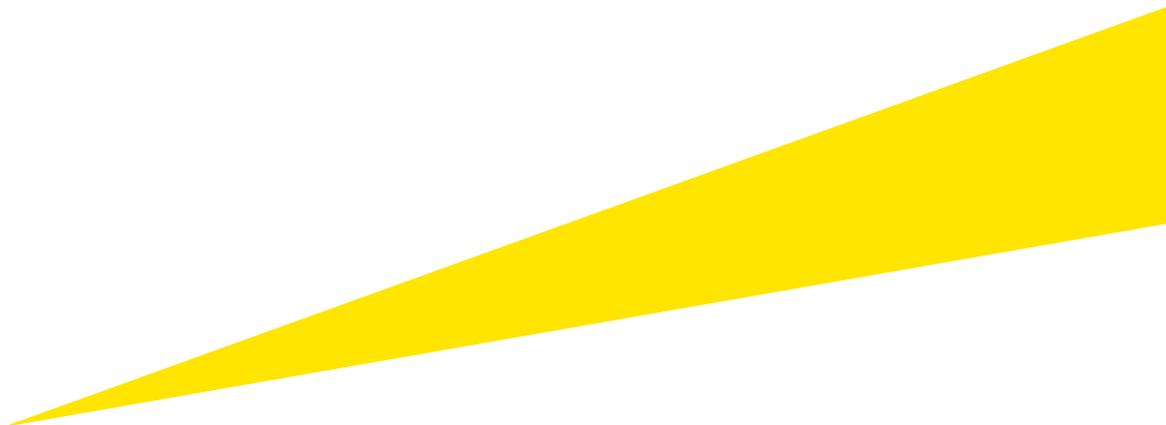
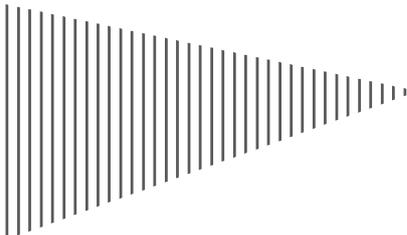
- | | |
|--------------------|---|
| Individual: | Where the holding is in one name, the Holder must sign. |
| Joint Holding: | Where the holding is in more than one name, all of the security holders should sign. |
| Power of Attorney: | To sign under Power of Attorney, you must have already lodged this 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 <i>Corporations Act 2001</i>) does not have a Company Secretary, a Sole Director can also sign alone. |

Explanatory Memorandum

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.

Attachment 1- Independent Expert Report



Independent Expert's Report and Financial Services Guide

**Australian Pacific Coal Limited – Proposed amendment to
current financing arrangements**

8 October 2018



**Building a better
working world**

Part 1 – Independent Expert’s Report

The Independent Directors
Australian Pacific Coal Limited
Level 4, 10 Felix Street
Brisbane QLD 4000

8 October 2018

Dear Independent Directors

Proposed amendment to current financing arrangements

Introduction

On 6 August 2018, Australian Pacific Coal Limited (“AQC” or the “Company”) entered into a binding agreement with SNR Minerals Assets Ltd, a wholly owned subsidiary of Stella Natural Resources (“SNR”), to form the Dartbrook Joint Venture (“Dartbrook JV”) (the “SNR Agreement”).

AQC and SNR intend to finalise a development plan to recommence underground mining at the Dartbrook coal mine (“Dartbrook Mine”) with planned coal production during calendar year 2019.

SNR will pay \$20 million to AQC (“Purchase Price”) for a 50% interest in AQC Investments 2 Pty Ltd, the entity which holds AQC’s interest in the Dartbrook Mine (“SNR Transaction”), including freehold land, infrastructure and mining tenements. SNR will be appointed as exclusive manager and marketer for the Dartbrook JV at completion.

The Dartbrook JV will provide a \$10 million loan to AQC (“Vendor Loan”) to pay out the existing Anglo American Plc (“Anglo”) secured loan of \$7.7 million (“Anglo Loan”). SNR will provide the funds to the Dartbrook JV which will in turn be loaned to AQC, who will carry the debt.

The Dartbrook JV is subject to certain conditions precedent, including:

- ▶ SNR securing funding for the Purchase Price, the funding required to provide the Vendor Loan and the funding required in order to achieve the development completion and to repay the loans taken to be made by SNR to fund the Vendor Loan;
- ▶ Foreign Investment Review Board (“FIRB”) approval;
- ▶ New South Wales (“NSW”) State Government and other third party consents;
- ▶ Approvals (including Mr Nicholas Paspaley, Mr John Robinson (Snr) and Trepang Services Pty Ltd (“Trepang”) (collectively referred to as the “Existing Financiers”) releasing their security over the Dartbrook Mine;
- ▶ Limited confirmatory financial diligence; and
- ▶ Agreement on a fully funded development plan to recommence underground mining.

The Company has received confirmation from the Australian Securities Exchange (“ASX”) that based on the information provided to the ASX, the SNR Transaction will not require shareholder approval under ASX Listing Rule 11.

The Company intends to use the Purchase Price proceeds to repay a significant portion of outstanding convertible notes held by the Existing Financiers (“Existing Convertible Notes”), and to obtain their agreement

to the conversion of all remaining Existing Convertible Notes to ordinary shares of the Company in accordance with the terms of the Existing Convertible Notes (“Existing Convertible Loan Deeds”) held at the time.

We understand that a requirement of the SNR Agreement is that in order for the SNR Transaction to complete, all encumbrances over the sale shares of AQC Investments 2 Pty Ltd and subsidiary assets related to the Dartbrook Mine must be released. To give effect to this, AQC negotiated an arrangement with Trepang (and its associates) to repay a portion of the Existing Convertible Notes and convert the balance into ordinary shares of AQC. In order for this conversion to take place, it has been agreed that the terms of the arrangements between AQC and the Existing Financiers, including the Existing Convertible Loan Deeds, will be amended subject to shareholder approval. As the amendments and equity conversion will result in the Existing Financiers holding a controlling interest, AQC shareholders other than the Existing Financiers (“Non-Associated Shareholders”) are required to approve these amendments. The vote on whether or not to approve the amendments is expected to take place at AQC’s annual general meeting to be held on 29 November 2018 (“AGM”).

We understand that AQC has agreed, subject to shareholder approval, amendments to the arrangements with the Existing Financiers to cover two potential scenarios (the “Proposed Amendments”). The terms of the Proposed Amendments, as they stand at the date of this Independent Expert’s Report (“Report”), are documented as Resolution 4 in the Notice of Annual General Meeting and Explanatory Memorandum expected to be dated on or about 15 October 2018.

We understand that approval from the Non-Associated Shareholders will be required in accordance with:

- ▶ Chapter 2E of the Corporations Act 2001 (Cth) (the “Act”), dealing with the requirement for member approval for transactions which provide financial benefits to related parties.
- ▶ Section 611 (item 7) of the Act, dealing with the requirement for member approval of transactions which result in a party holding more than 20% of the voting power in a company acquiring more shares in that company.

We understand that approval will also be required in accordance with the ASX Listing Rules, specifically Listing Rule 10 as detailed in Section 2.

An independent expert’s report is required in accordance with section 611 (item 7) of the Act, and in accordance with ASX Listing Rule 10.10.2.

Purpose of the Report

Our analysis has been conducted as at 31 August 2018 (the “Valuation Date”).

The independent directors of AQC, being those not associated with Mr Paspaley, Mr Robinson (Snr) and Trepang (“Independent Directors”) have engaged Ernst & Young Transaction Advisory Services Limited (“we” or “EY”) to prepare this Report. The purpose of our Report is to provide our opinion on whether or not the Proposed Amendments are fair and reasonable to Non-Associated Shareholders. Our Report has been prepared in accordance with Australian regulatory guidance and will be included in the Notice of Annual General Meeting and Explanatory Memorandum (“Explanatory Memorandum”) to be sent to AQC shareholders in advance of the AGM.

This Report was prepared on the specific request of the Independent Directors solely for the purpose of the Proposed Amendments and should not be used or relied upon for any other purpose.

Basis of assessment

Item 7 of Section 611 of the Act requires that the shareholders are provided with all information known to the Company that is material to the decision on how to vote on the resolution.

The Independent Directors have commissioned the preparation of this Report, the purpose of which will be to state whether the Proposed Amendments (which will include various steps to modify arrangements with the Existing Financiers) are fair and reasonable to the Non-Associated Shareholders.

In preparing our Report, we have had regard to Australian Securities and Investment Commission (“ASIC”) Regulatory Guide 111: Content of experts reports (“RG 111”). RG 111.29, RG 111.24 and RG 111.25 which notes that an issue of shares may be comparable to a takeover bid. That is, the transaction must be assessed in the same way as a control transaction and that similar considerations to those in a takeover bid apply.

As we understand, the Proposed Amendments will result in the acquisition or increase in a controlling stake in AQC by the Existing Financiers. We consider this to be a transaction to which RG 111.29 applies. We understand that this will be applicable to the Proposed Amendments, meaning that the Report will need to provide an opinion as to whether the Proposed Amendments are fair and reasonable to the Non-Associated Shareholders.

RG 111.53 provides further detail in respect of related party transactions (including those requiring approval in accordance with Chapter 2E of the Act), noting that the expert must focus on the substance of the transaction. In the event that the transaction is made up of a number of separate components, the expert should consider the overall impact of the transaction (rather than the impact of individual components). As such, the Report must consider the overall impact of all elements of the Proposed Amendments.

Neither the Act nor the ASX Listing Rules define the term “fair and reasonable”. In the context of a takeover offer, RG 111 makes it clear that fair and reasonable are two different concepts. Under this approach:

- ▶ An offer is “fair” if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer. The comparison is to be made assuming 100% ownership of the target and it is *“inappropriate to apply a discount on the basis that the shares being acquired represent a minority or portfolio parcel of shares.”*
- ▶ An offer is “reasonable” if it is fair. It might also be “reasonable” if, despite being “not fair”, the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

RG 111 provides that an independent expert should usually give a range of values for the securities that are the subject of the offer. If the value of the consideration offered falls within the range of values of the securities, under RG 111 the offer is “fair”. RG 111.13 and RG 111.26 lists a number of factors which experts may consider when assessing the reasonableness of an offer.

In substance, the Report compares the position of the Non-Associated Shareholders in the event that the Proposed Amendments are approved and implemented with the position of the Non-Associated Shareholders in the event that the Proposed Amendments are not approved.

Summary of opinion

Our detailed summary and conclusions are contained within Sections 6 to 9 of this Report. It is recommended that our opinion be read in conjunction with the whole of this Report, including all appendices.

Fairness and Reasonableness of the Relevant Interest Acquisition (Sections 6 and 7)

In opining on the Proposed Amendments (detailed in Section 1.3) we have considered the fairness and reasonableness to the Non-Associated Shareholders on a holistic basis.

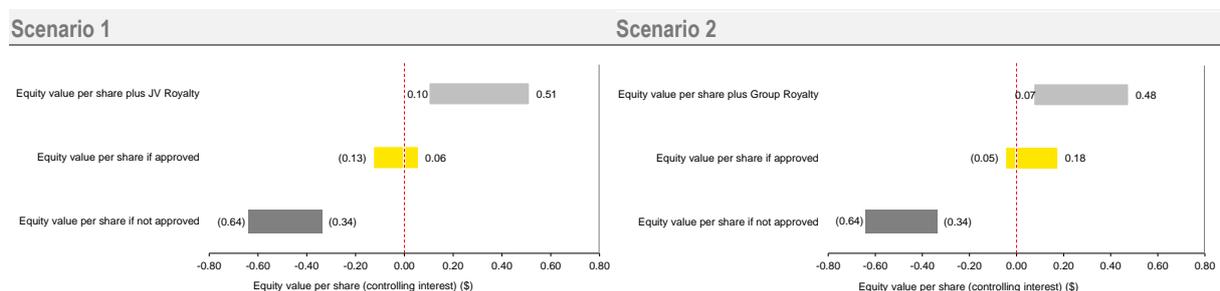
Specifically, we have compared the consideration to be paid by the Existing Financiers, being the proposed conversion price of \$0.80 per share, with the equity value per share of AQC on a controlling interest basis plus the value of any other benefit being provided to the Existing Financiers.

In assessing the value of an AQC share we have taken into account the impact of the Proposed Amendments on the basis that the SNR Transaction is completed (“Scenario 1”) and on the basis that the SNR Transaction is not completed (“Scenario 2”). In this regard, in addition to the issue of shares the Existing Financiers will also become entitled to the JV Royalty (under Scenario 1) or the Group Royalty (under Scenario 2 if security held by the Existing Financiers is released).

Assuming that the Proposed Amendments are implemented the Existing Financiers’ collective relevant interest in AQC will increase to an estimated 69.76% and 78.74% under Scenario 1 and 2, respectively (the “Relevant Interest Acquisition”).

Our assessment of the value of AQC was undertaken on a 100% controlling interest basis. Under Scenario 1, we assessed the value of an AQC share plus the JV Royalty to be in the range between \$0.10 and \$0.51 and under Scenario 2, we assessed the value of an AQC share plus the Group Royalty to be in the range of \$0.07 and \$0.48. Accordingly, the value of the consideration being paid by the Existing Financiers is greater than the value of an AQC share plus the JV Royalty or the Group Royalty.

Further to this, we have considered the equity value per share of AQC on a controlling interest basis prior to the Proposed Amendments with the equity value per share of AQC on a controlling interest basis if the Proposed Amendments are approved. If the equity value per share of AQC on a controlling interest basis post the approval of the Proposed Amendments is greater than, or at least equal to, the equity value per share of AQC on a controlling interest basis prior to approval then the Non-Associated Shareholders are better off. The results of this analysis are summarised in the charts below.



Source: EY analysis

Based on the above, under both the scenarios considered (detailed in Section 4) the equity value per share of AQC on a controlling interest basis increases if the Proposed Amendments are approved. While shareholders will not actually receive a controlling interest value, and therefore the analysis of the value post the Proposed Amendments should generally be on a minority interest basis, we note that this does not impact on our overall conclusions.

Based on our analysis, in our opinion, the Relevant Interest Acquisition is fair to the Non-Associated Shareholders.

As the Proposed Amendments are deemed fair to the Non-Associated Shareholders they are therefore also reasonable. For completeness, we have considered a number of qualitative matters in assessing the reasonableness of the Proposed Amendments which are detailed in Section 7 and summarised below.

Reasonableness of the Proposed Amendments	
Advantages	Disadvantages
<ol style="list-style-type: none"> 1. The Proposed Amendments are fair; 2. The Proposed Amendments allow for the SNR Transaction to complete; 3. If the SNR Transaction completes AQC will have no significant debt or encumbrance on its assets; 4. Extension and alignment of maturing dates; 5. Increased time to repay; 6. Opportunity to repay with shares rather than cash; 7. Change in amount covered by security; and 8. The Proposed Amendments present the best funding proposal available as at the Valuation Date. 	<ol style="list-style-type: none"> 1. Additional dilution of the Non-Associated Shareholders interests; 2. Existing Financiers may have the ability to pass or block a special resolution; 3. The Existing Financiers will be able to exert significant influence on the strategic direction of the Company; 4. Any future takeover offer may become more difficult; 5. There is the potential for a significant number of shares to be sold on the open market; and 6. If the Proposed Amendments are approved and the SNR Transaction is not completed AQC will have additional security over their assets.

Source: EY analysis

We have also assessed the fairness of the grant of the JV Royalty (detailed in Section 6.5.2) and the continued grant of security to the Existing Financiers (detailed in Section 6.5.3) in isolation. Our conclusions are summarised below:

► **The continued grant of security is fair (Section 6.5.2)**

- In relation to the grant of continued security to the Existing Financiers, we have considered the balance of the Existing Convertible Notes and the New Convertible Note in comparison to the value of the assets being provided as security.
- Based on the analysis, under a default scenario the Existing Financiers in no circumstance are entitled to an amount greater than the Existing Debt. As such, in our opinion, the grant of continued security to the Existing Financiers is fair to the Non-Associated Shareholders.

► **The grant of the JV Royalty is fair (Section 6.5.3)**

- In determining the fairness of the JV Royalty, we have assessed the equity value per share received by the Existing Financiers (inclusive of the JV Royalty) with the conversion price under the Proposed Amendments. We observe that the equity value per share (inclusive of JV Royalty) received by the Existing Financiers is below the conversion price.
- Based on this, in our opinion, the grant of the JV Royalty is fair to the Non-Associated Shareholders.

In summary, and taking into consideration the analysis presented above and detailed throughout this Report, in our opinion, the Proposed Amendments are fair and reasonable to the Non-Associated Shareholders.

Fairness and Reasonableness of the Group Royalty in exchange for the security (Sections 8 and 9)

In relation to the granting of the Group Royalty for the release of the security, we have considered the value of the security being exchanged by the Existing Financiers with the value of the Group Royalty.

AQC would most likely pay an increased interest rate for unsecured debt when compared with secured debt. The value of the security would then be equivalent to the interest savings over the term of the debt instrument. We consider it unlikely that a junior exploration and evaluation company such as AQC would be able to source unsecured debt financing from an unrelated third party. As such, we have not considered this in our assessment.

In the event that AQC defaults, the grant of the Group Royalty in exchange for the security will be fair to the Non-Associated Shareholders if the Existing Financiers receive an amount equal to or less than the Existing Debt.

Based on the analysis performed (detailed in Section 8) and on the valuation of AQC's assets and liabilities, in our opinion, the grant of the Group Royalty to the Existing Financiers in exchange for release of security is fair to the Non-Associated Shareholders.

For completeness, we have considered a number of qualitative matters in assessing the reasonableness of the grant of the Group Royalty in exchange for the security which are detailed in Section 9 and summarised below.

Reasonableness of granting Group Royalty in exchange for the security	
Advantages	Disadvantages
<ol style="list-style-type: none"> 1. The grant of the Group Royalty for the release of the security is fair; 2. Release of the Existing Financier security is likely to increase ability to secure further funding; 3. Release of Anglo Loan security is likely to increase ability to secure further funding; 4. Further alignment of the Existing Financiers with broader interests of AQC; and 5. There are limited other options available to AQC. 	<ol style="list-style-type: none"> 1. Loss of future profits; and 2. Reduction in proceeds from sale of tenements subject to Group Royalty.

Source: EY analysis

In summary, and taking into consideration the analysis presented above and detailed throughout this Report, in our opinion, the granting Group Royalty in exchange for the security is fair and reasonable to the Non-Associated Shareholders.



Other Matters

This Report has been prepared specifically for the Non-Associated Shareholders. As such, in respect of this Report, including any errors or omissions howsoever caused, neither EY Transaction Advisory Services, EY nor any employees or consultants thereof undertakes responsibility to any person other than the Non-Associated Shareholders.

This Report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of the Non-Associated Shareholders. The decisions as to whether to approve or not to approve the Proposed Amendments is a matter for individual Non-Associated Shareholders. AQC shareholders should have regard to the Explanatory Memorandum prepared by the Independent Directors and management of AQC ("Management"). AQC shareholders who are in doubt as to the action they should take in relation to the Proposed Amendments should consult their own professional adviser.

Our opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

All amounts in this Report are expressed in Australian dollars (\$) unless otherwise stated.

EY has prepared a Financial Services Guide in accordance with the Act. The Financial Services Guide is included as Part 2 of this Report.

Yours faithfully

Ernst & Young Transaction Advisory Services Limited

A handwritten signature in black ink that reads 'Michael Fenech'.

Michael Fenech
Director and Representative

A handwritten signature in black ink that reads 'Julie Wolstenholme'.

Julie Wolstenholme
Director and Representative

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Part 2 – Financial Services Guide

1. Introduction

1.1 Background

AQC is an Australian company that listed on the ASX in 1999, and since 2010, has principally operated as a coal exploration and evaluation company, identifying and acquiring strategic interests in tenements located in close proximity to operating mines or in areas with proven or potential in-ground resources.

In December 2015, AQC announced that it had entered into a Sale and Purchase Agreement (“SPA”) with Anglo to acquire its 83.33% interest in the Dartbrook Mine joint venture with Marubeni Coal Pty Ltd (“Marubeni”), a Tier 1 thermal coal asset located in the Hunter Valley region of NSW. In May 2016, Marubeni, Anglo’s joint venture partner, notified AQC of its intention to exercise its ‘tag-along’ rights for the sale of its 16.67% interest in the Dartbrook Mine.

Having been developed in the 1990’s as an underground longwall mining operation, the Dartbrook Mine had been a source of high quality thermal coal for over a decade, until it was placed into care and maintenance in 2006. Covering a freehold land and tenement area of over 3,800 hectares¹, the Dartbrook Mine has significant infrastructure in place, including a coal handing and preparation plant (“CHPP”), a train load out (“TLO”) and on-site power facilities, all of which have been well maintained while not in operation. In addition to mining leases, coal leases and exploration leases covering the tenement area, the Dartbrook Mine has significant water access licences. Historically, coal from the Dartbrook Mine was transported by rail to the Port of Newcastle, approximately 130 kilometres southeast of the mine for export.

The acquisition of the 100% interest in the Dartbrook Mine by AQC was completed in May 2017. The consideration paid for the Dartbrook Mine was \$39.295 million, which included the replacement of a security deposit of \$9.245 million, which is equal to the associated rehabilitation liability. Thus, implying an upfront cash payment of approximately \$30 million, whereby \$25 million was paid to Anglo and \$5 million to Marubeni. The consideration payable also included a vendor royalty capped at a total of \$30.0 million, which is payable to Anglo and Marubeni at a total rate of \$3 per tonne of the Dartbrook Mine’s coal sold or otherwise disposed of, and \$0.30 per tonne of any third party coal processed through the Dartbrook Mine’s infrastructure (collectively referred to as the “Anglo Royalty”).

The consideration was primarily funded by AQC from \$35 million sourced from the issue of convertible notes to the Existing Financiers and the \$7.7 million Anglo Loan.

Since announcing the acquisition, AQC’s focus has been on investigating the potential of recommencing underground operations at the Dartbrook Mine and separately, the potential development of the Dartbrook Mine as a low impact, open-cut mining operation.

In March 2018, AQC announced that it had lodged an application (the “Application”) to modify the existing longwall mining approval to recommence underground mining operations at the Kayuga coal seam using bord and pillar methods and proposed changes to the method of transferring coal to the TLO facility. After a period of community and stakeholder consultation conducted by AQC, public submission on the Application closed at the end of July 2018. A determination is expected by the end of 2018.

Also in March 2018, AQC announced the successful completion of the Dartbrook Mine open-cut Pre-Feasibility Study (the “OC PFS”), the results of which confirmed the technical and financial capability of establishing an open-cut mining operation at the Dartbrook Mine. Based on a proposed run-of-mine (“ROM”) production of 10 million tonnes per annum (“Mtpa”) operating for 25 years, the success of the OC PFS was, in part, due to the low ROM strip ratio expected across the life of mine (“LOM”). Further, the total yield of the OC PFS ranged between 70% and 85% for ROM coal to product coal, showing potential production of a high quality Newcastle benchmark premium coal and a secondary high ash standard product. Development capital expenditure estimates to first coal are based as at August 2017, with a P50 confidence level (including

¹ Dartbrook Coal Mine total area including mining leases, coal leases, exploration leases and authorisation permits.

contingency), whereby under an owner operator case totals approximately \$940 million and \$750 million under a contractor case².

The work undertaken by AQC for the Application in modifying the existing mining approval and the OC PFS was primarily funded from convertible notes provided by Mr Robinson (Snr) (“Robinson Note”), Mr Paspaley (“Paspaley Note”), and Trepang (“Trepang Note”), the Anglo Loan, a secured loan provided by Trepang of \$5 million (the “Secured Loan”) and an unsecured loan provided by Trepang of \$2 million (the “Unsecured Loan”).

On 6 August 2018, AQC announced that it had entered into a binding agreement with SNR Minerals Assets Ltd, a wholly owned subsidiary of SNR, to form the Dartbrook JV. Under the SNR Agreement, SNR is to pay a Purchase Price of \$20 million for a 50% interest in AQC Investments 2 Pty Ltd, the entity which holds AQC’s interest in the Dartbrook Mine.

SNR is headquartered in Canada, with wholly owned subsidiaries also located in the United States of America (“US”) and Australia. The management of SNR has extensive global experience across a number of commodities and is looking to establish itself as a major diversified mining and trading company. With coal mining operations in the US, the acquisition of the interest in the Dartbrook Mine is one of number of transactions which SNR is considering across a number of sectors including, coal, base and precious metals, agriculture and natural gas³.

AQC and SNR intend to finalise a bankable development plan to recommence underground mining at the Dartbrook Mine with planned coal production during calendar year 2019. Upon close of the SNR Transaction, SNR is to be appointed as the exclusive manager and marketer for the Dartbrook JV and will be responsible for all aspects of the development and operation of the Dartbrook Mine, including sourcing required funding. Under this arrangement, AQC will not be required to directly contribute to any holding, development or operational costs at the Dartbrook Mine.

In announcing the SNR Transaction, AQC noted that SNR would provide a \$10 million loan to the Dartbrook JV which would then provide a \$10 million Vendor Loan to enable the Company to repay the Anglo Loan and that the remaining Purchase Price proceeds would be used to repay a portion of the Existing Convertible Notes.

Notwithstanding the work undertaken by the Company and the positive results to date, Management are of the view that the SNR Transaction and the involvement of SNR will deliver significant shareholder value through the recommencement of operations at the Dartbrook Mine in a shorter timeframe than otherwise expected.

The SNR Transaction is subject to a number of conditions precedent, including SNR securing the necessary funding, FIRB, NSW State Government and other third party consents and approvals, limited confirmatory financial diligence, and agreement on a fully funded development plan to recommence underground mining. Completion of the SNR Transaction is anticipated in the March 2019 quarter.

Should the SNR Transaction not proceed, AQC intends to continue to pursue the eventual recommencement of underground mining at the Dartbrook Mine via the Application and the continued development of the open-cut mine concept through the advancement of the OC PFS.

² AQC Dartbrook Coal Mine open-cut Pre-Feasibility Study
³ Stella Natural Resources company website

1.2 Existing Debt

The Existing Convertible Notes, the Secured Loan and the Unsecured Loan were provided to AQC by the Existing Financiers to fund the acquisition of the Dartbrook Mine and the Company's ongoing activities. The current terms of the existing debt instruments held by the Existing Financiers as well as the Anglo Loan are summarised in the table below.

Current terms of Existing Debt as at the Valuation Date							
Debt instrument	Face value	Capitalised Interest	Conversion price	Royalty	Security	Maturity	Issued
Robinson Note	\$10 million	\$2.931 million	\$1.5	n/a	Secured	Feb 2019	18 April 2017
Paspaley Note	\$10 million	\$2.931 million	\$1.5	n/a	Secured	Feb 2019	18 April 2017
Trepang Note	\$15 million	\$2.020 million	\$1.38	n/a	Secured	Feb 2020	25 May 2017
Secured Loan (Trepang)	\$5 million	\$0.255 million	n/a	n/a	Secured	May 2021	29 May 2017
Unsecured Loan (Trepang)	\$2 million	\$0.010 million	n/a	n/a	Unsecured	Apr 2019	31 July 2018
Anglo Loan	\$7.7 million	\$1.027 million	n/a	n/a	Secured	May 2020	29 May 2017

Source: Management

Notes:

1. The Secured Loan was issued on or about 27 April 2016 and has been amended/restated several times, though was last varied on 29 May 2017.

2. Capitalised interest as at the Valuation Date. Interest for the Existing Convertible Notes, the Secured Loan, the Unsecured Loan and Anglo Loan are accrued at 10% per annum.

While the current maturity date of the Trepang Note is February 2019, Trepang can request (and the Company can accept) for the maturity date to be extended to February 2020.

Funds under the Secured Loan were provided in two tranches, Tranche A of \$1 million and Tranche B of \$5 million. Tranche A was repaid on the drawdown of the Trepang Note. Tranche A's outstanding capitalised interest for the period February 2017 to May 2017 is repayable in February 2019, although Trepang can request (and the Company can accept) for the maturity date to be extended to February 2020. Tranche B matures in April 2019.

The Existing Convertible Notes can be converted to shares in the Company at any time up until maturity. The right to convert the Existing Convertible Note resides separately with each of the Existing Financiers.

At an Extraordinary General Meeting held in April 2017 (the "April 2017 EGM"), the Non-Associated Shareholders approved, amongst other matters, the issue of the Existing Convertible Notes and the future issue of shares in the Company to the Existing Financiers should they exercise the right to convert both principal and capitalised interest. At the time of the April 2017 EGM, the Existing Financiers' collective relevant interest in AQC totalled 36.90%. The resolution put to shareholders for the future issue of shares should the Existing Convertible Notes be converted, sought approval for the Existing Financiers to increase their relevant interest in the Company to a maximum of 82.18%. The granting of security to the Existing Financiers was also approved at the April 2017 EGM.

At 31 August 2018, the amount owing to the Existing Financiers under the Existing Convertible Notes, the Secured Loan and the Unsecured Loan, including capitalised interest, totalled \$50.146 million.

AQC Investments 2 Pty Ltd also has outstanding the Anglo Loan of \$7.7 million that was provided at the time of the acquisition of the Dartbrook Mine. Interest on the Anglo Loan accrues at 10% per annum, it is secured by grant of a first ranking security (i.e. ranks ahead of all security provided to the Existing Financiers) and is repayable in May 2020. The amount owing under the Anglo Loan at 31 August 2018, including capitalised interest, totalled \$8.727 million.

The total amount owing at 31 August 2018 under the Existing Convertible Notes, the Secured Loan, the Unsecured Loan and the Anglo Loan (the “Existing Debt”) was \$58.873 million.

Under the terms of the Anglo Loan, it must be repaid prior to any repayment of the Existing Convertible Notes, the Secured Loan and the Unsecured Loan. With the Robinson Note and Paspaley Note maturing in February 2019, the requirement for the Anglo Loan to be paid first potentially brings the repayment date of that loan forward from May 2020 to February 2019.

Ignoring the SNR Transaction and Trepang’s ability to request for the maturity dates of the Trepang Note and the capitalised interest owing on Tranche A of the Secured Loan to be extended to February 2020, over the next 20 or so months AQC will need to manage the repayment or refinancing of \$58.873 million of existing debt plus additional capitalised interest.

1.3 The Proposed Amendments

In recognition of the approaching maturity and repayment dates of the Existing Debt, AQC has negotiated with the Existing Financiers certain amendments to the Existing Convertible Notes, the Secured Loan and the Unsecured Loan. The Proposed Amendments are summarised as follows:

- ▶ The conversion price on the Robinson Note and Paspaley Note is to be adjusted from \$1.5 per share to \$0.80 per share;
- ▶ The conversion price on the Trepang Note is to be adjusted from \$1.38 per share to \$0.80 per share;
- ▶ The maturity dates of the Existing Convertible Notes are to be extended to 1 February 2021;
- ▶ The Robinson and Paspaley Convertible Loan Deeds are to be adjusted to allow for early repayment of the respective Convertible Notes at AQC’s election;
- ▶ The Trepang Convertible Note must be redeemed in full on completion of the SNR Transaction;
- ▶ The Robinson and Paspaley Convertible Notes must be converted in full on completion of the SNR Transaction at which time the JV Royalty (defined below) must be granted to Robinson and Paspaley;
- ▶ The issue of a new convertible note (the “New Convertible Note”) to Trepang to replace the Secured Loan and the Unsecured Loan, with a conversion price of \$0.80 per share and a maturity date of 1 February 2021;
- ▶ The granting of, or the continued grant of security to the Existing Financiers in regards to the Existing Convertible Notes and the New Convertible Note; and
- ▶ The provision for AQC to make a request to the Existing Financiers for the release of the security held without having to repay the Existing Convertible Notes and the New Convertible Note. If the Existing Financiers accept the request and security is released, they will become entitled to a future royalty of \$2.5 per product tonne of coal sourced from the Dartbrook Mine (the “Group Royalty”).

Separate from the Proposed Amendments, a requirement of the SNR Transaction is for the security held over the Dartbrook Mine to be released so that at the time of the formation of the Dartbrook JV, the asset is free from all encumbrances. With the Dartbrook JV providing AQC with the Vendor Loan to enable the repayment of the Anglo Loan, the first ranking security held by Anglo will be extinguished.

While it is intended that the Trepang Note plus capitalised interest be repaid from the proceeds of the Purchase Price, to facilitate release of the security held by the Existing Financiers should the SNR Transaction look to complete, AQC has negotiated with the Existing Financiers for the immediate conversion of the Robinson Note, Paspaley Note and the New Convertible Note on the SNR Transaction proceeding to completion. As part of this, AQC has agreed to the payment of a future royalty of \$2 per AQC’s share of

product tonne of coal sourced from the Dartbrook Mine to Mr Robinson (Snr) and Mr Paspaley (i.e. \$1 per tonne each) (the “JV Royalty”).

The amended terms of the Existing Convertible Notes, the Secured Loan and the Unsecured Loan under the scenario that the SNR Transaction proceeds to completion (“Scenario 1”) are summarised in the following table:

Restated position under Scenario 1 – SNR Transaction completes					
Debt instrument	Face value	Capitalised Interest	Conversion price	Royalty	Action
Robinson Note	\$10 million	\$2.931 million	\$0.80	JV Royalty of \$1 each per product tonne	Converted in full
Paspaley Note	\$10 million	\$2.931 million	\$0.80		Converted in full
Trepang Note	\$15 million	\$2.020 million	n/a	n/a	Repaid in full
Secured Loan (Trepang)	\$5 million	\$0.255 million		Replaced by New Convertible Note	
Unsecured Loan (Trepang)	\$2 million	\$0.010 million			
New Convertible Note (Trepang)	\$7 million	\$0.265 million	\$0.80	n/a	Converted in full

Source: Management

Notes:

1. The JV Royalty refers to the royalty deed entered into by the Company, Mr Paspaley and Mr Robinson (Snr) and equating to a total of \$2 per product tonne from AQC’s interest in the Dartbrook Mine post Dartbrook JV completion.
2. Capitalised interest as at the Valuation Date. Interest for the Existing Convertible Notes, the Secured Loan, the Unsecured Loan and New Convertible Loan are accrued at 10% per annum.

The interest amounts in the table represent the capitalised interest outstanding as at 31 August 2018.

Under Scenario 1, it is the intention that if the SNR Transaction proceeds as anticipated, other than the Vendor Loan, AQC will be free of debt related to the Existing Financiers and Anglo, while retaining a 50% interest in the Dartbrook Mine. The Group Royalty proposed under the Proposed Amendments will no longer be relevant. The JV Royalty granted to Mr Robinson (Snr) and Mr Paspaley is only payable on the Company’s share of production from the Dartbrook Mine.

Alternatively, the amended terms of the Existing Convertible Notes, the Secured Loan and the Unsecured Loan under the scenario that the SNR Transaction is not completed (“Scenario 2”), are summarised in the following table:

Restated position under Scenario 2 – SNR transaction does not complete					
Debt instrument	Face value	Capitalised Interest	Conversion price	Group Royalty	Action
Robinson Note	\$10 million	\$2.931 million	\$0.80		Extended to Feb 2021
Paspaley Note	\$10 million	\$2.931 million	\$0.80		Extended to Feb 2021
Trepang Note	\$15 million	\$2.020 million	\$0.80	Group Royalty of \$2.5 per product tonne if security is released	Extended to Feb 2021
Secured Loan (Trepang)	\$5 million				
Unsecured Loan (Trepang)	\$2 million	Replaced by New Convertible Note			
New Convertible Note (Trepang)	\$7 million	\$0.265 million	\$0.80		Extended to Feb 2021

Source: Management

Notes:

1. The Group Royalty refers to the royalty deed entered by the Existing Financiers and equating to a total of \$2.5 per product tonne from the Dartbrook Mine.
2. Capitalised interest as at the Valuation Date. Interest for the Existing Convertible Notes, the Secured Loan, the Unsecured Loan and New Convertible Loan are accrued at 10% per annum.

As per Scenario 2, if the SNR Transaction does not complete, the intention of the Proposed Amendments is that all debt with the Existing Financiers will become convertible. These will be set with the same conversion price and maturity date, whereby the maturity date will be extended beyond the repayment date of the Anglo Loan.

1.4 Impact on Existing Financiers' collective shareholding

At the date of this Report, the Existing Financiers hold a collective relevant interest in AQC totalling 42.78% of the shares the Company has on issue.

Assuming that the Proposed Amendments are implemented and the SNR Transaction completes as contemplated under Scenario 1, the Existing Financiers' collective relevant interest in AQC will increase to an estimated 69.76%. This estimate assumes the Company issues no additional shares, a completion date of 5 April 2019 and includes capitalised interest between 1 September 2018 and 5 April 2019.

Assuming the Proposed Amendments are implemented and the SNR Transaction is not completed as contemplated under Scenario 2, if the Existing Convertible Notes and the New Convertible Note were converted as at 1 February 2021, the Existing Financiers' collective relevant interest in AQC would increase to an estimated 78.74%. This estimate assumes that the Company capitalises interest payable between the Valuation Date and 30 November 2018 (the date of the AGM) and proceeds to issue additional payment in kind ("PIK") shares at \$0.60 per share between 1 December 2018 and 1 February 2021. Further details are provided in Section 4.

Under Scenario 1, the Existing Financiers' collective relevant interest will increase because the Robinson Note, Paspaley Note and the New Convertible Note are converted to equity. This contrasts to Scenario 2, where the Existing Financiers' collective relevant interest will only increase substantially if and when the Existing Convertible Notes and the New Convertible Note are converted (noting there will be an amount of dilution due to the issuance of the PIK shares). The Existing Financiers may elect not to convert.

2. Scope of the Report

2.1 Purpose of the report

Under Section 606 of the Act, an entity is prohibited from acquiring a greater than 20% interest in the voting shares of a listed company, or if the entity already has a greater than 20% interest (and below 90%), from increasing that interest, unless one of the exceptions in Section 611 is met. One of the exceptions is item 7 of Section 611, which allows for the increase in voting shares, if the transaction which would otherwise breach the prohibition contained in Section 606, is approved by shareholders.

Because they carry no voting rights, the issue of convertible notes by a listed company has no immediate Section 606 consequences. It only becomes a concern when the holder looks to convert the convertible notes into shares and that conversion would increase the holder's voting interest to a level which breaches the Section 606 prohibition.

To address this concern, listed companies issuing convertible notes often obtain shareholder approval for the issue of shares on the possible conversion of those convertible notes at the time the convertible notes are issued. This "pre-approval" is obtained pursuant to item 7 of Section 611 of the Act.

At the April 2017 EGM, AQC shareholders not associated with the Existing Financiers (i.e. the non-associated shareholders at that time) provided pre-approval for the Existing Financiers to increase their voting interest in AQC should they elect to convert the Existing Convertible Notes (inclusive of any capitalised interest), from their then current collective relevant interest of 36.90% to a maximum of 82.18%.

At the date of this Report, the Existing Financiers hold a collective relevant interest in AQC's issued voting shares of 42.78%. The analysis in Section 1.4, shows that if the Proposed Amendments are implemented and the SNR Transaction completes, under Scenario 1 the Existing Financiers' collective relevant interest in AQC will increase to an estimated 69.76%. Under Scenario 2, if the Proposed Amendments are implemented, the SNR Transaction does not complete and all interest is satisfied by the issue of interest shares with an issue price of \$0.60, should the Existing Financiers elect to convert the Existing Convertible Notes and the New Convertible Note, their collective relevant interest will increase to a maximum 78.74%.

Notwithstanding the approval obtained in the April 2017 EGM for the Existing Financiers' collective relevant interest in AQC to be increased to a maximum of 82.18%, given the nature of the Proposed Amendments and the issue of the New Convertible Note, the Company is seeking approval from the Non-Associated Shareholders under item 7 of Section 611 for the issue of shares to the Existing Financiers on the conversion of the Existing Convertible Notes and the New Convertible Note (including capitalised interest).

In addition to the Act, under ASX Listing Rule 10.1, a listed company is prohibited from acquiring or disposing of a substantial asset from or to a person in a position of influence without the approval of its shareholders.

An asset is considered "substantial" under ASX Listing Rule 10.1 if its value, or the value of the consideration being paid or received, is 5% or more of the book value of the listed company's equity (i.e. net assets) as set out in the latest accounts lodged with the ASX. A "person in a position of influence" includes, amongst others, a substantial shareholder of the company, who has a relevant interest in at least 10% of the issued voting shares in the company.

Pursuant to the Proposed Amendments, the issue of shares to the Existing Financiers on the conversion of the Existing Convertible Notes and the New Convertible Note (including capitalised interest), the granting of continued security, the granting of the JV Royalty under Scenario 1 and the granting of the Group Royalty under Scenario 2, are separately considered "substantial" transactions and therefore the ASX Listing Rule 10.1 is deemed to apply. Accordingly, each of these matters is required to be approved by the Non-Associated Shareholders.

Under ASX Listing Rule 10.10.2, a notice of meeting containing a resolution to be put to shareholders for the purposes of ASX Listing Rule 10.1, must be accompanied by an independent expert's report stating, in that person's opinion, whether or not the Proposed Amendments is fair and reasonable to the shareholders who are not associated.

Consistent with the requirements of item 7 of Section 611 and those of ASX Listing Rule 10.10.2, we have been appointed by the Independent Directors to prepare an independent expert's report, the purpose of which is to provide separate opinions as to whether or not each of the following is fair and reasonable to the Non-Associated Shareholders:

- ▶ The issue of shares to the Existing Financiers on the conversion of the Existing Convertible Notes and the New Convertible Note (including capitalised interest) (item 7, Section 611 and ASX Listing Rule 10.10.2);
- ▶ The granting of continued security to the Existing Financiers (ASX Listing Rule 10.10.2);
- ▶ The granting of the JV Royalty (ASX Listing Rule 10.10.2); and
- ▶ The granting of the Group Royalty (ASX Listing Rule 10.10.2).

The Non-Associated Shareholders are to consider resolutions seeking approval of, amongst other matters, the Proposed Amendments at the AGM. Our Report is to be included with the Notice of Meeting and Explanatory Memorandum being sent to the Non-Associated Shareholders in relation to the AGM.

2.2 Basis of evaluation

Neither the Act nor the ASX Listing Rules define the term "fair and reasonable", however RG 111 provides some guidance as to what matters an independent expert should consider when determining whether or not a particular transaction is fair and reasonable to shareholders.

RG 111 notes that if the transaction being considered results in a change of control or an increase in control, the analysis within the independent expert's report should be substantially the same as for a takeover offer. With respect to a takeover offer, RG 111 notes that:

- ▶ An offer is "fair" if the value of the offer price or consideration being paid is equal to or greater than the value of the securities that are the subject of the offer. The comparison is to be made assuming 100% ownership of the target and it is "inappropriate to apply a discount on the basis that the shares being acquired represent a minority or portfolio parcel of shares"; and
- ▶ An offer is "reasonable" if it is fair. It might also be "reasonable" if, despite being "not fair", the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

Given the increased shareholding of the Existing Financiers, the issue of shares on the conversion of the Existing Convertible Notes and the New Convertible Note (including capitalised interest) needs to be assessed on the same basis as a takeover offer. Consistent with this, we have assessed the value of an AQC share on a controlling interest basis (i.e. assuming 100% ownership) and compared that to the "consideration" being paid by the Existing Financiers on the conversion of the Existing Convertible Notes and the New Convertible Note (including capitalised interest).

Under Scenario 1, if the SNR Transaction completes, the Trepang Note will be repaid and the remaining Existing Convertible Notes and the New Convertible Note will be converted, with the Existing Financiers' collective relevant interest in the Company increasing on the issue of the shares. Because of the immediate nature of the SNR Transaction, the appropriate date to assess the fair value of AQC is at, or as close to, the date of the Report.

Under Scenario 2, if the SNR Transaction does not complete, the Existing Convertible Notes and the New Convertible Note will continue until they may or may not be converted by the Existing Financiers at some time in the future up until 1 February 2021. In these circumstances, it could be argued that the appropriate date of any valuation assessment is at or about the date of conversion. No reasonable determination can be made as to if and when the Existing Convertible Notes and the New Convertible Note are likely to be converted, or more importantly, what the likely value of AQC would be as at that date. In considering the issue of shares on the possible conversion of the Existing Convertible Notes and the New Convertible Note in the absence of the SNR Transaction completing, we are of the view that the current value of AQC, the conversion price and wider terms of the Existing Convertible Notes and the New Convertible Note, together with consideration of the advantages and / or disadvantages provided by the Proposed Amendments are of more significance to the Non-Associated Shareholders than the possible value of the Company's assets and liabilities at some future date.

In relation to the grant of continued security to the Existing Financiers, we have considered the balance of the Existing Convertible Notes and the New Convertible Note in comparison to the value of the assets being provided as security.

In relation to the granting of the JV Royalty, because this will only occur if the SNR Transaction completes as per Scenario 1, we have included the assessed value of the JV Royalty in our assessment of the issue of shares on the conversion of the Existing Convertible Notes and the New Convertible Note.

In relation to the granting of the Group Royalty, we have considered the value of the security being given up by the Existing Financiers with the value of the Group Royalty.

Value is required to be measured on a "fair value" basis. "Fair value" is considered to be "*the price at which an asset could be exchanged between a knowledgeable and willing but not anxious seller and a knowledgeable and willing but not anxious buyer both acting at arm's length*". Our assessment of value of in this Report is on a basis consistent with this definition.

RG 111 provides further detail in respect of related party transactions (including those requiring approval in accordance with Chapter 2E of the Act), noting that the expert should focus on the substance of the transaction. In the event that the transaction is made up of a number of separate components, the expert should consider the overall impact of the transaction (rather than the impact of individual components).

In addition to the above, we have considered a range of other factors including, but not limited to:

- ▶ The prices at which AQC shares have historically traded on the ASX and since the announcement of the SNR Transaction, noting the liquidity discussion included in Section 3.6;
- ▶ The fair market value of the AQC shares, given a range of valuation methodologies;
- ▶ A comparison between the recent ASX trading prices of an AQC share/fair market value of the an AQC share, and the amended conversion price of the Existing Convertible Notes and the conversion price of the New Convertible Note, noting the liquidity discussion included in Section 3.6;
- ▶ The nature of the Proposed Amendments in the context of the approvals previously obtained from AQC shareholders;
- ▶ The general terms and conditions of the Proposed Amendments, including those of the New Convertible Note;

- ▶ AQC's ability to repay the Existing Convertible Notes, the Secured Loan and the Unsecured Loan (and the New Convertible Note);
- ▶ The rationale for the Proposed Amendments;
- ▶ The level of control likely to be gained by the Existing Financiers from the possible conversion of the Existing Convertible Notes and the New Convertible Note;
- ▶ The SNR Transaction;
- ▶ Whether the Existing Financiers are paying a "premium" on the issue of the shares on the possible conversion of the Existing Convertible Notes and the New Convertible Note;
- ▶ The alternatives for AQC; and
- ▶ Other significant matters.

In assessing whether or not each of the matters is fair and reasonable to the Non-Associated Shareholders we have considered the likely advantages and disadvantages, if any, which may accrue for the purpose of determining whether the Non-Associated Shareholders are likely to be better off, or at least no worse off, as a result of the Proposed Amendments proceeding.

Issues of valuation are considered in Sections 6 and 8 and the relevant commercial and qualitative factors are considered in Sections 7 and 9 whether Existing Financiers are paying or receiving a premium for control is considered in Section 5.2.4.

2.3 Reliance on technical experts

In considering the fair value of AQC we have relied upon Xenith Consulting Pty Ltd's ("Xenith's") independent technical specialist's report dated 28 February 2017 ("Technical Expert Report") and the addendum dated 5 October 2018 ("Technical Expert Addendum"). A copy of the Technical Expert Addendum is attached in full at Appendix E.

The Technical Expert Report was attached as an appendix to the independent expert's report prepared by BDO Corporate Finance (QLD) Ltd ("BDO") dated 13 March 2017 (the "BDO IER"). BDO was appointed by AQC to provide fairness opinions on a number of transactions that were being considered for shareholder approval at the April 2017 EGM. The BDO IER, inclusive of the Technical Expert Report, was included in the Explanatory Memorandum sent to AQC shareholders in relation to the April 2017 EGM. A copy of this can be found on AQC's website.

In relation to the Technical Expert Report, Xenith was appointed as the independent technical specialist to provide an independent assessment of the Technical Value of AQC's coal assets, the results of which were detailed in the Technical Expert Report. Xenith's assessment considered various technical matters in relation to the Dartbrook Mine including the reasonableness of Reserve and Resource estimates, mining plans, mine infrastructure, environmental status, capital budgets and operating costs. The assessment also considered the value of the Company's other exploration and pre-development assets. Xenith's independent assessment of the Technical Value of AQC's coal assets was used by BDO in their valuation of the Company undertaken for the purpose of the BDO IER.

Xenith has been appointed for the purpose of this Report to consider and update, where necessary, the independent assessment of the Technical Value of AQC's coal assets contained in the Technical Expert Report. Xenith's findings are detailed in the Technical Expert Addendum. We have relied upon the work undertaken by Xenith in forming our opinion on the value of AQC. A copy of the Technical Expert Report can

be found attached to the Notice of April 2017 EGM and Explanatory Memorandum⁴ and should be read in conjunction with our Report.

In placing reliance on the Xenith Technical Expert Report and Technical Expert Addendum, we have satisfied ourselves as to Xenith's competence and expertise. We are also satisfied that the assumptions, methodologies and source data used by Xenith are reasonable and appropriate and that the Report contains sufficient information to support the conclusions drawn.

2.4 Shareholders' decisions

This Report has been prepared specifically for the Non-Associated Shareholders. As such, in respect of this Report, including any errors or omissions howsoever caused, neither EY Transaction Advisory Services, EY nor any employees or consultants thereof undertakes responsibility to any person other than the Non-Associated Shareholders.

This Report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of the Non-Associated Shareholders. The decisions as to whether to approve or not to approve the Proposed Amendments is a matter for individual Non-Associated Shareholders. AQC shareholders should have regard to the Explanatory Memorandum prepared by the Independent Directors and Management. AQC shareholders who are in doubt as to the action they should take in relation to the Proposed Amendments should consult their own professional adviser.

EY Transaction Advisory Services has prepared a Financial Services Guide in accordance with the Act. The Financial Services Guide is included as Part 2 of this Report.

2.5 Independence

Prior to accepting this engagement, we considered our independence in regards to AQC and the Existing Financiers with reference to Regulatory Guide 112: Independence of experts. In our opinion, we are independent of all parties.

EY Transaction Advisory Services, EY and global affiliations, have not provided any services to AQC or the Existing Financiers in relation to the Proposed Amendments.

2.6 Limitations and reliance on information

In the preparation of this Report, we were provided with information in respect of AQC, the Dartbrook Mine and Proposed Amendments and obtained additional information from public sources, as set out in Appendix C.

Our opinion is based on economic, market and other external conditions prevailing at the date of this Report. These conditions can change over relatively short periods of time and these changes can be material.

This Report is also based upon financial and other information provided by AQC in relation to the Company and the Proposed Amendments. EY has considered and relied upon this information. AQC has represented to EY that to their knowledge the information provided is correct and that there are no material facts which have been omitted.

The information provided to us has been evaluated through analysis, enquiry and review for the purposes of forming an opinion as to whether the Proposed Amendments are fair and reasonable. However, EY does not warrant that its enquiries have identified all of the matters that an audit, an extensive examination or 'due diligence' and / or tax investigation might disclose.

⁴ http://www.aqcltd.com/irm/PDF/1843_0/NoticeofExtraordinaryGeneralMeeting

Preparation of this Report does not imply that we have, in any way, audited the accounts or records of AQC. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and Australian equivalents to International Financial Reporting Standards as applicable.

In forming our opinion, we have also assumed that:

- ▶ Matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so, and that there are no material legal proceedings, other than as publicly disclosed;
- ▶ The information set out in the Explanatory Memorandum to be sent to AQC shareholders is complete, accurate and fairly presented in all material respects;
- ▶ The publicly available information relied upon by EY in its analysis was accurate and not misleading; and
- ▶ The Proposed Amendments will be implemented in accordance with the terms detailed in the Explanatory Memorandum.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations and policies, we assume no responsibility and offer no legal opinion or interpretation on any issue.

The statements and opinions given in this Report are given in good faith and in the belief that such statements and opinions are not false or misleading. This Report should be read in the context of the full qualifications, limitations and consents set out in Appendix A of this Report.

We provided draft copies of this Report to the Independent Directors and Management for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of us alone. Amendments made as a result of review by the Independent Directors and Management have not changed the methodology or conclusions reached by EY.

This Report has been prepared in accordance with APES 225: Valuation Services (“APES 225”) issued by the Accounting Professional & Ethical Standards Board Limited in May 2012. In accordance with APES 225, we have performed a Valuation Engagement, which is defined as *“an engagement where the valuer is free to choose the valuation approaches, methods and procedures as appropriate to the circumstances. The estimate of value that results is a conclusion of value”*.

3. Overview

3.1 Description of AQC

AQC is an Australian company that listed on the ASX in 1999 and since 2010 has principally operated as a coal exploration and evaluation company.

The Company has been successful in identifying and acquiring strategic tenure of available tenements in close proximity to operating mines or in areas with proven / potential in-ground resources. Since 2010, AQC has built a strategic holding of coal exploration tenements in Queensland's Bowen, Galilee and Surat basins⁵. In May 2017, AQC acquired the Dartbrook Mine which is located in NSW and has the potential to recommence mining operations.

Upon identifying prospective areas for further exploration, AQC is focused on exploiting the commercial value of these coal projects through farm-in, joint venture exploration and joint venture development.

AQC recently entered into the SNR Agreement with SNR Minerals Assets Ltd, a wholly owned subsidiary of SNR to form the Dartbrook JV, under which SNR is to pay a consideration of \$20 million for a 50% interest in AQC Investments 2 Pty Ltd, the entity which holds AQC's interest in the Dartbrook Mine.

3.2 Background on assets

3.2.1 Dartbrook Mine

The Dartbrook Mine is located in the NSW Hunter Valley region, approximately 4km west of Aberdeen and 10km north-west of Muswellbrook and is AQC's flagship asset. Longwall underground mining operations commenced in 1994 at the Dartbrook Mine. The mine was placed into care and maintenance in 2006 following volatile commodity prices, operational issues and internal competition for capital allocation within Anglo's portfolio of assets⁶. In 2005, production rates at the Dartbrook Mine reached over 5.5 million tonnes ("Mt") ROM per annum.

The latest Ore Reserves and Mineral Resources attributable to the Dartbrook Mine on an open cut basis as at March 2018 is presented in the table below.

Dartbrook Mine JORC Ore Reserve and Mineral Resource statement	
Mt	March 2018 JORC statement
Ore Reserves	
Proven	-
Probable	470
Total	470
Mineral Resources	
Measured	588
Indicated	850
Inferred	1,097
Total	2,534

Source: GPPH & Associates - Dartbrook Open Cut Mine Reserve Statement, March 2018

Note: Reported Mineral Resources are inclusive of Ore Reserves and are presented on a ROM tonne basis.

⁵ Australian Pacific Coal company website
⁶ AQC, ASX Announcement, 27 June 2017

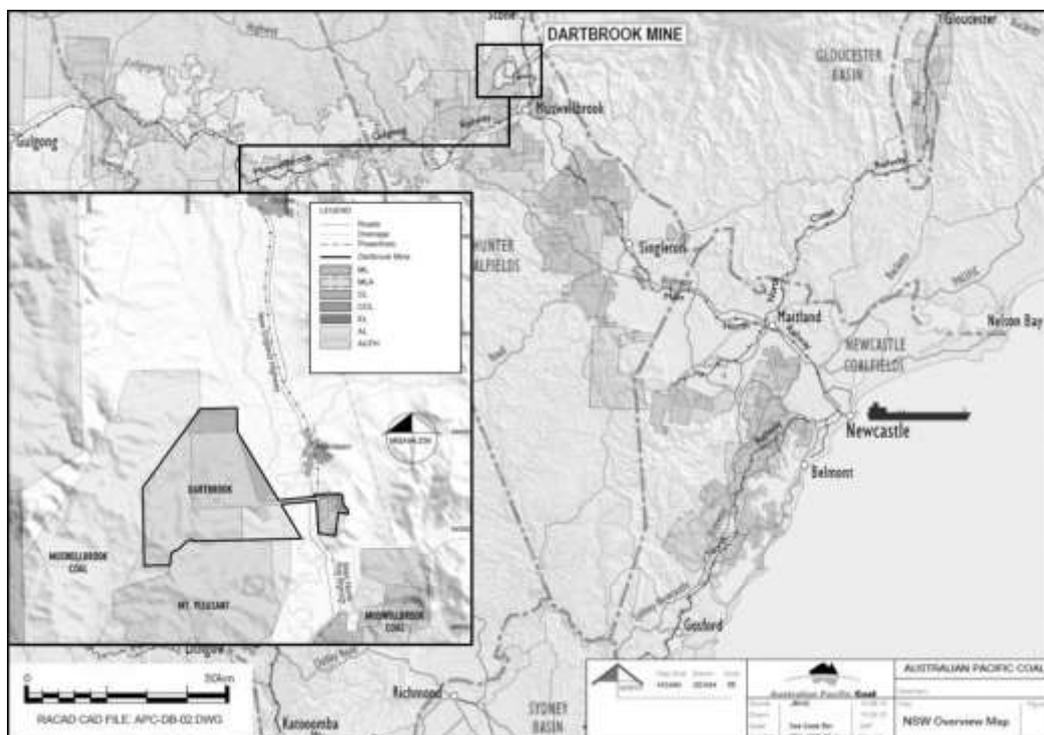
The coal at the Dartbrook Mine is classified as high volatile bituminous coal, with the thermal coal produced being of high quality, low sulphur content, that has calorific value and quality parameters suitable for high energy, low emission power generation. The Kayuga and Piercefield seams are capable of producing a range of products, including thermal coal with an ash air dried basis ranging between 10% and 20%, and pulverised coal injection (“PCI”) with a 9% ash air dried basis.

The Dartbrook Mine has significant existing infrastructure to support mining operations including⁷:

- ▶ A rail loop and TLO facility connected to the Hunter Valley Coal Rail Network which provides direct transport of coal to the Port of Newcastle, located approximately 130 kilometres southeast of the Dartbrook Mine.
- ▶ A CHPP with throughput capacity of 1,000 tonnes per hour (“tph”) of ROM coal. The CHPP comprises, a single-stage wash plant with bypass facility, medium cyclone spirals and flotation circuits.
- ▶ The Hunter Tunnel, a 4km conveyor transporting ROM coal from the underground mine to the CHPP.
- ▶ Product drifts which provide access and transport between a number of seams.
- ▶ Other auxiliary facilities including power, water, waste and office facilities.

We understand that the Dartbrook Mine facilities and infrastructure have been maintained in good condition since the mine was placed into care and maintenance and are in good condition. The Xenith Technical Expert Report estimated that the capital expenditure required to reopen the Dartbrook Mine’s underground operations would be approximately \$37 million, expended over a period of two years.

The following diagram outlines the location of the Dartbrook Mine within the surrounding region.



Source: Technical Expert Report, page 19: <https://www.asx.com.au/asxpdf/20170313/pdf/43grf9427mk694.pdf>

⁷ AQC, Corporate Presentation, 3 April 2018

3.2.2 Other tenements

AQC's Queensland portfolio consists of nine coal tenements comprising six 100% owned exploration permits and three joint venture exploration permits with Blackwood Resources Pty Ltd. The Blackwood Resources joint venture was created in April 2010, allowing AQC a 10% free carried interest up until the feasibility study stage⁸.

The Dingo (EPC 1859) and South Clermont (EPC 2011) projects have been identified as AQC's most advanced other assets. Most of AQC's coal tenements are located in the Bowen Basin, a major supply source of high quality metallurgical, PCI and thermal coal. The Company's coal tenements are mostly in the exploration stage of development and are generally located close to rail and road infrastructure.

In September 2017, AQC divested two of its 100% owned Bowen Basin projects, Mount Hillalong and Cooroorah for a consideration of \$1.25 million in issued shares in Bowen Coking Coal Limited ("Bowen Coking Coal")⁹. Mount Hillalong is an exploration phase, 48 square kilometre ("km²") metallurgical and thermal coal project. Cooroorah is a 17 km² coking, PCI and thermal coal project in the reserves / resource development, pre-prefeasibility stage¹⁰.

The following table outlines the tenement details of AQC's assets, including the Dartbrook Mine and excluding tenements sold in 2017.

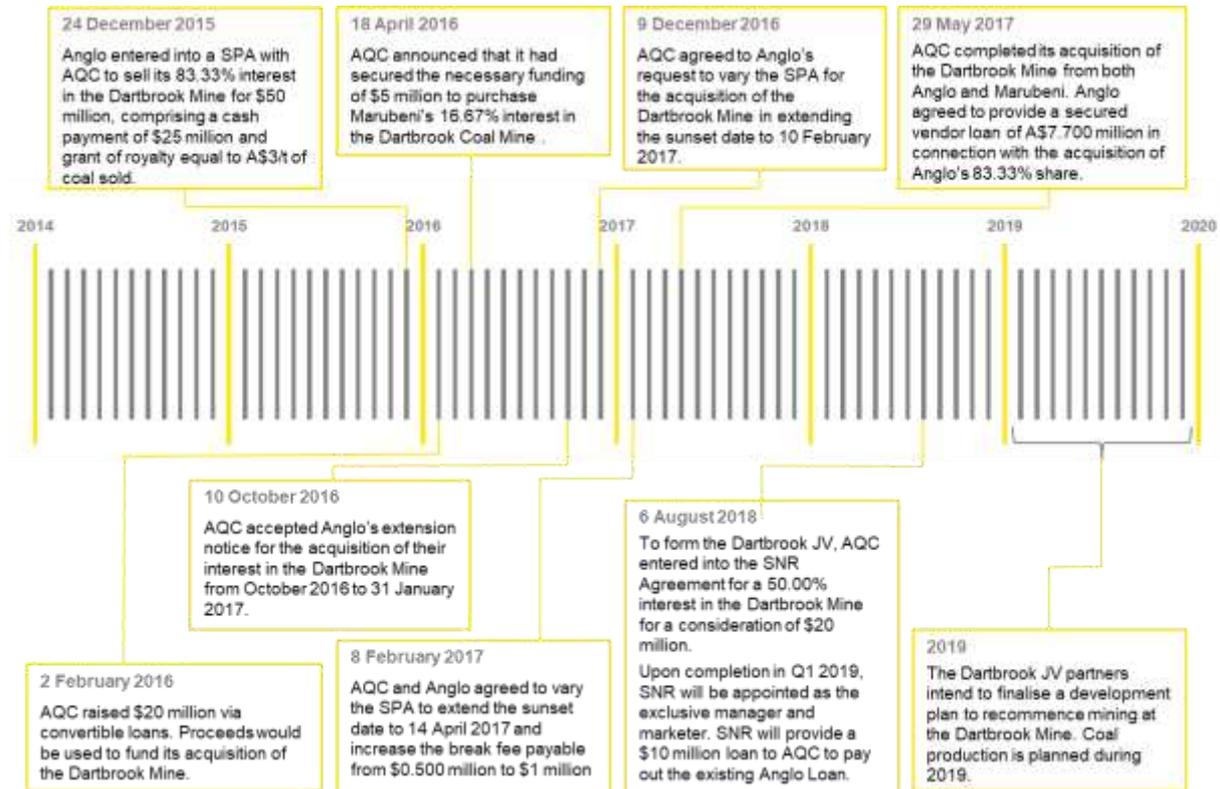
AQC Asset List					
Project	Development Stage	Basin	Ownership	Tenements	Area (km ²)
Dartbrook Mine	Prefeasibility	Hunter Valley	100%	AUTH256, CL386, EL4574, EL4575, EL5525, ML1381, ML1456, ML1497	7,068
Mount Hess	Exploration	Bowen	100%	EPC1645	32
Mount Hess West	Exploration	Bowen	100%	EPC1867	6
Kemmis Creek	Exploration	Bowen	100%	EPC1773	6
Dingo	Exploration	Bowen	100%	EPC1859	16
South Clermont	Exploration	Bowen	100%	EPC2011	57
Bungaban Creek	Exploration	Surat	10.00%	EPC1955	197
Quandong	Exploration	Surat	10.00%	EPC1987	354
Laguna Creek	Exploration	Galilee	10.00%	EPC1957	381
Mantuan Downs North	Grassroots	Eromanga	100%	ML70360	0

Source: Technical Expert Report, S&P Market Intelligence

⁸ Australian Pacific Coal company website
⁹ Australian Pacific Coal Annual Report 2017
¹⁰ S&P Market Intelligence

3.3 Timeline of AQC’s ownership in the Dartbrook Coal Mine

The following diagram summarises the key events over AQC’s ownership of the Dartbrook Mine.



Source: Morningstar, S&P Market Intelligence

AQC has been involved in the following transactions relating to the Dartbrook Mine:

- ▶ **Anglo and Marubeni acquisition:** In December 2015, AQC entered into a SPA with Anglo to acquire its 83.33% interest in the Dartbrook Mine through the purchase of all shares on issue in Anglo Coal (Dartbrook) Pty Ltd. In May 2016, Marubeni exercised its tag-along right for the sale of its 16.67% interest, which included the 16.67% interest in the Dartbrook Mine and in Dartbrook Coal (Sales) Pty Ltd, the marketing agent of the Dartbrook joint venture with Anglo.

Accordingly, on 29 May 2017, AQC acquired 100% ownership of the Dartbrook Mine for a total price of \$39.295 million. The acquisition included AQC assuming responsibility for the Dartbrook Mine rehabilitation obligation of \$9.245 million for which they received a security deposit for the same amount from Anglo. The transaction also includes the contingent Anglo Royalty of \$3 per tonne of coal sold or disposed at the Dartbrook Mine, and \$0.30 per tonne of any third party coal processed through the Dartbrook Mine infrastructure (capped at \$30 million and subject to consumer price index (“CPI”) escalation).

As part of the transaction, Anglo agreed to provide AQC with the Anglo Loan of \$7.7 million. The loan is to mature three years from date of financial close, being May 2020 at an interest rate of 10% per annum.

- ▶ **Dartbrook JV announced:** AQC entered into the SNR Agreement on 6 August 2018 to form the Dartbrook JV. Under the proposed terms, SNR will pay \$20 million for a 50% interest in AQC Investments 2 Pty Ltd, the entity which holds AQC's interest the Dartbrook Mine, including freehold land, infrastructure and mining tenements. SNR will be appointed as exclusive manager and marketer for the Dartbrook JV at completion, which is anticipated to occur in the March 2019 quarter. The Dartbrook JV is subject to certain conditions including but not limited to:
 - SNR securing funding;
 - The completion of financial due diligence;
 - All AQC debt related to the Existing Financers repaid and / or converted; and
 - Anglo Loan to be repaid. As part of the SNR Agreement, the Dartbrook JV will provide AQC the Vendor Loan for this purpose.

As the asset must be free from all encumbrances at the time the SNR Transaction completes, either the repayment / conversion of all existing AQC debt is required in order for security held over the Dartbrook Mine assets by Anglo (first ranking) and the Existing Financers to be released or AQC must otherwise be able to negotiate the release of such security.

3.4 Analysis of statement of financial position

The following table outlines AQC's consolidated statement of financial position for the financial years ended 30 June 2017 ("30Jun17"), 30 June 2018 ("30Jun18") and year-to-date unaudited Management Accounts at 31 August 2018 ("31Aug18").

Consolidated statement of financial position			
\$ ('000)	30Jun17	30Jun18	31Aug18
Cash and cash equivalents	12,283.7	2,376.6	1,574.7
Trade and other receivables	241.7	293.8	117.2
Prepayments	380.4	725.8	1,034.9
Total current assets	12,905.8	3,396.2	2,726.8
Property, plant and equipment	45,502.9	45,046.5	44,842.5
Intangibles (Dartbrook water licences)	5,620.0	5,620.0	5,620.0
Exploration and evaluation (accumulated tenement costs)	3,673.1	6,752.7	7,449.5
Financial assets (Bowen Coking Coal investment)	-	760.9	760.9
Cash and cash equivalents (restricted cash)	285.4	285.4	285.4
Tenement security deposits	9,289.6	8,989.6	8,989.6
Total non-current assets	64,371.0	67,455.1	67,948.0
Total assets	77,276.8	70,851.4	70,674.8
Accrued interest on convertible notes and secured loans	(731.2)	(5,677.0)	(6,640.6)
Other trade creditors	(2,689.6)	(2,041.2)	(1,535.3)
Employee liabilities	-	-	(71.4)
General accruals	-	-	(59.6)
Convertible securities	(37,532.8)	(37,532.8)	(37,532.8)
Interest bearing liabilities (Anglo secured loan)	(7,700.0)	(7,700.0)	(7,700.0)
Trepang Secured and Unsecured loan	-	(5,000.0)	(7,000.0)
Insurance premium funding	(221.8)	(618.0)	(413.9)
Bank loans	(41.4)	(35.4)	(35.7)
Provisions for employee entitlements	(12.3)	(15.9)	-
Total current liabilities	(48,929.2)	(58,620.2)	(60,989.2)
Borrowings	(14.3)	(59.6)	(53.6)
Provision for vendor royalty	(11,100.0)	(11,100.0)	(11,100.0)
Provision for rehabilitation	(9,245.0)	(8,950.0)	(8,950.0)
Total non-current liabilities	(20,359.3)	(20,109.6)	(20,103.6)
Total liabilities	(69,288.4)	(78,729.8)	(81,092.8)
Net assets	7,988.4	(7,878.5)	(10,418.0)
KPIs			
Net working capital	(2,067.6)	(1,021.6)	(514.2)
Net financial debt	33,672.3	53,960.7	57,516.4

Source: AQC FY18 Annual Report, August 2018 Management Accounts.

Notes:

1. Net working capital comprises trade and other receivables, prepayments and trade and other payables (excluding accrued interest on convertible notes and secured loans).
2. Net financial debt comprises current and non-current cash and cash equivalents, accrued interest on convertible notes and loans and current and non-current borrowings.

In relation to AQC's financial position we note the following:

- ▶ As at 31Aug18 prepayments comprise insurance of \$0.548 million, Dartbrook Mine rates of \$0.465 million and prepaid rent of \$0.022 million.

- ▶ Property, plant and equipment of \$44.843 million as at 31Aug18 mainly relate to the Dartbrook Mine's fixed assets.
- ▶ Intangibles of \$5.620 million relate to water licenses acquired by AQC through the purchase of the Dartbrook Mine. Xenith has confirmed that this amount still reflects the fair value of the intangibles, as at the Valuation Date.
- ▶ Exploration and evaluation assets have increased from \$6.753 million to \$7.450 million (10.32%) between 30Jun18 and 31Aug18 as a result of the expenditure incurred. Costs are only carried forward when they are expected to be recouped through development, or if activities in the area have not yet reached a stage which permits a reasonable assessment of the existence of economically recoverable resources. We note that the 30Jun18 balance has been partially offset by the sale of the Mount Hillalong and Cooroorah tenements.
- ▶ Financial assets of \$0.761 million reflect AQC's investment in Bowen Coking Coal, an ASX listed company. This investment has been recognised at fair value at 30Jun18, being the last close price for the period multiplied by the number of issued shares held by AQC.

In September 2017, Bowen Coking Coal issued ordinary shares as consideration for purchase of the Mount Hillalong and Cooroorah tenements. AQC were issued \$1.25 million worth of ordinary shares (54,347,826 shares), representing approximately 11.57% of the total Bowen Coking Coal shares at September 2017. On 11 May 2018, Bowen Coking Coal issued additional 30 million shares, reducing AQC's interest to 10.88%. On 2 October 2018 Bowen Coking Coal issued additional shares, further reducing AQC's interest to 9.46%

- ▶ Tenement security deposits of \$8.989 million reflect cash provided to the NSW State Government as financial assurance for the future rehabilitation obligations relating to the Dartbrook Mine. The rehabilitation relates to areas disturbed during operations when the Dartbrook Mine was previously active including surface infrastructure, buildings, underground mine workings and underground entries.
- ▶ The Existing Convertible Notes, Secured Loan, Unsecured Loan and Anglo Loan attract interest payable at 10% per annum. As AQC does not have capacity to pay this interest, it is accrued as a trade and other payable. As at 31Aug18 accrued interest totalled \$6.641 million, of which \$1.027 million related to the Anglo Loan.
- ▶ Convertible securities of \$37.533 million comprise the Existing Convertible Notes of \$15 million held by Trepang and two notes of \$11.266 million held by Mr Paspaley and Mr Robinson (Snr), respectively, (being \$10 million plus capitalised interest of \$1.266 million).
- ▶ Interest bearing liabilities of \$7.7 million reflect the Anglo Loan. The Anglo Loan was provided on the completion of the Dartbrook Mine acquisition and has a fixed interest rate of 10% per annum.
- ▶ Net financial debt increased from \$33.672 million to \$53.961 million (60.25%) between 30Jun17 and 30Jun18 and then to \$57.516 million at 31Aug18. This significant increase reflects both an uplift in gross debt and a decrease in cash and cash equivalents. Specifically, the increase has been driven by the drawdown of additional Secured Loan and Unsecured Loan amounts, accumulation of accrued interest and a decrease in cash and cash equivalents as funds were used to meet ongoing operations.
- ▶ The provision for vendor royalty of \$11.1 million represents the fair value of the Anglo Royalty obligation brought to account as part of the acquisition of the Dartbrook Mine. The Anglo Royalty becomes payable upon the mine recommencing saleable production. The value adopted for the Anglo Royalty is lower than the full nominal amount to reflect the risk and time value of the attributable cash flows.
- ▶ As discussed above, the provision for rehabilitation of \$8.95 million relates to the closure costs of areas disturbed during operations when the Dartbrook Mine was previously active and operational under Anglo.

3.5 Capital structure

AQC has provided us with a shareholder breakdown as at 10 September 2018. Management has confirmed that there has been no change to the Existing Financiers' collective relevant interest or the total number of shares the Company has outstanding between this date and the date of our Report.

Based on this information, AQC has on issue 49,234,810 fully paid ordinary shares and has approximately 2,119 shareholders with the top 20 shareholders holding approximately 77.36% of the shares on issue. The Company's largest shareholder is Trepang which holds a 40.15% interest. Jet Arm Limited is AQC's second largest shareholder with a 10.16% interest, followed by Citicorp Nominees Pty Limited with a 4.90% interest. We have presented AQC's top 20 shareholders in the table below.

Top 20 shareholders in AQC (10/09/18)			
Rank	Shareholder	Number of shares ('000)	Interest (%)
1	Trepang Services Pty Ltd	19,770.0	40.15%
2	Jet Arm Limited	5,000.0	10.16%
3	Citicorp Nominees Pty Limited	2,410.7	4.90%
4	Halikos Pty Ltd	1,923.1	3.91%
5	Allstate Asset Corporation P/L>	1,829.0	3.71%
6	Mr Buguo Wang	1,594.9	3.24%
7	Mr Nicholas Theodore James Paspaley	1,291.7	2.62%
8	Mibro (Nt) Pty Ltd	430.0	0.87%
9	CS Fourth Nominees	429.1	0.87%
10	Mr Mark Alan Rowe & Mrs Christine Lee Rowe	403.3	0.82%
11	J P Morgan Nominees Australia Limited	375.0	0.76%
12	Mr Rohan Halfpenny & Mrs Phitsamai Halfpenny	355.1	0.72%
13	Sambor Nominees Pty Ltd	345.6	0.70%
14	Brispot Nominess	345.3	0.70%
15	Shemariah Pty Ltd	301.1	0.61%
16	CS Third Nominees	269.8	0.55%
17	Foley Super Pty Ltd	265.6	0.54%
18	Tanus Fisheries	255.0	0.52%
19	Mr Donald Edgar Hoar	250.0	0.51%
20	Cooroy Rock Pty Ltd	244.6	0.50%
	Other Shareholders	11,146.0	22.64%
Total shares outstanding		49,234.8	100%

Source: Management

Notes:

1. Figures may not add due to rounding.
2. The Existing Financiers interests are shown in bold.

3.6 Share price performance

The table below summarises the trading history of AQC shares on the ASX over the period between 1 August 2017 and 31 August 2018.

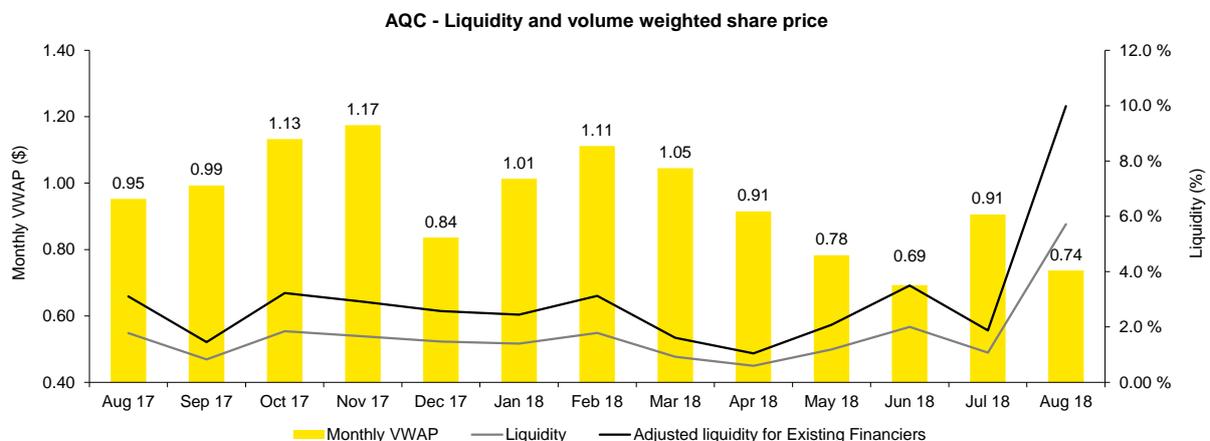
Share trading history						
Month	High (\$)	Low (\$)	Close (\$)	Monthly VWAP (\$)	Volume (m)	
August 17	1.200	0.700	1.000	0.953	0.875	
September 17	1.100	0.900	1.000	0.993	0.408	
October 17	1.200	1.000	1.100	1.133	0.908	
November 17	1.300	0.903	0.903	1.175	0.820	
December 17	1.000	0.775	0.800	0.836	0.725	
January 18	1.240	0.775	0.950	1.013	0.689	
February 18	1.200	1.020	1.150	1.112	0.880	
March 18	1.150	0.990	1.000	1.045	0.454	
April 18	0.970	0.880	0.880	0.915	0.294	
May 18	0.880	0.700	0.735	0.783	0.585	
June 18	0.745	0.600	0.600	0.693	0.985	
July 18	1.080	0.650	0.875	0.906	0.529	
August 18	0.875	0.715	0.790	0.737	2.813	

Source: S&P Capital IQ, EY analysis

Notes: The market analysis undertaken above and throughout the remainder of the Report is based on data provided by S&P Capital IQ and as such may differ to similar analysis undertaken using a different market intelligence provider.

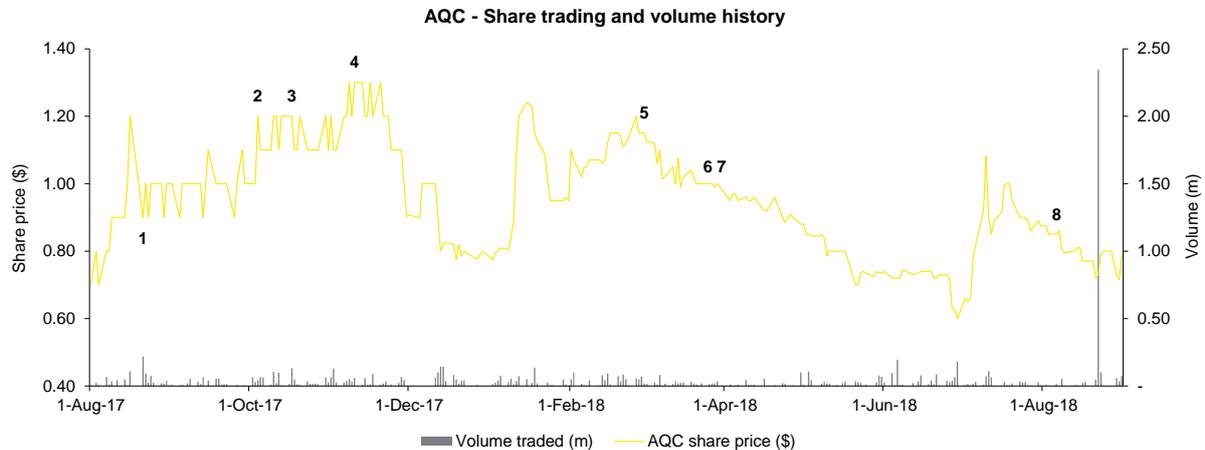
The monthly liquidity of AQC's shares traded over the period 1 August 2017 to 31 August 2018 ranged between a high of 5.71% in August 2018 and a low of 0.60% in April 2018, as shown in the chart below. Based on this, the liquidity over the twelve months to the Valuation Date is approximately 20.49%. When adjusted to exclude shares outstanding held by the Existing Financiers the liquidity over the twelve months to the Valuation Date increases to approximately 35.82%. As such the issued shares in AQC are relatively illiquid, and thus the price may not reflect underlying value.

We have performed our liquidity analysis on a daily basis and as such have appropriately accounted for the 100:1 share consolidation which occurred in December 2017 following approval at the 2017 AGM.



Source: S&P Capital IQ, EY analysis

The following chart is a summary of AQC's share trading history on the ASX over the same time period. The trading price is based on the daily closing price from S&P Capital IQ.



Source: S&P Capital IQ, Morningstar, EY analysis

The analysis shows that over the period considered, AQC's shares traded down from a high of \$1.3 on five non-consecutive days over November 2017 to a period low of \$0.625 on 29 June 2018, before recovering in mid-July 2018 to \$1.08 and decreasing to \$0.715 on 30 August 2018. The closing price of the Company's shares on 31 August 2018 was \$0.79 per share. The volume weighted average price ("VWAP") between 1 August 2017 and 31 August 2018 was \$0.91¹¹.

Over the period, the daily volume traded has consistently remained below 0.22 million shares with the exception of 22 August 2018 which recorded a volume of AQC shares exchanged of 2.345 million. We observe that there was no placement of additional shares, material change in the closing share price or market sensitive announcements on this date.

In addition to the regular quarterly, interim and annual reporting announcements, the material announcements made by AQC that may have had an impact on the Company's share price, as annotated in the chart above, are summarised below:

1. Funding update (21 August 2017) – AQC advised that it had not reached acceptable terms with the entity that provided a binding funding proposal so that proposal did not proceed.
2. Divestment of Mount Hillalong and Cooroorah (4 October 2017) – AQC announced the completion of its divestment in the Mount Hillalong and Cooroorah tenements. AQC was issued \$1.25 million of ordinary shares in Bowen Coking Coal as consideration.
3. Proposed amendment to financing terms (17 October 2017) – AQC agreed on revised terms with the Existing Financier in relation to their existing financing arrangements.
4. Consolidation (10 November 2017) – AQC announced a security consolidation on the basis that every 100 (pre-consolidation) securities would be consolidated into 1 (post-consolidation) security.
5. Application lodged for recommencement of mining (1 March 2018) – AQC announced it had lodged the Application to modify the existing mining approval to recommence underground mining operations at the Dartbrook Mine.

¹¹ . The VWAP calculation is based on the daily value traded and daily volumes traded from S&P Capital IQ.

6. Dartbrook coal reserve estimate (28 March 2018) – AQC announced that the Dartbrook Mine’s total open-cut marketable coal reserves were 470 Mt (Probable Reserves 470 Mt), which is included within the total coal resource estimate of 2,534 Mt.
7. Completion of Dartbrook Mine OC PFS (28 March 2018) – AQC announced that the Dartbrook Mine OC PFS confirmed the technical and financial capability of the project.
8. Strategic partner for the Dartbrook Mine development (6 August 2018) – AQC announced that it had entered into the SNR Agreement to form the Dartbrook JV with SNR acquiring a 50% interest.

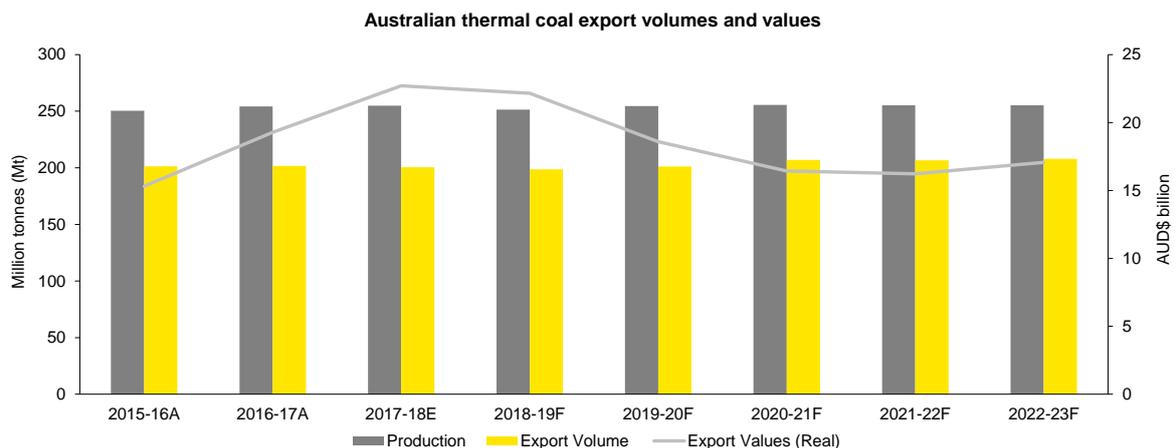
3.7 Industry overview for thermal coal sector

3.7.1 Overview

Thermal coal, also known as steaming coal, is used primarily in the generation of electricity as a fuel for the combustion process to produce steam. It also has secondary uses in other industrial processes that are reliant on heating, such as cement manufacturing. Demand for thermal coal is currently under threat from substitutes including gas and renewables.

3.7.1.1 Production and trade

More than 73% of global coal production consists of steaming coal¹², the production of which is projected to continue to increase at a compound annual growth rate (“CAGR”) of approximately 1% over the period 2017 to 2023. In 2017, Australia represented 4.70% of global thermal coal production, producing 254.2Mt¹³ and is expected to increase to 255.2Mt in 2022-23 (i.e. a CAGR of 0.30%)¹⁴. This increase is largely driven by continued strong ASEAN demand, enabling Australia to export its excess production, making it the world’s 2nd largest thermal coal exporter.



Source: Department of Industry, Innovation and Science

The world trade of thermal coal is forecast to remain broadly steady over 2018 at 1.06 billion tonnes, before modestly declining to 1.04 billion tonnes in 2020. This is underpinned by growing domestic supply in the Chinese and Indian market, and an increasing shift away from coal-fired power generation in most industrialised economies¹⁰.

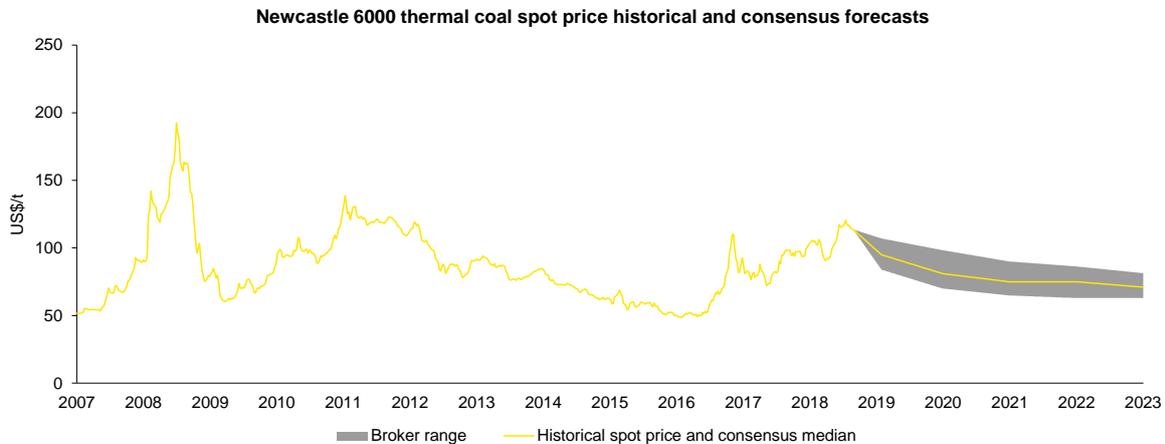
3.7.1.2 Pricing

Thermal coal prices declined steadily between 2011 and mid-2016, reflecting a shift towards renewables, as well as a general oversupply in the coal market. The second half of 2016 saw a rapid rise in spot prices with the Australian benchmark Newcastle FOB spot price reaching a high of \$103/t (6,000 kcal/kg NAR) in November 2016. These price increases were largely attributed to China’s supply-side reforms undertaken in the second half of 2016, exacerbated by a decline in exports from the world’s largest exporter, Indonesia, due to monsoonal rains. Recent constrained supply and strong Asian demand has seen strengthened prices, as the spot price peaked at \$120/t (6,000 kcal/kg NAR) in July 2018. However, with most of the contributing factors expected to be temporary, the price is forecast to decline from late 2018 as import demand growth slows relative to supply. Both China and India are also expected to increase domestic thermal coal output¹⁰.

¹² IBISWorld, Global Coal Mining Industry Report, May 2018

¹³ Australian Department of Industry, Innovation and Science – Resources and Energy Quarterly, June 2018

¹⁴ Australian Department of Industry, Innovation and Science – Resources and Energy Quarterly, March 2018



Source: IHS historical pricing, Consensus Economics and EY analysis

The Newcastle 6000kcal/kg benchmark (“NEWC 6000”) has typically traded at an average premium of approximately 23% over the Newcastle 5500kcal/kg (“NEWC 5500”) since mid-2011. However, in recent months this premium has at times increased to approximately 70%. Whilst it is hard to determine the exact cause of this divergence, it may be as a result of consolidation in Hunter Valley thermal coal operations through recent acquisitions by Yancoal Australia Ltd and Glencore Australia Holdings and an increasing preference for higher quality thermal coal to be used in high efficiency low emission (“HELE”) power stations throughout South-East Asian countries. This trend, whilst still evolving, has the potential to result in continued strength in the NEWC 6000 over the short to medium term.

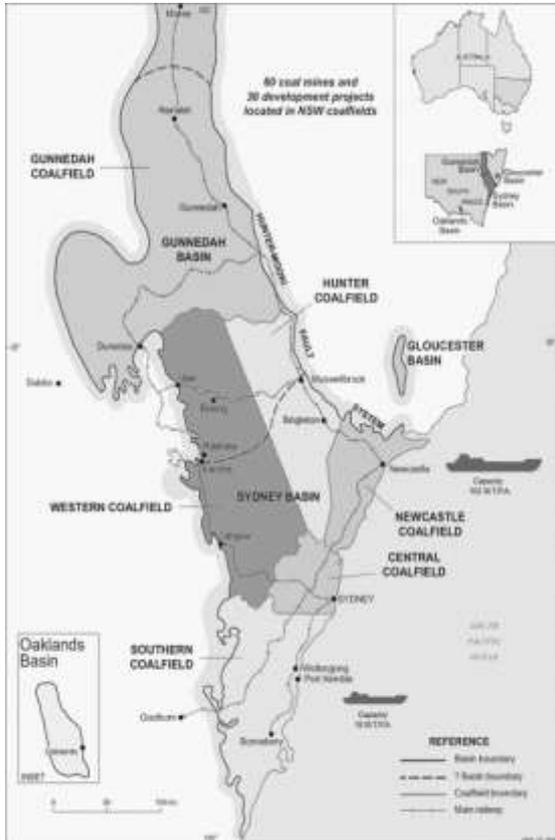
3.7.1.3 Outlook

According to the Department of Industry, Innovation and Science, the outlook for Australia’s thermal coal exports is generally positive in the medium term¹⁵. Climate change and carbon emission reduction policies have affected the medium to long term outlook for thermal coal. The Paris Agreement, the world’s first universal and legally-binding global climate change deal, seeks to limit increases to global average temperatures to less than 2°C below pre-industrial levels. The impact of this deal will involve changes in the global energy mix, including an impact on the role of thermal coal as a fuel source. In order to reduce carbon emissions and fuel costs, many countries including Japan and China have started to replace old low-efficiency coal generation plants with HELE coal powered electricity plants.

Plants of this nature can have up to 10% greater efficiency than low-efficiency coal generation plants and operate most effectively with higher quality thermal coal, which possess characteristics similar to those found in Australia’s NEWC 6000 thermal coal. This change in government policy and the increasing population growth, industrialisation and urbanisation of South-East Asia and India may lead to increased demand for Australian thermal coal going forward.

¹⁵ Australian Department of Industry, Innovation and Science – Coal, May 2017

3.7.2 Coal infrastructure in NSW



Source: Resources and Energy, 2017, NSW Coalfields

As Australia exports the majority of the coal it produces, it is critical for producers to have access to rail and port infrastructure. The adjacent diagram illustrates the coal transport system in NSW.

3.7.2.1 Current port infrastructure

Hunter Valley coal is exported through the Port of Newcastle which is the largest coal export port in the world, with up to 211Mtpa capacity¹⁶. In 2017, the Port of Newcastle reported total coal exports of 159Mt, accounting for 95% of the trade volume from the port¹⁷.

Currently, the coal exporting terminals include:

- ▶ Port Waratah Coal Services: PWCS' commercial operations date back to 1976 when a group of coal shippers and Japanese investors assumed responsibility for funding and constructing a new terminal with annual throughput of 16Mtpa. In 2015 the State and Commonwealth Governments approved the Terminal 4 Project, which has a throughput capacity of 70Mtpa, reduced from 120Mt in the original master plan due to world demand for coal.

- ▶ Newcastle Coal Infrastructure Group: NCIG operates a single export facility on Kooragang Island, which in 2014 after expansion reached a maximum design capacity of 66Mtpa. Although NCIG does not publicly report company data, Platts Coal Trader's suggest that 51Mt of coal was exported from their facilities in 2016¹⁸.

3.7.2.2 Current rail infrastructure

The Hunter Valley region has extensive rail infrastructure which is held and managed by Australian Rail Track Corporation ("ARTC"). Producers must enter into below-rail access contractual agreements with ARTC in order to gain access to the network. Above-rail services are to be arranged between rail operators and coal producers. Rail operators in the region include Pacific National, Aurizon, Freightliner, Southern Shorthaul Railroad and GRail. In late 2016, Genessee & Wyoming acquired Glencore's coal rail haulage business, Glencore GRail.

The Hunter Valley Coal Chain Coordinator ("HVCC") covers over 30 load points and services three terminals at the Port of Newcastle. In order to facilitate future coal demand, the ARTC has recently developed the 2015 to 2024 Hunter Valley Corridor Capacity Strategy, which details required expansion and development plans.

¹⁶ NSW Department of Industry

¹⁷ Port of Newcastle 2017 Annual Trade Report

¹⁸ Factiva, 2017 'Australia's Newcastle port sets record for monthly coal exports in Dec'

3.7.3 NSW governing acts and regulations

At a state level, the conduct of mining and exploration activities within NSW requires an authority acquired pursuant to the Mining Act 1992 (NSW), which takes the form of an exploration license, assessment lease, or a mining lease. The Titles Recommendation Committee informs relevant decision-maker for titles approvals, and gives consideration to various principles and policies in determining the outcome of an application. Depending on the type of activity considered, other legislative approvals may also be triggered.

Running parallel with this process is a requirement for major mining projects to undertake the Mineral Exploration and Development Assessment Process according to the provisions of the EPA Act. An application under the EPA Act undertakes submissions of a mine plan, environmental impact statement (“EIS”), and community consultation.

In addition, coal mining operations must be granted an environment protection license under the provisions of the Protection of the Environment Operations Act 1997 (NSW). For many large-scale mining developments, approval must also be sought from the Commonwealth under the Environment Protection and Biodiversity Act 1999 (Cth) through the submission of a separate EIS.

Coal mines in NSW are often challenged by rival industry groups, communities and environmental associations. Notable recent opposition to mine development and expansion in the Hunter region includes Anglo’s Drayton South mine. In February 2017, the mine’s expansion was rejected for the fourth time under significant opposition from the neighbouring horse breeding industry.

Industry-based associations also play an important role in regulating and developing the coal industry. For example, the Australian Coal Industry Research Program (“ACIRP”) receives \$0.05 per saleable tonne as a levy from industry members. ACIRP directs this funding towards research and development programs to improve the efficiency of mining operations, and explore innovative technologies.

4. Dilution of Non-Associated Shareholders

We have been provided with the share register for the top 20 holders by AQC as at 10 September 2018. As at this date, the Existing Financiers hold a combined 42.78% interest in the issued shares of AQC. Under the Existing Convertible Loan Deeds the conversion of all Existing Convertible Notes under their current terms and at their respective maturities would result in an increase in the Existing Financiers' collective relevant interest to approximately 65.40% of the issued shares of AQC.

Holding all things equal, as an indication of the potential dilutive impact of the Proposed Amendments, the table below illustrates the number of shares and percentage of total issued shares held by the Existing Financiers and Non-Associated Shareholders under Scenario 1, which assumes the SNR Transaction will complete, and Scenario 2, which assumes the SNR Transaction does not complete. The analysis assumes that all interest payable up until completion of the SNR Transaction is accrued under Scenario 1. Under Scenario 2, it is assumed that interest is capitalised up until the date of the AGM and thereafter future interest is paid to the Existing Financiers as PIK shares (at \$0.60 per share). This reflects the most dilutive impact should the Proposed Amendments be approved and provided that the PIK shares are issued at a value per share not less than \$0.60.

We have also illustrated the shareholder breakdown as at the date of this Report (i.e. "Existing Today") and the shareholder breakdown assuming that the Existing Convertible Notes are converted to equity at maturity (i.e. "Existing Maturity").

Potential dilution under Proposed Amendments				
Number of Shares	Existing today	Existing Maturity	Scenario 1	Scenario 2
Before conversion				
Existing Financiers	21,061.7	21,061.7	21,061.7	21,061.7
Non-Associated Shareholders	28,173.1	28,173.1	28,173.1	28,173.1
Total	49,234.8	49,234.8	49,234.8	49,234.8
Existing Financiers	42.78%	42.78%	42.78%	42.78%
Non-Associated Shareholders	57.22%	57.22%	57.22%	57.22%
After conversion				
Existing Financiers	21,061.7	53,242.8	64,995.4	104,339.3
Non-Associated Shareholders	28,173.1	28,173.1	28,173.1	28,173.1
Total	49,234.8	81,416.0	93,168.5	132,512.5
Existing Financiers	42.78%	65.40%	69.76%	78.74%
Non-Associated Shareholders	57.22%	34.60%	30.24%	21.26%

Source: AQC Share Registry, EY analysis

The preceding analysis illustrates that the Non-Associated Shareholders of AQC would likely experience the greatest dilution of their relevant interest under Scenario 2. Under Scenario 2, the Existing Financiers' interest in AQC would increase from 42.78% to 78.74% and the Non-Associated Shareholder interest would decrease from 57.22% to 21.26%. We note that under both Scenario 1 and Scenario 2, the Existing Financiers' interest in the issued shares of AQC does not exceed the maximum approved by the then non-associated shareholders as at the April 2017 EGM of 82.18%.

In addition to the preceding analysis, we have considered a number of other scenarios possible under the Proposed Amendments. We have determined that Scenario 1 and Scenario 2¹⁹ illustrate the most dilutive outcomes for the Non-Associated Shareholders in the event that the Proposed Amendments are approved. As such, by performing our analysis on Scenario 1 and Scenario 2, we are effectively presenting the most conservative outcome (maximum dilution). Additional scenarios considered are outlined below:

- ▶ **Existing Maturity:** This scenario assumes that the Existing Convertible Notes accrue interest and the total of the principal and accrued interest is converted at maturity. As the conversion price under the Existing Convertible Loan Deeds is significantly above the last close price at the date of this Report, it is highly unlikely the Existing Financiers would decide to convert. As such, we have not included this scenario.
- ▶ **Scenario 1:** Management provided us with a secondary possibility under Scenario 1 where the SNR Transaction completes on 30 November 2018, immediately after receipt of necessary shareholder approvals to facilitate the necessary conditions precedent for the SNR Transaction to complete. We have not considered this scenario as it is less dilutive to the Non-Associated Shareholders than the 5 April 2019 completion date.
- ▶ **Scenario 2:** Under Scenario 2, there are three ways that interest payments can be made to the Existing Financiers:
 - (i) Cash payment: Management has advised that AQC is not currently, and, in the short term, is unlikely to be in a position to service the interest expense outstanding through cash payments.
 - (ii) Accrual and capitalisation and
 - (iii) PIK through the issuance of shares on a timely basis.

We have assessed the maximum dilution in Scenario 2 in the event that interest is capitalised up until 1 February 2021 and subsequently converted to equity at the Existing Convertible Notes and New Convertible Note conversion price of \$0.80 per share. This returns a maximum dilution of 78.16%. We have presented our analysis assuming the issue of PIK share at \$0.60 per share as this scenario is more dilutive (i.e. 78.74%) than the capitalisation of interest (and subsequent conversion at \$0.80 per share).

As we cannot predict the actual share price at any particular time in the future we have based the PIK share issuance price of \$0.60 per share on the lowest AQC close price traded over the last twelve months, thus reflecting an assumption of the more dilutive issuance price compared to the spot price at the date of this Report (i.e. \$0.745 per share as at 5 October 2018).

¹⁹ provided that the PIK shares are issued at a value per share not less than \$0.60.

5. Valuation methodology and approach

5.1 Definition of fair value

In forming our opinion as to whether or not the proposals put forward under Resolution 4 and Resolution 5 are “fair and reasonable” to the Non-Associated Shareholders we have considered the fair value of:

- ▶ An AQC share on a controlling interest basis (i.e. assuming 100% ownership) in comparison with the “consideration” being paid by the Existing Financiers on the conversion of the Existing Convertible Notes and New Convertible Note (including capitalised interest);
- ▶ The balance of the Existing Convertible Notes and the New Convertible Note in comparison to the value being provided as security;
- ▶ The JV Royalty; and
- ▶ The security being given up by the Existing Financiers in comparison to the value of the Group Royalty.

Fair value is generally defined as “*the price at which an asset could be exchanged between a knowledgeable and willing but not anxious seller and a knowledgeable and willing but not anxious buyer both acting at arm’s length*”. Our assessment of fair value has been done on a basis consistent with this.

Fair value does not incorporate any special value. Special value is the additional value that may accrue to a particular purchaser. In a competitive bidding situation, potential purchasers may be prepared to pay part, or all, of the special value that they expect to realise from the acquisition to the seller.

In assessing the fair value of AQC, Xenith was engaged to undertake a technical assessment and valuation of the mining assets and projects. The Technical Expert Addendum is included in Appendix E of this Report and Technical Expert Report within the Notice of April 2017 EGM and Explanatory Memorandum. Consistent with the Australian VALMIN Code (2015) (“VALMIN Code”), Xenith describes the values determined for AQC’s mining assets and projects as representing a Technical Value. Under the VALMIN Code, ‘Technical Value’ excludes “*any premium or discount for such factors as market and strategic considerations*”. Given the methodologies applied and the assumptions upon which the valuation of AQC’s mining assets and projects are based, in our opinion, the Technical Values assessed by Xenith are representative of the fair values of each of the assets under the abovementioned definition.

5.2 Valuation methodologies adopted

RG 111 provides guidance on the valuation methods that an independent expert should consider when valuing a company. These methods include the:

- ▶ Discounted Cash Flow (“DCF”) method and the estimated realisable value of any surplus assets;
- ▶ Application of earnings multiples (appropriate to the business or industry in which the entity operates) to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets;
- ▶ Amount that would be available for distribution to security holders on an orderly realisation of assets;
- ▶ Quoted price for listed securities, when there is a liquid and active market and allowing for the fact that the quoted price may not reflect their value, should 100% of the securities be available for sale;
- ▶ Recent genuine offers, if any, received by the target for any business units or assets as a basis for valuation of those business units or assets; and

- ▶ Amount that any alternative acquirer might be willing to offer if all the securities in the target were available for purchase.

Each methodology is appropriate in certain circumstances. The decision as to which methodology to apply generally depends on the nature of the asset being valued, the methodology most commonly adopted in valuing such an asset and the availability of appropriate information.

In considering the range of methodologies applicable to the valuation of mineral assets, the appropriate method to apply is based on the stage of development of each asset being valued.

We have discussed the methodologies and approaches applied to our valuation in the subsections below.

5.2.1 Valuation of AQC's mining assets and projects

Given the nature of AQC as a coal exploration and evaluation company, we have assessed the value of the Company on a sum-of-parts basis after considering the underlying value of its assets and liabilities on a going concern basis. In adopting this approach, a key component of the valuation is the assessment of the value of AQC's mining assets and projects. The methodologies applied/referenced in valuing the Company's mineral assets were selected based on the stage of development of each asset and are summarised below²⁰:

- ▶ **Market capitalisation approach:** Using the actual market capitalisation based on the closing share price on the ASX, as at the Valuation Date. This provides a reference point for the total equity value of AQC on a minority interest basis. As such, we have applied a control premium of 30% in order to assess the value on a controlling interest basis.
- ▶ **Independent technical expert valuation:** Adopting the valuation provided within the Technical Expert Addendum, presented in Appendix E.
- ▶ **Prices implied by recent market transactions:** Adopting a fair value based on prices that assets held by AQC have either recently being bought, sold or where a binding offer has been received.

Based on consideration of the above valuation methodologies, we have determined the fair value of AQC's mining assets and projects, on a controlling interest basis. We have adopted a valuation for the Dartbrook Mine consistent with the relevant contingent assets and liabilities held by AQC. Specifically, the rehabilitation deposit and liability as well as the Anglo Royalty have been included through adjustments to the Dartbrook Mine valuation, where considered necessary after discussions with Xenith.

By their nature, mineral assets, particularly early stage or development assets, are difficult to value. Key considerations in valuing mineral assets include long term views on commodity prices, development, operational and financial risks, quality of the underlying resource base and expectations on the timing of the development of the asset. As such, while the valuation approaches and assumptions represented EY and Xenith's views at the time of preparing this Report, changes to market views on these key considerations could materially impact the values of the assets.

5.2.2 Valuation of the JV Royalty and Group Royalty

Royalty streams are typically valued using a DCF approach as they are contingent on the production profile of the mining asset on which the royalty is applicable. The production profile of operating assets are generally well defined technically and supported by reliable cash flow forecasts.

Given that the Dartbrook Mine is not in production and does not have a detailed LOM model available, we have valued the royalty streams with reference to the production profiles assessed in the OC PFS for the open cut mine and by Xenith for the underground mine. We have relied on the qualifications indicated by Xenith in the Technical Expert Addendum and Technical Expert Report.

²⁰ Noting that the market capitalisation approach was not considered appropriate due to the liquidity discussion included within Section 3.6.

The forecast royalty cash flows were estimated in Australian dollars on a post-tax, ungeared basis and have been reflected in nominal terms.

5.2.3 Other assets and liabilities

The value of AQC's other assets and liabilities, including Existing Debt, cash and cash equivalents, other borrowings and net working capital are considered commensurate with their book values. The valuation of AQC's Existing Debt assumes that interest is accrued and capitalised up until the maturity of the Existing Convertible Notes and New Convertible Note. As such, the value of Existing Debt differs between the Scenarios.

The fair value of AQC's investment in Bowen Coking Coal was assessed based on recent trading prices of Bowen Coking Coal's shares.

5.2.4 Control premium / minority discount

As noted previously, our valuation has been assessed on a 100% controlling interest and as such, includes a premium for control. This is consistent with the guidance provided under RG 111.

6. Fairness of the Proposed Amendments

6.1 Valuation of AQC's mining assets and projects

We have considered the following in our valuation of AQC's mining assets and projects, as summarised below and presented in the table:

- ▶ **Xenith Low:** The Xenith Low valuation for the Dartbrook Mine and other mining assets and projects. The valuation of the Dartbrook Mine has been adjusted to include a cash security deposit (equal to the rehabilitation liability) of approximately \$9.2 million.
- ▶ **Xenith Most Likely:** The Xenith preferred valuation for the Dartbrook Mine and other mining assets and projects. The valuation of the Dartbrook Mine has been adjusted to include the Anglo Royalty of \$11.1 million as per the AQC Aug18 financial statements.
- ▶ **Xenith High:** The Xenith High valuation for the Dartbrook Mine and other mining assets and projects, which has relied extensively on the OC PFS, which is still subject to a number of conditions / approvals.
- ▶ **SNR Implied:** The SNR Transaction implied value for the Dartbrook Mine and Xenith Most Likely value for other mining assets and projects.
- ▶ **Market Cap:** Equal to the market capitalisation of AQC, inclusive of a 30% control premium, plus net financial debt, as at the Valuation Date. We have adopted the Xenith Most Likely valuation for other mining assets and projects, thus implying the residual reflects the market valuation of the Dartbrook Mine. This detail is to be read in conjunction with the liquidity discussion included in Section 3.6 which limits the applicability of this reference point.

Valuation of AQC's mining assets and projects					
\$ ('000)	Xenith Low	Xenith Most Likely	Xenith High	SNR Implied	Market Cap
Dartbrook Mine	20,000	36,000	195,000	40,000	106,443
Other assets	510	610	800	610	610
Total	20,510	36,610	195,800	40,610	107,053
Security deposit	9,200	-	-	-	-
Anglo Royalty	-	(11,100)	-	-	-
Total mining assets	29,710	25,510	195,800	40,610	107,053

Source: Technical Expert Addendum, SNR Transaction, S&P Capital IQ, EY analysis

Note: The market capitalisation approach was not considered appropriate due to the liquidity discussion included within Section 3.6

Based on the above, we have determined a valuation range of between \$25.510 million and \$40.610 million for AQC's mining assets and projects (on a debt and cash free basis), as at the Valuation Date. Our valuation range adopts the Xenith Most Likely case at the low end, whilst the high end adopts the SNR Implied case. For further details refer to Sections 6.1.1 to 6.1.3.

6.1.1 Market capitalisation approach

We observe that the actual market capitalisation based on the share price on the ASX provides a reference point for the equity value on a minority interest basis. However, this approach has limitations, particularly if the subject company has low measures of liquidity and free float. Share prices, particularly of small companies, are inherently volatile and may not reflect fair value on a specific date. Rather, share prices will often incorporate a premium or discount to fair value based on the recent performance of the industry as a whole, overall market and / or other economic, political or social trends.

As AQC is listed on the ASX, we have considered a VWAP analysis under the market capitalisation valuation approach. The VWAP is calculated by summing the daily value traded over a period of time (generally a number of days or months) and dividing this by the total number of shares traded over the same period. This provides a volume weighted average over a discrete period and can act to decrease the impact of volatility. The reliability of using a VWAP analysis is highly dependent on the liquidity and free float of the security being analysed.

The last traded price for AQC listed securities was \$0.745 per share²¹. We have used the value traded and trading volume to calculate the 1, 5, 10, 20 and 30 day VWAPs prior to the Valuation Date. Our VWAP analysis is presented below and shows AQC's shares traded between \$0.737 and \$0.79 across the time period.

VWAP analysis of AQC listed securities			
	VWAP (\$)	Volume (m)	Liquidity (%)
1 day VWAP	0.790	0.074	0.15%
5 day VWAP	0.754	0.172	0.35%
10 day VWAP	0.734	2.698	5.48%
20 day VWAP	0.737	2.813	5.71%
30 day VWAP	0.747	2.978	6.05%

Source: S&P Capital IQ, EY analysis

Low measures for liquidity and free float have the potential to decrease the reliability of share price data as the price may not reflect the value per share of the entire company. Due to this we have calculated the free float and one year liquidity of AQC. This analysis highlights that AQC has significantly low liquidity and free float of approximately 20.49% and 11.81%, respectively.

Based on the low measures for liquidity and free float in comparison with the market, we do not consider it reasonable to consider the VWAP as our primary methodology in determining the equity value of AQC.

²¹ as at 5 October 2018

6.1.2 Independent technical expert valuation

We have considered the Technical Expert Report and the Technical Expert Addendum in considering the fair value of AQC's mining assets and projects. We note that the Technical Expert Report was commissioned by BDO and we have subsequently commissioned the Technical Expert Addendum as an update to the initial analysis undertaken by Xenith. The Technical Expert Addendum is attached in full within Appendix E.

We have relied on Xenith as an independent mineral specialist, to provide an independent assessment of various technical mining matters including the reasonableness of reserve and resource estimates, mining plans, mine infrastructure, environmental status, capital budgets and operating costs.

In preparing the Technical Expert Addendum, the scope of work agreed with Xenith included providing an estimate of the Technical Value of AQC's coal assets, both in the exploration and pre-development phase. Xenith has estimated that the fair value of AQC's mining assets and projects are between \$20.51 million and \$195.80 million, with a Most Likely and preferred value of \$36.61 million. A summary of Xenith's valuation is presented below.

Xenith valuation summary				
\$ ('000)	AQC interest	Low	Most Likely	High
Dartbrook Mine	100%	20,000.0	36,000.0	195,000.0
Mount Hess	100%	-	-	-
Kemmis Creek	100%	10.0	10.0	10.0
Dingo	100%	250.0	280.0	330.0
Mount Hess West	100%	20.0	30.0	50.0
Bungaban Creek	10.00%	20.0	40.0	90.0
Laguna Creek	10.00%	-	-	-
Quandong	10.00%	-	-	-
South Clermont	100%	210.0	250.0	320.0
Total		20,510.0	36,610.0	195,800.0

Source: Technical Expert Addendum, EY analysis

Xenith's holistic valuation of AQC predominantly reflects the Dartbrook Mine with only a small portion of value attributable to other development and pre-production projects including Dingo, South Clermont, Bungaban Creek, Mount Hess West and Kemmis Creek. The Technical Expert Addendum does not include a valuation for the Cooroorah and Mt Hillalong projects which were disposed of in 2017.

Xenith has confirmed that the valuation methodologies adopted in the Technical Expert Report and Technical Expert Addendum are appropriate for the purposes of determining a value for AQC's assets. Xenith's valuation reflects fair market value and has been prepared to conform to the VALMIN Code.

We note the following in relation to Xenith's valuation of AQC's assets:

- ▶ Other AQC tenements, excluding the Dartbrook Mine, have been valued giving consideration to cost and market based valuation methodologies including:
 - Multiples of exploration expenditure, which relies on a correlation between capital expended and the intrinsic value of a project.
 - Market based comparable transactions including EV/resource and EV/lease area, which relies on comparing the multiples associated with recent transactions and / or publicly listed companies. In selecting comparables to AQC's assets, Xenith has considered factors

including but, not limited to, location, mining method, size of coal resources, status of exploration, resource classification and quality.

- ▶ The Dartbrook Mine has been valued giving consideration to market based and income based valuation approaches including:
 - A DCF, which has been established through Xenith's expertise and a number of technical studies conducted over the last two years. The valuation reflects the Dartbrook Mine's open-cut mining operations and the mine plan provided as part of the OC PFS.
 - A market based valuation of the freehold land and water licenses associated with the Dartbrook Mine. This valuation has been undertaken by a licensed property valuer, Environmental Property Services ("EPS"), on behalf of Xenith.
 - A market based comparable transaction (EV/resource), as abovementioned.

In particular, in determining the valuation range of the Dartbrook Mine, Xenith has adopted the following:

Xenith Dartbrook Mine valuation assumptions			
\$ (000)	Low	Most Likely	High
Dartbrook Mine valuation	20,000	36,000	195,000
Basis of valuation	The low range of EPS' land and water valuation.	Comparable transaction EV/resource multiples.	The open-cut mine plan profile (as per the OC PFS) using a DCF approach.
Anglo Royalty	Exclusive. No adjustment has been made for the Anglo Royalty as the valuation reflects the value of the assets assuming that production does not eventuate at the Dartbrook Mine.	Exclusive. We have made an adjustment to include the Anglo Royalty commensurate with the book value as at the Valuation Date, which is based on the fair value of the obligation brought to account as part of the acquisition of the Dartbrook Mine	Inclusive.
Rehabilitation liability	Inclusive. The Xenith valuation has accounted for financial guarantees relating to mine rehabilitation of \$9.200 million. We have made an adjustment to include the security deposit equal to the rehabilitation liability, resulting in a net rehabilitation position of nil.	Exclusive, hence no further adjustments were required.	Exclusive, hence no further adjustments were required.
Other notes	The valuation comprises land (\$17.800 million), water (\$8.300 million) and improvements (\$3.100 million), less financial guarantees relating to mine rehabilitation as abovementioned.	The valuation reflects the revised resource estimates of the Dartbrook Mine and assumes a dollar per tonne resource multiple of \$0.020/tonne.	The DCF assumes a high long term NEWC 6000 coal price (US\$77.0 tonne, real) and long term foreign exchange (USD/AUD of 0.76/1).

Source: Technical Expert Addendum, EY analysis

In placing reliance on the Technical Expert Report and Technical Expert Addendum, we have satisfied ourselves as to Xenith's competence and expertise. We are also satisfied that the assumptions, methodologies and source data used by Xenith are reasonable and appropriate, and that the Technical Expert Report and Technical Expert Addendum contain sufficient information to support the conclusions drawn.

Further information on the valuation of AQC's mining assets and projects and the valuation methodologies adopted by Xenith are contained in the Technical Expert Report and the Technical Expert Addendum.

6.1.3 Prices implied by recent market transactions

RG 111 provides guidance on the valuation methods that an independent expert should consider when valuing a company, one of them being any recent genuine offers received by the target for any business units or assets. RG 111 states that this can be used as a basis for valuing the specific business unit or asset for which the genuine offer has been received.

We believe the consideration offered with respect to the SNR Agreement and proposed Dartbrook JV appropriately reflects a fair value transaction as defined in earlier in Section 5. The Purchase Price of \$20 million offered by SNR is attributable to a 50% interest in the Dartbrook Mine and as such implies a valuation of \$40 million for a 100% interest in the asset. Accordingly, we have considered this as a proxy for the Dartbrook Mine's fair value.

6.2 Valuation of net financial debt

6.2.1 Existing Debt

As discussed throughout the Report, Management has advised that it is unlikely that AQC will have the capacity to repay interest charges relating to the principal amount of the Existing Debt in cash as these repayments fall due. As such, under Scenario 1 this interest will be accrued and subsequently converted to principal at a later date and under Scenario 2 will be issued as PIK shares.

Based on this, and assuming that interest is accrued up until 5 April 2019 in Scenario 1, the amount of accrued interest will differ between Scenario 1 and Scenario 2. That is, the accrued interest under Scenario 1 will be higher than under Scenario 2.

We have performed a compound interest calculation to determine the amount of capitalised interest under each of the Scenarios and this is presented below.

Existing Debt			
\$ ('000)	Existing at the Valuation Date	Scenario 1	Scenario 2
Robinson Note	(11,266.4)	(11,266.4)	(11,266.4)
Paspaley Note	(11,266.4)	(11,266.4)	(11,266.4)
Trepang Note	(15,000.0)	(15,000.0)	(15,000.0)
Secured Loan (Trepang)	(5,000.0)	(5,000.0)	(5,000.0)
Unsecured Loan (Trepang)	(2,000.0)	(2,000.0)	(2,000.0)
Robinson Note capitalised interest	(1,664.2)	(2,453.0)	(1,989.3)
Paspaley Note capitalised interest	(1,664.2)	(2,453.0)	(1,989.3)
Trepang Note capitalised interest	(2,019.8)	(3,058.0)	(2,447.7)
Secured Loan (Trepang) capitalised interest	(255.2)	(575.7)	(387.3)
Unsecured Loan (Trepang) capitalised interest	(9.9)	(132.5)	(60.4)
Total Existing Debt	(50,146.1)	(53,205.0)	(51,406.7)

Source: Management, EY analysis

Under the Proposed Amendments, the Secured Loan and the Unsecured Loan together with any capitalised interest are being replaced by the New Convertible Note. The New Convertible Note will have the same combined balance.

6.2.2 Cash and cash equivalents and other borrowings

The value of AQC's cash and cash equivalents and other borrowings (excluding Existing Debt) are considered commensurate with their book values, as at the Valuation Date. Under Scenario 1, if the SNR Transaction completes, the Anglo Loan will be repaid and replaced by the Vendor Loan.

Cash and cash equivalents and other borrowings	
\$ ('000)	31Aug18
Cash and cash equivalents	1,860.2
Miscellaneous current borrowings	(449.6)
Non-current borrowings	(53.6)
Anglo Loan / Vendor Loan	(7,700.0)
Capitalised interest Anglo Loan / Vendor Loan	(1,027.3)
Total cash and cash equivalents and other borrowings	7,370.3

Source: Management, EY analysis

Notes:

1. Balances as at Valuation Date and are reflective of their book values as presented in AQC's Balance Sheet in Section 3.4.
2. Miscellaneous current borrowings comprise bank loans and insurance premium funding.

6.3 Valuation of other assets and liabilities

6.3.1 Net working capital

Net working capital consists of trade and other receivables, prepayments and trade and other payables excluding accrued interest on the Existing Debt.

Due to the pre-development nature of AQC's mining assets and projects, net working capital has not been included within the value of the mining assets and therefore has been included subsequently. We consider the value of AQC's net working capital commensurate with the book value and have therefore ascribed a value of (negative \$0.514 million), as at the Valuation Date.

Net working capital as at 31 August 2018	
\$ ('000)	31Aug18
Trade and other receivables	117.2
Prepayments	1,034.9
Other trade creditors	(1,535.3)
Employee liabilities	(71.4)
General accruals	(59.6)
Net working capital	(514.2)

Source: AQC August 2018 Management Accounts

6.3.2 Surplus assets

AQC holds approximately 54.348 million shares in Bowen Coking Coal representing an interest of 9.46% as at the Valuation Date. The shares are subject to an escrow period of twelve months in accordance with the ASX Listing Rules²². The value of AQC's financial assets were marked to market as at 30 June 2018 for financial reporting purposes. To account for any share price movement since that date, we applied the closing share price on 31 August 2018 of \$0.016 per share.

Given the significant interest in Bowen Coking Coal (which may be difficult to sell as a single block), combined with the downtrend in liquidity over the months since Bowen Coking Coal listed, we acknowledge that there may be an argument to apply a discount for lack of marketability. However, a mitigating argument to this is that AQC could "drip feed" the stock onto the market over an extended period of time to avoid materially moving the share price, albeit if AQC was identified as a seller this would more than likely create overhang in the market. Notwithstanding this, for the purpose of our valuation, it is more conservative to adopt a higher value for assets on the balance sheet, as at the Valuation Date. Based on the above we have determined not to apply any discount for lack of marketability to AQC's stake in Bowen Coking Coal.

²² Australian Pacific Coal ASX Announcement, 4 October 2017

6.4 Adjustments required to equity value

Based on the different circumstances eventuating under Scenario 1 and Scenario 2 we have made a number of adjustments to our valuation of AQC to reflect the Proposed Amendments and whether or not the SNR Transaction completes. These are detailed in the section below.

6.4.1 Sale of the 50% interest in the Dartbrook Mine

Scenario 1 assumes the completion of the SNR Transaction and the formation of the Dartbrook JV in accordance with the terms set out in the SNR Agreement. Under this agreement, SNR will pay the Purchase Price to AQC in exchange for a 50% interest in the Dartbrook Mine. Consequently, AQC will forego 50% of the value of the Dartbrook Mine. As a result of the above, AQC's equity value will be adjusted upwards for the cash received and adjusted downwards for the sale of 50% of the Dartbrook Mine. This is summarised below.

Sale of interest in Dartbrook Mine – Scenario 1		
\$('000)	Low	High
Cash received for sale of the Dartbrook Mine	20,000.0	20,000.0
Less: 50% interest in the Dartbrook Mine	(12,450.0)	(20,000.0)
Net position	7,550.0	-

Source: Management, EY analysis

Scenario 2 assumes that the SNR Transaction does not complete and thus no adjustment for the sale of an interest in the Dartbrook Mine is required.

6.4.2 Conversion and / or repayment of Existing Debt

Under both Scenarios, the total Existing Debt is assumed to be repaid and / or converted.

Specifically, under Scenario 1, the Trepang Note and accrued interest (\$18.058 million at 5 April 2019) is assumed to be repaid with the proceeds from the Purchase Price under the SNR Transaction. This results in a decrease in cash and Existing Debt of \$18.058 million. Further, the remaining Existing Debt is assumed to be converted to equity, resulting in a further decrease in Existing Debt of \$35.147 million.

Under Scenario 2, the total amount of Existing Debt (\$51.407 million at 1 February 2021) is assumed to be converted to equity, resulting in a decrease in liabilities to this extent. The table below illustrates these adjustments.

Conversion and / or repayment of Existing Debt		
\$('000)	Scenario 1	Scenario 2
Conversion of Existing Debt	35,147.0	51,406.7
Repayment of Trepang Note and accrued interest	18,058.0	-
Cash used to repay Trepang Note and accrued interest	(18,058.0)	-
Total Existing Debt converted and / or repaid	35,147.0	51,406.7

Source: Management, EY analysis

6.4.3 JV Royalty and Group Royalty

Pursuant to the Proposed Amendments, under Scenario 1, Mr Paspaley and Mr Robinson (Snr) will be entitled to receive the JV Royalty by the Company, equating to a total of \$2.0 per product tonne from AQC's interest in the Dartbrook Mine's production. Given that if the SNR Transaction completes, AQC will only hold a 50% interest in the Dartbrook Mine, the production profile applicable to the JV Royalty is only applicable to 50% of production unless AQC increases its interest in the Dartbrook Mine at a later time in which case the Royalty will increase so that it applies to the percentage of production which is equal to the interest AQC holds in the Dartbrook Mine.

Under Scenario 2, the Existing Financiers will become entitled to a \$2.50 per product tonne Group Royalty from the total Dartbrook Mine production profile should they accept any request from AQC to release the security held.

Additionally, as per the terms of the agreements, the JV Royalty and Group Royalty being paid are contingent on a number of events:

- ▶ Both the JV Royalty and Group Royalty are only payable if the Anglo Royalty has been discharged upon their relevant commencement dates. In the event that the Anglo Royalty has not yet been discharged, or is in the process of being discharged, the JV Royalty or the Group Royalty payments will notionally accrue on a calendar quarter basis and will be held in a non-cash accrual account ("Financier Royalty Account").
- ▶ The JV Royalty is only payable if AQC has received sufficient distributions from the Dartbrook JV to cover the JV Royalty that the Company is required to pay ("Required Capital Return").

In the event that the Anglo Royalty has been discharged, and in the case of the JV Royalty, if the Required Capital Return has been met, the JV Royalty or Group Royalty is payable. The amount payable is dependent on the arithmetic average of the coal price (NEWC 6000) of a given calendar quarter and a threshold of US\$60 per tonne²³.

- ▶ If the coal price is less than the threshold:
 - The JV Royalty payable for the calendar quarter is \$0.50 per tonne, with \$1.5 per tonne accruing to the Financier Royalty Account.
 - The Group Royalty payable for the calendar quarter is \$0.50 per tonne, with \$2.0 per tonne accruing to the Financier Royalty Account.
- ▶ If the coal price is greater than the threshold:
 - The JV Royalty payable for the calendar quarter is \$2.0 per tonne, with an additional \$1.0 per tonne paid out of the Financier Royalty Account until the balance is zero.
 - The Group Royalty payable for the calendar quarter is \$2.5 per tonne, with an additional \$1.0 per tonne paid out of the Financier Royalty Account until the balance is zero.

²³ Note we have assumed that the coal price is greater than the threshold of US\$60 per tonne in our analysis.

We have applied the following assumptions in our valuation of the JV Royalty and the Group Royalty, recognising the difficulty associated with valuing a production based royalty to a pre-feasibility asset:

JV Royalty and Group Royalty assumptions		
Assumption	JV Royalty	Group Royalty
Price	\$2 per product tonne (subject to escalation, i.e. real), being \$1 to Mr Robinson (Snr) and \$1 to Mr Paspaley.	\$2.5 per product tonne (subject to escalation, i.e. real).
Production profile	Open cut mine production from the OC PFS and underground mine production from Xenith.	Open cut mine production from the OC PFS and underground mine production from Xenith.
Production applicable	50% of Dartbrook Mine production, consistent with the current AQC's interest if the Dartbrook JV completes.	100% of Dartbrook Mine production.
Royalty holders	Mr Robinson (Snr) and Mr Paspaley.	All Existing Financiers.
Forecast period	Between FY19 to FY46.	Between FY19 to FY46.
Discount rate	10.00% to 15.00% (post-tax, nominal).	15.00% to 20.00% (post-tax, nominal).
Probability adjustment	50% probability adjustment.	50% probability adjustment.
Royalty cap	n/a	n/a
Escalation	Assumed to be 2.5%, being the mid-point of the Reserve Bank of Australia's inflation rate target of between 2% and 3%.	Assumed to be 2.5%, being the mid-point of the Reserve Bank of Australia's inflation rate target of between 2% and 3%.
Tax	Corporate tax rate of 30.0%.	Corporate tax rate of 30.0%.
Delay	Delay of 0 to 2 years reflecting the uncertainty regarding the open cut and underground production profiles.	Delay of 2 to 4 years reflecting the increased uncertainty with respect to the development of the Dartbrook Mine in the event the SNR Transaction does not complete.
Periodicity	Mid-period discounting.	Mid-period discounting.

Source: AGM Notice of Meeting, Dartbrook Mine open-cut Pre-Feasibility Study, Management

In relation to the above, we note the following:

- ▶ The open cut production is based on the production profile and mine plan prepared by GPPH and Associates ("GPPH") and used in the OC PFS. The production profile has considered total ROM coal produced beginning in FY23 and continuing until FY46. The production profile adjusted for saleable production as per CHPP yields, which range between approximately 50% and 80%. The underground production profile has been provided by Xenith in the Technical Expert Addendum and is based on annual ROM production of 1.13Mt in FY19 and 1.5Mt between FY20 and FY27.
- ▶ A discount rate range of between 10% and 15% (post-tax, nominal) for the JV Royalty and between 15% and 20% (post-tax, nominal) for the Group Royalty. We have applied a higher discount rate in our valuation of the Group Royalty due to the increased risks relating to the development of the Dartbrook Mine under Scenario 2.
- ▶ Given the risk and uncertainty associated with developing the Dartbrook Mine we believe it is appropriate to apply a 50% probability weighting of development completing and mining operations commencing in our valuation. This 50% probability weighting effectively assigns an equal weighting to the Dartbrook Mine commencing production and not commencing production.

Based on the assumptions applied, the values of the JV Royalty and Group Royalty are detailed below.

Net present value of JV Royalty		
\$ (000)	Low	High
JV Royalty	10,000	20,000

Source: Management, EY analysis

Net present value of Group Royalty		
\$ (000)	Low	High
Group Royalty	10,000	25,000

Source: Management, EY analysis

Generally speaking, we have assigned a wider range to the Group Royalty based on the increased uncertainty in comparison with the JV Royalty based on the increased risk profile, greater uncertainty around funding, upcoming maturity dates for certain debt obligations, uncertainty around any future potential JV partner and the lack of a short term development plan for the Dartbrook Mine in the event that the SNR Transaction does not complete.

6.5 Fairness of the Proposed Amendments

6.5.1 Fairness of the proposed Relevant Interest Acquisition

The conversion of the Existing Debt will only occur if the Existing Financiers elect to convert the Existing Convertible Notes and New Convertible Note. If the Existing Financiers do not convert the Existing Convertible Notes and New Convertible Note to equity by the maturity date, AQC will be required to repay the face value as well as any capitalised interest to the Existing Financiers (maximum of \$53.205 million under Scenario 1 and \$51.407 million under Scenario 2).

As outlined in Section 4, if the Existing Convertible Notes and New Convertible Note are converted, all other things being equal, the Existing Financiers' collective relevant interest in AQC will increase to beyond 50%. In these circumstances, RG 111 requires the Proposed Amendments to be assessed as if it were a 'control transaction', being the acquisition of, or increase in, a controlling stake. Consistent with the guidance provided in RG 111, in determining whether or not the issue of shares on the conversion of the Existing Convertible Notes and New Convertible Note is "fair", the value of the consideration being paid by the Existing Financiers needs to be compared to the value of the AQC's shares being issued, with the value of AQC being assessed on a controlling interest basis.

However, before any assessment of value can be made it is relevant to consider the nature of the Proposed Amendments and their impact on our ability to determine the underlying value of the AQC.

The nature of convertible notes is such that they provide the holder with a future right to convert the balance outstanding to shares. A key feature of this conversion right is that it provides the holder with the right, but not the obligation to convert the debt to equity. Accordingly, while the Existing Financiers have the right to convert, there is no guarantee that they will exercise their conversion right as an alternative to having the Existing Convertible Notes and New Convertible Note repaid.

It follows that, in most circumstances, the holder of convertible notes would only exercise the right to convert if the conversion price was at or less than the value of the company's underlying shares at the time of conversion. Accordingly, it would be expected that for the Existing Convertible Notes and New Convertible Note to be converted, the value of an AQC share would need to be equal to or above the proposed \$0.80 conversion price or there was a strong likelihood of that occurring on a sustainable basis. As discussed elsewhere, we have calculated a price per share that is less than the \$0.80, and the closing price of the Company's shares on 31 August 2018 was \$0.79.

Under Scenario 1, if the SNR Transaction completes, the repayment of the Trepanng Note will occur and subject to the Proposed Amendments being approved by shareholders, the Existing Financiers have agreed to convert the remaining Existing Convertible Notes and the New Convertible Note (together with capitalised interest). Due to the immediate nature of the SNR Transaction, the appropriate date to assess the value of AQC is at, or as close to, the date of the Report (i.e. the Valuation Date).

Under Scenario 2, if the SNR Transaction does not complete, the Existing Convertible Notes and the New Convertible Note will continue until they may or may not be converted by the Existing Financiers at some time in the future up until 1 February 2021.

Under Scenario 2, if the SNR Transaction does not complete, the Existing Convertible Notes and the New Convertible Note will continue until they are, or may not be, converted by the Existing Financiers at some time up until 1 February 2021. No reasonable determination can be made as to if, and when, the Existing Convertible Notes and the New Convertible Note are likely to be converted, or more importantly, what the likely value of AQC would be as at that date. In considering the issue of shares on the possible conversion of the Existing Convertible Notes and the New Convertible Note in the absence of the SNR Transaction completing, we are of the view that the current value of AQC, the conversion price and wider terms of the Existing Convertible Notes and the New Convertible Note, together with consideration of the advantages and / or disadvantages provided by the Proposed Amendments are of more significance to the Non-Associated Shareholders than the possible value of the Company's assets and liabilities at some future date.



Notwithstanding this, in assessing the fairness of the issue of shares to be issued to the Existing Financiers on the conversion of the Existing Convertible Notes and the New Convertible Note we have compared the consideration being paid, being the proposed conversion price of \$0.80 per share with the equity value per share of AQC on a controlling interest basis. In assessing the value of an AQC share we have taken into account the impact of the Proposed Amendments. In this regard, under Scenario 1 in addition to the issue of shares the Existing Financiers will also become entitled to the JV Royalty. Accordingly, our assessment under this scenario will be a comparison between the conversion price and the value of an AQC share plus the JV Royalty. Consistent with RG 111, if the \$0.80 conversion price is equal to or greater than our assessed value of an AQC share on a controlling interest basis (plus the JV Royalty for Scenario 1), then the issue of shares to the Existing Financiers is “fair”.

We have also considered the equity value per share of AQC on a controlling interest basis prior to the amendment to the Existing Convertible Loan Deed and issuance of the New Convertible Note, compared with the equity value per share of AQC on a controlling interest basis if the Proposed Amendments are approved. If the equity value per share of AQC on a controlling interest basis post the approval of the Proposed Amendments is greater than, or at least equal to, the equity value per share of AQC on a controlling interest basis prior to approval then the Non-Associated Shareholders are better off.

Based on the preceding subsections to Section 5, we have calculated the equity value per share of AQC on a controlling interest basis both before and after approval of the Proposed Amendments under Scenario 1 and Scenario 2. Given our earlier comments in regards to the relevant valuation date for Scenario 2 being the future date if and when conversion was to occur, our assessment under Scenario 2 is presented on a pro forma basis. This analysis has been performed as at the Valuation Date and is presented in the tables following.

Equity value pre-adjustments						
\$ (000)	Existing Debt as at Valuation Date		Scenario 1		Scenario 2	
	Low	High	Low	High	Low	High
Mining assets and projects	25,510.00	40,610.00	25,510.00	40,610.00	25,510.00	40,610.00
Cash and cash equivalents	1,860.16	1,860.16	1,860.16	1,860.16	1,860.16	1,860.16
Existing Debt	(50,146.08)	(50,146.08)	(53,204.96)	(53,204.96)	(51,406.72)	(51,406.72)
Other borrowings	(9,230.45)	(9,230.45)	(9,230.45)	(9,230.45)	(9,230.45)	(9,230.45)
Net working capital	(514.15)	(514.15)	(514.15)	(514.15)	(514.15)	(514.15)
Surplus assets	869.57	869.57	869.57	869.57	869.57	869.57
Equity value (controlling interest)	(31,650.96)	(16,550.96)	(34,709.84)	(19,609.84)	(32,911.60)	(17,811.60)

Source: EY analysis

Equity value per share						
\$ (000)	Existing shares as at Valuation Date		Scenario 1		Scenario 2	
	Low	High	Low	High	Low	High
Equity value (controlling interest)	(31,650.96)	(16,550.96)	(34,709.84)	(19,609.84)	(32,911.60)	(17,811.60)
Cash received for sale of Dartbrook Mine	-	-	20,000.00	20,000.00	-	-
Less: 50% interest in Dartbrook Mine	-	-	(12,450.00)	(20,000.00)	-	-
Conversion of Existing Debt	-	-	35,146.95	35,146.95	51,406.72	51,406.72
Repayment of Trepanng Note and accrued interest	-	-	18,058.01	18,058.01	-	-
Cash used to repay Trepanng Note and accrued interest	-	-	(18,058.01)	(18,058.01)	-	-
Less: JV Royalty (\$2 per tonne)	-	-	(20,000.00)	(10,000.00)	-	-
Less: Group Royalty (\$2.50 per tonne)	-	-	-	-	(25,000.00)	(10,000.00)
Equity value (controlling interest)	(31,650.96)	(16,550.96)	(12,012.89)	5,537.11	(6,504.88)	23,595.12
Shares outstanding (000 shares)	49,234.81	49,234.81	49,234.81	49,234.81	49,234.81	49,234.81
Maximum number of shares to be converted (000 shares)	-	-	43,933.69	43,933.69	83,277.65	83,277.65
Total shares outstanding (000 shares)	49,234.81	49,234.81	93,168.50	93,168.50	132,512.46	132,512.46
Equity value per share (controlling interest) (\$)	(0.64)	(0.34)	(0.13)	0.06	(0.05)	0.18
JV Royalty per share	n/a	n/a	0.23	0.46	-	-
Group Royalty per share	n/a	n/a	-	-	0.12	0.30
Equity value per share received by the Existing Financiers (\$)	n/a	n/a	0.10	0.51	0.07	0.48

Source: EY analysis

Notes: We have included both the JV Royalty and Group Royalty in our analysis of the fairness of the Proposed Amendments. We note that in the event that either of these were removed from our calculations the equity value per share (controlling interest) would increase and the equity value per share received by the Existing Financiers would decrease. Hence, the Non-Associated Shareholders would be better off.

The negative equity values assessed for AQC before adjusting for the Proposed Amendments under both Scenario 1 and Scenario 2 reflect the speculative nature of the Company's underlying mining assets and projects, specifically the Dartbrook Mine, and the significant level of debt, including accrued and capitalised interest.

The analysis shows that the assessed fair value range of an AQC share on a controlling interest basis under Scenario 1 and the pro forma value determined under Scenario 2, are substantially less than the \$0.80 per share conversion price being proposed for the Existing Convertible Notes and the New Convertible Notes under the Proposed Amendments.

The above analysis also illustrates that under both Scenario 1 and Scenario 2, effectively being the two most dilutive scenarios for the Non-Associated Shareholders, if the Proposed Amendments are approved, the equity value per share of AQC on a controlling interest basis increases at both the low and high end. This is of benefit to the Non-Associated Shareholders. While shareholders will not actually receive a controlling interest value, and therefore the analysis of the value post the Proposed Amendments should generally be on a minority interest basis, we note that this does not impact on our overall conclusions.

Based on the analysis detailed in this section, in our opinion, the Relevant Interest Acquisition under the Proposed Amendments, is fair to the Non-Associated Shareholders.

In addition of the above, we have also considered the JV Royalty and the grant of continued security to the Existing Financiers in isolation.

6.5.2 Fairness of granting the JV Royalty

In relation to the granting of the JV Royalty, we have included the assessed value of the JV Royalty in our assessment of the fairness on the Proposed Amendments. Further to this, we observe that the equity value per share received by the Existing Financiers, including the JV Royalty, is between \$0.10 and \$0.51. This is below the conversion price of \$0.80 per share at which the Existing Financiers must convert under Scenario 1. Therefore, the Existing Financiers are converting at \$0.80 per share but the maximum amount they are receiving under Scenario 1, is less than this. As such, in our opinion, the grant of the JV Royalty is fair to the Non-Associated Shareholders.

6.5.3 Fairness of the grant of continued security to the Existing Financiers

Regarding the grant of continued security to the Existing Financiers, we have considered the balance of the Existing Convertible Notes and New Convertible Note in comparison to the value of the assets being provided as security. Specifically, we have considered the value of the continued security to the Existing Financiers in a default scenario. We have considered this scenario without having regard to the priority of creditors but note that the Anglo Loan and Anglo Royalty have preference over Existing Debt. Under this scenario there are three distinct possibilities:

- ▶ Proceeds < Existing Debt: The maximum amount the Existing Financiers are entitled to are the proceeds (which are less than the Existing Debt).
- ▶ Proceeds = Existing Debt: The maximum amount the Existing Financiers are entitled to are the proceeds / Existing Debt (as they are equal).
- ▶ Proceeds > Existing Debt: The maximum amount the Existing Financiers are entitled to is the Existing Debt.

Based on the above, even with the grant of the continued security, the Existing Financiers under no circumstance are entitled to an amount greater than the Existing Debt. As such, in our opinion, the grant of continued security to the Existing Financiers is fair to the Non-Associated Shareholders. A more detailed discussion on the granting of security in the context of the Group Royalty is provided in Section 8.

7. Reasonableness of Proposed Amendments

7.1 Advantages of the Proposed Amendments

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

- ▶ **The proposed issue of shares is fair:** As set out in Section 6 of the Report, the issue of shares on the conversion of the Existing Convertible Notes and New Convertible Note under the Proposed Amendments has been deemed to be fair to the Non-Associated Shareholders.
- ▶ **Allow for the SNR Transaction to complete:** If the Proposed Amendments are approved it will put AQC in a position, subject to the other conditions precedent, to complete the SNR Transaction. In the absence of an alternative proposal, Management believe the completion of the SNR Transaction and the formation of the Dartbrook JV is the best chance for the recommencement of mining at the Dartbrook Coal Mine and the development of the open cut.
- ▶ **No debt or encumbrance on assets:** If the SNR Transaction is completed, AQC will have no debt owing to the Existing Financiers or Anglo and all current encumbrances will be released. With the provision of the Vendor Loan by the Dartbrook JV to repay the Anglo Loan, the Company will have some debt, albeit on a reduced level.
- ▶ **Extension and alignment of maturing dates:** The Proposed Amendments, if approved, will extend the maturity dates of the Existing Convertible Notes and New Convertible Note to 1 February 2021. This will also have the effect of aligning the maturity dates for each of the separate financing arrangements.
- ▶ **Increased time to repay:** In connection with the abovementioned advantage, extending the maturity dates of the Existing Convertible Notes and the New Convertible Note will give AQC additional time with which to repay the Existing Financiers.
- ▶ **Repayment with shares rather than cash:** Issuing the New Convertible Note will allow for the possibility that AQC may be able to convert the outstanding face value and any capitalised interest to equity rather than having to repay this amount with cash. This would free up additional cash for other operational, investment or financing activities.
- ▶ **Change in account covered by security:** The amount of security held by the Existing Debt will increase only slightly (to cover the \$2 million principal plus interest under the Unsecured Loan Deed). The assets over which the security is granted remain the same as is presently the case.
- ▶ **Best funding proposal available as at the Valuation Date:** The Proposed Amendments reflect the best and only proposal to amend the upcoming maturities of the Existing Convertible Notes and if not approved there are limited other options available to the Company.

7.2 Disadvantages of the Proposed Amendments

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

- ▶ **Dilution of the Non-Associated Shareholders interests:** If the Proposed Amendments and more broadly Resolution 4 is approved, the Non-Associated Shareholders interests in AQC will be diluted. Please refer to Section 4 for our detailed analysis of the maximum potential dilution under both Scenario 1 and Scenario 2.
- ▶ **Ability to pass or block a special resolution:** In order to pass a special resolution, 75% or more of the shareholders voting on that resolution must vote in favour for it to be approved. There is a possibility that if the Proposed Amendments are approved the Existing Financiers, at some stage, may hold a stake of greater than 75% in AQC. As such, acting together, the Existing Financiers will be able to pass a special resolution of the Company. Additionally, the Existing Financiers would also be able to pass ordinary resolutions in these circumstances. In stating this, the Existing Financiers would be excluded from being able to vote on any resolution on a proposal that involves them.
- ▶ **Influence on the strategic direction of the Company:** The Existing Financiers have stated to the Independent Directors of AQC that if the Proposed Amendments are approved they do not intend to change the Company's strategic direction and management of other operations. However, there is no binding restriction on the Existing Financiers from doing this.
- ▶ **Takeover offer may become more difficult:** If the Proposed Amendments are approved, each of the Existing Financiers is likely to become a major shareholder of AQC (i.e. will hold an interest of greater than 5%). Under this circumstance, any takeover offer for 100% of the total shares outstanding of AQC will require the support of each of the Existing Financiers, potentially reducing the likelihood that AQC will receive a takeover offer in the foreseeable future. However, we note that this will remain the case if the Proposed Amendments are not approved.
- ▶ **Potential for a significant number of shares to be sold on the open market:** If the Proposed Amendments are approved there is no binding restriction on the Existing Financiers from selling a significant number of shares on the open market. Any significant block trade is likely to place downward pressure on the share price of AQC. The Existing Financiers have stated to the Independent Directors that they have no intention of selling any new shares issued within 12 months from the date of the issue, and we have provided commentary throughout this Report about the current liquidity of the AQC shares.
- ▶ **Security over all assets:** If the Proposed Amendments are approved, the amount of security granted will increase by \$2 million. This will likely adversely affect the Company's ability to secure further funding, particular where such funding is contingent on the provision of security. The consent of the Existing Financiers would be required for any further material security interest to be granted over the assets of the Company.

7.3 Position of AQC if Proposed Amendments are not approved

As abovementioned, one of the key advantages of the Proposed Amendments is that the Company has limited options with respect to the repayment and / or refinancing of the Existing Debt. In the instance that the Proposed Amendments are not approved, AQC is likely to face the following consequences:

- ▶ **Non-completion of the SNR Transaction:** The Company will not be able to complete the SNR Transaction. The Company will not have funds to pay out the Anglo Loan, as the Vendor Loan will not be provided by the Dartbrook JV. The experience and expertise of SNR management will also not be available to the Company in order to recommence operations at the Dartbrook Mine.
- ▶ **Early repayment of the Anglo Loan:** The Existing Convertible Notes, Secured Loan and Unsecured Loan agreed extension of maturity dates will not take effect. As the Anglo Loan must be repaid in full before the Convertible Notes and the Secured Loan can be repaid, the Anglo Loan will need to be repaid before the maturity dates of other debt instruments, effectively bringing the maturity date of the Anglo Loan forward.
- ▶ **Requirement for AQC to source alternate capital to repay the Anglo Loan:** If AQC is required to repay the Anglo Loan early, the Existing Convertible Notes on 1 February 2019, and the Secured Loan and Unsecured Loan on 29 April 2019, the Company will need to source alternative methods of capital raising. The Independent Directors advise that alternatives available, if required to repay the Anglo Loan early (which otherwise may not be payable until 29 May 2020) include:

- **Raising additional equity capital:** This option has been considered by the Independent Directors, though difficulties may be faced when raising additional equity capital. This was observed in December 2015 and January 2016 when AQC looked to raise \$20 million funding from various parties for the Dartbrook Mine acquisition. The only successful financing arrangements available was the Robinson Note and the Paspaley Note. AQC has actively sought additional funding, though aside from the Anglo Loan, and \$5 million and \$50,000 raised from two placements, no such funding has been secured.

Shareholders should note that further endeavours to identify alternative investors may require considerable time and resources. Further, the price invested and the terms and conditions required by any future investors are not guaranteed to be favourable.

- **Raising additional debt capital:** The Company may need to source additional debt and if it is able to secure such a facility, there is no guarantee whether terms will be favourable to the Company

The difficulty AQC may face in raising debt was highlighted in December 2015 and January 2016 when the Company was trying to secure \$20 million to fund the Dartbrook Mine acquisition, as abovementioned.

- ▶ **Repayment of money owing under the Secured Loan and Unsecured Loan:** If the Proposed Amendments are not approved the Secured Loan and Unsecured Loan will continue with current terms and all money owing will be repayable by AQC in cash on respective maturity dates. As such, AQC will require alternative methods of capital raising to make this repayment.

7.4 Reasonableness of Proposed Amendments

Based on the matters presented above and throughout the Report, and in particular making reference to the positive impact the SNR Transaction completing will have on the Company and inherent requirement for the Proposed Amendments to be approved for this to occur, in our opinion, the Proposed Amendments are reasonable to the Non-Associated Shareholders.

8. Fairness of grant of Group Royalty for the release of the security

Resolution 5 requires the Non-Associated Shareholder to consider and, if thought fit, approve the grant of the Group Royalty to the Existing Financiers in exchange for the release of security. In order to assess whether this exchange is fair to the Non-Associated Shareholders, we have considered the circumstance where there is a default and the security held by the Existing Financiers is called.

Consideration was also given to the fact that AQC would most likely pay an increased interest rate for unsecured debt when compared with secured debt. By default it could be proposed that the value of the security would be equivalent to the interest savings over the term of the debt instrument. Whilst this concept may appear reasonable, it is highly unlikely that a junior exploration and evaluation company that only holds pre-development assets would be able to source unsecured debt financing from an unrelated third party. As such, we have not considered this in our assessment.

The Group Royalty is only relevant if the SNR Transaction does not complete and the Existing Convertible Notes and the New Convertible Notes continue as proposed under Scenario 2. The Existing Financiers do not have to accept a request from AQC for the release of security.

In the event that AQC defaults, the grant of the Group Royalty in exchange for the security will be fair to the Non-Associated Shareholders if the Existing Financiers receive an amount equal to or less than the Existing Debt.

As such, our analysis is not dependent on a specific value attached to the Group Royalty, rather whether the value of the assets available for distribution to the Existing Financiers (i.e. after the Anglo Loan and the Anglo Royalty have been repaid) ("Default Proceeds") are equal to or less than the value of the Existing Debt. For completeness, we have adopted a valuation for the Group Royalty consistent with Section 6.4.3 of between \$10 million and \$25 million, as at the Valuation Date.

In considering the circumstance where AQC defaults we have assessed the following scenarios, presented in the table below:

- ▶ If the Default Proceeds are less than the Existing Debt, the Existing Financiers are entitled to the Default Proceeds, thus not receiving the full amount of the Existing Debt or the Group Royalty.
- ▶ If the Default Proceeds are equal to the Existing Debt, the Existing Financiers are entitled to the full amount of the Existing Debt, thus not receiving the Group Royalty.
- ▶ If the Default Proceeds are greater than the Existing Debt, the Existing Financiers are entitled to the full amount of the Existing Debt plus the remaining Default Proceeds capped at the value of the Group Royalty.

Possible scenarios under a default circumstance	
Scenario	Existing Financiers receive
Default Proceeds < Existing Debt	Less than the Existing Debt
Default Proceeds = Existing Debt	The Existing Debt
Default Proceeds > Existing Debt	More than the Existing Debt

Source: EY analysis

Based on the criteria set out above, the first two scenarios are fair to the Non-Associated Shareholders as the Existing Financiers do not receive an amount greater than the Existing Debt.

We have calculated the required consideration of the Dartbrook Mine in order for the Default Proceeds to be equal to the Existing Debt.

Implied valuation of the Dartbrook Mine (31 August 2018)	
\$ (000)	
Existing Debt	50,146.1
Default Proceeds	50,146.1
Anglo Loan	8,727.3
Anglo Royalty	11,100.0
Other mining assets and projects	(800.0)
Dartbrook Mine	69,173.4

Source: EY analysis

Assuming Anglo Loan, Anglo Royalty and Existing Debt value is in line with the book value as at the Valuation Date. We note that we have not considered any additional accrued or capitalised interest on the Existing Debt beyond the Valuation Date.

Based on the above, in order for the Default Proceeds to be equal to the Existing Debt the implied required value of the Dartbrook Mine is approximately \$69 million. We draw the following conclusions regarding this scenario:

- ▶ The implied minimum required value for the Dartbrook Mine of approximately \$69 million is above the high end of the valuation range of \$40 million.
- ▶ For the Dartbrook Mine value to increase to above the implied minimum value there would need to be significant additional development activities undertaken. This would require substantial capex and more than likely unencumbered or unsecured assets to raise the required debt financing. This would only be possible in the event that the Group Royalty is granted in exchange for the release of security by the Existing Financiers.

Based on the collective analysis, in our opinion, the grant of the Group Royalty to the Existing Financiers in exchange for release of security is fair to the Non-Associated Shareholders.

9. Reasonableness of grant of Group Royalty for the release of the security

9.1 Advantages of grant of Group Royalty for the release of the security

The advantages to the Non-Associated Shareholders of granting the Group Royalty for the release of the security include:

- ▶ **The grant of the Group Royalty is fair:** As set out in Section 8, in our view the Group Royalty is fair to the Non-Associated Shareholders as at the date of this Report.
- ▶ **Release of Existing Financier security is likely to increase ability to secure further funding:** Currently the consent of Trepang, Mr Robinson (Snr) and Mr Paspaley is required for any further material security interests to be granted over the assets of AQC. 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. If the Group Royalty is accepted by the Existing Financiers, the security on their debt instruments will be released, thus benefiting the Company's ability to obtain additional funding in the future.
- ▶ **Release of Anglo Loan security is likely to increase ability to secure further funding:** The Group Royalty provides AQC with a means to discharge security held by the Existing Financiers over the Company's current and future assets. As the Group Royalty can only be granted once the Anglo Loan security is discharged, by acceptance of the Group Royalty and based on its financing arrangements, the Company will no longer have any secured debtors. This will afford greater financing flexibility when arranging future funding to progress the Dartbrook Mine.
- ▶ **Further alignment of the Existing Financiers with broader interests of AQC:** If the Existing Financiers accept the Group Royalty, they will remain aligned with the broader interests of other Company shareholders. This is as the Existing Financiers are taking significant project development risk given that Group Royalty is only realised on coal produced and sold at the Dartbrook Mine.
- ▶ **Limited other options available:** If the Group Royalty is not granted, the options available to the Company will be restricted by the security held by the Existing Financiers. Given the Company's current financing structure and cash position, Non-Associated Shareholders and the Company may find this to be an unfavourable position.

9.2 Disadvantages of the grant of Group Royalty for the release of the security

The disadvantages to the Non-Associated Shareholders of granting the Group Royalty for release of the security include:

- ▶ **Loss of future profits:** If the Group Royalty is granted and is accepted by the Existing Financiers, the Company will be obligated to pay the Group Royalty to the Existing Financiers for the life of the Dartbrook Mine. This will result in reduced profitability of the Dartbrook Mine which is available to the Company.
- ▶ **Reduction in proceeds from sale of tenements subject to Group Royalty:** Based on Group Royalty provisions, if 80% or more of the tenements the subject of the Group Royalty are disposed of, applicable parties may have to factor up-front compensation to the Group Royalty holders. This may reduce the value and transaction consideration that flows to shareholders of the Company.

Further, as the buy-back of the Group Royalty is only entitled to the Existing Financiers, the Group Royalty will be considered an encumbrance on the tenements the subject of the Group Royalty. This may present as a disincentive to a potential third party acquiring such tenements.

9.3 Reasonableness of the grant of Group Royalty for the release of the security

Based on the matters presented above, in our opinion, the grant of Group Royalty for the release of the security is reasonable to the Non-Associated Shareholders.

Appendix A – Statement of qualifications and declarations

EY Transaction Advisory Services, which is wholly owned by Ernst & Young, holds an Australian Financial Services Licence under the Act and its representatives are qualified to provide this Report. The directors of EY Transaction Advisory Services responsible for this report have not provided financial advice to AQC.

Prior to accepting this engagement, EY considered its independence with respect to AQC with reference to Regulatory Guide 112: Independence of experts.

This Report has been prepared specifically for AQC shareholders in relation to the Proposed Amendments. Neither EY Transaction Advisory Services, EY and any employee thereof undertakes responsibility to any person, other than the Non-Associated Shareholders, in respect of this Report, including any errors or omissions howsoever caused.

The statements and opinions given in this Report are given in good faith and the belief that such statements and opinions are not false or misleading. In the preparation of this Report EY has relied upon and considered information believed after due inquiry to be reliable and accurate. EY has no reason to believe that any information supplied to it was false or that any material information has been withheld from it. EY has evaluated the information provided to it by AQC, its advisors, as well as other parties, through inquiry, analysis and review, and nothing has come to its attention to indicate the information provided was materially mis-stated or would not afford reasonable grounds upon which to base its Report. EY does not imply and it should not be construed that it has audited or in any way verified any of the information provided to it, or that its inquiries could have verified any matter which a more extensive examination might disclose.

The information relied upon in the preparation of this Report is set out in Appendix C to this Report.

AQC has provided an indemnity to EY Transaction Advisory Services for any claims arising out of any mis-statement or omission in any material or information provided to it in the preparation of this Report.

EY provided draft copies of this report to AQC for comments as to factual accuracy, as opposed to opinions, which are the responsibility of EY alone. Changes made to this Report as a result of this review by the Independent Directors and Management have not changed the methodology or conclusions reached by EY.

EY will receive a professional fee based on time spent in the preparation of this Report estimated at approximately \$125,000 (inclusive of GST). EY will not be entitled to any other pecuniary or other benefit whether direct or indirect, in connection with the making of this Report.

Michael Fenech and Julie Wolstenholme have assumed overall responsibility for this Report. Michael and Julie are both directors and representatives of Ernst & Young Transaction Advisory Services and partners of Ernst & Young. Both have the necessary experience and professional qualifications appropriate to the advice being offered. Other EY staff have been consulted in the preparation of this Report where appropriate.

It is not intended that the Report should be used for any other purpose other than to be included in the Explanatory Memorandum to be sent to AQC Shareholders with respect to the Proposed Amendments. In particular, it is not intended that this Report should be used for any other purpose other than as an expression of its opinion as to whether or not the Proposed Amendments are fair and reasonable.

EY Transaction Advisory Services Limited consents to the issue of this Report in the form and context in which it is included in the Explanatory Memorandum.

Appendix B – Valuation methodologies

RG 111 provides guidance on the valuation methods that an independent expert should consider when valuing a company. These methods include the:

- ▶ DCF method and the estimated realisable value of any surplus assets;
- ▶ Application of earnings multiples (appropriate to the business or industry in which the entity operates) to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets;
- ▶ Amount that would be available for distribution to security holders on an orderly realisation of assets;
- ▶ Quoted price for listed securities, when there is a liquid and active market and allowing for the fact that the quoted price may not reflect their value, should 100% of the securities be available for sale;
- ▶ Recent genuine offers, if any, received by the target for any business units or assets as a basis for valuation of those business units or assets; and
- ▶ Amount that any alternative acquirer might be willing to offer if all the securities in the target were available for purchase.

Each methodology is appropriate in certain circumstances. The decision as to which methodology to apply generally depends on the nature of the asset being valued, the methodology most commonly adopted in valuing such an asset and the availability of appropriate information.

The DCF methodology involves calculating the net present value of cash flows that are expected to be derived from future activities. The forecast cash flows are discounted by a discount rate that reflects the time value of money and the risk inherent in the cash flows. This methodology is particularly appropriate in valuing projects, businesses and companies that are in a start-up phase and are expecting considerable volatility and/or growth in earnings during the growth phase, as well as businesses with a finite life (such as mining projects). The utilisation of this methodology generally requires that the asset be sufficiently advanced to enable management to provide long term cash flows with some degree of robustness.

The capitalisation of earnings methodology involves capitalising the earnings of a project, a business or a company at an appropriate multiple, which reflects the risks underlying the earnings together with growth prospects. This methodology is theoretically most appropriate where a company or business is expected to generate a relatively stable level of earnings but in practice, is also frequently used in a range of other circumstances.

The net asset backing methodology involves consideration of the net realisable value of the assets of a business or company on a going concern basis, assuming an orderly realisation of those assets. This value includes a discount to allow for the time value of money and for reasonable costs of undertaking the realisation. It is not a valuation on the basis of a forced sale, where assets may be sold at values materially different to their fair value.

Market based assessments relate to the valuation of companies, the shares of which are traded on a stock exchange. While the relevant share price would, prima facie, constitute the market value of the shares, such market prices usually reflect the prices paid for small parcels of shares and as such do not include a control premium relevant to a significant parcel of shares.

Appendix C – Sources of information

In preparing this Report, we have had regard to the following sources of information:

- ▶ Various presentations prepared by AQC in relation to its operations, the Dartbrook Mine and the Dartbrook JV transaction in accordance with the SNR Agreement;
- ▶ Explanatory Memorandum to be sent to AQC shareholders prior to the AGM;
- ▶ AQC shareholder information at various dates, as provided by the Company's share registry;
- ▶ Various schedules of AQC securities on issue provided by the Company;
- ▶ Deeds related to the Existing Convertible Notes and Trepang secured and unsecured loans;
- ▶ Discussions with Management;
- ▶ Various public disclosure documents lodged by AQC with the ASX, including annual reports for the years ended 30 June 2016, 30 June 2017 and 30 June 2018 ;
- ▶ Draft financial statements at 31 August 2018;
- ▶ Information from AQC's website;
- ▶ The Dartbrook Mine pre-feasibility plan;
- ▶ Shareholder dilution and accrued interest calculations relating to the Existing Convertible Notes and Trepang secured and unsecured loans;
- ▶ ASIC Regulatory Guidelines;
- ▶ S&P Capital IQ;
- ▶ Thompson Research;
- ▶ The Act; and
- ▶ Other publicly available information.

Appendix D – Abbreviations

Glossary	
Abbreviation	Full Title / Description
ACIRP	Australian Coal Industry Research Program
Act	Corporations Act 2001
AGM	Annual General Meeting to be held on 29 November 2018
Anglo	Anglo American Plc
Anglo Loan	The existing Anglo secured loan of \$7.700 million
Anglo Royalty	Royalty of \$3 per tonne and \$0.30 per tonne of any third party coal processed through the Dartbrook Mine, capped at \$30.0 million and granted to Anglo and Marubeni
APES 225	Valuation Services issued by the Accounting Professional & Ethical Standards Board Limited
Application	Application lodged to modify existing mining approvals and to recommence underground mining operations at the Kayuga coal seam
April 2017 EGM	Extraordinary General Meeting held in April 2017
AQC or the Company	Australian Pacific Coal Limited
ARTC	Australian Rail Track Corporation
ASIC	Australian Securities and Investment Commission
ASX	Australian Securities Exchange
BDO	BDO Corporate Finance (QLD) Ltd
BDO IER	Independent expert report prepared by BDO dated 13 March 2017
Bowen Coking Coal	Bowen Coking Coal Limited
CAGR	Compound annual growth rate
CHPP	Coal handling preparation plant
CPI	Consumer price index
Dartbrook Mine	The Dartbrook coal mine
Dartbrook JV	Dartbrook Joint Venture
Default Proceeds	The value of AQC's assets available for distribution to the Existing Financiers after the Anglo Loan and Anglo Royalty have been repaid.
DCF	Discounted cash flow
EIS	Environmental impact statement
Engagement Agreement	Our engagement agreement dated 17 September 2018
EPS	Environmental Property Services
Existing Convertible Loan Deeds	The terms of the Existing Convertible Notes
Existing Convertible Notes	The outstanding convertible notes held by the Existing Financiers
Existing Debt	Collectively the Existing Convertible Notes, the Secured Loan, the Unsecured Loan and the Anglo Loan
Existing Financiers	Mr Paspaley, Mr Robinson (Snr) and Trepang Services Pty Ltd
Existing Maturity	The dilution scenario assuming that the Existing Convertible Loan Deeds are not amended and the Existing Convertible Notes are converted to equity at maturity.
Existing Today	The dilution scenario as at the Valuation Date
Explanatory Memorandum	AGM Notice of Meeting and explanatory memorandum
Financier Royalty Account	Non-cash accrual account for Group Royalty or JV Royalty payments
FIRB	Foreign Investment Review Board
FSG	Financial Services Guide

GPPH	GPPH and Associates
Group Royalty	Royalty of \$2.50 per product tonne from the Dartbrook Mine granted to Trepang, Mr Robinson (Snr) and Mr Paspaley jointly
HELE	High efficiency low emission
HVCC	Hunter Valley Coal Chain Coordinator
Independent Directors	The independent directors of AQC
JV Royalty	Royalty of \$2.00 per product tonne from AQC's interest in the Dartbrook Mine post Dartbrook JV completion, granted to Mr Robinson (Snr) and Mr Paspaley
Km2	Square kilometre
LOM	Life of mine
Management	Management of AQC
Marubeni	Marubeni Coal Pty Ltd
Mt	Million tonnes
Mtpa	Million tonnes per annum
NEWC 5500	Newcastle 5500kcal/kg benchmark
NEWC 6000	Newcastle 6000kcal/kg benchmark
New Convertible Note	New convertible note issued to Trepang to replace the Secured Loan and the Unsecured Loan
Non-Associated Shareholders	Shareholders of AQC not associated with the Existing Financiers
NSW	New South Wales
OC PFS	The Dartbrook Coal Mine open-cut Pre-Feasibility Study
Paspaley Note	Convertible note issued to Mr Paspaley on 18 April 2017
PCI	Pulverised coal injection
PIK	Payment in kind
Proposed Amendments	Amendments negotiated with the Existing Financiers in relation to the Existing Convertible Notes, the Secured Loan and the Unsecured Loan, including the grant of the New Convertible Note.
Purchase Price	\$20 million
Report	The independent expert's report
Required Capital Return	Payment required by the Company if has not received sufficient distributions from the Dartbrook JV to cover the JV Royalty
RG 111	Regulatory Guide 111: Content of experts reports
Robinson Note	Convertible note issued to Mr Robinson (Snr) on 18 April 2017
ROM	Run-of-mine
Secured Loan	Secured loan provided by Trepang on 29 May 2017
Scenario 1	The Dartbrook JV completes on 5 April 2019
Scenario 2	The Dartbrook JV does not complete and interest is accrued and capitalised up to maturity
SNR	Stella Natural Resources
SNR Agreement	The binding agreement between AQC and SNR to form the Dartbrook JV
SNR Transaction	SNR's acquisition of a 50% interest in AQC Investments 2 Pty Ltd for the Purchase Price
SPA	Sales and Purchase Agreement
Technical Expert Addendum	The addendum to the Technical Expert Report Dated 5 October 2018
Technical Expert Report	Xenith's independent technical expert report dated 28 February 2017
TLO	Train load out facility
Tph	Tonnes per hour
Trepang	Trepang Services Pty Ltd

Trepang Note	Convertible note issued to Trepang on 25 May 2017
Unsecured Loan	Unsecured loan provided by Trepang on 31 July 2018
US	United States of America
VALMIN Code	Australian VALMIN Code (2015)
Valuation Date	31 August 2018
Vendor Loan	The \$10 million loan provided by the Dartbrook JV to AQC
VWAP	Volume weighted average price
we or EY	Ernst & Young Transaction Advisory Services Limited
Xenith	Xenith Consulting Pty Ltd
31Aug18	The year-to-date Management Accounts at 31 August 2018
30JunXX	Financial year ending 30 June XX



Appendix E – Technical Expert Addendum

MEMO

To: Michael Fenech, Ernst and Young
CC:
From: Troy Turner
Date: 5 October 2018
Re: Australian Pacific Coal Asset Valuation

Dear Michael,

INTRODUCTION

As requested I have supervised our project team in undertaking a review of the additional technical information that has been provided to us, since our last Technical Specialist's Report from 28 February 2017.

I have reviewed our valuation given the following:

- The new technical information on Dartbrook and changes in coal prices and markets.
- Recent transactions that may change our opinion.
- Factors that may have impacted our sub-consultant Environmental Property Services (EPS) report on the land value or water rights value.
- The sale of selected exploration tenements in Queensland.

We have then concluded the changes to our valuation from the February 2017 Technical Report.

NEW TECHNICAL INFORMATION FOR THE DARTBROOK PROJECT

JORC Resource Estimate Update

We were provided a copy of the recent Dartbrook JORC resource estimate report, and grid outputs from the Vulcan geological model.

The resource estimate was prepared by GPPH and Associates and dated June 2017. On the 27th of June 2017, APC released the Dartbrook JORC resource estimate to the ASX.

In summary, the JORC Resource estimate -

- Included a total resource of 2,534 million tonnes ('Mt').
- Included 675Mt classified as non opencut. The report author stated that "no open cut mining is permitted in areas defined as alluvial lands. However, both at Dartbrook and further to the south in the Hunter Valley, first workings underground mining has been permitted under alluvial cover".
- Included 56Mt with a depth greater than 450m.

- Reports a significant 110% increase in tonnage (effectively double), when compared to the previous resource estimate undertaken by JB Mining Services in January 2016 which reported 1,209Mt.

Opencut Mine PFS

We were provided a copy of the Dartbrook Opencut Pre-Feasibility Study (PFS) report that has been prepared by a team of consultants on behalf of APC and a financial model. A Xenith in-house financial model was prepared to calibrate costs to the PFS, to form our own view on cost drivers. The PFS was released to the ASX on 28 March 2018.

In summary, our comments on the Opencut PFS are -

- It has scheduled a 25 year mine plan ranging from 9.5 to 10 Million tonnes per annum ('Mtpa') of Run of Mine (ROM) coal, with 225 Mt ROM over the life of mine of delivering approximately 7.5 Mtpa of thermal coal product.
- Construction activities would most likely commence in early 2021 based on the current timing assumptions for expected approvals.
- The mine plan is modelled around the use of an Inpit Crusher Conveyor (IPCC) system. The IPCC system forms the basis of the design with a clear reduction in the dust made by truck haulage to the overburden emplacement dumps, as the dust make and the vicinity to Aberdeen township is deemed the highest risk to the project approval. The IPCC mining method has been determined by APC as the preferred option from the Mining Option Analysis stage. This method uses semi-mobile crusher systems with truck and conveyor haulage for waste and coal. This option limits the dust and noise with favourable operating costs from pit depths greater than 200m.
- The IPCC capacity constrains output to 29 Million bank cubic metres per annum (Mbcmpa) of overburden out to year 3 of the mine. With the introduction of in-pit spoil dumping by trucks overburden removal climbs to approximately 43 Mbcmpa in year 7. This high waste removal rate continues until the mine progresses past the "low strip ratio area". The upper seams in the stratigraphic sequence are mined to boost production in the early mine life, leaving higher strip ratios. Because of the consistent strip ratios across the deposit overburden removal remains relatively constant.
- It should be noted that there is currently no IPCC system in operation in Australian black coal mines with the large upfront capital costs, and the potential disruption to the mine plan flexibility generally limiting the acceptability of this mining option.
- Over the mine life 64% of waste passes through the IPCC system. The majority of this (61%) is removed by the large excavator fleet. A further 11% of waste passes directly to the upper spoil dumps from the upper benches of the mine. The remaining 25% of waste is direct hauled.
- From the proposed mine plan, two thermal products are made with the range of coal specifications within the range of Newcastle standard specifications.
- Two coal products have been selected – a Premium at approximately 6100 kilocalories per kilogram gross as received (kCal/kg (gar)) for a 12% ash, and a Secondary at approximately 5600 kCal/kg (gar) for a 19% ash, with both products attracting discounts to the Newcastle benchmark price.
- The life of mine (LOM) total product yield is 76%, with approximately 35% of the total product coal made from bypass.
- It included production levels that are built up from first principles, with some benchmark comparison (not detailed). Large hydraulic excavators and truck fleets are the main mobile equipment with the trucks hauling both waste and coal to the Inpit crushers for haulage to the waste dumps in the far western lease area, and the ROM for the coal to be transported by overland conveyor to the CHPP.



Underground Operations to Recommence

- An announcement was released to the ASX 6 August 2018 outlining the agreement to focus on recommencing underground operations at Dartbrook.
- The mining will be undertaken on an equal share agreement with Stella Natural Resources (SNR), where SNR will mine the existing approved coal seams. We have assumed the start-up mine will be as a small scale bord and pillar operation, given the lead times and capital required for a longwall operation.
- An application to modify the existing mining approval which is valid until 5 December 2027 (MOD 7), was also commented on as part of the ASX announcement.

UPDATED VALUATION

Income Based Approach – Underground Mine

- The income-based approach to the Dartbrook underground operations recommencement was a Discounted Cash Flow (DCF) based on 1.5Mt ROM pa using first workings bord and pillar extraction only – we have assumed the operation would be based on 2 continuous mining units producing ~0.75Mt each.
- High, low and mid scenarios were prepared based on publicly available coal price forecast information.
- The KPMG Coal price and FX market forecast for June/ July 2018 (mid and high) has been adopted for the various cases. The mid-price NEWC 6000 nar benchmark has a long-term average of US\$66.30/t (real); the high case has an average real long-term price of US\$77/t (real).
- The foreign exchange rates used in the pricing calculation of A\$:US\$0.76 were also based on the KPMG Coal price and FX market forecast for June/ July 2018.
- Utilising the above assumptions and a 15% (Nominal) weighted average cost of capital (WACC or discount rate) -
 - the mid case that reflected a mid-price point returned an NPV of A\$5M;
 - the upside case reflected a high coal price, with favourable mining and overhead costs returned an NPV of A\$87M;
 - the low price case returned an NPV of A\$-68M.

Table 1 DCF Options summary – Underground

Case	Cost (Real A\$/t)		Coal Price (Real US\$/t)		NPV A\$M	
			Benchmark 2023	Long term		
High	High	67.40	High	73.38	77.00	87
Mid	Mid	72.77	Mid	64.96	66.30	5
Low	Mid	71.56	Low	57.07	55.30	- 68

Income Based Approach – Open Cut Mine

- By adopting the newly developed Open Cut mine plan within the recent PFS, and by applying relevant sensitivity factors we have arrived at 3 cases for the DCF valuation as shown below.
- Mid case Free on Board (FOB) operating cost ranging from A\$44.37 to A\$50.15 in real \$ terms was built up.
- A projected initial capital requirement of A\$941M to A\$994M excluding contingency and sustaining capital is assumed. The mobile equipment of A\$256M and the IPCC of A\$311M to A\$365M are by far the largest capital line items.



- Utilising the above assumptions and a 18% (Nominal) WACC which was chosen to reflect the higher uncertainty, regarding both timing and approvals processes of the open cut mine compared to the already approved underground mine -
 - the mid case assumed a mid-price point returned a negative NPV of -A\$74M;
 - based on the high coal price from KPMG with relevant energy discounts applied for the Dartbrook products, the high case has returned an NPV of A\$195M.
 - the low case reflected a higher port cost and higher diesel cost due to the escalation in fuel prices over the previous 12 months and returned a negative NPV of A\$-136M.

Table 2 DCF Options summary - Open Cut

Case	Cost (Real A\$/t)		Coal Price (Real US\$/t)			NPV A\$M
			Benchmark 2023	Long term		
High	Mid	52.05	High	73.38	77.00	195
Mid	Mid	50.90	Mid	64.96	66.30	- 74
Low	Fuel/ Port	54.87	Mid	64.96	66.30	- 136

Mid Case: Mid KPMG price (July 2018), PFS Cost base

High Case: High KPMG price (July 2018), PFS Cost base

Low Case: Mid KPMG price (July 2018), increased Cost base reflecting higher fuel prices and port charges.

RECENT COAL ASSET TRANSACTIONS AND THE MARKET BASED APPROACH

The February 2017 Technical Report analysed the range, mean and recent trends of market transactions. Transaction multiples involving ASX listed exploration and/or development companies, between August 2012 and March 2017, ranged from A\$0.01/t to A\$0.43/t of resources.

We had judged the ASX listed multiples as representing the most suitable indicator of market value of coal development projects.

We estimated an indicative value for thermal coal projects with a JORC resource estimate at between A\$0.01/t to A\$0.04/t, with a most likely value of A\$0.02/t of resources.

There have been two large recent Hunter Valley transactions publicly stated since the February Technical Report of which I am aware:

1. The successful Yancoal bid for Rio Tinto's and Mitsubishi's stakes' in the Hunter Valley Operations and Mt Thorley Warkworth mines, located further south of Dartbrook near the township of Singleton. These mines are very large operating open cuts with numerous pits and deposits across the 2 complexes. This transaction is at a much different scale to that proposed for Dartbrook with the approvals process only recently commenced for an opencut mine plan, and we view it as not comparable to Dartbrook.
2. The Malabar Coal acquisition of the Drayton Mine and Drayton South deposit from Anglo. No publicly available information appears to be available, in terms of price or conditions of this transaction.

In my view these recent transactions do not provide information which indicates an update to the multiples detailed above (on which my valuation of the Dartbrook asset under the market-based approach is based) is required.

Considering the Opencut Mine PFS and the JORC Resource Estimate Update detailed above for Dartbrook we have fully excluded tonnages in some areas when updating our market-based approach; specifically, the resource tonnes under the environmentally sensitive alluvial areas of the floodplain, and the resource tonnes at greater than 450m in depth.



The total tonnes included in the valuation of Dartbrook on this basis are 1,803 Mt.

Using a valuation range of A\$0.01/t for low, A\$0.02/t for most likely and A\$0.04/t for high, the new results for the market based comparable transactions approach are:

- Low Case – A\$18M
- Most Likely Case – A\$36M
- High Case – A\$72M

LAND AND WATER VALUATIONS

We have made inquiries into any recently concluded land and water rights acquisitions in the general area of Dartbrook, since January 2017 when our expert (EPS) conducted their research for the February 2017 Technical Report.

We have found little new information applicable to our land and water valuations which formed the basis of the most likely valuation for Dartbrook using the Market based approach. We are of the view that no update of the values for the land and water are required relative to the February Technical Report.

ASSET SALES

APC announced to the ASX on 4 October 2017 that they have divested the Cooroorah and Mt Hillalong assets to a subsidiary of Bowen Coking Coal Ltd for A\$1.25M worth of shares. These 2 tenements are therefore required to be removed from the valuation.

CONCLUSION

Considering the new information provided by APC, relative to the February 2017 Technical Report, I conclude:

- The low case Dartbrook valuation of A\$20M, 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) is unchanged from the February 2017 Technical Report.
- There is justification to change the preferred valuation of the Dartbrook asset, which in the February Technical Report was A\$21.3M. With the substantial upgrade to the resource estimate (with some tonnes in the more sensitive areas discounted), the most likely valuation for the Dartbrook asset is now A\$36M, which is based on A\$0.02/t resource.
- The proposed Dartbrook opencut mine plan has formed the basis of the high case valuation being A\$195M.
- The opencut mine plan does requires numerous further studies over several years, in the mining and approvals areas predominantly, to confirm the project viability.
- The valuation of the assets other than Dartbrook remains unchanged.



In my opinion, as at the date of this letter the APC assets are valued between A\$20.5M and A\$195M, with a most likely value of A\$36.6M.

Table 3 Valuation Summary

Tenement	Project name	Preferred valuation method	APC ownership %	Low value (APC share A\$M)	High value (APC share A\$M)	Most likely value (APC share A\$M)
	Dartbrook	Comparable transactions EV/ resource	100%	20.0	195.0	36.0
EPC 1645	Mount Hess	Multiples of exploration expenditure	100%	0.00	0.00	0.00
EPC 1773	Kemmis Creek	Multiples of exploration expenditure	100%	0.01	0.01	0.01
EPC 1859	Dingo	Multiples of exploration expenditure	100%	0.25	0.33	0.28
EPC 1867	Mount Hess West	Multiples of exploration expenditure	100%	0.02	0.05	0.03
EPC 1955	Bungaban Creek	Comparable transactions EV/ resource	10%	0.02	0.09	0.04
EPC 1957	Laguna Creek	Comparable transactions EV/ lease area	10%	0.00	0.00	0.00
EPC 1987	Quandong	Comparable transactions EV/ lease area	10%	0.00	0.00	0.00
EPC 2011	South Clermont	Multiples of exploration expenditure	100%	0.21	0.32	0.25
Total value				20.5	195	36.6

Kind Regards



Troy Turner
Xenith Consulting



**THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE
INDEPENDENT EXPERT'S REPORT**

8 October 2018

PART 2 - FINANCIAL SERVICES GUIDE

1. Ernst & Young Transaction Advisory Services

Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services" or "we," or "us" or "our") has been engaged to provide general financial product advice in the form of an Independent Expert's Report ("Report") in connection with a financial product of another person. The Report is set out in Part 1.

2. Financial Services Guide

This Financial Services Guide ("FSG") provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

3. Financial services we offer

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- arranging to deal in securities.

4. General financial product advice

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

5. Remuneration for our services

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority. The estimated fee for this Report is \$125,000 (inclusive of GST).

Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.



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Except for the fees and benefits referred to above, Ernst & Young Transaction Advisory Services, including any of its directors, employees or associated entities should not receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

6. Associations with product issuers

Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

7. Responsibility

The liability of Ernst & Young Transaction Advisory Services, if any, is limited to the contents of this Financial Services Guide and the Report.

8. Complaints process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the AFS Compliance Manager or Chief Complaints Officer and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service Limited.

9. Compensation Arrangements

The Company and its related entities hold Professional Indemnity insurance for the purpose of compensation should this become relevant. Representatives who have left the Company's employment are covered by our insurances in respect of events occurring during their employment. These arrangements and the level of cover held by the Company satisfy the requirements of section 912B of the Corporations Act 2001.

<p>Contacting Ernst & Young Transaction Advisory Services</p> <p>AFS Compliance Manager Ernst & Young 200 George Street Sydney NSW 2000</p> <p>Telephone: (02) 9248 5555</p>	<p>Contacting the Independent Dispute Resolution Scheme:</p> <p>Financial Ombudsman Service Limited PO Box 3 Melbourne VIC 3001 Telephone: 1300 78 08 08</p>
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This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572.



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: +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:

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

STEP 1

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 **10:00am (Darwin time) on Thursday, 29 November 2018 at Rydges Palmerston, 15 Maluka Drive, Palmerston City, NT 0830** (the **Meeting**) and at any postponement or adjournment of the Meeting.

Important for Resolution 2: If the Chairman of the Meeting is your proxy, either by appointment or by default, and you have not indicated your voting intention below, you expressly authorise the Chairman of the Meeting to exercise the proxy in respect of Resolution 2, even though the Resolution is connected directly or indirectly with the remuneration of a member of the Company's Key Management Personnel (**KMP**).

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

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

STEP 2

Resolutions

Resolutions	For	Against	Abstain*	For	Against	Abstain*
1 Re-election of Shane Stone as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
2 Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
3 Approval for issue of securities under Listing Rule 7.1A	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
4 Approval of transactions with Mr Nicholas Paspaley, Mr John Robinson (Snr), and Trepan Services Pty Ltd	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
5 Approval of the grant of the Group Royalty to Trepan Services Pty Ltd, Mr John Robinson (Snr) and Mr Nicholas Paspaley in exchange for the release of security				<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

i * 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.

SIGNATURE OF SECURITYHOLDERS – THIS MUST BE COMPLETED

Securityholder 1 (Individual)

Joint Securityholder 2 (Individual)

Joint Securityholder 3 (Individual)

Sole Director and Sole Company Secretary

Director/Company Secretary (Delete one)

Director

This form should be signed by the securityholder. If a joint holding, all securityholders must sign. If signed by the securityholder'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).

STEP 3

ACQ PRX1801C



HOW TO COMPLETE THIS SECURITYHOLDER PROXY FORM

YOUR NAME AND ADDRESS

This is your name and address as it appears on the Company's security register. If this information is incorrect, please make the correction on the form. Securityholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your securities 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 securityholder 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, including where the Resolution is connected directly or indirectly with the remuneration of KMP.

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 securities 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 securities 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 security 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 securities 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 securityholders 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" must be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's security 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 **10:00am (Darwin time) on Tuesday, 27 November 2018**, 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 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.**