
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Yancoal Australia Ltd, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Australian Securities Exchange, Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



Yancoal Australia Ltd

ACN 111 859 119

兗煤澳大利亞有限公司*

(Incorporated in Victoria, Australia with limited liability)

(Hong Kong stock code: 3668)

(Australian stock code: YAL)

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
AND RELATED PARTY TRANSACTIONS
IN RELATION TO THE COAL SALES TRANSACTIONS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

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

**Independent Expert
to the Independent Board Committee and
Independent Shareholders**



A letter from the Board is set out on pages 5 to 16 of this circular and a letter from the Independent Board Committee of the Company, containing its recommendation to the Independent Shareholders, is set out on pages 17 to 18 of this circular. A letter from Opus Capital Limited containing its advice to the Independent Board Committee and Independent Shareholders is set out on pages 29 to 45 of this circular. The Company's Independent Board Committee appointed Lonergan Edwards & Associates Limited to prepare an Independent Expert's Report providing an opinion as to whether the Proposed Coal Sales Agreements are fair and reasonable to the Independent Shareholders of the Company, in accordance with ASX Listing Rule 10.5.10. A letter from Lonergan Edwards containing its advice to the Independent Board Committee is set out on pages 46 to 78 of this circular. The Independent Expert has concluded that the Proposed Coal Sales Agreements are fair and reasonable to the Independent Shareholders of the Company. A notice convening an extraordinary general meeting of the Company to be held at Darling Park, The Pavilion, 201 Sussex Street, Sydney NSW 2000, Australia on Wednesday, 18 October 2023 at 11.00 a.m. (AEDT) (being 8.00 a.m. (HKT)) is set out on pages 85 to 89 of this circular. Whether or not you intend to attend and vote at the extraordinary general meeting or any adjourned meeting in person, you are requested to complete and return the relevant enclosed form of proxy in accordance with the instructions printed thereon.

For shareholders whose ordinary shares in the Company are traded on The Stock Exchange of Hong Kong Limited, please complete the Hong Kong proxy form and return it to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited. Please read and follow the instructions, including the deadline, on the Hong Kong proxy form to lodge the form. For shareholders whose ordinary shares in the Company are traded on the Australian Securities Exchange, please complete the Australia proxy form and return it to the Company's branch share registrar in Australia, Computershare Investor Services Pty Limited. Please read and follow the instructions, including the deadline, on the Australia proxy form to lodge the form. Completion and return of the form of proxy will not preclude you from attending and voting in person at the extraordinary general meeting or any adjourned meeting should you so wish.

* for identification purpose only

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	5
1. INTRODUCTION	5
2. THE COAL SALES TRANSACTIONS	6
3. AGGREGATE ANNUAL CAPS FOR THE 2023 YANKUANG ENERGY FRAMEWORK AGREEMENT FOR COAL SALES AND THE 2023 YIT FRAMEWORK AGREEMENT FOR COAL SALES	10
4. PROPOSED COAL SALES AGREEMENTS AND INDEPENDENT EXPERT'S REPORT	10
5. REASONS FOR, AND BENEFIT OF, THE COAL SALES TRANSACTIONS .	11
6. RECOMMENDATIONS	11
7. HONG KONG LISTING RULES IMPLICATIONS	12
8. INFORMATION ABOUT THE PARTIES	13
9. INDEPENDENT BOARD COMMITTEE	15
10. INDEPENDENT FINANCIAL ADVISER AND INDEPENDENT EXPERT	15
11. EGM	15
12. GENERAL	16
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	17
ADDITIONAL INFORMATION REQUIRED UNDER ASX LISTING RULES . .	19
LETTER FROM OPUS CAPITAL	29
REPORT FROM LONERGAN EDWARDS	46
APPENDIX – GENERAL INFORMATION	79
NOTICE OF EXTRAORDINARY GENERAL MEETING	85

DEFINITIONS

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

“2021 YIT Framework Agreement”	the framework agreement between Yancoal and YIT, signed on 19 November 2020
“2021 YK Framework Agreement”	the framework agreement between Yancoal and Yankuang Energy, signed on 19 November 2020
“2023 Yankuang Energy Framework Agreement For Coal Sales”	the 2023 Yankuang Energy framework agreement for coal sales entered into between the Company and Yankuang Energy on 14 September 2023 in relation to the sale of coal by the Yancoal Group to Yankuang Energy and/or its subsidiaries (excluding the Yancoal Group)
“2023 YIT Framework Agreement For Coal Sales”	the 2023 YIT framework agreement for coal sales entered into between the Company and YIT on 14 September 2023 in relation to the sale of coal by the Yancoal Group to YIT and/or its associates (excluding the Yankuang Energy Group)
“ASX”	the Australian Securities Exchange
“ASX Listing Rules”	the official listing rules of the ASX and any other rules of ASX which are applicable while the Company is admitted to the official list of the ASX, each as amended from time to time, except to the extent of any express written waiver by the ASX
“Board”	the board of Directors
“Coal Sales Transactions”	the coal sales transactions contemplated under the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales (including the Proposed Coal Sales Agreements)
“Company”	Yancoal Australia Ltd, a company incorporated under the laws of Australia with limited liability, whose shares are listed on the ASX and the Hong Kong Stock Exchange
“connected person”	has the meaning ascribed to it under the Hong Kong Listing Rules

DEFINITIONS

“controlling shareholder”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Corporations Act”	the <i>Corporations Act 2001 (Cth)</i>
“Current Framework Agreements”	the 2021 YIT Framework Agreement and the 2021 YK Framework Agreement
“Director(s)”	the director(s) of the Company
“EGM”	the 2023 extraordinary general meeting of the Company to be held at Darling Park, The Pavilion, 201 Sussex Street, Sydney NSW 2000, Australia on Wednesday, 18 October 2023 at 11.00 a.m. (AEDT) (being 8.00 a.m. (HKT)), for the Independent Shareholders to consider, and if thought fit, to approve the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales (including the transactions contemplated thereunder and the relevant annual caps) and the Proposed Coal Sales Agreements, or any adjournment thereof
“Excluded Persons”	has the meaning given in the Voting Exclusion Statement
“HII”	Shandong Energy (Hainan) Intelligent International Technology Co., Ltd
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited as amended from time to time
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	the independent board committee of the Company comprising all of the Independent Directors
“Independent Directors”	Mr. Gregory James Fletcher, Dr. Geoffrey William Raby and Ms. Helen Jane Gillies
“Independent Expert” or “Lonergan Edwards”	Lonergan Edwards & Associates Limited

DEFINITIONS

“Independent Financial Adviser” or “Opus Capital”	Opus Capital Limited
“Independent Shareholders”	the Shareholders whose votes in favour of the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales (including the transactions contemplated thereunder and the relevant annual caps) and the Proposed Coal Sales Agreements are not to be disregarded
“Latest Practicable Date”	8 September 2023, being the latest practicable date for the purpose of ascertaining certain information contained in this circular prior to its publication
“Notice of Meeting”	the notice of the EGM accompanying this circular
“PRC”	the People’s Republic of China, and for the purpose of this circular, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Proposed Coal Sales Agreements”	the agreements for the sale of coal entered into between the Company and each of YIT, Yankuang Lucky International Company Limited and Shandong Energy (Hainan) Intelligent International Technology Co., Ltd, respectively, pursuant to the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales
“Resolution(s)”	the resolution(s) set out in the Notice of Meeting
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Shandong Energy”	Shandong Energy Group Company Limited* (山東能源集團有限公司), a company with limited liability reformed and established under the laws of the PRC on 12 March 1996, the controlling shareholder of Yankuang Energy and the ultimate controlling shareholder of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Shares”	the shares of the Company

DEFINITIONS

“subsidiary(ies)”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“Voting Exclusion Statement”	the voting exclusion statement accompanying the Resolution(s) as set out in the Notice of Meeting
“Yancoal Australia Sales”	Yancoal Australia Sales Pty Ltd
“Yancoal Group”	the Company and its subsidiaries
“Yankuang Energy”	Yankuang Energy Group Co. Limited* (兗礦能源集團股份有限公司), a joint stock company established in the PRC with limited liability, the H shares and A shares of which are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange, respectively
“Yankuang Energy Group”	Yankuang Energy and its subsidiaries (excluding the Yancoal Group)
“YIT”	Yancoal International Trading Co., Ltd. (兗煤國際貿易有限公司), a company limited by shares incorporated under the laws of Hong Kong in 2011
“YLIL”	Yankuang Lucky International Company Limited
“%”	per cent.

* *for identification purpose only*

LETTER FROM THE BOARD



Yancoal Australia Ltd

ACN 111 859 119

兖煤澳大利亞有限公司*

(Incorporated in Victoria, Australia with limited liability)

(Hong Kong stock code: 3668)

(Australian stock code: YAL)

Executive Director:

Mr. Ning ZHANG

Non-executive Directors:

Mr. Baocai ZHANG (*Chair*)

Mr. Gang RU

Mr. Yaomeng XIAO

Mr. Xiaolong HUANG

Mr. Changyi ZHANG

*Registered and Principal Place
of Business:*

Level 18 Darling Park 2

201 Sussex Street

Sydney NSW 2000

Australia

Independent Non-executive Directors:

Gregory James FLETCHER

Geoffrey William RABY

Helen Jane GILLIES

14 September 2023

To the Shareholders

Dear Sir/Madam,

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
AND RELATED PARTY TRANSACTIONS
IN RELATION TO THE COAL SALES TRANSACTIONS
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

1. INTRODUCTION

Reference is made to the announcement of the Company dated 14 September 2023 in relation to the Coal Sales Transactions contemplated under the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales and the Proposed Coal Sales Agreements.

LETTER FROM THE BOARD

The purpose of this circular is (a) to provide the Shareholders with information in respect of the 2023 Yankuang Energy Framework Agreement For Coal Sales, the 2023 YIT Framework Agreement For Coal Sales and the Proposed Coal Sales Agreements and (b) to give the Shareholders the Notice of Meeting at which ordinary resolutions will be proposed to approve the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales (and the transactions contemplated thereunder) and the Proposed Coal Sales Agreements.

This circular has been prepared in compliance with the applicable requirements under the Hong Kong Listing Rules and the ASX Listing Rules.

2. THE COAL SALES TRANSACTIONS

On 14 September 2023, the Company entered into (1) the 2023 Yankuang Energy Framework Agreement For Coal Sales with Yankuang Energy, pursuant to which the Yancoal Group agreed to continue to sell coal to Yankuang Energy and/or their subsidiaries (excluding the Yancoal Group) and (2) the 2023 YIT Framework Agreement For Coal Sales with YIT, pursuant to which the Yancoal Group agreed to continue to sell coal to YIT and/or its subsidiaries (excluding the Yankuang Energy Group), in each case for the period from 1 November 2023 to 31 October 2026.

These framework agreements renew the previous framework agreements for coal sales entered into by the Company on 19 November 2020, being:

- the framework agreement with Yankuang Energy for the sale of coal to Yankuang Energy and/or its subsidiaries (excluding the Yancoal Group) for a three-year period commencing 1 January 2021 and ending 31 December 2023 (the “**2021 YK Framework Agreement**”); and
- the framework agreement with YIT for the sale of coal to YIT and/or its associates (excluding the Yankuang Energy Group) for a three-year period commencing 1 January 2021 and ending 31 December 2023 (the “**2021 YIT Framework Agreement**”),

(together, the “**Current Framework Agreements**”).

As a result of China re-commencing imports of Australian coal from February 2023, the Company has increased coal sales to YIT in 2023. In view of the increased coal sales coupled with the relatively high market price of coal in 2023, the Company expects to exceed the annual cap for coal sale transactions with YIT under the 2021 YIT Framework Agreement before the end of October 2023. Accordingly, the Company has entered into the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement for Coal Sales, which will each be effective from 1 November 2023 to 31 October 2026, and the Current Framework Agreements will terminate with effect from 1 November 2023.

LETTER FROM THE BOARD

(1) Material Terms of the 2023 Yankuang Energy Framework Agreement For Coal Sales

(i) *Subject Matter*

The 2023 Yankuang Energy Framework Agreement For Coal Sales sets out the framework for how the coal sales transactions between the parties will be conducted and provides that all transactions in relation to the sale of coal by the Yancoal Group to Yankuang Energy and/or its subsidiaries (excluding the Yancoal Group) must be (i) in the ordinary and usual course of business of the Yancoal Group, (ii) on an arm's length basis, (iii) on normal commercial terms or better, and (iv) in compliance with, among other things, the Hong Kong Listing Rules and applicable laws (which includes the ASX Listing Rules). The terms of the actual coal sales transactions will be set out in separate agreements to be entered into by the parties.

The 2023 Yankuang Energy Framework Agreement For Coal Sales will become effective after and subject to the Company obtaining the approval of the Independent Shareholders for the transactions contemplated under the agreement (including the annual caps in respect of such transactions) and the receipt of all regulatory and corporate approvals required by Yankuang Energy for entering into the agreement.

(ii) *Term and Termination*

The 2023 Yankuang Energy Framework Agreement For Coal Sales shall commence on 1 November 2023 and shall continue up to and including 31 October 2026 (the “**Yankuang Energy Initial Term**”), unless terminated earlier according to the agreement. Subject to compliance with the applicable requirements of the Hong Kong Listing Rules and the ASX Listing Rules or, alternatively, any waivers obtained from strict compliance with such requirements, upon expiration of the Yankuang Energy Initial Term or subsequent renewal term, the 2023 Yankuang Energy Framework Agreement For Coal Sales is automatically renewed for a successive period of three years thereafter (or such other period permitted under the Hong Kong Listing Rules and the ASX Listing Rules).

Any renewal of the 2023 Yankuang Energy Framework Agreement For Coal Sales is subject to compliance with the then relevant requirements of the laws, rules and regulations to which either of the Company and Yankuang Energy is subject to.

(iii) *Basis of Consideration*

Considering the nature of coal, the sale price will be determined with reference (i) to industry index prices, being McCloskey API 5 Index (“**API5**”), which is an internationally recognised, US dollar currency index representing sales and offers from Newcastle for 5,500 kcal/kg NAR coal on a Free On Board basis and which is well-recognised as the basis for pricing coal for sales into China, (ii) coal quality characteristics, and (iii) market alternatives

LETTER FROM THE BOARD

to optimise value to the Company. The management team will consider at least two comparable deals with independent third parties for the same period when determining the reasonable consideration of any coal sales transaction under the 2023 Yankuang Energy Framework Agreement For Coal Sales.

(iv) Historical Amounts

The aggregate annual transaction amounts received by the Yancoal Group from Yankuang Energy and/or its subsidiaries (excluding the Yancoal Group) for the sale of coal for the three years ended 31 December 2020, 2021, 2022 and the six months ended 30 June 2023 were approximately US\$53.2 million, nil, nil and nil, respectively.

There were no coal sale transactions since 1 January 2021 due to (a) restrictions placed on China's imports of coal sourced from Australia from late 2020 to early 2023, and (b) the majority of coal sales in the past few years having been predominately made between the Company and YIT and/or its associates pursuant to the 2021 YIT Framework Agreement following the restructuring of Yankuang Energy Group and Shandong Energy Group on 27 March 2020, whereby ownership of YIT was transferred from Yankuang Energy Group to Shandong Energy Group. Following such restructuring, Yankuang Energy and Shandong Energy commercially decided to purchase coal from the Company through YIT pursuant to the 2021 YIT Framework Agreement. As a result, there were no coal sale transactions between the Company and Yankuang Energy Group from 1 January 2021 to 30 June 2023.

(2) Material Terms of the 2023 YIT Framework Agreement For Coal Sales

(i) Subject Matter

The 2023 YIT Framework Agreement For Coal Sales sets out the framework for how the coal sales transactions between the parties will be conducted and provides that all transactions in relation to the sale of coal by the Yancoal Group to YIT and/or its associates (excluding the Yankuang Energy Group) must be (i) in the ordinary and usual course of business of the Yancoal Group, (ii) on an arm's length basis, (iii) on normal commercial terms or better, and (iv) in compliance with, among other things, the Hong Kong listing Rules and applicable laws (which includes the ASX Listing Rules). The terms of the actual coal sales transactions will be set out in separate agreements to be entered into by the parties.

The 2023 YIT Framework Agreement For Coal Sales will become effective after and subject to the Company obtaining the approval of the Independent Shareholders for the transactions contemplated under the agreement (including the annual caps in respect of such transactions) and receipt of all regulatory and corporate approvals required by Yankuang Energy for entering into the agreement.

LETTER FROM THE BOARD

(ii) Term and Termination

The 2023 YIT Framework Agreement For Coal Sales shall commence on 1 November 2023 and shall continue up to and including 31 October 2026 (the “**YIT Initial Term**”), unless terminated earlier according to the agreement. Subject to compliance with the applicable requirements of the Hong Kong Listing Rules and the ASX Listing Rules or, alternatively, any waivers obtained from strict compliance with such requirements, upon expiration of the YIT Initial Term or subsequent renewal term, the 2023 YIT Framework Agreement For Coal Sales is automatically renewed for a successive period of three years thereafter (or such other period permitted under the Hong Kong Listing Rules and the ASX Listing Rules).

Any renewal of the 2023 YIT Framework Agreement For Coal Sales is subject to compliance with the then relevant requirements of the laws, rules and regulations to which either of the Company and Yankuang Energy is subject to.

(iii) Basis of Consideration

Considering the nature of coal, the sale price will be determined with reference to (i) industry index prices, being API5 (details of which are set out above), (ii) coal quality characteristics, and (iii) market alternatives to optimise value to the Company. The management team will consider at least two comparable deals with independent third parties for the same period when determining the reasonable consideration of any coal sales transaction under the 2023 YIT Framework Agreement For Coal Sales.

(iv) Historical Amounts

The aggregate annual transaction amounts received by the Yancoal Group from YIT and/or its associates (excluding the Yankuang Energy Group) for the sale of coal for the three years ended 31 December 2020, 2021, 2022 and the six months ended 30 June 2023 were approximately US\$13.7 million, US\$49.3 million, US\$123.0 million and US\$139.1 million, respectively.

Notwithstanding China’s ban on imports of coal sourced from Australia (which imports subsequently resumed in February 2023), there was a significant increase in coal sales transactions between the Yancoal Group and YIT and/or its associates in the past few years because YIT was able to purchase coal from the Company for sale to buyers in South East Asia. Whilst the volume of coal sold to YIT has remained relatively stable (noting that the coal quality sold to YIT varied shipment to shipment and period to period), the aggregate dollar amount of the coal sales transactions to YIT has increased significantly in the past three years as a result of significant increases in the market price of coal. For the following 12 month periods, being 4 September 2020 to 27 August 2021¹, 3 September 2021 to 26 August 2022², and 2 September 2022 to 25 August 2023³, the average market price of coal based on the AP15 Price Index was US\$59.03, US\$162.52 and US\$123.63 per tonne, respectively.

1 The API5 Price Index reports are published weekly every Friday, accordingly, this period has been set using the first Friday of September 2020 and the last Friday of August 2021.

2 The API5 Price Index reports are published weekly every Friday, accordingly, this period has been set using the first Friday of September 2021 and the last Friday of August 2022.

3 The API5 Price Index reports are published weekly every Friday, accordingly, this period has been set using the first Friday of September 2022 and the last Friday of August 2023.

LETTER FROM THE BOARD

3. AGGREGATE ANNUAL CAPS FOR THE 2023 YANKUANG ENERGY FRAMEWORK AGREEMENT FOR COAL SALES AND THE 2023 YIT FRAMEWORK AGREEMENT FOR COAL SALES

The maximum annual transaction amount to be received by the Yancoal Group from Yankuang Energy and/or its subsidiaries (excluding the Yancoal Group) for the two months from 1 November 2023 to 31 December 2023, the two years ending 31 December 2024 and 2025 and the ten months from 1 January 2026 to 31 October 2026 will not exceed US\$66.7 million, US\$300.0 million, US\$300.0 million and US\$233.3 million, respectively.

The maximum annual transaction amount to be received by the Yancoal Group from YIT and/or its associates (excluding the Yankuang Energy Group) for the two months from 1 November 2023 to 31 December 2023, the two years ending 31 December 2024 and 2025 and the ten months from 1 January 2026 to 31 October 2026 will not exceed US\$133.4 million, US\$600.0 million, US\$600.0 million and US\$466.6 million, respectively.

The annual caps set out above were determined primarily with reference to the following: (i) taking into consideration the business requirements of Yankuang Energy and YIT and the current and last three year review of market pricing for the quality of coal to be supplied, the Company expects to maintain such sales volume in future years pursuant to the respective Proposed Coal Sales Agreements, (ii) whilst there were no sales transactions between Yancoal Group and Yankuang Group since January 2021, YLIL (a subsidiary of Yankuang Energy) has committed to purchasing 2 million tonnes of coal per annum over a three year period (see “Additional Information Required under ASX Listing Rules” in this circular for further details of the Proposed Coal Sales Agreement with YLIL), (iii) the expected additional spot demand for coal from Yankuang Energy and/or its subsidiaries (excluding the Yancoal Group) and YIT and/or its associates (excluding the Yankuang Energy Group) over the next three years and (iv) the estimated sale price for the coal the Company typically charges.

4. PROPOSED COAL SALES AGREEMENTS AND INDEPENDENT EXPERT’S REPORT

Pursuant to the 2023 Yankuang Energy Framework Agreement for Coal Sales and the 2023 YIT Framework Agreement for Coal Sales, the Company proposes to enter into the Proposed Coal Sales Agreements with three trading companies associated with Yankuang Energy and its controlling shareholder Shandong Energy, being YIT, YLIL and HII, respectively, among which (i) the coal sales transactions with YLIL for the proposed volume of 2 million tonnes per annum will be made pursuant to the 2023 Yankuang Energy Framework Agreement for Coal Sales and (ii) the coal sales transactions with YIT and HII for the proposed volume of 2 million tonnes per annum each (i.e. a total of 4 million tonnes per annum) will be made pursuant to the 2023 YIT Framework Agreement for Coal Sales.

LETTER FROM THE BOARD

The Proposed Coal Sales Agreements will be subject to the Independent Shareholders' approval at the EGM pursuant to the requirements of the ASX Listing Rules. Details of the Proposed Coal Sales Agreements as required under ASX Listing Rules are set out on pages 19 to 23 of this circular.

The ASX Listing Rules require that the circular includes an independent expert's report that sets out whether the Proposed Coal Sales Agreements are fair and reasonable to the Independent Shareholders. The Company has appointed Lonergan Edwards to prepare the Independent Expert's report providing an opinion as to whether the Proposed Coal Sales Agreements are fair and reasonable to the Independent Shareholders, which is set out on pages 46 to 78 of this circular.

5. REASONS FOR, AND BENEFIT OF, THE COAL SALES TRANSACTIONS

The Company's principal business activity is the production of thermal and metallurgical coal. Yankuang Energy, a controlling shareholder of the Company, is engaged in the business of mining, preparation, processing and sales of coal and coal chemicals. YIT is engaged in the business of sales of coal and coal chemicals. Each of Yankuang Energy and YIT has been a consistent and reliable customer of the Company in the PRC.

The Company believes that through supplying coal to Yankuang Energy (including its subsidiaries but excluding the Yancoal Group) and YIT (including its associates but excluding the Yankuang Energy Group) in the Company's ordinary and usual course of business, the Company could benefit from (i) the lift of the trade restriction of importing coal from Australia to China, (ii) a stable offtake of coal from Yankuang Energy and YIT, (iii) the Yancoal Group's production ability to supply 6 million tonnes per year to Yankuang Energy and YIT, and (iv) entering into the coal sales transactions with Yankuang Energy and YIT as it will enable the Yancoal Group to have a stable source of coal offtake for FY2024, FY2025 and the 10 months ending 31 October 2026.

6. RECOMMENDATIONS

The Directors (excluding the Independent Directors, whose views are set out in the Letter from the Independent Board Committee of this circular) are of the view that the terms of the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales (including the relevant annual caps thereunder) and the Proposed Coal Sales Agreements are fair and reasonable. The Coal Sales Transactions are in the ordinary and usual course of business of the Yancoal Group, on normal commercial terms or better and in the interests of the Company and its shareholders as a whole. Accordingly, such Directors recommend that you vote in favour of the Resolutions to be proposed at the EGM to approve the 2023 Yankuang Energy Framework Agreement For Coal Sales, the 2023 YIT Framework Agreement For Coal Sales and the Proposed Coal Sales Agreements.

LETTER FROM THE BOARD

The Independent Board Committee, having taken into account the recommendations from Opus Capital, the Independent Financial Adviser, and Lonergan Edwards, the Independent Expert, considers that the terms of the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales (including the relevant annual caps thereunder) and the Proposed Coal Sales Agreements are fair and reasonable, the transactions contemplated thereunder are in the ordinary and usual course of business of the Company, on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the Resolutions to be proposed at the EGM to approve the 2023 Yankuang Energy Framework Agreement For Coal Sales, the 2023 YIT Framework Agreement For Coal Sales and the Proposed Coal Sales Agreements.

Mr. Baocai Zhang, Mr. Gang Ru, Mr. Yaomeng Xiao, Mr. Xiaolong Huang declared that they hold certain positions in Yankuang Energy or Shandong Energy. However, the articles of association of the Company does not preclude such Directors from voting. In addition, although the Board has established the Independent Board Committee to perform the duties as set out under “9. Independent Board Committee” below, which the Independent Board Committee has done, and the Independent Board Committee has also unanimously approved those documents and has unanimously recommended the Independent Shareholders to vote in favour of the Resolutions, as is reflected in the Letter from the Independent Board Committee, considering that none of the above Directors (i) receives substantial remuneration or some other benefit from the Coal Sales Transactions, or (ii) is a director of two companies which transact with each other under the Coal Sales Transactions and receives director’s fees from both companies and the remuneration is performance-related in a way which is relevant to the transactions, or (iii) considers that adopting a particular stance on the matter would jeopardise his/her future remuneration or career prospects with his/her employer, the Board is of the view that the none of the above Directors has a material interests in the Coal Sales Transactions, and none of them should abstain from voting on the relevant resolutions of the Board. Accordingly, none of the Directors abstained from voting on the relevant resolutions of the Board approving the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales (including the relevant annual caps thereunder) and the Proposed Coal Sales Agreements.

The Chair of the meeting intends to vote all available proxies in favour of the Resolutions. The Chair of the meeting intends to vote undirected proxies in favour of the Resolutions.

7. HONG KONG LISTING RULES IMPLICATIONS

As at the date of this circular, Yankuang Energy is a controlling shareholder of the Company, holding approximately 62.26% of the total issued Shares. Accordingly, Yankuang Energy is a connected person of the Company and the transactions contemplated under the 2023 Yankuang Energy Framework Agreement For Coal Sales constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

LETTER FROM THE BOARD

As at the date of this circular, YIT is a wholly-owned subsidiary of Shandong Energy, the controlling shareholder of Yankuang Energy. Accordingly, YIT is a connected person of the Company by virtue of being an associate of Yankuang Energy and the transactions contemplated under the 2023 YIT Framework Agreement For Coal Sales constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

As the Coal Sales Transactions will be entered into by the Company with parties who are connected with one another, the Coal Sales Transactions are required to be aggregated pursuant to Rule 14A.81 of the Hong Kong Listing Rules. As the highest applicable percentage ratio in respect of the aggregate annual caps for the Coal Sales Transactions is more than 5%, such continuing connected transactions will be subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

8. INFORMATION ABOUT THE PARTIES

(i) The Company

The Company's principal business activity is the production of thermal and metallurgical coal for use in the power generation and steel industries in Asian markets. The shares of the Company have been listed on the Australian Securities Exchange and the Hong Kong Stock Exchange since 2012 and 2018, respectively.

(ii) Shandong Energy

Shandong Energy is a controlling shareholder of Yankuang Energy, holding approximately 54.67% of the shares in Yankuang Energy as of the Latest Practicable Date. Shandong Energy is one of the largest coal mining and energy companies in China. Shandong Energy (former Yankuang Group Co., LTD., renamed as Shandong Energy Group Co., Ltd. in April 2021), is a company with limited liability reformed and established under the laws of the PRC in 1996. Shandong Energy is a large state-owned energy enterprise in Shandong Province, China.

Shandong Energy is primarily engaged in mining, high-end chemicals, electric power, new energy and new materials, high-end equipment manufacturing, and modern logistics and trade. Shandong Energy owns more than 20 second-level subsidiaries, including Yankuang Energy, Xinwen Mining Group and Zaozhuang Mining Group and 10 public companies listed in China and abroad, with a 220,000-strong workforce. Shandong Energy was rated as the 69th on 2022 Global Fortune 500 List, the 23rd on China Top 500 Companies List and the 5th among China Top 500 Energy Companies.

Shandong Energy's annual production capacity of coal in China and abroad totals 340 million tonnes, and its coal output ranks the third in China's coal industry.

LETTER FROM THE BOARD

(iii) Yankuang

Yankuang Energy is principally engaged in the business of mining, preparation, processing and sales of coal and coal chemicals. Yankuang Energy's main products are steam coal for use in large-scale power plants, coking coal for metallurgical production and prime quality low sulphur coal for use in pulverized coal injection. The H Shares and A Shares of Yankuang Energy are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange, respectively. Shandong Energy is the controlling shareholder of Yankuang Energy.

(iv) YIT

YIT was established in 2011 and is principally engaged in the business of sales of coal and coal chemicals in the PRC. As at the date of this circular, YIT is a wholly owned subsidiary of Shandong Energy.

(v) HII

HII was established in September 2018 and is 44.8% owned by Shandong Energy, 43% owned by Hainan Taizhong Group, 10.2% owned Yankuang Energy Group Co., Ltd and 2% owned by China Huaneng Group Fuel Co., Ltd. To the best of the Company's knowledge, information and belief, and having made all reasonable enquiries, Hainan Taizhong Group and China Huaneng Group Fuel Co., Ltd are third parties independent of the Company.

HII's main business models include bulk commodity trading, intelligent trading finance services (i.e., ability to accept RMB) and warehouse logistics. HII has an extensive sales channel in the Southern part of China (i.e., Hainan and surrounding provinces) and provides various services that could not be provided by Yancoal in China.

(vi) YLIL

YLIL engages in domestic and international trading and logistics of bulk commodities including iron ore, coal, steel and steel scrap. YLIL has a registered capital of RMB200 million with 51% of its share capital owned by Yankuang Energy and 49% owned by Century Lucky Group Corporation. To the best of the Company's knowledge, information and belief, and having made all reasonable enquiries, Century Lucky Group Corporation is a third party independent of the Company.

In 2022, YLIL traded a total of 12.25 million tonnes of iron ore, 2.38 million tonnes of coal and 4.2 million tonnes of steel (including steel scrap). YLIL has extensive relationships with power plants, general industry customers and steel plants in China.

LETTER FROM THE BOARD

9. INDEPENDENT BOARD COMMITTEE

An Independent Board Committee, comprising all the Independent Directors, has been established as required under the Hong Kong Listing Rules and consistent with usual Australian practice and the expectations of Australian regulators.

The Independent Board Committee has been established by the Board to:

- consider, negotiate and, if thought fit, approve the entry into the 2023 Yankuang Energy Framework Agreement For Coal Sales, the 2023 YIT Energy Framework Agreement For Coal Sales and entry into the Proposed Coal Sales Agreements for consideration by the Independent Shareholders;
- consider and advise the Independent Shareholders on the terms of the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales (including the transactions contemplated thereunder and the relevant annual caps) and the Proposed Coal Sales Agreements;
- appoint an independent expert (as required by Listing Rule 10.5.10);
- appoint an independent financial adviser (as required by Chapter 14A of the Hong Kong Listing Rules); and
- oversee the preparation of this circular and the Notice of Meeting.

10. INDEPENDENT FINANCIAL ADVISER AND INDEPENDENT EXPERT

Opus Capital has been appointed, in accordance with the Hong Kong Listing Rules, as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders, in each case, on the terms of the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales.

Lonergan Edwards has been appointed, in accordance with the ASX Listing Rules, as the Independent Expert to provide a report to the Independent Board Committee and the independent Shareholders in respect of the Proposed Coal Sales Agreements.

11. EGM

A notice convening the EGM to be held at Darling Park, The Pavilion, 201 Sussex Street, Sydney NSW 2000, Australia on Wednesday, 18 October 2023 at 11.00 a.m. (AEDT) (being 8.00 a.m. (HKT)) is set out on pages 85 to 89 of this circular.

A form of proxy for use by the Shareholders at the EGM is enclosed. Whether or not you intend to attend the EGM in person, please complete the form of proxy in accordance with the instructions printed thereon. For Shareholders whose ordinary shares in the Company are traded on the Hong Kong Stock Exchange, please complete the Hong Kong proxy form and return it to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited. Please read and follow the instructions, including the deadline, on the Hong Kong proxy form to lodge the form.

LETTER FROM THE BOARD

For Shareholders whose ordinary shares in the Company are traded on the ASX, please complete the Australia proxy form and return it to the Company's branch share registrar in Australia, Computershare Investor Services Pty Limited. Please read and follow the instructions, including the deadline, on the Australia proxy form to lodge the form. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof should you so wish.

Pursuant to Rule 13.39(4) of the Hong Kong Listing Rules, any vote of the Shareholders at the EGM must be taken by poll. An announcement on the poll results will be published by the Company on the date of the EGM in the manner as prescribed under the Hong Kong Listing Rules.

Yankuang Energy, which are interested in an aggregate of approximately 62.26% of the total issued Shares of the Company as at the Latest Practicable Date, will abstain from voting on the Resolutions regarding the 2023 Yankuang Energy Framework Agreement For Coal Sales, the 2023 YIT Framework Agreement For Coal Sales and the Proposed Coal Sales Agreements at the EGM.

Save for the above, as far as the Directors are aware having made all reasonable enquiries, no other Shareholders are required to abstain from voting on the Resolutions to be proposed regarding the 2023 Yankuang Energy Framework Agreement For Coal Sales, the 2023 YIT Framework Agreement For Coal Sales and the Proposed Coal Sales Agreements at the EGM.

12. GENERAL

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 17 to 18 of this circular, (ii) the letter from Opus Capital containing its recommendations to the Independent Board Committee and Independent Shareholders in connection with the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales set out on pages 29 to 45 of this circular and (iii) the report from Lonergan Edwards on the Proposed Coal Sales Agreements providing its opinion as to whether the Proposed Coal Sales Agreements are fair and reasonable set out on pages 46 to 78 of this circular.

By order of the Board
Yancoal Australia Ltd
Baocai ZHANG
Chairman



Yancoal Australia Ltd

ACN 111 859 119

兗煤澳大利亞有限公司*

(Incorporated in Victoria, Australia with limited liability)

(Hong Kong stock code: 3668)

(Australian stock code: YAL)

14 September 2023

To the Independent Shareholders

Dear Sir/Madam,

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
AND RELATED PARTY TRANSACTIONS
IN RELATION TO THE COAL SALES TRANSACTIONS**

We have been appointed as the Independent Board Committee for the purposes set out under the section headed “9. Independent Board Committee” in the Letter from the Board to this circular. In particular, we have considered the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales and the Proposed Coal Sales Agreements, and will advise you:

- on whether the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales (including the transactions contemplated thereunder and the relevant annual caps) and the Proposed Coal Sales Agreements is in the ordinary and usual course of business of the Company, has been entered into on normal commercial terms, and the terms therein are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and
- of our recommendation in relation to how you should vote on the Resolutions.

We wish to draw your attention to the letter from the Board set out on pages 5 to 16 which are contained in the circular to the Shareholders of the Company dated 14 September 2023 (the “**Circular**”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Opus Capital has been appointed, in accordance with the Hong Kong Listing Rules, as the Independent Financial Adviser to give recommendations to the Independent Board Committee and the Independent Shareholders in respect of the above matters. We also wish to draw your attention to the letter from Opus Capital set out on pages 29 to 45 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Loneragan Edwards has been appointed, in accordance with the ASX Listing Rules, as the Independent Expert to provide a report to the Independent Board Committee and the Independent Shareholders in respect of the above matters. We also wish to draw your attention to the Independent Expert's Report from Lonergan Edwards set out on 46 to 78 of the Circular. Shareholders are urged to carefully read the Independent Expert's Report to understand the scope of the report, the methodology of the valuation and the sources of information and assumptions made.

Having carefully considered the information set out in the letter from the Board, the terms of the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales, the advantages and disadvantages of the Proposed Coal Sales Agreements and their relative weight in relation to the circumstances of the Company, the opinion of the Independent Financial Adviser in relation thereto and the opinion of the Independent Expert in relation thereto, we are of the opinion that the 2023 Yankuang Energy Framework Agreement For Coal Sales, the 2023 YIT Framework Agreement For Coal Sales (including the transactions contemplated thereunder and the relevant annual caps) and Proposed Coal Sales Agreements are in the ordinary and usual course of business of the Company, have been entered into on normal and reasonable commercial terms (with a framework established by the Independent Board Committee to ensure the parties dealt with each other at arms' length), and the terms therein are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we therefore unanimously recommend that Shareholders (other than any Excluded Persons as noted in the Voting Exclusion Statement) vote in favour of the Resolutions to be proposed at the EGM to approve the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales (including the transactions contemplated thereunder and the relevant annual cap) and the Proposed Coal Sales Agreements.

None of us have any material personal interests in the outcome of the Resolution.

Each of us intend to vote any Shares which we hold or control in favour of the Resolution.

Yours faithfully,

Mr. Gregory James FLETCHER	Dr. Geoffrey William RABY	Ms. Helen Jane GILLIES
<i>Independent Non-executive Director</i>	<i>Independent Non-executive Director</i>	<i>Independent Non-executive Director</i>

ADDITIONAL INFORMATION REQUIRED UNDER ASX LISTING RULES

This section forms part of the circular and contains the additional information required by the ASX Listing Rules. This section should be read in conjunction with the Notice of Meeting and the rest of the circular.

1. ADDITIONAL BACKGROUND INFORMATION

On 19 November 2020, the Company entered into the Current Framework Agreements. Prior to considering and approving the Current Framework Agreements, the Yancoal Board established an Independent Board Committee to consider, negotiate and, if thought fit, approve the Current Framework Agreements, which that Independent Board Committee did after receiving independent advice from relevant experts and forming the view that the terms of the Current Framework Agreements were reasonable in the circumstances had the parties been dealing at arms' length or more favourable to Yancoal than such terms.

These Current Framework Agreements did not require approval under ASX Listing Rule 10.1 or Chapter 14A of the Hong Kong Listing Rules because the price payable under those agreements over their term was less than 5% of the Company's equity interests and the highest applicable percentage ratio in respect of the aggregate annual caps for the continuing connected transactions under those agreements was less than 5%, respectively.

The Current Framework Agreements will expire on 31 December 2023 and, subject to the approval of the Independent Shareholders, the Company proposes to renew the Current Framework Agreements by entering into the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales.

Subject to the approval of the Independent Shareholders, the Company proposes to enter into the Proposed Sales Agreements which will fall under the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales (as applicable).

In light of the impending expiry of the Current Framework Agreements, the Yancoal Board formed the Independent Board Committee for the purposes set out under the section headed "9. Independent Board Committee" in the Letter from the Board to this circular.

2. DETAILS REGARDING THE PROPOSED COAL SALES AGREEMENTS

(i) Overview of the Proposed Coal Sales Agreements

Subject to the Resolution being passed, Yancoal proposes to enter into each of the Proposed Coal Sales Agreements to supply 2 million tonnes of Australian thermal coal per annum over a term of 3 years to each of YIT, YLIL and HII.

Each of the parties intend to purchase coal in the 5,100-5,500NAR category which is well accepted by Chinese customers. Whilst similar grade coal is exported to India and Southeast Asia. China remains the most commercial market for this quality of coal.

ADDITIONAL INFORMATION REQUIRED UNDER ASX LISTING RULES

YIT, YLIL and HII will not sell to Yancoal's existing customers and intend to sell this coal in China to Chinese customers who cannot accept international business terms and/or require purchases under typical domestic conditions i.e., RMB payment terms, extended credit and delivered to plant costings. Yancoal will not take on this risk and therefore this market opportunity exists for Yancoal to increase market share in China via this alternative route.

YIT, YLIL and HII have concluded business with Yancoal and other international producers and unlike other traders they are willing to accept Yancoal's Standard Coal Sales Contract as the base contract.

The key terms of the Proposed Coal Sales Agreements with YIT, HII and YLIL are outlined below:

(ii) Proposed Coal Sales Agreement with YIT

Product	Australian thermal coal
Term	3 years (starting on 1 November 2023). Each year being a 12-calendar month period
Conditions Precedent	Conditions Precedent include: <ol style="list-style-type: none">1. Receipt of all regulatory approvals required by Yancoal to enter into the YIT Framework Coal Sales Agreement, and to set the Annual Caps, including, but not limited to, receipt of approval from the ASX and HKEX (as may be required);2. Receipt of shareholder approval by Yancoal to enter into the YIT Framework Coal Sales Agreement, and to set the Annual Caps (as may be required); and3. Receipt of all approvals required by YIT to enter into the YIT Framework Coal Sales Agreement (as may be required).
Total Quantity	6,000,000 metric tonnes over the Term
Annual Quantity	2,000,000 metric tonnes

ADDITIONAL INFORMATION REQUIRED UNDER ASX LISTING RULES

Price To be negotiated on a shipment by shipment with reference to the spot price (from which the API5 Index is derived) and other bids/offers at the relevant time to ensure that the trade price is equal to or better than spot alternatives, with a pro rata calorific value adjustment for kcal/kg more or less than 5,500. YIT has previously only contracted on a spot basis since YIT is unable to commit to fixed price offtake arrangements pursuant to YIT's internal commercial/operating procedures. However, based on the history of offtake with YIT and performance year to date, the Company is of the view that YIT will be able to purchase 2 million tonnes of coal annually, which is further confirmed by their entering into this Proposed Coal Sales Agreement. Please also refer to paragraph 28 of the Report from Lonergan Edwards contained in this circular.

Having carefully considered the advantages and disadvantages of the Proposed Coal Sales Agreements and their relative weight in relation to the circumstances of the Company and the opinion of the Independent Expert as set out under paragraph 115 of the Report from Lonergan Edwards contained in this circular, the Board (including the Independent Board Committee) is of the view that the different determination basis between the Proposed Coal Sales Agreement with YIT and the Proposed Coal Sales Agreements with HII and YLIL is fair and reasonable and in the interest of the Company and its shareholder as a whole.

Termination Rights Either party may terminate by notice to the other party if any of the Conditions Precedents are not satisfied or have not been satisfied on or before 31 December 2023.

Base Contract In accordance with Yancoal's standard terms and conditions

(iii) Proposed Coal Sales Agreement with HII

Buyer HII

Product Australian thermal coal

Term 3 years (starting on 1 November 2023). Each year being a 12-calendar month period

ADDITIONAL INFORMATION REQUIRED UNDER ASX LISTING RULES

Conditions Precedent	Conditions Precedent include: <ol style="list-style-type: none">1. Receipt of all regulatory approvals required by Yancoal to enter into the YIT Framework Coal Sales Agreement, and to set the Annual Caps, including, but not limited to, receipt of approval from the ASX and HKEX (as may be required);2. Receipt of shareholder approval by Yancoal to enter into the YIT Framework Coal Sales Agreement, and to set the Annual Caps (as may be required); and3. Receipt of all approvals required by YIT to enter into the YIT Framework Coal Sales Agreement (as may be required).
Total Quantity	6,000,000 metric tonnes
Annual Quantity	2,000,000 metric tonnes
Product	Product A: 5,500NAR Product B: 5,100NAR
Price	Product A: The contract price for each shipment of Product A will be a positive adjustment to API5 Price Index as agreed by the parties in writing from time to time. Product B: The contract price for each shipment of Product B, as agreed by the parties in writing from time to time, shall be linked to the AP15 Price Index with appropriate quality adjustments and will maintain a positive price position to the market.
Termination Rights	Either party may terminate by notice to the other party if any of the Conditions Precedents are not satisfied or have not been satisfied on or before 31 December 2023.
Base Contract	In accordance with Yancoal standard terms and conditions

ADDITIONAL INFORMATION REQUIRED UNDER ASX LISTING RULES

(iv) Proposed Coal Sales Agreement with YLIL

Product	Australian thermal coal
Term	3 years (commencing 1 November 2023). Each year being a 12-calendar month period
Conditions Precedent	<p>The Conditions Precedent under the Coal Sales Agreement with YIT and HII include:</p> <ol style="list-style-type: none">1. receipt of all regulatory approvals required by Yancoal to enter into the Yankuang Energy Framework Coal Sales Agreement, and to set the Annual Caps, including, but not limited to, receipt of approval from the ASX and HKEX (as may be required);2. receipt of shareholder approval by Yancoal to enter into the Yankuang Energy Framework Coal Sales Agreement, and to set the Annual Caps (as may be required);3. receipt of all regulatory approvals required by Yankuang Energy to enter into the Yankuang Energy Framework Coal Sales Agreement, including, but not limited to, receipt of approval from the HKEX and SSE (as may be required); and4. receipt of shareholder approval by Yankuang Energy to enter into the Yankuang Energy Framework Coal Sales Agreement (as may be required)
Total Quantity	6,000,000 metric tonnes
Annual Quantity	2,000,000 metric tonnes
Price	Positive adjustment to API5 Price Index as agreed by the parties in writing from time to time
Termination Rights	Either party may terminate by notice to the other party if any of the Conditions Precedents are not satisfied or have not been satisfied on or before 31 December 2023.
Base Contract	In accordance with Yancoal's standard terms and conditions

3. KEY CONSIDERATIONS IN RESPECT OF THE RESOLUTION**(i) Key considerations**

In considering the Resolution, Independent Shareholders are encouraged to consider the following matters:

- The Independent Board Committee has overseen the renewal of the Current Framework Agreements and entry into the Proposed Coal Sales Agreements and is satisfied that those documents reflect arms' length commercial terms that are fair and reasonable and in the interests of the Company and the Independent Shareholders.
- The 2023 Framework Agreements and the Proposed Coal Sales Agreements could benefit the Company following the lifting of trade restrictions on importing coal from Australia to China given each of HII, YLIL and YIT:
 - are prepared to accept Yancoal's standard terms and conditions, which other traders in China and Asia are not always willing to accept; and
 - have agreed that they will not seek to market the coal purchased under the Proposed Coal Sales Agreements to Yancoal's direct customers in China. The effect of this aspect of the agreement is that HII, YLIL and YIT will sell the purchased coal to Chinese customers who are reluctant to accept international business terms and/or prefer to make purchases under typical domestic terms (such as payments in local currency, extended credit terms and delivery inclusive pricing).
- If the Resolution is not approved:
 - the Company would lose secured supply contracts for up to 6.0 Mtpa of coal production over the next three years;
 - the Company would have to seek other customers (including in the Chinese market) and would not be able to ship product in the large quantities covered by the Proposed Coal Sales Agreements; and
 - there are unlikely to be any constraints on the purchasers on-selling the coal in competition to Yancoal's other sales.
- The information and context set out in the Letter from the Board, all of which is endorsed by the Independent Board Committee.
- The information set out in the independent expert's report from Lonergan Edwards and the letter from Opus Capital.

ADDITIONAL INFORMATION REQUIRED UNDER ASX LISTING RULES

- The key benefits, and the key risks, identified below.

(ii) Key Benefits

The Proposed Coal Sales Agreements will be a benefit to the Company for the following (non-exhaustive) reasons:

- the parties to the Proposed Coal Sales Agreements are reliable partners of the Company;
- the Company believes that through supplying coal to YIT, YLIL and HII in the Company's ordinary and usual course of business, the Company could further expand its business operations in the Chinese market and generate revenue;
- YIT, YLIL and HII are able to contract with many customers in China that have not been engaged with the Company directly and are not familiar with international business terms and conditions and are able to take on the risk with respect to payment and delivery terms;
- the price achieved for the majority of the product being sold will generally be based on a positive adjustment to API5 Price Index as agreed by the parties in writing from time to time; and
- term contracts provide the Company with security of a known delivery schedule removing the risk of unknown sales in position management.

(iii) Key Risks

The key risks to the Proposed Coal Sales Agreements are changes in Chinese government coal import policy and changes in Australia export policy, which may restrict or prohibit the export or import of coal between the two countries.

4. RESOLUTION – APPROVAL FOR ENTRY INTO THE PROPOSED COAL SALES AGREEMENTS

(i) Background

At the EGM, Shareholders will be asked to approve the entry by the Company (directly or via Yancoal Australia Sales Pty Ltd (Yancoal Australia Sales) or any of its subsidiaries) into the Proposed Coal Sales Agreements for the purposes of ASX Listing Rule 10.1

The Resolution must be passed as an ordinary resolution and will therefore be passed if supported by a simple majority of votes cast at the EGM. This excludes votes cast by or on behalf of Shareholders in the Company who are excluded in accordance with the Voting Exclusion Statement set out in the Notice of Meeting enclosed with this Circular.

ADDITIONAL INFORMATION REQUIRED UNDER ASX LISTING RULES

If the Resolution is passed, the Company will be able to proceed with entering into the Proposed Coal Sales Agreements. If the Resolution is not passed, the Company will not proceed with entering into the Proposed Coal Sales Agreements.

(ii) Requirements under ASX Listing Rule 10.1

ASX Listing Rule 10.1 provides that a listed entity must not acquire or agree to acquire a substantial asset from, or dispose of or agree to dispose of a substantial asset to:

- 10.1.1 a related party;
- 10.1.2 a child entity;
- 10.1.3 a person who is, or was at any time in the 6 months before the transaction, a substantial (10%+) holder in the entity;
- 10.1.4 an associate of a person referred to in ASX Listing Rules 10.1.1 to 10.1.3; or
- 10.1.5 a person whose relationship with the entity or a person referred to in ASX Listing Rules 10.1.1 to 10.1.4 is such that, in ASX's opinion, the issue or agreement should be approved by shareholders,

unless it obtains the approval of its shareholders.

Each of YLIL, YIT and HII are considered to be related parties of the Company by virtue of the fact that they are each controlled by a related party of the Company.

Under ASX Listing Rule 10.2, an asset is "substantial" if its value, or the value of the consideration being paid or received by the entity for it is (or in ASX's opinion is) 5% or more of the equity interests of the entity as set out in the latest accounts given to ASX.

As the value of the consideration to be received by the Company under the Framework Agreements, over their term, is expected to exceed 5% of the equity interests of the Company, the Company considers that entry into the Proposed Coal Sales Agreements will involve the disposal of a substantial asset, being inventory (specifically coal) for the purposes of ASX Listing Rule 10.1.

ADDITIONAL INFORMATION REQUIRED UNDER ASX LISTING RULES

(iii) Information required by ASX Listing Rule 10.5

For the purposes of ASX Listing Rule 10.5, the information below is provided in relation to the Resolution:

The name of the person from whom the entity is acquiring the substantial asset or to whom the entity is disposing of the substantial asset	The Company is disposing of substantial assets to YIT, YLIL and HII.
Which category in ASX Listing Rules 10.1.1 – 10.1.5 the person falls into and why	<p>YLIL, YIT and HII fall within ASX Listing Rules 10.1.1 as they are related parties of the Company by virtue of the fact that they are each controlled by a related party of the Company.</p> <p>YLIL is controlled by Yankuang Energy, which is a controlling shareholder of the Company.</p> <p>YIT and HII are controlled by Shandong Energy, a controlling shareholder of Yankuang Energy.</p>
Details of the asset being acquired or disposed of	The asset being disposed of by the Company is inventory, specifically coal, that will be supplied by the Company to YIT, YLIL and HII under each of the Proposed Coal Sales Agreements.
The consideration for the acquisition or disposal	Please refer to section 2 above for a summary of the consideration under each Proposed Coal Sales Agreement.
In the case of a disposal, the intended use of funds (if any) received for the disposal	As the Company's primary business is the production of thermal and metallurgical coal, the Company views the assets as being inventory and intends to use the funds in its ordinary and usual course of business.

ADDITIONAL INFORMATION REQUIRED UNDER ASX LISTING RULES

The timetable for completing the acquisition or disposal	If the Resolution is passed, the Proposed Coal Sales Agreements will be entered into for a period of 3 years commencing on 1 November 2023. Accordingly, the disposals will complete by approximately 31 October 2026.
If the acquisition or disposal is occurring under an agreement, a summary of any other material terms of the agreement	Please refer to section 2 above for a summary of the material terms of the Proposed Coal Sales Agreements.
Voting exclusion statement	Please refer to the Notice of Meeting for the details of the voting exclusions.
A report on the transaction from an independent expert	Please refer to the Independent Expert's Report on pages 46 to 78 of this circular.

LETTER FROM OPUS CAPITAL

The following is the full text of the letter of advice from Opus Capital to the Independent Board Committee and the Independent Shareholders in relation to the 2023 Yankuang Energy Framework Agreement For Coal Sales and 2023 YIT Framework Agreement For Coal Sales (including the transactions contemplated thereunder and the relevant annual caps) which has been prepared for the purpose of inclusion in this circular.



18th Floor, Fung House
19-20 Connaught Road Central
Central, Hong Kong

14 September 2023

*To: the Independent Board Committee and the Independent Shareholders of
Yancoal Australia Ltd*

Dear Sir or Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE COAL SALES TRANSACTIONS

INTRODUCTION

We refer to our appointment by the Company to advise the Independent Board Committee and the Independent Shareholders in connection with the 2023 Yankuang Energy Framework Agreement For Coal Sales, 2023 YIT Framework Agreement For Coal Sales (together with the 2023 Yankuang Energy Framework Agreement For Coal Sales, the “**Framework Agreements**”) and the annual caps. Details of the 2023 Yankuang Energy Framework Agreement For Coal Sales, 2023 YIT Framework Agreement For Coal Sales and the annual caps are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 14 September 2023 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

The Coal Sales Transactions

Reference is made to the announcement of the Company dated 14 September 2023 and the Circular relating to, among other things, the 2023 Yankuang Energy Framework Agreement For Coal Sales, 2023 YIT Framework Agreement For Coal Sales and the annual caps. On 14 September 2023, the Company entered into (1): the 2023 Yankuang Energy Framework Agreement For Coal Sales with Yankuang Energy, pursuant to which the Yancoal Group agreed to continue to sell coal to Yankuang Energy and/or their subsidiaries (excluding the Yancoal

LETTER FROM OPUS CAPITAL

Group); and (2) the 2023 YIT Framework Agreement For Coal Sales with YIT, pursuant to which the Yancoal Group agreed to continue to sell coal to YIT and/or its associates (excluding the Yankuang Energy Group), in each case for the period from 1 November 2023 to 31 October 2026.

These Framework Agreements renew the Current Framework Agreements (as defined below) for coal sales entered into by the Company on 19 November 2020, being: (1) the framework agreement with Yankuang Energy for the sale of coal to Yankuang Energy and/or its subsidiaries (excluding the Yancoal Group) for a three-year period commencing 1 January 2021 and ending 31 December 2023 (the “**2021 YK Framework Agreement**”); and (2) the framework agreement with YIT for the sale of coal to YIT and/or its associates (excluding the Yankuang Energy Group) for a three-year period commencing 1 January 2021 and ending 31 December 2023 (the “**2021 YIT Framework Agreement**”,) together with the 2021 YK Framework Agreement, the “**Current Framework Agreements**”).

As a result of China re-commencing imports of Australian coal from February 2023, the Company has increased coal sales to YIT in 2023. In view of the increased coal sales coupled with the relatively high market price of coal in 2023, the Company expects to exceed the annual cap for coal sale transactions with YIT under the 2021 YIT Framework Agreement before the end of October 2023. Accordingly, the Company has entered into the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement for Coal Sales, which will each be effective from 1 November 2023 to 31 October 2026, and the Current Framework Agreements will terminate with effect from 1 November 2023.

As at the Latest Practicable Date, Yankuang Energy is a controlling shareholder of the Company, holding approximately 62.26% of the total issued shares of the Company. Accordingly, Yankuang Energy is a connected person of the Company and the transactions contemplated under the 2023 Yankuang Energy Framework Agreement For Coal Sales constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

As at the Latest Practicable Date, YIT is a wholly-owned subsidiary of Shandong Energy, the controlling shareholder of Yankuang Energy. Accordingly, YIT is a connected person of the Company by virtue of being an associate of Yankuang Energy and the transactions contemplated under the 2023 YIT Framework Agreement For Coal Sales constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

As the Coal Sales Transactions will be entered into by the Company with parties who are connected with one another, the Coal Sales Transactions are required to be aggregated pursuant to Rule 14A.81 of the Hong Kong Listing Rules. As the highest applicable percentage ratio in respect of the aggregate annual caps for the continuing connected transactions contemplated under the Coal Sales Transactions is more than 5%, such continuing connected transactions will be subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

LETTER FROM OPUS CAPITAL

Mr. Baocai Zhang, Mr. Gang Ru, Mr. Yaomeng Xiao, Mr. Xiaolong Huang declared that they hold certain positions in Yankuang Energy or Shandong Energy. However, the articles of association of the Company does not preclude such Directors from voting. In addition, although the Board has established the Independent Board Committee to perform the duties as set out under “9. Independent Board Committee” in the Letter from the Board, which the Independent Board Committee has done, and the Independent Board Committee has also unanimously approved those documents and has unanimously recommended the Independent Shareholders to vote in favour of the Resolutions, as is reflected in the Letter from the Independent Board Committee, considering that none of the above Directors (i) receives substantial remuneration or some other benefit from the Coal Sales Transactions, or (ii) is a director of two companies which transact with each other under the Coal Sales Transactions and receives director’s fees from both companies and the remuneration is performance-related in a way which is relevant to the transactions, or (iii) considers that adopting a particular stance on the matter would jeopardise his/her future remuneration or career prospects with his/her employer, the Board is of the view that none of the above Directors has a material interests in the Coal Sales Transactions, and none of them should abstain from voting on the relevant resolutions of the Board. Accordingly, none of the Directors abstained from voting on the relevant resolutions of the Board approving the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales (including the relevant annual caps thereunder) and the Proposed Coal Sales Agreements.

Yankuang Energy, which are interested in an aggregate of approximately 62.26% of the total issued Shares of the Company as at the Latest Practicable Date, will abstain from voting on the resolutions regarding the 2023 Yankuang Energy Framework Agreement For Coal Sales, the 2023 YIT Framework Agreement For Coal Sales at the EGM and the Proposed Coal Sales Agreements.

Save for the above, as far as the Directors are aware having made all reasonable enquiries, no other Shareholders are required to abstain from voting on the resolutions to be proposed regarding the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales at the EGM.

Proposed Coal Sales Agreements and Independent Expert’s Report

Pursuant to the 2023 Yankuang Energy Framework Agreement for Coal Sales and the 2023 YIT Framework Agreement for Coal Sales, the Company proposes to enter into the Proposed Coal Sales Agreements with three trading companies associated with Yankuang Energy and its controlling shareholder Shandong Energy, being YIT, YLIL and HII, respectively, among which (i) the coal sales transactions with YLIL for the proposed volume of 2 million tonnes per annum will be made pursuant to the 2023 Yankuang Energy Framework Agreement for Coal Sales and (ii) the coal sales transactions with YIT and HII for the proposed volume of 2 million tonnes per annum each (i.e. a total of 4 million tonnes per annum) will be made pursuant to the 2023 YIT Framework Agreement for Coal Sales.

LETTER FROM OPUS CAPITAL

The Proposed Coal Sales Agreements will be subject to the Independent Shareholders' approval at the EGM pursuant to the requirements of the ASX Listing Rules. Details of the Proposed Coal Sales Agreements as required under ASX Listing Rules are set out in the Circular.

The ASX Listing Rules require that the Notice of Meeting includes an independent expert's report that sets out whether the Proposed Coal Sales Agreements are fair and reasonable to the Shareholders whose votes in favour of the Proposed Coal Sale Agreements are not to be disregarded (Independent Shareholders). The Company has appointed Lonergan Edwards & Associates Limited to prepare the independent expert's report (the Independent Expert Report) providing an opinion as to whether the Proposed Coal Sale Agreements are fair and reasonable to the Independent Shareholders, which will be set out in the Circular.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Gregory James Fletcher, Dr. Geoffrey William Raby and Ms. Helen Jane Gillies, has been established by the Company for the purpose of advising the Independent Shareholders on: (i) whether the terms of the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales (including the relevant annual caps thereunder) are fair and reasonable, the Coal Sales Transactions are in the ordinary and usual course of business of the Company, on normal commercial terms and in the interests of the Company and the Shareholders as a whole; and (ii) how the Independent Shareholders should vote on the Resolutions at the EGM. We have been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in the same regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with or interest in the Yancoal Group, Yankuang Energy, Shandong Energy, YIT, YLIL, HII or any other parties that could reasonably be regarded as relevant to our independence. During the two years immediately prior to this letter, save for the the current appointment, we have not acted as a financial adviser or an independent financial adviser to the Company. Apart from the normal independent financial advisory fees in connection with the current appointment, no arrangements exist whereby we had received or will receive any fees or benefits from the Yancoal Group, Yankuang Energy, Shandong Energy, YIT, YLIL, HII or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

LETTER FROM OPUS CAPITAL

BASIS OF OUR OPINION

In formulating our advice and recommendation to the Independent Board Committee and the Independent Shareholders, we have reviewed, amongst other things:

1. the 2023 Yankuang Energy Framework Agreement For Coal Sales;
2. the 2023 YIT Framework Agreement For Coal Sales;
3. the Company's annual reports for the three years ended 31 December ("FY") 2020 (the "**2020 Annual Report**"), 2021 (the "**2021 Annual Report**") and FY2022 (the "**2022 Annual Report**");
4. the Current Framework Agreements;
5. the Proposed Coal Sales Agreements; and
6. other information as set out in the Circular.

We have relied on the truth, accuracy and completeness of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations made to us by the Company, the Directors and the management of the Yancoal Group (collectively, the "**Management**"). We have assumed that all information and representations contained or referred to in the Circular and provided to us by the Management, for which they are solely and wholly responsible, are true, accurate and complete in all respects and not misleading or deceptive at the time when they were provided or made and will continue to be so up to the Latest Practicable Date. Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date and up to and including the date of the EGM.

We have also assumed that all statements of belief, opinion, expectation and intention made by the Management in the Circular were reasonably made after due enquiries and careful consideration and there are no other facts not contained in the Circular, the omission of which make any such statement contained in the Circular misleading. We have no reason to suspect that any relevant information has been withheld, or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Management, which have been provided to us.

We considered that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. However, we have not carried out any independent verification of the information provided by the Management, nor have we conducted any independent investigation into the business, financial conditions and affairs of the Yancoal Group or its future prospects. We also have not considered the taxation implications on the Yancoal Group as a result of the 2023 Yankuang Energy Framework Agreement For Coal Sales, the 2023 YIT Framework Agreement For Coal Sales and the transactions contemplated thereunder.

The Directors jointly and severally accept full responsibility for the accuracy of the information disclosed and confirm, having made all reasonable enquiries that to the best of their knowledge and belief, there are no other facts not contained in this letter, the omission of which would make any statement herein misleading.

LETTER FROM OPUS CAPITAL

This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection for their consideration of the terms of 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales (including the transactions contemplated thereunder and the relevant annual caps), and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the terms of 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales (including the transactions contemplated thereunder and the relevant annual caps), we have taken into consideration the following principal factors and reasons:

1. Information of the parties

The Company

The Company's principal business activity is the production of thermal and metallurgical coal for use in the power generation and steel industries in Asian markets. The shares of the Company have been listed on the Australian Securities Exchange and the Hong Kong Stock Exchange since 2012 and 2018, respectively.

Yankuang Energy

Yankuang Energy is principally engaged in the business of mining, preparation, processing and sales of coal and coal chemicals. Yankuang Energy's main products are steam coal for use in large-scale power plants, coking coal for metallurgical production and prime quality low sulphur coal for use in pulverized coal injection. The H Shares and A Shares of Yankuang Energy are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange, respectively. As at the Latest Practicable Date, Shandong Energy is the controlling shareholder of Yankuang Energy.

YIT

YIT was established in 2011 and is principally engaged in the business of sales of coal and coal chemicals in the PRC. As at the Latest Practicable Date, YIT is a wholly owned subsidiary of Shandong Energy, the controlling shareholder of Yankuang Energy.

Shandong Energy

Shandong Energy is a controlling shareholder of Yankuang Energy, holding approximately 54.67% of the shares in Yankuang Energy as of the Latest Practicable Date. Shandong Energy is one of the largest coal mining and energy companies in China. Shandong

LETTER FROM OPUS CAPITAL

Energy (former Yankuang Group Co., LTD., renamed as Shandong Energy Group Co., Ltd. in April 2021), is a company with limited liability reformed and established under the laws of the PRC in 1996. Shandong Energy is a large state-owned energy enterprise in Shandong Province, China.

Shandong Energy is primarily engaged in mining, high-end chemicals, electric power, new energy and new materials, high-end equipment manufacturing, and modern logistics and trade. Shandong Energy owns more than 20 second-level subsidiaries, including Yankuang Energy, Xinwen Mining Group and Zaozhuang Mining Group and 10 public companies listed in China and abroad, with a 220,000-strong workforce. Shandong Energy was rated as the 69th on 2022 Global Fortune 500 List, the 23rd on China Top 500 Companies List and the 5th among China Top 500 Energy Companies.

Shandong Energy's annual production capacity of coal in China and abroad totals 340 million tonnes, and its coal output ranks the third in China's coal industry.

HII

HII was established in September 2018 and is 44.8% owned by Shandong Energy, 43% owned by Hainan Taizhong Group, 10.2% owned Yankuang Energy Group Co., Ltd and 2% owned by China Huaneng Group Fuel Co., Ltd. To the best of the Company's knowledge, information and belief, and having made all reasonable enquiries, Hainan Taizhong Group and China Huaneng Group Fuel Co., Ltd are third parties independent of the Company.

HII's main business models include bulk commodity trading, intelligent trading finance services (i.e., ability to accept RMB) and warehouse logistics. HII has an extensive sales channel in the Southern part of China (i.e., Hainan and surrounding provinces) and provides various services that could not be provided by Yancoal in China.

YLIL

YLIL engages in domestic and international trading and logistics of bulk commodities including iron ore, coal, steel and steel scrap. YLIL has a registered capital of RMB200 million with 51% of its share capital owned by Yankuang Energy and 49% owned by Century Lucky Group Corporation. To the best of the Company's knowledge, information and belief, and having made all reasonable enquiries, Century Lucky Group Corporation is a third party independent of the Company.

In 2022, YLIL traded a total of 12.25 million tonnes of iron ore, 2.38 million tonnes of coal and 4.2 million tonnes of steel (including steel scrap). YLIL has extensive relationships with power plants, general industry customers and steel plants in China.

LETTER FROM OPUS CAPITAL

2. Reasons for and benefits of renewal of the continuing connected transactions

As discussed in the Letter from the Board, the Company's principal business activity is the production of thermal and metallurgical coal. Yankuang Energy, a controlling shareholder of the Company, is engaged in the business of mining, preparation, processing and sales of coal and coal chemicals. YIT is engaged in the business of sales of coal and coal chemicals. Each of Yankuang Energy and YIT has been a consistent and reliable customer of the Company in the PRC.

The Company believes that through supplying coal to Yankuang Energy (including its subsidiaries but excluding the Yancoal Group) and YIT (including its associates but excluding the Yankuang Energy Group) in the Company's ordinary and usual course of business, the Company could benefit of (i) the lift of the trade restriction of importing coal from Australia to China, (ii) there is a stable offtake of coal from Yankuang Energy and YIT, (iii) the Yancoal Group has the production ability to supply 6 million tons per year to Yankuang Energy and YIT, and (iv) the entering into of the Coal Sales Transactions with Yankuang Energy and YIT enables the Yancoal Group have a stable source of coal offtake for FY2024, FY2025 and the 10 months ending 31 October 2026.

As noted from the news published by The Guardian, a British news publisher, dated 14 December 2020, The National Development and Reform Commission met major power companies and granted approval for them to import coal without clearance restrictions except for Australia (the "**Trade Restriction**"). After two years of the Trade Restriction, as noted from the news published by Australian Broadcasting Corporation dated 5 January 2023, China's state planner has reportedly allowed three central government-backed utilities and its top steelmaker to resume coal imports from Australia. As noted from the news published by Reuters dated 20 July 2023, the import of coal from Australia to China eased in June 2023 from the 33-month-high in May 2023 but remained supported by attractive prices and strong demand from utilities for high-quality thermal coal from Australia during a scorching summer. China's power plants favour Australian coal for its high-energy content which allows the power plants to produce more electricity in comparison with lower quality coal. Moreover, the persistent heat waves across China since June 2023 have driven up power demand for cooling, which in turn pushed the maximum daily power load for several regions to record highs. The entering into of the Framework Agreements provides the Yancoal Group to capture market share after the resumption of import of coal from Australia to China.

As noted from the prospectus of the Company dated 26 November 2018, the Yancoal Group has been selling coal to Yankuang Energy Group (formerly known as Yanzhou Coal Mining Company Limited as noted from the announcement of Yankuang Energy dated 31 December 2021) and YIT (which ceased to be a subsidiary of Yankuang Energy and became a wholly-owned subsidiary of Shandong Energy (formerly known as Yankuang Group Company Limited as noted in the announcement of Yankuang Energy dated 1 April 2021) as stated in the 2020 Annual Report) prior to the Yancoal Group's listing in Hong Kong. The Framework Agreements and the continuation of which are regarded as crucial to the carrying out of the businesses of the Yancoal Group, the Yankuang Energy Group and YIT in terms of facilitating business growth and development.

LETTER FROM OPUS CAPITAL

We have been provided an internal assessment prepared by the Company in relation to the entering into of the Framework Agreements (the “**Internal Assessment**”). As from our review of the Internal Assessment and our discussion with the Management, we understand that the annual quantity of coal to be supplied to Yankuang Energy Group and YIT under the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales respectively accounts for: (i) less than one-fifth of the Yancoal Group’s total production of coal; and (ii) less than one-third of the Yancoal Group’s total production of coal for the same quality. As the Yancoal Group has sufficient production capacity to supply the quantity of coal to Yankuang Energy Group and YIT, the entering into of the Framework Agreements provides the Yancoal Group with a stable source of revenue.

In view of the above, we consider that the entering into of the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales is in the interests of the Company and the Shareholders as a whole.

3. Principal terms of the Framework Agreements

2023 Yankuang Energy Framework Agreement For Coal Sales

The material terms of the 2023 Yankuang Energy Framework Agreement For Coal Sales are summarised as below.

(i) *Subject Matter*

The 2023 Yankuang Energy Framework Agreement For Coal Sales sets out the framework for how the Coal Sales Transactions between the parties will be conducted and provides that all transactions in relation to the sale of coal by the Yancoal Group to Yankuang Energy and/or its subsidiaries (excluding the Yancoal Group) must be (i) in the ordinary and usual course of business of the Yancoal Group, (ii) on an arm’s length basis, (iii) on normal commercial terms or better, and (iv) in compliance with, among other things, the Hong Kong Listing Rules and applicable laws. The terms of the actual Coal Sales Transactions will be set out in separate agreements to be entered into by the parties.

The 2023 Yankuang Energy Framework Agreement For Coal Sales will become effective after and subject to the Company obtaining the approval of the independent Shareholders for the transactions contemplated under the agreement (including the annual caps in respect of such transactions) and the receipt of all regulatory and corporate approvals required by Yankuang Energy for entering into the agreement.

(ii) *Term and Termination*

The 2023 Yankuang Energy Framework Agreement For Coal Sales shall commence on 1 November 2023 and shall continue up to and including 31 October 2026 (the “**Yankuang Energy Initial Term**”), unless terminated earlier according to the agreement. Subject to compliance with the applicable requirements of the Hong Kong Listing Rules and the ASX Listing Rules or, alternatively, any waivers obtained from strict compliance with such requirements, upon expiration of the Yankuang Energy Initial Term or subsequent renewal term, the 2023 Yankuang Energy Framework Agreement For Coal Sales is automatically renewed for a successive period of three years thereafter (or such other period permitted under the Hong Kong Listing Rules and the ASX Listing Rules).

LETTER FROM OPUS CAPITAL

Any renewal of the 2023 Yankuang Energy Framework Agreement For Coal Sales is subject to compliance with the then relevant requirements of the laws, rules and regulations to which either of the Company and Yankuang Energy is subject to.

(iii) Basis of Consideration

Considering the nature of coal, the sale price will be determined with reference (i) to industry index prices, being McCloskey API 5 Index (“**API5**”), which is an internationally recognised, US dollar currency index representing sales and offers from Newcastle for 5,500 kcal/kg NAR coal on a Free On Board basis and which is well-recognised as the basis for pricing coal for sales into China, (ii) coal quality characteristics, and (iii) market alternatives to optimise value to the Company. The Management will consider at least two comparable deals with independent third parties for the same period when determining the reasonable consideration of any coal sales transaction under the 2023 Yankuang Energy Framework Agreement For Coal Sales.

(iv) Historical Amounts

The aggregate annual transaction amounts received by the Yancoal Group from Yankuang Energy and/or its subsidiaries (excluding the Yancoal Group) for the sale of coal for FY2020, FY2021, FY2022 and the six months ended 30 June 2023 (“**2023 1H**”, together with FY2020, FY2021 and FY2022 are referred as the “**Historical Period**”) were approximately US\$53.2 million, nil, nil and nil, respectively.

There were no coal sale transactions since 1 January 2021 due to (a) restrictions placed on China’s imports of coal sourced from Australia from late 2020 to early 2023 and (b) the majority of coal sales in the past few years having been predominately made between the Company and YIT and/or its associates pursuant to the 2021 YIT Framework Agreement following the restructuring of Yankuang Energy Group and Shandong Energy Group on 27 March 2020, whereby ownership of YIT was transferred from Yankuang Energy Group to Shandong Energy Group. Following such restructuring, Yankuang Energy and Shandong Energy commercially decided to purchase coal from the Company through YIT pursuant to the 2021 YIT Framework Agreement. As a result, there were no coal sale transactions between the Company and Yankuang Energy Group from 1 January 2021 to 30 June 2023.

LETTER FROM OPUS CAPITAL

2023 YIT Framework Agreement For Coal Sales

The material terms of the 2023 YIT Framework Agreement For Coal Sales are summarised as below.

(i) Subject Matter

The 2023 YIT Framework Agreement For Coal Sales sets out the framework for how the Coal Sales Transactions between the parties will be conducted and provides that all transactions in relation to the sale of coal by the Yancoal Group to YIT and/or its associates (excluding the Yankuang Energy Group) must be (i) in the ordinary and usual course of business of the Yancoal Group, (ii) on an arm's length basis, (iii) on normal commercial terms or better, and (iv) in compliance with, among other things, the Hong Kong listing Rules and applicable laws. The terms of the actual Coal Sales Transactions will be set out in separate agreements to be entered into by the parties.

The 2023 YIT Framework Agreement For Coal Sales will become effective after and subject to the Company obtaining the approval of the independent Shareholders for the transactions contemplated under the agreement (including the annual caps in respect of such transactions) and receipt of all regulatory and corporate approvals required by Yankuang Energy for entering into the agreement.

(ii) Term and Termination

The 2023 YIT Framework Agreement For Coal Sales shall commence on 1 November 2023 and shall continue up to and including 31 October 2026 (the “**YIT Initial Term**”), unless terminated earlier according to the agreement. Subject to compliance with the applicable requirements of the Hong Kong Listing Rules and the ASX Listing Rules or, alternatively, any waivers obtained from strict compliance with such requirements, upon expiration of the YIT Initial Term or subsequent renewal term, the 2023 YIT Framework Agreement For Coal Sales is automatically renewed for a successive period of three years thereafter (or such other period permitted under the Hong Kong Listing Rules and the ASX Listing Rules).

Any renewal of the 2023 YIT Framework Agreement For Coal Sales is subject to compliance with the then relevant requirements of the laws, rules and regulations to which either of the Company and Yankuang Energy is subject to.

LETTER FROM OPUS CAPITAL

(iii) Basis of Consideration

Considering the nature of coal, the sale price will be determined with reference to (i) industry index prices, being API5 (details of which are set out above), (ii) coal quality characteristics, and (iii) market alternatives to optimise value to the Company. The Management will consider at least two comparable deals with independent third parties for the same period when determining the reasonable consideration of any coal sales transaction under the 2023 YIT Framework Agreement For Coal Sales.

(iv) Historical Amounts

The aggregate annual transaction amounts received by the Yancoal Group from YIT and/or its associates (excluding the Yankuang Energy Group) for the sale of coal for the Historical Period were approximately US\$13.7 million, US\$49.3 million, US\$123.0 million and US\$139.1 million, respectively.

Notwithstanding China's ban on imports of coal sourced from Australia (which imports subsequently resumed in February 2023), there was a significant increase in coal sales transactions between the Yancoal Group and YIT and/or its associates in the past few years because YIT was able to purchase coal from the Company for sale to buyers in South East Asia. Whilst the volume of coal sold to YIT has remained relatively stable (noting that coal quality sold to YIT varied shipment to shipment and period to period), the aggregate dollar amount of the coal sales transactions to YIT has increased significantly in the past three years; as a result of significant increases in the market price of coal. For the following 12 month periods: (a) 4 September 2020 to 27 August 2021 (the API5 Price Index reports are published weekly every Friday, accordingly, this period has been set using the first Friday of September 2020 and the last Friday of August 2021); (b) 3 September 2021 to 26 August 2022 (the API5 Price Index reports are published weekly every Friday, accordingly, this period has been set using the first Friday of September 2021 and the last Friday of August 2022); and (c) 2 September 2022 to 25 August 2023 (the API5 Price Index reports are published weekly every Friday, accordingly, this period has been set using the first Friday of September 2022 and the last Friday of August 2023), the average market price of coal based on the AP15 Price Index was US\$59.03, US\$162.52 and US\$123.63 per tonne, respectively.

LETTER FROM OPUS CAPITAL

4. Annual caps

(I) Yankuang Energy Annual Caps

The aggregate annual caps for 2023 Yankuang Energy Framework Agreement for Coal Sales (the “**Yankuang Energy Annual Caps**”) for the two months ending 31 December 2023 (“**2023 2M**”), FY2024 and FY2025 and the ten months ending 31 October 2026 (“**2026 10M**”, together with 2023 2M, FY2024 and FY2025 are referred as the “**Relevant Period**”) are as follow:

	2023 2M (US\$)	FY2024 (US\$)	FY2025 (US\$)	2026 10M (US\$)
Yankuang Energy Annual Caps	66.7 million	300.0 million	300.0 million	233.3 million

Basis of determination of the Yankuang Energy Annual Caps

As stated in the Letter from the Board, The Yankuang Energy Annual Caps set out above were determined primarily with reference to the following: (i) taking into consideration the business requirements of Yankuang Energy the current and last three year review of market pricing for the quality of coal to be supplied, the Company expects to maintain such sales volume in future years pursuant to the 2023 Yankuang Energy Framework Agreement for Coal Sales, (ii) whilst there were no sales transactions between Yancoal Group and Yankuang Group since January 2021, YLIL has committed to purchasing 2 million tonnes of coal per annum over a three year period (see “Additional Information Required under ASX Listing Rules” in the Circular for further details of the Proposed Coal Sales Agreement with YLIL), (iii) the expected additional spot demand for coal from Yankuang Energy and/or its subsidiaries (excluding the Yancoal Group) over the next three years and (iv) the estimated sale price for the coal the Company typically charges.

(II) YIT Annual Caps

The aggregate annual caps for 2023 YIT Framework Agreement for Coal Sales (the “**YIT Annual Caps**”) for the Relevant Period are as follow:

	2023 2M (US\$)	FY2024 (US\$)	FY2025 (US\$)	2026 10M (US\$)
YIT Annual Caps	133.4 million	600.0 million	600.0 million	466.6 million

LETTER FROM OPUS CAPITAL

Basis of determination of YIT Annual Caps

As stated in the Letter from the Board, the YIT Annual Caps set out above were determined primarily with reference to (i) taking into consideration the business requirements of YIT and the current and last three year review of market pricing for the quality of coal to be supplied, the Company expects to maintain such sales volume in future years pursuant to the 2023 YIT Framework Agreement for Coal Sales, (ii) the expected additional spot demand for coal from YIT and/or its associates (excluding the Yankuang Energy Group) over the next three years and (iii) the estimated sale price for the coal the Company typically charges.

5. Our analysis

5.1 Annual caps

In assessing the fairness and reasonableness of the Yankuang Energy Annual Caps and the YIT Annual Caps, we have reviewed the Internal Assessment and discussed with the Management with respect to the information provided in respect of the basis of determining the Yankuang Energy Annual Caps and the YIT Annual Caps.

As noted in the Internal Assessment and understand from the discussion with the Management, the determination of the Yankuang Energy Annual Caps of US\$300 million for a 12 months period and the YIT Annual Caps of US\$600 million for a 12 months period is based on the annual offtake quantity of coal, in terms of million tonnes, proposed by Yankuang Energy (the “**Yankuang Energy Offtake**”) and YIT (the “**YIT Offtake**”) respectively and a reference coal price in terms of per metric tonne (the “**Reference Price**”).

For the annual offtake quantity of coal, we noted that the Yankuang Energy Offtake and the YIT Offtake remain unchanged throughout the Relevant Period. We also noted that the Yankuang Energy Offtake is half of the YIT Offtake. After our enquiry and review of the Internal Assessment, we understand that there are two trading companies associated with Shandong Energy, namely, YIT and HII under the YIT Offtake while there is only one trading company associated with Yankuang Energy, being YLIL, under the Yankuang Energy Offtake. We then noted that the YIT Offtake is evenly distributed among YIT and HII. In addition, we noted that the annual offtake quantity of coal is the same among YIT, HII and YLIL. The proposed sales of coal to the three trading companies is consistent with the information as stated in the Letter from the Board. We understand that the annual offtake quantity of coal is proposed by each of YIT, HII and YLIL based on their internal assessment of the business need.

After considering: (i) the annual offtake quantities of coal proposed by YIT, HII and YLIL are based on the assessment of their business need; (ii) the Yankuang Energy Offtake and the YIT Offtake together account for less than one-fifth and less than one-third of the Yancoal Group’s total production of coal and the Yancoal Group’s total production of coal for the same quality respectively as discussed above; (iii) the increase in the need for high-quality thermal coal from Australia in China after the lift of the Trade Restriction and especially during a

LETTER FROM OPUS CAPITAL

scorching summer as discussed above; and (iv) the Yankuang Energy Offtake and the YIT Offtake remain stable throughout the Relevant Period is considered rather conservative, we consider that the determination of the Yankuang Energy Offtake and the YIT Offtake is fair and reasonable.

For the Reference Price, we noted that it remains unchanged throughout the Relevant Period. It is determined by making reference to API5. As stated in the Letter from the Board, the entering into of the Framework Agreements is to renew the Current Framework Agreements for coal sales entered into by the Company with Yankuang Energy and YIT on 19 November 2020. We understand that API5 has been the reference coal price index adopted in the Current Framework Agreements. We noted from the website of Argus Media that API5 was launched in May 2012 and this price assessment is the key price reference used for coal supply agreements in the Australian and Chinese markets for the coal with the same quality as those to be supplied under the Framework Agreements. We also noted from the website of China Coal Economic Research Association that API5 is an effective price index to reflect the coal price in Australia. As API5 is an established price index which has been launched for more than a decade and it has been the reference coal price index adopted in the Current Framework Agreements, we consider that API5 remains as the reference for the Reference Price is reasonable.

When we review the historical trend of API5, we noted that the Reference Price represents the average (after rounding up to the closet dollar) of: (i) the average of API5 in the previous 12 months (from July 2022 to June 2023, both months inclusive); and (ii) the average of API5 in the previous 18 months (from January 2022 to June 2023, both months inclusive). After considering the above, we consider that the Reference Price is fair and reasonable.

After determining the Yankuang Energy Annual Caps of US\$300 million for a 12 months period and the YIT Annual Caps of US\$600 million for a 12 months period, each of the said amounts are then apportioned into two months and 10 months for 2023 2M and 2026 10M respectively with an adjustment of allocating more for 2023 2M due to the impact of lifting the Trade Restriction.

In view of the above, in particular, (i) the Yancoal Group has been supplying coal to Yankuang Energy Group and YIT; (ii) the estimation of the Yankuang Energy Offtake and the YIT Offtake are based on the business need and remains stable throughout the Relevant Period; (iii) the Yancoal Group has sufficient production capacity for the Yankuang Energy Offtake and the YIT Offtake; (iv) the Reference Price is based on an established price index adopted in the Current Framework Agreements; and (v) the Reference Price remains unchanged throughout the Relevant Period and is the average of the averages of API5 in the previous 12 months and 18 months, we consider that the Yankaung Energy Annual Caps and the YIT Annual Caps are fair and reasonable.

LETTER FROM OPUS CAPITAL

5.2 Pricing basis

As stated in the Letter from the Board, the basis of consideration is based on various factors such as the nature of coal and the sale price will be determined with reference to (i) industry index prices, being API5, (ii) coal quality characteristics, and (iii) market alternatives to optimise value to the Company. As further stated in the Letter from the Board, the Management will consider at least two comparable deals with independent third parties for the same period when determining the reasonable consideration of any Coal Sales Transaction under each of the Framework Agreements.

From the review of the Internal Assessment and the discussion with the Management, we noted that API5 price index will be adopted as the pricing basis which is consistent with the pricing basis adopted for determining the Yankuang Energy Annual Caps and the YIT Annual Caps as discussed above. An adjustment will then be applied to API5 based on the coal quality characteristics (the “**Price Adjustment**”).

As stated in the Letter from the Board, there was no transaction amount received by the Yancoal Group from Yankuang Energy and/or its subsidiaries (excluding the Yancoal Group) during the Historical Period due to the Trade Restriction and the majority of coal sales having been predominately made pursuant to the 2021 YIT Framework Agreement. We then randomly obtained four internal approval records (the “**Internal Records**”) before entering into the transactions of sales by the Yancoal Group to YIT in FY2021 and FY2022.

From the review of the Internal Records, it is noted that there were comparisons between the prices proposed by YIT against: (i) the bidding prices received from the independent third parties or the prices adopted in the recent transactions entered into between the Yancoal Group and independent third parties (the “**Independent Party Prices**”) and (ii) the recent market prices. We further noted from the Internal Records that references were made to API5 in both the Independent Party Prices and the prices proposed by YIT. We further noted that the same adjustment was applied to API5 in both the Independent Party Prices and the prices proposed by YIT which is consistent with the Price Adjustment.

We also make reference to the 2021 Annual Report and the 2022 Annual Report and we noted that the independent non-executive Directors and the independent auditor of the Company reviewed the compliance, which included but not limited to the pricing terms, of the continuing connected transactions (including those transactions conducted under the Current Framework Agreements for coal sales entered into by the Company with Yankuang Energy and YIT) in FY2021 and FY2022.

Based on the above, we consider the pricing terms under the Framework Agreements are fair and reasonable.

LETTER FROM OPUS CAPITAL

OPINION AND RECOMMENDATION

Having taken into account the above, we are of the view that the terms of the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales (including the relevant annual caps thereunder) are fair and reasonable and the Coal Sales Transactions are in the ordinary and usual course of business of the Yancoal Group, on normal commercial terms or better and in the interests of the Company and its shareholders as a whole.

Accordingly, we recommend the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the Resolutions to be proposed at the EGM in relation to the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales (including the relevant annual caps thereunder).

Yours faithfully,
For and on behalf of
Opus Capital Limited
Li Lan
Executive Director

Mr. Li Lan is an Executive Director of Opus Capital Limited and is licensed under the SFO as a Responsible Officer to conduct Type 6 (advising on corporate finance) regulated activities. Mr. Li has over 17 years of corporate finance experience in Hong Kong and has participated in and completed various financial advisory and independent financial advisory transactions.

REPORT FROM LONERGAN EDWARDS

The following is the full text of the letter of report from Lonergan Edwards & Associates Limited, the Independent Expert of the Company, which has been prepared pursuant to the requirements of the ASX Listing Rules.

LONERGAN EDWARDS & ASSOCIATES LIMITED



ABN 53 095 445 560
AFS Licence No 246532
Level 7, 64 Castlereagh Street
Sydney NSW 2000 Australia
GPO Box 1640, Sydney NSW 2001

Telephone: [61 2] 8235 7500
www.lonerganedwards.com.au

The Independent Directors
Yancoal Australia Ltd
Darling Park – Tower 2, Level 18
201 Sussex Street
Sydney NSW 2000

7 September 2023

**Subject: Independent Experts Report – Disposal of an asset to a related party
Granting of financial benefit to a related party**

Dear Independent Directors

Introduction

- 1 Yancoal Australia Ltd (Yancoal or the Company) is a major Australian coal producer selling into the global seaborne market. The Company produces a mix of thermal, semi-soft coking and PCI¹ coals for export. Yancoal's thermal coal range is purchased by customers for the provision of power to the Asian region. Coal is sourced from nine mines, seven of which Yancoal holds ownership interests in and two of which are managed by the Company. Yancoal is listed on both the Australian Securities Exchange (ASX) and the Stock Exchange of Hong Kong (HKEX).
- 2 The largest shareholder in Yancoal is Yankuang Energy Group Co., Ltd² (Yankuang Energy). Yankuang Energy is a China-based company engaged in coal mining, coal transportation, the chemical industry and equipment manufacture.
- 3 The Company is party to Framework Agreements dated November 2020 with entities related to Yankuang Energy for the sale of coal. These agreements are due to expire on 31 December 2023. On 14 September 2023³, the Company will enter into:
 - (a) the 2023 Yankuang Energy Framework Agreement For Coal Sales with Yankuang Energy, pursuant to which the Yancoal Group agreed to continue to sell coal to Yankuang Energy and/or their subsidiaries (excluding the Yancoal Group); and

¹ PCI (pulverised coal injection) coal is essentially high-quality thermal coal which can be sold into metallurgical or thermal coal markets alike.

² Yankuang Energy holds approximately 62.26% of Yancoal shares on issue.

³ The proposed date for signing the new Framework Agreements.

Authorised Representatives:

Hung Chu • Martin Hall • Grant Kepler* • Julie Planinic* • Jorge Resende • Nathan Toscan • Wayne Lonergan • Craig Edwards

* Members of Chartered Accountants Australia and New Zealand and holders of Certificate of Public Practice.
Liability limited by a scheme approved under Professional Standards Legislation

1



- (b) the 2023 YIT Framework Agreement For Coal Sales with Yancoal International Trading Co., Ltd (YIT), pursuant to which the Yancoal Group agreed to continue to sell coal to YIT and/or its associates (excluding the Yankuang Energy Group),
- in each case for the period from 1 November 2023 to 31 October 2026. These Framework Agreements renew the framework agreements for coal sales entered into by the Company with Yankuang Energy and YIT on 19 November 2020. Pursuant to the ASX Listing Rules, these Framework Agreements must be approved by way of an ordinary resolution (at a general meeting) by the shareholders of Yancoal that are not associated with Yankuang Energy (the Yancoal Non-Associated Shareholders⁴). These Framework Agreements do not come into effect until all required approvals are received.
- 4 Yancoal proposes to enter into three coal sales agreements, between Yancoal and subsidiaries of Yankuang Energy and Shandong Energy Group Company Limited⁵ (Shandong Energy Group) (the Proposed Coal Sale Agreements) to come into effect once all required approvals are received.

Scope

- 5 As an ASX listed company Yancoal is subject to the ASX Listing Rules, in particular the rules that apply to related party transactions. The level of sales under the Proposed Coal Sales Agreements, entered into with persons in a position of influence, are expected to be at levels that exceed the related party threshold in the ASX Listing Rules.
- 6 Accordingly, the sales under the Proposed Coal Sales Agreements are considered related party transactions under ASX Listing Rule 10.1, and must be approved by way of an ordinary resolution (at a general meeting) by the shareholders of Yancoal that are not associated with Yankuang Energy (the Yancoal Non-Associated Shareholders). The ASX Listing Rules require the notice of meeting sent to shareholders to include an independent expert's report (IER), stating whether the transaction is "fair and reasonable" to the Yancoal Shareholders.
- 7 Further, Chapter 2E of the *Corporations Act 2001* (Cth) (Corporations Act) covers related party benefits and s208 of the Corporations Act states that shareholder approval must be obtained before giving a financial benefit to a related party.
- 8 Accordingly, the Independent Directors of Yancoal that are not associated with Yankuang Energy have requested that Lonergan Edwards & Associates Limited (LEA) prepare an IER in accordance with ASX Listing Rule 10.5.10 and taking into consideration the test under Chapter 2E, stating whether, in our opinion, the Proposed Coal Sales Agreements are "fair and reasonable" to Yancoal Shareholders.
- 9 The IER will accompany the Circular to be sent by Yancoal to Yancoal Shareholders in connection with the Proposed Coal Sales Agreements. LEA is independent of Yancoal and has no involvement or other interest in the Proposed Coal Sales Agreements.

⁴ For the purposes of this report, all future references to "Yancoal Shareholders" is a reference to the "Yancoal Non-Associated Shareholders".

⁵ Shandong Energy Group holds approximately 54.67% of shares in Yankuang Energy.

Proposed Coal Sale Agreements

- 10 The Proposed Coal Sale Agreements are to be entered into with:
- (a) Shandong Energy (Hainan) Intelligent International Technology Co., Ltd (HII), owned 44.8% by Shandong Energy Group and 10.2% owned by Yankuang Energy. The proposed agreement will run for three years from receipt of the required approvals with an annual volume of up to 2.0 million tonnes (Mt) per annum (Mtpa). The coal quality is between 5,100 and 5,500 kilocalories per kilogram (kcal/kg) and the price is based on the Argus / McCloskey's All-Published Index 5 (API5 Index) coal price index plus a positive adjustment in respect of 5,500 product
 - (b) Yankuang Lucky International Company Limited (YLIL) is owned 51% by Yankuang Energy. The proposed agreement will run for three years from receipt of the required approvals with an annual volume of 2.0 Mtpa. The coal quality is 5,500 kcal/kg and the price is based on the API5 Index plus a positive adjustment
 - (c) Yancoal International Trading Co., Ltd (YIT), a 100% owned subsidiary of Shandong Energy Group. The proposed agreement will comprise a memorandum of understanding between the parties for the purchase of up to 2.0 Mtpa and will automatically renew for two consecutive one year periods after the first year. The coal quality is between 5,100 and 5,500 kcal/kg and the price will be negotiated with reference to the prevailing spot price at the time of order to ensure that the trade price is equal to or better than spot alternatives, with a pro rata CV adjustment for kcal more or less than 5,500 kcal/kg.
- 11 The majority of the coal to be sold under the Proposed Coal Sales Agreements will be sourced from the Moolarben Mine, near Mudgee in the Upper Hunter Valley in New South Wales (NSW). Smaller quantities may also be sourced from the Mount Thorley Warkworth (MTW) and Hunter Valley Operations (HVO) mines.

Summary of opinion

- 12 LEA has concluded that the Proposed Coal Sales Agreements are fair and reasonable to Yancoal Shareholders whose votes in favour of the transaction are not to be disregarded under Listing Rule 14.11. We have formed this opinion for the reasons set out below.
- 13 Pursuant to Australian Securities & Investments Commission (ASIC) Regulatory Guide 111 – *Content of expert reports* (RG 111), a proposed related party transaction:
- (a) is “fair” if the value of the financial benefit (in this case the sale proceeds) to be received by the entity from the related party is equal to or greater than the value of the asset (in this case the coal produced by Yancoal) being sold to the related party. This comparison is required to be made assuming an arm’s length transaction between knowledgeable and willing, but not anxious parties
 - (b) is “reasonable” if it is “fair”. A related party transaction may also be “reasonable” despite being “not fair” if the expert believes there are other reasons for non-associated shareholders to vote to approve the proposed arrangements.

REPORT FROM LONERGAN EDWARDS

LONERGAN EDWARDS
& ASSOCIATES LIMITED



- 14 In the circumstances of the Proposed Coal Sales Agreements between Yancoal and subsidiaries of Yankuang Energy and Shandong Energy Group pursuant to the terms of the Proposed Coal Sales Agreements we have determined that:
- (a) the prices to be received by Yancoal from the sale of coal to subsidiaries of Yankuang and Shandong Energy Group pursuant to the Proposed Coal Sales Agreements would be expected to lie within a range of relevant prices reflective of then prevailing market conditions
 - (b) nothing has come to our attention to suggest that the prices and related terms reflect other than the outcome of an arm's length commercial negotiation between the parties.
- 15 Accordingly, in our opinion, the Proposed Coal Sales Agreements are fair to Yancoal Shareholders based on the guidelines set out in RG 111.
- 16 Pursuant to RG 111, these proposed arrangements are "reasonable" if they are fair. Consequently, in our opinion, the Proposed Coal Sales Agreements are also reasonable to Yancoal Shareholders.

Advantages and disadvantages

- 17 We have also considered the following advantages and disadvantages and other factors:

Advantages

- (a) we understand that Yancoal targets 70% of sales as being under contract. The Proposed Coal Sales Agreements provide contractual certainty over the sale of 6 Mtpa of 5,100 to 5,500 kcal/kg coal produced by the Moolarben and other Yancoal Hunter Valley mines (some 31% of production) and enables the Company to manage planned production, rail and shipping schedules
- (b) now that China has lifted its ban on the importing of Australian coal, the Proposed Coal Sales Agreements enable Yancoal to increase its market share of exports into China, a valuable market for Yancoal product

Disadvantages

- (c) as the contract terms are consistent with Yancoal's standard terms and conditions, there are no apparent disadvantages

Other factors

- (d) if the Proposed Coal Sales Agreements are not approved, Yancoal would lose secured supply contracts for up to 6.0 Mtpa over the next three years. In this scenario the Company would need to seek other customers in the Chinese and/or Asian markets and would not be able to ship product in the large quantities covered by the Proposed Coal Sales Agreements
- (e) on entering into the Proposed Coal Sales Agreements, the related party purchasers agree not to on-sell the coal purchased to Yancoal's direct purchasers in China
- (f) the Independent Directors unanimously recommend that Yancoal shareholders vote in favour of the Proposed Coal Sales Agreements.

REPORT FROM LONERGAN EDWARDS

LONERGAN EDWARDS
& ASSOCIATES LIMITED



General

- 18 This report is general financial product advice only and has been prepared without taking into account the personal objectives, financial situations or needs of individual Yancoal Shareholders. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.
- 19 The ultimate decision whether to approve the Proposed Coal Sales Agreements is a matter for each Yancoal Shareholder's assessment of their own circumstances. If Yancoal Shareholders are in doubt about the actions they should take in relation to the Proposed Coal Sales Agreements or matters dealt with in this report, Yancoal Shareholders should seek independent professional advice.
- 20 For our full opinion on the Proposed Coal Sales Agreements and the reasoning behind our opinion, we recommend that Yancoal Shareholders read the remainder of our report.

Yours faithfully



Julie Planinic
Authorised Representative



Wayne Lonergan
Authorised Representative

Table of contents

Section		Page
I	Background to the Proposed Coal Sales Agreements	7
	The Proposed Coal Sales Agreements	8
II	Scope of our report	9
	Purpose	9
	Basis of assessment	10
	Limitations and reliance on information	11
III	Overview of Yancoal operations	12
	Overview of Yancoal	12
	History and overview of Yancoal operations	12
	Major coal assets in NSW	13
	Yancoal production	15
	Reserves and resources	16
	Port Waratah Coal Services	16
IV	Coal industry overview	17
	Overview	17
	Primary types of coal	17
	Australian coal industry	18
	Chinese coal industry	19
	Coal pricing	20
V	Valuation methodology	23
	Valuation approaches	23
	Selected valuation methodology	23
VI	Evaluation of the Proposed Coal Sales Agreements	24
	The Proposed Coal Sales Agreements	24
	Fairness	25
	Reasonableness	27
	Summary of advantages and disadvantages	27

Appendices

A	Financial Services Guide
B	Qualifications, declarations and consents
C	Glossary

I Background to the Proposed Coal Sales Agreements

- 21 Yancoal has made sales of coal to related parties including Yankuang Energy (formerly known as Yanzhou Coal Mining Company Limited, as indicated in the announcement of Yankuang Energy dated 31 December 2021) and YIT under Framework Agreements.
- 22 The Company has entered into Framework Agreements as follows:
- (a) on 8 October 2018 Yancoal entered into an agreement with Yankuang Energy for the period to 31 December 2020, renewable for successive three year periods
 - (b) on 19 November 2020 it was announced that Yancoal had entered into Framework Agreements with Yankuang Energy and YIT for the sale of coal to these entities and/or their subsidiaries / associates for the period 1 January 2021 to 31 December 2023 (2021 Yankuang Energy Framework Agreement For Coal Sales and 2021 YIT Framework Agreement For Coal Sales)
 - (c) on 14 September 2023, the Company proposes to enter into:
 - (i) the 2023 Yankuang Energy Framework Agreement For Coal Sales with Yankuang Energy, pursuant to which the Yancoal Group agreed to continue to sell coal to Yankuang Energy and/or its subsidiaries (excluding the Yancoal Group); and
 - (ii) the 2023 YIT Framework Agreement For Coal Sales with YIT, pursuant to which the Yancoal Group agreed to continue to sell coal to YIT and/or its associates (excluding the Yankuang Energy Group),in each case for the period from 1 November 2023 to 31 October 2026.
- 23 The terms of the 2020 Framework Agreements were based on the nature of coal supplied and the sale price was determined by reference to industry index prices and coal quality characteristics under the respective contracts. Whilst Yankuang Energy and YIT are related parties, the total sales under these Framework Agreements represented less than 5% of the net reported equity of Yancoal at the date of the last reported balance sheet and accordingly, these agreements did not require Yancoal shareholder approval under the ASX Listing Rules. However, these agreements constituted continuing connected transactions (CCT) with related parties under the Hong Kong Exchanges and Clearing Limited and HKEX Listing Rules and were subject to caps on an annual basis. The maximum annual transaction amount to be received by Yancoal from:
- (a) Yankuang Energy and/or its subsidiaries (excluding the Yancoal Group) for the three years ending 31 December 2021, 2022 and 2023 would not exceed US\$20 million, US\$20 million and US\$20 million, respectively
 - (b) YIT and/or its associates (excluding the Yankuang Energy Group) for the three years ending 31 December 2021, 2022 and 2023 would not exceed US\$87.5 million, US\$87.5 million and US\$87.5 million, respectively.

The Proposed Coal Sales Agreements

- 24 Due to the impending expiry of the current Framework Agreements and the opportunities for export of higher-ash thermal coal exported out of the port of Newcastle on Australia's eastern coast to China, Yancoal management have negotiated the terms of the Proposed Coal Sales Agreements to take effect from 1 November 2023 with the following related parties.

Shandong Energy (Hainan) Intelligent International Technology Co., Ltd. (HII)

- 25 HII, the Hainan regional headquarters of Shandong Energy Group, was established in September 2018. HII is 44.8% owned by Shandong Energy Group and 10.2% owned by Yankuang Energy Group. The company's main business operations are bulk commodity trade, intelligent trading finance services and warehouse logistics. HII has a large pool of customers in China including steel, power, cement and petrochemical operators. HII will stock and sell Australian coal at major ports in China.
- 26 HII is willing to commit to a three-year contract with Yancoal for 2 Mtpa per annum to expand its business in the coal stock and sale process which further penetrates smaller domestic thermal coal markets.

Yancoal International Trading Co., Ltd (YIT)

- 27 YIT is a wholly owned subsidiary of Shandong Energy Group and was established in Hong Kong in 2011. Yancoal's first business with YIT occurred in 2014 and the companies have been in transaction since that time. The company's main businesses are bulk commodity trading providing supply chain services such as logistics, and financial services for end users and traders. YIT mainly deals in the import, export, and domestic trade, with an annual sales volume of more than 4 Mt. YIT has acted as an intermediary, enabling smaller Chinese customers who are unfamiliar with international trading terms to purchase Australian coal.
- 28 Given YIT's operations and customer base, rather than a long term fixed volume contract, it is seeking a more flexible arrangement whereby short term purchases are made on an ongoing basis to satisfy customer requirements. Based on recent performance, YIT has indicated its commitment for 2 Mtpa for three years via a memorandum of understanding (MOU). Both Yancoal and YIT are confident that the indicated volumes will be fulfilled.

Yankuang Lucky International Company Limited (YLIL)

- 29 YLIL is owned 51% by Yankuang Energy and 49% by Century Lucky Group Corporation. The company undertakes domestic and international trading and logistics of bulk commodities including iron ore, coal, steel, steel scrap etc. The business has relationships with power plants, general industry customers and steel plants in China. In 2022, YLIL traded (inter alia) 2.38 Mt of coal.
- 30 YLIL is willing to commit to a three year contract for 2 Mtpa with Yancoal to expand its trading business in the supply of thermal coal to smaller Chinese customers.

II Scope of our report

Purpose

Corporations Act

- 31 Chapter 2E of the Corporations Act prohibits (in all but limited circumstances) a public company from “giving a financial benefit” to a “related party” without the approval of the securityholders that are not a party to the transaction. Giving a financial benefit to a related party includes buying an asset from or selling an asset to a related party.
- 32 Whilst there is no specific requirement for an IER under the Corporations Act, the notice of meeting sent to members must include all information that is reasonably required in order for the members to decide whether it is in their best interests to pass the proposed resolution.

ASX Listing Rules

- 33 ASX Listing Rule 10.1 states that an entity must ensure that it does not acquire a substantial asset from, or dispose of a substantial asset to (amongst others) a related party, or a substantial securityholder⁶, or associates of either without the approval of the holders of the entity’s ordinary securities. ASX Guidance Note 24 contains an expansive definition of an “asset”, which includes inventory produced by the company. Approval is required by resolution at a general meeting.
- 34 ASX Listing Rule 10.2 states that an asset is substantial if its value, or the value of the consideration for it, is 5% or more of the book value of the equity interests of the entity as set out in the latest accounts provided to the ASX under the ASX Listing Rules.
- 35 As a result of the total sales of coal under the Proposed Coal Sales Agreements exceeding 5% of the book value of the equity in Yancoal as set out in the financial statements given to the ASX for calendar year ending 31 December 2022 (CY22), and the parties to the Proposed Coal Sales Agreements being considered a related party of Yancoal by virtue of the fact that they are subsidiaries of Yankuang Energy (the largest shareholder in Yancoal) and Shandong Energy Group (the largest shareholder in Yankuang Energy), the Proposed Coal Sales Agreements are considered to be related party transactions under ASX Listing Rule 10.1.
- 36 ASX Listing Rule 10.5.10 requires that the notice of general meeting include a report from an independent expert stating whether the proposed transactions are fair and reasonable to the holders of the entity’s ordinary securities who are eligible to vote.

Our engagement

- 37 Given the above, the Independent Directors of Yancoal have requested that LEA prepare an IER stating whether the Proposed Coal Sales Agreements are fair and reasonable to Yancoal Shareholders and the reasons for that opinion.
- 38 This report has been prepared by LEA for the benefit of Yancoal Shareholders to assist them in considering the resolution to approve the Proposed Coal Sales Agreements. Our report will accompany the Circular to be sent to Yancoal Shareholders. The sole purpose of our report is

⁶ A substantial securityholder is a person that holds a relevant interest in the entity of 10% or more (or has held the same at any time in the last six months).

REPORT FROM LONERGAN EDWARDS

LONERGAN EDWARDS
& ASSOCIATES LIMITED



to determine whether, in our opinion, the Proposed Coal Sales Agreements are fair and reasonable to Yancoal Shareholders. This report should not be used for any other purpose.

- 39 However, it should be noted that this report is general financial product advice only and has been prepared without taking into account the personal objectives, financial situations or needs of individual Yancoal Shareholders. Accordingly, before acting in relation to the Proposed Coal Sales Arrangements, Yancoal Shareholders should have regard to their own objectives, financial situation and needs. Yancoal Shareholders should also read the Circular that has been issued by Yancoal in relation to the Proposed Coal Sales Agreements.
- 40 Furthermore, this report does not constitute advice or a recommendation (inferred or otherwise) as to whether Yancoal Shareholders should vote for, or against the Proposed Coal Sales Agreements. This is a matter for individual Yancoal Shareholders based upon their own views as to value, their expectations about future economic and market conditions and their particular personal circumstances. If Yancoal Shareholders are in doubt about the Proposed Coal Sales Agreements or matters dealt with in this report, Yancoal Shareholders should seek independent professional advice.

Basis of assessment

- 41 In preparing our report, we have had regard to the Regulatory Guides issued by ASIC, particularly Regulatory Guide 76 – *Related party transactions* and RG 111, as well as the ASX Listing Rules.
- 42 The ASX Listing Rules do not define the meaning of, or describe the test to be applied in determining whether a related party transaction is “fair and reasonable”. We note, however, that RG 111 expressly states that the evaluation of a related party transaction (whether for the purposes of Chapter 2E or ASX Listing Rule 10.1) should be based upon a separate assessment of “fairness” and “reasonableness”. RG 111 further states that the transaction should not be assessed simply by reference to the advantages and disadvantages of the transaction (as ASIC does not consider this to provide members with sufficient valuation information).
- 43 Pursuant to RG 111, a related party transaction:
- (a) is “fair” if the value of the financial benefit (in this case the sale proceeds) to be received by the entity from the related party is equal to or greater than the value of the asset (in this case coal produced by Yancoal) being sold to the related party. Importantly, the value of the asset being sold is to be determined based upon market value principles (i.e. assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm’s length, noting that any special value that may be derived by a particular “bidder” should not be taken into account)
 - (b) is “reasonable” if it is “fair”. A related party transaction may also be “reasonable” despite being “not fair” if the expert believes there are other reasons for non-associated shareholders to vote to approve the proposed arrangements.
- 44 Given the above, in our opinion, the most appropriate basis upon which to evaluate whether the Proposed Coal Sales Agreements are “fair and reasonable” to Yancoal Shareholders is to consider:

- (a) the value of the sale proceeds to be received by Yancoal from the sale of coal to the related parties pursuant to the Proposed Coal Sales Agreements
- (b) the value that would be received by Yancoal if as an alternative the coal products were sold to other customers of Yancoal
- (c) the extent to which (a) and (b) differ in order to assess whether the Proposed Coal Sales Agreements are “fair”
- (d) the implications for Yancoal if the Proposed Coal Sales Agreements were not in place
- (e) the net benefits inherent in the Proposed Coal Sales Agreements
- (f) the advantages and disadvantages of the Proposed Coal Sales Agreements from the perspective of Yancoal Shareholders not associated with Yankuang Energy and Shandong Energy Group.

Limitations and reliance on information

- 45 Our opinions are based on the economic, share market, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.
- 46 Our report is also based upon financial and other information provided by Yancoal. We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.
- 47 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the proposed new offtake agreements. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, “due diligence” of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecasts is beyond the scope of an IER.
- 48 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the commercial and financial implications of the transactions, rather than a comprehensive audit or investigation of detailed matters. Further, this report and the opinions therein, must be considered as a whole. Selecting specific sections or opinions without context or considering all factors together, could create a misleading or incorrect view or opinion.
- 49 An important part of the information base used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management of the relevant companies. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.
- 50 In forming our opinion, we have also assumed that the information set out in the Circular is complete, accurate and fairly presented in all material respects.

III Overview of Yancoal operations⁷

Overview of Yancoal

51 Yancoal is a public company, listed on both the ASX and the HKEX. Yancoal is a major Australian coal producer with attributable saleable coal production of some 30 Mtpa for CY22, that is primarily sold into the global seaborne market. The Company produces a mix of premium thermal, semi-soft coking and PCI coals for export. Coal is sourced from nine mines, which are either owned, operated or managed by the Company. Yancoal also has a 30% shareholding in Port Waratah Coal Services Limited (PWCS), the primary coal export operation in the Hunter Valley region, located at the Port of Newcastle.

History and overview of Yancoal operations

52 Yancoal was formed in 2004 through the acquisition of the Austar underground mine in the Hunter Valley region of NSW. Since then the Company has expanded its operations through a number of strategic acquisitions, including:

- (a) **2009** – Yancoal completed the successful takeover of Felix Resources Limited (Felix Resources), which had interests in the Yarrabee mine in Queensland (QLD), in addition to the Moolarben and Ashton mines in NSW. The takeover resulted in Yancoal becoming a key player and employer within the NSW coal industry
- (b) **2012** – Yancoal merged with Gloucester Coal Limited (Gloucester), which resulted in Yancoal acquiring all shares in Gloucester in exchange for new securities in Yancoal to be quoted on the ASX. Gloucester had interests in the Middlemount mine in QLD, in addition to the Stratford Duralie, and Donaldson mines in NSW
- (c) **2017** – Yancoal acquired 100% of the shares in Coal & Allied Limited (Coal & Allied), which operated the MTW and HVO mines in the Hunter Valley region of NSW.

53 Yancoal’s current mining operations comprise seven mines across QLD and NSW⁸ that Yancoal either owns, operates or participates in, in addition to two mines in QLD and Western Australia (WA) that Yancoal operates on behalf of the mine owner, Yankuang Energy. An overview of Yancoal’s mining operations as at 30 June 2023 is provided below:

Yancoal – operations					
Asset	Mine type	Location	Saleable production⁽¹⁾ Mt	Economic interest %	Mine operator
Moolarben	OC / UG	Hunter Valley, NSW	14.9	95	Yancoal
MTW	OC	Hunter Valley, NSW	8.1	82.9	Yancoal
HVO		Hunter Valley, NSW			Unincorporated HVO joint venture
	OC		9.6	51	
Yarrabee	OC	Bowen Basin, QLD	2.1	100	Yancoal
Middlemount		Bowen Basin, QLD			Incorporated Middlemount joint venture
	OC		2.6	49.9997	
Ashton	UG	Hunter Valley, NSW	0.9	100	Yancoal

⁷ Highlighting the key mining operations that are relevant to this report.

⁸ Yancoal also owns two additional mines in NSW that are no longer in operation, including the Donaldson mine, which is currently on care and maintenance, and Austar, which is currently transitioning to mine closure.

Yancoal – operations					
Asset	Mine type	Location	Saleable production⁽¹⁾ Mt	Economic interest %	Mine operator
Stratford Duralie	OC	Gloucester Basin, NSW	0.7	100	Yancoal
Mines managed by Yancoal⁽²⁾					
Premier	OC	Collie Coal Basin, WA	2.8	nil	Yancoal
Cameby Downs	OC	Surat Basin, QLD	2.1	nil	Yancoal

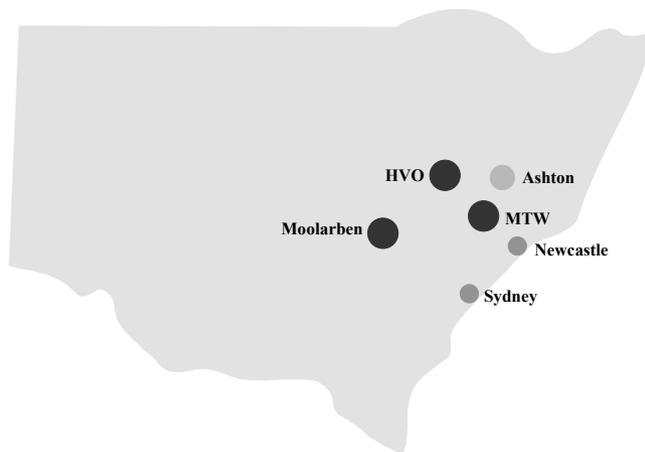
Note:

- 1 Based upon total saleable coal produced over the 12 months ended 31 December 2022 (on a 100% basis).
 - 2 These mines are not owned by Yancoal.
- OC – open cut, UG – underground.

Major coal assets in NSW

- 54 The higher ash coal products which will be supplied under the Proposed Coal Sale Agreements will principally be sourced from Moolarben and Yancoal’s other Hunter Valley mines, and will be shipped to HII, YLIL and YIT from the Port of Newcastle. Accordingly, this section outlines these operations below.
- 55 Yancoal’s major coal producing assets include Moolarben, MTW, and HVO, all of which are located within the Hunter Valley region of NSW, as illustrated below:

Yancoal – Hunter Valley mines



Moolarben

- 56 The Moolarben coal mine is a truck and shovel, open cut and longwall underground mining complex that produces export quality thermal coal. The mine is located approximately 40 kilometres (km) north of Mudgee in the Western Coalfields of NSW. Moolarben had an

implied mine life⁹ of approximately nine years as at 31 December 2022, however operations are currently approved until 31 December 2038 and there are a number of proposals to extend the open cut operations. The operations produced 14.9 Mtpa in 2022, however Yancoal has the required approvals and is in the final stages of completing modifications to increase annual production of the mine's open cut operations by approximately 2.0 Mtpa.

- 57 The Moolarben mining operations are currently owned by a joint venture between Yancoal, which holds a 95% interest, and a consortium of Korean power companies represented by Kores Australia Moolarben Coal Pty Limited (Kores), which holds a 5% interest.
- 58 The current mining operations at Moolarben comprise four approved open cut mining areas, three approved underground mining areas, and other mining related infrastructure including coal and transport facilities. The mines are operational 24 hours a day, seven days a week with approximately 860 employees and contractors.
- 59 Yancoal is currently investigating options to extend the open cut mining operations to the south and east of its existing open cut mine. The indicative additional mine and supporting infrastructure would be located within Yancoal's exploration licence boundary and would integrate with the existing Moolarben operations (without changing the duration or intensity of current mining areas).

MTW

- 60 MTW is an integrated operation of two open cut mines located adjacent to each other, 15 km south west of Singleton in the Hunter Valley region of NSW. The majority of coal produced is destined for export markets as either thermal or semi-soft coking coals, with a minor proportion sold domestically. The operation produced 8.1 Mtpa of coal during 2022 and has an implied mine life of 15 years as at 31 December 2022.
- 61 Both the Warkworth and Mount Thorley mines have been in operation since 1981. Yancoal manages MTW on behalf of the joint venture partners, with ownership of the operations as follows:
- (a) **Mount Thorley** – Yancoal (80%) and POSCO Australia Pty Limited (20%)
 - (b) **Warkworth** – Yancoal (84.5%), Nippon Steel Australia (9.5%) and Mitsubishi Materials (Australia) Pty Limited (6.0%).
- 62 In January 2004, the Mount Thorley and Warkworth joint ventures sought to improve efficiency by entering into an Operational Integration Agreement (OIA) that allowed the operations to be managed together. Under the terms of the OIA export coal can be produced from either mine and is allocated between the two joint ventures based on a tonnage commitment ratio that is agreed at the beginning of each year. Costs are also allocated in accordance with this ratio. Since entering into the OIA the tonnage commitment ratio has been Warkworth 65% and Mount Thorley 35%. Each joint venture is then responsible for marketing and sale of its respective tonnages.
- 63 Both the Mount Thorley and Warkworth mines are open cut and utilise conventional dragline / truck and shovel methods. Coal is hauled to one of two coal handling preparation plants

⁹ Implied mine life is calculated by dividing the marketable reserve as at 31 December 2022 by the mine's output over CY21, rounded to the nearest whole number.



located at the Mount Thorley and Warkworth mines. Coal is washed, blended and prepared for sale and loaded for transportation to PWCS in Newcastle for export. The mines are operational 24 hours a day, seven days a week, with some 1,360 employees and contractors.

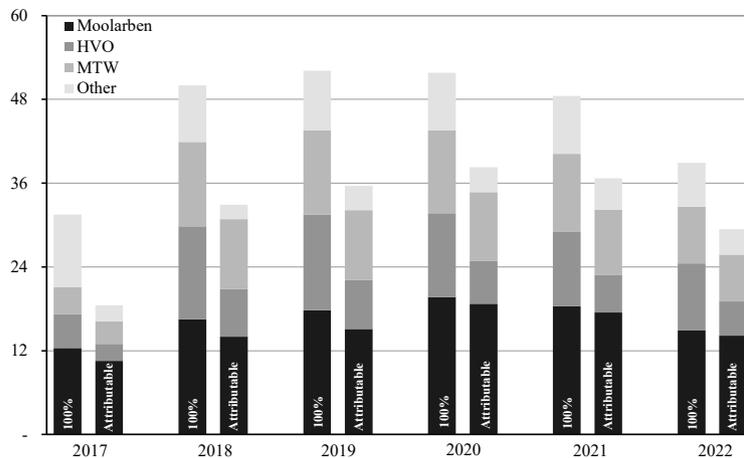
HVO

- 64 HVO is located 24 km north west of Singleton in the Hunter Valley and 90 km from PWCS. Coal production is a mixture of thermal and semi-soft coking coals. The operation produced 9.6 Mtpa of coal during 2022 and has an implied mine life of 58 years as at 31 December 2022.
- 65 HVO is jointly owned by Yancoal, which owns 51% of operations, and Glencore Coal Pty Ltd (Glencore), which owns the remaining 49%. The HVO operations are managed by Yancoal and Glencore via a joint venture management committee.
- 66 HVO is a geographically vast, multi-pit mine operation that utilises conventional dragline / truck and shovel methods. Operations are centred in the Whittingham Coal Measures of the Hunter Coalfield, which is part of a Permian coal basin known as the Sydney Basin. After being washed and prepared for sale, the coal is loaded onto trains for transportation to PWCS in Newcastle for export. The mines are operational 24 hours a day, seven days a week, with some 1,365 employees and contractors.

Yancoal production

- 67 Yancoal’s annual coal production increased significantly in 2018, which reflected the first full year of contribution from the MTW and HVO mines acquired from Coal & Allied in 2017, in addition to the Moolarben mine achieving a new annual production record of 16.5 Mtpa. Over the three years ended 31 December 2022, Yancoal experienced a number of external challenges that impacted mining operations, including severe flooding, COVID-19, and industry-wide labour shortages. This resulted in production generally declining over the 2020 to 2022 period, as shown below:

Yancoal – production profile⁽¹⁾
Mtpa of saleable coal



Note:
 1 Attributable production represents Yancoal’s economic interest.



Reserves and resources

68 A large proportion of Yancoal’s reserves and resources are represented by its HVO operations, which are centred in the Whittingham Coal Measure of the Hunter Coalfield, Sydney Basin. A summary of Yancoal’s reserves and resources as at 31 December 2022 is shown below:

Yancoal – resources and reserves (100% basis)					
Mine or joint venture	Total reserves	Resources			
	Mt	Measured Mt	Indicated Mt	Inferred Mt	Total Mt
Moolarben	194	670	160	200	1,030
Mt Thorley	18	200	150	75	425
Warkworth	231	490	260	175	925
HVO	850	770	1,300	2,400	4,470
Other assets	206	235	430	234	899
Total	1,499	2,365	2,300	3,084	7,749

Port Waratah Coal Services

- 69 Yancoal owns a 30% interest in PWCS. PWCS is located at the Port of Newcastle and operates the world’s largest and one of the most efficient coal handling port operations. The facility incorporates the Carrington and Kooragang terminals and has ship loading capacity of 145 Mtpa. All planning and scheduling of coal exports from the Hunter Valley is facilitated by the Hunter Valley Coal Chain Co-ordinator Limited (HVCCC).
- 70 PWCS handles a diversity of coal types from over 35 mines, using sophisticated blending and quality control techniques. It works closely with coal exporters, rail and port organisations and the HVCCC to improve communication and joint planning within Hunter Valley Coal Chain (HVCC). Coal handled by PWCS is exported to more than 20 countries globally and is used in export markets for energy production and steel manufacturing. PWCS employs approximately 330 employees and operates its Carrington and Kooragang terminals on a 24 hour basis, seven days a week.

IV Coal industry overview

Overview

- 71 As set out in paragraph 11, the majority of the coal to be sold under the Proposed Coal Sales Agreements will be sourced from the Moolarben mine, near Mudgee in the Upper Hunter Valley in NSW. Smaller quantities may also be sourced from the MTW and HVO mines. Coal from Moolarben is typically around 5,000 kcal/kg to 5,500 kcal/kg and is sold into the Chinese and Asian market.
- 72 This section therefore provides a high level overview of the Australian and Chinese coal industries, including the variables that impact coal pricing, which is of relevance for the Proposed Coal Sales Agreements.

Primary types of coal

Thermal coal

- 73 Thermal coal is the most common coal type and is used in the production of electricity by power stations. The coal is first crushed or pulverised, and then burnt in large boilers. These boilers create steam, which drives the turbines that create electricity. Thermal coal is also used as a fuel in the manufacture of cement, bricks and tiles and other energy intensive industries. As a result, thermal coal prices are generally traded by reference to energy content (referred to as calorific value (CV) or NCV).
- 74 Thermal coal demand is linked to power generation, which fluctuates according to the economic state of global industrialised nations (particularly those in Asia) and the overall health of the global economy. Accordingly, the faster the growth in the global economy the higher the demand for thermal coal and vice versa. This situation is further exacerbated by the growth of electricity consumption in developing countries, which tends to outpace economic growth.
- 75 There are various types of thermal coal, and pricing of products can vary materially based upon a number of factors, including:
- (a) **CV** – represents the amount of heat energy that can be released when the coal is burned and is measured in kilocalories per kilogram (kcal/kg). Higher CV coal produces more energy per unit of weight and can produce lower carbon emissions per unit of energy. CV ranges are generally stated on a net as received (NAR) basis, or gross as received (GAR) basis
 - (b) **ash content** – represents the amount of ash that is left behind after the coal is burned. Coal with a higher ash content is typically less valuable due to the negative impacts on power plant efficiency and other factors such as increased waste
 - (c) **other factors** – such as the sulphur content, moisture content and volatile matter content, which can impact the energy efficiency and level of pollution emitted when the coal is burned.
- 76 Thermal coal is generally priced by reference to a benchmark (which are categorised based upon CV values), with further adjustments made to reflect the actual CV ash content and other factors (as described above) of the saleable product.

Metallurgical (or coking) coal

- 77 Metallurgical or coking coals are used in the production of iron and steel due to their particular characteristics, high carbon and lower moisture content. The metallurgical coal market is segregated based on coking properties into hard-coking, semi-hard, semi-soft coking and PCI coal. Hard-coking coal commands the highest price owing to its high levels of coking properties. Semi-hard and semi-soft coking coals are lower in coking properties and thus attract a price discount. They are often blended with hard-coking coal in order to meet blast furnace specifications. Semi-soft coking coal can also be used in the PCI process.
- 78 Metallurgical coal is less common than thermal coal and therefore commands a price premium. Premium hard and semi-hard coking coals are the most scarce, which contributes to their price premiums over the other more available metallurgical coal types.

Australian coal industry

- 79 Australia is the fifth largest coal producer globally and holds the third largest recoverable reserves of coal¹⁰. However, due to its relatively small domestic needs, Australia is the world's largest and second largest exporter of metallurgical and thermal coal respectively. The coal industry is also one of Australia's largest export sectors, worth A\$122 billion in FY22, and estimated to be A\$125 billion in FY23, which are both a significant increase from the A\$40.2 billion reported in FY21¹¹. Looking to FY24 and FY25, the Department of Industry, Sciences, Energy and Resources (DISER) is forecasting coal export earnings of A\$84.6 billion and A\$66.8 billion respectively, as shown below:

Australian coal statistics							
	Actual FY19	Actual FY20	Actual FY21	Actual FY22	Estimate FY23	Forecast FY24	Forecast FY25
Australian production							
Metallurgical coal (Mt)	184	177	171	163	157	174	175
Thermal coal (Mt)	210	213	192	196	178	201	202
Total exported (Mt)	394	390	363	359	335	375	377
Total domestic (Mt)	66	61	36	47	69	55	57
Total (Mt)	460	451	399	406	404	430	434
Value of exports⁽¹⁾							
Metallurgical coal (A\$bn)	44.5	34.6	24.2	72.4	60.4	47.8	38.6
Thermal coal (A\$bn)	16.4	20.6	16.0	49.5	64.0	36.8	28.2
Total	60.9	55.2	40.2	121.9	124.5	84.6	66.8
Implied price per tonne (exports)⁽¹⁾							
Metallurgical coal (A\$/t)	\$241.6	\$195.6	\$141.5	\$444.1	\$385.0	\$274.7	\$220.5
Thermal coal (A\$/t)	\$78.3	\$96.7	\$83.4	\$252.8	\$359.7	\$183.0	\$139.8

Note:

1 Value of exports and implied prices per tonne are expressed in real terms.

Source: DISER: *Resources and Energy Quarterly* reports dated June 2020, June 2021, June 2022 and June 2023.

¹⁰ Source: <https://www.ga.gov.au/digital-publication/accr2023/coal>.

¹¹ Commodity prices, and energy related commodities in particular, increased significantly following Russia's invasion of Ukraine and have remained relatively high since.

- 80 Australian coal production over the three years ended FY23 was materially lower relative to prior periods. The slowdown in production was primarily due to disruptions caused by¹²:
- (a) severe weather events – unusually heavy rainfall, driven by consecutive La Niña weather cycles in 2021 and 2022, resulted in large scale disruptions to mine, rail and port operations in NSW and QLD. For instance, NSW production was impacted by the flooding of several mine pits in the Hunter Valley region, whilst the Dalrymple Bay coal terminal in QLD declared force majeure during FY23 due to flooding
 - (b) COVID-19 – the outbreak of COVID-19 and associated containment measures introduced by governments around the world had a severe impact on industrial production and steelmaking across most countries. In response to weaker demand, a number of Australian coal miners introduced temporary mine closures or restrictions on production, which saw volumes decrease in FY21
 - (c) labour shortages – industry wide labour shortages have significantly disrupted operations for coal miners in FY23, with both maintenance and mining activities being impacted by a shortage of skilled and semi-skilled labour.
- 81 In addition to production disruptions, export volumes were impacted by informal import restrictions on Australian coal introduced by China. The restrictions took effect in the second half of 2020 and resulted in a 15% decline in thermal coal exports in the September 2020 quarter¹³ relative to the prior corresponding period¹⁴. Restrictions were eased in January 2023, which is expected to have a positive impact on export volumes as a result.

Chinese coal industry

- 82 China is (by far) the world’s largest producer and consumer of coal. China is heavily reliant on coal due to the country’s energy infrastructure¹⁵, with coal representing the primary source for power generation, industrial production, and residential heating in China. The Chinese Government regularly intervenes in China’s power and steel markets, setting production quotas, imposing safety and environmental regulations, and implementing measures to curb excess capacity and promote industry consolidation.
- 83 Notwithstanding being a major coal producer, China imports coal to supplement its domestic supply and meet specific quality requirements. China is the world’s largest importer of coal (as shown in the table below) and thermal coal imports play a significant role in China’s energy landscape. Imports allow China to access higher-quality coal for specific industrial processes, fulfil demand during peak periods, diversify its sources of supply, and in certain instances, imported coal is more commercially competitive.

¹² Source: DISER: *Resources and Energy Quarterly* reports dated June 2021, June 2022 and June 2023.

¹³ Source: DISER: *Resources and Energy Quarterly* report dated March 2021.

¹⁴ Whilst restrictions were announced by China’s National Development Reform and Commission in December 2020, media reports indicate that Chinese state-owned steel makers and power plants were advised to stop importing Australian coal a number of months earlier. Source: <https://www.afr.com/world/asia/china-orders-some-steelmakers-to-stop-buying-australian-coal-traders-20201013-p564hs>.

¹⁵ It is estimated that coal fired power plants generate approximately two thirds of China’s electricity. Source: <https://www.reuters.com/article/china-coal-idUSL4N38S113>.

REPORT FROM LONERGAN EDWARDS



Coal trade statistics – largest three coal importers					
	Actual 2018	Actual 2019	Actual 2020	Actual 2021	Actual 2022
Total coal imports (Mt)					
China	281	316	294	315	296
India	228	264	220	224	224
Japan	188	182	161	189	175
Total	697	762	675	728	695
Metallurgical coal imports (Mt)					
China	65	75	76	53	52
India	60	53	55	73	60
Japan	48	47	42	48	43
Total	173	175	173	174	155
Thermal coal imports (Mt)					
China	216	241	218	262	244
India	168	211	165	151	164
Japan	140	135	119	141	132
Total	524	587	502	554	540

Source: DISER: *Resources and Energy Quarterly* reports dated June 2019, June 2020, June 2021, June 2022 and June 2023.

- 84 China imported 296 Mt of coal in 2022, some 6% lower than imports for 2021, and broadly in line with import volumes for 2020. Coal imports were approximately 182 Mt over the January to May 2023 period, representing an increase of some 90% relative to the prior corresponding period, as the country resumed purchases from Australia and took advantage of cheap Russian coal¹⁶.

Coal pricing

- 85 As discussed above, demand for thermal coal is primarily influenced by power generation and demand for metallurgical coal is driven by the steel industry. Whilst power generation is more stable than steel production, both industries are reflective of the general health of the global economy. Supply is dependent on mine production and adequate coal infrastructure (rail, port etc.), and may be constrained due to both a lack of infrastructure and a lack of historical investment. In addition, a number of other factors also impact coal prices, such as:
- the quality of the coal, which may result in the price received being a premium or discount to benchmark prices
 - the availability and price of alternative fuels and energy sources (for thermal coal, as there is no substitute for metallurgical coal)
 - adverse weather and natural disasters
 - the proximity, capacity and cost of transportation
 - domestic and foreign government regulations and taxes, including those establishing air emission standards for coal fuelled power plants.

¹⁶ Source: <https://www.reuters.com/article/china-coal-idUSL4N38S113>.

REPORT FROM LONERGAN EDWARDS

LONERGAN EDWARDS
& ASSOCIATES LIMITED

- 86 The coal which will be supplied under the Proposed Coal Sale Agreements is relatively high in ash, has a CV of between 5,100 kcal/kg and 5,500 kcal/kg and the pricing of this coal is determined by reference to the API5 Index price. The API5 Index is a US dollar based index that represents sales and offers from Newcastle for 5,500kcal/kg NAR coal on a free on board basis. The index is generally the basis for pricing thermal coal of this quality from Newcastle into China.
- 87 Coal contracts typically have price adjustments for energy content and other coal characteristics. Typically, thermal coal produced in the Hunter Valley tends to have characteristics associated with higher CV indices, such as the globalCOAL NEWC Index (GC NEWC Index). In contrast, coal produced west of the Hunter Valley tends to have API5 Index characteristics (or otherwise pricing tends to range between these two indices). That said, there are multiple coal seams mined in each region, and coal quality can vary depending on where it was sourced in any given period.
- 88 The below table sets out the average API5 Index and GC NEWC Index prices observed in each quarter over the three months ended 31 March 2021 (1Q21) to 2Q23 period:

Thermal coal index prices				
Quarter	API5 Index		GC NEWC Index	
	Average price	Quarterly growth	Average price	Quarterly growth
	US\$/t	%	US\$/t	%
1Q21	55		88	
2Q21	62	12.7	108	22.7
3Q21	96	54.8	166	53.7
4Q21	117	21.9	186	12.0
1Q22	172	47.0	264	41.9
2Q22	194	12.8	372	40.9
3Q22	195	0.5	421	13.2
4Q22	141	(27.7)	381	(9.5)
1Q23	125	(11.3)	242	(36.5)
2Q23	102	(18.4)	158	(34.7)

Source: Yancoal.

- 89 From 2Q21 to 3Q22 coal prices increased significantly, which was due to:
- (a) rising demand, as the global economy recovered from the COVID-19 pandemic in 2021, leading to increased demand for energy. This increased demand for energy placed upward pressure on coal prices
 - (b) supply disruptions:
 - (i) in Australia, which were primarily driven by constraints on mine production (refer paragraph 80 above)
 - (ii) a ban on Australian coal imports by China
 - (iii) labour strikes in South Africa
 - (iv) cyclones in Indonesia
 - (c) the Indonesian Government temporarily banning coal exports from Indonesia in January 2022, however this ban was subsequently lifted the following month

REPORT FROM LONERGAN EDWARDS



- (d) the impact of Russia's invasion of Ukraine as Russia was the world's third largest exporter of thermal coal (after Indonesia and Australia) and the invasion of Ukraine leading to uncertainty about the future of Russian coal exports and sanctions on the buying of Russian coal, which has driven up prices
 - (e) an increase in global demand for thermal coal generally, as governments around the world prioritised energy security in response to restricted gas availability and trade sanctions associated with the Russia-Ukraine war.
- 90 Since 3Q22 coal prices have subsequently reduced (albeit to levels significantly higher than those preceding 2Q21), which is primarily due to a rebalancing of supply and demand, due to higher than expected exports from South Africa and Indonesia, and lower demand due to mild spring temperatures in Northern Asia and an energy stockpile overhang in Europe.

V Valuation methodology

Valuation approaches

- 91 RG 111 outlines the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of, amongst other things, schemes of arrangement, takeovers, share buy-backs, selective capital reductions and prospectuses. These include:
- (a) the discounted cash flow (DCF) methodology
 - (b) the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets
 - (c) the amount that would be available for distribution to shareholders in an orderly realisation of assets
 - (d) the quoted price of listed securities, when there is a liquid and active market and allowing for the fact that the quoted market price may not reflect their value on a 100% controlling interest basis
 - (e) any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.
- 92 Each of these methodologies is appropriate in certain circumstances.

Selected valuation methodology

- 93 LEA has assessed the value of the Proposed Coal Sales Agreements using the concept of market value. For the purposes of our assessment we have adopted the following definition:
- “Market value is defined as the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm’s length within a reasonable timeframe.”*
- 94 With respect to the fairness of the Proposed Coal Sales Agreements, RG 111 requires the independent expert to compare the value of the financial benefit being provided by Yancoal to each of HII, YLIL and YIT with the value of the consideration being provided to Yancoal by each of HII, YLIL and YIT.
- 95 The value of the consideration provided to Yancoal by each of HII, YLIL and YIT relates to the value of Yancoal’s 5,100 to 5,500 CV thermal coal products to be sold under the Proposed Coal Sales Agreements as determined by the price and quantities under the agreements.
- 96 LEA notes that the pricing under the Proposed Coal Sale Agreements with HII and YLIL references a commonly used price index. However, the Proposed Coal Sale Agreement with YIT does not provide for a specific contracted price. Accordingly, when assessing the fairness of the Proposed Coal Sales Agreements, we have considered the terms of the Proposed Coal Sale Agreements and whether these will result in market based arm’s length prices being achieved.

VI Evaluation of the Proposed Coal Sales Agreements

The Proposed Coal Sales Agreements

97 A summary of the key terms of each of the Proposed Coal Sales Agreements is set out below.

Shandong Energy (Hainan) Intelligent International Technology Co., Ltd.

98 The key terms of the Proposed Coal Sales Agreement with HII are as follows:

- (a) **annual tonnage** – 2.0 Mtpa, evenly spread throughout the year
- (b) **term** – three years from receipt of all required approvals
- (c) **product / coal quality** – 5,100 to 5,500 CV¹⁷; the product is determined “Under Mutual Option” 45 days prior to the agreed loading month
- (d) **price**:
 - (i) 5,500 kcal/kg Base Price – the contract price for each shipment of 5,500 kcal/kg will be a positive adjustment to API5 Index as agreed by the parties in writing from time to time¹⁸
 - (ii) 5,100 kcal/kg coal – the contract price for each shipment of 5,100 kcal/kg will be as agreed by the parties in writing from time to time. The contract price will be linked to the API5 Index with appropriate quality adjustments and will maintain a positive price position to the market
- (e) **payment term** – irrevocable letter of credit payable at sight.

99 The base contract incorporates Yancoal’s standard terms and conditions.

Yancoal International Trading Co., Ltd

100 The key terms of the Proposed Coal Sales Agreement with YIT are as follows:

- (a) **annual tonnage** – up to 2.0 Mtpa, multiple export coal sales over the 12 month period, delivery to be negotiated
- (b) **term** – MOU effective for three years
- (c) **product / coal quality** – 5,100 to 5,500 CV; product to be determined at the time of negotiation
- (d) **price** – to be negotiated on a shipment by shipment basis with reference to the spot price (from which the API5 Index is derived) and other bids / offers at the relevant time to ensure that the trade price is equal to or better than spot alternatives, with a pro rata CV adjustment for kcal/kg more or less than 5,500 kcal/kg
- (e) **payment term** – telegraphic transfer.

¹⁷ The calorific value of coal indicates the heat energy that the coal contains. The higher the calorific value of coal, less volume of coal required to produce the same amount of heat energy. The calorific value is typically measured in units of energy per unit of mass, such as kilocalories per kilogram (kcal).

¹⁸ CV adjustment = Base Price*(Actual NCV/ 5,500 kcal). The tolerance level for 5,500 coal is to 5,300 NCV and for 5,100 coal is to 4,800 NCV.

REPORT FROM LONERGAN EDWARDS



101 The base contract for each sale will incorporate Yancoal's standard terms and conditions.

Yankuang Lucky International Company Limited

102 The key terms of the Proposed Coal Sales Agreement with YLIL are as follows:

- (a) **annual tonnage** – 2.0 Mtpa, evenly spread throughout the year
- (b) **term** – three years from receipt of all required approvals
- (c) **product / coal quality** – 5,500 CV
- (d) **5,500 kcal/kg** Base Price – positive adjustment to API5 Index as agreed by the parties in writing from time to time
- (e) **payment term** – irrevocable letter of credit payable at sight.

103 The base contract incorporates Yancoal's standard terms and conditions.

Other factors

104 As HII, YLIL and YIT all conduct international trading operations they are prepared to accept Yancoal's standard terms and conditions. Other traders in China (and in Asia) will not always willing to accept the Yancoal Australia Standard Coal Sales Contract as the contract basis.

105 Further, HII, YLIL and YIT have agreed that they will not seek to market the coal purchased under the Proposed Coal Sales Agreements to Yancoal's direct customers in China. HII, YLIL and YIT will sell the purchased coal to Chinese customers who are reluctant to accept international business terms and/or prefer to make purchases under typical domestic terms (e.g. payments in local currency, extended credit terms, delivery inclusive pricing).

Fairness

106 In our evaluation of the Proposed Coal Sales Agreements therefore we have initially considered the fairness of the proposed arrangements. Pursuant to RG 111, a related party transaction per Chapter 2E of the Corporations Act and ASX Listing Rule 10 is "fair" if the value of the financial benefit (in this case the sale proceeds) to be received by the entity from the related party is equal to or greater than the value of the asset (in this case 5,500 kcal/kg and 5,100 kcal/kg coal produced by Yancoal) being sold to the related party.

107 In the circumstances of Yancoal, in forming our view on the value of the coal being sold to HII, YIT and YLIL, we have had particular regard to the value that could be realised if (in the alternative) Yancoal sold the product to other customers, either pursuant to offtake agreements or on the spot market.

108 As noted above, the price to be received by Yancoal for the sale of 5,500 kcal/kg and 5,100 kcal/kg coal under the Proposed Coal Sales Agreements is to be based on:

For HII and YLIL

- (a) Base Price of 5,500 kcal/kg product – positive adjustment to API5 Index as agreed by the parties in writing from time to time

For HII

- (b) 5,100 kcal product – the contract price for each shipment of this product will be as agreed by the parties in writing from time to time. The contract price will be linked to the API5 Index with appropriate quality adjustments and will maintain a positive price position to the market

For YIT

- (c) to be negotiated on a shipment by shipment basis with reference to the spot price (from which the API5 Index is derived) and other bids / offers at the relevant time to ensure that the trade price is equal to or better than spot alternatives, with a pro rata CV adjustment for kcal more or less than 5,500 kcal/kg.
- 109 The Argus / McCloskey’s Coal Price Index Report published each Friday includes the API5 Index and is calculated as an average of the Argus and McCloskey price assessments for free on board Newcastle 5,500 kcal/kg NAR coal. The API5 Index price assessment is the key price reference used for thermal coal supply agreements in the Australian and Chinese markets. The API5 Index is used in physical and over-the-counter contracts. The API5 Index price assessment is a highly liquid and robust benchmark price for coal sales.¹⁹ Yancoal has used this index extensively in previous term sales and as a basis for spot sales into China for the last eight years.
- 110 Thus the reference to the API5 Index seeks to reflect a current market price for 5,500 kcal/kg coal. Prima facie therefore we would expect the API5 Index to provide a credible reference point for the pricing of 5,500 kcal/kg coal. The positive adjustment applied to the HII and YLIL pricing for 5,500 kcal/kg coal is reflective of the premium Yancoal has been able to achieve on recent third party term contracts where security of supply has been important to the customer and the quality and consistency of the Yancoal product.
- 111 The price of the 5,100 kcal/kg coal in the first instance is less than the API5 Index as a result of the higher ash content (which presents a disposal problem for the end purchaser) and the lower CV of the coal (meaning that end purchasers of this product require higher volumes to generate equivalent energy). The pricing of the 5,100 kcal/kg coal under the HII contract is consistent with the pricing adjustment made by Yancoal for the sale of higher ash content / lower kcal coal.
- 112 Accordingly, the sale of coal by reference to the API5 Index with positive adjustment for 5,500 kcal/kg coal as proposed in the arrangements between Yancoal and HII and YLIL should be unlikely to give rise to any significant difference in related sales proceeds received. In the case of the pricing for YIT, reference to spot prices (from which the API5 Index is derived) and other bids / offers is, in our opinion, indicative of market based arm’s length pricing.

¹⁹ Source: <https://www.argusmedia.com/en/methodology/key-prices/api-5-coal>.

- 113 Based on the market based arm's length pricing and contract terms consistent with contracts entered into with third parties, in our opinion, the Proposed Coal Sales Agreements are fair to Yancoal Shareholders whose votes in favour of the transaction are not to be disregarded under Listing Rule 14.11 based on the guidelines set out in RG 111.

Reasonableness

- 114 Pursuant to RG 111, the Proposed Coal Sales Agreements are reasonable if they are fair. Consequently, in our opinion, the Proposed Coal Sales Agreements are also "reasonable" to Yancoal Shareholders whose votes in favour of the transaction are not to be disregarded under Listing Rule 14.11.

Summary of advantages and disadvantages

- 115 Whilst we have assessed the Proposed Coal Sales Agreements as fair and reasonable (under RG 111), we have also considered the relative advantages, disadvantages and the factors inherent in the proposed arrangements. Our observations in this regard are summarised below.

Advantages

- (a) as the contracted Proposed Coal Sales Agreements with HII and YLIL contain contracted quantities and the MOU with YIT contains annual quantity commitments, we have considered how these quantities would impact sales of Yancoal product. Yancoal has capacity to produce in excess of 19 Mtpa of coal in the range of 5,100 kcal/kg to 5,500 kcal/kg. We understand that Yancoal targets 70% of sales as being under contract and to date have only secured two long term contracts with Chinese customers. The Proposed Coal Sales Agreements provide contractual certainty on up to 6.0 Mtpa (circa 31% of production) of 5,100 kcal/kg to 5,500 kcal/kg grade coal produced by the Moolarben and other Hunter Valley mines and enable the Company to manage planned production, rail and shipping schedules
- (b) now that China has lifted its ban on the importation of Australian coal, the Proposed Coal Sales Agreements enable Yancoal to increase its market share of exports into China, being a valuable market for Yancoal product

Disadvantages

- (c) as the pricing is at market rates and the contract terms are consistent with Yancoal's standard terms and conditions, there are no apparent disadvantages

Other factors

- (d) if the Proposed Coal Sales Agreements are not approved, Yancoal would lose secured supply contracts for up to 6.0 Mtpa of production over the next three years. In this scenario the Company would need to seek other customers in the Chinese market and would not be able to ship product in the large quantities covered by the Proposed Coal Sales Agreements. Nor would there be any constraints on the purchasers on-selling the coal in competition to Yancoal's other sales
- (e) the Independent Directors unanimously recommend that Yancoal shareholders vote in favour of the Proposed Coal Sales Agreements.



Appendix A

A Financial Services Guide

Lonergran Edwards & Associates Limited

- 1 Lonergran Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.
- 2 LEA holds Australian Financial Services Licence No. 246532, which authorises it to provide a broad range of financial services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

Financial Services Guide

- 3 LEA has been engaged by Yancoal to provide general financial product advice in the form of an IER in relation to the Proposed Coal Sales Agreements. The *Corporations Act 2001* (Cth) (Corporations Act) requires that LEA include this Financial Services Guide (FSG) with our IER.
- 4 This FSG is designed to assist retail clients in their use of the general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

General financial product advice

- 5 The IER contains general financial product advice only and has been prepared without taking into account your personal objectives, financial situation or needs. You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

- 6 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at \$60,000 plus GST.
- 7 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.
- 8 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our



Appendix A

directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.

- 9 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

- 10 If you have a complaint, please raise it with us first. LEA can be contacted by sending a letter to the following address:

Level 7
64 Castlereagh Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

- 11 We will endeavour to satisfactorily resolve your complaint in a timely manner. Please note that LEA is only responsible for the preparation of this IER. Complaints or questions about the Circular should not be directed to LEA as it is not responsible for the preparation of this document.
- 12 If we are not able to resolve your complaint to your satisfaction within 30 days of your written notification, you are entitled to have your matter referred to the Australian Financial Complaints Authority (AFCA), an external complaints resolution service. You will not be charged for using the AFCA service.

Compensation arrangements

- 13 LEA has professional indemnity insurance cover under its professional indemnity insurance policy. This policy meets the compensation arrangement requirements of the Corporations Act.



Appendix B

B Qualifications, declarations and consents

Qualifications

- 1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared hundreds of IERs.
- 2 This report was prepared by Mrs Julie Planinic and Mr Wayne Lonergan, who are each authorised representatives of LEA. Mrs Planinic and Mr Lonergan have over 25 years and 50 years experience respectively in the provision of valuation advice (and related advisory services).

Declarations

- 3 This report has been prepared at the request of the Independent Directors of Yancoal to accompany the Circular to be sent to Yancoal Shareholders. It is not intended that this report serve any purpose other than as an expression of our opinion as to whether or not the Proposed Coal Sales Agreements are fair and reasonable to Yancoal Shareholders.
- 4 LEA expressly disclaims any liability to any Yancoal Shareholder who relies or purports to rely on our report for any other purpose and to any other party who relies or purports to rely on our report for any purpose whatsoever.

Interests

- 5 At the date of this report, neither LEA, Mrs Planinic nor Mr Lonergan have any interest in the outcome of the Proposed Coal Sales Agreements. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.
- 6 LEA has not had within the previous two years, any business or professional relationship with Yancoal (or any of the related parties) or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Coal Sales Agreements.
- 7 We have considered the matters described in ASIC RG 112 – *Independence of experts*, and consider that there are no circumstances that, in our view, would constitute a conflict of interest or would impair our ability to provide objective independent assistance in this engagement.
- 8 LEA had no part in the formulation of the Proposed Coal Sales Agreements. Its only role has been the preparation of this report.

Indemnification

- 9 As a condition of LEA's agreement to prepare this report, Yancoal agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of Yancoal which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

REPORT FROM LONERGAN EDWARDS



Appendix B

Consents

- 10 LEA consents to the inclusion of this report in the form and context in which it is included in the Circular.

Appendix C

C Glossary

Term	Meaning
1Q / 2Q / 3Q / 4Q	Three month periods ending 31 March, 30 June, 30 September and 31 December respectively
2021 Yankuang Energy Framework Agreement For Coal Sales	Framework Agreement between Yancoal and Yankuang Energy for the sale of coal for the period 1 January 2021 to 31 December 2023
2021 YIT Framework Agreement For Coal Sales	Framework Agreement between Yancoal and YIT for the sale of coal for the period 1 January 2021 to 31 December 2023
AFCA	Australian Financial Complaints Authority
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
CCT	Continuing connected transactions
Circular	Circular sent to Yancoal shareholders, which includes the Notice of Meeting
Coal & Allied Corporations Act	Coal & Allied Limited <i>Corporations Act 2001</i> (Cth)
CV / NCV	Calorific value
CY	Calendar year
DCF	Discounted cash flow
DISER	Department of Industry, Sciences, Energy and Resources
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax and amortisation of acquired intangibles
EBITDA	Earnings before interest, tax depreciation and amortisation
Felix Resources	Felix Resources Limited
FSG	Financial Services Guide
FY	Financial year
GAR	Gross as received
GC NEWC Index	globalCOAL NEWC Index
Glencore	Glencore Coal Pty Ltd
Gloucester	Gloucester Coal Limited
HII	Shandong Energy (Hainan) Intelligent International Technology Co., Ltd
HKEX	The Stock Exchange of Hong Kong Limited
HVCC	Hunter Valley Coal Chain
HVCCC	Hunter Valley Coal Chain Co-ordinator Limited
HVO	Hunter Valley Operations mine
IER	Independent expert's report
kcal/kg	Kilocalories per kilogram
kg	Kilogram
km	Kilometre
Kores	Kores Australia Moolarben Coal Pty Limited
LEA	Lonerган Edwards & Associates Limited
MOU	Memorandum of understanding
Mt	Million tonnes
Mtpa	Million tonnes per annum
MTW	Mount Thorley Warkworth mine
NAR	Net as received
NPV	Net present value
NSW	New South Wales



Appendix C

Term	Meaning
OIA	Operational Integration Agreement
PCI	Pulverised coal injection
Proposed Coal Sale Agreements	Three coal sales agreements proposed to be entered into between Yancoal and each of HIL, YLIL and YIT
PWCS	Port Waratah Coal Services Limited
QLD	Queensland
RG 111	Regulatory Guideline 111 – <i>Content of expert reports</i>
Shandong Energy Group	Shandong Energy Group Company Limited
WA	Western Australia
Yancoal / the Company	Yancoal Australia Ltd
Yancoal Non-Associated Shareholders	Yancoal shareholders not associated with Yankuang Energy
Yankuang Energy	Yankuang Energy Group Co., Ltd
YIT	Yancoal International Trading Co., Ltd
YLIL	Yankuang Lucky International Company Limited

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors and Chief Executive of the Company

As at the Latest Practicable Date, the interests or short positions (as applicable) of the Directors and the Chief Executive of the Company in the Shares and debentures of the Company and any interests or short positions (as applicable) in shares or debentures of any of the Company's associated corporations (within the meaning of Part XV of the SFO) which (1) have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions (as applicable) which they are taken or deemed to have under such provisions of the SFO), (2) are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or (3) are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange, are as follows:

The Company

Name of Executive or Director	Number of Shares and Underlying Shares	Nature of Interest	Approximate Percentage
Baocai Zhang	274,404	Beneficial owner	0.02078%
Gregory James Fletcher	2,100	Beneficial owner	0.00016%
Geoffrey William Raby	22,858	Beneficial owner	0.00173%
Ning Zhang	188,671	Beneficial owner	0.01429%
David James Moulton	5,077,357	Beneficial owner	0.38452%

Associated Corporations of the Company

Name of Executive or Director	Name of Associated Corporation	Number of Underlying Shares	Nature of Interest	Approximate Percentage
Yaomeng Xiao	Yankuang Energy	525,000	Beneficial owner	0.00705%
Xiaolong Huang	Yankuang Energy	240,000	Beneficial owner	0.00322%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the Chief Executive of the Company have an interest and/or short position (as applicable) in the Shares or debentures of the Company or any interests and/or short positions (as applicable) in the shares or debentures of the Company's associated corporations (within the meaning of Part XV of the SFO) which (i) have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), (ii) are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or (iii) are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange.

(b) Interest of Persons Other Than Directors and Chief Executive of the Company

As at the Latest Practicable Date, the following persons (other than a Director or Chief Executive of the Company) had an interest or short position (as applicable) in the Shares or underlying Shares which were recorded in the register required to be kept under section 336 of the SFO:

Name of Shareholder	Capacity	Number of Shares Held or Interested	Approximate Percentage
Yankuang Energy	Beneficial interest	822,157,715	62.26%
Shandong Energy ⁽¹⁾	Interest in controlled entity	822,157,715	62.26%
Cinda International HGB Investment (UK) Limited	Beneficial interest	181,474,887	13.74%
China Agriculture Investment Limited	Interest in controlled entity	181,474,887	13.74%
International High Grade Fund B, L.P	Interest in controlled entity	181,474,887	13.74%

Name of Shareholder	Capacity	Number of Shares Held or Interested	Approximate Percentage
Cinda International GP Management Limited	Interest in controlled entity	181,474,887	13.74%
China Cinda (HK) Asset Management Co., Ltd ⁽²⁾	Interest in controlled entity	181,474,887	13.74%
Cinda International Holdings Limited	Interest in controlled entity	181,474,887	13.74%
Cinda Securities Co., Ltd	Interest in controlled entity	181,474,887	13.74%
China Cinda (HK) Holdings Company Limited	Interest in controlled entity	181,474,887	13.74%
China Cinda Asset Management Co., Ltd	Interest in controlled entity	181,474,887	13.74%

Notes:

- (1) Shandong Energy is deemed to be interested in the 822,157,715 Shares which Yankuang Energy is interested in as beneficial owner as it is entitled to exercise or control the exercise of more than one-third of the voting power at general meetings of Yankuang Energy.
- (2) Cinda International HGB Investment (UK) limited, an indirect wholly owned subsidiary of China Cinda Asset Management Co., Ltd, is interested in 181,474,887 Shares which are held via various accounts and nominees. China Cinda Asset Management Co., Ltd., China Cinda (HK) Holdings Company Limited, Cinda International Holdings Limited, Cinda Securities Co., Ltd, China Cinda (HK) Asset Management Co., Ltd, Cinda International GP Management Limited, International High Grade Fund B, L.P. and China Agriculture Investment Limited are each deemed to be interested in the 181,474,887 Shares which Cinda International HGB Investment (UK) Limited is interested in as beneficial owner.

Save as disclosed above, as at the Latest Practicable Date, none of the substantial shareholders or other persons (other than the Directors and Chief Executive of the Company) had any interest or short position in the shares and/or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

As at the Latest Practicable Date, so far as the Directors were aware, each of Mr. Baocai Zhang, Mr. Gang Ru, Mr. Yaomeng Xiao and Mr. Xiaolong Huang held certain positions in Yankuang Energy or Shandong Energy, each of which had an interest in 62.26% of the total Shares as at the Latest Practicable Date and is deemed to be interested in such Shares under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into any service contract with any member of the Yancoal Group which is not determinable by the Yancoal Group within one year without payment of compensation other than statutory compensation.

4. DIRECTORS' INTERESTS IN THE YANCOAL GROUP'S ASSETS, CONTRACTS OR ARRANGEMENTS OF SIGNIFICANCE

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to or which were proposed to be acquired, disposed of by or leased to any member of the Yancoal Group, since 31 December 2022, the date to which the latest published audited financial statements of the Yancoal Group were made up.

As at the Latest Practicable Date, there was no contract or arrangement subsisting in which a Director was materially interested and which was significant in relation to the business of the Yancoal Group.

5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates were interested in any business apart from the Yancoal Group's businesses which competed or was likely to compete, either directly or indirectly, with the Yancoal Group's businesses.

6. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial position or trading prospects of the Yancoal Group since 31 December 2022, being the date to which the latest published audited financial statements of the Company were made up.

7. QUALIFICATION OF EXPERTS AND CONSENT

The following is the qualification of the professional advisers who have given opinion or advice, which is contained in this circular:

(a) Opus Capital

Name	Qualification
Opus Capital	a corporation licensed to carry on type 6 (advising on corporate finance) regulated activity under the SFO

Opus Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or opinions and/or the references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, (i) Opus Capital did not have any interest, either direct or indirect, in any assets which had been, since 31 December 2022, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Yancoal Group or are proposed to be acquired or disposed of by or leased to any member of the Yancoal Group; and (ii) Opus Capital did not have any shareholding interests in any member of the Yancoal Group and it did not have any right, whether legally enforceable or not, to subscribe for or nominate persons to subscribe for securities of any members of the Yancoal Group.

(b) Lonergan Edwards & Associated Limited

Name	Qualification
Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA)	LEA holds Australian Financial Services Licence No. 246532, which authorises it to provide a broad range of financial services

LEA has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or opinions and/or the references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, (i) LEA did not have any interest, either direct or indirect, in any assets which had been, since 31 December 2022, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Yancoal Group or are proposed to be acquired or disposed of by or leased to any member of the Yancoal Group; and (ii) LEA did not have any shareholding interests in any member of the Yancoal Group and it did not have any right, whether legally enforceable or not, to subscribe for or nominate persons to subscribe for securities of any members of the Yancoal Group.

8. MISCELLANEOUS

This circular has been prepared in both English and Chinese. In the event of inconsistency, the English version of this circular shall prevail over the Chinese version.

9. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the website of Hong Kong Exchanges and Clearing Limited (<http://www.hkexnews.hk>) and the Company (<http://www.yancoal.com.au>) for a period of 14 days from the date of this circular (both days inclusive):

- (a) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 17 to 18 of this circular;
- (b) the letter from Opus Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 29 to 45 of this circular;
- (c) the independent expert's report from Lonergan Edwards, the text of which is set out on pages 46 to 78 of this circular;
- (d) the written consent of Opus Capital referred to in paragraph 7 of this Appendix;
- (e) the written consent of Lonergan Edwards referred to in paragraph 7 of this Appendix;
- (f) the 2023 Yankuang Energy Framework Agreement For Coal Sales and the 2023 YIT Framework Agreement For Coal Sales;
- (g) the Proposed Coal Sales Agreements; and
- (h) this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



Yancoal Australia Ltd

ACN 111 859 119

兖煤澳大利亞有限公司*

(Incorporated in Victoria, Australia with limited liability)

(Hong Kong stock code: 3668)

(Australian stock code: YAL)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of Shareholders (**EGM**) of Yancoal Australia Limited (**Yancoal** or the **Company**) will be held at 11:00 am (AEDT) (being 8:00 am (HKT)) on Wednesday, 18 October 2023 at Darling Park, The Pavilion, 201 Sussex Street, Sydney NSW 2000, Australia.

The circular of the EGM (**Circular**) provides additional information on matters to be considered at the EGM.

ORDINARY RESOLUTIONS

The purpose of this EGM is to consider and, if thought fit, pass the Resolutions set out below in relation to the Company's proposed entry into the 2023 Yankuang Energy Framework Agreement For Coal Sales (as defined below), the 2023 YIT Framework Agreement For Coal Sales (as defined below) and three arrangements for the sale of coal, with three trading companies associated with the Company's majority shareholder, Yankuang Energy Group Co., Limited (**Yankuang Energy**, together with its subsidiaries (excluding the Yancoal Group), **Yankuang Energy Group**) and its controlling shareholder Shandong Energy Group Co., Ltd (**Shandong Energy**), being Yancoal International Trading Co., Ltd (**YIT**), Yankuang Lucky International Company Limited (**YLIL**) and Shandong Energy (Hainan) Intelligent International Technology Co., Ltd (**HII**) respectively (the **Proposed Coal Sales Agreements**).

Information on the Resolution is set out below and in the Circular (of which this Notice of Meeting forms a part).

NOTICE OF EXTRAORDINARY GENERAL MEETING

1 Resolution – Approval for entry into the 2023 Yankuang Energy Framework Agreement For Coal Sales

To consider and, if thought fit, pass the following as an **Ordinary Resolution**:

“THAT

- (a) *the execution of the 2023 Yankuang Energy Framework Agreement For Coal Sales dated 14 September 2023 (the **2023 Yankuang Energy Framework Agreement For Coal Sales**) entered into between the Company and Yankuang Energy, pursuant to which the Yancoal Group has agreed to continue to sell coal to Yankuang Energy and/or their subsidiaries (excluding the Yancoal Group) during the period from 1 November 2023 to 31 October 2026, and all transactions contemplated thereunder be and are hereby approved; and*
- (b) *the directors of the Company (the **Directors**) or a duly authorised committee of the board of Directors (the **Board**) be and are hereby authorised to do all such acts and things (including, without limitation, signing, executing (under hand or under seal), perfecting and delivery of all agreements, documents and instruments) which are in their opinion, necessary, appropriate, desirable or expedient to implement or to give effect to the terms of the 2023 Yankuang Energy Framework Agreement For Coal Sales and all transactions contemplated thereunder and all other matters incidental thereto or in connection therewith and to agree to and make such variation, amendment and waiver of any of the matters relating thereto or in connection therewith that are, in the opinion of the Directors, not material to the terms of the 2023 Yankuang Energy Framework Agreement For Coal Sales and all transactions contemplated thereunder and are in the interests of the Company.”*

2 Resolution – Approval for entry into the 2023 YIT Framework Agreement For Coal Sales

To consider and, if thought fit, pass the following as an **Ordinary Resolution**:

“THAT

- (a) *the execution of the 2023 YIT Framework Agreement For Coal Sales dated 14 September 2023 (the **2023 YIT Framework Agreement For Coal Sales**) entered into between the Company and YIT, pursuant to which the Yancoal Group has agreed to continue to sell coal to YIT and/or its subsidiaries (excluding the Yankuang Energy Group) during the period from 1 November 2023 to 31 October 2026, and all transactions contemplated thereunder be and are hereby approved; and*

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (b) *the Directors or a duly authorised committee of the Board be and are hereby authorised to do all such acts and things (including, without limitation, signing, executing (under hand or under seal), perfecting and delivery of all agreements, documents and instruments) which are in their opinion, necessary, appropriate, desirable or expedient to implement or to give effect to the terms of the 2023 YIT Framework Agreement For Coal Sales and all transactions contemplated thereunder and all other matters incidental thereto or in connection therewith and to agree to and make such variation, amendment and waiver of any of the matters relating thereto or in connection therewith that are, in the opinion of the Directors, not material to the terms of the 2023 YIT Framework Agreement For Coal Sales and all transactions contemplated thereunder and are in the interests of the Company.”*

3 Resolution – Approval for entry into the Proposed Coal Sales Agreements

To consider and, if thought fit, pass the following as an **Ordinary Resolution**:

“THAT

- (a) *for the purposes of ASX Listing Rule 10.1 and for all other purposes, entry by the Company (directly or via Yancoal Australia Sales Pty Ltd or any of its subsidiaries) into the Proposed Coal Sales Agreements on the terms described in the circular accompanying this Notice of Meeting, be and are hereby approved; and*
- (b) *the Directors or a duly authorised committee of the Board be and are hereby authorised to do all such acts and things (including, without limitation, signing, executing (under hand or under seal), perfecting and delivering all agreements, documents and instruments) which are in their opinion, necessary, appropriate, desirable or expedient to implement or to give effect to the terms of the Proposed Coal Sales Agreements and all transactions contemplated thereunder and all other matters incidental thereto or in connection therewith and to agree to and make such variation, amendment and waiver of any of the matters relating thereto or in connection therewith that are, in the opinion of the Directors, not material to the terms of the Proposed Coal Sales Agreements and all transactions contemplated thereunder and are in the interests of the Company.”*

NOTICE OF EXTRAORDINARY GENERAL MEETING

Voting Exclusion Statement for Resolution:

In accordance with ASX Listing Rule 10.5.9 and 14.11, the Company will disregard any votes cast on the Resolution by or on behalf of any of the following (**Excluded Persons**):

- YIT, YLIL and HII and any person who will obtain a material benefit as a result of the Company's entry into the Proposed Coal Sales Agreements (except a benefit solely by reason of being the holder of ordinary securities in the Company); or
- any associate of those persons (as defined under the ASX Listing Rules) including the Company's majority shareholder, Yankuang Energy Group Co., Limited (**Yankuang Energy**).

However, this does not apply to a vote cast in favour of the Resolution if it is cast by:

- a person as proxy or attorney for a person who is entitled to vote on the Resolution, in accordance with directions given to the proxy or attorney to vote on the Resolution in that way; or
- the Chair of the meeting as proxy or attorney for a person who is entitled to vote on the Resolution, in accordance with a direction given to the Chair to vote on the Resolution as the Chair decides; or
- a Shareholder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - o the beneficiary provides written confirmation to the Shareholder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the Resolution; and
 - o the Shareholder votes on the Resolution in accordance with directions given by the beneficiary to the Shareholder to vote in that way.

Independent Expert's Report for Listing Rule 10.1 purposes

Yancoal's Independent Board Committee appointed Lonergan Edwards & Associates Limited to prepare an Independent Expert's Report providing an opinion as to whether the Proposed Coal Sales Agreements are fair and reasonable to the holders of the Company's ordinary shares whose votes in favour of the Proposed Coal Sales Agreements are not to be disregarded (**Independent Shareholders**), in accordance with Listing Rule 10.5.10.

NOTICE OF EXTRAORDINARY GENERAL MEETING

The Independent Expert has concluded that the Proposed Coal Sales Agreements are fair and reasonable to the Independent Shareholders of the Company.

A copy of the Independent Expert's Report is set out in the "Report from Lonergan Edwards" in the Circular and is also available at the Company's website at <https://www.yancoal.com.au/page/en/investors/>. A hard copy of the Independent Expert's Report can be requested by Shareholders from the Company via Computershare by email web.queries@computershare.com.au or by calling Computershare at 1300 850 505 from within Australia or +61 3 9415 4000 from outside of Australia at no cost to Shareholders. Shareholders are encouraged to read and carefully consider that Independent Expert's Report.

Record Date at the EGM

The time for determining the voting entitlements of the holders of ordinary securities in the Company at the EGM will be 8:00 p.m. (Sydney, Australian time) on Thursday, 12 October 2023 (being 5:00 p.m. (Hong Kong time)) (**Record Time**). Hong Kong Shareholders who wish to attend and vote at the EGM should lodge the transfer documents and relevant share certificates with the Company's registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong on or before 4:30 p.m. (Hong Kong time) on Thursday, 12 October 2023.

The Corporations Regulations 2001 and the ASX Settlement Operating Rules of Australia require that the time to determine who holds ordinary securities in the Company for the purposes of a meeting of its shareholders may not be more than 48 hours before that meeting. However, in order for the Company to comply with requirements arising from its dual-primary listing on the Australian Securities Exchange and The Stock Exchange of Hong Kong Limited, the stipulated Record Time for the Company's EGM will be set as outlined above, which will fall on the fourth business day before the EGM. This is earlier than what shareholders and investors of the Company in Australia may be accustomed to.

Therefore, to be eligible to attend and vote at the EGM, a Shareholder must be a registered holder of the Company's ordinary securities by no later than the Record Time. If a Shareholder's name is not on the Company's register of members as at the Record Time, that Shareholder will be ineligible to attend and vote at the EGM. All share transfers registered after the Record Time will be disregarded in determining the voting entitlements of holders of ordinary securities in the Company at the EGM.

By order of the Board
Yancoal Australia Ltd
Baocai ZHANG
Chairman

Dated 14 September 2023

* *for identification purpose only*

As of the date of this announcement, the executive Director is Mr. Ning Zhang, the non-executive Directors are Mr. Baocai Zhang, Mr. Gang Ru, Mr. Yaomeng Xiao, Mr. Xiaolong Huang and Mr Changyi Zhang and the independent non-executive Directors are Mr. Gregory James Fletcher, Dr. Geoffrey William Raby and Ms. Helen Jane Gillies.