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 your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.*

If you have sold or transferred *all your shares in* ***Kinetic Development Group Limited****, you should at once hand this circular 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.*

Kinetic Development Group Limited
力量發展集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1277)

MAJOR TRANSACTION
ACQUISITION OF EQUITY INTEREST IN NINGXIA SUNSHINE

Capitalized terms used shall have the same meanings as those defined in the section headed "Definitions" in this circular. A letter from the Board is set up on pages 8 to 33 of this circular.

The Company has obtained written Shareholders' approval for the Property Rights Transfer Agreement and the transactions contemplated thereunder pursuant to Rule 14.44 of the Listing Rules from the relevant Shareholder who holds more than 50% of the total issued Shares giving the right to attend and vote at a general meeting. Accordingly, no Shareholders' meeting will be held to approve the Property Rights Transfer Agreement and the transactions contemplated thereunder pursuant to Rule 14.44 of the Listing Rules.

This circular is being dispatched to the Shareholders for information only.

14 September 2022

CONTENTS

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

"Agreements"	The Share Transfer Agreement and Property Rights Transfer Agreement;
"BAW"	BAW Mineral Partners Limited, the independent valuer engaged by the Company;
"Beijing Equity Exchange"	The China Beijing Equity Exchange* (北京產權交易所), an entity approved by the People's Government of Beijing Municipality to transact state-owned equity in the PRC;
"Board"	the board of Directors;
"Coal Reserves"	the economically mineable part of a measured and/or indicated Coal Resource, which considers mining losses and dilution that may occur by mine design and during the mining operation;
"Coal Resources"	a concentration or occurrence of a coal deposit of economic interest in such form, quantity and quality that there are reasonable prospects for eventual economic extraction;
"Company"	Kinetic Development Group Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange;
"Completion"	completion of the Relevant Acquisitions;
"Competent Person"	a person that satisfies Rules 18.21 and 18.22 of the Listing Rules;
"Competent Person's Report"	the public report prepared by a Competent Person, SRK, in compliance with rules 18.18 to 18.33 of the Listing Rules and the applicable reporting standard;
"connected person(s)"	has the meaning ascribed to it under the Listing Rules;

"Directors"	the director(s) of the Company;
"EIA Report"	the environmental impact assessment reports prepared by Nuclear Industry 203 Institute and Ningxia Institute of Petrochemical Environmental Science for the Weiyi Mine and Yongan Mine (inclusive of its coal washing plant) in March 2007;
"Enlarged Group"	the enlarged Group immediately after Completion;
"Group"	the Company and its subsidiaries;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"HS Sunshine"	Hengsheng Sunshine Xindi (Beijing) Real Estate Co., Ltd* (恒盛陽光鑫地(北京)置業有限公司) (formerly known as Beijing Sunshine Xindi Zhiye Co., Limited* (北京陽光鑫地置業有限公司)), a limited liability company established in the PRC on 25 February 2003;
"IM Kinetic"	Inner Mongolia Zhunge'er Kinetic Coal Limited* (內蒙古准格爾旗力量煤業有限公司), a PRC company incorporated on 22 December 2006 and the Company's indirect wholly-owned subsidiary;
"independent third party(ies)"	has the meaning ascribed to it under the Listing Rules;
"Indicated Resource"	that part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence;
"Inferred Resource"	that part of a mineral resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence, sampling and assumed but not verified geological and/or grade continuity;

"JORC Code"	Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists, and the Minerals Council of Australia in September 1999 and revised in December 2012;
"km"	kilometers;
"KPMG"	KPMG, the certified public accountants and the reporting accountants retained by the Company;
"Latest Practicable Date"	9 September 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"Loan Agreement"	the loan agreement entered into between the Target Company and HS Sunshine dated 1 May 2007, with a borrowing period from 1 May 2007 to 31 October 2007, pursuant to which the Target Company owed a principal amount and an annual accrued interest of 7% to HS Sunshine, namely, RMB7,607,250;
"Mt"	megaton, equivalent to 1 million (10^6) tons, or 1 billion (10^9) kilograms;
"NX Sunshine Energy"	Ningxia Sunshine Energy Investment Development Co., Ltd* (寧夏陽光能源投資發展有限公司);
"PRC"	The People's Republic of China, and for the purpose of this circular only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
"PRC Legal Adviser"	Commerce & Finance Law Offices, the legal adviser to the Company on laws of the PRC;

"Property Rights Transfer Agreement"	The agreement entitled property rights transfer agreement* (產權交易合同) (as supplemented by a supplemental agreement dated 3 June 2022) entered into between IM Kinetic and Shougang in relation to the sale and purchase of the Shougang Sale Interest and the Shougang Loan;
"Relevant Acquisitions"	the Sunshine Acquisition and Shougang Acquisition;
"RMB"	Renminbi, the lawful currency of the PRC;
"Sale Shares"	100% equity interest of the Target Company, namely, the aggregate of Sunshine Sale Interest and Shougang Sale Interest;
"Security Deposit"	the Security Deposit of RMB100,000,000 payable by IM Kinetic to Beijing Equity Exchange;
"Share Transfer Agreement"	the sale and purchase agreement dated 27 January 2022 entered into between IM Kinetic and Sunshine Investment in relation to the sale and purchase of the Sunshine Sale Interest and the Sunshine Loan;
"Share(s)"	ordinary share(s) with a nominal value of US$0.001 each in the share capital of the Company;
"Shareholder(s)"	holder(s) of share(s) of US$0.001 each in the share capital of the Company;
"Shougang"	Shougang Group Co., Ltd* (首鋼集團有限公司), a Chinese state-owned company established in the PRC, and the Vendor for Shougang Acquisition;
"Shougang Acquisition"	the acquisition of the 51% equity interest of the Target Company by IM Kinetic from Shougang pursuant to the Property Rights Transfer Agreement;

"Shougang Loan"	The debt in the amount of (i) the principal amount owed to Shougang and Shougang Mining Investment by the Target Company, being RMB709,449,451.12 and RMB141,650,532.2, respectively, (ii) the interest and additional amount attributed to the Target Company's daily operation since 1 October 2021 to 20 January 2022 owed to Shougang and Shougang Mining Investment, being RMB10,435,833.39 and RMB2,982,459.97 respectively, and (iii) the interest accrued at the bank interest rate applicable to the period from 21 January 2022 to 3 June 2022, being RMB11,906,337.82, which includes the interest owed to Shougang and Shougang Mining Investment of RMB9,914,420.11 and RMB1,991,917.71 respectively;
"Shougang Mining Investment"	Beijing Shougang Mining Investment Co., Ltd* (北京首鋼礦業投資有限責任公司), a limited liability company established in the PRC on 1 December 2003, an indirect wholly owned subsidiary of Shougang;
"Shougang Sale Interest"	the 51% equity interest of the Target Company held by Shougang;
"SRK"	SRK Consulting China Ltd, the Competent Person engaged by the Company;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"substantial shareholder"	has the meaning ascribed to this term under the Listing Rules;
"Sunshine Acquisition"	the acquisition of the 49% equity interest of the Target Company by IM Kinetic from Sunshine Investment pursuant to the Share Transfer Agreement;
"Sunshine Investment"	China Sunshine Investment Co., Limited* (中國陽光投資集團有限公司), a limited liability company established in the PRC, and the vendor for Sunshine Acquisition;

"Sunshine Loan"	the debt in an amount of RMB7,350,000 owed by the Target Company to Sunshine Investment, the annual accrued interest of 7% of the debt owed by the Target Company to HS Sunshine pursuant to a Loan Agreement, and all obligations, liabilities and debts owing or incurred by the Target Company thereunder on or at any time prior to the completion of the Share Transfer Agreement whether actual, contingent or deferred and irrespective of whether or not the same is due and payable on completion of the Share Transfer Agreement;
"Sunshine Sale Interest"	the 49% equity interest of the Target Company held by Sunshine Investment prior to the completion of the Sunshine Acquisition;
"Target Company" or "Ningxia Sunshine"	Ningxia Sunshine Mining Co., Ltd.* (寧夏陽光礦業有限公司), a state-owned limited liability company established in the PRC on 29 December 2006;
"Target Mines"	Weiyi Mine and Yongan Mine, both being coal mines, with a total mineral resource of 342.83 Mt, and with their aggregate Indicated Resources and Inferred Resources being 101.31 Mt and 241.52 Mt, respectively;
"US$"	United States dollar, the lawful currency of United States;
"Valuation Report"	the public valuation report prepared by BAW in compliance with Rule 18.34 of the Listing Rules and the VALMIN Code;
"Vendors"	the vendors of the Relevant Acquisitions, namely, Sunshine Investment and Shougang;

"Weiyi Mine"	Weiyi Mine Field of Weizhou Mining Area of Ningxia Sunshine Mining Co., Ltd.* (寧夏陽光礦業有限公司韋州礦區韋一井田), including the mining license (license number: C1000002012061130126020) issued by the Ministry of Land and Resources of PRC on 26 June 2012;
"Yongan Mine"	Yongan Coal Mine of Ningxia Sunshine Mining Co., Ltd.* (寧夏陽光礦業有限公司永安煤礦), including the mining license (license number: C1000002012061130126021) issued by the Ministry of Land and Resources of PRC on 26 June 2012;
"%"	per cent.

* *For identification purposes only*

Kinetic Development Group Limited
力量發展集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1277)

Executive Directors:
Mr. Ju Wenzhong *(Chairman)*
Mr. Li Bo
Mr. Ji Kunpeng

Non-executive Directors:
Ms. Zhang Lin

Independent Non-executive Directors:
Ms. Liu Peilian
Mr. Chen Liangnuan
Ms. Xue Hui

Registered Office:
Windward 3,
Regatta Office Park,
P.O. Box 1350,
Grand Cayman KY1-1108,
Cayman Islands

Headquarters and Principal Place of Business in the PRC:
Dafanpu Coal Mine,
Majiata Village, Xuejiawan Town,
Zhunge'er Banner,
Ordos City, Inner Mongolia,
China

Principal Place of Business in Hong Kong:
Unit B, 20th Floor,
Two Chinachem Plaza,
68 Connaught Road Central,
Hong Kong

14 September 2022

To the Shareholders,

Dear Sir/Madam,

MAJOR TRANSACTION
ACQUISITION OF EQUITY INTEREST IN NINGXIA SUNSHINE

INTRODUCTION

Reference is made to the announcement of the Company dated 27 January 2022 in relation to the Sunshine Acquisition, whereby Sunshine Investment and IM Kinetic entered into the Share Transfer Agreement, pursuant to which, Sunshine Investment agrees to sell, and IM Kinetic agrees to purchase, the Sunshine Sale Interest and Sunshine Loan for the consideration of respectively RMB378,000,000 and RMB7,607,250. The total consideration for the Sunshine Acquisition is RMB385,607,250. The registration procedures in respect of Sunshine Acquisition with the relevant administrative authority for market regulation in the PRC were completed on 27 January 2022.

Reference is further made to announcement of the Company dated 5 June 2022 in relation to the Shougang Acquisition, whereby Shougang and IM Kinetic entered into the Property Rights Transfer Agreement, pursuant to which, Shougang agrees to sell, and IM Kinetic agrees to purchase, the Shougang Sale Interest and the Shougang Loan, for the consideration of respectively RMB380,000,000 and RMB876,424,614.5, in addition to a mining rights related payment of no more than RMB1,480,000,000 (including an outstanding mining rights payment (資源價款本金) of RMB622,000,000, a further default payment (滯納金) of RMB622,000,000 and an overdue payment fee (資金佔用費) of RMB236,000,000) by IM Kinetic on behalf of the Target Company. The total consideration payable by IM Kinetic for the Shougang Acquisition, therefore, amounts to no more than RMB2,736,424,614.5. The registration procedures in respect of Shougang Acquisition with the relevant administrative authority for market regulation in the PRC were completed on 27 June 2022.

The purpose of this circular is to provide you with, among other things, further details of the Agreements, the Relevant Acquisitions and the transactions contemplated thereunder.

THE ACQUISITIONS

1. Share Transfer Agreement

Details of the Share Transfer Agreement are set out below:

Date: 27 January 2022

Parties: (1) IM Kinetic

(2) Sunshine Investment

Assets to be acquired: IM Kinetic has conditionally agreed to purchase, and Sunshine Investment has conditionally agreed to sell, the Sunshine Sale Interest and the Sunshine Loan.

The Sunshine Sale Interest represents 49% equity interest of the Target Company as at the signing and completion of the Share Transfer Agreement.

The Sunshine Loan represents (i) the debt in an amount of RMB7,350,000 owed by the Target Company to Sunshine Investment from 1 May 2007 to 31 October 2007, (ii) the annual accrued interest of 7% of the debt owed by the Target Company to HS Sunshine pursuant to the Loan Agreement, and (iii) all obligations, liabilities and debts owing or incurred by the Target Company thereunder on or at any time prior to the completion of the Share Transfer Agreement, whether actual, contingent or deferred and irrespective of whether or not the same is due and payable on completion of the Share Transfer Agreement. The outstanding indebtedness owing by the Target Company to Sunshine Investment and HS Sunshine as at 27 January 2022 was RMB7,607,250, which has been repaid by the Company upon the completion of the Sunshine Acquisition in January 2022.

Please refer to the paragraph headed "Information on the Target Company and the Target Mines" in this circular for further details.

Consideration for the Sunshine Sale Interest:

The consideration for the Sunshine Sale Interest is RMB378,000,000.

The consideration shall be satisfied by IM Kinetic to Sunshine Investment in the following manner:

(1) RMB189 million (equivalent to 50% of the consideration) shall be payable by IM Kinetic to Sunshine Investment after 7 business days from the effective date of the Share Transfer Agreement;

(2) RMB189 million (equivalent to 50% of the consideration) shall be payable by IM Kinetic to Sunshine Investment within 5 business days from the date of the completion of the Share Transfer Agreement; and

(3) IM Kinetic shall pay the consideration for the Sunshine Acquisition into the escrow account administered by Shanghai Zhangjiang Notary Public Office* (上海市張江公證處) set up by IM Kinetic and Sunshine Investment. Within 5 business days of (i) IM Kinetic having registered the transfer of the Sale Shares with the relevant authority and the Target Company having obtained an updated business licence reflecting the transfer; and (ii) the Company having obtained all applicable approvals required by the Stock Exchange in respect of the Sunshine Acquisition, IM Kinetic and Sunshine Investment shall release the consideration for the Sunshine Sale Interest (and the interest accrued) deposited at the escrow account to Sunshine Investment.

Conditions Precedent to the Sunshine Acquisition:

Completion of the Share Transfer Agreement is conditional upon various conditions having been fulfilled, including, among others:

(1) Target Company's shareholders approving the acquisition of Sunshine Sale Interest;

(2) Target Company's shareholders renouncing their preemptive rights over the Sale Shares in writing;

(3) Sunshine Investment approving the sale of Sunshine Sale Interest including but not limited to approvals by its board and shareholders;

(4) The representations and warranties provided by Sunshine Investment under the Share Transfer Agreement remaining true, accurate and not misleading as at completion of the Share Transfer Agreement;

(5) As at the date of completion of the Share Transfer Agreement and save for the disclosed matters, there has been no event that has a material adverse effect on the Target Company's business, finance, operation, management, profitability or foreseeable future development;

(6) As at the date of completion of the Share Transfer Agreement, Sunshine Investment has not breached the Share Transfer Agreement, or such breach has been corrected in a timely manner to the satisfaction of IM Kinetic; and

(7) As at the date of completion of the Share Transfer Agreement, Sunshine Investment, HS Sunshine, NX Sunshine Energy and the Target Company confirmed that Sunshine Investment holds 49% of the Target Company's equity interest and Sunshine Investment, HS Sunshine and NX Sunshine Energy shall not seek repayment of a RMB97 million mining rights payment.

The conditions precedent to the Sunshine Acquisition were neither waived nor waivable by either the Company or the Vendors.

Post-completion: The Share Transfer Agreement also includes various post-completion obligations including, among others:

(1) If the Target Company or IM Kinetic suffers losses due to Sunshine Investment's intentional concealment, material fault or gross negligence, Sunshine Investment shall compensate the Target Company or IM Kinetic for such losses;

(2) Upon completion of the Share Transfer Agreement, IM Kinetic and the Target Company shall be liable for all outstanding debts and expenses disclosed by Sunshine Investment and/or the Target Company. Sunshine Investment and/or Shougang are responsible for any undisclosed fees and debt obligations pursuant to the Target Company's articles of association and applicable company laws; and

(3) Upon completion of the Share Transfer Agreement, IM Kinetic shall undertake the rights and obligations under all contracts that have been signed by the Target Company but not yet completed, provided that such contracts are disclosed prior to completion of the Share Transfer Agreement.

Liability for Breach:

(1) If any party terminates the Share Transfer Agreement without cause, such party shall pay to the other party liquidated damages equal to 5% of the consideration for the Sunshine Sale Interest.

(2) If IM Kinetic fails to pay the consideration timely under the Share Transfer Agreement, it shall pay Sunshine Investment liquidated damages for its breach of contract. The liquidated damages are calculated at five ten-thousandths of the overdue payment accrued on a daily basis during the overdue period. If the overdue period exceeds 20 business days, Sunshine Investment has the right to terminate the Share Transfer Agreement and request IM Kinetic to pay further liquidated damages equal to 5% of the consideration for the Sunshine Sale Interest. If such liquidated damages are insufficient to compensate Sunshine Investment's losses, Sunshine Investment may seek further remedies against IM Kinetic.

(3) IM Kinetic may request Sunshine Investment to compensate IM Kinetic with liquidated damages equal to 5% of the consideration for the Sunshine Sale Interest, terminate the Share Transfer Agreement and request the refund of all payment actually made to Sunshine Investment, including the payment made to the escrow account (inclusive of interest), if the following occurs:

a) Sunshine Investment fails to transfer the Sunshine Sale Interest to IM Kinetic.

b) There is any (i) non-disclosure or omission of any material facts in relation to the Target Company's assets or liabilities or (ii) statements, representations or warranties made by Sunshine Investment are false, inaccurate or misleading, such that it may cause a material adverse effect on the Target Company or affect the consideration for the Sunshine Sale Interest. If IM Kinetic chooses not to terminate the Share Transfer Agreement, it may request Sunshine Investment to compensate its losses on a pro rata basis based upon its shareholding in the Target Company.

If such liquidated damages are insufficient to compensate IM Kinetic's losses, IM Kinetic may seek further remedies against Sunshine Investment.

The consideration for the Sunshine Acquisition was arrived at after arm's length negotiations between IM Kinetic and Sunshine Investment, which the Board considers are on normal commercial terms, with reference to, among other things, the preliminary valuation of the Target Company of not less than RMB1,000,000,000 on the basis of 100% equity interest as at 31 December 2021 determined by BAW, by way of discounted cash flow method of the income approach. The consideration of Sunshine Loan was by reference to the outstanding unaudited indebtedness owing by the Target Company to Sunshine Investment and HS Sunshine as at 27 January 2022. The Company financed the Sunshine Acquisition by internal resources of the Company.

2. The Property Rights Transfer Agreement

The principal terms of the Property Rights Transfer Agreement are set out below:

Date:	3 June 2022
Parties:	(1) IM Kinetic (2) Shougang
Assets to be acquired:	Shougang Sale Interest and Shougang Loan.
Consideration for the Shougang Sale Interest:	The consideration for the Shougang Sale Interest is RMB380,000,000.

The consideration for Shougang Sale Interest shall be paid by IM Kinetic to the designated bank account of the Beijing Equity Exchange within 5 business days after the effective date of the Property Rights Transfer Agreement.

In addition to the consideration for Shougang Sale Interest, IM Kinetic agrees to repay the Shougang Loan on behalf of the Target Company, which is inclusive of (i) the principal amount owed to Shougang and Shougang Mining Investment, being RMB709,449,451.12 and RMB141,650,532.2, respectively, (ii) the interest and additional amount attributed to the Target Company's daily operation since 1 October 2021 to 20 January 2022, being RMB10,435,833.39 and RMB2,982,459.97, owed to Shougang and Shougang Mining Investment respectively, and (iii) the interest accrued at the bank interest rate applicable to the period from 21 January 2022 to 3 June 2022, being RMB11,906,337.82, which includes the interest owed to Shougang and Shougang Mining Investment of RMB9,914,420.11 and RMB1,991,917.71 respectively.

Within 5 business days of the signing of the Property Rights Transfer Agreement, IM Kinetic shall pay the Shougang Loan to a designated account at a bank agreed by Shougang, Shougang Mining Investment and IM Kinetic. The amount paid by IM Kinetic shall be released to Shougang once the Registration is completed and the Group has obtained the relevant shareholder approval.

Security Deposit: Prior to signing of the Property Rights Transfer Agreement, IM Kinetic shall pay the Security Deposit of RMB100,000,000 to the designated bank account of the Beijing Equity Exchange as a guarantee of IM Kinetic's intention to purchase and/or participate in the bidding, and to indicate the credit standing and contractual capacity of IM Kinetic.

The Security Deposit shall form part of the consideration of the Shougang Sale Interest.

After the payment of the Security Deposit, Shougang has the right to retain the Security Deposit paid to the Beijing Equity Exchange if IM Kinetic terminates the transactions contemplated under the Property Rights Transfer Agreement for reasons related to IM Kinetic's insufficient understanding of the Target Company's debts, asset status or so forth.

Registration: After IM Kinetic has paid the Shougang Loan to the designated account at a bank agreed by Shougang, Shougang Mining Investment and IM Kinetic, Shougang and IM Kinetic shall complete the relevant registration procedures to reflect the share transfer and change of legal representatives to IM Kinetic (the "**Registration**").

Liability for Breach: After the Property Rights Transfer Agreement comes into effect, any party who proposes to terminate the contract without cause shall compensate to the other party 5% of the consideration of the Shougang Sale Interest as compensation, and shall further compensate any losses of the other party caused by the termination.

If IM Kinetic fails to pay the consideration timely under the Property Rights Transfer Agreement, it shall pay Shougang liquidated damages for its breach of contract. The liquidated damages are calculated based on five ten-thousandths of the overdue payment accrued on a daily basis during the overdue period. If the overdue period exceeds 10 business days, Shougang has the right to terminate the contract and retain the Security Deposit paid by IM Kinetic. The Security Deposit will first be used to pay the various service fees that should be collected by the Beijing Equity Exchange. The remaining amount will be used towards compensating Shougang. If the Security Deposit is insufficient to compensate Shougang's losses, Shougang may seek further remedies against IM Kinetic.

If IM Kinetic fails to repay the Shougang Loan as stipulated under the Property Rights Transfer Agreement, IM Kinetic shall pay liquidated damages to Shougang and Shougang Mining Investment, calculated based on five ten-thousandths of the overdue payment accrued on a daily basis during the overdue period.

The consideration for the Shougang Acquisition was arrived at after arm's length negotiations between IM Kinetic and Shougang, which the Board considers are on normal commercial terms, with reference to, among other things, the preliminary valuation of the Target Company of not less than RMB1,000,000,000 (taking into account the fact that the obligatory payments in relation to the relevant mining rights and outstanding interest-bearing debts had not yet been finalized when such preliminary valuation was conducted, which obligatory payments and debts could potentially be significant and could lead to a material difference in the valuation result from the perspective of BAW, for which reason BAW took a considerably conservative approach when conducting the preliminary valuation) and a final valuation of RMB3,141,000,000 taking into account further factors including cashflow generated from the planned coal mining operation, production schedule, mine planning, preliminary design study, obligatory payments in relation to the mining right and outstanding interest-bearing debts on the basis of 100% equity interest as at 31 May 2022 determined by BAW, by way of discounted cash flow method of the income approach. The consideration of Shougang Loan was determined by reference to the outstanding unaudited indebtedness owing by the Target Company to Shougang and Shougang Mining Investment as at 3 June 2022. The Company financed the Shougang Acquisition by internal resources of the Company.

The Board has assessed the consideration with reference to, among others, the final valuation of RMB3,141,000,000 on the basis of 100% equity interest as at 31 May 2022 determined by BAW (the "**Valuation**"), and the total consideration under Relevant Acquisitions being no more than RMB3,122,031,865, which consideration represents a discount of approximately 0.6% to the Valuation.

The Board has also taken into account various other factors including the amount of the coal reserves, coal quality, feasibility to achieve the planned production target and schedule, feasibility to complete the planned construction and development, and strong coal demand, in its assessment of the consideration.

On the basis of the above, the Board is of the view that the consideration is fair and reasonable and in the interest of the Company and its shareholders as a whole.

Mining rights related payment

In addition, as of June 2022, IM Kinetic is liable to pay the following amounts in relation to the Target Mines, on behalf of the Target Company, owed to the Department of Natural Resources of Ningxia Hui Autonomous Region* (寧夏回族自治區自然資源廳) (the "**Department**") after Completion:

(i) an outstanding mining rights payment (資源價款本金) of RMB622,000,000;

(ii) a further default payment (滯納金) of RMB622,000,000; and

(iii) an overdue payment fee (資金佔用費) equal to the amount that is RMB500,000,000[1] × (the number of days between 1 July 2012 to the day by which the outstanding amount referred to at (i) above is fully repaid)/365 × the benchmark interest rate published on the website of the People's Bank of China on the day of such full repayment. The outstanding amount referred to at (i) will be fully paid by 17 October 2022 and so the maximum amount of the overdue payment fee is expected to be RMB236,000,000.

The outstanding mining rights payment is the payment owed to the Department for the acquisition of the mining rights in relation to the Target Mines. The further default payment is the penalty imposed by the Department for the late payment of the mining rights related payment, and the overdue payment fee represents the interests accrued from the overdue mining rights related payment.

The Target Company has entered into supplemental agreements with the Department and the relevant municipal government with respect to these payments, with the amount referred to at (i) above being payable on or before 17 October 2022, and the amounts referred to at (ii) and (iii) above being payable in installments over a 10-year period starting from 2023.

Profit forecasts under the Valuation Report

As disclosed above, the consideration of the Shougang Acquisition was agreed after arm's length negotiations between IM Kinetic and the Vendors and are on normal commercial terms, with reference to, among other things, the valuation of the Target Company of RMB3,141,000,000 as at 31 May 2022 determined by an independent valuer, BAW, by way of discounted cash flow method of the income approach.

Since the discounted cash flow method of the income approach was adopted in the preparation of the Valuation Report, such valuation constitutes profit forecasts under Rule 14.61 of the Listing Rules.

Assumptions of Valuation

Pursuant to Rule 14.66(2) of the Listing Rules, details of the principal assumptions, including commercial assumptions, upon which the Valuation Report was based, are as follows:

- The information provided and the representations made by the management of the Company, the management of the Target Company and/or their representative(s) with regard to the Target Company's financial and business affairs are accurate and reliable;

1. RMB500,000,000 refers to RMB250,000,000 as the mining rights payment for Yongan Mine and RMB250,000,000 as the mining rights payment for Weiyi Mine.

- The Target Company will continue to operate as a going concern and has sufficient liquidity and capability to achieve the business development;

- All relevant permits, business certificates, licenses and legal approvals to operate the business in the localities in which the Target Company operates or intends to operate would be officially obtained and renewable upon expiry with minimal expenses;

- There will be sufficient supply of technical staff in the industry in which the Target Company operates or intends to operate, and the Target Company will retain competent management, key personnel and technical staff to support their ongoing operations and developments;

- There will be no major changes in the current taxation laws in the localities in which the Target Company operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with;

- There were no major changes in the financial position and performance of the Target Company between 31 May 2022, the date of valuation, and 14 September 2022, the date of the Valuation Report;

- There will be no major changes in the political, legal, economic or market conditions in the localities in which the Target Company operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Target Company;

- There will be no material changes in the relevant interest rates and exchange rates that would impact the Target Company's business; and

- There are no undisclosed actual or contingent assets or liabilities, no unusual obligations or substantial commitments, other than in the ordinary course of business and as reflected in the financials, nor any litigation pending or threatened, which would have a material impact on the value of the Target Company as of 31 May 2022, the date of valuation.

The Board has confirmed that they have made the forecast after due and careful enquiry. The auditor of the Company, KPMG, has reported on the calculation of the discounted future cash flows used in the valuation. The report from KPMG on the discounted cash flows used in the valuation has been set out in Appendix IV. The discounted future cash flows do not involve the adoption of accounting policies.

A letter from each of the Board and KPMG has been submitted to the Stock Exchange and are included in Appendices V and IV respectively to this circular for the purposes of Rule 14.62 of the Listing Rules.

Methodology of Valuation

BAW adopted the discounted cash flow method of the income approach when they prepared for the Valuation Report.

The Board understands that the income approach would be the most appropriate valuation method for the Target Company as it takes the future growth potential and the specific issues of the Target Mines into consideration. Under the income approach, the discounted cash flow method was adopted. The comparisons against other valuation methods and the specific reasons for adopting income approach have been disclosed in the Valuation Report. For further details, please refer to page III-28 to III-30.

As such, the Board is of the view that the methodology of valuation adopted by BAW is appropriate and reasonable for the purpose of the valuation of the Target Company.

Independence of BAW and Competent Person

With respect to the independence and competency of BAW and the Competent Person, the Board has taken the following measures to make the assessment and satisfy itself in the following respects:

With respect of independence

The Board has:

(1) conducted public searches to check that there is no relationship among BAW, the Group, the Vendors and their respective connected persons from the management, operational and financial perspectives;

(2) discussed with BAW and obtained their confirmation that they are independent from the Group, the Vendors and their respective connected persons;

(3) conducted public searches to check that there is no relationship among the Competent Person, the Group, the Vendors and their respective connected persons from the management, operational and financial perspectives; and

(4) discussed with the Competent Person and obtained their confirmation that they are independent from the Group, the Vendors and their respective connected persons.

With respect of competency

The Board has:

(1) carried out research based on publicly available information to make sure that BAW is a well-established professional mining consultancy firm experienced in providing mining projects evaluation services across regions including Hong Kong, Beijing, Toronto, Perth, Johannesburg and Culiacán and satisfies the definition of competent evaluator under Chapter 18 of the Listing Rules;

(2) obtained the relevant qualifications and credentials of the team members involved in the valuation of the Target Company and understood that the team members, including Karfai Leung and Hongbo Liu, being the professionals who will sign the Valuation Report, have education background in mining and engineering science with over 5 years of experience in the valuation of mining companies and more than 15 years of relevant and recent general mining experience;

(3) carried out research based on publicly available information to make sure that the Competent Person is a well-established professional consultancy firm experienced in providing mining projects evaluation services for over 45 years and has multiple offices worldwide and satisfies the definition of a competent person under Chapter 18 of the Listing Rules; and

(4) obtained the relevant qualifications and credentials of the team members involved in the assessment of the Target Mines and understood that they have undertaken over 10 similar projects in the past. Besides, Yongchun Hou and Bruno Strasser, with education background and profound experience in coal geology and mining related disciplines, being the professionals responsible for signing the Competent Person's Report, has each accumulated over 14 years of experience in assessing coal mining projects.

As such, the Board has no reason to doubt the independence and competency of BAW and the Competent Person.

INFORMATION ON THE TARGET COMPANY AND THE TARGET MINES

Target Company

The Target Company is a limited liability company established in the PRC on 29 December 2006. The Target Company is principally engaged in the business of construction of coal mine and sale of coal, iron alloy and steel. It operates the Target Mines in Ningxia Hui Autonomous Region, which have an aggregate annual production capacity of 2,100,000 tons. According to the

Competent Person's Report, as at 31 May 2022, the Target Mines have a total mineral resource of 342.83 Mt, and have aggregate Indicated Resources and Inferred Resources of 101.31 Mt and 241.52 Mt, respectively.

According to the historical financial information of the Target Company prepared in accordance with Hong Kong Financial Reporting Standards set out in the accountants' report in Appendix II, (i) the net loss before and after taxation for the year ended 31 December 2019 was RMB57,782,000; (ii) the net loss before and after taxation for the year ended 31 December 2020 was RMB58,091,000; (iii) the net loss before and after taxation for the year ended 31 December 2021 was RMB58,426,000; and (iv) the net loss before and after taxation for the 5 months ended 31 May 2022 was RMB22,372,000. The total assets and net liability value of the Target Company as at 31 May 2022 were approximately RMB1,159,859,000 and RMB1,009,596,000, respectively.

Prior to Completion, the Target Company was held as to 49% by Sunshine Investment and as to 51% by Shougang. As at the date of this circular, IM Kinetic has become the sole operator of the Target Mines through its 100% equity interests in the Target Company, and the Vendors shall cease to have any rights and interests over the Target Company or Target Mines. The financial results of the Target Company has been consolidated into the consolidated financial statements of the Group with effect from the date of Completion.

Operating Information of the Target Mines

Information related to the construction of the Target Mines are set out below:

	Latest status of construction	Outstanding construction costs to be incurred	Construction and development plan
Weiyi Mine	In suspension	1,488.6 million	Construction is currently expected to be resumed in the fourth quarter of 2022 Construction of a coal mine normally takes 2 years or more, which process would include the construction of the ground industrial facilities, the shafts system and part of the underground roadways The first coal production is currently expected to occur in the first half of 2025 Coal production is currently expected to reach full capacity by 2027
Yongan Mine	Under development	2,153.0 million	Construction has been resumed in June 2022 Construction of a coal mine normally takes 2 years or more, which process would include the construction of the ground industrial facilities, the shafts system and part of the underground roadways The first coal production is currently expected to occur in the first half of 2025 Coal production is currently expected to reach full capacity by 2027

The Company has no further commitment in the Target Company.

Mining Rights and License Details

The Weiyi Mine, owned and operated by the Target Company, includes the mining license (license number: C1000002012061130126020) issued by the Ministry of Land and Resources of PRC on 26 June 2012, with an expiry date of 20 April 2032. The address registered with the mining license is Floor 10-11, Industrial and Commercial Bank of China, No. 126, Yumin East Road, Wuzhong City, Ningxia. According to Competent Person's Report, the Weiyi Mine's production scale is 900,000 tons per year, with a mining area of 26.6589 km^2 and valid mining rights from 20 April 2012 to 20 April 2032.

The Yongan Mine, owned and operated by the Target Company, includes the mining license (license number: C1000002012061130126021) issued by the Ministry of Land and Resources of PRC on 26 June 2012, with an expiry date of 22 March 2032. The address registered with the mining license is No. 10-11 floors of Industrial and Commercial Bank of China, 126 Yumin East Road, Wuzhong City, Ningxia. According to Competent Person's Report, the Yongan Mine's production scale is 1.2 million tons per year, with a mining area of 21.6826 km^2 and valid mining rights from 22 March 2012 to 22 March 2032.

Both mining licenses have the same licensing elevation for the mining operations that ranges between +1400 m above sea level and +400 m above sea level. These depths/elevations cover the permitted and designed mineable coal seams.

Given the mining licenses of the Target Mines were both registered under the Target Company, the Target Mines share the same business license (license number: 91640000788237344E) under the Target Company, which is issued by the Ningxia Hui Autonomous Region Administration for Market Regulation on 29 March 2022, with an expiry date of 29 December 2023. The licensed business activities are coal mining, preparation, coal sales, ferroalloy and steel sales. The Company intends to renew the business license of the Target Company upon expiry.

Apart from the business and mining licences mentioned above, other operational permits are also required for the Target Mines at different stages of its operation as required by the relevant Chinese laws and regulations, including water use permit/agreement, safety production permit, site discharge permit and land use approval/permit.

As of the Latest Practicable Date, the Target Mines have not yet obtained the relevant approval documents, including the approval for construction land, the land grant agreement/the land allocation decision, and the real estate certificate, for the purpose of construction of ancillary facilities (e.g. the coal washing plant). These approvals are not required at the construction stage for the main structures of the Target Mines. Completion of these procedures will require various approvals from the local government, which the Company currently expects to be obtained by the end of 2023.

The Company is currently not aware of any substantive legal impediment in obtaining the above approval documents.

Coal Extraction and Production

Both Target Mines employ the underground longwall mining method to extract coal. Historically, six regional exploration programs were carried out for both the Target Mines. The Target Mines are located approximately 120 km south-east of Yinchuan, the capital city of Ningxia Hui Autonomous Region, in the PRC. The mining licenses for the Target Mines are adjacent and cover an area of 21.6826 km^2 and a 26.6589 km^2, respectively. The Target Company initiated construction in 2009 with the main drifts completed to 1,623 m (three drifts) in Yongan Mine and 1,729 m in Weiyi Mine. A coal preparation plant is proposed to be constructed in the Yong-an surface industrial area enabling it to directly process the run-of-mine coal lifted from the longwall panel. The plant is designed for a maximum throughput of 2.4 Mtpa run-of-mine coal with half of the raw coal being supplied from the Yong-an coal mine through a conveyor belt connecting to the raw coal silo. The run-of-mine coal mined from the Weiyi Mine is proposed to be transported to the Yongan Mine by trucks feeding into the coal preparation plant's raw coal silo, as well as the 0.3 Mtpa additional coal from a nearby local mine.

All construction activities ceased in 2010 due to the ongoing negotiation over the mining rights related payment payable in relation to the Target Mines, which the Vendors sought to agree before arranging for the construction activities to be resumed. The Yongan Mine has resumed construction since June 2022 after the amount of mining rights related payment was agreed and all relevant approvals for mine construction have been obtained, while the construction of Weiyi Mine is also expected to resume in the fourth quarter of 2022 after the relevant mine construction design is finalized, subject to the approval of the local government. The first coal production from both Target Mines is now expected in the first half of 2025 after mine construction and development for the initial mining stage is completed. Coal production from both mines would be expected to quickly reach full capacity by 2027 after a short ramping-up period. Based on the above considerations and the Coal Reserves tonnage as estimated by SRK, the forecast life of mine (incl. mine construction) of Yongan Mine and Weiyi Mine would be about 31.5 and 20 years respectively.

Coal Resources and Reserves

According to the Competent Person's Report, the historical exploration activities over Yongan Mine have intersected over 20 coal seams/splits, of which 17 coal seams were identified and correlated with resource potential. In Weiyi Mine, 22 coal seams are identified, of which 9 seams were identified with underground mining potential.

The table below sets out the Coal Resources and Coal Reserves estimation under JORC Code as at 31 May 2022, according to the Competent Person's Report:

JORC Code Coal Resources and Coal Reserves Estimated with Yongan Mine

Resource Category	**Resource (Mt)**
Measured	0
Indicated	63.22
Measured + Indicated	63.22
Inferred	161.00
Total	**224.22**

Reserve Category	**Resource (Mt)**
Proved	0
Probable	33.20
Total	**33.20**

JORC Code Coal Resources and Coal Reserves Estimated with Weiyi Mine

Resource Category	**Resource (Mt)**
Measured	0
Indicated	38.09
Measured + Indicated	38.09
Inferred	80,52
Total	**118.61**

Reserve Category	**Resource (Mt)**
Proved	0
Probable	15.02
Total	**15.02**

Occupational health and safety

A well developed and comprehensive safety management system comprises site inductions, site policies, safe work procedures, training, risk/hazard management (including signage), use of personal protective equipment, emergency response process, incident/accident reporting, an onsite first aid/medical centre, designated safety responsibilities for site personnel, regular safety meetings and a work permit/tagging system.

No safety reports, present or historical, and occupational health and safety training program for the Target Mines have been sighted as part of this review. As advised by SRK, the Target Company would conduct safety record and develop incident analysis reports for the possible injuries in future. The proposed reports analysed the cause of injuries and identified measures to prevent a recurrence, which are in line with international recognized occupational healthy and safety accident monitoring practice.

Environmental Matters

An independent third party has been commissioned to carry out an environmental impact assessment on the Target Mines to assess various environmental aspects which has been reviewed and subsequently approved by Ningxia Hui Autonomous Region Environmental Protection Bureau* (寧夏回族自治區環境保護局) in March 2007.

According to the EIA Report, temporary waste rock dump will be used to store the waste rock generated by underground mining and coal washing plant. The mine water is treated by the underground mine water treatment system to meet the water quality standard and then reused for coal washing, fire-fighting and dust suppression. The domestic sewage is treated by integrated treatment facility and then reused for greening and floor washing on site.

In accordance with the PRC laws, land reclamation reports were produced by Ningxia Institute of Petrochemical Environmental Science in June 2010 and were approved by Ningxia Hui Autonomous Region Land and Resources Bureau on 26 July 2010. According to the land reclamation reports, a mine geological environment treatment and restoration fund account will be established by the Company with a total of RMB1,172,400 investment in land reclamation for the Target Mines.

The Target Mines are located in the Taiyangshan area of Weizhou Town, Tongxin County, Wuzhong City, Ningxia Hui Autonomous Region. The general surrounding land of the Target Mines is farmland and pastureland. The main administrative body for the Target Mines is the Ningxia Hui Autonomous Region Government, with some delegation of environmental regulation functions to the Wuzhong City and Tongxin County. The EIA Report provided public participation survey for the Target Mines' construction.

Legal proceedings and compliance

As at the Latest Practicable Date, the Company was not aware of any legal claims or proceedings which may have a material adverse effect on the mining right of the Target Mines.

In addition, there are no land claims of material importance that may exist over the land on which exploration or mining activity of Target Mines will be carried out.

So far as the Directors are aware, the Target Company is in general compliance with all applicable environmental laws and regulations. Further, the Target Company has been in general compliance with the laws, regulations and permits, and requirements on payments to be made to the PRC government in respect of tax, royalties and other significant payments. There has been no material changes since the effective date of the Competent Person's Report, being 31 May 2022.

For an overall risk assessment with respect to the general and specific risks required under Guidance Note 7 issued under rule 1.06 of the Listing Rules, please refer to "17.2 — Risk Assessment" of Appendix VII.

For more information on the operational information with respect to the Target Mines, please refer to Appendix VII of this circular.

INFORMATION ON THE PARTIES

IM Kinetic is an indirect wholly-owned subsidiary of the Company. The Group is principally engaged in the extraction and sales of coal products.

Sunshine Investment principally engages in the real estate investment, leasing of own properties, asset management, business management and investment consultancy. Sunshine Investment is a limited liability company established in the PRC and is held as to 99% by Shanghai Manhou Asset Management Co., Ltd.* (上海滿厚資產管理有限公司) and as to 1% by Shanghai Sunshine Investment (Group) Co., Ltd.* (上海陽光投資(集團)有限公司). Shanghai Manhou Asset Management Co., Ltd.* is wholly owned by Shanghai Beijin Enterprise Management Co., Ltd.* (上海備錦企業管理有限公司) which is held as to 99% by Mr. Yu Yong and as to 1% by Mr. Shen Guihua. Shanghai Sunshine Investment (Group) Co., Ltd.* is wholly owned by Mr. Hou Yufeng. Mr. Yu Yong is the ultimate beneficial owner of Sunshine Investment.

Shougang is a solely state-owned company established in the PRC. Shougang is wholly-owned by State-owned Capital Operation and Management Center of Beijing, which is wholly-owned by State-owned Assets Supervision and Administration Commission of Beijing. Shougang principally engages in (i) construction, geological examination, transportation, foreign trade, telecommunications, finance and insurance, scientific research and comprehensive technical services, domestic commerce, public catering, material supply and marketing, warehousing, real estate, residential services, consulting services, leasing, agriculture, forestry, animal husbandry and fishery; (ii) authorized operation and management of state-owned assets; (iii) design, production and publication of TV or print advertisements through self-owned TV stations and Shougang daily; (iv) sewage treatment and recycling and seawater desalination; (v) literary and artistic creation and performance, such as sports project management, stadium management, and Internet information services; and (vi) municipal solid waste treatment. The registration procedures in respect of Shougang Acquisition with the relevant administrative authority for market regulation in the PRC were completed on 27 June 2022.

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

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Directors are not aware of any relationship between the Vendors.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the extraction and sales of coal products.

As advised by the Vendors, the Target Mines are principally engaged in coal mining. The Target Mines are in possession of the relevant mining licenses for the period of 20 years from 2012 to 2032 issued by the Ministry of Land and Resources of PRC. The Target Mines have a general mining area of 21.6826 km^2 and 26.6589 km^2, respectively. The estimate total mineral resource of the Target Mines (subject to the opinion of technical advisers) is not less than 342.83 Mt. The aggregate annual production capacity of the Target Mines is 2,100,000 tons per year.

Specifically, the coal resources in Target Mines are mainly coking coal, which further expands the production line of the Company. The Relevant Acquisitions, therefore, are expected to expand the total reserve base of high-quality coking coal of the Company, enhance the scale of production of the Company, and broaden its business lines.

The Company plans to manage and operate the Target Mines in accordance with the schedule set out in the Competent Person's Report. For details, please refer to "8.7.3 — Mine Development, Mining Operation, and Mine Services", "8.8.3 — Mine Development, Mining Operation, and Mine Auxiliary Services" and "11 — Project Schedule" of Appendix VII.

Besides, Mr. Xiao Runzhang ("**Mr. Xiao**") has been appointed the chief engineer and Mr. Ji Kunpeng ("**Mr. Ji**") has been appointed the general manager responsible for the management and operation of the Target Mines, both of whom have extensive experience in the coal mine management and operation. Their biographies are set out below:

Mr. Xiao graduated from Hebei Institute of Coal Architectural Engineering (河北煤炭建築工程學院) (now known as Hebei University of Engineering (河北工程大學)) in the PRC in infrastructure management and engineering in 1987. He is a qualified senior civil engineer and a qualified mining engineer in China. Besides, Mr. Xiao has over 30 years of experience in coal mine engineering. Prior to joining the Group, Mr. Xiao held senior positions in other coal mining companies, including Xuangang Mining Bureau (軒崗礦務局) of Shanxi Province and Shanxi Coal Mechanisation Construction Company (山西煤炭機械化施工公司). For further details, please refer to P.153 of the 2021 annual report of the Company.

Mr. Ji graduated from Beijing Union University（北京聯合大學）in 2008 with a bachelor's degree in management. Mr. Ji joined the Group in October 2009, and has held various management positions in the Group, including the vice president of Kinetic (Qinhuangdao) Energy Company Limited (力量(秦皇島)能源有限公司) and the deputy vice president of IM Kinetic. For further details, please refer to the announcement of the Company dated 16 June 2022 in relation to the appointment of executive directors.

Upon Completion, the Company would be the sole owner and operator of the Target Mines. Subject to further due diligence to be conducted by the IM Kinetic on the Target Mines, the Directors are of the view that the Relevant Acquisitions, if materialized, will mark a significant step to enhance the Group's principal coal business and promote the Group's coal sales layouts in Northern China. The Relevant Acquisitions will realize the Group's strategy in diversifying its coal sales offering such that the Group could develop, construct and extract coal resources from the Target Mines and supply to its customers upon Completion. Taking into account (i) the prospect of the coal mining, construction and sales industry in the PRC; (ii) the synergy effect of coal mining and coal sales operation; and (iii) the continuous, long-term and steady growth of the energy sector in the PRC, the Board is of the view that the Relevant Acquisitions is in the interest of the Company and Shareholders as a whole.

The Company, as a company listed on the Stock Exchange, will consider different investment opportunities from time to time. Whilst as at the Latest Practicable date, other than the following transactions which the Company has announced but not yet completed, including (i) the proposed acquisition of 75% equity interest in Liupanshui Changlin Real Estate Development Co., Ltd (六盤水昌霖房地產開發有限公司), as set out in the Company's announcement dated 24 December 2021; (ii) the proposed acquisition of the relevant target properties as set out in the Company's announcements dated 2 May 2022 and 12 July 2022; and (iii) the Relevant Acquisitions, the Company has not entered into any agreement, arrangement, undertaking or negotiation, in relation to any future acquisition of new businesses. The Company currently does not expect to conduct any transactions within the next 6-12 months which, if materialised (if at all), will constitute a major transaction of the Company (or above) under the Listing Rules. The Company also confirms that it has no current intention to dispose any of its existing businesses.

LISTING RULES IMPLICATIONS

As the Shougang Acquisition was proposed to be made by the Group within a 12-month period after the Sunshine Acquisition, and the Relevant Acquisitions are both with respect to the acquisition of equity interest in the Target Company by IM Kinetic, the Relevant Acquisitions are aggregated as a series of transactions pursuant to Rule 14.22 of the Listing Rules. As one or more of the applicable percentage ratios in respect of the Relevant Acquisitions, on an aggregate basis, is more than 25%, the Property Rights Transfer Agreement and the transactions contemplated thereunder are subject to the notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, as at the date of this circular, neither the Vendors nor any of their associates hold any Shares. As no Shareholder would be required to abstain from voting at the Company's general meeting for the approval of the Shougang Acquisition, written shareholders' approval will be

accepted in lieu of the general meeting on the condition that the accountants' report of the Target Company contains no qualified opinion by the reporting accountants pursuant to Rules 14.44 of the Listing Rules. The Company has sought and obtained a written Shareholder's approval from a closely allied group of Shareholders, comprising King Lok Holdings Limited (which is 100% owned by Mr. Zhang Liang, Johnson, the son of Mr. Zhang Li,) and Mr. Zhang Li, holding 5,307,450,000 and 943,314,000 Shares representing approximately 62.96% and 11.19% of the issued share capital of the Company, respectively (representing approximately 74.15% in aggregate of the entire issued share capital of the Company) as at the date of this circular, to approve the Relevant Acquisitions.

WAIVER FROM STRICT COMPLIANCE WITH RULE 14.67(6)(a)(ii) OF THE LISTING RULES

Rule 14.67(6)(a)(ii) of the Listing Rules provides that on an acquisition of any business, company or companies, the Company should include in its circular a pro forma statement of the assets and liabilities of the Group combined with the assets and liabilities of the business, company or companies being acquired on the same accounting policies which should be consistent with those of the Group prepared in accordance with Chapter 4 of the Listing Rules (the "**Pro Forma Statement**").

The Company has applied for a waiver from the requirement to include the Pro Forma Statement in this circular in strict compliance with the requirement of Rule 14.67(6)(a)(ii) of the Listing Rules on the following grounds:

1. the interim results announcement of the Company dated 18 August 2022 (the "**Interim Results Announcement**") contained the unaudited consolidated statement of financial position of the Group (as enlarged by the completion of the Relevant Acquisitions since 27 June 2022), which also includes assets and liabilities of Ningxia Sunshine as at 30 June 2022, prepared in accordance with the applicable disclosure provisions of the Listing Rules, and in compliance with Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The accounting policies are the same as the accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 annual financial statements;

2. the unaudited condensed consolidated financial statements of the Group in the Interim Results Announcement reflected the consolidated financial position of the Group after completion of the Relevant Acquisitions, and the Interim Results Announcement has been published before the publication and dispatch of the Circular. The Interim Results

Announcement shall be able to provide the Shareholders and potential investors of the Company with an actual view of the financial position of the Enlarged Group and illustrate the impact of the Relevant Acquisitions on the financial information of the Group;

3. on the other hand, if the waiver is granted and the Company is permitted to exclude the Pro Forma Statement in the circular, it will save substantial financial and administrative resources of the Company under this arrangement; and

4. as alternative disclosure to the Pro Forma Statement in the circular, the Company will include in the circular clear references to the Interim Results Announcement for (i) the financial information of the Group as enlarged by the Relevant Acquisitions, and (ii) specific disclosures regarding acquisitions of the Group illustrating the impact of the Relevant Acquisitions on the financial information of the Group.

Based on the information provided by the Company, the Stock Exchange has granted to the Company the waiver from strict compliance with the requirements under Rule 14.67(a)(ii) of the Listing Rules.

RECOMMENDATIONS

Having considered the reasons and benefits of the Shougang Acquisition above, the Board considers that the Property Rights Transfer Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms and in the interests for the Company and the Shareholders as a whole. As such, if a general meeting were to be convened, the Board would recommend the Shareholders to approve the said matters.

FURTHER INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

By Order of the Board
Kinetic Development Group Limited
Ju Wenzhong
Chairman and Executive Director

Hong Kong, 14 September 2022

FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements of the Company for the years ended 31 December 2019, 2020 and 2021 and the unaudited consolidated financial statements of the Company for the six months ended 30 June 2022 together with the relevant notes can be found on pages 81-137 of the annual report of the Company for the year ended 31 December 2019, pages 84-141 of the annual report of the Company for the year ended 31 December 2020, pages 96-163 of the annual report of the Company for the year ended 31 December 2021 and pages 2-18 of the Interim Result Announcement of the Company for the six months ended 30 June 2022. Please also see below the hyperlinks to the said documents:

https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0416/2020041601278.pdf

https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0408/2021040800752.pdf

https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0429/2022042900127.pdf

https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0818/2022081801350.pdf

STATEMENT OF INDEBTEDNESS

As at the close of business on 31 July 2022, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group (and taking into account the Dikuang Acquisition and the Guizhou Acquisition) had the following indebtedness:

Indebtedness	**31 July 2022** *RMB'000*
Secured/Guaranteed bank loans	1,231,574
Lease Liabilities	99,248
	1,330,822

As at the close of business on 31 July 2022, being the latest practicable date for the purpose of this statement of indebtedness, the Enlarged Group (and taking into account the Dikuang Acquisition and the Guizhou Acquisition) had outstanding balance of lease liabilities of approximately RMB99 million and bank loans of approximately RMB1,232 million, of which (1) RMB1,000 million were secured by the Enlarged Group's pledged deposits amounting to RMB400 million, the mining right of Inner Mongolia Zhunge'er Kinetic Coal Limited's Dafanpu Coal Mine, and guaranteed by Mr. Zhang Li and Mr. Zhang Liang, Johnson; (2) RMB33 million were guaranteed by Inner Mongolia Zhunge'er Kinetic Coal Limited and Mr. Ju Wenzhong; and (3) RMB199 million were secured by the Enlarged Group's pledged deposits amounting to RMB200 million.

Save as aforesaid or otherwise disclosed herein and apart from intra-group liabilities, at the close of business on 31 July 2022, none of the members of the Enlarged Group had (a) any debt securities issued and outstanding, and authorized or otherwise created but unissued; (b) any term loans; (c) any borrowings or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptances credits or hire purchase commitments; (d) any debentures, mortgages or charges; or (e) any guarantee or other material contingent liabilities.

SUFFICIENCY OF WORKING CAPITAL

Taking into account the financial resources (including the internal resources and the present available facilities and debentures to be raised in the future) of the Enlarged Group (and taking into account the Dikuang Acquisition and the Guizhou Acquisition) and the effect of the Relevant Acquisitions, the Directors are of the opinion that the working capital available to the Enlarged Group (and taking into account the Dikuang Acquisition and the Guizhou Acquisition) is sufficient for the Enlarged Group's requirements for at least 12 months from the date of publication of the Circular.

TRADING AND FINANCIAL PROSPECTS

Looking forward to the second half of 2022, the new variants of COVID-19 and the escalation of geopolitical conflicts will continue to disrupt the economic recovery and the pressure of inflation continues to rise. The world economy will face many challenges. According to the World Economic Outlook report issued by the International Monetary Fund in April 2022, it is expected that the global economic growth will decrease from 6.1% in 2021 to 3.6% in 2022 and 2023, and the economic growth is entering a period of significant slowdown. The Chinese government is expected to adhere to the precise prevention and control of the pandemic, firmly implement the strategy of expanding domestic demand, maintain support for the real economy, and strive to stabilize the macro-economy.

In terms of coal market, it is expected that the relaxation of industrial power and real estate policies in 2022 will continue to support the demand for coal. As the effect of the coal supply guarantee policy gradually becomes apparent, the industry may show a pattern of growth in both supply and demand, and return to the balance between supply and demand from supply tension. It is expected that the coal price will drop, but the overall coal price will remain at a relatively high level. Coupled with the production expansion under the supply guarantee policy, the leading coal enterprises are expected to maintain growth.

Looking forward to the second half of 2022, the Group will continue to implement the development concept of both safety and efficiency, further implement the refined operation strategy, strictly control coal quality from the source to the sales terminal, continue to optimize the diversified sales model, flexibly adjust the sales pace and strategy, and continue to improve the Group's operating efficiency. At the same time, the Group will accelerate strategic mergers and acquisitions, seek progress while maintaining stability, grow bigger and stronger, and reward shareholders with excellent results.

The following is the text of a report set out on pages II-1 to II-40, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF NINGXIA SUNSHINE MINING CO., LTD.* TO THE DIRECTORS OF KINETIC DEVELOPMENT GROUP LIMITED

Introduction

We report on the historical financial information of Ningxia Sunshine Mining Co., Ltd. (the "**Target Company**") set out on pages II-4 to II-40, which comprises the statements of financial position as at 31 December 2019, 2020 and 2021 and 31 May 2022, the statements of profit or loss and other comprehensive income, the statements of changes in equity and the cash flow statements, for each of the years ended 31 December 2019, 2020 and 2021 and the five months ended 31 May 2022 (the "**Relevant Periods**"), and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-4 to II-40 forms an integral part of this report, which has been prepared for inclusion in the circular of Kinetic Development Group Limited (the "**Company**") dated 14 September 2022 (the "**Circular**") in connection with the proposed acquisition of the Target Company by the Company (the "**Transaction**").

Directors' responsibility for Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2.1 to the Historical Financial Information.

The Underlying Financial Statements of the Target Company as defined on page II-4 on which the Historical Financial Information is based, were prepared by the director of the Target Company. The director of the Target Company is responsible for the preparation of the Underlying Financial Statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants

* *English translation for identification purpose only.*

("**HKICPA**"), and for such internal control as the director of the Target Company determines is necessary to enable the preparation of the Underlying Financial Statements that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the HKICPA. This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Target Company's financial position as at 31 December 2019, 2020 and 2021 and 31 May 2022 and of the Target Company's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 2.1 to the Historical Financial Information.

Review of stub period corresponding financial information

We have reviewed the stub period corresponding financial information of the Target Company which comprises, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the cash flow statement for the five months ended 31 May 2021 and other explanatory information (the "**Stub Period Corresponding Financial Information**"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Corresponding Financial Information in accordance with the basis of preparation and presentation set out in Note 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Corresponding Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Corresponding Financial Information, for the purpose of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-4 have been made.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

14 September 2022

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Target Company for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG Huazhen LLP in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("**Underlying Financial Statements**").

Statements of profit or loss and other comprehensive income

		Years ended 31 December			Five months ended 31 May	
	Note	**2019**	**2020**	**2021**	**2021**	**2022**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Revenue	*4*	—	—	—	—	—
Cost of sales		—	—	—	—	—
Gross profit		—	—	—	—	—
Other (losses) and incomes, net	*5*	(18,581)	(18,607)	(18,569)	(7,681)	(7,688)
Administrative expenses		(2,614)	(2,696)	(2,860)	(1,146)	(555)
Loss from operations		(21,195)	(21,303)	(21,429)	(8,827)	(8,243)
Share of losses of an associate		(157)	(152)	(161)	(77)	(79)
Finance costs	*7*	(36,430)	(36,636)	(36,836)	(15,435)	(14,050)
Loss before taxation		(57,782)	(58,091)	(58,426)	(24,339)	(22,372)
Income tax expense	*8*	—	—	—	—	—
Loss and total comprehensive income for the year/period		(57,782)	(58,091)	(58,426)	(24,339)	(22,372)

The accompanying notes form part of the Historical Financial Information.

Statements of financial position

	Note	As at 31 December 2019	2020	2021	As at 31 May 2022
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Property, plant and equipment	*9*	203,547	203,391	203,270	203,220
Intangible assets	*10*	934,225	934,225	934,225	934,225
Interests in an associate	*11*	22,762	22,610	22,449	22,370
Total non-current assets		1,160,534	1,160,226	1,159,944	1,159,815
Current assets					
Other receivables	*12*	162	143	3	3
Cash at bank and in hand	*13*	37	646	765	32
Other current assets		6	9	9	9
Total current assets		205	798	777	44
Current liabilities					
Other payables	*15*	1,421,116	1,460,887	1,500,456	1,514,290
Provision	*14*	610,330	628,935	647,489	—-
Total current liabilities		2,031,446	2,089,822	2,147,945	1,514,290
Net current liabilities		(2,031,241)	(2,089,024)	(2,147,168)	(1,514,246)
Total assets less current liabilities		(870,707)	(928,798)	(987,224)	(354,431)
Non-current liabilities					
Other payables	*15*	—	—	—	655,165
Net liabilities		(870,707)	(928,798)	(987,224)	(1,009,596)
Deficit					
Paid-in capital	*16*	289,700	289,700	289,700	289,700
Accumulated losses		(1,160,407)	(1,218,498)	(1,276,924)	(1,299,296)
Total deficit		(870,707)	(928,798)	(987,224)	(1,009,596)

The accompanying notes form part of the Historical Financial Information.

Statements of changes in equity

	Paid-in capital *RMB'000* *(Note 16)*	Accumulated losses *RMB'000*	Total *RMB'000*
At 1 January 2019	289,700	(1,102,625)	(812,925)
Loss and total comprehensive income for the year	—	(57,782)	(57,782)
At 31 December 2019 and 1 January 2020	289,700	(1,160,407)	(870,707)
Loss and total comprehensive income for the year	—	(58,091)	(58,091)
At 31 December 2020 and 1 January 2021	289,700	(1,218,498)	(928,798)
Loss and total comprehensive income for the year	—	(58,426)	(58,426)
At 31 December 2021 and 1 January 2022	289,700	(1,276,924)	(987,224)
Loss and total comprehensive income for the period	—	(22,372)	(22,372)
At 31 May 2022	289,700	(1,299,296)	(1,009,596)
At 1 January 2021	289,700	(1,218,498)	(928,798)
Loss and total comprehensive income for the period (unaudited)	—	(24,339)	(24,339)
At 31 May 2021 (unaudited)	289,700	(1,242,837)	(953,137)

The accompanying notes form part of the Historical Financial Information.

Cash flow statements

	Note	Years ended 31 December			Five months ended 31 May	
		2019	2020	2021	2021	2022
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Operating activities						
Loss before taxation		(57,782)	(58,091)	(58,426)	(24,339)	(22,372)
Adjustment for:						
Depreciation		156	156	121	50	50
Finance costs	*7*	36,430	36,636	36,836	15,435	14,050
Interest income	*5*	(5)	(7)	(7)	(2)	(2)
Expense for overdue payment fee	*5*	18,554	18,605	18,554	7,676	7,676
Share of losses of an associate	*11*	157	152	161	77	79
Credit losses		19	19	140	—	—
Changes in working capital:						
Increase/(decrease) in other payables		34	60	56	20	(183)
Net cash flows used in operating activities		(2,437)	(2,470)	(2,565)	(1,083)	(702)
Investing activities						
Interest received	*5*	5	7	7	2	2
Payments for purchase of property, plant and equipment		—	(86)	—	—	—
Net cash flows generated from/(used in) investing activities		5	(79)	7	2	2
Financing activities						
Proceeds from related party loans		3,710	6,910	9,900	7,630	9,900
Repayment of related party loans		(1,150)	(3,540)	(6,910)	(6,910)	(9,900)
Interest paid		(106)	(212)	(313)	(71)	(33)
Net cash flows generated from/(used in) financing activities		2,454	3,158	2,677	649	(33)
Net increase/(decrease) in cash		22	609	119	(432)	(733)
Cash at the beginning of the year/period		15	37	646	646	765
Cash at the end of the year/period	*13*	37	646	765	214	32

The accompanying notes form part of the Historical Financial Information.

Notes to the Historical Financial Information
(Expressed in RMB unless otherwise indicated)

1. Corporate and company information

寧夏陽光礦業有限公司 (Ningxia Sunshine Mining Co., Ltd.*) was established in the People's Republic of China (the "**PRC**") on 29 December 2006 as a company with limited liability under the laws of the PRC. As at 31 December 2021, the shareholders of the Target Company were Shougang Group Co., Ltd., holding 51% equity interest, and China Sunshine Investment Co., Ltd., holding 49% equity interest. The ultimate holding company of the Target Company was Shougang Group Co., Ltd.. The Target Company is principally engaged in coal mine construction, extraction and sale of coal products.

On 27 January 2022, Inner Mongolia Zhunge'er Kinetic Coal Limited, a subsidiary of Kinetic Development Group Limited signed a share transfer agreement with China Sunshine Investment Co., Ltd. to acquire 49% equity interest of the Target Company and subsequently on 3 June 2022, Inner Mongolia Zhunge'er Kinetic Coal Limited signed a property rights transfer agreement with Shougang Group Co., Ltd. to acquire the remaining 51% equity interest of the Target Company, after which Kinetic Development Group Limited completed the acquisition of 100% equity interest of the Target Company by the end of June 2022.

2.1 Basis of preparation and presentation

The Historical Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). They have been prepared under the historical cost convention. The Historical Financial Information are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

The HKICPA has issue a number of new and revised HKFRSs. For the purpose of preparing the Historical Financial Information, the Target Company has adopted all applicable new and revised HKFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting periods beginning on 1 January 2022. The revised and new accounting standards and interpretation issued but not yet effective for accounting periods beginning on 1 January 2022 are set out in Note 2.2.

* *English translation for identification purpose only.*

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

The Stub Period Corresponding Financial Information has been prepared in accordance with the same basis of preparation and presentation adopted in respect of the Historical Financial Information.

The preparation of Historical Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the Historical Financial Information and major sources of estimation uncertainty are discussed in Note 3.

As at 31 December 2019, 2020 and 2021 and 31 May 2022, the Target Company had net current liabilities of RMB2,031,241,000, RMB2,089,024,000, RMB2,147,168,000 and RMB1,514,246,000, and net liabilities of RMB870,707,000, RMB928,798,000, RMB987,224,000 and RMB1,009,596,000 respectively. The Target Company's ability to repay its debts when they fall due heavily relies on its ability to refinance through bank loans and financial support from the Company.

In view of the above, the board of directors of the Company have carefully assessed the Target Company's liquidity position having taken into account (i) the estimated capital expenditure of the Target Company in the next twelve months from the end of the Relevant Periods; (ii) the Company's ability to provide financial support to the Target Company when necessary. As at 30 June 2022, as the Company has completed the acquisition of the Target Company, the Company

has provided fund to the Target Company and settled the interest-bearing liabilities amounting to approximately RMB884,032,000. For the rest of the liabilities, the Company will provide the financial support when they fall due.

On the basis of the above, the board of directors of the Company believe that the Target Company can satisfy its financial obligations in the foreseeable future and accordingly, the Historical Financial Information has been prepared on a going concern basis.

2.2 Possible impact of amendments, new standards and interpretation issued but not yet effective for the Relevant Periods

Up to the date of issue of this report, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the Relevant Periods and which have not been adopted in the Historical Financial Information. These developments include the following which may be relevant to the Target Company.

	Effective for accounting periods beginning on or after
Amendments to HKAS 1, *Classification of Liabilities as Current or Non-current*	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2, *Disclosure of Accounting Policies*	1 January 2023
Amendments to HKFRS 8, *Definition of Accounting Estimates*	1 January 2023
Amendments to HKAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	1 January 2023

The Target Company is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the financial position and financial results of the Target Company.

2.3 Summary of significant accounting policies

(a) Investments in associates

An associate is an entity in which the Target Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Target Company's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate that forms part of the Target Company's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Target Company's share of the investee's net assets and any impairment loss relating to the investment. At each reporting date, the Target Company assesses whether there is any objective evidence that the investment is impaired. Any acquisition-date excess over cost, the Target Company's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the statement of profit or loss, whereas the Target Company's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the statement of profit or loss and other comprehensive income.

When the Target Company's share of losses exceeds its interest in the associate, the Target Company's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Target Company has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Target Company's interest is the carrying amount of the investment under the equity method, together with any other long-term interests that in substance form part of the Target Company's net investment in the associate (after applying the ECL model to such other long-term interests where applicable).

Unrealised profits and losses resulting from transactions between the Target Company and its associate are eliminated to the extent of the Target Company's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In all other cases, when the Target Company ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

(b) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Target Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Target Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Target Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(c) Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Target Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment other than mining structures to its residual value over its estimated useful life as follows:

	Depreciable life
Buildings	30 years
Office equipment	5 years
Motor vehicles	5 years
Other equipment	5 years

Mining structures will be depreciated on the units-of-production method based on proved and probable coal reserves.

Where part of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, machinery and equipment, and mining structures under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

(d) Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at end of each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Mining rights are stated at cost less accumulated amortisation and impairment losses. The mining rights will be amortised using the units-of-production method based on the proved and probable coal reserves.

(e) Credit losses

The Target Company recognises a loss allowance for expected credit losses (ECLs) on the following items:

— financial assets measured at amortised cost (including cash and cash equivalents, other receivables, which are held for the collection of contractual cash flows which represent solely payments of principal and interest);

— contract assets as defined in HKFRS 15.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Target Company in accordance with the contract and the cash flows that the Target Company expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

— fixed-rate financial assets, other receivables: effective interest rate determined at initial recognition or an approximation thereof;

— variable-rate financial assets: current effective interest rate.

In measuring ECLs, the Target Company takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Target Company's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Target Company recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Target Company compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Target Company considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Target Company in full, without recourse by the Target Company to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Target Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Target Company.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Target Company recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income

Interest income recognised is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Target Company assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or past due event;

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

— the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Target Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(f) Obligations for land reclamation

The Target Company's obligations for land reclamation consist of spending estimates for underground mines in accordance with the PRC rules and regulations. The Target Company estimates its liabilities for final reclamation and mine closure based upon detailed calculations of

the amount and timing of the future cash spending for a third party to perform the required work. Spending estimates are escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation. The Target Company records a corresponding asset associated with the liability for final reclamation and mine closure. The obligation and corresponding asset are recognised in the period when the Target Company has such present obligation. The asset is depreciated on the units-of-production method based on proved and probable coal reserves and the liability is accreted to the projected spending date. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation and corresponding asset are recognised at the appropriate discount rate.

(g) Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or companies of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

(h) Other receivables

Other receivables are stated at amortised cost using the effective interest method less allowance for credit losses.

(i) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Target Company's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

(j) Other payables and liabilities

Other payables and liabilities are initially recognised at fair value. Other payables and liabilities are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(k) Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Target Company operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Target Company has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(l) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

(m) Interest income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

(n) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred.

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(o) Related parties

A party is considered to be related to the Target Company if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Target Company;

(ii) has significant influence over the Target Company; or

(iii) is a member of the key management personnel of the Target Company or of a parent of the Target Company; or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Target Company are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Target Company are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Target Company or an entity related to the Target Company;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a company of which it is a part, provides key management personnel services to the Target Company or to the parent of the Target Company.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3 Significant accounting judgements and estimates

The preparation of the Target Company's Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of non-financial assets

The Target Company assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. For the Target Company's non-financial assets, value in use calculation is used to assess impairment. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit, using key assumptions such as forecasted market price of coal, production volumes and coal reserves, and choose a suitable discount rate in order to calculate the present value of those cash flows. For details of the Target Company's non-financial assets, please refer to the accompanying notes 9, 10 and 11 to the financial statements.

4 Revenue

The principal activities of the Target Company are the extraction and sale of coal products. As the mining structure of the Target Company is still under construction, there was no revenue generated during the Relevant Periods.

5 Other (losses) and incomes, net

	Years ended 31 December			Five months ended 31 May	
	2019	2020	2021	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interest income	5	7	7	2	2
Expense for overdue payment fee	(18,554)	(18,605)	(18,554)	(7,676)	(7,676)
Tax and surcharges	(32)	(9)	(22)	(7)	(14)
	(18,581)	(18,607)	(18,569)	(7,681)	(7,688)

6 Loss before taxation

The Target Company's loss before taxation is arrived at after charging/(crediting):

	Note	Years ended 31 December			Five months ended 31 May	
		2019	2020	2021	2021	2022
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Depreciation	*9*	156	156	121	50	50
Credit losses/(gains)		19	19	140	—	(188)
Staff costs						
Salaries, wages, bonuses and benefits		1,583	1,696	1,672	721	464
Contributions to defined contribution retirement scheme		204	17	213	85	54
		1,962	1,888	2,146	856	380

7 Finance costs

An analysis of finance costs is as follows:

	Years ended 31 December			Five months ended 31 May	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interest expenses on interest-bearing amounts due to related parties *(note 15)*	36,430	36,636	36,836	15,435	14,050

8 Income tax expense

No provision for income tax expense was made as the Company did not generate any income subject to PRC Corporate Income Tax Law during the Relevant Periods.

Reconciliation between income tax expense and loss before taxation at applicable tax rate is as follows:

	Years ended 31 December			Five months ended 31 May	
	2019	**2020**	**2021**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Loss before taxation	(57,782)	(58,091)	(58,426)	(24,339)	(22,372)
Tax on loss before taxation, calculated at the rate 25%	(14,446)	(14,523)	(14,606)	(6,085)	(5,593)
Effect of non-deductible expenses	13,770	13,808	13,850	5,782	5,396
Tax losses not recognised as deferred tax assets	676	715	756	303	197
Income tax expense	—	—	—	—	—

Deferred tax asset not recognised

In accordance with the accounting policy set out in Note 2.3(k), the Target Company has not recognised deferred tax assets in respect of cumulative tax losses in the following table as it is not probable that future taxable profits against which the losses can be utilised will be available in the current tax jurisdiction.

	As at 31 December			As at 31 May
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Tax losses	13,076	15,128	17,745	18,531

The expiry dates of the tax losses of the Target Company for which no deferred income tax assets were recognized are summarized as follows:

	As at 31 December			As at 31 May
Year of expiry	**2019**	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
2020	810	—	—	—
2021	410	410	—	—
2022	3,662	3,662	3,662	3,662
2023	5,490	5,490	5,490	5,490
2024	2,704	2,704	2,704	2,704
2025	—	2,862	2,862	2,862
2026	—	—	3,027	3,027
2027	—	—	—	786
Total	13,076	15,128	17,745	18,531

9 Property, plant and equipment

	Buildings	Motor vehicles	Office equipment	Others	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:						
At 1 January 2019, 31 December 2019, 31 December 2020, 31 December 2021 and 31 May 2022	3,830	2,286	1,028	302	200,261	207,707
Less: Accumulated depreciation:						
At 1 January 2019	773	2,172	772	287	—	4,004
Charge for the year	121	—	35	—	—	156
At 31 December 2019 and 1 January 2020	894	2,172	807	287	—	4,160
Charge for the year	121	—	35	—	—	156
At 31 December 2020 and 1 January 2021	1,015	2,172	842	287	—	4,316
Charge for the year	121	—	—	—	—	121
At 31 December 2021 and 1 January 2022	1,136	2,172	842	287	—	4,437
Charge for the period	50	—	—	—	—	50
At 31 May 2022	1,186	2,172	842	287	—	4,487
Less: Impairment loss:						
At 1 January 2019, 31 December 2019, 31 December 2020, 31 December 2021 and 31 May 2022	—	—	—	—	—	—
Net book value						
At 31 December 2019	2,936	114	221	15	200,261	203,547
At 31 December 2020	2,815	114	186	15	200,261	203,391
At 31 December 2021	2,694	114	186	15	200,261	203,270
At 31 May 2022	2,644	114	186	15	200,261	203,220

10 Intangible assets

	As at 31 December			As at 31 May
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Mining rights	934,225	934,225	934,225	934,225

In 2012, the Target Company acquired the mining rights of Weiyi Coal Mine and Yong'an Coal Mine from the Department of Land and Resources of Ningxia Hui Autonomous Region, for a total consideration of RMB1,022,000,000, of which RMB400,000,000 was paid in 2006 and RMB622,000,000 was agreed to be settled by instalments. The total present value of the consideration was measured at RMB934,225,000. The Target Company obtained the mining right licences in 2012.

As Weiyi Coal Mine and Yong'an Coal Mine are currently under construction and according to the accounting policy set out in Note 2.3(d) to the accountants' report as set out in appendix II, no amortisation charges have been recognised during the Relevant Periods. In addition, the Target Company assesses the recoverable amounts of the mining rights annually based on market conditions and no impairment losses for mining rights have been recognised during the Relevant Periods.

11 Interests in an associate

The following table contains the particulars of an associate as at 31 December 2019, 2020 and 2021 and 31 May 2022, which is an unlisted corporate entity whose quoted market price is not applicable:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Target Company	Principal activities
Ningxia Sun Mountain Energy Development Co., Ltd.* 寧夏太陽山能源開發有限公司	Registered Capital RMB100,000,000	Mainland China	45%	Environmental protection and treatment of ecological environment in Weizhou mining area

* *The official name of the entity is in Chinese. The English translation of the entity's name is for identification purpose only.*

Summarised financial information of the associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the Historical Financial Information, is disclosed below:

	As at 31 December			As at 31 May
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Gross amounts of the associate				
Current assets	44,845	44,966	45,089	45,112
Non-current assets	5,753	5,276	4,798	4,599
Current liabilities	(18)	—	—	—
Equity	50,580	50,242	49,887	49,711
Revenue	—	—	—	—
Total comprehensive income	(350)	(338)	(355)	(176)
Reconciled to the Target Company's interest in the associate				
Gross amounts of net assets of the associate	50,580	50,242	49,887	49,711
Target Company's effective interest	45%	45%	45%	45%
Target Company's share of net assets of the associate	22,762	22,610	22,449	22,370

12 Other receivables

	As at 31 December			As at 31 May
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Receivables from a third party	162	143	3	3

13 Cash at bank and in hand

	As at 31 December			As at 31 May
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at bank and in hand	37	646	765	32

14 Provision

	As at 31 December			As at 31 May
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Provision for expenses for further default payment of mining rights and overdue payment fee	610,330	628,935	647,489	—

As at 31 December 2019, 2020 and 2021, the amount represents the estimated further default payment and overdue payment fee in respect of the Target Company's acquisition of mining rights (Note 10), for which consideration payable of RMB622,000,000 was not settled up to 31 May 2022. In May 2022, the Target Company signed an agreement with the Department of Natural Resources of Ningxia Hui Autonomous Region to agree on the amount and terms of further default payment of mining rights and overdue payment fee. According to the agreement, further default payment of mining rights and overdue payment fee as at 31 May 2022 is RMB865,121,000, which is expected to be settled from 2023 to 2032 and accordingly its net present value was measured at RMB655,165,000 and classified as non-current portion of other payables.

15 Other payables

	Note	As at 31 December 2019	2020	2021	As at 31 May 2022
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Payables for construction of mining structure	*(a)*	857	771	771	771
Payables for acquisition of mining rights	*10*	622,000	622,000	622,000	622,000
Payables for expenses for further default payment of mining rights and overdue payment fee	*14*	—	—	—	655,165
Amounts due to ultimate holding company and fellow subsidiary	*(b)*	783,101	822,895	862,408	876,425
Amounts due to other related parties	*(c)*	10,254	10,254	10,254	10,254
Others		4,904	4,967	5,023	4,840
		1,421,116	1,460,887	1,500,456	2,169,455
Less: Non-current portion of other payables		—	—	—	655,165
		1,421,116	1,460,887	1,500,456	1,514,290

Notes:

(a) Payables for construction are non-interest bearing and have no fixed term of payment.

(b) Certain amounts due to ultimate holding company and fellow subsidiary are interest bearing.

As at 31 December 2019, the principal of loans and the interest payables recorded in amounts due to ultimate holding company and fellow subsidiary were RMB590,380,000 and RMB170,171,000, respectively. The annual interest rates ranged from 4.35% to 7.05%, without specific maturity.

As at 31 December 2020, the principal of loans and the interest payables recorded in amounts due to ultimate holding company and fellow subsidiary were RMB593,750,000 and RMB206,595,000, respectively. The annual interest rates ranged from 4.05% to 7.05%, without specific maturity.

As at 31 December 2021, the principal of loans and the interest payables recorded in amounts due to ultimate holding company and fellow subsidiary were RMB596,740,000 and RMB243,118,000, respectively. The annual interest rates ranged from 4.05% to 7.05%, without specific maturity.

As at 31 May 2022, the principal of loans and the interest payables recorded in amounts due to ultimate holding company and fellow subsidiary were RMB596,740,000 and RMB257,135,000, respectively. The annual interest rates ranged from 3.85% to 7.05%, without specific maturity.

(c) Certain amounts due to other related parties are interest bearing.

As at 31 December 2019, 2020, 2021 and 31 May 2022, the principal of loans and the interest payables recorded in amounts due to other related parties were RMB7,350,000 and RMB257,000, respectively.

The annual interest rates is 7%, with maturity of six months.

16 Paid-in capital

	As at 31 December			As at 31 May
	2019	2020	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Fully paid	289,700	289,700	289,700	289,700

17 Notes to the cash flow statements

Changes in liabilities arising from financing activities:

	Interest-bearing amounts due to related parties
	RMB'000
At 1 January 2019	721,667
Changes from financing cash flows	
New loans	3,710
Repayment of loans	(1,150)
Interest paid	(106)
Total changes from financing cash flows	2,454

	Interest-bearing amounts due to related parties *RMB'000*
Other changes	
Interest expenses	36,430
At 31 December 2019	760,551
At 1 January 2020	760,551
Changes from financing cash flows	
New loans	6,910
Repayment of loans	(3,540)
Interest paid	(212)
Total changes from financing cash flows	3,158
Other changes	
Interest expenses	36,636
At 31 December 2020	800,345
Changes from financing cash flows	
New loans	9,900
Repayment of loans	(6,910)
Interest paid	(313)
Total changes from financing cash flows	2,677
Other changes	
Interest expenses	36,836
At 31 December 2021	839,858
Changes from financing cash flows	
New loans	9,900
Repayment of loans	(9,900)
Interest paid	(33)
Total changes from financing cash flows	(33)

	Interest-bearing amounts due to related parties *RMB'000*
Other changes	
Interest expenses	14,050
At 31 May 2022	853,875
At 1 January 2021	800,345
Changes from financing cash flows (unaudited)	
New loans	7,630
Repayment of loans	(6,910)
Interest paid	(71)
Total changes from financing cash flows	649
Other changes (unaudited)	
Interest expenses	15,435
At 31 May 2021 (unaudited)	816,429

18 Related party transactions

(a) Name and relationship with related parties

During the Relevant Periods, transactions with the following parties are considered as related party transactions:

Name of parties	Relationship
Shougang Group Co. Ltd.* (首鋼集團有限公司)	Ultimate holding company
Beijing Shougang Mining Investment Co. Ltd.* (北京首鋼礦業投資有限責任公司)	Fellow subsidiary of the ultimate holding company
Shougang Group Finance Co. Ltd.* (首鋼集團財務有限公司)	Fellow subsidiary of the ultimate holding company
China Sunshine Investment Co. Ltd.* (中國陽光投資集團有限公司)	Shareholder with significant influence over the Target Company**

Name of parties	Relationship
Ningxia Sun Mountain Energy Development Co. Ltd.* (寧夏太陽山能源開發有限公司)	Associate

* *The official name of these entities is in Chinese. The English translation of the name is for identification purpose only.*

(b) Financing arrangements

Please refer to Note 15(b) and (c) for the balances of interest-bearing amounts due to related parties at each reporting date during the Relevant Periods and Note 7 for interest expenses incurred during the Relevant Periods.

(c) Non-interest bearing amounts due to related parties

The amount due to related parties was RMB25,197,000 at 31 December 2019, 31 December 2020, 31 December 2021 and 31 May 2022. The balances with these related parties are unsecured, interest free and repayable on demand.

(d) Deposit placed with a financial institution

The Target Company's cash deposited in Shougang Group Finance Co. Ltd. was RMB37,000, RMB646,000, RMB765,000 and RMB32,000 as at 31 December 2019, 2020 and 2021, and 31 May 2022 respectively with annual interest rates of 0.35% during the Relevant Periods.

(e) Compensation of key management personnel of the Target Company:

	Years ended 31 December			Five months ended 31 May	
	2019	2020	2021	2021	2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Short-term employee benefits	1,279	1,372	1,318	546	301
Contributions to defined contribution retirement plans	86	94	98	39	24
Total compensation paid to key management personnel	1,365	1,466	1,416	585	325

19 Financial risk management objectives and policies

The Target Company's principal financial instruments comprise interest-bearing related parties loans, cash and bank deposits.

The main risks arising from the Target Company's financial instruments are interest rate risk, credit risk and liquidity risk. The Target Company has not used any derivatives and other instruments for hedging purposes. The Target Company does not hold or issue derivative financial instruments for trading purposes. The Target Company reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Target Company's exposure to the risk of changes in market interest rates relates primarily to the Target Company's bank deposits and interest-bearing amounts due to related parties with a floating interest rate. The following table demonstrates the sensitivity to a

reasonably possible change in interest rates, with all other variables held constant, of the Target Company's loss/profit before taxation (through the impact on floating rate loans) and the Target Company's equity.

	Increase/ (decrease) in basis points	**(Increase)/ decrease in loss before taxation** *RMB'000*	**Increase/ (decrease) in equity** *RMB'000*
Year ended 31 December 2019	100	(6,093)	(6,093)
	(100)	6,093	6,093
Year ended 31 December 2020	100	(6,087)	(6,087)
	(100)	6,087	6,087
Year ended 31 December 2021	100	(6,086)	(6,086)
	(100)	6,086	6,086
Five months ended 31 May 2022	100	(6,094)	(6,094)
	(100)	6,094	6,094

Credit risk

The Target Company was not exposed to any significant credit risk during the Relevant Periods.

Liquidity risk

The Target Company's management reviews the liquidity position of the Target Company on an ongoing basis, including reviewing of the expected cash inflows and outflows, maturity of interest-bearing loans and other liabilities in order to monitor the Target Company's liquidity requirements in the short and longer term.

During the Relevant Periods, financial obligations of the Target Company were other payables. The following table details the remaining contractual maturities of the Target Company's non-derivative financial liabilities at the end of the Relevant Periods, which are based on contractual undiscounted cash flows (including interest payments computing using contractual rates) and the earliest date the Target Company can be required to pay:

	31 December 2019					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand	1-2 years	2-3 years	Over 3 years	Total	Carrying amount at 31 December
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other payables	1,421,116	—	—	—	1,421,116	1,421,116

	31 December 2020					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand	1-2 years	2-3 years	Over 3 years	Total	Carrying amount at 31 December
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other payables	1,460,887	—	—	—	1,460,887	1,460,887

	31 December 2021					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand	1-2 years	2-3 years	Over 3 years	Total	Carrying amount at 31 December
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other payables	1,500,456	—	—	—	1,500,456	1,500,456

	31 May 2022					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand	1-2 years	2-3 years	Over 3 years	Total	Carrying amount at 31 May
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other payables	1,514,290	86,512	86,512	692,097	2,379,410	2,169,455

Capital management

The primary objectives of the Target Company's capital management are to safeguard the Target Company's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise equityholders' value.

The Target Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Target Company may return capital to or increase capital injection from the equityholders. The Target Company is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

20 Fair value measurement

There are no financial assets or liabilities measured at fair value at the end of the Relevant Periods.

The carrying amounts of the Target Company's financial instruments carried at amortised cost are not materially different from their fair values during the Relevant Periods.

21 Events after the reporting period

As disclosed in Note 1, the Company has completed the acquisition of the Target Company and holds 100% equity interest of the Target Company by the end of June 2022.

SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 31 May 2022.

VALUATION REPORT
OF
NINGXIA SUNSHINE MINING CO., LTD

PREPARED FOR
KINETIC DEVELOPMENT GROUP LIMITED

PREPARED BY

BAW MINERAL PARTNERS

September 14, 2022

PROJECT NO: 048-HL-VAL-2111

September 14, 2022

Kinetic Development Group Limited
Unit B, 20th Floor
Two Chinachem Plaza
68 Connaught Road Central
Hong Kong

Dear Sirs/Madams,

This report was prepared solely for Kinetic Development Group Limited (the "**Company**"), which has engaged BAW Mineral Partners Limited ("**BAW**" or "**we**") to perform a valuation of 100% equity interest in Ningxia Sunshine Mining Co., Ltd (the "**Target Company**") which indirectly holds 100% interest in the Yongan and Weiyi Underground Coal Mines (the "**Coal Mines**") located in Ningxia Hui Autonomous Region, the People's Republic of China (the "**PRC**") as of May 31, 2022 (the "**Date of Valuation**"). The Target Company is principally engaged in the business of exploration, mining and sales of coking coal at the Coal Mines.

The approaches and methodologies adopted in our work did not comprise an examination in accordance with generally accepted accounting principles, the objective of which is an expression of an opinion regarding the fair presentation of financial statements or other financial information, whether historical or prospective, presented in accordance with generally accepted accounting principles.

We express no opinion and accept no responsibility for the accuracy and completeness of the financial information or other data provided to us by others. We assume that the financial and other information provided to us is accurate and complete, and we have relied upon this information in performing our valuation.

BAW hereby certifies that neither BAW, nor its directors, shareholders, staffs have any present or prospective interests in the Company or its mining properties. BAW is to receive the professional fee for its services (the work product of which includes this report) at its normal commercial rate and customary payment schedules. The payment of our professional fee is not contingent on the outcome of this report.

Yours faithfully,

For and on behalf of
BAW MINERAL PARTNERS LIMITED

Karfai Leung
Director

Hongbo Liu
General Manager

TABLE OF CONTENTS

1 SUMMARY OF SALIENT FACTS

Valuation Subject	100% equity interest in Ningxia Sunshine Mining Co., Ltd (the "**Target Company**")
Mining Asset	Yongan Coal Mine and Weiyi Coal Mine (collectively the "**Coal Mines**")
Coal Mine Operator	Ningxia Sunshine Mining Co., Ltd
Mining License Holder	Ningxia Sunshine Mining Co., Ltd
Coal Mine Location	Located approximately 120 kilometers ("**km**") southeast of Yinchuan city in Ningxia Hui Autonomous Region Province, the PRC
Current Status of the Coal Mine	In the process of development to reach the approved annual production capacity of 1,200,000 tons and 900,000 tons for the Yongan Coal Mine and Weiyi Coal Mine respectively
Date of Valuation	May 31, 2022
Report Date	September 14, 2022
Fair Market Value	Preferred value of the Target Company: RMB3,141,000,000

2 PURPOSE OF VALUATION

This report was prepared solely for the use of the directors and management of the Company. In addition, BAW acknowledges that this report may be made available to the Company for public disclosure purpose and used as reference on the Company's announcement. We will not accept any responsibility or liability to any third party to whom in respect of, or arising out of, the contents of this report may be shown.

3 BASIS OF VALUATION

Our valuation was performed based on the Fair Market Value ("**FMV**"), which is defined by International Valuation Standards established by the International Valuation Standards Council as "the estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties".

4 PREMISES OF VALUATION

Premises of valuation relate to the concept of valuing a subject in the manner which would generate the greatest return to the owner of the asset, taking into account what is physically possible, financially feasible and legally permissible. Premises of valuation include the following:

- Going concern: appropriate when the business is expected to continue operating without the intention or threat of liquidation in the foreseeable future;

- Orderly liquidation: appropriate for a business that is clearly going to cease operations in the near future and is allowed sufficient time to sell its assets in the open market;

- Forced liquidation: appropriate when time or other constraints do not allow an orderly liquidation; and

- Assembled group of assets: appropriate when all assets of a business are sold in the market piecemeal instead of the entire business itself.

The valuation of the Target Company is prepared on the going concern basis.

5 REPORTING STANDARD

The reporting standard of this report is the VALMIN Code which is Guidelines for Technical Assessment and Valuation of Mineral Assets and Mineral Securities for Independent Expert Reports as adopted by the Australasian Institute of Mining and Metallurgy in 1995 and updated in 2005.

The reporting of Resource and Reserve is referenced to the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves (the "**JORC Code**") prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia revised in 2012. The JORC Code is a mineral resource/ore reserve classification system that has been widely used and is internationally recognized. It has also been used in independent technical reports for mineral resource and ore reserve statements for the natural resource companies listed on the HKEX.

The VALMIN Code incorporates the JORC Code for the reporting of Mineral Resources and Ore Reserves.

6 INDEPENDENCE STATEMENT

BAW certifies that neither BAW, nor its directors, shareholders, staffs have any present or prospective interests in the Company, Target Company or Coal Mines. BAW is to receive the professional fee for its services (the work product of which includes this report) at its normal commercial rate and customary payment schedules. The payment of our professional fee is not contingent on the outcome of this report.

7 COMPETENCE STATEMENT

Mr. Leung Kar Fai, as the Director of BAW and being responsible for the overall project management of this report, graduated with Honours with a Bachelor of Science (major Earth Sciences) and a Master of Philosophy in Earth Sciences, both from The University of Hong Kong.

He has more than fifteen years of extensive experience in the mining industry including project generation, prospecting, field exploration, mineral resource definition, HSE management, mineral assets valuation, mineral assets acquisition, M&A and IPO process for energy, base metals, non-ferrous metals and precious metals in the PRC, Southeast Asia, North Asia, Central-Asia, Mid-East, Africa, Australasian, North and South Americas.

He possesses relevant education, qualifications, experience and professional expertise so as to have a reputation that gives authority to statements made in relation to the valuation matters of this report. He meets all the requirements for "Competent Person" as defined in the Australasian Code for Reporting Exploration Results, Mineral Resources and Ore Reserves ("**JORC Code**").

8 SCOPE OF WORK

Our valuation work was based on the assumptions stated herein and the information provided by the management of the Company, the management of the Target Company and/or their representative(s) (collectively the "**Management**"). In the course of our valuation work, we conducted the following processes to evaluate the reasonableness of the adopted basis and assumptions provided:

- Discussed with the Management in relation to the background, development, operations, financial performance and other relevant information of the Target Company;

- Reviewed relevant financial information, operational information and other relevant data concerning the Target Company;

- Conducted site inspections;

- Reviewed and discussed with the Management on the business development concerning the Coal Mines provided to us by the Management;

- Performed market research in relation to the economic outlook in general and the specific economic environment and market elements affecting the business, industry and market and obtained relevant statistical figures from public sources;

- Examined relevant basis and assumptions of both the financial and operational information of the Target Company, which were provided by the Management;

- Prepared a valuation model to derive the fair market value of the Target Company; and

- Presented all relevant information on, including but not limited to, the scope of work, source of information, overview of the Target Company, overview of the industry, major assumptions, valuation methodology, sensitivity analysis, limiting conditions, remarks and conclusion of value in this report.

We have no reason to believe that any material facts have been withheld from us. However, we do not warrant that our investigations have revealed all of the matters which an audit or more extensive examination might disclose.

9 LIMITATION IN SCOPE OF WORK

Our scope of work for the purpose of the valuation is constrained by the following limitations:

- In performing our services, we relied on the accuracy of the information provided by the Management with regards to the Target Company's financial projections and business affairs as well as the outlook for the business. The procedures and enquiries undertaken by us in preparing this report do not include any verification work, nor do they constitute an examination made in accordance with generally accepted auditing standards. As such, we do not express an opinion or offer any forms of assurance regarding the accuracy, reasonableness, completeness, or reliability of these information we are based;

- Information furnished by others, upon which all or portions of this report are based, is believed to be reliable. However, we did not independently verify this information and no warranty is given as to the accuracy of such information;

- The results of our work are dependent on the financial projections of the Target Company. However, because events and circumstances frequently do not occur as expected, there will usually be differences between predicted and actual results, and those differences may be material. We take no responsibility for the achievement of predicted results;

- Our analysis relied on information provided by the Management. We are not required to verify the legal titles of the Target Company; and

- We considered published market data and other public information, where appropriate, for which we are not responsible for their content and accuracy. Such information was obtained from sources such as Bloomberg, S&P Capital IQ and publicly available industry reports.

10 SOURCES OF INFORMATION

For the purpose of our valuation, we were provided with the information in respect of the Target Company prepared by the Management. The valuation required the consideration of all relevant factors including, but not limited to, the following:

- Background information of the operation and relevant corporate information of the Target Company;

- Historical financial information of the Target Company such as management accounts for the period ended May 31, 2022;

- Financial projections of the Target Company;

- Competent Persons' Report ("**CPR**") of the Coal Mines prepared by SRK Consulting China Ltd dated May 31, 2022 — Competent Person's Report for Yong-an and Weiyi Underground Metallurgical Coal Projects in Ningxia Hui Autonomous Region, China;

- Preliminary Design Study of the Yongan Coal Mine and Washing Plant prepared by China Coal Xi'an Design Engineering Co. Ltd. in 2008 ("**2008 Yongan PDS**");

- Updated Preliminary Design Study of the Yongan Coal Mine and Washing Plant prepared by China Coal Xi'an Design Engineering Co. Ltd. In March 2013 ("**2013 Yongan Updated PDS**");

- Preliminary Design Study of the Weiyi Coal Mine prepared by China Coal Handan Design & Engineering Co. Ltd in September 2008 ("**2008 Weiyi PDS**");

- Updated Preliminary Design Study of the Weiyi Coal prepared by China Coal Handan Design & Engineering Co. Ltd in 2013 ("**2013 Weiyi Updated PDS**");

- Updated Economic Analysis for the 2013 Yongan Updated PDS and 2013 Weiyi Updated PDS prepared by China Coal Xi'an Design Engineering Co. Ltd in June 2021;

- Registrations, legal documents, permits and licenses related to the Coal Mines;

- The economic outlook in general and the specific economic environment and market elements affecting the coal mining business, industry and market;

- Coal Price Database of the National Bureau of Statistics of the PRC; and

- Bloomberg database and other reliable sources of market data.

We also conducted research from public sources and carried out site inspection to assess the reasonableness and fairness of information provided. We assumed the accuracy of the information furnished to us and relied to a considerable extent on such information in arriving at our opinion.

11 SITE INSPECTION

During BAW's site visit, the following tasks were carried out as part of our analysis process:

- Tour of the Coal Mines and its site office; and

- Meetings with the Management from different operational and supporting departments.

12 ECONOMIC OVERVIEW

With the world's largest population, the PRC is the second largest economy, as well as the second largest importer and consumer in the world. Its significant role in the international arena has become increasingly obvious. During the global financial crisis of 2008, the Chinese government has taken effective stimulus policies to prevent huge economic decline. The PRC has been the largest contributor to world growth since the crisis.

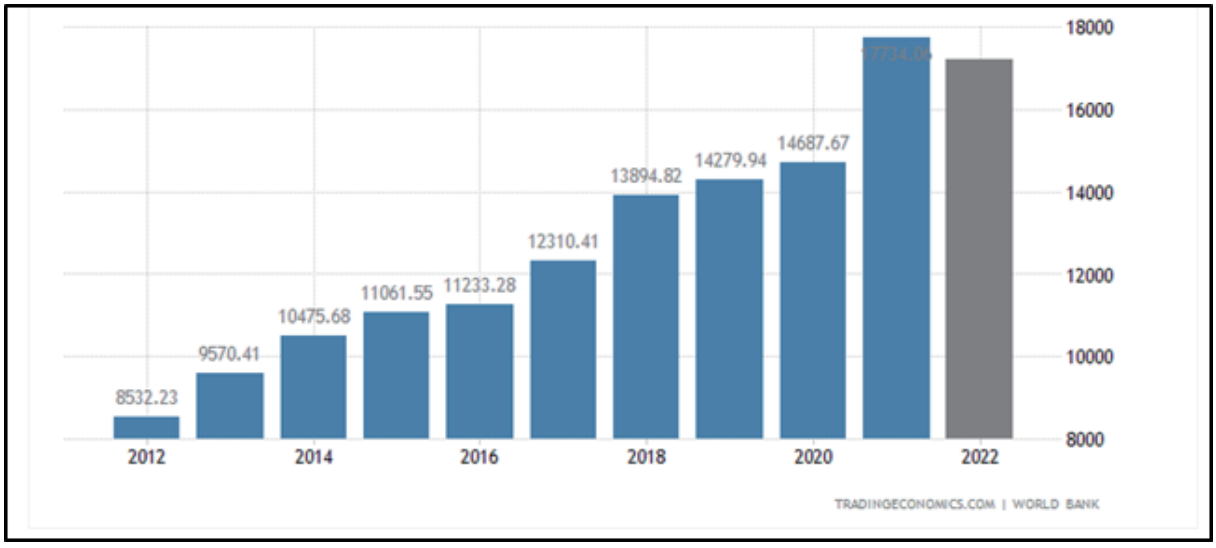

Figure 12.1 — GDP of the PRC (in USD Billion) from 2012 to 2022
(Source: Trading Economics, World Bank)

As shown in Figure 12.1, the gross domestic product (GDP) of the PRC was worth USD17,734.06 billion in 2021, representing 17.8% of the world economy. The Chinese GDP averaged USD 2,820.59 billion from 1960 until 2021, reaching an all-time high of USD17,734.06 billion in 2021 and a record low of USD47.21 billion in 1962. In the long-term, the Chinese GDP is projected to trend around USD16,700.00 billion by the end of 2022 and around USD17,400.00 billion by 2023, according to the Trading Economics' models.

13 INDUSTRY OVERVIEW

Coking coal, alternatively known as metallurgical coal, is a type of coal which is used to create coke, one of the key irreplaceable inputs for the production of steel. Coking coal is one of the highest grades of coal. It contrasts with thermal coal, which does not produce coke properties when heated. Because of their different end-uses, prices for the two types of coal are largely different. The PRC is the top largest coking coal producers and consumers, driven by rapid urbanization and industrialization.

According to Cinda Securities Co., Ltd, an independent financial institution, under the low resource reserves and high development intensity, the scarcity of coking coal resources in the PRC will be more and more prominent. In 2016, in order to enforce stringent environmental protection policies, the PRC Government announced the "Suggestions for Solving Overcapacity, Overcoming Difficulties and Achieving Development in the Coal Industry" (Guofa 2016 No. 7), leading to an extensive consolidation of coal mines across the nation, including elimination of a combined 200 million tons of coal production capacity, termination of illegal production, production beyond

capacity, production of low-quality coal and coal mines with a production capacity of less than 90,000 tons per annum. In addition, coal mining companies are required to reduce the number of working days from 330 to 276 resulted in a drop of coal production by over 10%. However, according to the Bureau of Statistic of the China, in 2017, investments in estate development and infrastructure construction increased by 7% and 14.93% respectively compared to 2016. As shown in Figure 12.1, coking coal prices have surged rapidly to a relatively high level since August 2016 in response to the change of domestic supply and demand triggered by the national coal policy. Coking coal prices are commonly expected to stand at a high level.

Figure 13.1: China Coking Coal Prices (in RMB/tonne) for the Past 5 Years (Bloomberg Database)

Impacted by the worldwide COVID-19 epidemic, the first half year of 2020 has witnessed a continuous slowdown in the macro economy and a drastic fluctuation in the coal market. As the economy resumes steadily, the supply and demand in coal market regained overall balance compared with the slightly tight supply at the beginning of 2020. However, regional and structural imbalance between supply and demand still exist as certain periods were affected by factors such as the epidemic, transportation constraint, safety and environmental protection. In addition, as the supply-side structural reform is deepening, the coal production capacity remained basically balanced with the expansion of efficient production capacity and the accelerated reduction of inefficient one, and the coal price moved in a fluctuated way generally in first half of 2020.

The output of coal recorded a strong rebound amid the economic recovery from COVID-19 lockdown in the second quarter of 2020. Many mining production activities have ramped up in 2020 in an attempt to meet the growing demand for coal. The coal industry in China, therefore, has

returned to relatively stable operation and production in 2020, leading to a surge in coal consumption in the second half of 2020 as affirmed by the China National Coal Association ("**CNCA**").

According to the CNCA's forecast, China's coal consumption is expected to continue rising in 2022 despite the PRC government's pledges to boost the use of clean energy and curb greenhouse gas emissions. It is also forecasted that the PRC's coal output would increase in 2022, with the launch of new and advanced coal capacity in major coal mining regions such as northwestern China.

14 OWNERSHIP OF THE COAL MINES

Pursuant to the "Mineral Resource Law of the PRC", all mineral resources in the PRC are owned by the nation. All types of exploration and mining activities in the PRC generally requires approval from the relevant government agencies in the form of exploration license or mining license granted for a specific area during a specified period of validity (generally extendable once expired).

The Coal Mines are currently 100% owned by the Target Company. The licenses of the Coal Mines were provided by the Company for our review. The license details such as license ID, effective date, area, valid period and permitted production capacity are summarized in Table 14.1 below.

Table 14.1: License Details of the Yongan Coal Mine

Mining License Holder	Ningxia Sunshine Mining Co., Ltd
Name of Property	Ningxia Sunshine Mining Co., Ltd Yongan Coal Mine
License Type	Mining
License ID	C1000002012061130126021
Area (km^2)	21.682
Elevation (m)	+1,400m ASL to +400m ASL
Permitted Production Capacity	1,200,000 tons per annum
Type of Commodities	Coal
Mining Method	Underground
Valid Period	March 22, 2012 to March 22, 2032

Table 14.2: License Details of the Weiyi Coal Mine

Mining License Holder	Ningxia Sunshine Mining Co., Ltd
Name of Property	Ningxia Sunshine Mining Co., Ltd Weiyi Coal Mine
License Type	Mining
License ID	C1000002012061130126020
Area (km^2)	26.6589
Elevation (m)	+1,400m ASL to +400m ASL
Permitted Production Capacity	900,000 tons per annum
Type of Commodities	Coal
Mining Method	Underground
Valid Period	April 20, 2012 to April 20, 2032

15 OVERVIEW OF THE COAL MINES

15.1 Location and Access

The Coal Mines are located approximately 120 km southeast of Yinchuan, the capital city of Ningxia Hui Autonomous Region, the PRC and are situated about 7 km to the east of the nearest township, Weizhou Township as shown in Figure 15.1. The mining licenses of the Coal Mines cover an area of 21.7 square kilometres ("**km^2**") and 26.7 km^2 respectively (Figure 15.2).

Major highways and railways for coal transportation are available for access to the Coal Mines in order to dispatch the coal to the market. Power and water supply are both sufficient to support the planned operation of the Coal Mine.

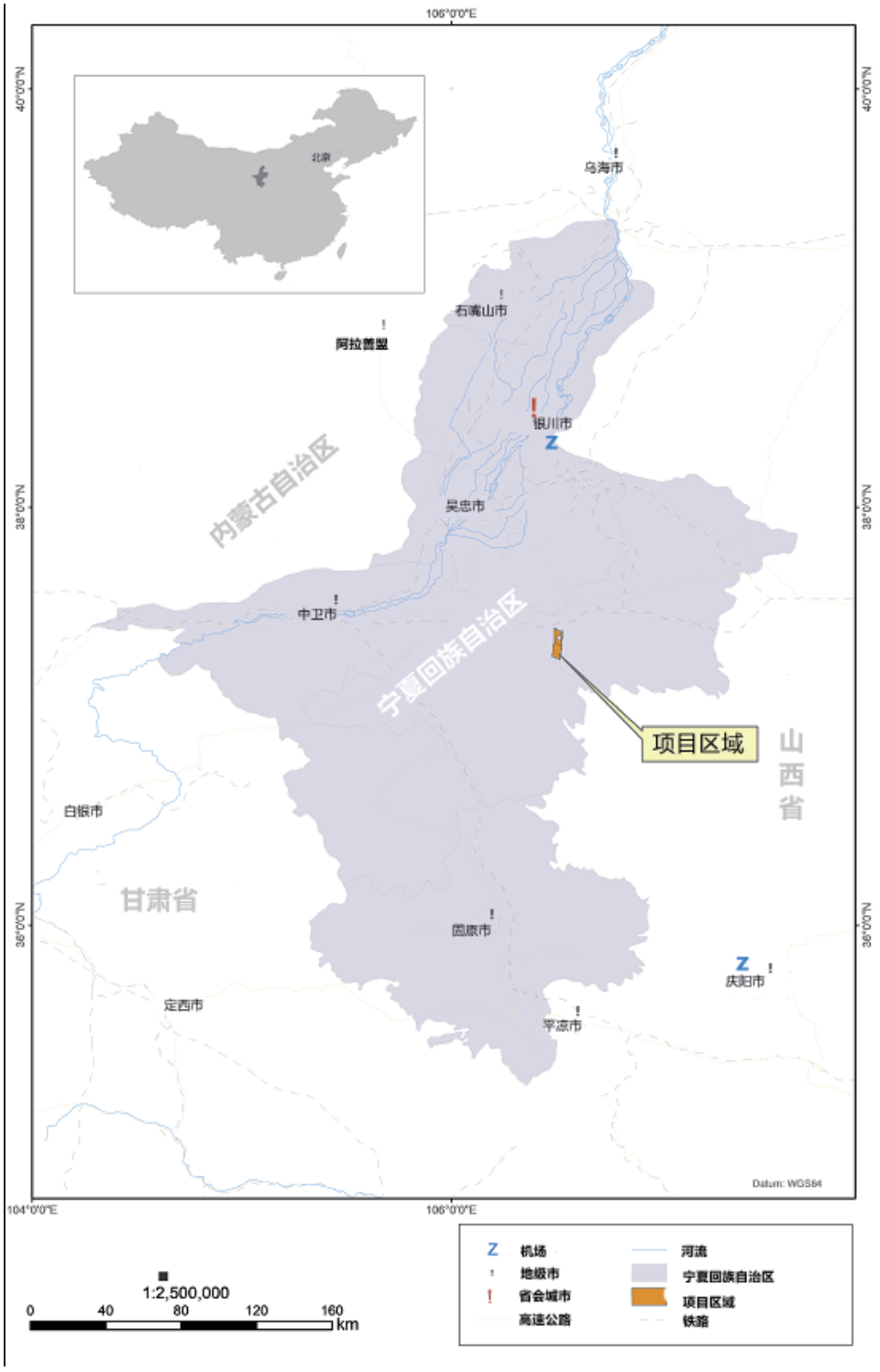

Figure 15.1: Location map showing the Coal Mines (CPR)

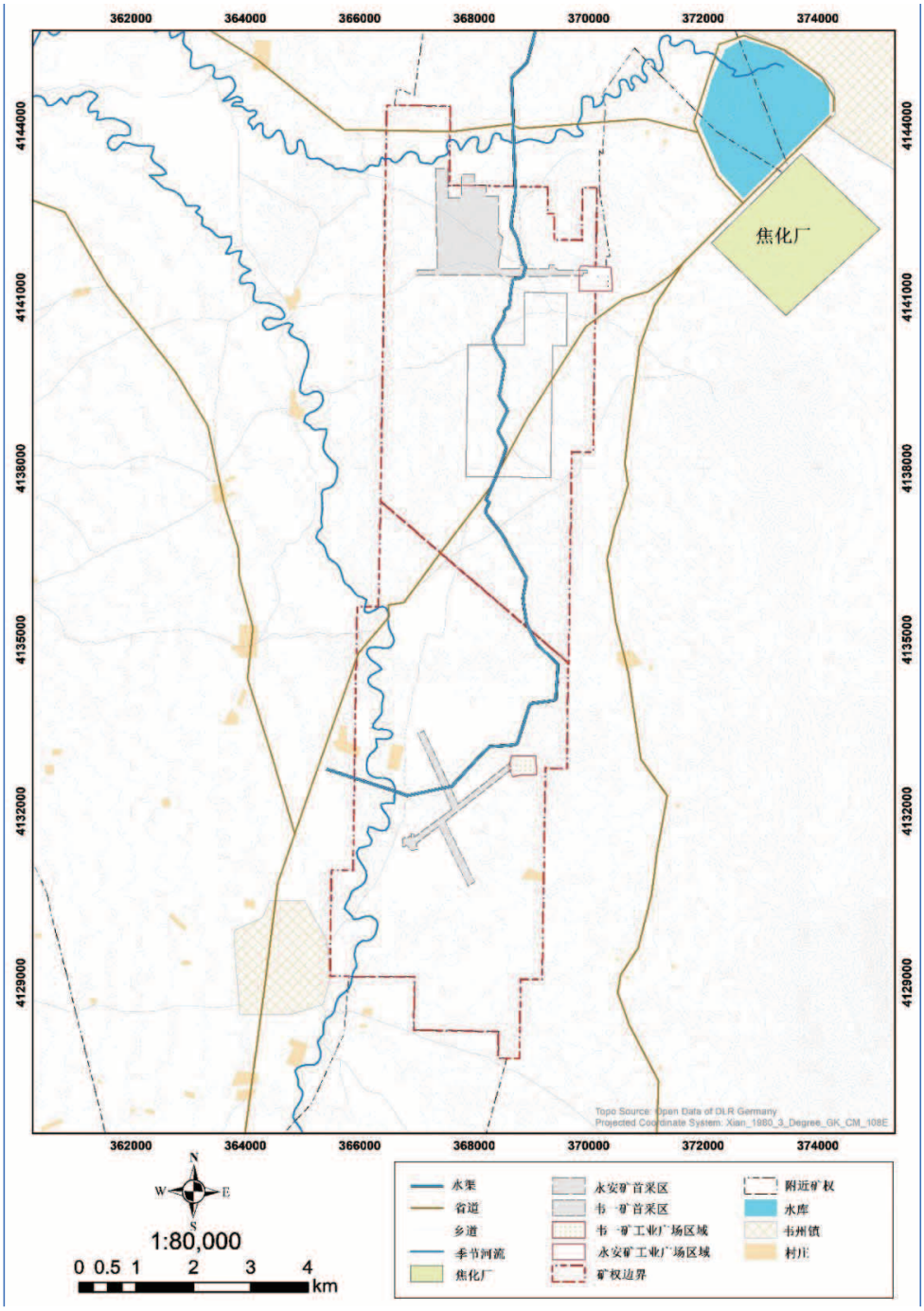

Figure 15.2: Site layout of the Coal Mines

15.2 Climate and Physiography

The climate of the region is classified as continental type with rare rainfall. Annual precipitation is approximately 200 to 600 millimeters ("**mm**"). The temperature ranges from an annual average maximum of 27°C in summer to an annual average minimum of -14°C in winter. The average wind speed is 2.4 metres per second ("**m/s**"), with a maximum wind speed as high as 25 m/s during winter.

The Coal Mines are geographically located in the transitional zone between the Loess Plateau and Mongolian Plateau where the ground surface is dominated by grassland. The topography is generally flat with an elevation typically ranging from 1,330m to 1,400m ASL. Small-scale farming of sheep and cattle is common in the region.

Surface water resource in the projects area is fairly limited with only a seasonal river flowing along the northwest direction crossing the western part of the Weiyi Coal Mine. No villages or residences are present in the area around the Coal Mines. The region is well-known for abundant coal resources and is a very important coal-producing area in Ningxia. Coal mining is the major industry in the region.

15.3 History of Exploration and Production

Multiple geological surveys, exploration programs and resource estimations were carried out for the Coal Mines and the surrounding region. The history of exploration, which is largely extracted from the CPR, is summarized as below.

The earliest geological reconnaissance campaign for coal resources in the region was conducted by the No. 214 Geological Brigade during the period from 1959 to 1962. The exploration program comprised a total of 5,823 m drilled in 31 drillholes, including 17 drillholes completed in the Yongan Coal Mine. All drillholes are shallow coring holes. 3 out of 12 drillholes were downhole surveyed. Downhole geophysical logging, core recovery data and details of drilling are absent. Available data includes collar data, geological logs, interpreted coal seam structure data obtained from geological logs and downhole geophysics, and coal analysis results.

During the period from 1965 to 1969, a total of 86 drillholes were drilled by the No. 139 Geological Brigade for the Coal Mines, with 17 drillholes being completed in the Yongan Coal Mine and 16 drillholes in the Weiyi Coal Mine. All drillholes are coring hole with geophysical logged and downhole surveyed. Core recovery averaged 53% for the 11 drillholes completed for the Yongan Coal Mine. Details of drilling are absent. Available data includes collar data, geological logs, interpreted coal seam structure data obtained from geological logs and downhole geophysics, and coal analysis results.

In 1990, a total of 24 drillholes were drilled by the No. 133 Geological Brigade for the Coal Mines. Three drillholes and two drillholes were completed in the Yongan Coal Mine and the Weiyi Coal Mine respectively. All drillholes are coring hole with geophysical logged and downhole surveyed. Core recovery averaged 75% the 3 drillholes completed for the Yongan Coal Mine. Details of drilling are absent. Available data includes collar data, geological logs, interpreted coal seam structure data reconciliated from geological logs and downhole geophysics, and coal analysis result.

In 2005, 5 drillholes were drilled by Ningxia Geology & Exploration Institute within Yongan Coal Mine. All drillholes are coring hole with geophysical logged and downhole surveyed. Core recovery averaged 80%. Details of drilling are absent. Available data includes collar data, geological logs, interpreted coal seam structure data reconciliated from geological logs and downhole geophysics; and coal analysis result.

In 2007, the 2nd Geological Brigade of the Jiangsu Coal Geology Bureau completed the latest exploration program in the Yongan Coal Mine, including: 29 drillholes with downhole geophysical logging; 257 coal samples collected and tested; 2D seismic survey for a total of 14.9 line-km across 7 traverse lines; 3D seismic survey across the initial mining area comprising a total of 6.74 km^2; and electro-magnetic survey for a total of 49.94 line-km across 31 section lines over the mined-out area. Sample preparation, security, and analysis for the exploration program were carried out by the laboratory of Xuzhou Analysis & Test Centre of The General Bureau of China Coal Geology. The sample preparation was carried out according to the Chinese Standard GB/474. Major analytical items include proximate analysis, apparent relative density and caking index. The exploration work was documented in "Detail Exploration & Geological Report on the Yongan Mine in Ningxia Hui Autonomous Region 2007".

In 2007, Ningxia Coal Exploration and Engineering Company completed the latest exploration program in the Weiyi Coal Mine, including: 30 drillholes with downhole geophysical logging; 254 coal samples collected and tested and 3D seismic survey across the initial mining area comprising a total of 6.42 km^2. Sample preparation, security, and analysis for the exploration program were carried out by the laboratory of Coal Quality Testing Centre, the subsidiary institution of Geological Bureau of Ningxia Hui Autonomous Region. The sample preparation was carried out according to the Chinese Standard GB/474. Major analytical items include proximate analysis, apparent relative density and caking index. The exploration work was documented in "Detail Exploration & Geological Report on the Weiyi Mine in Ningxia Hui Autonomous Region 2007".

As of to date, the Coal Mines are in the stage of development and has not commenced commercial production yet.

15.4 Regional Geology and Geological Setting

The Coal Mines are structurally situated within the eastern limb of the Weizhou syncline, which is part of the Western Marginal Thrust Belt of the Ordos Basin on the regional scale. The Ordos Basin, stretching approximately 700 km north-south and 500 km east-west in the west-central region of the Sino-Korean platform, is the second-largest sedimentary basin and the largest coal basin in China.

The Ordos basin started to form during the episode of the Variscan orogeny with the movement of the Yinshan uplift on the north, Qingling-Kunlun fold-belt on the south and Helanshan-Liupanshan fold-belt on the west. The basin was eventually closed through the development of the Taihang-Wuling-Xuefengshan uplift to the east in Late Triassic. Evolved from the Paleozoic basement, the Ordos Basin is generally featured with a large north-northeasterly trending asymmetrical, broad synclinorium in which the western limb is much steeper than the eastern limb. The basin developed on a stable craton with a stratigraphic thickness ranging from 4,000m to 6,000m in the central basin. Schematic illustration and cross-section of the regional structures of the Coal Mines are shown in Figure 15.3 and 15.4.

The stratigraphy of the Ordos Basin includes the Late Carboniferous-Permian, Triassic, Jurassic, and Cretaceous sedimentary sequences. Coal deposits mainly occur in the Late Carboniferous, Permian, Late Triassic, and Early to Middle Jurassic sequences.

The Upper Paleozoic coal deposits of the Ordos Basin mainly developed within the Late Carboniferous Taiyuan Formation and Early Permian Shanxi Formation. These coal deposits shallowly occur within the west, east and southeast edge of the Ordos Basin, and the buried depth is generally greater than 2,000m elsewhere throughout the basin.

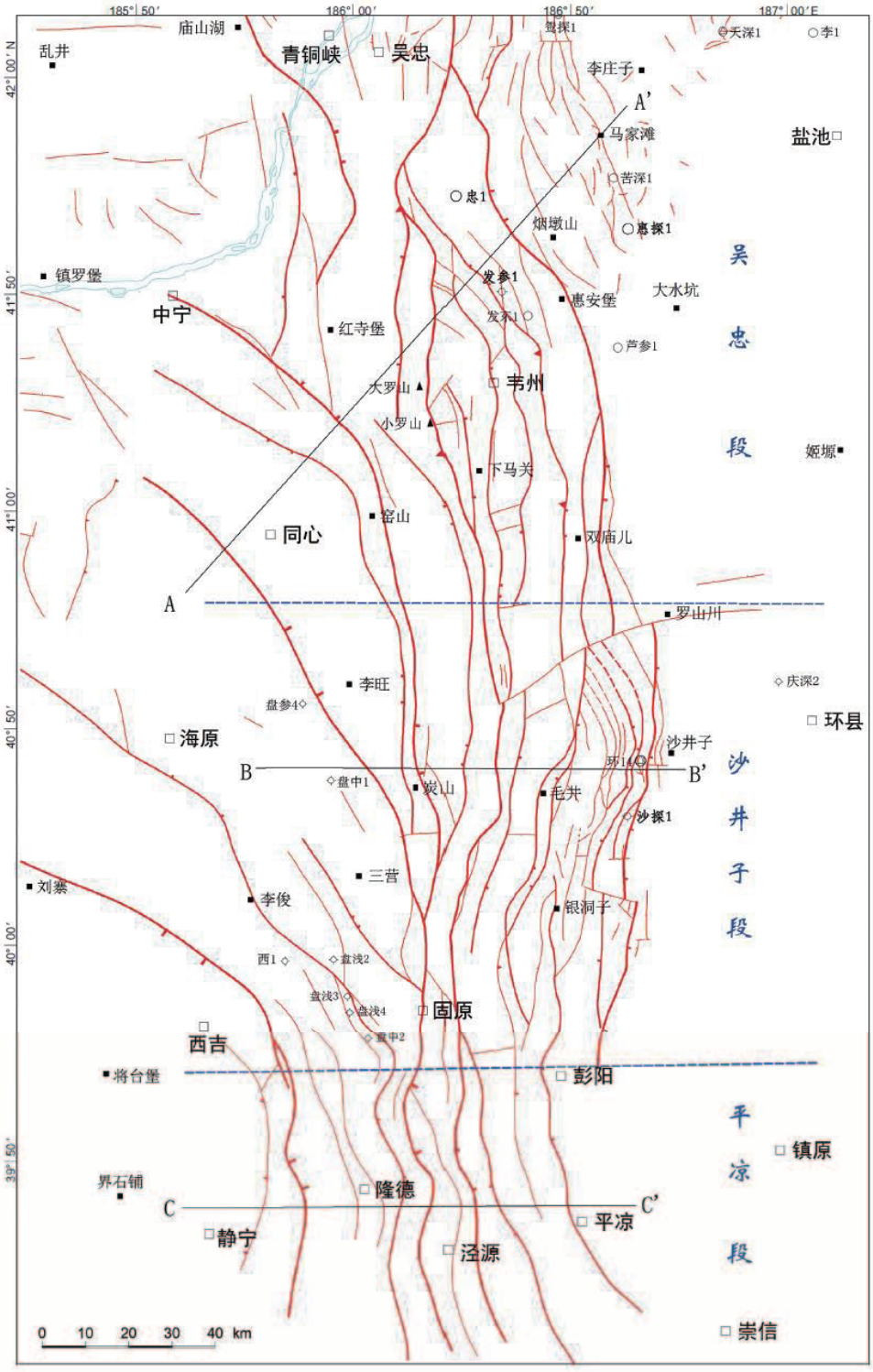

Figure 15.3: Schematic illustration of the regional structures of the Coal Mines (CPR)

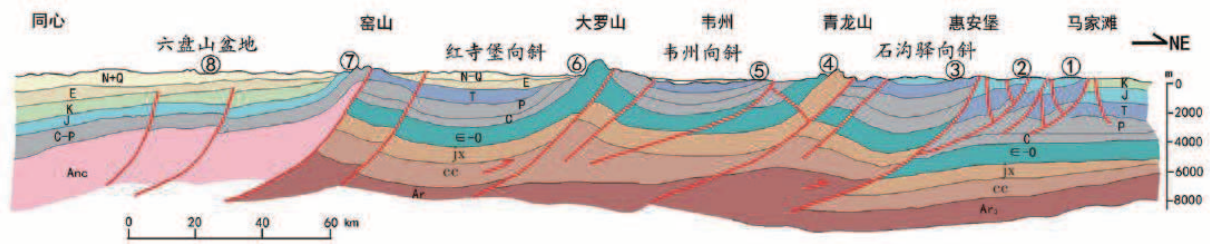

Figure 15.4: Cross-section of the western edge of the Ordos Basin (CPR)

The Triassic coal deposits of the Ordos Basin, which developed within the Wayaobao Formation with 5 to 7 thin coal seams, only occur in adjacent to the area of Yan'an city.

The Early to Middle Jurassic coal deposits are widely distributed throughout the Ordos Basin. The Jurassic coal-bearing formations consist of the Early Jurassic Fuxian Formation, the Middle Jurassic Yan'an and Zhiluo Formations. The Yan'an Formation is the major coal-bearing formation which generally consist of 10 to 15 coal seams. 5 to 7 coal seams are amenable to mining with an accumulative thickness ranging from 10m to 20m.

The stratigraphy of the Coal Mines is represented by the Carboniferous, Permian and Paleogene sedimentary sequences as well as Neogene and Quaternary deposits. The surface geology is predominantly marked by the Quaternary alluvium soil, loess and aeolian sands, coal-bearing Carboniferous-Permian sedimentary sequence which mostly outcropped in the eastern part of the Yongan Coal Mine dipping to the west at an angle of approximately 20 to 30 degrees.

15.5 Coal Seams

15.5.1 Yongan Coal Mine

In the Yongan Coal Mine, over 20 coal seams have been intercepted in the historic exploration programs. Among these coal seams, 17 coal seams were identified and correlated with mining potential. The correlated coal seams are divided into two groups in terms of the stratigraphic host: the upper seam group (Seam 0 to 4) occurred within the Lower Permian Shanxi Formation whereas the lower seam group (Seam 50 to 20) occurred within the Taiyuan Formation.

From top downwards, the 17 seams correlated within the Yongan tenement are: Seam 0, 1, 2, 3, 4, 50, 61, 90, 101, 12, 14, 15, 16, 17, 183, 184 and 20. Most of the seams cropped out in the eastern part of the tenement and extended down to the west at a depth of between 900m (Seam 0) and 1,200m (Seam 20) beneath the western border of the tenement. Thickness of the coal seams are tabulated in Table 15.1. Further details of the geological characteristics of the coal seams can be referred to the CPR.

Table 15.1: Coal seam characteristics of the Yongan Coal Mine

	Thickness (m)				No. of	Interburden Thickness
Coal Seam	**Min**	**Max**	**Median**	**Mean**	**Parting**	**(m)**
0	0.47	4.24	1.40	1.64	0–2	n/a
1	0.26	4.40	1.48	1.69	0–2	15 (2)
2	0.35	4.37	1.35	1.50	0–2	15
3	0.35	2.80	1.53	1.45	0–2	15
4	0.66	4.72	1.73	1.94	0–2	15
50	0.30	2.64	0.84	0.88	0–1	16
61	0.10	1.56	0.57	0.60	0–1	35
90	0.28	2.96	1.92	1.82	0–1	60
101	0.40	1.96	0.80	0.93	0–1	50
12	0.26	3.95	1.48	1.52	0–2	65
14	0.40	2.42	1.28	1.27	0–2	15
15	0.10	3.22	0.54	0.73	0–2	10
16	0.25	2.48	1.20	1.16	0–2	25
171	0.26	5.48	1.36	1.48	0–1	10
183	0.18	2.78	0.85	0.93	0–1	20
184	0.32	4.12	0.82	0.99	0–1	10
20	0.19	1.64	0.77	0.78	0–1	35

The rock type of the coal-bearing stratigraphy mainly consists of sandstone, siltstone and occasionally mudstone and limestone. The roofs and floors of most coal seams mainly consist of siltstone except for the roof of the seam 12, which mainly consist of 2 to 3m thick of limestone.

15.5.2 Weiyi Coal Mine

In the Weiyi Coal Mine, a total of 22 coal seams were identified from the historical exploration programs, namely, Seam 0, 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20 and 21. Among those coal seams, nine seams were identified with underground mining potential. Three seams occur in the Lower Permian Shanxi Formation (Seam 2, 3 and 4), and six seams occur in the middle Taiyuan Formation (Seam 12, 14, 15, 16, 17 and 20).

Similar to those coal seams in the Yongan tenement, all coal seams in the Weiyi tenement are northward striking and dip to the west at an angle between 20 and 25 degrees. Most of the seams crop out in the eastern part of the Weiyi tenement and extended down to the west at a depth of between 1,100 m (Seam 2) and 1,550 m (Seam 20) beneath the western border of the tenement. Thickness of the coal seams are tabulated in Table 15.2. Further details of the geological characteristics of the coal seams can be referred to the CPR.

Table 15.2: Coal seam characteristics of the Weiyi Coal Mine

	Thickness (m)				No. of	Interburden Thickness
Coal Seam	**Min**	**Max**	**Median**	**Mean**	**Parting**	**(m)**
2	0.20	3.13	1.04	1.26	0–2	n/a
3	0.32	5.94	1.07	1.33	0–1	15
4	0.23	3.82	1.91	1.97	0–2	15
12	0.20	2.75	1.36	1.31	0–2	210
14	0.26	3.12	1.24	1.23	0–1	30
15	0.25	3.22	1.07	1.16	0–2	20
16	0.25	3.37	1.19	1.28	0–2	40
17	0.25	4.42	1.09	1.30	0–3	10
20	0.22	2.50	0.65	0.75	0–1	50

The mining potential is generally defined by a minimum true seam thickness of 0.5m to 0.7m for the seams that produce metallurgical coal in the region, a parameter specified by relevant government agencies.

According to the China Coal Classification Standard (GB/T 5751-2009), the coal seams can be classified in the range between Main Coking Coal (JM), Fat Coal (FM) and 1/3 Coking Coal (1/3 JM), which are the three sub-categories of metallurgical coal in terms of the Chinese Standard.

15.6 Coal Resources

The Coal Resources estimated by the CPR for the Yongan Coal Mine in conformity with the requirements of the JORC Code as of May 31, 2022 defines a total of 63.22 million tons of Indicated Resources and 161.0 million tons of Inferred Resources. The Coal Resources estimation of the Yongan Coal Mine are summarized as below:

Table 15.3: Coal Resources estimated for the Yongan Coal Mine as of May 31, 2022

Coal Resources	*Million Tons*
Measured Resources	—
Indicated Resources	63.22
Inferred Resources	161.00
Total	224.22

The Coal Resources estimated by the CPR for the Weiyi Coal Mine in conformity with the requirements of the JORC Code as of May 31, 2022 defines a total of 38.09 million tons of Indicated Resources and 80.52 million tons of Inferred Resources. The Coal Resources estimation of the Weiyi Coal Mine are summarized as below:

Table 15.4: Coal Resources estimated for the Weiyi Coal Mine as of May 31, 2022

Coal Resources	*Million Tons*
Measured Resources	—
Indicated Resources	38.09
Inferred Resources	80.52
Total	118.61

15.7 Coal Reserves

The Coal Reserves estimated by the CPR for the Yongan Coal Mine in conformity with the requirements of the JORC Code as of May 31, 2022 defines a total of 33.2 million tons of Probable Reserves. The Coal Reserves estimation of the Yongan Coal Mine are summarized as below:

Table 15.5: Coal Reserves estimated for the Yongan Coal Mine as of May 31, 2022

Coal Seam	Proven Reserves *(Mt)*	Probable Reserves *(Mt)*	Total Reserves *(Mt)*
0	—	3.87	3.87
1	—	1.82	1.82
2	—	5.20	5.20
3	—	3.13	3.13
4	—	4.31	4.31
50	—	2.26	2.26
61	—	0.64	0.64
90	—	4.46	4.46
101	—	1.08	1.08
12	—	2.32	2.32
14	—	1.74	1.74
171	—	1.88	1.88
183	—	0.48	0.48
Total	—	33.20	33.20

The Coal Reserves estimated by the CPR for the Weiyi Coal Mine in conformity with the requirements of the JORC Code as of May 31, 2022 defines a total of 15.02 million tons of Probable Reserves. The Coal Reserves estimation of the Weiyi Coal Mine are summarized as below:

Table 15.6: Coal Reserves estimated for the Weiyi Coal Mine as of May 31, 2022

Coal Seam	Proven Reserves *(Mt)*	Probable Reserves *(Mt)*	Total Reserves *(Mt)*
2	—	1.81	1.81
3	—	2.33	2.33
4	—	3.43	3.43
12	—	1.29	1.29
14	—	1.53	1.53
15	—	0.90	0.90
16	—	1.66	1.66
17	—	1.38	1.38
20	—	0.68	0.68
Total	—	15.02	15.02

15.8 Marketable Coal Reserves

The final saleable coal products will comprise three products, namely, clean coking coal, middling coal and sludge coal, based on the latest coal washing test results. The overall washing yields of the clean coking coal, middling coal and sludge coal are estimated to be 70%, 17% and 5% respectively. The Marketable Coal Reserves estimation of the Coal Mine are summarized as below:

Table 15.7: Marketable Coal Reserves estimated for the Coal Mines as of May 31, 2022

Coal Products	Yongan Coal Mine	Weiyi Coal Mine
Clean Coal *(Million Tons)*	23.24	10.51
Middling Coal *(Million Tons)*	5.64	2.55
Sludge Coal *(Million Tons)*	1.66	0.75
Total	30.54	13.81

15.9 Life-of-Mine Analysis

As of the Date of Valuation, BAW estimated that the Coal Reserve of the Coal Mine is sufficient to support production at the permitted production level for approximately 31.5 and 20 years for the Yongan Coal Mine and Weiyi Coal Mine respectively.

16 MAJOR ASSUMPTIONS

In conducting our valuation work, the following assumptions were adopted in order to sufficiently support our conclusion of value including, but not limited to:

- The information provided and the representations made by the Management with regard to the Target Company's financial and business affairs are accurate and reliable;
- The Target Company will continue to operate as a going concern and has sufficient liquidity and capability to achieve the business development;
- All relevant permits, business certificates, licenses and legal approvals to operate the business in the localities in which the Target Company operates or intends to operate would be officially obtained and renewable upon expiry with de minimis expenses;
- There will be sufficient supply of technical staff in the industry in which the Target Company operates or intends to operate, and the Target Company will retain competent management, key personnel and technical staff to support their ongoing operations and developments;

- There will be no major changes in the current taxation laws in the localities in which the Target Company operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with;

- There were no major changes in the financial position and performance of the Target Company between the Date of Valuation and the date of this report;

- There will be no major changes in the political, legal, economic or market conditions in the localities in which the Target Company operates or intends to operate, which would adversely affect the revenues attributable to and profitability of the Target Company;

- There will be no material changes in the relevant interest rates and exchange rates that would impact the Target Company's business; and

- There are no undisclosed actual or contingent assets or liabilities, no unusual obligations or substantial commitments, other than in the ordinary course of business and as reflected in the financials, nor any litigation pending or threatened, which would have a material impact on the value of the Target Company as of the Date of Valuation.

In the event actual events do not accord with one or more of the above assumptions, the resulted value of the Target Company may vary substantially from the figure as set out in this report.

17 VALUATION METHODOLOGY

17.1 General Valuation Approaches

Conventional valuation approaches include Income Approach, Market Approach and Cost Approach. Each of these approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the most commonly adopted practice in valuing the subjects that are similar in nature.

17.1.1 Market Approach

The market approach measures the value of an asset through an analysis of recent sales or offerings of comparable property. Sales and offering prices are adjusted for differences in location, time of sale, utility, and the terms and conditions of sale between the asset being appraised and the comparable properties.

17.1.2 ***Income Approach***

The income approach measures the value of an asset by the present value of its future economic benefits. These benefits can include earnings, cost savings, tax deductions and proceeds from its disposition.

17.1.3 ***Cost Approach***

The cost approach measures the value of an asset by the cost to reproduce or replace it with another of like utility. To the extent that the asset being valued provides less utility than a new asset, the reproduction or replacement cost new would be adjusted to reflect appropriate physical deterioration, functional and economic obsolescence.

17.2 Adopted Approach for the Valuation

Among the abovementioned valuation approaches, the selection of the valuation approach in valuing the Target Company is based on, among other criteria, the quantity and quality of the information provided, accessibility to available data, availability of relevant market transactions, uniqueness of the Target Company's operations, nature of the industry the Target Company is participating in, professional judgment and technical expertise.

The income approach was considered to be the most appropriate valuation approach in this valuation, as it takes the future growth potential and the specific issues of the Coal Mine into consideration. Under the income approach, the Discounted Cash Flow ("**DCF**") method was adopted.

17.2.1 ***Discounted Cash Flow Method***

The DCF method begins with an estimation of the annual cash flows, which a market participant acquirer would expect the asset to generate over a discrete projection period. The expected debt-free cash flow for each year was determined as follows:

$$FCF = EBIT\ (1-T)+NCI-InvCapex-InvNWC$$

Where:

FCF	=	*free cash flow*
EBIT	=	*earnings before income and tax*
T	=	*tax rate*

NCI	=	*non-cash incomes*
InvCapex	=	*investment in capital expenditure*
InvNWC	=	*investment in net working capital*

The estimated cash flows for each of the years in the discrete projection period are then converted to their present value equivalent using a rate of return appropriate for the risk of achieving the asset's projected cash flows. The present value of the estimated cash flows are then added to the present value equivalent of the residual value of the asset (if any) at the end of the discrete projection period to arrive at an estimate of the value of the specific asset. The present value of the expected free cash flow is calculated as follows:

$$PVFCF = FCF_1/(1+r)^1 + FCF_2/(1+r)^2 + \cdots + FCF_n/(1+r)^n$$

Where:

PVFCF	=	*present value of free cash flows*
FCF	=	*free cash flow*
r	=	*discount rate*
n	=	*number of year of projections*

In our valuation work, key technical parameters such as Coal Reserves, production schedule, and other relevant costs data were largely derived from the CPR. Provided below is a brief description and analysis of the major assumptions applied in the valuation.

17.2.2 Coal Resources and Reserves

In our valuation, the Coal Resources and Reserves adopted were derived from the CPR. Details of the Coal Resources and Reserves as of the Date of Valuation can be referred to the CPR.

17.2.3 Production Capacity and Schedule

According to the CPR, 42 and 36 months are required for mine development for the Yongan Coal Mine and Weiyi Coal Mine respectively to achieve the permitted full production capacity. The annual production capacity for the period from 2022 to the end of LOM are shown as below.

Table 17.1: Annual Production Capacity and Production Schedule of the Coal Mines

Raw Coal Production (Metric Tons)	2022–2024	2025	2026	2027–2041	2042	2043–2051	2052	2053
Yongan Coal Mine	0	600,000	1,000,000	1,200,000	1,200,000	1,200,000	1,000,000	600,000
Weiyi Coal Mine	0	300,000	700,000	900,000	520,000	End of LOM	End of LOM	End of LOM
Total	0	900,000	1,700,000	2,100,000	1,720,000	1,200,000	1,000,000	600,000

17.2.4 ***Basis of Revenue***

Annual revenue is determined by applying estimated coal prices to the estimated annual payable coal products for each operating year. Coal prices have been applied to all LOM production without hedging.

Our valuation work adopted the recent coking coal prices in the PRC. Given the long-term uncertainty of price associated with commodities, the selling price was assumed to be stationary and no price growth was factored into the revenue projection. The selling prices of finished products applied in the valuation are tabulated as below:

Table 17.2: Projected Selling Prices

Finished Products	**Selling Price inclusive VAT** *(RMB/tons)*
Clean Coal (Coking Coal)	1,636
Clean Coal (1/3 Coking Coal)	1,525
Middling Coal	598
Sludge Coal	70

With the adopted selling price mentioned above, revenue generated by the Target Company for the period from 2022 to 2053 is summarized in Table 17.3.

Table 17.3: Projected Revenue of the Coal Mines (RMB in million)

Revenue	2022–2024	2025	2026–2042	2043–2053
Yongan Coal Mine	0	1,079.6	21,808	13,387
Weiyi Coal Mine	0	755.7	15,891.9	End of LOM
Total	0	971.6	37,699.9	13,387

17.2.5 ***Basis of Capital Expenditure***

Capital Expenditure ("**CAPEX**") generally comprises of Development and Expansion CAPEX, Sustaining CAPEX, Rehabilitation CAPEX and Exploration CAPEX. BAW was given to understand that the CPR and Coal Mines prepared a projection of Development and Expansion CAPEX and Sustaining CAPEX for further mine development and mining equipment, support facilities based on the proposed production schedule and Rehabilitation CAPEX for proposed rehabilitation program and environmental work, which is reasonable and conformable with the industry practice. No projection was made for Exploration CAPEX. The projected CAPEX for the period from 2022 to 2053 is summarized as below:

Table 17.4: Projected CAPEX of the Coal Mines (RMB in million)

CAPEX	2022–2024	2025	2026–2042	2043–2053
Sustaining CAPEX	0	0	1,506	0
Rehabilitation CAPEX	0	0	0.5	0.67
Development and Expansion CAPEX	2,135	0	0	0
Exploration CAPEX	0	0	0	0
Total	2,135	0	1,506.5	0.67

17.2.6 ***Basis of Operating Expenditure***

Operating Expenditure ("**OPEX**") can be classified into operating cash costs and total production costs. The operating cash costs generally include mining costs, processing (washing) costs, G&A costs, selling costs, environmental protection costs, taxes, resource compensation levy, interests on loans and other cash cost items. The total production costs comprise the operating cash costs, depreciation/amortization costs and other non-cash cost items. These costs are expressed in RMB.

17.2.7 ***Basis of Working Capital Requirement***

The working capital requirement for the projection period, projected by the Management, was made reference to the market data, including account receivables turnover days, inventories turnover days and account payables turnover days.

17.2.8 ***Comparable Companies***

In applying the DCF method, the estimated cash flows for each of the years in the discrete projection period are then converted to their present value equivalent using a rate of return appropriate for the risk of achieving the asset's projected cash flows, or the discount rate. The appropriate discount rate for the Target Company was determined with reference to the business nature and financial information of publicly listed companies that are considered to be comparable to the Target Company ("**Comparable Companies**").

Given that there is no company which is exactly the same as the Target Company, a set of the Comparable Companies must be identified in valuing the Target Company. To determine the set of the Comparable Companies, we adopted the following principles during our selection process:

- The companies are principally engaged in the business of production and sales of coking coal in the PRC; and

- Sufficiency of information (such as listing and operating histories, and availability of the financial information to the public).

Based on the abovementioned selection criteria, we considered the set of the Comparable Companies adopted in the valuation is comprehensive. Details of the Comparable Companies are listed as follows:

Table 17.5: Comparable Companies Adopted for Valuation

Company Name	Bloomberg Ticker	Business Description
Guizhou Panjiang Refined Coal Company Ltd.	600395 CH Equity	Guizhou Panjiang Refined Coal Company Ltd. operates in the coal mining and processing industry. The Company's products include raw coal, refined coal, blended coal, and other related products.

Company Name	Bloomberg Ticker	Business Description
Henan Dayou Energy Co., Ltd.	600403 CH Equity	Henan Dayou Energy Co., Ltd. engages in the exploitation and distribution of coal in the PRC. The company, through its subsidiaries, is also involved in the production and sale of mining equipment and accessories, as well as the provision of consulting services of coal mine technologies.
Pingdingshan Tianan Coal. Mining Co., Ltd.	601666 CH Equity	Pingdingshan Tianan Coal. Mining Co., Ltd. mines and processes coal products. The Company produces coking coal, fat coal, steam coal, smelting coal, and other products. Pingdingshan Tianan Coal. Mining also provides transportation services.
Shougang Fushan Resources Group Ltd.	639 HK Equity	Shougang Fushan Resources Group Ltd. produces and sells coking coal products and side products in the PRC. The Company is principally engaged in mining of coking coal and production and sales of raw and clean coking coal.
Kailuan Energy Chemical Co., Ltd.	600997 CH Equity	Kailuan Energy Chemical Co., Ltd. offers coal mining and operation services. The Company produces washed coal, metallurgical coke, and other coal chemicals. Kailuan Energy Chemical markets its products domestically and internationally.
Perennial Energy Holdings Limited	2798 HK Equity	Perennial Energy Holdings Limited conducts coal businesses. The Company through its subsidiaries, operates coal mine and their related coal preparation plants. Perennial Energy Holdings mainly conducts businesses in the PRC.

Company Name	Bloomberg Ticker	Business Description
Shanxi Xishan Coal & Electricity Power Co., Ltd.	000983 CH Equity	Shanxi Xishan Coal & Electricity Power Co., Ltd. offers coal mining and washing services. The Company produces raw coal, coking coal, and gas coal products. Shanxi Xishan Coal & Electricity Power also conducts power generation and electric equipment manufacturing businesses.
Anhui Hengyuan Coal Industry and Electricity Power Co., Ltd.	600971 CH Equity	Anhui Hengyuan Coal Industry and Electricity Power Co., Ltd. operates in coal mining and processing.
Shanxi Coal International Energy Group Co., Ltd.	600546 CH Equity	Shanxi Coal International Energy Group Co., Ltd operates as a coal operation company. The Company provides coal production, processing, and coal trade services. Shanxi Coal International Energy Group also conducts transportation, steel materials distribution, and equipment marketing businesses worldwide.

Source: Bloomberg

17.2.9 Discount Rate

In order to estimate the value of the Target Company and perform an overall reasonability assessment, it is required to determine an appropriate discount rate for the Target Company. As such, we adopted the weighted average cost of capital ("**WACC**") as a basic discount rate for the Target Company. WACC represents the weighted average return attributable to all of the operating assets of the Target Company. WACC was computed using the formula below:

$$WACC = R_e\ (E/V) + R_d\ (D/V)\ (1 - T_c)$$

Where:

$WACC$	=	*weighted average cost of capital*
R_e	=	*cost of equity*
R_d	=	*cost of debt*

E	=	*value of the firm's equity*
D	=	*value of the firm's debt*
V	=	*sum of the values of the firm's equity and debt*
T_c	=	*corporate tax rate*

As a component of WACC, the cost of equity was determined using the Capital Asset Pricing Model ("**CAPM**"). CAPM calculates a required return based on a risk measurement. It describes the relationship between the risk of a particular asset, its market price and the expected return to the investor, that investors required additional return to compensate additional risk associated. CAPM was modified to reflect the size premium and company-specific risk premium associated with the Target Company. The cost of equity under the modified CAPM was computed using the formula below:

$$R_e = R_f + \beta * MRP + RP_S + RP_U$$

Where:

R_e	=	*cost of equity*
R_f	=	*risk-free rate*
β	=	*beta coefficient*
MRP	=	*market risk premium*
RP_S	=	*size premium*
RP_U	=	*company-specific risk premium*

In the valuation, the yield rate of the 10-year Government Bond of the PRC of 2.78% as of the Date of Valuation, as extracted from Bloomberg, was adopted as the risk-free rate. The market risk premium of the PRC as of the Date of Valuation of 4.94% was determined with reference to "Country Default Spreads and Risk Premiums", published by Professor Aswath Damodaran, who is a well-known author of several widely used academic textbooks on valuation and related subjects, in January 2022.

Since the Target Company is not a publicly listed company, it is not possible to determine its beta coefficient directly. Instead, the beta coefficient for the Target Company was determined by the median of the betas of the Comparable Companies, with adjustment for differences in corporate tax rates and leverage compositions. As a result, the beta coefficient of the Target was calculated as 0.978.

Considering the above-mentioned parameters, our analysis suggested a cost of equity before any other risk premium of 7.61%. By adding a size premium of 3.16%, which was determined with reference to "2020 Valuation Handbook — Guide to Cost of Capital", published by Duff & Phelps,

which is a global valuation and corporate finance advisor with over 3,500 employees and 28 countries around the world, and a company-specific risk premium of 2.00%, we arrived at a cost of equity of 12.77%.

The weight of debt and weight of equity were determined by making reference to the median of the weight of debt and weight of equity of the Comparable Companies respectively. The weight of equity was adopted as 78.14%.

The cost of debt is determined by making reference to the prime rate in the PRC of 4.90% before tax. The after tax cost of debt adopted was 3.68%.

Accounting for the above items, the nominal WACC as of the Date of Valuation is derived as 10.78%. After adjusting the nominal WACC by the PRC inflation rate of 2.10%, the rounded 9.00% was adopted as the real WACC as of the Date of Valuation.

17.2.10 ***Discount for Lack of Marketability***

The concept of marketability deals with the liquidity of an ownership interest, that is, how quickly and easily it can be converted into cash if the owner chooses to sell. Compared to similar interest in public companies, ownership interest in privately held company is not readily marketable. Therefore, the value of a share in a privately held company is usually less than that in a publicly held company. The lack of marketability is a downward adjustment to the value of an investment to reflect its reduced level of marketability.

In determining a reasonable lack of marketability, we made reference to the "A Companion Guide to The FMV Restricted Stock Study" published by the FMV Opinions, Inc. in 2021 which indicated the median of discount for lack of marketability for the mining industry is 14.6% and for all industry is 15.8%. After considering the study, the discount for lack of marketability of 15.8% was adopted in the valuation. As there is no evidence that the discount for lack of marketability of the Target Company varies from the overall market, we considered that it is fair and appropriate to adopt such marketability discount in our valuation.

18 SENSITIVITY ANALYSIS

By its very nature, valuation work cannot be regarded as an exact science and the conclusion arrived at in many cases will of necessity be subjective and dependent on the exercise of individual judgment. Hence, there is no single indisputable range and generally we cannot provide absolute assurance on a valuation. Thus, the following sensitivity analysis was applied to determine the impact of change of the discount rate on the FMV of the Target Company.

Table 18.1: Sensitivity Analysis of the Change in Discount Rate for the Valuation as of May 31, 2022

Discount Rate	Fair Market Value of 100% Interest in the Target Company *(RMB in million)*	Change in Fair Market Value of 100% Interest in the Target Company *(%)*
11%	1,947	-38.0%
10%	2,501	-20.4%
Base case (9%)	3,141	—
8%	3,885	23.7%
7%	4,754	51.4%

A further sensitivity analysis was run for various changes of the base case parameters, including coal prices, operating cash costs and CAPEX at a discount rate of 9.00%. The resulted changes of after-tax FMV are summarized in Figure 18.1 below.

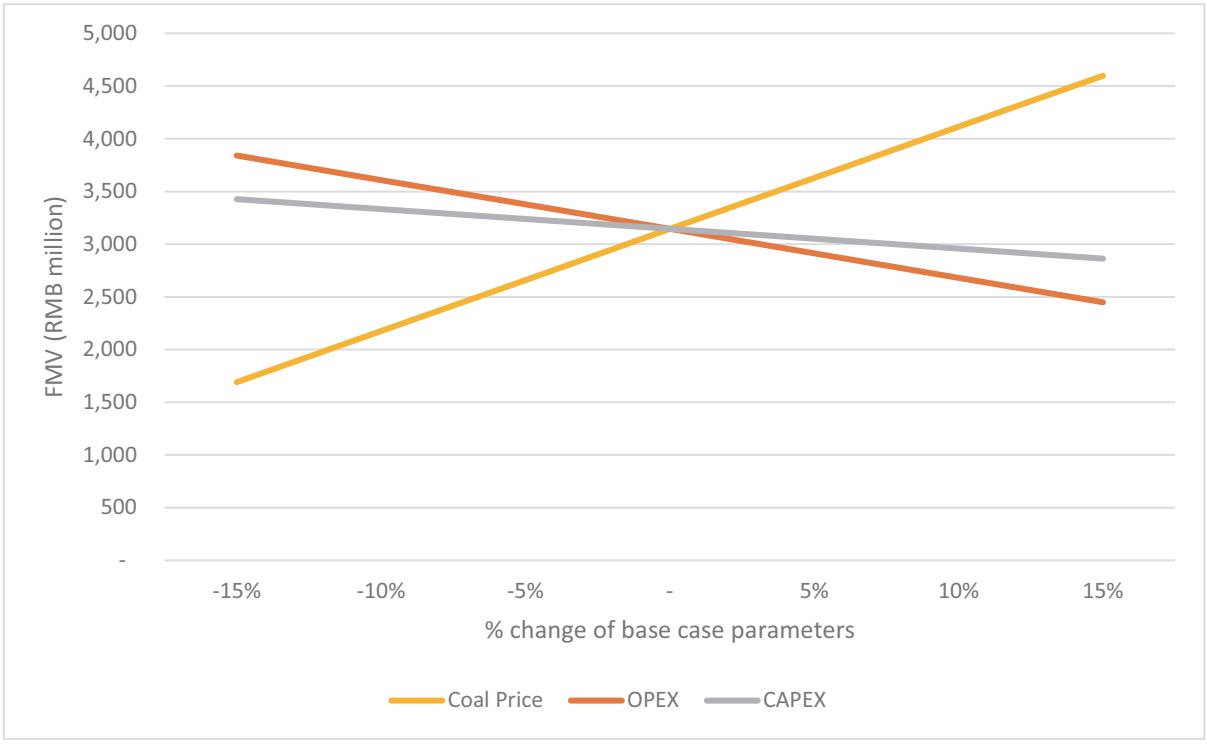

Figure 18.1: Sensitivity Analysis of the Change in Coal Prices, OPEX and CAPEX as of May 31, 2022

Similar to the majority of mining projects in the world, the cashflow projection and FMV of the Target Company are the most sensitive to commodity prices, as demonstrated in the chart above.

19 RISK FACTORS

19.1 Resource and Reserve

Estimations of tonnage, grade and overall content of a deposit are not precise calculations but are based on interpretation and on sampling. There is always a potential error in the projection of sampling data when estimating the tonnage and grade of the surrounding strata, and significant variations may occur. It is possible that some resources may not be economically mineable. Additionally, historical recovery rate might not be able to be sustained in future operations. The FMV of the Target Company may be diminished if any of these events happen.

19.2 Fluctuation of the Selling Price and Demand

Commodity price and demand are fluctuated. If the selling price decreases substantially or the demand for coking coal diminishes in the long run, the value of the Target Company will be adversely affected.

19.3 Implementation for Future Development Plan

Future development of the Target Company may be subject to the approval by the local government. Any delays in the proposed future development plan may adversely affect the value of the Target Company.

19.4 Social and Environmental Issues

If there are any complaints or protests by the local community or any changes on the environmental regulation or requirement, the operation of the Target Company may suffer adverse impact and thus negatively affect our conclusion of value.

19.5 Government Policy Change

Our DCF-based evaluation of the Target Company is reliant on the existing government policy as it existed at the time of the evaluation. Any changes in existing government policy may affect our conclusion of value.

20 LIMITING CONDITIONS

The valuation reflects facts and conditions existing at the Date of Valuation. Subsequent events have not been considered and we are not required to update our report for such events and conditions.

To the best of our knowledge, all data set forth in this report are reasonable and accurately determined. The data, opinions, or estimates identified as being furnished by others that have been used in formulating this analysis are gathered from reliable sources; yet, no guarantee is made nor liability assumed for their accuracy.

We have relied on information provided by the Management to a considerable extent in arriving at our opinion of value. We have not verified the accuracy of the information provided and have assumed that the aforesaid information is accurate. We have not conducted any further investigations concerning whether all data have been provided to us for our assessment and we have no reason to believe that any material data have been withheld from us.

We would particularly point out that our valuation was based on the information such as the projections made by the Target Company, company background, business nature of the Target Company provided to us.

Our conclusion of the value was derived from generally accepted valuation procedures and practices that rely substantially on the use of various assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

By its very nature, valuation work cannot be regarded as an exact science and the conclusions arrived at in many cases will of necessity be subjective and dependent on the exercise of individual judgment. Hence, there is no single indisputable range and generally we cannot provide absolute assurance on a valuation.

This report is for the exclusive use of the party to whom it is addressed and for the specific purpose stated in **Section 2 — Purpose of Valuation**, neither the whole nor any part of this report nor any reference thereto may be included in any document, circular or statement without our written approval of the form and context in which it will appear. We will not accept any responsibility or liability to any third party to whom in respect of, or arising out of, the contents of this report may be shown.

The title of this report shall not pass to the Company until all professional fees have been paid in full.

21 REMARKS

Unless otherwise stated, all monetary amount stated in this valuation report are in Renminbi (RMB).

22 OPINION OF VALUE

Based on the investigation and analysis stated above, our scope of work, the valuation method employed, information reviewed and the assumptions adopted, the Fair Market Value of the Target Company as of May 31, 2022 (i.e., the Date of Valuation), in our opinion, was reasonably stated as **RMB3,141,000,000 (RENMINBI THREE BILLION ONE HUNDRED AND FORTY-ONE MILLION ONLY)**.

APPENDIX A — QUALIFICATION OF THE VALUATION TEAM MEMBERS

Mr. Karfai Leung (MPhil, MAusIMM), as the Director of BAW and responsible for the overall project management of this engagement, has more than fifteen years of extensive experience in the mining industry globally including project generation, prospecting, field exploration, mineral resource definition, HSE management, mineral assets valuation, mineral assets acquisition for energy, base metals, non-ferrous metals and precious metals in the PRC, Southeast Asia, North Asia, Central-Asia, Mid-East, Africa, Australasian, North and South Americas. He has hands-on and extensive experience in cash-flow modelling, valuation, due diligence, capital raising, M&A deals and IPOs project management. He meets all the requirements for "Competent Person" as defined in the Australasian JORC Code and the HKEX Listing Rules for the purpose of mineral resource/ore reserve estimation and reporting.

Mr. Hongbo Liu (M. Sc., MAusIMM), as a Senior Mining Engineer of BAW and responsible for mining of this engagement, has more than fifteen years of underground and open pit mining experience in mine operations, constructions, project management, engineering, mine development, ground control, ventilation, backfill, haulage and technical services. He is familiar with multiple mining softwares including MineSched, Surpac, Vulcan, Whittle, MapGIS and AutoCAD. He meets all the requirements for "Competent Person" as defined in the Australasian JORC Code and the HKEX Listing Rules for the purpose of mineral resource/ore reserve estimation and reporting.

Mr. Jason Wong Tsz Fung (CPA) has over seven years of experience with proven track record in multiple professional service industries, including audit, business advisory with a focus on valuation. He has substantial practical experience in providing various types of valuation for publicly listed and private companies in Hong Kong, the PRC and southeast Asia. His experience in M&A transactions covers a wide range of industries including mining, automotive consultancy services, catering and healthcare.

The following is the text of a report received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for inclusion in the Company's announcement dated 14 September 2022.

REPORT ON THE DISCOUNTED FUTURE CASH FLOWS IN CONNECTION WITH THE BUSINESS VALUATION OF NINGXIA SUNSHINE MINING CO., LTD.

TO THE BOARD OF DIRECTORS OF KINETIC DEVELOPMENT GROUP LIMITED

We refer to the discounted future cash flows on which the business valuation ("**the Valuation**") dated 14 September 2022 prepared by BAW Mineral Partners Limited in respect of the appraisal of the fair value of Ningxia Sunshine Mining Co., Ltd. ("**the Target Company**") as at 31 May 2022 is based. The Valuation is prepared based on the discounted future cash flows and is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Directors' Responsibilities

The directors of Kinetic Development Group Limited (the "**Directors**") are responsible for the preparation of the discounted future cash flows in accordance with the bases and assumptions determined by the Directors and as set out in the Valuation. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control (HKSQC) 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to report, as required by paragraph 14.62(2) of the Listing Rules, on the calculations of the discounted future cash flows used in the Valuation. The discounted future cash flows do not involve the adoption of accounting policies.

Basis of Opinion

We conducted our engagement in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the calculations are concerned, the Directors have properly compiled the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation. We performed procedures on the arithmetical calculations and the compilations of the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the calculations are concerned, the discounted future cash flows have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation.

Other matters

Without qualifying our opinion, we draw to your attention that we are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future cash flows are based and our work does not constitute any valuation of the Ningxia Sunshine Mining Co., Ltd. or an expression of an audit or review opinion on the Valuation.

The discounted future cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Further, since the discounted future cash flows relates to the future, actual results are likely to be different from the discounted future cash flows because events and circumstances frequently do not occur as expected, and the differences may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

KPMG
Certified Public Accountants
Hong Kong
14 September 2022

14 September 2022

Listing Division
The Stock Exchange of Hong Kong Limited
12th Floor, Two Exchange Square,
8 Connaught Place, Central, Hong Kong

Dear Sirs,

Major Transaction — Proposed Acquisitions in relation to the Equity Interest in Ningxia Sunshine

We refer to the announcements of Kinetic Development Group Limited (the "**Company**") dated 27 January, 5 June, 24 June 2022, 27 June 2022, 28 July 2022 and 15 August 2022 (the "**Announcements**") in relation to the captioned transaction. Capitalized terms used in this letter shall have the same meanings as those defined in the Announcements unless stated otherwise.

We refer to the Valuation Report dated 14 September 2022 issued by BAW Mineral Partners Limited (the "**Independent Valuer**") regarding the valuation of the entire equity interest in Target Company as at 31 May 2022 (the "**Valuation**"), which constitutes profit forecasts under Rule 14.61 of the Listing Rules.

We have discussed with the Independent Valuer about different aspects including the bases and assumptions based upon which the Valuation has been prepared, and reviewed the Valuation for which the Independent Valuer is responsible. We have also considered the report from KPMG dated 14 September 2022 regarding whether the discounted future cash flows used in the Valuation, so far as the calculations are concerned, have been properly compiled in all material respects in accordance with the bases and assumptions set out in the Valuation Report, which the Board has relied on, in all material respects. We have noted that the profit forecasts in the Valuation are mathematically accurate and the discounted cash flows will not be affected by accounting policies.

Pursuant to the requirements of Rule 14.62(3) of the Listing Rules, the Board of the Company confirmed that the Valuation prepared by the Independent Valuer has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of the Board
Kinetic Development Group Limited
Ju Wenzhong
Chairman and Executive Director

The following is a discussion of the results of the Target Company and should be read in conjunction with the Historical Financial Information for the three financial years ended 31 December 2021 and the five months ended 31 May 2022 as set out in the Accountants' Report, the full text of which is set out in Appendix II to this circular.

FINANCIAL OVERVIEW

Liquidity, capital resources and capital structure

The table below sets out a summary of the Target Company's financial position as at the dates indicated.

	31 December 2019	31 December 2020	31 December 2021	31 May 2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	1,160,534	1,160,226	1,159,944	1,159,815
Current assets	205	798	777	44
Total assets	1,160,739	1,161,024	1,160,721	1,159,859
Non-current liabilities	—	—	—	655,165
Current liabilities	2,031,446	2,089,822	2,147,945	1,514,290
Total liabilities	2,031,446	2,089,822	2,147,945	2,169,455

Revenue

For the years ended 31 December 2019, 2020, 2021 and for the five months ended 31 May 2021 and 2022, the revenue of the Target Company was nil, primarily because the Target Mines are currently at the construction stage and have no actual operation.

Operating costs

For the years ended 31 December 2019, 2020, 2021 and for the five months ended 31 May 2021 and 2022, the operating costs of the Target Company was nil, primarily because the Target Mines are currently at the construction stage and have no actual operation.

Gross profit and gross profit margin

For the years ended 31 December 2019, 2020, 2021 and for the five months ended 31 May 2021 and 2022, the gross profit and gross profit margin of the Target Company was nil, primarily because the Target Mines are currently at the construction stage and have no actual operation.

Other losses and income, net

Other losses and income mainly include interest income, expenses for overdue payment charges, tax and surcharges.

For the years ended 31 December 2019, 2020, 2021 and for the five months ended 31 May 2021 and 2022, other losses of the Target Company amounted to approximately RMB18.6 million, RMB18.6 million, RMB18.6 million, RMB7.7 million and RMB7.7 million, respectively.

Administrative expenses

Administrative expenses primarily include salary, depreciation, social security and office expenses.

For the years ended 31 December 2019, 2020 and 2021 and for the five months ended 31 May 2021 and 2022, administrative expenses of the Target Company amounted to approximately RMB2.6 million, RMB2.7 million, RMB2.9 million, RMB1.1 million and RMB0.6 million, respectively.

For the years ended 31 December 2019, 2020 and 2021, administrative expenses of the Target Company remained stable. Administrative expenses of the Target Company decreased from approximately RMB1.1 million for the five months ended 31 May 2021 to approximately RMB0.6 million for the same period in 2022, representing a year-on-year decrease of 51.6%, primarily due to the reduced salaries of three management members of Shougang in 2022.

Other borrowings

As at 31 December 2019, 2020 and 2021, other borrowings of the Target Company amounted to RMB793.4 million, RMB833.1 million and RMB872.7 million, respectively. As at 31 May 2021 and 2022, other borrowings of the Target Company amounted to RMB872.7 million and RMB886.7 million, respectively. All other borrowings of the Target Company are denominated in RMB.

Share of loss of an associate

For the years ended 31 December 2019, 2020, 2021 and for the five months ended 31 May 2021 and 2022, share of loss of an associate of the Target Company amounted to approximately RMB157,000, RMB152,000, RMB161,000, RMB77,000 and RMB79,000, respectively.

Finance costs

Finance costs mainly include interest expenses of interest-bearing amounts due to related parties.

For the years ended 2019, 2020, 2021 and for the five months ended 31 May 2021 and 2022, finance costs of the Target Company amounted to approximately RMB36.4 million, RMB36.6 million, RMB36.8 million, RMB15.4 million and RMB14.1 million, respectively.

Loss and total comprehensive income for the year/period

As a result of the foregoing, for the years ended 31 December 2019, 2020, 2021 and for the five months ended 31 May 2021 and 2022, the Target Company recorded losses and total comprehensive income of approximately RMB57.8 million, RMB58.1 million, RMB58.4 million, RMB24.3 million and RMB22.4 million, respectively.

OTHER INFORMATION RELATED TO ASSETS TO BE ACQUIRED

(a) Property, plant and equipment

As at 31 December 2019, 2020 and 2021 and 31 May 2022, the property, plant and equipment of the Target Company amounted to approximately RMB203.5 million, RMB203.4 million, RMB203.3 million and RMB203.2 million, respectively, which primarily included construction in progress, buildings, motor vehicles, office equipment and others. As at 31 May 2022, net book value of construction in progress of the Target Company amounted to approximately RMB200.3 million, which primarily included: (i) three inclined shaft projects of Weiyi Coal Mine, according to the mining design, continuing downward extension construction are still needed; (ii) two inclined shaft works of Yong'an Coal Mine are currently under extension construction; and (iii) construction and installation works for electrical switching station works and equipment of Yongan Mine will be completed and put into use soon.

(b) Intangible assets — mining rights

As at 31 December 2019, 2020 and 2021 and 31 May 2022, the mining rights of the Target Company amounted to approximately RMB934.2 million.

In 2012, the Target Company acquired the mining rights of Weiyi Coal Mine and Yong'an Coal Mine from the Department of Land and Resources of Ningxia Hui Autonomous Region, for a total consideration of RMB1,022,000,000, of which RMB400,000,000 was paid in 2006 and RMB622,000,000 was agreed to be settled by instalments. The total present value of the consideration was measured at RMB934,225,000. The Target Company obtained the mining right licences in 2012.

As Weiyi Coal Mine and Yong'an Coal Mine are currently at the construction stage and according to the accounting policy set out in Note 2.3(d) to the accountants' report as set out in appendix II, no amortisation charges have been recognised during the reporting periods. In addition, the Target Company assesses the recoverable amounts of the mining rights annually based on market conditions and no impairment losses for mining rights have been recognised during the reporting periods.

Liquidity and financial resources

The table below sets out the cashflow of the Target Company for the periods indicated:

FINANCIAL OVERVIEW

	Years ended 31 December			Five months ended 31 May
	2019	**2020**	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net cash used in operating activities	(2,437)	(2,470)	(2,565)	(702)
Net cash generated from/(used in) investing activities	5	(79)	7	2
Net cash generated from/(used in) financing activities	2,454	3,158	2,677	(33)
Net increase/(decrease) in cash	22	609	119	(733)
Cash at the beginning of the year/period	15	37	646	765
Cash at the end of the year/period	37	646	765	32

Charge on assets

As at 31 December 2019, 2020, 2021 and 31 May 2022, no asset of the Target Business were charged.

SIGNIFICANT INVESTMENT, CAPITAL ASSETS, ACQUISITION AND DISPOSAL

For the years ended 31 December 2019, 2020, 2021 and for the five months ended 31 May 2022, the Target Company did not (1) hold any significant investment; (2) have any future plan of significant investment or capital assets; and (3) carry out any significant acquisition and disposal of any subsidiary and associate.

GEARING RATIO

As at 31 December 2019, 2020 and 2021 and 31 May 2022, the gearing ratios of the Target Company were -1025.1%, -864.5%, -756.0%, -721.2%, respectively. This ratio is calculated as net debt divided by capital plus net debt. Net debt is calculated as total borrowings less cash at bank. Capital is equivalent to the total equity.

	31 December 2019	**31 December 2020**	**31 December 2021**	**31 May 2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other borrowings	793,355	833,149	872,662	886,679
Less: Cash at bank and in hand	-37	-646	-765	-32
Net debt	793,318	832,503	871,897	886,647
Total equity	-870,707	-928,798	-987,224	-1,009,596
Capital and net debt	-77,389	-96,295	-115,327	-122,949
Gearing ratio	-1,025.1%	-864.5%	-756.0%	-721.2%

CONTINGENT LIABILITIES

As at 31 December 2019, 2020 and 2021 and 31 May 2022, the Target Company had no significant contingent liabilities.

FOREIGN EXCHANGE RISK

The Target Company conducts its business in PRC, and all of its transactions are denominated in RMB. The Target Company did not experience any material impact or difficulties in liquidity on its operation resulting from the fluctuation in exchange rate. The Target Business did not experience any material impact or difficulties in liquidity on its operation resulting from the fluctuation in exchange rate, and no hedging transaction or forward contract arrangement was made by the Target Company during the three years ended 31 December 2021 and the five months ended 31 May 2022. Upon the completion of transaction, the management of the Group will continue to monitor the foreign exchange risk of the Enlarged Group, and take prudential measures as and when appropriate.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2019, 2020 and 2021 and 31 May 2021 and 2022, the Target Company employed nine, nine, seven, nine and four employees, respectively, the employees were based in Ningxia Hui Autonomous Region, Hebei province and Beijing, the PRC.

All employees of the Target Company are required to undergo induction trainings before they commence work. In addition, depending on the work nature, employees of the Target Company are also required to attend trainings pursuant to applicable laws and regulations.

Apart from salary and bonus, save as disclosed in this circular, the Target Company has also made contributions for housing provident funds and social security insurance funds for its employees. The Target Company has no share option scheme.

For the years ended 31 December 2019, 2020 and 2021 and for the five months ended 31 May 2021 and 2022, the total amount of employee remuneration of the Target Company were approximately RMB1.37 million, RMB1.47 million, RMB1.42 million, RMB0.59 million and RMB0.33 million.

FUTURE PROSPECTS

According to the Competent Person's Report, as of 31 May 2022, according to the JORC Code, the coal reserves of Yongan Mine and Weiyi Mine were 33.2Mt and 15.02Mt, respectively. All raw coal were processed in the coal washing plant to produce clean coal, middling coals and sludge coal. Clean coal is used for coking and is sold to the coking industry. Middling coals and sludge coal are mainly sold as thermal coal and are mainly used for generating power in local power plants. According to the Competent Person's Report, the table below sets out the estimated marketable coal reserves as of 31 May 2022.

Coal product	**Yield**	**Marketable reserves (Mt)**	
		Yongan	**Weiyi**
Clean coal	70%	23.24	10.51
Middling coals	17%	5.64	2.55
Sludge Coal	5%	1.66	0.75
Total	**92%**	**30.54**	**13.81**

The designed production capacity and planned production capacity of raw coal of Yongan Mine is 1.2 Mt each year, and 0.9 Mt each year for Weiyi Mine. The above production capacities have been approved by the National Development and Reform Commission of the People's Republic of China ("**NDRC**") in 2006.

The Yongan Mine resumed construction in June 2022, while the construction of Weiyi Mine is also expected to resume in the fourth quarter of 2022. Upon completion of the initial mine construction and exploration, the Target Mines are expected to commence coal production in the first half of 2025. After the necessary ramp-up period, the coal production of these two mines will be running in full capacity in 2027.

In recent years, demand for steel and coal in the PRC has been decreasing and the long-term growth of the Chinese economy has gradually slowed down. However, as the economies of Asia-Pacific countries, including Vietnam and India, continues to grow, the weak domestic demand for steel and coal may be compensate by the demand from Asia-Pacific countries. In general, the price of coking coal in the region where the Target Mines are situated is expected to remain at a medium to high level with stable development.

Set out below is the text of a report received from SRK, the Competent Person engaged by the Company in respect of the Target Mines for the purpose of inclusion in this circular:

Final Report

Competent Person's Report for Yong-an and Weiyi Underground Metallurgical Coal Projects in Ningxia Hui Autonomous Region, China

Yong-an and Weiyi Coal Projects Ningxia Hui Autonomous Region, China
Kinetic Development Group Limited

SRK Consulting China Ltd ■ SCN590 ■ 14 September 2022

srk consulting

Final Report

Competent Person's Report for Yong-an and Weiyi Underground Metallurgical Coal Projects in Ningxia Hui Autonomous Region, China

Yong-an and Weiyi Coal Projects Ningxia Hui Autonomous Region, China

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Suggested Citation:
SRK Consulting China Ltd. 2022. Competent Person's Report for Yong-an and Weiyi Underground Metallurgical Coal Projects in Ningxia Hui Autonomous Region, China. Final Report. Prepared for Kinetic Development Group Limited: China. Project number: SCN590. Issued 14 September 2022.

Cover Image(s):
Yong-an Coal Mine Project Site

The opinions expressed in this Report have been based on the information supplied to SRK Consulting China Ltd (SRK) by Kinetic Development Group Limited (the Client). The opinions in this Report are provided in response to a specific request from the Client to do so. SRK has exercised all due care in reviewing the supplied information. Whilst SRK has compared key supplied data with expected values, the accuracy of the results and conclusions from the review are entirely reliant on the accuracy and completeness of the supplied data. SRK does not accept responsibility for any errors or omissions in the supplied information and does not accept any consequential liability arising from commercial decisions or actions resulting from them. Opinions presented in this report apply to the site conditions and features as they existed at the time of SRK's reviewing, and those reasonably foreseeable. These opinions do not necessarily apply to conditions and features that may arise after the date of this Report, about which SRK had no prior knowledge nor had the opportunity to evaluate.

Contents

Tables

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Appendices

Useful Definitions

Abbreviation	Meaning
ad	air-dried basis
AFC	armoured face conveyor
ar	as-received basis
ARD	apparent relative density; or acid rock drainage
ASL	above sea level
AusIMM	Australasian Institute of Mining and Metallurgy
B	Billion
Bcm	bank cubic metre
BD	bulk density
°C	degrees Celsius
CAPEX	capital expenditures
CBM	coal bed methane
CPP	coal preparation plant
CPR	Competent Person's Report
Daf	dry ash-free basis
db	dry basis
dB	decibel
deposit	earth material of any type, either consolidated or unconsolidated, that has accumulated by some natural process or agent
Dmmf	dry mineral matter-free basis
DMV	Dense Medium Vessel
DMC	Dense Medium Cyclone
E	East
EIA	Environmental Impact Assessment
EPMP	Environmental Protection and Management Plan
ERP	Emergency Response Plan
FC	fixed carbon
g	gram
gar	gross as-received
gm/cc	gram per cubic centimetre
gob or goaf	mined out caving area behind longwall
gr,ad	gross, air-dried
Ha	hectare
HKEx	Hong Kong Exchange and Clearing Limited
IFC	International Finance Corporation

Abbreviation	Meaning
IM	inherent moisture
IPO	Initial Public Offering
ITR	Independent Technical Review
JORC Code	Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (JORC), December 2012.
kcal/kg	kilocalories per kilogram
Kg	kilogram
Km	kilometre
km2	square kilometre
kN	kilonewton
kV	kilovolt
kW	kilowatt
kWh	kilowatt hours
L	litre
LOM	life of mine (lifetime of the mine)
LTCC or TCC	longwall top coal caving
M	metre
M	million
MJ	mega joule
MJ/kg	mega joule per kilogram
m/s	Metre per second
m3	cubic metre
Mt	million tonnes
Mtpa	million tonnes per annum
MW	megawatt
N	North
net,ar	net-as-received basis
NGM	near gravity material
NPV	net present value
OHS	occupational health and safety
OPEX	operating expenditure
PMD	Preliminary Mine Design Study
PPE	personal protective equipment
PoO	Points of Observation
PRC	People's Republic of China

Abbreviation	Meaning
QA/QC	quality assurance/quality control
Qnet.ad	Net Calorific Value (air dry)
R2	Coefficient of determination
RMB	Renminbi (Chinese Currency)
ROM	run of mine
S	South
So	organic sulphur
Sp	pyritic sulphur
Ss	sulphate minerals
SRK	SRK Consulting China Limited
T	tonne (1,000 kg)
Tpa	tonnes per annum
Tpd	tonnes per day
Tph	tonnes per hour
TS	total sulphur
TSF	tailings storage facility
UG	Underground
USD	United States dollars
VAT	value added tax
VM	volatile matter
VALMIN Code	Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports, 2015 Edition
W	West
WRD	waste rock dump
WSCP	Water and Soil Conservation Plan
>	greater than
<	less than
o	Degree
%	percent

Executive Summary

Introduction

SRK Consulting (China) Limited ("SRK") has been engaged by Kinetic Mines and Energy Limited which has later changed the company name to Kinetic Development Group Limited in October 2021 ("Kinetic" or "The Client") to undertake an independent technical review of its two underground metallurgical coal projects located in Ningxia Hui Autonomous Region ("Ningxia"), China. The purpose of the review is to prepare a Competent Person's Report in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code", 2012 Edition) and the requirements of "Chapter 18: Equity Securities, Mineral Companies" of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong ("Listing Rules").

The two underground metallurgical coal projects, Yong-an and Weiyi, are located approximately 120 km southeast of Yinchuan, the capital city of Ningxia Hui Autonomous Region, the People's Republic of China (see Figure 2). The two project licences Yong-an and Weiyi are contiguous and cover an area of 21.7 km^2 and 26.7 km^2 respectively. The Ningxia Yangguang Company initiated the construction in 2009 with the main drifts (three) completed to a total of 1,623 m in Yong-an and 1,729 m (three drifts) in Weiyi. All construction activities ceased in 2010 due to the ongoing negotiation over the mining rights related payment.

The climate of the project area is continental with very low humid and rainfall. The annual average temperature ranges from a maximum of 80 °F (27 °C) in summer to a minimum of 7 °F (−14 °C) in winter. The projects area is in the transitional zone between the Loess Plateau and Mongolian Plateau and the surface is dominated by grassland and small farms. The topography of the projects area is generally flat with moderately low rolling hills and a topographic relief that varies from 1,330 m to 1,400 m AMSL.

The region is well-known of having abundant coal resources and the coal mining industry has been developed for many years with the support of local coal mining-related business. There are also some small plantations that form part of the local economy.

The mining permit of the two projects was registered under the Ningxia Yangguang Co., Ltd. Both projects have been granted mining licences valid for 20-years which was approved on the 26 June 2012. The detail of the mining licenses is presented in Table 2.

Geology

The Projects area is located within the eastern limb of the Weizhou syncline with the stratigraphy including Carboniferous, Permian and Paleogene sedimentary rocks, Neogene and Quaternary soils and sands. The surface geology is predominantly Quaternary alluvium soil, loess and aeolian sands. Carboniferous-Permian sedimentary rocks containing coal seams mostly outcropped in the eastern part of the Yong-an license area with dip angles of the strata ranging from approximately 20 to 30 degrees towards the west.

The coal seams mainly occur within the Shanxi Formation (P1s) of Lower Permian and Taiyuan Formation (C2-P1t) of the Upper Carboniferous to Lower Permian sedimentary units. The Permian and Carboniferous sedimentary units within this area consists of four formations which are from base to top: Upper Carboniferous to Lower Permian Taiyuan Formation (C2-P1t), Lower Permian Shanxi Formation (P1s), the Middle Permian Shihezi Formation (Psh) and the Upper Permian Sunjiagou Formation (Psj).

The thrusting movement which occurred during the Late Jurassic period (Liu et al., 2007) in the western margin of the Ordos Basin shaped this highly faulted area with over 70 reverse and normal faults having been identified. Historical exploration activities have interpreted 43 faults in Yong-an and 27 in Weiyi, of which most are reverse faults with an orientation of north-northwest and dips of 40 to 70 degrees. Normal faults often have an orientation to the northeast.

Coal Seam and Coal Quality

Historical exploration activities have intersected over 20 coal seams/splits in the Yong-an license area, of which 17 were correlated and as having resource potential. The correlated coal seams are divided into two groups in terms of the hosted stratigraphic unit, the upper seam group (seam 0 to seam 4) occurred within the Lower Permian Shanxi Formation and the lower seam group (seam 50 to seam 20) occurred within the Taiyuan Formation.

In the Weiyi license area, 22 coal seams have been identified and are numbered from 0-21 inclusively. Similar to the Yong-an project, all seams in the Weiyi project are north-south striking and dip to the west at between 20 and 25 degrees. Most of the seams crop out in the eastern part of the license area and dip to an approximate depth of between 1100 m (seam 2) and 1550 m (seam 20) below the western boundary limit.

Of the 22 coal seams identified in the Weiyi project from coal seam correlation and comprehensive analysis of the historical exploration results, 9 have been identified with underground mining potential, three seams presented in the Low Permian Shanxi Formation (seam 2, seam 3, seam 4), and six seams presented in the middle Taiyuan Formation (seam 12, seam 14, seam 15, seam 16, seam 17, seam 20)

All the coal seams that occur in both the Yong-an and Weiyi mines are classified as Medium volatile to High volatile A bituminous coal according to ASTM D388 (Classification of Coals by Rank). According to Chinese standard GB/T 5751-2009 (Chinese Classification of Coals), all the coal seams shown strong caking properties (tested from float coal of sink/float test) with a high Caking Index (Roga Index, G) ranging between 80 and 100 (average 90).The Y value of the Plastometric Indices ranging from between 14 and 36 (average 26) and in associated with the dry-ash-free volatile matter which ranges from 20% and 37% (average 29%), the coal classification falls in a range between Main Coking Coal (JM), Fat Coal (FM) and 1/3 Coking Coal (1/3JM). These are the three sub-categories of metallurgical coal according to the Chinese Standards. The metallurgical coal quality of these two mines is similar to that of the other surrounding mines in this region.

Exploration

A series of historic exploration programmes were carried out both for the Yong-an and Weiyi projects which are, 1959-214 Regional Exploration, 1965-139 Regional Exploration, 1990-133 Regional Exploration, 2005-NXI Regional Exploration, 2007-JS2B Yong-an Exploration and 2007-NXCE Weiyi Exploration. SRK has not been involved in these programs and the following information on the previous exploration results is compiled based on the data within the relevant geological reports as well as discussions with the mines technical team during a recent site visit in September 2018 by SRK.

Data Validation and Modelling

Yong-an

Borehole seam structure data was processed based on each series of boreholes to remove any unsuitable boreholes prior to importing them into the Minex database.

- All the 1959 holes are shallow and drilled in the east part of the license area with limited seams intersected and no core recovery data is available. As such this series of boreholes are considered as unreliable and removed from the modelling process.
- The1965 1990 holes were generally used in the validation process as the received seam structure data were assessed as reliable, however, due to the low coal core recovery and the unavailable of downhole survey results, these boreholes where not considered as reliable for the high confidence level of resource category;
- All the 2005 and 2007 series of boreholes were used for the validation process.

After this validation process, a total of 49 boreholes were incorporated into the Geovia Minex 6.1.3 borehole database and used to develop the geological model. Additional validating of the borehole data within Minex was conducted using scatter plots between ash content, calorific value and volatile matter to assess the analytical precision/reliability of the main quality.

Weiyi

The data validation process of the Weiyi mine is similar to that of Yong-an. First, the 1959 holes located within the license area were removed, 1965 and 1990 holes drilled in the east part of the license area were retained for further validation as well as the 2007 series of boreholes.

After the validation process a total of 50 boreholes were incorporated into the Geovia Minex 6.1.3 borehole database to develop a geological model. Additional validating of the borehole data within Minex was similar to the process of used for the Yong-an boreholes above using scatter plots to assess the analytical precision/reliability of the main quality variables in the Report.

Modelling

The key steps for structure and quality modelling are described as follows:

- Set Missing Seams in Minex. The position of the floor of the missing seams was estimated in Minex by using the "set missing seams" function, and all the thicknesses of the missing seams below the collar and above total depth were set to zero.
- Moisture, ash, volatile matter, fixed carbon, total sulphur and heat value data were composited on a mass basis with relative density composited on a volume basis.

- The quality variables except relative density were composited based on thickness as well as density and the relative density was composited by using the volume weighting method.
- Seam Gridding. "Multi-Seam Multi-Variable Gridding" function was used to generate a series of grids including seam floor, seam thickness, inter-burden and quality variables.

Coal Resource

A Coal Resource is a concentration or occurrence of a coal deposit of economic interest in such form, quantity and quality that there are reasonable prospects for eventual economic extraction. The location, quantity, quality, continuity and other geological characteristics of the Coal Resource are known, estimated or interpreted from specific geological evidence and knowledge, including sampling. Coal Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories in accordance with The JORC Code (2012).

The Resources estimated for the coal deposits are based on the data provided by the Client and the estimations were limited to the license areas. The mined-out area of Yong-an mine which was derived from the electro-magnetic survey which was applied to the estimation to exclude the mined-out coal, the mined-out coal was extracted by former village mines located within the current Yong-an mine. The coal seams that occurred within 50 m below the surface for both mines were also excluded from the estimation.

The Coal Resources of Yong-an and Weiyi mines which SRK estimated and reported below in accordance with the JORC Code 2012.

Exc-table 1: JORC Coal Resources Estimated within Yong-an License (Cut-off Date 31 May 2022)

Resource Category	Resource (Mt)	IM (%, ad)	Ash (%, ad)	VM (%, ad)	FC (%, ad)	TS (%, ad)	CV (kcal/kg; net, ad)
Measured	0	--	--	--	--	--	--
Indicated	63.22	1.0	20.3	24.0	54.8	1.22	6,396
Measured +Indicated	63.22	1.0	20.3	24.0	54.8	1.22	6,396
Inferred	161.00	0.8	20.5	23.3	55.5	1.13	6,391
Total	224.22	0.9	20.4	23.5	55.3	1.16	6,393

Exc-table 2: JORC Coal Resources Estimated within Weiyi License (Cut-off Date 31 May 2022)

Resource Category	Resource (Mt)	IM (%, ad)	Ash (%, ad)	VM (%, ad)	FC (%, ad)	TS (%, ad)	CV (kcal/kg; net, ad)
Measured	0	--	--	--	--	--	--
Indicated	38.09	0.86	22.98	31.85	52.50	1.09	6,069
Measured +Indicated	38.09	0.86	22.98	31.85	52.50	1.09	6,069
Inferred	80.52	1.12	22.23	31.42	53.32	1.25	6,142
Total	118.61	1.03	22.50	31.58	53.02	1.19	6,116

The northern-most area of the Weiyi Mine in which boreholes are only sparsely distributed was carefully excluded from resource estimate due to insufficient geological confidence. However, **SRK roughly estimates that the excluded area has an Exploration Target of approximately 40-60 Mt of coal resource which might finally have the potential to be converted into mineable coal reserve as the level of exploration work increases.**

Coal Reserve

As stated in the JORC Code, a Coal Reserve is the economically mineable part of a "Measured" and/or "Indicated" Coal Resource. It considers mining losses and dilution, which may occur by mine design and during the mining operation. Coal Resources are converted to Coal Reserves and classified after consideration of mining, processing, coal quality, infrastructural, economic, marketing, legal, environmental, social, and governmental factors (the "Modifying Factors"). For reporting of Coal Reserves, a mining study at the Pre-Feasibility or Feasibility level is required to support the technical feasibility and economic viability of the project. Data available from updated mining plans and from the records of an ongoing operation may support, complement, and confirm the findings of a mining study and the Modifying Factors. "Measured" Coal Resources can be converted to "Proved" Coal Reserves or be downgraded to "Probable Coal Reserves" under some circumstances. "Indicated" Coal Resources can only be converted to "Probable" Coal Reserves.

SRK used Geovia Minex V6.1.3 computer software to estimate the Coal Reserve since this software is particularly suitable for modelling stratified deposits such as coal. For each mineable coal seam, the corresponding mining plan layouts, including the designed longwall panels provided by the Company, were reviewed by SRK. The reviewed longwall panels (panel polygons) were then imported into the Minex software and superimposed on the coal seam model to control the mineable area of the coal seams. The Reserve tonnage was then estimated by using the "resource/reserve reporting" function in the software. The longwall panel polygons used for the Reserve estimation of Yong-an and Weiyi projects are presented in Figure 21 and Figure 22 in the Report.

As of 31 May 2022, a total Coal Reserve estimated in accordance with the JORC Code is 33.20 Mt for Yong-an and 15.02 Mt for Weiyi. The Coal Reserve of each mine, as estimated by SRK, is summarised in Table 18 and Table 20. It should be noted that no Proved Reserve was estimated within the two licenses. The reference point for estimating the Coal Reserve of the project is ROM coal which is as received at the conveyor transfer point at the mine stockpile located at the surface plant area.

Exc-table 3: JORC Coal Reserve Estimated within Yong-an License (Cut-off Date 31 May 2022)

Reserve Category	Reserve (Mt)	IM (%, ad)	Ash (%, ad)	TS (%, ad)	CV (kcal/kg; net, ad)
Proved	0	--	--	--	--
Probable	**33.20**	0.94	25.14	1.16	5,842
Total	**33.20**	0.94	25.14	1.16	5,842

Exc-table 4: JORC Coal Reserve Estimated within Weiyi License (Cut-off Date 31 May 2022)

Reserve Category	Reserve (Mt)	IM (%, ad)	Ash (%, ad)	TS (%, ad)	CV (kcal/kg; net, ad)
Proved	0	--	--	--	--
Probable	**15.02**	0.92	31.43	1.13	5,312
Total	**15.02**	0.92	31.43	1.13	5,312

Mining Assessment

This Section of the Report is providing an assessment of the mine designs and mining plans of the Yong-an and Weiyi mine projects in order to provide sufficient information to allowing an estimate of the Coal Reserve in accordance with the JORC Code. The assessment is based on the review of the latest reports of the project mining studies as provided to SRK by the Client, and the findings of SRK's site visits completed in September 2018 and April 2021. SRK's site visits have been conducted by a team of geologists and mining engineers involved in the assessment and included the competent persons ("CP") for this Report. Underground workings were not developed at the time of the site visits and the uncompleted inclined shafts are sealed and couldn't be entered.

The high-level review conducted here by SRK is of the technical viability of the project coal mines, including the general suitability of the mining plan and equipment proposed, and the sustainability of operation and coal production over the planned LOM. Additionally, a review of the costs and economics of the project is provided in Section 12 of this Report.

Construction and mine development work for the new Yong-an and Weiyi mine projects commenced in 2009 after preparation of the mining studies. All construction activities ceased in 2010 due to the ongoing negotiation over the mining rights related payment.

At the time of the suspension, the mine construction work carried out at Yong-an covered the access and haul road pavement, construction of foundations for the structures of the mine surface plant (industrial site) including the structures for mine ventilation equipment and the power supply substation, warehouses and water supply pipelines. Part of the tunnelling and lining work of the inclined shafts had also been started.

At the Weiyi mine project site, the construction work completed before suspension covered the access and haul road pavement, foundations for structures at the mine surface industrial site, supply water pipelines, and part of the tunnelling work for the inclined shafts.

The two mines are designed to extract the coal using underground methods since open pit mining is not an option due to the depth required to be reached by the design. The overburden to coal stripping ratio using opencast methods would be neither technical nor economically feasible.

Mine access will be provided by 3 inclined shafts following the dip of the coal seams. This method is technically appropriate with the existing geological setting. Inclined shafts allow for continuous haulage of coal to the surface by belt conveyor, and are overall more easily sunk, constructed and maintained compared to vertical shafts. A capital and operating cost advantage of the inclined shaft approach over vertical shafts has been established in the PMD and is also supported by numerous mining studies for coal mines of a similar depth.

For the actual coal mining (coal extraction) method, the PMD concluded that longwall mining by a coal shearer and a fully mechanized face is appropriate, whereby the longwall face length and panel design would mainly be determined by the geological faults of each mine. This equipment is also suitable for shorter faces and with harder coals.

Coal Preparation Plant

The Yong-an Coal Preparation Plant is proposed to be constructed in the Yong-an surface industrial area enabling it to directly process the ROM coal lifted from the longwall panel. The plant is designed for a maximum throughput of 2.4 Mtpa ROM coal with half of the raw coal being supplied from the Yong-an coal mine through a conveyor belt connecting to the raw coal silo. The balance of the plant throughput will be from ROM coal supplied from the Weiyi Mine which is proposed to be transported by trucks feeding into the CPP's raw coal silo, as well as the 0.3 Mtpa coal brought in from a local mine. The nominal 2.4 Mtpa capacity is designed based on operating 16 hours per day and assuming 330 effective operating days annually which is approximately 450t per hour.

The design flowsheet incorporates three stages of treatment for the various size ranges, namely, non-pressure three-product Dense Media Cyclone (DMC) for the -50+2 mm fraction, Teetered Bed Separator (TBS) for the -2+0.15 mm fraction, and Flotation for the -0.15 mm fraction, facilitated by medium reclaim and water recycle system.

An 11% of ash content was set in the PMD as the key quality specification of the target clean coal product for Yong-an CPP, the mass balance was estimated accordingly and shown in Table 5. The capacity shown in the table was estimated based on a 16 producing hours per day and 330 operating days per year, two-shift in production and one shift in maintenance per day.

Exc-table 5: A Typical Mass Balance for producing the Target Clean Coal of 11% Ash

Product	Quantity				Quality	
	Yield		Output		Ad	Moisture
	(%)	(t/h)	(t/d)	(Mtpa)	(%)	(%)
Clean Coal	70.56	320.74	5,131.91	1.69	11.00	10.32
Middling	16.92	76.91	1,230.54	0.41	47.29	15.65
Tailing	4.76	21.63	346.06	0.11	44.66	21.00
Refuse	7.76	35.26	564.23	0.19	71.71	13.00

Project Schedule

A 31.5 and 20 years of Life-of-mine schedule with full mining capacity of 1.2 Mtpa and 0.9 Mtpa for Yong-an and Weiyi were applied to the model. The planned production schedule is presented in Exc-table 6.

Exc-table 6: Production Schedule

ROM Coal Production (Mt)	2022-2024	2025	2026	2027 – 2041 (annual)	2042 (annual)	2043 – 2051 (annual)	2052	2053
Yong-an Mine	--	0.60	1.00	1.20	1.20	1.20	1.00	0.60
Weiyi Mine	---	0.30	0.70	0.90	0.52	---	---	---
CPP processing	---	0.90	1.70	2.10	1.72	1.20	1.10	0.60
Remarks	Construction	Production	Production	Production	Production	Production	Production	Production

Capital Cost

Yong-an Mining System

For Yong-an mine, the updated FS estimated a total cost of RMB 1,352.99 million ("m") initial construction capital cost including the RMB 119.83 million of the net book value of the incurred investment of the mining system. The estimated cost of RMB 1039.63 million is for the new investment of the mining system and the remaining RMB 193.53 million is for the coal preparation plant located in Yong-an surface industrial site area.

The breakdown capital cost for the Yong-an mining system is shown in Table 7. As the cost estimation of the FS didn't cover the additional costs mainly required for the roadway extension and equipment replacement for the rest of the LOM, a total of RMB 784.72 million was estimated by SRK as sustaining/continuing capital cost.

Exc-table 7: Estimated Capital Cost of the Yong-an Mining System

Item	Capital Cost - Net book value (RMB M)	Capital Cost - New Investment (RMB M)
Drifts/shafts, UG Main Roadway Construction	28.94	315.41
Surface Civil Engineering	48.16	94.42
Equipment Procurement/installation	10.53	381.83
Other Costs	32.20	247.97
Total	119.83	1,039.63

Yong-an CPP

A breakdown of the FS estimated capital cost of the CPP is tabulated in Table 8. As no capital costs had been incurred for CPP construction historically, all the capital costs estimated in Table 36 are prospective costs. A total of RMB 193.53 million and RMB 135.12 million was estimated by SRK as initial and sustaining/continuing capital cost, respectively.

Exc-table 8: The Capital Cost of the Yong-an CPP

Item	Unit	Initial Capital Cost
Surface Civil Engineering	RMB M	74.86
Equipment Procurement	RMB M	85.50
Other Costs	RMB M	33.17
Total	RMB M	193.53

Weiyi Mining System

In Weiyi mine, the updated FS estimated a total cost of RMB 1,015.78 million ("m") initial capital cost, of which RMB 113.95 million is of the net book value of the incurred investment. The estimated cost of RMB 901.83 million is for new investment in the mining system. The breakdown of the capital cost is presented in Table 9. As all the ROM coal output from the Weiyi mine is planned to be washed in the Yong-an CPP there is no capital costs associated with this item. A total cost of RMB 586.79 million for sustaining/continuing capital cost has been estimated.

Exc-table 9: The Capital Cost of the Weiyi Mining System

Item	Capital Cost - Net book value (RMB M)	Capital Cost - New Investment (RMB M)
Drifts/shafts, UG Main Roadway Construction	51.36	187.52
Surface Civil Engineering	5.95	114.94
Equipment Procurement/installation	33.60	393.03
Other Costs	23.04	206.34
Total	113.95	901.83

Operating Cost

As of May 2022, both the projects were still in the study phase and thus no historical production data and accrued operating expenses were available for review and comparison.

The total estimated operating cost which SRK extracted from the FS is 207.04 RMB/t and 219.95 RMB/t for Yong-an and Weiyi mining systems, respectively. The operating cost covers the various cost items from the underground mining operation to the loading cost to the surface ROM coal silos. For Weiyi mine, as it is necessary to transport the ROM coal to the Yong-an surface industrial site for preparation, a 10 RMB/t additional transportation cost should be added to the operating cost, this resulted in a 229.95 RMB/t overall operating cost for Weiyi mine project.

SRK has compared these estimations from the FS against database of similar projects and operations in China. SRK considers that the costs appear to be acceptable. Table 10 below summarises the estimated project operating costs and overall cost of coal.

Exc-table 10: Summary of the Estimated Unit Operating Cost and Overall Cost

	Item	Unit (ROM Coal)	Yong-an	Weiyi	CPP
Operating Cost (VAT excl.)	Materials	RMB/t	22.50	28.00	7.42
	Wages	RMB/t	97.39	86.04	7.16
	Fuel/Power	RMB/t	14.07	24.66	3.55
	Repairment	RMB/t	14.08	20.75	1.07
	Safety Fee	RMB/t	30.00	30.00	---
	Subsidence Compensation	RMB/t	1.00	1.00	---
	Road Transportation to CPP	RMB/t	---	10.00	---
	Other Costs	RMB/t	28.00	29.50	3.75
	Total Operating Cost	RMB/t	207.04	229.95	22.95
	Simple Reproduction Fund	RMB/t	8.50	8.50	---
	Depreciation/amortization	RMB/t	43.22	58.66	3.70
	Overall	RMB/t	258.76	297.11	26.65

Commodity Price and Market

Ningxia is a traditional coking coal-producing area and, historically production was primarily produced in the northern part of the province bordering Wuhai City of Inner Mongolia. The coking coal resources in this northern region have been gradually mined-out and currently the Wuhia area is the only major coking coal producing area with open and available price data. The project area under review here is in the central part of Ningxia, although the coalfield to which it belongs to has not been extensively developed. Large-scale coking plant exist near the mining area and have been built and operated for years with the raw coking coal materials being mainly transported from the Wuhai coking coal mining area.

Located approximately 220 km north of the project area, Wuhai City is the largest source of coking coal production area in the region. The specification of the clean coking coal produced from this area is similar to the coal produced from the projects area and has similar transportation distances to the main target market. The typical specification of the marketable coal produced from the region is presented in Table 11.

Exc-table 11: Specification of the Marketable Coal Produced in the Nigxia-Wuhai Region

Coal	Ash (d, %)	Volatile Matter (daf, %)	Total Moisture (%)	Total Sulphur (d, %)	G Index	Y Index
Metallurgical Coal	≤11	≤32	≤9	≤1.3	≥85	≥18

In general, SRK is of the opinion that the average coking coal price (VAT incl.) in this region will generally remain at a medium to a high level in a long term compared with the historical price of the last ten years. Based on various considerations, the consensus forecast of the nominal price (mine-mouth) for the coking coal in this region is set in a range between 1500 and 2000 RMB/t.

Economic Analysis

Different net present values were estimated by SRK using a DCF model with the assumptions outlined in the above sections. The net present values based on different discount rate were also estimated and presented in Table 13. All the values were estimated on a 100% equity basis.

Exc-table 13: Estimated NPV at Different Discount Rate

Discount Rate	6%	7%	8%	9%	10%	11%	12%
NPV (RMB M)	5,828	4,940	4,192	3,557	3,017	2,554	2,155

The estimated net present values have demonstrated the economic viability of the projects, the result support the Reserve estimation.

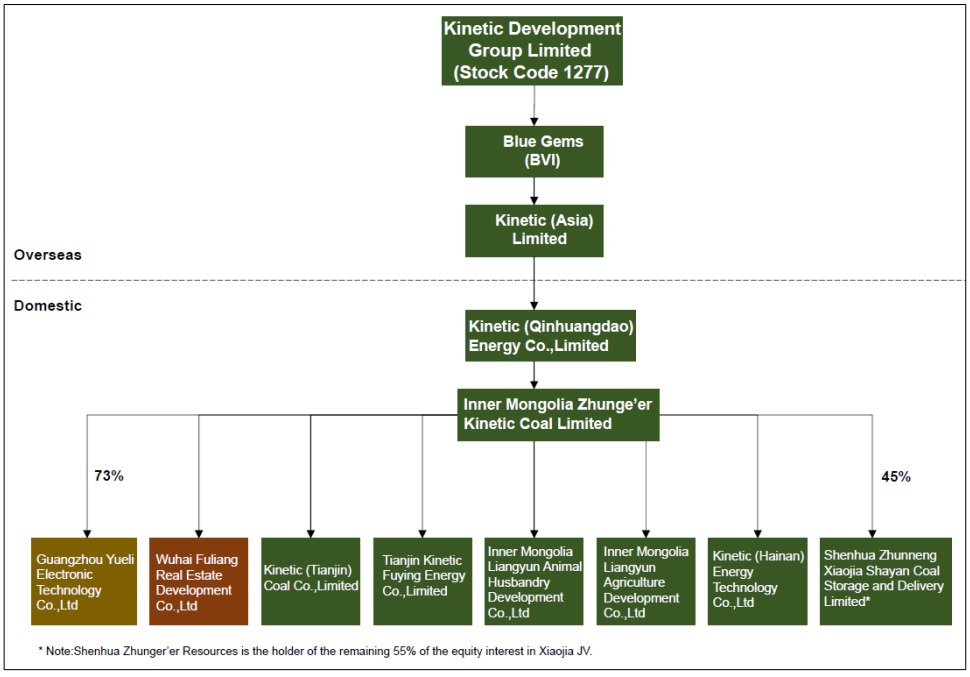
1 Introduction

1.1 Background

SRK Consulting (China) Limited ("SRK") has been engaged by Kinetic Mines and Energy Limited which has later changed the company name to Kinetic Development Group Limited in October 2021 ("Kinetic" or "The Client") to undertake an independent technical review of its two underground metallurgical coal projects located in Ningxia Hui Autonomous Region ("Ningxia"), China. The purpose of the review is to prepare a Competent Person's Report in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code", 2012 Edition) and the requirements of "Chapter 18: Equity Securities, Mineral Companies" of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong ("Listing Rules").

Kinetic is a China-based investment holding company principally engaged in the extraction, sales and trading of coal products. Such business activities are principally through its subsidiaries including Inner Mongolia Zhunge'er Kinetic Coal Limited, Kinetic (Qinhuangdao) Energy Co., Ltd. and Shenhua Zhunneng Xiaojia Shayan Coal Storage and Delivery Limited (holding 45% equity of the Joint Venture with Shenhua Zhunneng), etc. Below is the brief view of Company Structure Chart.

Figure 1: Company Structure of Kinetic



SRK's independent technical review comprised of two adjacent underground projects, which are the Yong-an and Weiyi. Both of these projects have been granted a mining license which are held by Ningxia Yang-guang Mining Co., Ltd ("Sunshine"). A series of explorations and study works have been completed to date, and Sunshine initiated a mine construction in 2009 with part of the main drifts being completed both for Yong-an and Weiyi.

The proposed work program for this review consists of the following outlined below:

- Review the available project database, documents, studies and reports;
- The first site visit to the mine, in Ningxia of China from 3 to 4 September 2018; discussions with management and staff of the Sunshine and its subsidiaries;
- The second site visit to the mine from 26 to 28 April 2021; discussions with management and staff of the client regarding the mining studies. Collecting and review project information and data;
- Data processing, geological modelling and Coal Resource estimation;
- Conducting mining assessment for the two projects;
- Reserve Estimation based on collected information/data;
- Completion of the draft report in accordance with the JORC Code.

1.2 Reporting Standard

The Coal Resource and Reserves presented herein is reported in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code", 2012 Edition). The JORC Code is adopted by the Australasian Institute of Mining and Metallurgy ("AusIMM") and the standard is binding upon all AusIMM members.

1.3 Project Team

The SRK project team and responsibilities are shown in Table 1.

Table 1: SRK Project Team

Name of Consultant	Title and Responsibilities
Yongchun (Roger) Hou	Principal Consultant, Geology Review, Resource and Reserve Estimation, Report Compiling
Zhuanjian (Leo) Liu	Senior Consultant (Geology), Data Processing, Resource and Estimation
Yanfang (Bonnie) Zhao	Senior Consultant (Geology), Data Processing, Resource and Estimation
Lanliang Niu	Principal Consultant, Financial Analysis
Nan Xue	Principal Consultant, Environmental, Social and Permits
Yuntao Liu	Consultant (Mineral Processing), Coal Preparation
Bruno Strasser	Associate Principal Consultant (Mining), Mining & Reserve Review
Dr. Yonglian Sun	Practice Leader, Corporate Consultant, Internal Review
David Lawrence	Associate Principal Consultant (Geology), External Review

Yongchun (Roger) Hou, *MSc, MAusIMM*, is a Principal Consultant (Coal Geology) at SRK China. He graduated from the China University of Mining and Technology and has twelve years' experience in exploration management, resource estimation and reporting, GIS and coal washing. He worked as a coal geologist in Kalimantan, Indonesia and Mozambique under JORC Code practice and is proficient with Minex and Vulcan modelling software. At SRK, he has been involved in many independent technical review projects for reputable international companies such as Peabody (USA), SABIC (Saudi Arabia) and Salim Group (Indonesia). In recent years, he has taken an active role in coal resource estimation for several projects in compliance with the JORC Code including China Unienergy and Indonesia Agritrade. Both of them have been listed/transacted successfully on the Hong Kong Stock Exchange. Mr Hou is responsible for geology review and resource modelling review. ***Yongchun Hou is mainly responsible for the Report compiling, geology and Resource estimate reviewing. He is qualified as a Competent Person with regard to the type of deposit and the activity undertaken.***

Zhuanjian (Leo) Liu, *BEng, MAusIMM,* is a Senior Consultant (Geology) with SRK China. Since graduated from the China University of Mining and Technology, He has been engaged in geological survey, due diligence and technical consulting in China, Indonesia and Mongolia for over 10 years. After joining SRK, he has provided consulting services for Peabody Energy (USA), SABIC (Saudi Arabia), Salim Group (Indonesia) and other large corporations. He participated in several successful cases of independent technical report/due diligence work in recent years, including China Unienergy IPO Listing on HKEx and Agritrade Resource acquisition of Shareholding in Indonesia. ***Zhuanjian Liu is responsible for the data processing, Resource and Reserve estimation.***

Yanfang (Bonnie) Zhao, *MEng, MAusIMM*, is a Senior Consultant (Geological Engineering) with SRK China. She graduated from the China University of Geosciences (Beijing) and has worked for over 9 years focusing on mining investment and independent technical review. Her area of expertise includes geological modelling, resource and reserve estimation, GIS application, and database management. She is proficient with standard industry software packages such as Minex, Arcgis, Surpac, Mapgis, AutoCAD, and Access. Yanfang has actively involved in dozens of resource/reserve estimation and reporting projects in several countries in compliance with the JORC Code. ***Ms Zhao is responsible for the data processing, Resource and Reserve estimation.***

Lanliang Niu, B.Eng. MAusIMM, MCAMRA, is a Principal Consultant (Processing) with SRK Consulting China. He has 25 years' experience in processing, hydrometallurgy test study, mine technical support and production management, and is competent in both theoretical study and actual working. He has specific expertise in the processing of precious metal, nonferrous metal, ferrous metal and some non-metal as well as processing test design, data process, plant design and operations. He is actively acquainted with the new development and applications of the processing technologies, facilities and reagents. He received two national awards for his achievements in this area. Since joining SRK, Lanliang has been responsible for ore processing/metallurgical and economic analysis scopes of work and involved in more than 70 independent technical review projects. ***He reviewed the cost analysis of the project***.

***Nan Xue, MSc, MAusIMM*,** is a Principal Consultant (Environmental) at SRK China. He holds a master's degree in Environmental Science from Nankai University, in Tianjin. He has twelve years' experience in environmental impact assessment, environmental planning, environmental management, and environmental due diligence. He has been involved in a number of large EIA projects and pollution source surveys for SINOPEC as well as in the environmental-planning project funded by UNDP. He has particular expertise in construction project engineering analysis, pollution source calculation, and impact predictions. He also has an acute understanding of equator principles and International Finance Corporation environmental and social performance standards. After joining SRK, Nan has been involved in a number of IPO and due diligence projects in China, Laos, Russia, Mongolia, Philippines, Indonesia, Kazakhstan, Kyrgyzstan, South Africa, DRC, Ecuador, Chile and Ghana; the clients include the Fuguiniao Mining, Zijin Mining, Hanking Mining, Future Bright Mining, CNMC, China Gold, Shandong Gold.

Yuntao Liu*, MEng,* is a Consultant (Processing) and Senior Mineral Processing Engineer with SRK Consulting China Ltd. He received a master's degree in mining engineering from Wuhan University of Technology and a dual bachelor's degree in English from Huazhong University of Science and Technology. He has been engaged in mineral processing R&D for ten years in Bluestar Lehigh Engineering Institute Co., Ltd., published several journal papers and holds several national invention patents. He is actively involved in the bench test, pilot test, commissioning and reagents marketing for phosphate, potash, fluorite, quartz, lithium pyroxene, rutile, ilmenite, iron ore and niobium ore in Africa, Australia, USA, Brazil, Middle East, Central Asia, and China including Yunnan, Guizhou, Sichuan and Hubei province. He has accumulated abundant experience in optimization of flotation reagents and process flowsheet development encompassing fine-and-coarse-grain flotation, heavy media, scrubbing, photoelectricity, and bacterial leaching.

Bruno Strasser, *Dipl.-Ing. (M.Sc), MAusIMM*, is an Associate Principal Consultant (Mining). He has more than 30 years of professional experience in mining, project management, plant construction, and consulting. He has working experience in several countries in Europe and Asia. He started as a mining engineer with RWE Rheinbraun in Germany in the world's largest lignite mine before he was assigned to the Bukit Asam coal mine project in Indonesia for RWE's consulting firm. Later he joined Austria's biggest engineering group, VOEST Alpine AG, where he set up the company's mining systems engineering department. He was responsible for mining engineering studies for projects in India and China and the turn-key development of the Semirara coal mine project in the Philippines. In the 1990's he joined Metso (Nordberg) Corp. in Hong Kong and was responsible for sales, construction and commissioning of several large-scale turn-key plants for the aggregates and minerals industry in Hong Kong and China. He also worked for many years as a self-employed consultant in Hong Kong and Austria where he gained experience in a wider field of industries and also as a business and management consultant. In 2011 he joined SRK Consulting China Ltd in Beijing as Principal Consultant for coal mining and has carried out a number of independent technical reviews and mining studies for projects in China, Indonesia and Australia. ***Mr Strasser is responsible for the mining review and coal reserve estimate. He is qualified as a Competent Person with regard to the type of deposit and the activity undertaken.***

Yonglian Sun, B.Eng. PhD, FAusIMM, FIEAust, CPEng, is a Practice Leader and Corporate Consultant of SRK China. Dr Sun has over 30 years' experience in geotechnical engineering and mining engineering in five countries across four continents. He also has extensive international experience in mining project evaluation for project financing and overseas stock market listings. Over the last decade, Dr Sun has led and coordinated dozens of due diligence projects for many mining companies and most of them have been successfully financed or listed on the Hong Kong Stock Exchange. ***Dr Sun provided internal peer review to ensure the quality of the report meets the required standard.***

David Lawrence*, B.Sc., MAusIMM*, is a Coal Geologist with over 30 years' experience in the industry and is a Competent Person ("CP") according to the guidelines of the JORC, IoM3 and CIM (43-101) Mineral Resource classification schemes. His experience includes extensive operational involvement in some of the largest Underground and Opencast Coal mines and includes the planning and execution of exploration projects, geological modelling and resource estimation associated with mining studies from identification level through to feasibility. David has been responsible for the corporate mentoring, reviewing and collating of Resource and Reserve Statements and Competent Person Reports for inclusion within the annual report within BHP Billiton. He has worldwide experience of various deposit types and styles across South Africa, Alaska, Colombia and Australia. ***Mr Lawrence provided external peer review to ensure the quality of the report meets the required standard.***

1.4 Statement of SRK Independence

Neither SRK nor any of the authors of this Report have any present or contingent material interest in the outcome of this Report, nor do they have any pecuniary or other interest that could be reasonably regarded as being capable of affecting their independence or that of SRK.

SRK has no prior association with Kinetic regarding the mineral assets that are the subject of this Report. SRK has no beneficial interest in the outcome of the technical assessment being capable of affecting its independence.

SRK's fee for completing this Report is based on its normal professional daily rates plus reimbursement of incidental expenses. The payment of that professional fee is not contingent upon the outcome of the Report.

1.5 Warranties

Kinetic has, to the best knowledge of SRK, made full disclosure of all material information and that, to the best of its knowledge and understanding, such information is complete, accurate and true.

1.6 Consents

SRK consents to this Report being used for informing investors or potential investors and their advisors or included in full in Kinetic's report for either internal or public use, in the form and context in which the technical assessment is provided, and not for any other purpose.

SRK provides this consent on the basis that the technical assessments expressed in the summary and the individual Sections of this Report are considered with, and not independently of, the information set out in the complete Report and the Cover Letter.

2 Project Description

2.1 Location and Access

The two underground metallurgical coal projects, Yong-an and Weiyi, are located approximately 120 km southeast of Yinchuan, the capital city of Ningxia Hui Autonomous Region, the People's Republic of China (see Figure 2). The project licences are adjacent and cover an area of 21.7 km^2 and 26.7 km^2 respectively. The regional location and site location maps are presented in Figure 2 and Figure 3.

Figure 2: General Location of the Projects Area

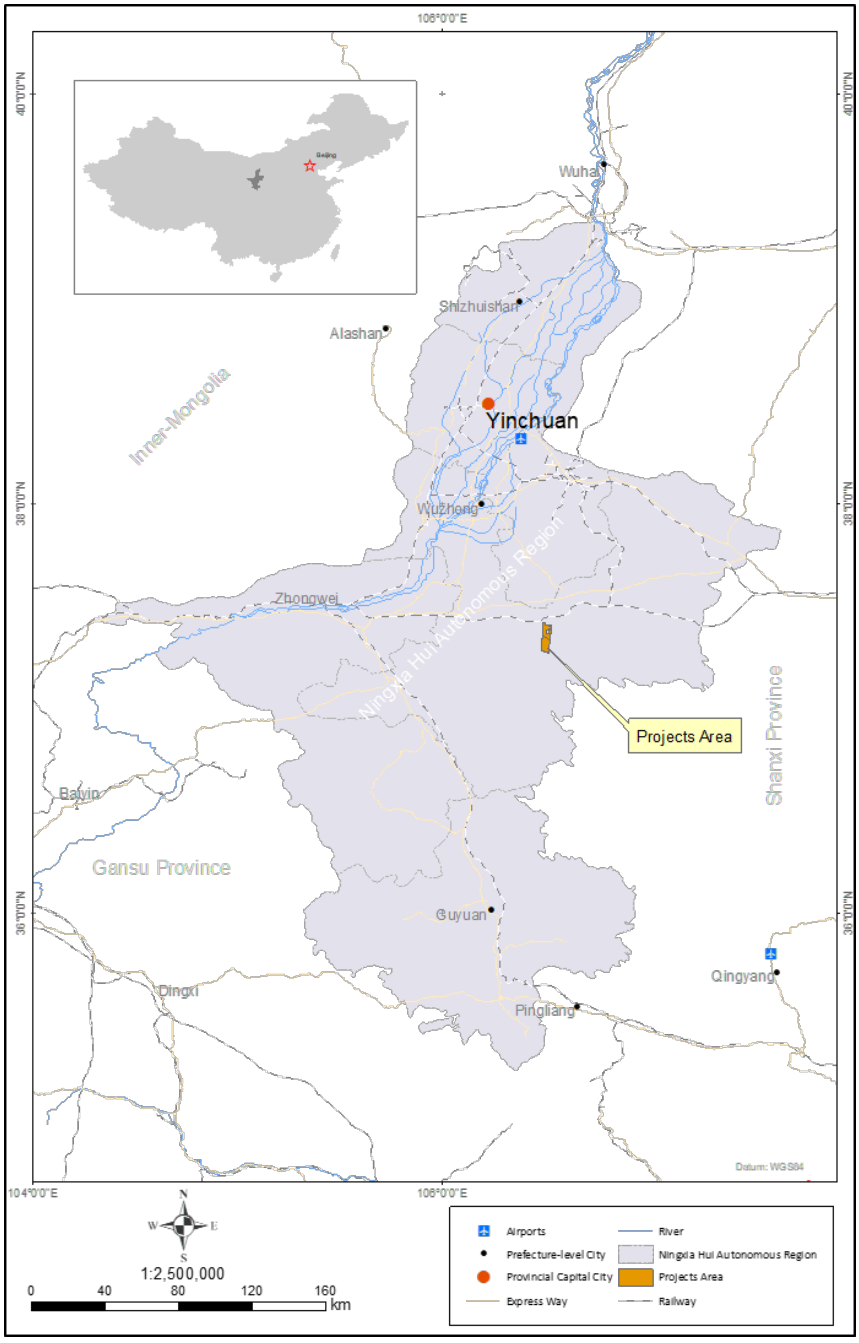
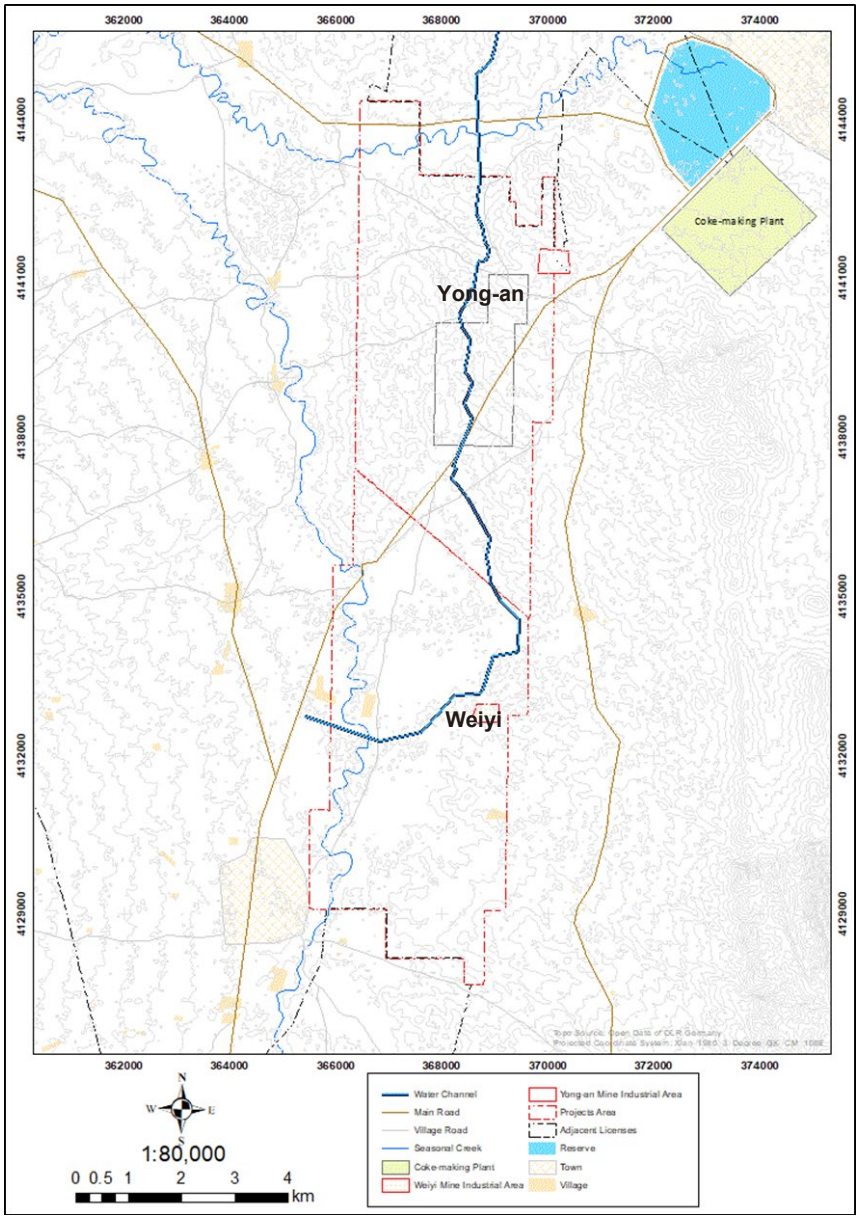


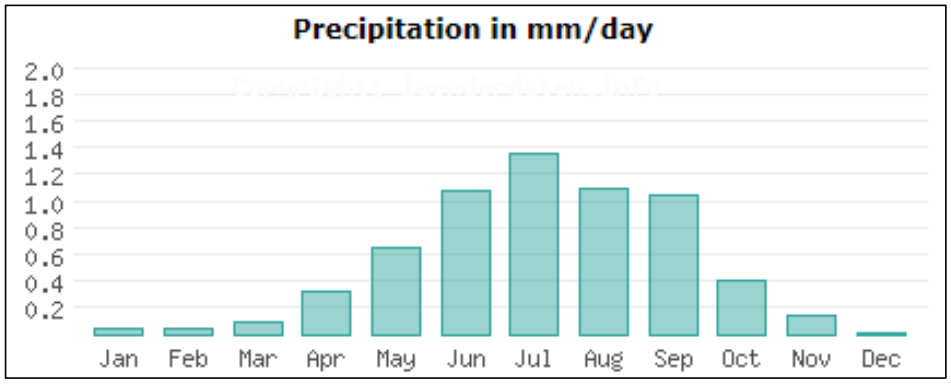
Figure 3: Site Location Plan of the Yong-an and Weiyi Projects



2.2 Climate and Physiography

The climate of the project area is classified as continental with very low humid and rainfall. Temperatures range from an annual average maximum of 80 °F (27 °C) in summer to an annual average minimum of 7 °F (-14 °C) in winter. Precipitation on the Ningxia plain is only about 8 to 24 inches (200 to 600 mm) per year. The average wind speed in the region is 2.4 metres per second ("m/s"), with a maximum wind speed as high as 25 m/s in the wintertime. Figure 4 shows the precipitation of the projects area.

Figure 4: Typical Monthly Precipitation of the Region



The project area is located in the transitional zone between the Loess and Mongolian Plateaus and the surface is dominated by grassland and small farms. The topography of the project area is generally flat with moderately low rolling hills and a topographic relief which varies from 1,330 m to 1,400 m AMSL. The higher elevations up to 1,400 m AMSL are present in the northern sector of the Yong-an license area. Generally, the elevation in the Weiyi area is slightly lower than in the Yong-an area. The vegetation of the projects area is largely dominated by species of Stipa capillata grass and the land is mainly used for sheep, cattle and small-scale farming.

Situated in the centre of inland China, the surface water resource within the project area is fairly limited with only a seasonal river flowing in a northwest direction crossing the western part of the Weiyi license area.

No villages or residences exist within either license areas, the nearest township is the Weizhou Township approximately 7 km to the west.

Figure 5: The Landscape of the Northern Corner of Yong-an Mine

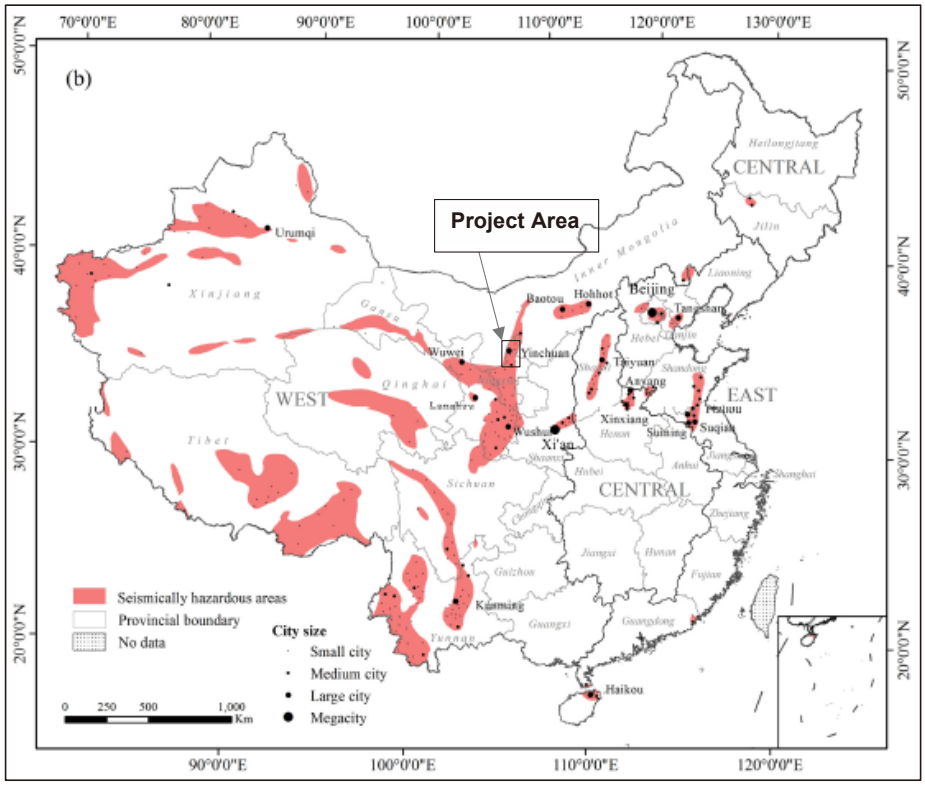
2.3 Local Economy and Infrastructure

The region is well-known for having abundant coal resources and the coal mining industry has been developed for many years with the local economy being supported by coal mining-related business. In addition, some small-scale plantations also form part of the local economy.

2.4 Potential Natural Hazards in the Area

According to the seismic ground motion parameter zonation maps of GB18306-2015, the seismic peak ground acceleration in the Project areas is > 0.2 g (over Magnitude 8.0), which represents the peak ground acceleration with a 10% probability of exceedance in 50 years.

Figure 6: Seismic Hazard Map of the Projects Region



Source: Chunyang He et al 2016 Environ. Res. Lett. 11 074028

2.5 Operational Licences and Permits

SRK relies on the information provided by the Company, and SRK did not conduct a legal due diligence review of the Project since such work is outside the scope of this technical review.

2.5.1 Mining Permits

The mining permit of the two projects was registered under the Ningxia Yangguang Co., Ltd. Both projects have been granted mining licences valid for 20-years with was approved on the 26 June 2012. The Ningxia Yangguang initiated construction in 2009 with the main drifts completed to 1,623 m (three drifts) in Yong-an and 1,729 m in Weiyi (three drifts). The detail of the mining licenses is presented in Table 2.

Table 2: Mining Permit Information of the Two Projects

Project/ Company	Mining License	Issued To	Issued By	Valid From	Valid Thru	Area (km2)	Mining Method	Prod. Rate
Yong-an Coal Mine	C10000020 1206113012 6021	Ningxia Yangguang Mining Co., Ltd	MLR, China	22-Mar.-12	22-Mar.-32	21.682 6	UG	1,200,000
Weiyi Coal Mine	C10000020 1206113012 6020	Ningxia Yangguang Mining Co., Ltd	MLR, China	20-Apr.-12	20-Apr.-32	26.658 9	UG	900,000

Both permits have the same licensing elevation for the mining operations that ranges between +1400 m ASL and +400 m ASL. These depths/elevations cover the permitted and designed mineable coal seams.

2.5.2 Business Licence

Given the mining permit of the two projects were registered under the same company, the two projects share the same business license under Ningxia Yangguang and the detail information is presented in Table 3 below.

Table 3: Business License

Project/Company	Licence No.	Issued By	Issue Date	Expiry Date	Licensed Business Activities
Ningxia Yangguang Mining Co., Ltd	916400007 88237344E	Ningxia Hui Autonomous Region Administration for Industry and Commerce	27-Jun-22	28-Dec-23	Coal mining, preparation, coal sales, ferroalloy and steel sales.

2.5.3 Other Operational Permits

Apart from the business and mining licences, some other operational permits are also required for the Project according to the relevant Chinese laws and regulations. These operational permits consist of water use permit/agreement, safety production permit, site discharge permit, land use approval/permit, etc. However, it should be noted that the above-mentioned permits are obtained at different stages of the Project's development.

According to the legal due diligence report issued by Commerce & Finance Law Offices, the Project has not obtained the relevant approval documents for land requisition and construction land-related procedures, as well as the construction land approval certificate.

3 Geology

3.1 Regional Geology

The Project area is located within the eastern limb of the Weizhou syncline, which on a regional scale belongs to the Western Marginal Thrust Belt of the Ordos Basin.

The Ordos Basin, stretching approximately 700 km north-south and 500 km east-west in the west-central region of the Sino-Korean platform, is the second-largest sedimentary basin and the largest coal basin in China. The basin started to form during the episode of the Variscan orogeny with the movement of the Yinshan uplift on the north, Qingling-Kunlun fold-belt on the south and Helanshan-Liupanshan fold-belt on the west. The basin was eventually closed through the development of the Taihang-Wuling-Xuefengshan uplift to the east in the Late Triassic. Evolved from the Paleozoic basement, Ordos Basin is generally featured with a large north-northeasterly trending asymmetrical, broad synclinorium in which the western limb is much steeper than the eastern limb (K. Y. Lee, 1986). The basin developed on a stable craton with a stratigraphic thickness ranging from 4000 m to 6000 m in the central basin (Weihua Ao et al., 2012), and has experienced four evolutionary stages: the shallow marine platform of Early Paleozoic, the offshore plain of the Late Paleozoic, the inland depression of the Mesozoic and the fault depression of the Cenozoic. (Xuan Tang et al., 2012). The basin is subdivided into six tectonic units, Yimeng Uplift in the north, Weibei Uplift in the south, Jinxi Fold Belt in the east, Yishan Slope in the central, Western Marginal Thrust Belt and Tianhuan Sag in the west (Xuan Tang et al., 2012). The geological map of Ordos Basin is shown in Figure 4 1 and the stratigraphy column is shown in Figure 4 2. The regional structure schematic map is presented in Figure 7.

The Stratigraphy of the Ordos Basin includes Late Carboniferous-Permian, Triassic, Jurassic, and Cretaceous sedimentary rocks. Coal deposits mainly occur in Late Carboniferous, Permian, Late Triassic, and Early to Middle of the Jurassic rocks. (K. Y. Lee, 1986).

Upper Paleozoic coal deposits of the Ordos Basin mainly developed within Late Carboniferous Taiyuan Formation and Early Permian Shanxi Formation. These coal measures occur as shallow depths within the west, east and southeast edge of the Ordos Basin, and generally exist at buried depths greater than 2000 m elsewhere throughout the basin.

Triassic coal deposits of Ordos Basin only occur in the adjacent area of Yan'an city, which developed within the Wayaobao Formation and consists of 5 to 7 thin coal seams.

The Early to Middle Jurassic coal deposits are widely distributed throughout the Ordos Basin. The Jurassic coal-bearing formations consist of the Early Jurassic Fuxian Formation and the Middle Jurassic Yan'an and Zhiluo Formations. The Yan'an Formation is the major coal-bearing formation which generally consist of 10 to 15 coal seams of which 5 to 7 coal seams are amenable to mining with an accumulative thickness ranging from 10 m to 20 m.

Figure 7: Regional Structure Schematic Map (Source: Bao 2018)

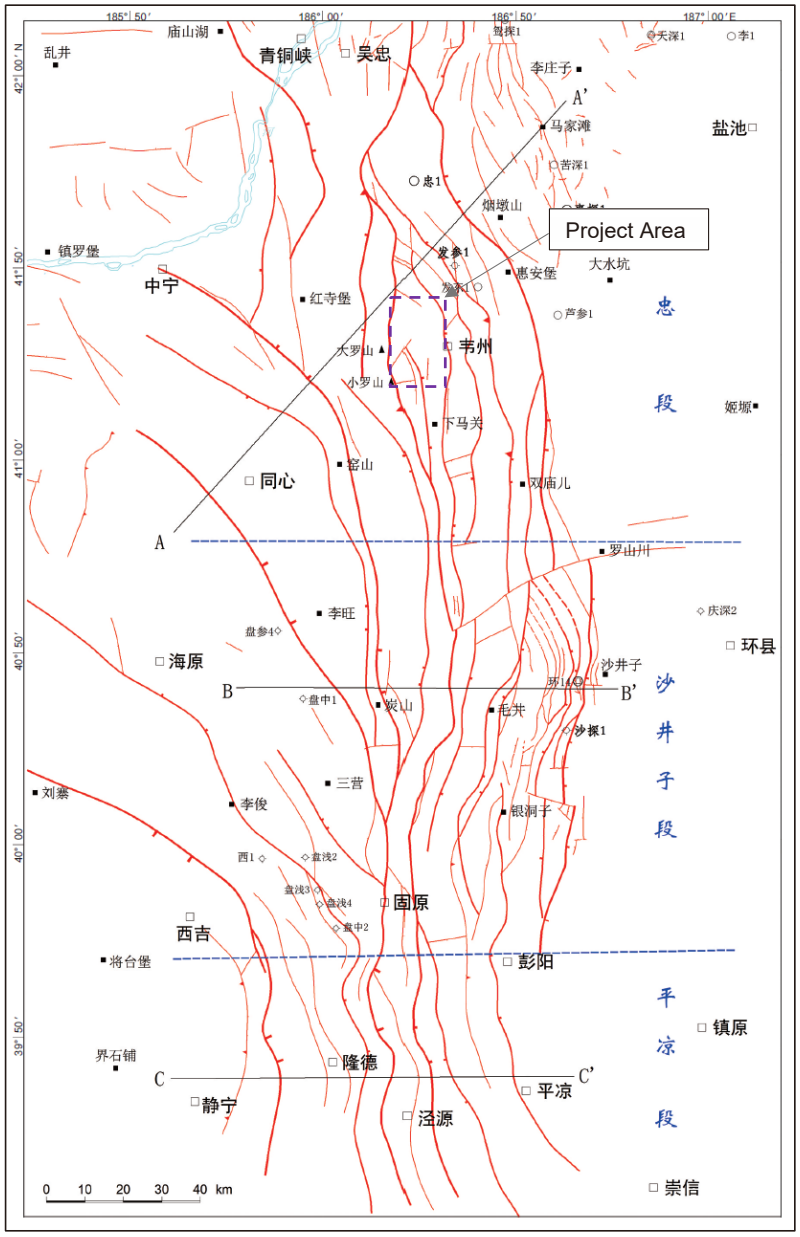
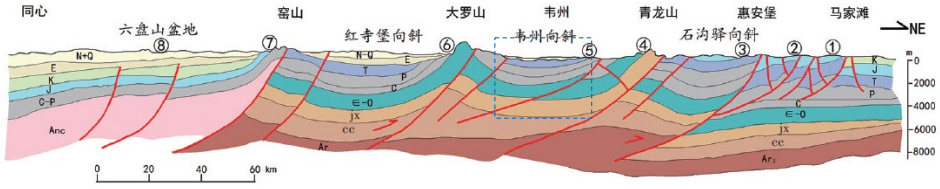


Figure 8: Cross-section of the Western Edge of the Ordos Basin (Source: Bao 2018)



3.2 Project Geology

3.2.1 Stratigraphy

The Project area is located within the eastern limb of the Weizhou syncline with the stratigraphy including Carboniferous, Permian and Paleogene sedimentary rocks, Neogene and Quaternary soils and sands. The surface geology is predominantly Quaternary alluvium soil, loess and aeolian sands. The coal seam bearing Carboniferous-Permian sedimentary rocks mostly outcropped in the eastern part of the Yong-an licenses area with the dip angle of the strata ranging approximately from 20 to 30 degrees to the west.

The coal seams mainly occur within the Shanxi Formation (P1s) of Lower Permian and Taiyuan Formation (C2-P1t) of Upper Carboniferous to Lower Permian sedimentary units. The Permian and Carboniferous sediments within this area consists of four formations from base to top: The Upper Carboniferous to Lower Permian Taiyuan Formation (C2-P1t), the Lower Permian Shanxi Formation (P1s), the Middle Permian Shihezi Formation (Psh) and the Upper Permian Sunjiagou Formation (Psj). The geological map of the two licenses is shown in Figure 4 3 and Figure 4 4.

3.2.2 Igneous Intrusions and Structure

The thrusting movement which occurred during the Late Jurassic period (Liu et al., 2007) in the west margin of the Ordos Basin shaped this significantly faulted area with over 70 reverse and normal faults identified. Historical exploration activities have interpreted 43 faults in Yong-an and 27 in Weiyi, with most being reverse faults with an orientation of north-northwest and dip of 40 to 70 degrees. The normal faults often with an orientation of towards the northeast. The faults are summarised in Table 4. No igneous intrusions or dykes have been identified within either project area.

Table 4: Faults Summary

Vertical Throw (m)	Number of Faults in Yong-an	Number of Faults in Weiyi
< 10	11	5
10 - 20	11	6
20 - 50	11	10
50 -100	8	5
> 100	2	1

Figure 9: The Geological Map of the Yong-an Licensing Area

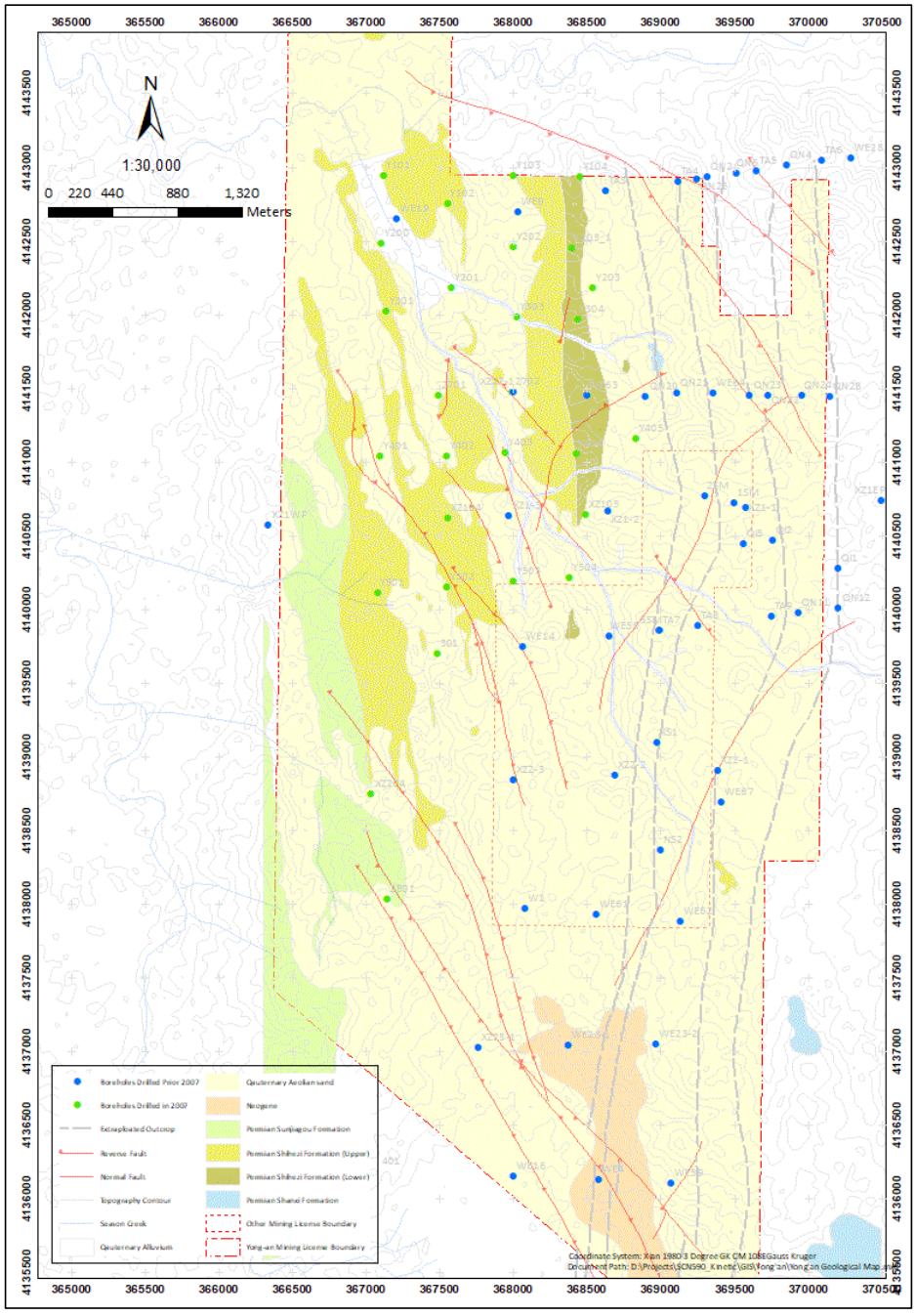
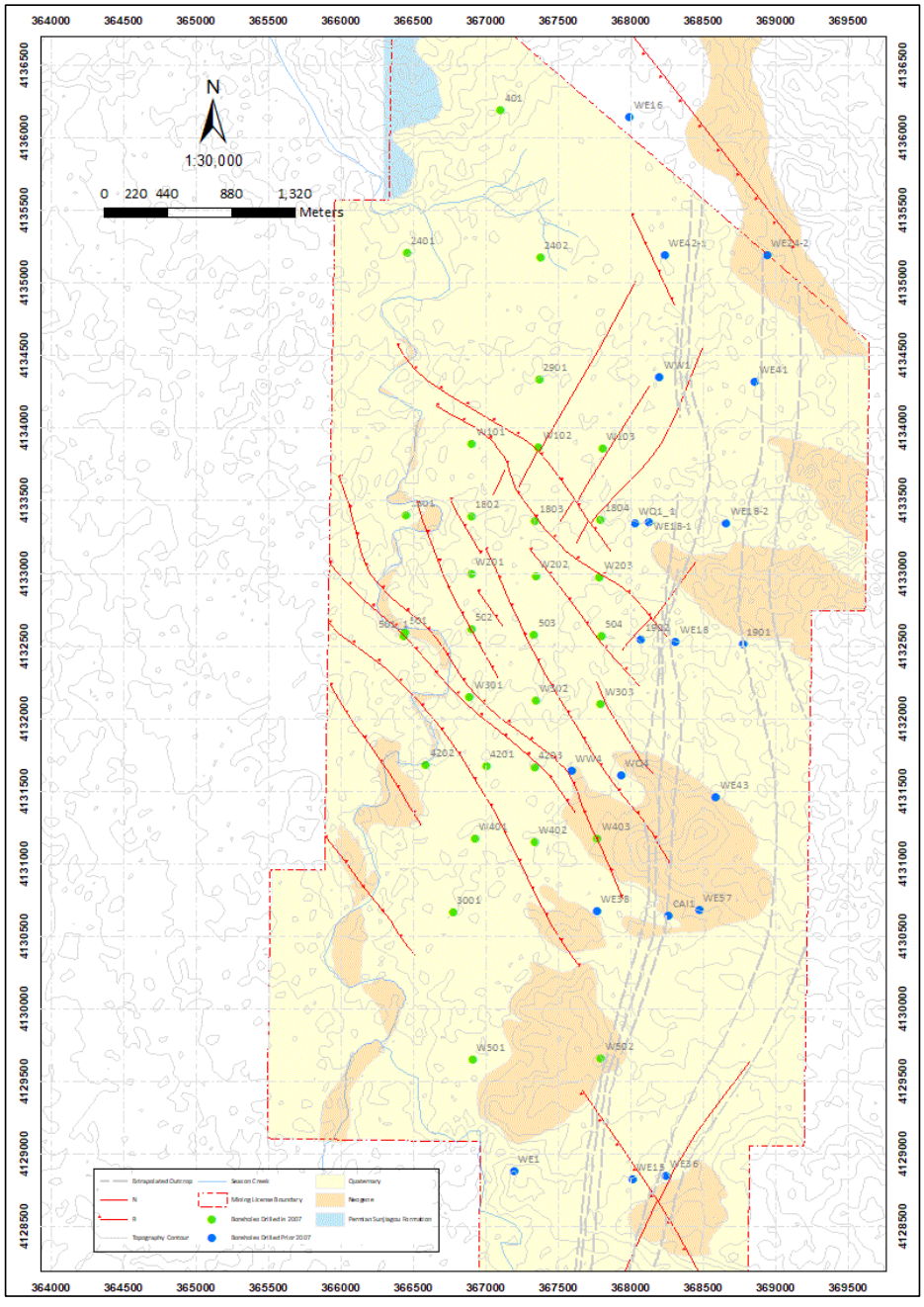


Figure 10: The Geological Map of the Weiyi Licensing Area



3.2.3 Coal Seams

Yong-an

Historical exploration activities intersected over 20 coal seams/splits in the regional area, of which 17 coal seams were correlated and identified as having resource potential. The correlated coal seams are divided into two groups in terms of the hosted stratigraphic unit, the upper seam group (seam 0 to seam 4) occurred within the Lower Permian Shanxi Formation and the lower seam group (seam 50 to seam 20) occurred within Taiyuan Formation.

From top downwards, the 17 seams correlated within the Yong-an license area are: seam 0, 1, 2, 3, 4, 50, 61, 90, 101, 12, 14, 15, 16, 17 ,183, 184 and 20. Most of the seams cropped out in the eastern part of the license area and extended down to the west at a depth of between 900 m (seam 0) and 1200 m (seam 20) below the western license border. The coal seams are described as follows:

The five top coal seams (seam 0, 1, 2, 3 and 4) of the upper seam group are developed throughout the license area with the upper four seams having a similar average thickness of approx. 1.5 m – 1.7 m. However, the thickness distributions of these four seams are slightly different with seams 0, 2 and 3 being more consistent in the north with most intersected points greater than 1 m thick compared to 1 seam which has a thickness greater-than-1 m mainly in the south. The thickness of the lowest seam 4 of this group is slightly thicker than those above with the most areas being greater than 1.5 m. The interburdens between each seam range from approx. 10 m to 20 m except for the approx. 2 m interburden of seam 0 - 1 in the north side of the drilling line 27. The coal seams occasionally contain up to 2 siltstone/mudstone partings with thicknesses generally less than 0.4 m.

The seam 50 and 61 of the lower seam group are mainly developed in the northern part of the license area with the thickness generally less than 1.0 m, averaging 0.9 m and 0.6 m, respectively. The interburdens of seam 4 - 50 and seam 50 - 61 are 16 m and 35 m in thickness, respectively. A few of the coal seams intersected contain a single siltstone/mudstone parting with thicknesses less than 0.3 m.

The seam 90 is developed in the northern part of the license area with the thickness generally greater than 1.5 in this area, averaging 1.8 m. The interburden between seam 61 and seam 90 is generally over 50 m. The coal seam occasionally contains a single sandstone/mudstone parting with the thickness generally less than 0.4 m.

The seam 101 is developed in the northern part of the license area with the thickness generally less than 1.0 m, averaging 0.9 m. The interburden between seam 90 and seam 101 is generally over 35 m. A few of the coal seams intersected contain a single siltstone/sandstone parting with the thickness less than 0.3 m.

The seam 12, 14, 15 and 16 are well developed and consistent throughout the license area, with the thicknesses of the seams 12, 14 and 16 generally greater than 1 m over most of the area, averaging 1.5 m, 1.3 m and 1.2 m, respectively Seam 15 has only a consistent thin thickness of approx. 0.5 m. The interburden of seam 101-12 is generally over 60 m, seam 12-14 ranges from approx. 10 m to 20 m, seam 14-15 is approx. 10 m, and seam 15-16 is approx. 25 m. The seam 12, 14 and 16 occasionally contain up to 2 siltstone/sandstone partings with the thickness mainly less than 0.4 m.

The seam 171, 183, 184 and 20 are developed across the license area with seam 171 well developed l in the north-east part of the license area with an average thickness of 1.5 m. Seam 183, 184 and 20 are relatively thin with thickness from most of the intersected points less than 1.0 m, averaging 0.9 m, 1.0 and 0.8 m, respectively. The interburdens of seam 16 - 171 and seam 183-184 are approximate 10 m in thickness. The seams occasionally contain up to a single siltstone/sandstone parting with the thicknesses less than 0.3 m.

The rock type of the coal-bearing stratigraphy mainly consists of sandstone, siltstone and occasionally mudstone and limestone. The roofs and floors of most coal seams mainly consist of siltstone except for the roof of the seam 12, which mainly consist of 2 - 3 m limestone in thickness. The characteristics of the coal seams are presented in Table 5. Typical seam thickness and floor structure contour plans for seam 4 are presented in Figure 12 and Figure 11, the coal seam is identified as one of the main target seams amenable to mining.

Table 5: Coal Seam Characteristics of Yong-an Mine

Coal Seam	Thickness (m)				Parting Number	Interburden Thickness (m)
	Min.	Max.	Median	Mean		
0	0.47	4.24	1.40	1.64	0-2	n/a
1	0.26	4.40	1.48	1.69	0-2	15 (2)
2	0.35	4.37	1.35	1.50	0-2	15
3	0.35	2.80	1.53	1.45	0-2	15
4	0.66	4.72	1.73	1.94	0-2	15
50	0.30	2.64	0.84	0.88	0-1	16
61	0.10	1.56	0.57	0.60	0-1	35
90	0.28	2.96	1.92	1.82	0-1	60
101	0.40	1.96	0.80	0.93	0-1	50
12	0.26	3.95	1.48	1.52	0-2	65
14	0.40	2.42	1.28	1.27	0-2	15
15	0.10	3.22	0.54	0.73	0-2	10
16	0.25	2.48	1.20	1.16	0-2	25
171	0.26	5.48	1.36	1.48	0-1	10
183	0.18	2.78	0.85	0.93	0-1	20
184	0.32	4.12	0.82	0.99	0-1	10
20	0.19	1.64	0.77	0.78	0-1	35

Figure 11: Seam 4 Structure Thickness of Yong-an Mine

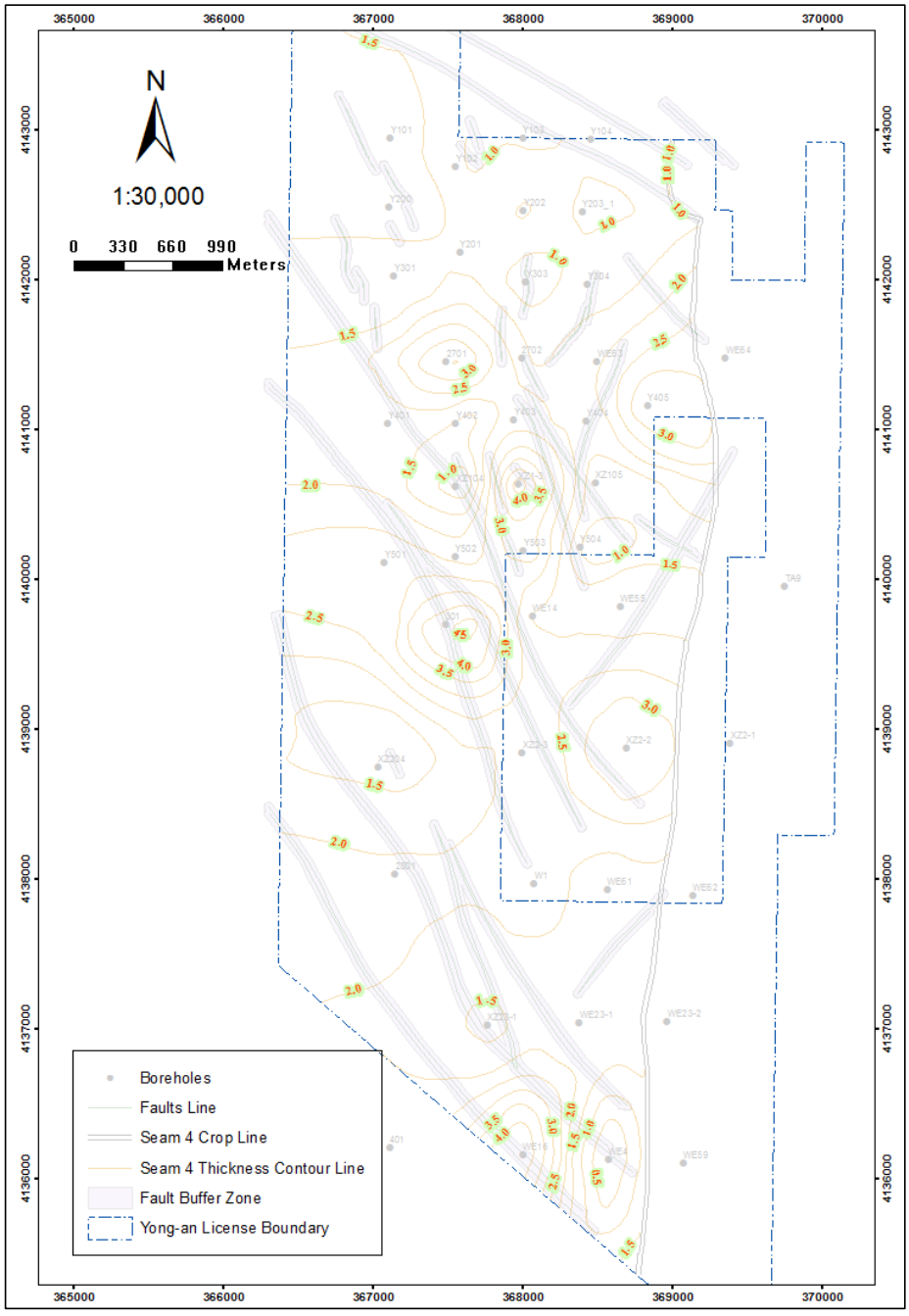
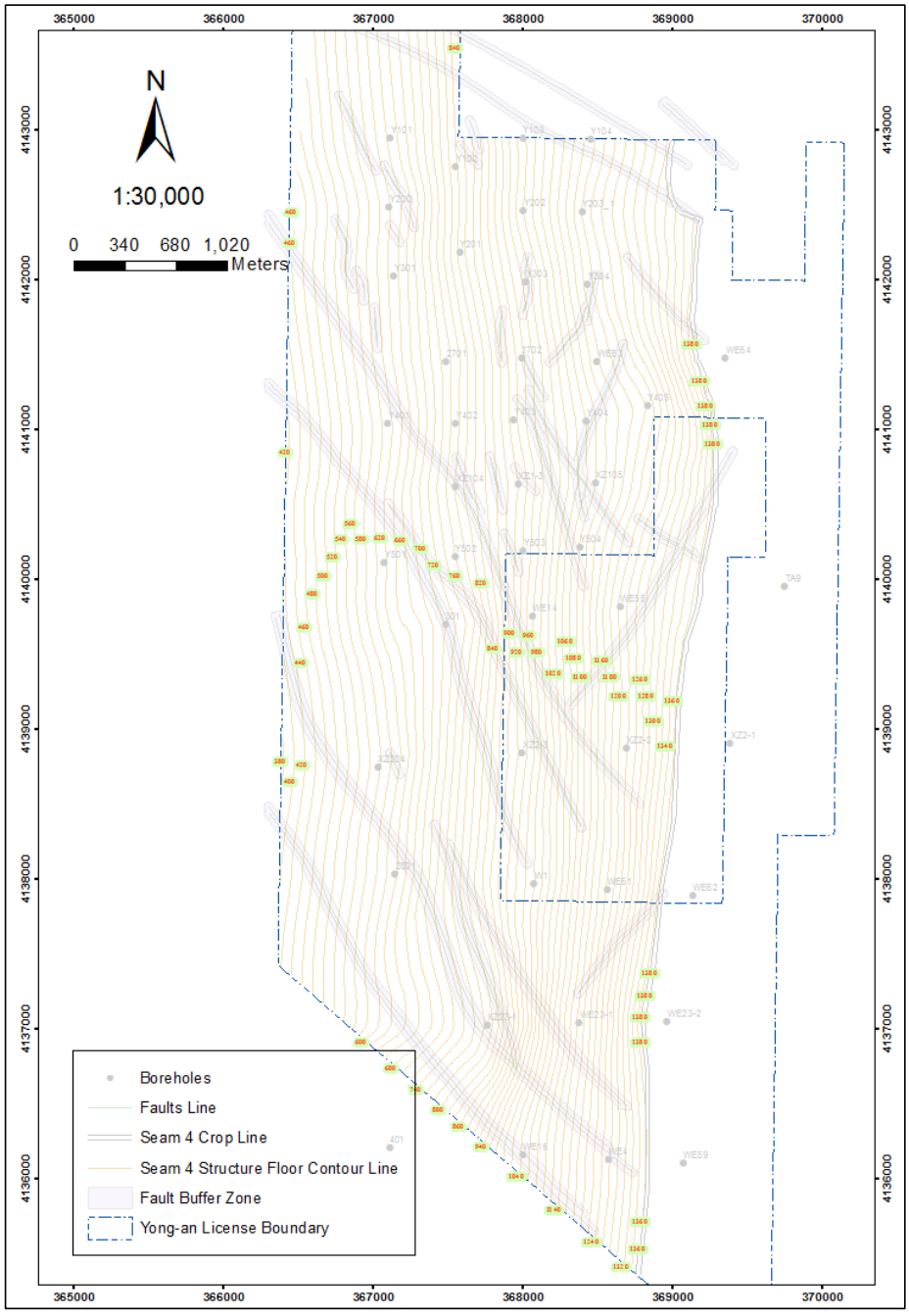


Figure 12: Seam 4 Structure Floor of Yong-an Mine



Weiyi

In the Weiyi license area, 22 coal seams were identified, and named from 0 to 21. As with the Yong-an project, all seams in Weiyi project are north-south striking and dip to the west at between 20 and 25 degrees. Most of the seams crop out in the eastern part of the license area and dip to a depth approximately between 1100 m (seam 2) and 1550 m (seam 20) below the western boundary limit.

From coal seam correlation and comprehensive analysis of the historical exploration data, 9 of the 22 coal seams identified are considered to have underground mining potential. Of these 9 seams, three are present in the Low Permian Shanxi Formation (seam 2, seam 3, seam 4), and the remaining 6 are present in the middle Taiyuan Formation (seam 12, seam 14, seam 15, seam 16, seam 17, seam 20)

Coal seams of Shanxi Formation

Seam 2 is located in the middle of the Shanxi Formation and the minable area is mainly developed in the northern and southern parts of the license area. The northern and southern parts are removed by the north-westward sand body which results in the coal seams become thinner in the erosion zone. In the center of the license area is where the coal seam is generally thickest. There are 36 boreholes that intersected seam 2 with a thickness ranging from 0.15 m to 2.86 m. The thickness of the coal seam varies greatly and has an average thickness of 1.3 m in the mineable area. The coal seam contains up to 2 siltstone/ carbonaceous mudstone partings with a maximum thickness of 0.66 m.

Seam 3 is located in the lower part of the Shanxi Formation, with an average parting of more than 10 m from both the overlying seam 2 and seam 4 beneath. A total of 38 boreholes intersected seam 3 in the license area, with the average seam thickness of 1.3 m which increases to an average thickness is 1.4 m in the mineable area. Seam 3 occasionally contains up to 1 sandy mudstone/sandstone partings with a thickness less than 0.28 m.

Seam 4 is located in the lower part of the Shanxi Formation and is the main mineable coal seam over the entire license area and is only partially un-mineable in the middle area. A total of 41 boreholes intersected the seam which has a thickness of between 0.22 - 3.54m and an average of 2.0 m. The average interval from the overlying seam 3 is approximate 11 m, and to the underlying mineable seam 12 is fairly large at over 200 meters. The coal seam contains up to 2 partings.

Coal seams of Taiyuan Formation

The seam 12 is at the top of the second section of the Taiyuan Formation with the interval between seam 12 and the lower seam 14 ranging between 7.85 m - 37.26 m with an average of 19.10 m. The thickness of the seam is between 0.19 m and 2.13 m with an average of 1.3 m and contains up to 2 partings.

The coal seams 14 and 15 are developed at the upper part of the second section of the Taiyuan Formation. There are 41 datapoints for seam 14 and 40 for seam 15 with an average thickness 1.2 m and 1.1 m, respectively. The seam 14 and 15 occasionally contain up to 2 siltstone/sandstone partings with the thicknesses usually less than 0.6 m.

The seam 16 is developed in the middle part of the second section of the Taiyuan Formation and has an average seam thickness of 1.3 m. The seam is mineable over most parts of the license area with only the northeast and southwest parts being considered as un-minable. The seam contains up to 2 carbonaceous mudstone, mudstone and siltstone partings with a thickness less than 0.5 m.

The seam 17 is located at the lower part of the second section of the Taiyuan Formation, and has an average thickness of 1.3 m with an interburden to the overlying seam 16 of approximately. 40 m. The thickness of the coal seam varies within the license area and contains up to 3 carbonaceous mudstone and siltstone parts with the thickness usually less than 0.5 m.

The seam 20 is developed at the bottom of the second section and was only intersected in 28 boreholes. With an average thickness of less than 0.8m it is only considered to be partly minable. The thickness of the coal seam varies and occasionally contains a single siltstone and carbonaceous mudstone parting with a thickness of less than 0.4 m.

The main characteristics of the coal-bearing stratigraphy consists of sandstone, siltstone and occasionally mudstone and limestone. The roofs and floors of the coal seams mainly consist of siltstone except for the roof of the seam 12, which mostly consist of a 2 - 3 m thick limestone. The characteristics of the coal seams are presented in Table 6. Typical seam structure floor and thickness contour plans for one of the main target coal seam 4 are presented in Figure 13 and Figure 14.

Table 6: Coal Seam Characteristics of Weiyi Mine

Coal Seam	Thickness (m)				Parting Number	Interburden Thickness (m)
	Min.	Max.	Median	Mean		
2	0.20	3.13	1.04	1.26	0-2	n/a
3	0.32	5.94	1.07	1.33	0-1	15
4	0.23	3.82	1.91	1.97	0-2	15
12	0.20	2.75	1.36	1.31	0-2	210
14	0.26	3.12	1.24	1.23	0-1	30
15	0.25	3.22	1.07	1.16	0-2	20
16	0.25	3.37	1.19	1.28	0-2	40
17	0.25	4.42	1.09	1.30	0-3	10
20	0.22	2.50	0.65	0.75	0-1	50

Figure 13: Seam 4 Structure Thickness of Weiyi Mine

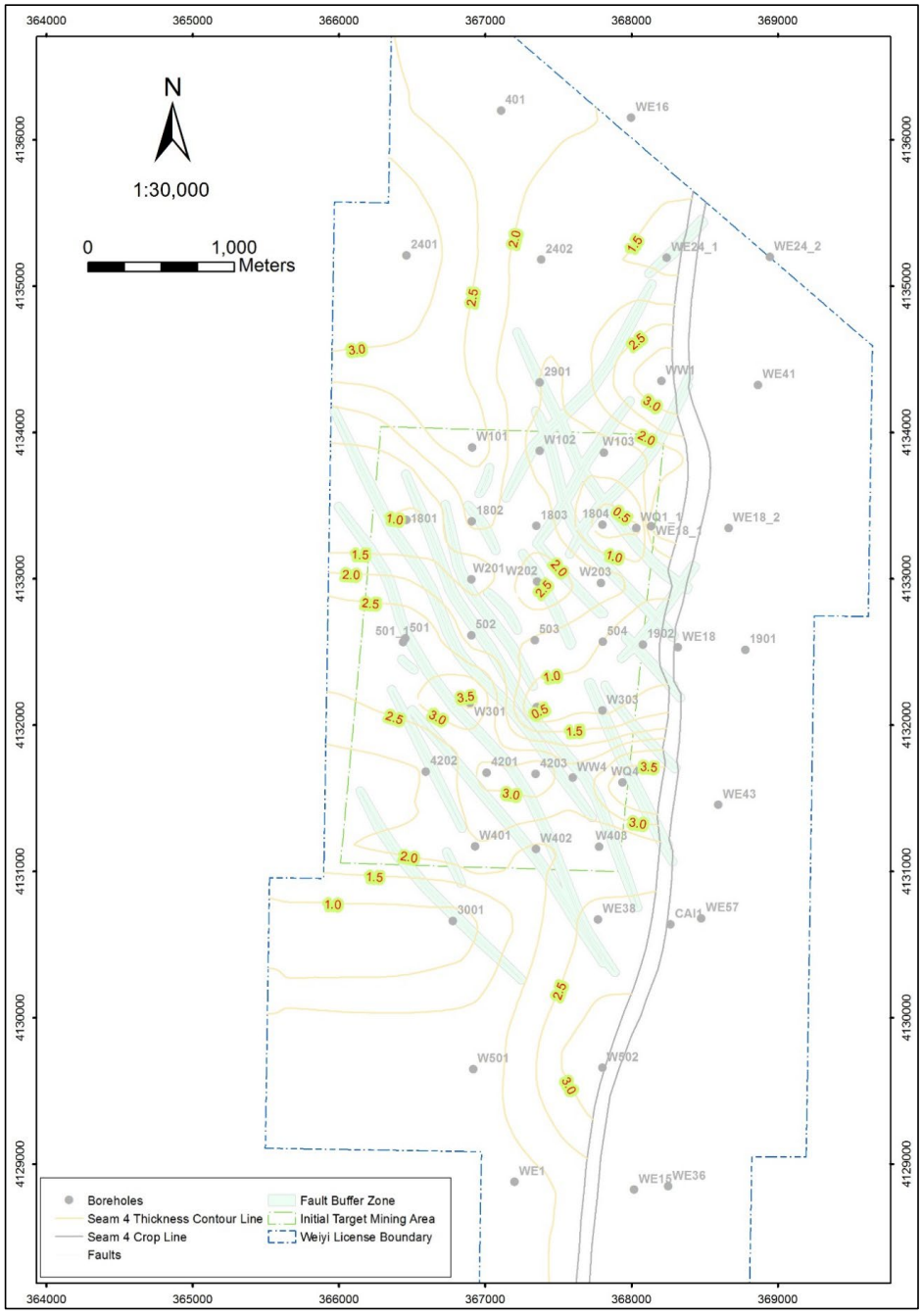
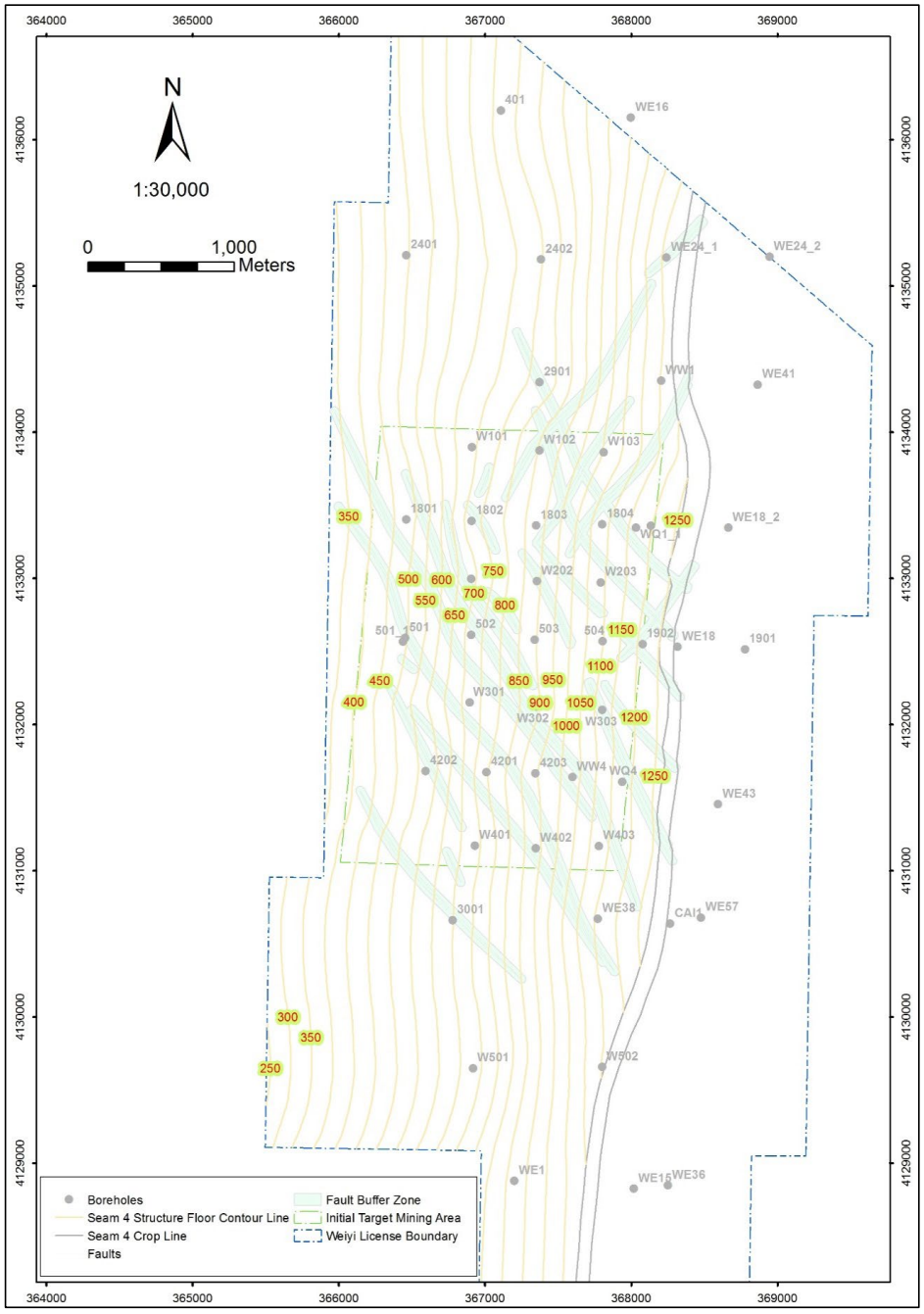


Figure 14: Seam 4 Structure Floor of Weiyi Mine



3.2.4 Coal Rank and Quality

All the coal seams that occur in the Yong-an and Weiyi mines are classified as Medium to High volatile A bituminous coal according to ASTM D388 (Classification of Coals by Rank). According to Chinese standard GB/T 5751-2009 (Chinese Classification of Coals), all the coal seams shown strong caking properties (tested from float coal of sink/float test) with a high Caking Index (Roga Index, G) ranging between 80 and 95 (average 90). The Y value of the Plastometric Indices ranging between 8 and 31 (average 22) and in associated with the dry-ash-free volatile matter ranges from 20% and 37% (average 29%). The coal classification falls in a range between Main Coking Coal (JM), Fat Coal (FM) and 1/3 Coking Coal (1/3JM), which are the three sub-categories of metallurgical coal in terms of the Chinese Standard. The metallurgical coal classification of the deposit is similar to the coal quality of the surrounding coal mines in this region.

It should be noted that the sulphur content for some of the coal seams of the lower seam group in both mines is higher than the main-stream coking coal product, which is normally accepted by the Chinese market, as such, the viability to reduce the Sulphur should be taken into account in future's mining operation, such as coal washing. The typical coal quality for Yong-an and Weiyi mines is presented in Table 7 and Table 8, respectively.

Table 7: Typical Coal Quality of Yong-an Mine

Coal Seam	IM %ad	Ash %ad	VM %ad	FC %ad	CV kcal/kg, ad	TS %ad	Caking Index (G_{RI})	Y (mm)	Coal Classification*
0	0.9	23.4	24.1	51.5	6,058	0.83	92	24	1/3JM、FM
1	0.9	19.9	26.0	53.5	6,429	0.90	95	26	JM、1/3JM、FM
2	1.0	21.1	25.1	52.9	6,359	0.52	95	24	JM、1/3JM、FM
3	0.9	24.6	24.0	50.6	5,979	0.46	95	24	JM、1/3JM、FM
4	1.2	20.7	24.3	53.8	6,354	0.63	92	22	JM、1/3JM、FM
50	1.6	16.8	25.8	55.9	6,741	0.94	95	26	JM、1/3JM、FM
61	1.0	20.0	25.0	54.0	6,200	1.00	89	8	JM、FM
90	1.0	21.5	24.5	53.0	6,265	1.79	93	25	JM、1/3JM、FM
101	1.0	20.0	25.0	54.0	6,200	1.00	/	31	FM
12	0.8	13.6	23.1	62.6	7,040	2.21	89	23	JM、1/3JM、FM
14	1.1	11.0	23.2	64.8	7,348	3.19	94	26	JM、FM
16	0.9	20.8	20.8	57.5	6,323	4.33	/	/	JM、1/3JM、FM
171	1.0	22.8	18.7	57.5	6,202	2.49	89	24	JM、FM
183	0.8	18.0	21.2	60.1	6,640	1.40	91	27	JM、FM
184	1.0	18.3	19.9	60.9	6,438	0.95	/	/	JM、FM
20	0.6	23.9	19.2	56.2	6,043	2.88	/	/	JM、FM

* In terms of 2007 Yong-an Geological Report, JM: Main Coking Coal, FM: Fat Coal, 1/3JM: 1/3 Coking Coal

Table 8: Typical Coal Quality of Weiyi Mine

Coal Seam	IM %ad	Ash %ad	VM %ad	FC %ad	CV kcal/kg, ad	TS %ad	Caking Index (G_{RI})	Y (mm)	Coal Classification*
2	1.09	23.98	34.06	50.11	5,921	0.71	87	19	JM、1/3JM、FM
3	1.15	22.72	32.71	52.03	6,020	0.97	92	22	JM、1/3JM、FM
4	1.03	24.50	32.66	50.73	5,921	0.77	87	23	JM、1/3JM、FM
12	1.17	20.62	32.91	53.15	6,215	0.97	90	21	JM、1/3JM、FM
14	1.28	22.71	33.40	51.46	6,006	1.10	90	22	JM、1/3JM、FM
15	1.49	23.01	32.64	51.57	5,897	1.03	88	21	JM、1/3JM、FM
16	1.23	21.36	31.03	54.09	6,160	1.58	85	21	JM、1/3JM、FM
17	0.98	23.94	30.75	52.57	5,980	1.18	80	19	JM、1/3JM、FM
20	1.50	18.31	34.58	53.23	6,326	1.17	91	16	JM、FM

* In terms of 2007 Weiyi Geological Report, JM: Main Coking Coal, FM: Fat Coal, 1/3JM: 1/3 Coking Coal

4 Exploration

Historically, a series of exploration programmes were carried out both for Yong-an and Weiyi projects, which are the 1959-214 Regional Exploration, 1965-139 Regional Exploration, 1990-133 Regional Exploration, 2005-NXI Regional Exploration, 2007-JS2B Yong-an Exploration and 2007-NXCE Weiyi Exploration. SRK has not been involved in any of these programs. The following information on the previous exploration results is compiled based on information quoted in the relevant geological reports as well as the discussions with the mines technical team during a recent site visit in September 2018 by SRK. The quoted reports are:

- Detail Exploration & Geological Report on the Yong-an Mine in Ningxia Hui Autonomous Region ("2007 YOAN Geological Report"), 2007, prepared by the 2nd Geological Brigade of Jiangsu Coal Geology Bureau ("JS2B");
- Detail Exploration & Geological Report on the Weiyi Mine in Ningxia Hui Autonomous Region, 2007, prepared by Ningxia Coal Exploration and Engineering Company ("NXCE").

4.1 Exploration Programmes Prior to 2007

1959-214 Regional Exploration

From 1959 to 1962, regional exploration was conducted by the No. 214 Geology Brigade across both the Yong-an and Weiyi projects with a total 31 boreholes drilled totalling 5,823 m, of which 17 boreholes were completed in Yong-an According to the 2007 YOAN Geological Report, all the boreholes were shallow cored holes of which a quarter were downhole surveyed. There was no downhole geophysical logging conducted at that time, no core recovery data available and the detail information with regard to the drilling is not available. Available data includes borehole collar data, geological logs, interpreted coal seam structure data obtained from geological logs and coal analysis results.

The 17 Boreholes ("1959 Holes") within Yong-an area are TA3, TA4, TA7, TA8, TA9, QN2, QN11, QN12, QN20, QN21, QN22, QN23, QN24, QN28, QI1, QI2 and QI5.

1965-139 Regional Exploration

From 1965 to 1969, a total of 86 boreholes were drilled by No. 139 Geology Brigade across both the Yong-an and Weiyi projects area of which 17 boreholes were completed in the Yong-an project and 16 boreholes in the Weiyi project. According to the 2007 YOAN Geological Report, all the boreholes were cored with geophysical logged and downhole surveyed. The drilling achieved an average core recovery of 53% (31% to 84%) for the 11 Yong-an boreholes, however the detail drilling information is not available. Available data includes borehole collar data, geological logs, interpreted coal seam structure data obtained from geological logs and borehole geophysics, and coal analysis results. The detail information of the boreholes located in the Weiyi project area is not available to SRK.

The 17 Boreholes ("1965 Holes") within Yong-an area are WE19, WE16, WE9, WE14, W1, WE24-1, WE23-1, WE63, WE61, WE4, WE55, WE24-2, WE23-2, WE59, WE62, WE64 and WE67.

1990-133 Regional Exploration

In 1990, a total of 24 boreholes were drilled across both the Yong-an and Weiyi projects, with drilling completed by No. 133 Brigade. Three boreholes (XZ2-1, XZ2-2 and XZ2-3, collectively 1990 Holes) are located in the Yong-an project and two boreholes are located in the Weiyi project. According to 2007 YOAN Geological Report, all the boreholes were cored hole with geophysical logged and downhole surveyed. The drilling achieved a 75% average core recovery for the 3 Yong-an boreholes however the detail drilling information is not available. Available data includes borehole collar data, geological logs, interpreted coal seam structure data reconciliated from geological logs and borehole geophysics, and coal analysis result. The detail information of the boreholes located in the Weiyi project area is not available to SRK.

2005-NXI Regional Exploration

In 2005, five boreholes were drilled by Ningxia Geology & Exploration Institute within Yong-an license area. According to 2007 YOAN Geological Report, all the boreholes were cored with geophysical logged and downhole surveyed. The drilling achieved an 80% average core recovery however the detail drilling information is not available. Available data includes: borehole collar data; geological logs; interpreted coal seam structure data reconciliated from geological logs and borehole geophysics; and coal analysis result. the five boreholes ("2005 Holes") are XZ1-1, XZ1-2, XZ1-3, XZ23-1 and XZ27-1.

4.2 2007-JS2B Yong-an Exploration

In 2007, the 2nd Geological Brigade of Jiangsu Coal Geology Bureau ("JS2B") completed the most recent exploration in the Yong-an project, and includes:

- 29 cored boreholes drilling completed between March 2007 to August 2007 complete with downhole geophysical logging;
- 257 coal samples collected and tested;
- 2D seismic survey for a total of 14.9 line-km across 7 traverse lines;
- 3D seismic survey across the initial Mining Area comprising a total of 6.74 km2; and
- Electro-magnetic survey for a total of 49.94 line-km across 31 section lines to detect mined-out area.

Drilling and Downhole Geophysical Logging

From March 2007 to August 2007, 29 boreholes ("2007 Holes") were drilled within the project area. JS2B designed and carried out the drilling and completed a total of 23,418 m. This exploration was aiming to achieve an approximately 500 m Points of Observations grid in the proposed initial underground mining area ("IUMA") and an approximately 1000 m spacing in the south. The drilling was carried out in terms of Chinese standards "Specifications for Coal, Peat Exploration" DZ/T 0215-2002. Type XY-4 drillings rigs was employed to undertake the drilling and all the boreholes were cored using a triple tube HQ core barrel. According to the received core-run recovery data from the core logs, the drilling achieved an approximate 90% average core recovery which increased to an approximate 93% within the coal seams.

Coring length and drill footage were measured and recorded on a run basis and the run recovery was calculated directly and recorded. The loss part of the run core was then viewed and determined by the site geologist in associated with the data from geophysics to calculate the core recovery on a lithology basis. Decreased footage per run in fractured strata was reviewed to ensure the core recovery meets the requirement. The boreholes drilled in this program are tabulated in Table 9.

Table 9: Boreholes Drilled in 2007 JS2B Exploration Program

BHID	Total Depth (m)	BHID	Total Depth (m)	BHID	Total Depth (m)
Y101	974.3	Y401	1020.2	XZ105	718.0
Y102	847.9	Y402	967.9	XZ204	985.8
Y103	832.0	Y403	865.7	2701	993.7
Y104	706.5	Y404	684.1	2702	825.7
Y200	919.0	Y405	368.0	2801	891.7
Y201	863.0	Y501	1011.3	301	1098.8
Y202	685.4	Y502	972.4	401	922.1
Y203_1	544.1	Y503	785.0		
Y301	1010.3	Y504	704.0		
Y303	742.7	203	137.9		
Y304	616.5	XZ104	982.7		

Surveying as done using a S82RTK positioning system by referring benchmarks within the project area and in associated with Topcon GTS-332 Total Station. This was used to survey borehole collars where the Xi'an 1980 datum was adopted as the coordinate system to match the same coordinate system as used in the mining permit document. The accuracy of the survey satisfied the requirement of the Chinese standard.

Downhole geophysical logging activities were carried out following relevant Chinese standards. The main geophysical tools which were used to obtain data for coal seam structure and strata interpretation are natural gamma, gamma-gamma (long-space and short-space), electric resistivity, calliper and spontaneous potential. In addition the borehole temperature and deviation tools were also employed during the logging.

Coal Handling, Sampling, and Analysis

According to the 2007 YOAN Geological Report, the sampling procedures of the 2007 exploration programme closely followed the Chinese Standard 1987-656 "Standard Practice for Collection of Coal Samples in Coal Resources Exploration" and a total of 257 coal samples and 230 parting/roof/floor samples were taken from retrieved cores and handled in terms of the following general principle:

- Sampling was carried out on a seam-by-seam basis with a maximum 2 m to 3 m sample interval;
- Partings less than 10 cm in thickness were included in the coal sample;
- Parting thickness within a range between 10 cm and 80 cm and direct roof and floor rocks were intermittently sampled on a lithology or representativeness basis.

Other samples were also collected and analysed for sink/float test, coal seam gas, spontaneous combustion tendency, coal-dust explosion test, geotechnical and water analysis.

SRK was told that the samples were stored in plastic bags with double layers immediately after retrieved, and well-sealed before being sent to the laboratory to avoid any loss of moisture.

Sample preparation, security, and analysis for the exploration samples were carried out by the laboratory of Xuzhou Analysis & Test Centre of The General Bureau of China Coal Geology. This test centre is certificated by China National Accreditation Service for Conformity Assessment (ID: CNAS L0840) and China Metrology Accreditation (ID: 161020040274). The sample preparation was carried out in terms of the Chinese Standard GB/474 (equals to ISO18283:2006) and the following tests were performed:

- Proximate analysis (GB/T 212-2001,ISO11722:1999, ISO1171:1997 and ISO562:1998) including inherent moisture, raw content, volatile matter and fixed carbon; total sulphur (GB/T 214-1996 equals to ISO 334:1992 and ISO 351:1984), sulphur form (GB/T 215-1996, equals to ISO 157:1996), heat value (GB/T213-2003 equals to ISO 1928:2009), ultimate analysis (elements), coal ash composition analysis and coal ash fusion analysis, these items were analysed on a sample basis and in terms of relevant Chinese Standards.
- Apparent relative density (GB/T6949-1998) and true relative density (GB/T 217-1996) were tested on approx. 50% number of samples.
- Caking property tests including caking index (ISO 15585-2006 equals to ISO 15585-2006), Plastometric Indices (GBT479-2000, ISO/CD 20362) and Audibert-Arnu dilatometer test (GB5450-1997 equals to ISO 349-75) on float coal samples obtained from sink/float test.

4.3 2007-NXCE Weiyi Exploration

In 2007, Ningxia Coal Exploration and Engineering Company ("NXCE") completed the most recent exploration in the Weiyi project and includes:

- 30 cored boreholes drilled between March 2007 to September 2007 with downhole geophysical logging;
- 254 coal samples collected and tested;
- 3D seismic survey across the initial Mining Area comprising a total of 6.42 km2.

Drilling and Surveying

Drilling activities followed the Chinese standard "Specifications for Coal and Peat Exploration (DZ/T0215-2002)" and "Exploration Specification of Hydrogeology and Engineering Geology in Mining Areas (GB 12719-91)" Several types of drilling rigs, XY-44, XY-5, TXB-1000A, TXB-1600 were used with associated supporting equipment. In total 30 full cored boreholes were drilled using a triple tube HQ core barrel. From the received core-run recovery data obtained from the core logs, the average recovery of the coal seam samples was approximate 91% while the recovery of the non-coal stratum was more than 70%. The boreholes drilled in this program are tabulated in Table 10.

Table 10: Boreholes Drilled in 2007 NXCE Exploration Program

BHID	Total Depth (m)	BHID	Total Depth (m)	BHID	Total Depth (m)
401	922.1	2402	914.8	W202	838.9
501	942.6	2901	928.6	W203	678.6
502	936.8	3001	950.0	W301	980.8
503	887.7	4201	1007.7	W302	876.1
504	647.9	4202	975.0	W303	654.0
1801	990.5	4203	863.4	W401	922.2
1802	1010.6	W101	1019.7	W402	818.5
1803	830.8	W102	875.2	W403	651.5
1804	702.1	W103	740.7	W501	1002.7
2401	912.2	W201	976.8	W502	602.1

Surveying as done using a S82RTK positioning system by referring benchmarks within the project area and in associated with Topcon GTS-332 Total Station. This was used to survey borehole collars where the Xi'an 1980 datum was adopted as the coordinate system to match the same coordinate system as used in the mining permit document. The accuracy of the survey satisfied the requirement of the Chinese standard.

Geophysical Logging in 2007

Geophysical logging was conducted in terms of the Chinese standard "Specifications for Geophysical Logging of Coal (DZ/T0080-93)". The purpose is to provide accurate and reliable depth and thickness of coal seams, rock formations and partings, boreholes inclination, temperature and hole diameter.

A TYSC-3Q digital logging tool was the main equipment for logging while a JJX-3A tool was used for inclination survey. Geophysical logging parameters including natural gamma, gamma-gamma, apparent resistivity, natural potential, sonic waves, three lateral resistivity, three lateral voltages, gamma-gamma (short distance density) and calliper. The interval of the logging data collection was at 0.05 m.

Hydrogeological Work in 2007

The hydrogeological work followed the Chinese standard "Simple Hydrogeological Observation Rules for Coalfield Geological Exploration", "Exploration Specification of Hydrogeology and Engineering Geology in Mining Areas (GB 12719-91)", "Hydrogeological Pumping Test Specification for Coalfield Geological Exploration" and "Procedures for taking, storing and Sending Water Samples".

Hydrogeological drilling used thin mud or clear water as the cleaning medium, and the hole diameter is generally greater than 190 mm. Borehole 501-1 and WQ1-1 were the two hydrogeological holes. Multi-aquifer mixed pumping tests were taken above seam No.12 in borehole 501-1 and pumping test on the sandstone aquifer in the Shihezi Formation in borehole WQ1-1. A total of 4 water samples were collected for analysis. Simple hydrogeological observations were used as a supplement to pumping tests, which were carried out in all boreholes.

3D Seismic Survey in 2007

3D seismic activities took place between January 2007 to February 2007 covering an area of 6.42 km2.

The seismic survey was carried out in accordance with the Chinese standard "Seismic Exploration General Standard in Coal and Coalbed Methane (MT/T 897-2000)", "Safety Regulations for Seismic Exploration Blasting Practices" and "Specifications for Global Positioning System (GPS) Surveys (GB/T 18314-2001)"

A total of 22 faults were identified in this 3D seismic survey, of which 17 were reverse faults and 5 normal faults, all faults were named with the prefix of 3DF.

2 faults (F17, F24) with a throw greater than 50 m, 8 faults (3DF4, 3DF6, 3DF7, 3DF8, 3DF12, 3DF16, 3DF17, F19) with a throw greater than or equal to 30 m and less than 50m, and 7 faults greater than or equal to 10 m and less than 30 m (3DF2, 3DF9, 3DF13, 3DF14, 3DF18, 3DF19, F21), 3 faults greater than 5m and less than 10 m (3DF1, 3DF11, 3DF10), 2 faults less than 5 m (3DF3, 3DF5).

Due to the influence of multi-phase tectonic movement, the structure of the project is extremely complicated with faults cross cutting each other. The main structure pattern is of reverse faults heading in a NW-SE direction and the normal faults trending in the NE-SW direction. The following faults F17, F19, 3DFF6, 3DF7, and 3DF8 make up a fault zone where the structure becomes more complicated.

Coal Handling, Sampling and Analysis in 2007

According to the Geological Report in 2007, sample collecting and analysis are followed the Chinese standard "Standard Practice for Collection of Coal Samples in Coal Resources Exploration (1987-656)" "General Rules for Analysis and Testing Methods of Coal (GB/T483-1998)", "Method of Float and Sink Analysis of Coal (GB/T2565-1998)", and "Method for Evaluating the Washability of Coal (GB16417-1996)".

The collection of coal samples from retrieved cores was handled according to the following general principle:

- Sampling was carried out on a seam-by-seam basis with a maximum 2 m to 3 m interval;
- Partings less than 10 cm in thickness were included in the coal sample;
- Parting thickness within a range between 10 cm and 80 cm and direct roof and floor rocks were intermittently sampled on a lithology or representativeness basis.
- The coal samples were weighted after air-dried condition, then sealed in plastic bags with a label to prevent loss of moisture.

Other samples were also collected and analysed for sink/float test, coal seam gas, spontaneous combustion tendency, coal-dust explosion test, geotechnical and water analysis.

Sample preparation, security, and analysis for the exploration programme were carried out by the laboratory of Coal Quality Testing Centre, the subsidiary institution of Geological Bureau of Ningxia Hui Autonomous Region. The sample preparation was carried out in terms of the Chinese Standard GB/474 (equals to ISO18283:2006) and major Analytical items and standards adopted are the same with Yong-an mine.

5 Data Validation and Modelling

5.1 Yong-an Project

5.1.1 Seam Structure

Borehole seam structure data was processed based on each of the drilling programs to remove any unqualified boreholes prior to importing them into the Minex database.

- All the 1959 Holes are shallow, drilled in the east part of the license area and have limited seams intersections with no core recovery data available. As such, this series of boreholes are considered as unreliable and have not been used for modelling;
- 1965 Holes and 1990 Holes were generally retained for further validation as the received seam structure data were assessed as reliable, however, due to the low coal core recovery and lack of downhole survey data, these boreholes are considered as unreliable for the high confidence level of resource category;
- All the 2005 and 2007 series of boreholes were retained for further validation.

After this process, a total of 49 boreholes were incorporated into Geovia Minex 6.1.3 borehole database to develop a geological model. Additional validating of the borehole data within Minex was conducted as follows.

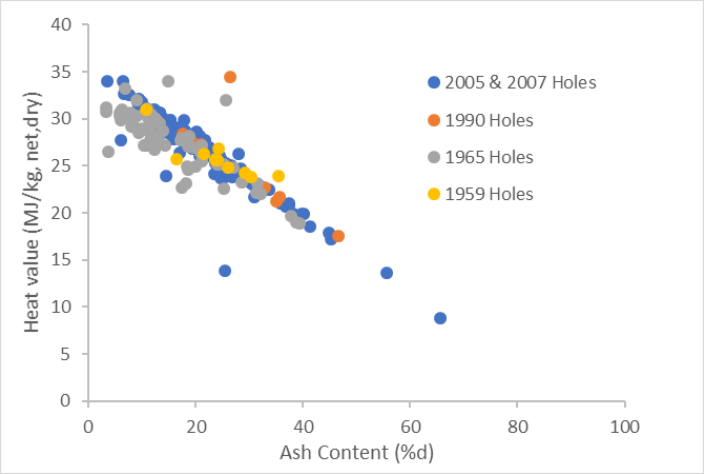
- The collar data were checked against the topographical data to correct any abnormal points of collar elevation. Generally, the collar data was found to be consistent with the topography data;
- Imported seam intervals (seam picks) were checked against available downhole geophysical profiles and inconsistent intervals were adjusted to match the downhole geophysical profiles. This procedure showed a good level of consistency between the imported seam intervals and the downhole geophysical profiles;
- Seam correlation review based on previous interpretation was conducted by mainly check values against downhole geophysical profiles.

5.1.2 Quality Data

The analytical result for 303 coal/rock samples was received from the 49 boreholes including 295 coal and 8 partings or floor/roof samples. This consisted of 303 proximate analysis records, 251 heat values records, 290 total sulphur records and 49 relative density records.

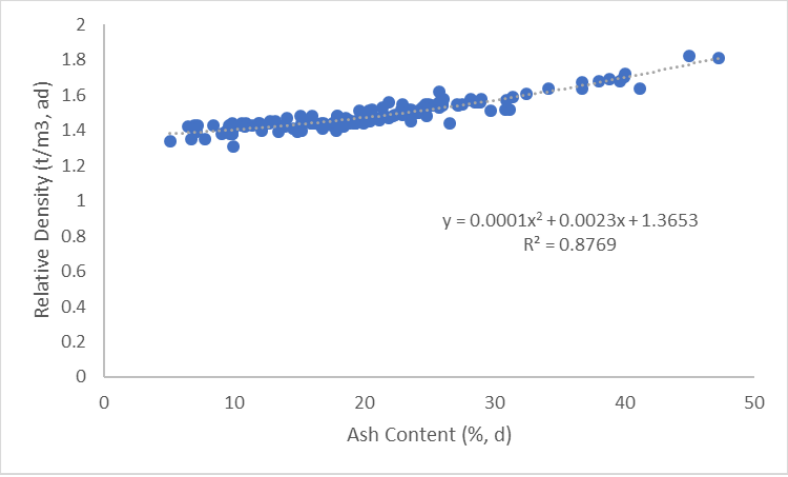
SRK created scatter plot between ash content and calorific value to assess the analytical precision/reliability of the main quality variables (see Figure 15). Figure 6 1 shows the scatter plot between ash content and heat value.

Figure 15: Scatter Plot between Ash (%,d) and Heat Value (MJ/kg, net,d) of Yong-an Mine



As only limited numbers of relative density test results available for Yong-an mine, to improve the accuracy of the resource estimation, a regression equation (Y=0.0001X2+0.0023X+1.3653, R2=0.8769) obtained from 141 pairs of available ash vs relative density from both Yong-an and Weiyi mines was used to estimate the missing RD data. The scatter plot which derived the equation is present in Figure 16.

Figure 16: Scatter Plot between Ash (%,d) and Relative Density (%,d) from both Yong-an and Weiyi Mines



SRK was told that the Quality Assurance and Quality Control ("QA/QC") procedures of sample collection, security and analysing for 2007-JS2B exploration was followed relevant Chinese Standards, the QA/QC for the explorations prior to 2007 is unknown to SRK. As such, the accuracy and precision of the analytical results are not able to be fully confirmed. Therefore, SRK cannot take any responsibility for validated data provided by Kinetic.

The sample intervals with the validated coal quality data were checked against coal ply intervals in Minex. It was found that a few numbers of sample intervals recorded in the original analysis report were misaligned with coal ply intervals. the misaligning errors were corrected by adjusting the sample intervals fitting to ply intervals.

5.1.3 Modelling

Key steps for structure and quality modelling are described as follows:

- Set Missing Seams in Minex. The position of the floor of the missing seams was estimated in Minex by using the "set missing seams" function, and all the thicknesses of the missing seams below the collar and above total depth were set to zero.
- Moisture, ash, volatile matter, fixed carbon, total sulphur and heat value data were composited on a mass basis, relative density was composited on a volume basis.
- The quality variables except relative density were composited based on thickness as well as density and the relative density was composited by using the volume weighting method.
- Seam Gridding, "Multi-Seam Multi-Variable Gridding" function was used to generate a series of grids including seam floor, seam thickness, inter-burden and quality variables.

5.2 Weiyi Project

5.2.1 Seam Structure

The data validation process of the Weiyi mine is similar to Yong-an. First, the 1959 Holes located within the license area were removed, 1965 Holes and 1990 Holes drilled in the east part of the license area were retained for further validation as well as the 2007 series of boreholes.

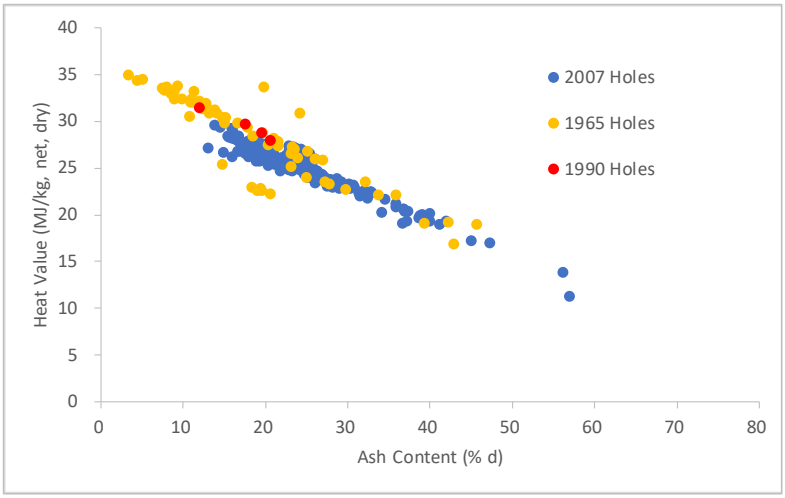
After the borehole validation, a total of 50 boreholes were incorporated into Geovia Minex 6.1.3 borehole database to develop a geological model. Additional validating of the borehole data within Minex was similar to the process of Yong-an boreholes.

5.2.2 Quality Data

The analytical result for 291 coal/rock samples was received from the 48 boreholes including 289 coal samples, one parting sample and one seam floor sample. The analytical result consists of 291 proximate analysis records, 285 heat value records, 289 total sulphur records and 72 relative density records.

Scatter plot between ash content and calorific value was created to assess the analytical precision/reliability of the main quality variables (see Figure 17).

Figure 17: Scatter Plot between Ash (%,d) and Heat Value (MJ/kg, net,d) of Weiyi Mine



Similar to Yong-an mine, only a limited numbers of relative density test results are available for the Weiyi mine, and so to improve the accuracy of the resource estimation, equation (Y=0.0001X2+0.0023X+1.3653, R2=0.8769) derived from Figure 16 was used to estimate the missing RD data.

The Quality Assurance and Quality Control ("QA/QC") procedures of sample collection, security and analysing for 2007-NXCE exploration was told that followed relevant Chinese Standards, the QA/QC for the explorations before 2007 is unknown to SRK. As such, the accuracy and precision of the analytical results are not able to be fully confirmed. Therefore, SRK cannot take any responsibility for validated data provided by Kinetic.

The sample intervals with the validated coal quality data were checked against coal ply intervals in Minex. It was found that a few numbers of sample intervals recorded in the original analysis report were misaligned with coal ply intervals. the misaligning errors were corrected by adjusting the sample intervals fitting to ply intervals.

The modelling process which used in the Weiyi mine was the same with Yong-an.

5.3 In-situ Density Adjusting

In terms of Australian Guidelines for the Estimation and Classification of Coal Resources, 2014 Edition ("Coal Guidelines 2014"), the tonnage of Coal Resource should be estimated on an in-situ basis, this requires in-situ density to be used in the estimation, and the in-situ density can be converted from relative density (adb) and in-situ moisture by using Preston and Sanders equation (Preston and sanders, 1993). In-situ moisture is normally derived from moisture-holding capacity which can be directly analyzed from laboratory test.

In these two mines, no moisture-holding capacity was tested. In this case, a regression equation deriving in-situ moisture from air-dried moisture, Mis = 1.3335*Mad+2.2168 (R2= 0.901) was used to calculate in-situ moisture according to the study of Fletcher & Sanders (ACARP C10041), and the relative density has been adjusted to the in-situ density with an approximately decreasing in the order of 0.01 to 0.2 m3/t.

6 Coal Resource

6.1 Introduction

A Coal Resource is a concentration or occurrence of a coal deposit of economic interest in such form, quantity and quality that there are reasonable prospects for eventual economic extraction. The location, quantity, quality, continuity and other geological characteristics of Coal Resource are known, estimated or interpreted from specific geological evidence and knowledge, including sampling. Coal Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories in accordance with The JORC Code (2012).

An Inferred Coal Resource is that part of Coal Resource for which quantity and quality are estimated on the basis of low levels of confidence with limited geological evidence and sampling. The quantity and quality are inferred using Points of Observation ("PoO") that may be supported by interpretive data.

An Indicated Coal Resource is that part of Coal Resource for which quantity and quality are estimated on the basis of reasonable levels of confidence which allows the application of Modifying Factors in sufficient detail to support mine plan and evaluation of the economic viability of the deposit. The quantity and quality information are collected from PoO that may be supported by interpreted data. The PoO are sufficient for continuity to be assumed but are too widely or inappropriately spaced to confirm geological and quality continuity. An Indicated Coal Resource has a lower level of confidence than that applying to a Measured Coal Resource and may only be converted to a Probable Coal Reserve.

A Measured Coal Resource is that part of Coal Resource for which quantity and quality are estimated based on a high level of confidence which allows the application of Modifying Factors to support detailed mine planning and final evaluation of the economic viability of the deposit. The quantity and quality information collected from PoO may be supported by interpretive data. The PoO are spaced closely enough to confirm geological and coal quality continuity. A Measured Coal Resource has a higher level of confidence than that applying to either an Indicated Coal Resource or an Inferred Coal Resource. It may be converted to a Proved Coal Reserve or under certain circumstance to a Probable Coal Reserve.

In general, the process of coal resource estimation and reporting can be divided into the following steps:

- Geological data processing and resource modelling: mainly includes coal seam structure and quality data processing, coal seam correlation and geological structure data interpretation. The process will eventually generate a resource model ready for resource estimation.
- Coal Resource classification: estimated resources are classified as Measured, Indicated and Inferred categories according to the different geological confidence levels. The geological confidence level is determined through both the coal seam consistency, the geological structure complexity as well as considering certain aspects which may have a substantial impact on the reasonable prospects for eventual economic extraction.
- Mined-out/sterilized area deduction, thin coal seam and poor-quality area identification: these areas are having no reasonable prospects for eventual economic extraction, normally the minimum thickness and coal quality limits (collectively, "Cut-offs") should be applied to the resource model for estimation.

- Estimated Resource is reported in compliance with the JORC Code, and the reporting should not only include the quantity (tonnage) but also comprise the main coal quality variables related to marketing.

6.2 Material Assumptions

Two Preliminary Mine Designs ("PMD"), "Preliminary Mine Design on Yong-an Coal Mine 2007" which was prepared by China Coal Xi'an Design Engineering Co., Ltd ("Xi'an Institute") and "Preliminary Mine Design on Weiyi Coal Mine 2007" which was prepared by China Coal Handan Design & Engineering Co., Ltd ("Handan Institute") have demonstrated reasonable prospects for eventual economic extraction by using underground longwall mining method for the target coal seams of the two mines, respectively.

The Resources estimated for the coal deposits are based on the data provided by the Client and limited in the licenses area. The mined-out area of Yong-an mine which derived from the electro-magnetic survey was applied to the estimation to exclude the mined-out coal. The coal seams that occurred within 50 m below the surface for both mines were excluded from the estimation.

Faults were delineated from the interpretation of the seismic survey profiles. Buffer zones of 50 m on either side of the faults were used to excluded from the resource estimation. The maximum depth of the estimation for Indicated Resource is set at 800 m (approx. 600 m ASL), the maximum estimation depth for Inferred Resource is set at 400 m ASL (approx. depth of 1000 m), the coal resource covered by the indicated area occurring at the depth between 800 m (depth) and 400 m ASL (permitted maximum elevation) is downgraded to Inferred Resource.

The following limits/cut-offs were applied to the Coal Resource estimations both for Yong-an and Weiyi mines:

- Minimum thickness of coal seam: 0.8 m
- Maximum ash content (air-dried basis): 40%
- Minimum calorific value (dry basis): 4000 kCal/kg
- Estimation Depth Range (vertical): 50 m – 800 m
- Estimation Depth Range (vertical): 50 m (depth) – 400 m asl (Inferred)

6.3 Resource Classification

On Yong-an mine, historical drillings has resulted in a borehole spacing of approximately 500 m in the north of the proposed initial mining area, and approximate 1,000 m spacing in the south area. On Weiyi the historical drillings have resulted in an approx. 500 m borehole spacing in the central of the license area and approx. 1,000 m for the rest.

Historical exploration, especially through seismic surveys, has revealed the tectonic features of the projects area. Seismic surveys have delineated the faults are more developed in the Yong-an mine area, with reverse faults mainly trending north-west, followed by normal faults trending north-east, with a total of 43 large and small faults in the Yong-an mine area. Faults are more developed as well in Weiyi mine area, extending from 1 kilometer to several kilometers, with two groups of oblique faults, including 21 reverse faults and 6 normal faults. After a comprehensive analysis of the complexity of the geological structure and the stability of the coal seams in two coal mines, the resource classification was considered as follows:

First, the existing borehole spacing and structure complexity of the two mines would support the general classification in terms of following borehole spacing.

- Measured Resource Category: 250 m spacing area(s) of borehole PoO;
- Indicated Resource Category: 500 m spacing area(s) of borehole PoO;
- Inferred Resource Category: 1,000 – 2,000 m spacing area(s) of borehole PoO.

Second, the high confidence level of Measured and Indicated categories was constrained within less faulted areas where bounded by major faults (vertical throw greater than 10 m).

The above classification principles have resulted in only Indicated category being assigned to the initial mining areas where is a greater density of boreholes and the area is less structurally complex due to the lower number and/or small displacement of faults. The estimate depth of Indicated Category is 800 m and Inferred Category is estimate up to 400 m asl (the minimum elevation allowed by the Mining License). The typical Coal Resource classification plans are presented in Figure 18 and Figure 19.

6.4 Coal Resource Estimates

The Coal Resources of Yong-an and Weiyi mines estimated by SRK and reported in accordance with the JORC Code 2012 are presented in Table 11 and Table 13. The Resources estimated in terms of the different depth/elevation for both mines are presented in Table 12 and Table 14.

Table 11: JORC Coal Resources Estimated within Yong-an License (Cut-off Date 31 May 2022)

Coal Seam	Resource Category	Resource (Mt)	Seam Thickness (m)	IM (%, ad)	Ash (%, ad)	VM (%, ad)	FC (%, ad)	TS (%, ad)	CV (kcal/kg; net, ad)
0	Indicated	7.07	1.55	0.9	23.4	24.1	51.5	0.83	6,058
	Inferred	14.97	1.53	0.7	24.1	23.7	51.6	0.66	6,099
1	Indicated	3.61	1.65	0.9	19.9	26.0	53.5	0.90	6,429
	Inferred	15.40	1.54	0.6	25.5	22.6	51.3	0.70	5,935
2	Indicated	9.78	2.13	1.0	21.1	25.1	52.9	0.52	6,359
	Inferred	11.04	1.29	0.8	17.8	26.3	55.2	1.03	6,629
3	Indicated	5.66	1.29	0.9	24.6	24.0	50.6	0.46	5,979
	Inferred	18.75	1.66	0.7	24.3	22.3	52.9	0.54	6,062
4	Indicated	8.05	1.72	1.2	20.7	24.3	53.8	0.63	6,354
	Inferred	25.88	2.1	0.8	23.4	21.3	54.6	0.57	6,130
50	Indicated	3.93	1.28	1.6	16.8	25.8	55.9	0.94	6,741
	Inferred	7.43	1.05	0.8	18.4	22.9	57.9	0.48	6,699
61	Indicated	1.12	1.1	1.0	20.0	25.0	54.0	1.00	6,200
	Inferred	3.03	1.16	1.0	20.0	25.0	54.0	1.00	6,200

Coal Seam	Resource Category	Resource (Mt)	Seam Thickness (m)	IM (%, ad)	Ash (%, ad)	VM (%, ad)	FC (%, ad)	TS (%, ad)	CV (kcal/kg; net, ad)
90	Indicated	8.07	1.91	1.0	21.5	24.5	53.0	1.79	6,265
	Inferred	16.07	1.87	0.9	24.4	23.7	51.0	1.13	5,919
101	Indicated	1.90	1.08	1.0	20.0	25.0	54.0	1.00	6,200
	Inferred	4.86	1.24	1.0	20.0	25.0	54.0	1.00	6,200
12	Indicated	4.55	1.44	0.8	13.6	23.1	62.6	2.21	7,040
	Inferred	17.40	1.62	0.7	7.7	24.5	67.2	2.75	7,620
14	Indicated	3.35	1.17	1.1	11.0	23.2	64.8	3.19	7,348
	Inferred	10.07	1.22	0.9	13.7	24.7	60.6	1.97	6,917
171	Indicated	4.60	1.86	1.0	22.8	18.7	57.5	2.49	6,202
	Inferred	10.81	1.51	0.9	15.1	23.3	60.7	2.33	6,899
183	Indicated	1.53	1.19	0.8	18.0	21.2	60.1	1.40	6,640
	Inferred	5.29	1.01	0.9	18.0	24.4	56.7	3.28	6,652
Sub-total	Indicated	63.22		1.0	20.3	24.0	54.8	1.22	6,396
	Inferred	161.00		0.8	20.5	23.3	55.5	1.13	6,391
Total		224.22		0.9	20.4	23.5	55.3	1.16	6,393

Table 12: JORC Coal Resources Estimated within Yong-an License as per Different Depth/elevation (Cut-off Date 31 May 2022)

Depth/Elevation	Measured Resource	Indicated Resource	Measured + Indicated	Inferred Resource	Total
50 m – 400 m (depth)	---	16.51	16.51	40.04	56.55
400 m - 600 m (depth)	---	24.97	24.97	31.80	56.77
600 m - 800 m (depth)	---	21.74	21.74	53.07	74.81
800 m (depth) – 400 m (asl)	---	---	---	36.09	36.09
Total	---	63.22	63.22	161.00	224.22

Figure 18: Seam 4 Resources Classification of Yong-an Mine

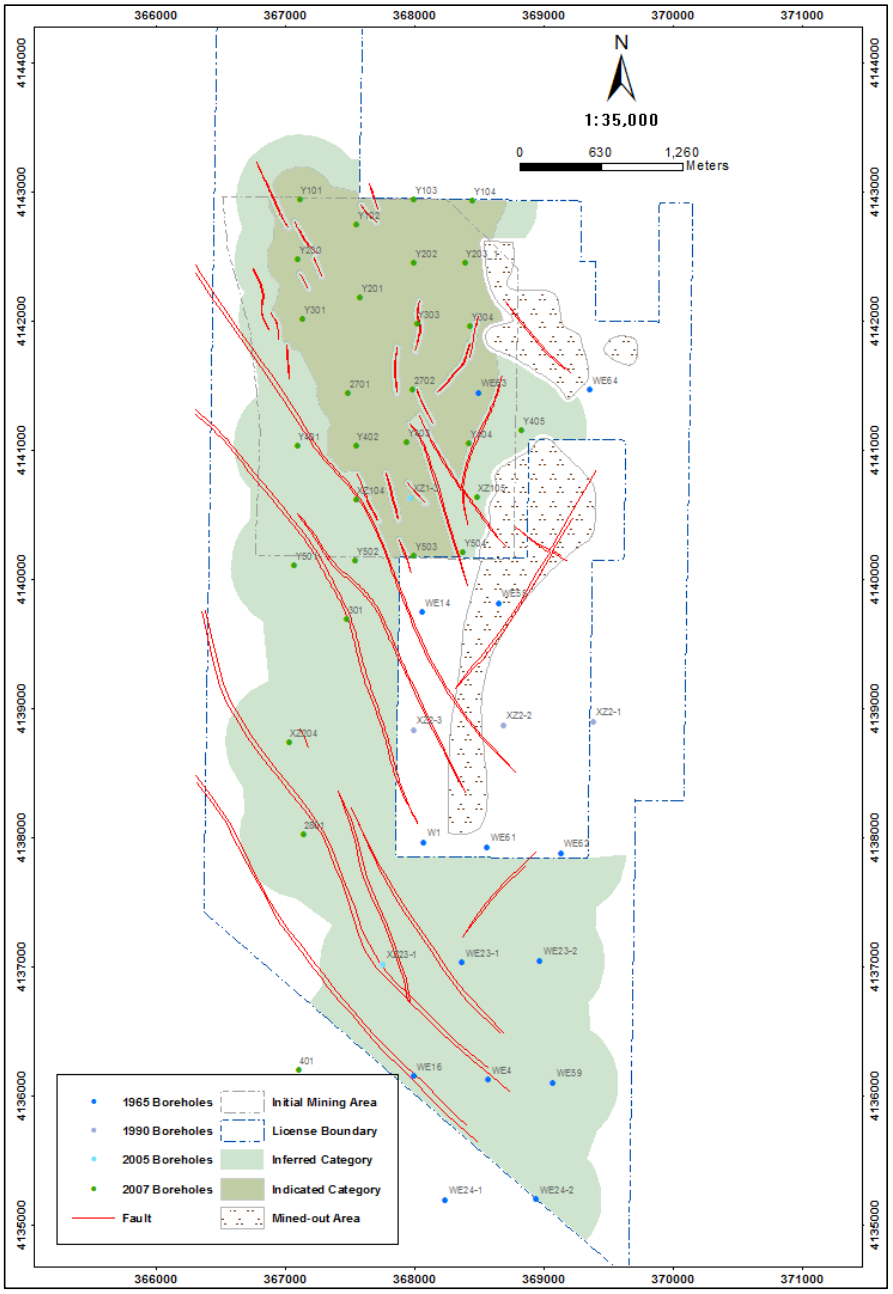


Table 13: JORC Coal Resources Estimated within Weiyi License (Cut-off Date 31 May 2022)

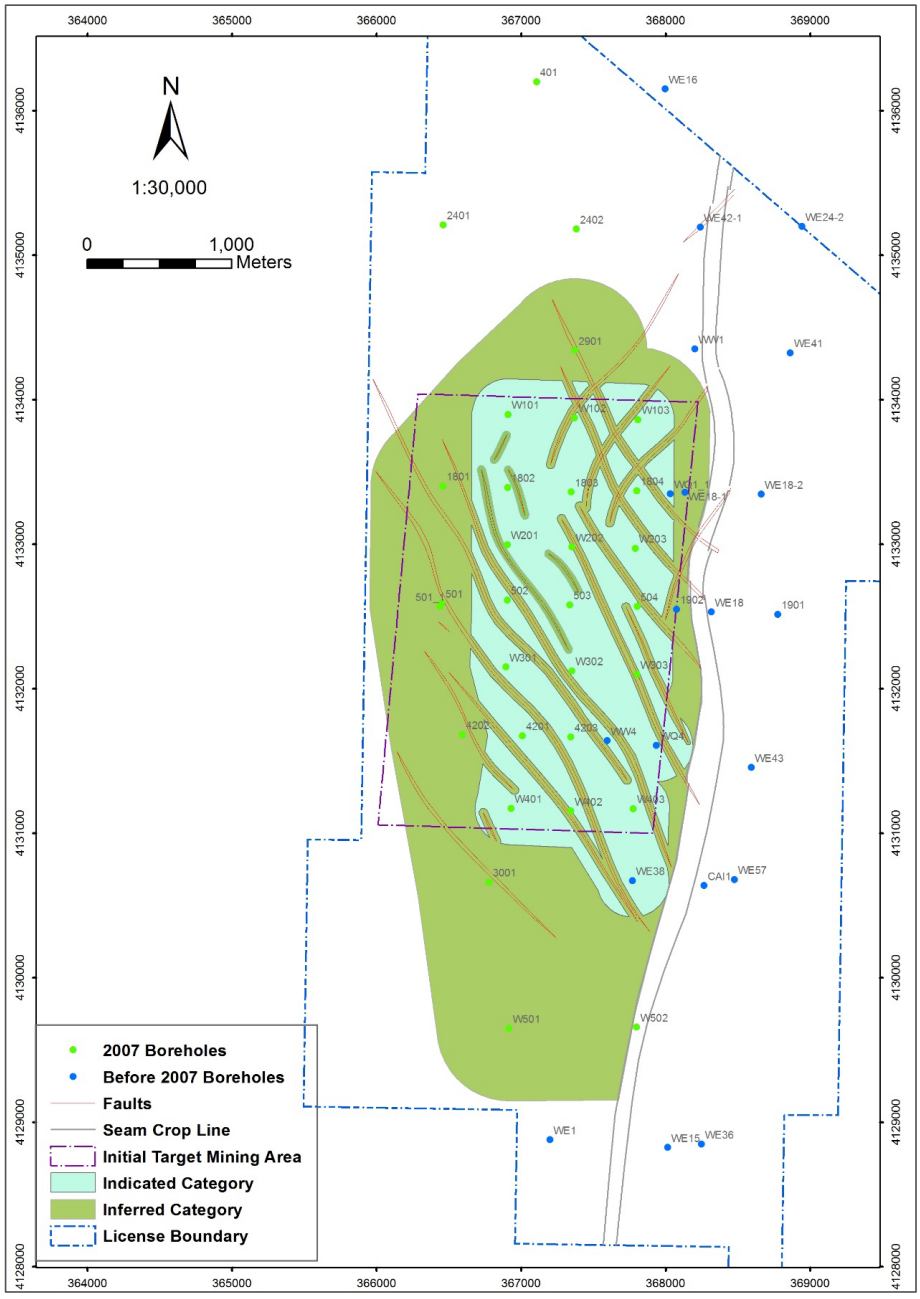
Coal seam	Resource Category	Resource (Mt)	Seam Thickness (m)	IM (%,ad)	Ash (%,ad)	VM (%,ad)	FC (%,ad)	TS (%,ad)	CV (kcal/kg;net, d)
2	Indicated	5.11	1.33	0.95	22.99	33.54	51.10	0.66	6,032
	Inferred	6.12	1.08	0.96	26.29	32.94	49.48	0.67	5,808
3	Indicated	6.19	1.41	0.88	22.77	32.41	52.25	0.93	5,975
	Inferred	11.23	1.37	1.26	20.42	31.25	54.76	1.01	6,324
4	Indicated	8.79	1.89	0.77	22.81	32.66	52.00	0.73	6,118
	Inferred	17.46	1.91	1.08	24.89	31.94	50.98	0.92	5,889
12	Indicated	4.08	1.34	0.90	21.72	31.54	53.59	1.03	6,176
	Inferred	9.13	1.17	1.11	20.21	29.54	56.40	1.53	6,426
14	Indicated	3.57	1.33	0.99	23.02	31.38	52.93	1.20	6,104
	Inferred	5.27	1.29	1.49	19.97	31.67	54.83	1.14	6,211
15	Indicated	2.55	1.18	1.03	20.89	30.50	55.14	1.18	6,281
	Inferred	11.19	1.59	1.22	18.00	31.86	55.92	1.45	6,467
16	Indicated	3.24	1.50	0.83	23.95	29.61	53.40	1.97	6,006
	Inferred	9.28	1.21	1.02	22.83	30.23	53.61	2.08	6,106
17	Indicated	4.04	1.67	0.65	25.25	30.53	51.89	1.83	5,939
	Inferred	8.68	1.25	0.78	22.70	30.41	53.68	2.16	6,192
20	Indicated	0.52	1.07	0.70	24.21	31.19	52.12	1.20	6,032
	Inferred	2.16	1.03	1.32	21.45	33.13	52.13	1.08	6,054
Sub-total	Indicated	38.09		0.86	22.98	31.85	52.50	1.09	6,069
	Inferred	80.52		1.12	22.23	31.42	53.32	1.25	6,142
Total		118.61		1.03	22.50	31.58	53.02	1.19	6,116

Table 14: JORC Coal Resources Estimated within Weiyi License as per Different Depth/elevation (Cut-off Date 31 May 2022)

Depth/Elevation	Measured Resource	Indicated Resource	Measured + Indicated	Inferred Resource	Total
50 m – 400 m (depth)	---	7.41	7.41	12.59	20.00
400 m - 600 m (depth)	---	14.31	14.31	20.23	34.54
600 m - 800 m (depth)	---	16.37	16.37	20.72	37.09
800 m (depth) – 400 m (asl)	---	---	---	26.98	26.98
Total	---	38.09	38.09	80.52	118.61

The northern-most area of the Weiyi Mine in which boreholes are only sparsely distributed was carefully excluded from resource estimate due to insufficient geological confidence. However, **SRK roughly estimates that the excluded area has an Exploration Target of approximately 40-60 Mt of coal resource which might finally have the potential to be converted into mineable coal reserve as the level of exploration work increases.**

Figure 19: Seam 3 Resources Classification of Weiyi Mine



6.5 Resources Comparison

6.5.1 Yong-an

In 2007, JS2B estimated the coal resources within the Yong-an license area. This estimation was generated in terms of the Chinese standard "Specifications for Coal and Peat Exploration (DZ/T0215-2002", the resources were classified 331, 332 and 333 resource categories according to the standard. SRK considers that the three Chinese resource categories are largely comparable to the Measured, Indicated and Inferred resource categories as defined according to JORC 2012, as such, the comparison figures between SRK and JS2B are presented in Table 15.

Table 15: Estimated Coal Resources Comparison Between SRK and JS2B in Yong-an License Area

Resource Category	SRK Resource (Mt)	JS2B Resource (Mt)	Difference (Mt)
Measured (331)	-	40.09	40.09
Indicated (332)	63.22	22.78	40.44
Measured + Indicated (331+332)	63.22	62.87	0.35
Inferred (333)	161.00	174.50	13.50
Total	224.22	237.37	13.15

The main difference derived from the following:

- SRK did not classify Measured Resource in Yong-an license area;
- SRK deducted seam 15, 16, 184 and 20 from estimates, JS2B only deducted seam 16 and 20 from the estimates.

6.5.2 Weiyi

NXCE estimated the coal resources within the Weiyi license area in 2007. This estimation was also generated in accordance with the Chinese standard. the comparison figures between SRK and NXCE are presented in Table 16.

Table 16: Estimated Coal Resources Comparison Between SRK and NXCE in Weiyi License Area

Resource Category	SRK Resource (Mt)	NXCE Resource (Mt)	Difference (Mt)
Measured (331)	-	17.21	17.21
Indicated (332)	38.09	19.47	18.62
Measured + Indicated (331+332)	38.09	36.68	1.41
Inferred (333)	80.52	139.21	58.69
Total	118.61	175.89	57.28

The main difference derived from the following:

- SRK did not classify Measured Resource in the Weiyi license area;
- The inferred resource area classified in the NXCE report is much larger than SRK's Inferred classification area.

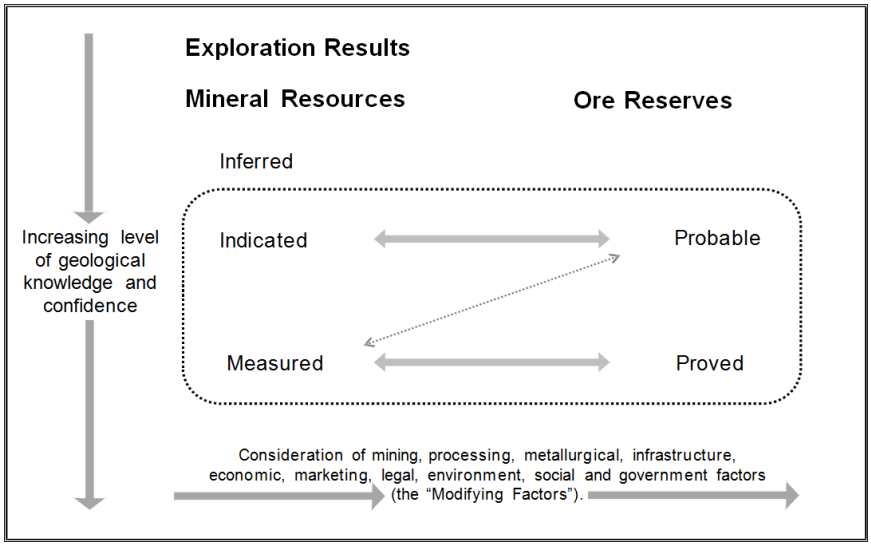
7 Coal Reserve

7.1 Introduction

According to the JORC Code, a Coal Reserve is the economically mineable part of a "Measured" and/or "Indicated" Coal Resource. It considers mining losses and dilution, which may occur by mine design and during the mining operation. Coal Resources are converted to Coal Reserves and classified after consideration of mining, processing, coal quality, infrastructural, economic, marketing, legal, environmental, social, and governmental factors (the "Modifying Factors"). For reporting of Coal Reserves, a mining study at the Pre-Feasibility or Feasibility level is required to support the technical feasibility and economic viability of the project. Data available from updated mining plans and from the records of an ongoing operation may support, complement, and confirm the findings of a mining study and the Modifying Factors. "Measured" Coal Resources can be converted to "Proved" Coal Reserves or be downgraded to "Probable Coal Reserves" under some circumstances. "Indicated" Coal Resources can only be converted to "Probable" Coal Reserves.

Coal Reserves are defined at a point of reference, and usually, it is the run-of-mine ("ROM") coal as received at the mine surface plants stockpile or silo, which is the case for the current project. Beneficiated or otherwise enhanced coal products must also be reported in conjunction with the Coal Reserves as "Marketable Coal Reserve". The predicted yield to achieve such "Marketable Coal Reserves" must also be stated. Estimated coal tonnage and grade outside these categories (also known as inventory coal) shall not be included in a Public Report. However, if the Company's mining and production plans include coals outside these categories, this should be mentioned in the Report.

Figure 20: Relationship between Coal Resource and Coal Reserve



Reporting for international institutions generally requires that coal reserves be estimated in accordance ("compliance") with recognised international standards. In this Report, the Coal Reserve and the underlying Coal Resource is reported by SRK in accordance with the JORC Code.

In the exploration reports and mining studies prepared by Chinese institutes for this Project, coal resources and coal reserves were reported according to "Chinese Standard" (i.e., the Code for Coal Industry Mine Design, GB50399-2006). Differences in Coal Reserves reported between the JORC Code and Chinese Standard can occur and an explanation of the differences between the categorization of mineral (coal) resources and ore (coal) reserves by Chinese Standard and by the JORC Code is provided in Appendix 2.

In the terms "Coal Resource" and "Coal Reserve," the first letter would be capital letters when they are reported in accordance with the JORC Code.

7.2 Coal Reserve Estimate

7.2.1 Estimate Principle and Cut-offs

SRK used Geovia Minex V6.1.3 computer software to estimate the Coal Reserve since this software is particularly suitable for modelling stratified deposits such as coal. For each mineable coal seam, the corresponding mining plan layouts including the designed longwall panels provided by the Company were reviewed by SRK. The reviewed longwall panels (panel polygons) were then imported into the Minex software and superimposed on the coal seam model to control the mineable area of the coal seams. The reserve tonnage was then estimated by using the "resource/reserve reporting" function in the software. The longwall panel polygons used for the Reserve estimation of Yong-an and Weiyi projects are presented in Figure 21 and Figure 22.

Through superimposing the longwall panels on the seam model, the Reserve estimate excludes coal from various protecting pillars and barriers. In addition, 10% and 20% of average dilution were applied in the estimate for Yong-an and Weiyi, respectively. This dilution is considered to be mainly from the floor cuttings and roof rock falling, and geological disturbed areas within the panels were also considered. The "coal quality" of the dilution material used in the Reserve estimates is presented as follow:

Table 17: Dilution Quality used in Reserve Estimates

Item	Relative Density (m^3/t)	Ash Content (adb, %)	Total Sulphur (adb, %)	Calorific Value (kCal/kg, net, ar)
Dilution	2.0	76	0.8	1400

The following limits and parameters (cut-offs) for the estimation of the coal reserves applied by SRK in the estimate are summarised as follows.

- Minimum working thickness is set at 0.8 m;
- An average of 95% panel recovery was applied in the designed panels;
- The estimation of the coal reserve was constrained within the mining license and the designed panels, and;
- The estimation of the coal reserve of both projects was further constrained to the area and vertical limits of the proposed mining license. The Coal Reserves of both projects are estimated with a cut-off date as of 31 May 2022.

Figure 21: Seam 4 Longwall Panel of Yong-an Mine

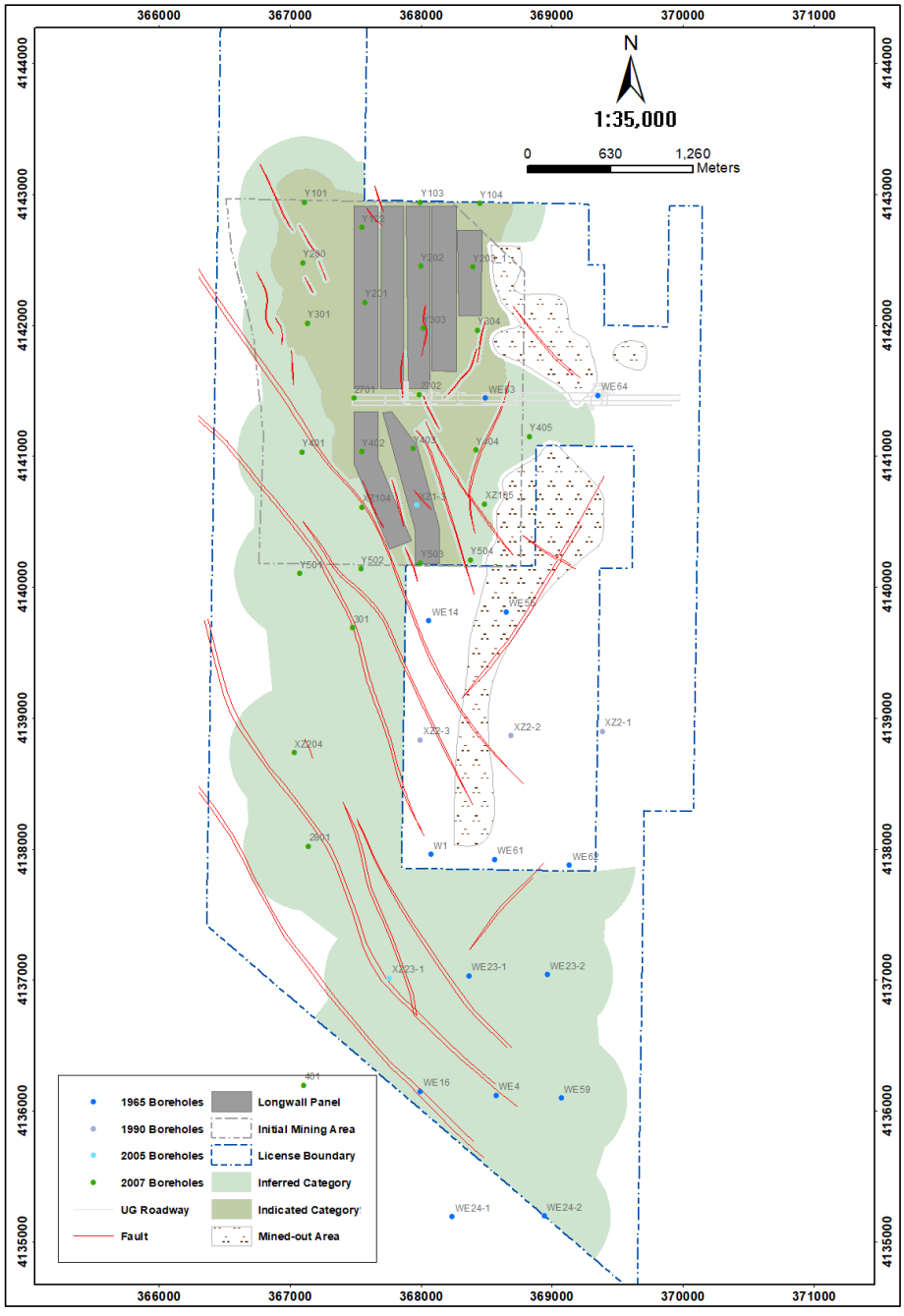
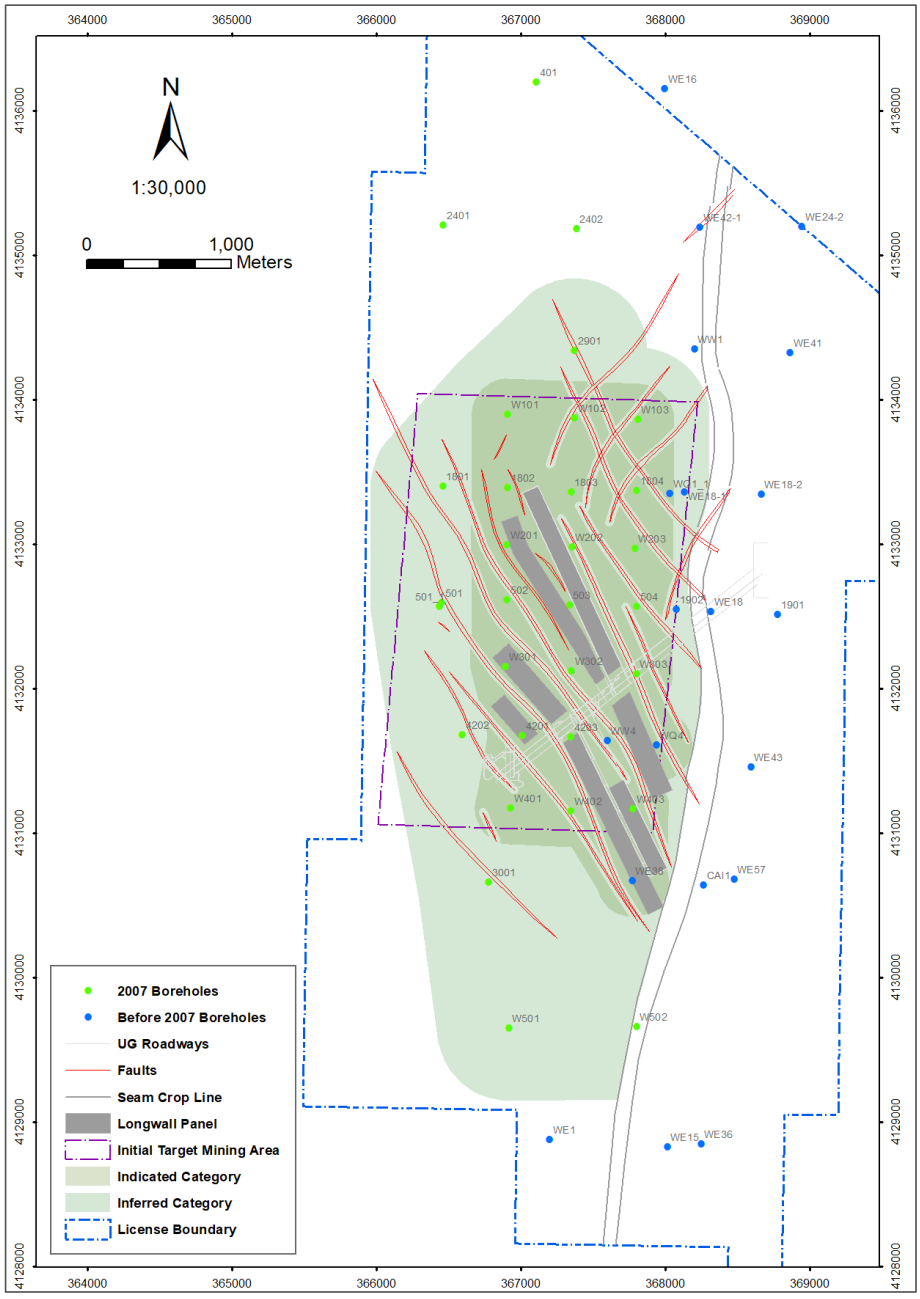


Figure 22: Seam 3 Longwall Panel of Weiyi Mine



7.2.2 Modifying Factors

The "Modifying Factors" including mining, processing, metallurgical (coal quality), infrastructure, economic, marketing, legal, environmental, social and government are considered in this review and discussed in the various sections of this report. As a result, the expected operational situations and conditions at these two projects could be seen as technically and economically viable. Therefore, SRK considers the reserve tonnage and classification as stated in this Report as appropriate as of the cut-off date. According to the review of the Modifying Factors, no downgrading of Proved Coal Reserve supported by Measured Resource, or downgrading (rejecting) of Probable Coal Reserve supported by Indicated Coal Resource was considered necessary.

7.2.3 Estimated Result

As of 31 May 2022, a total Coal Reserve estimated in accordance with the JORC Code is 33.20 Mt for Yong-an and 15.02 Mt for Weiyi. The Coal Reserve of each mine as estimated by SRK is summarised in Table 18 and Table 20, the Coal Reserve as per different depth is presented in Table 19 and Table 21. It should be noted that no Proved Reserve was estimated within the two licenses. The reference point for estimating the Coal Reserve of the project is ROM coal which is as received at the conveyor transfer point at the mine stockpile of the surface plant area.

Table 18: JORC Coal Reserve Estimated within Yong-an License (Cut-off Date 31 May 2022)

Coal Seam	Reserve Category	Reserve (Mt)	IM (%)	Ash (ad,%)	TS (ad,%)	CV (kCal/kg net,ad)
0	Probable	3.87	0.83	27.78	0.70	5,576
1	Probable	1.82	0.90	26.75	0.85	5,690
2	Probable	5.20	0.90	25.38	0.49	5,855
3	Probable	3.13	0.87	30.53	0.53	5,316
4	Probable	4.31	1.04	26.09	0.71	5,748
50	Probable	2.26	1.43	20.41	0.62	6,291
61	Probable	0.64	0.98	25.06	0.99	5,637
90	Probable	4.46	0.84	26.38	1.88	5,734
101	Probable	1.08	0.98	25.06	0.99	5,637
12	Probable	2.32	0.75	18.50	2.12	6,500
14	Probable	1.74	0.97	16.12	3.11	6,773
171	Probable	1.88	1.08	26.68	2.27	5,725
183	Probable	0.48	0.89	21.49	1.74	6,221
Total		**33.20**	0.94	25.14	1.16	5,842

Note: **The coal seams 60 and 101** are **not approved for mining in the mining license of the Yong-an mine**, the reason is unknown to SRK.

Table 19: JORC Coal Reserve Estimated within Yong-an License as per Different Depth (Cut-off Date 31 May 2022)

Depth/Elevation	Proved Reserve	Probable Reserve	Total
50 m – 400 m (depth)	---	6.65	6.65
400 m - 600 m (depth)	---	15.05	15.05
600 m - 800 m (depth)	---	11.50	11.50
Total	---	33.20	33.20

Table 20: JORC Coal Reserve Estimated within Weiyi License (Cut-off Date 31 May 2022)

Coal Seam	Reserve Category	Reserve (Mt)	IM (%)	Ash (ad,%)	TS (ad,%)	CV (kCal/kg net,ad)
2	Probable	1.81	0.94	31.89	0.72	5,249
3	Probable	2.33	0.87	31.28	1.04	5,217
4	Probable	3.43	0.76	30.77	0.88	5,372
12	Probable	1.29	1.27	28.48	1.20	5,606
14	Probable	1.53	1.19	32.19	1.16	5,279
15	Probable	0.90	1.09	31.08	1.19	5,424
16	Probable	1.66	0.91	32.58	1.73	5,210
17	Probable	1.38	0.72	33.13	1.61	5,206
20	Probable	0.68	0.58	33.17	0.62	5,351
Total		15.02	0.92	31.43	1.13	5,312

Note: The coal seams 16 and 20 are not approved for mining in the mining license of the Weiyi mine, the reason is unknown to SRK.

Table 21: JORC Coal Reserve Estimated within Weiyi License as per Different Depth (Cut-off Date 31 May 2022)

Depth/Elevation	Proved Reserve	Probable Reserve	Total
50 m – 400 m (depth)	---	3.48	3.48
400 m - 600 m (depth)	---	5.66	5.66
600 m - 800 m (depth)	---	5.88	5.88
Total	---	15.02	15.02

***JORC Code Statement**: The information in this Report which relates to the Coal Reserve is based on the information provided by Kinetic, and the Reserve related information in this Report was compiled by Yongchun (Roger) Hou of SRK Consulting China Ltd and reviewed by Mr Bruno Strasser, an associate Principal Consultant (Mining) of SRK Consulting China Ltd and a member of AusIMM. Mr Strasser has sufficient experience relevant to the kind of project, the style of mineralisation, the type of deposit under consideration, and the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves", the JORC Code. The Reserve estimation is based on SRK's Coal Resource and was conducted by Ms Yanfang (Bonnie) Zhao, who is a full-time employee of SRK Consulting China Ltd. and member of AusIMM, and she is a specialist in computerized reserve estimation and has relevant experience in the style of mineralization and type of deposit under consideration. Mr Strasser, Mr Hou, and Ms Zhao consent to the reporting of this information in the form and context in which it appears.*

7.2.4 Marketable Coal Reserve

Besides the Coal Reserve, "Marketable Coal Reserve" is also reported by SRK, the Marketable Coal Reserve is the total of all the beneficiated and marketable coal fractions after the coal preparation process (preparation process by screening and separation). All ROM coal is expected to go through coal preparation plant ("CPP") to produce clean coal, middling coals and sludge coal. The clean coal is sold out as metallurgical coal for the coke-making industry, the middling coals and sludge coal are mainly sold out as thermal coal which is normally used for power generation for local power plants. The estimated Marketable Coal Reserve is presented in Table 22.

Table 22: Estimated Marketable Coal Reserve as of 31 May 2022

Coal Products	Preparation Yield	Marketable Reserve (Mt)	
		Yong-an	Weiyi
Clean Coal	70%	23.24	10.51
Middling Coals	17%	5.64	2.55
Sludge Coal	5%	1.66	0.75
Total	**92%**	**30.54**	**13.81**

8 Mining Assessment

8.1 Introduction

This Section of the Report is providing an assessment of the mine designs and mining plans of the Yong-an and Weiyi mine projects in order to provide sufficient information to allowing an estimate of the Coal Reserve in accordance with the JORC Code. The assessment is based on the review of the latest issues of the project mining studies as provided to SRK by the Client, and the on-site findings of SRK's during site visits in September 2018 and April 2021. SRK's site visits have been conducted by a team of geologists and mining engineers involved in the assessment including the competent persons ("CP") for this Report. Underground workings were not developed at the time of the site visits. The uncompleted inclined shafts are sealed and couldn't be entered.

The review conducted by SRK is a high-level review of the technical viability of the project coal mines including the general suitability of the mining plan and equipment proposed, and the sustainability of operation and coal production over the planned LOM. Additionally, a review of the costs and economics of the project is provided in Section 12 of this Report.

8.2 Operating Status and Project History

Neither trial operation nor commercial operation to produce coal has yet commenced for both projects. Historically, village mines have operated in the eastern of the Yong-an mine area, the mining operation has formed mined-out area in the upper coal seams.

A master plan for the Weizhou mine area has been prepared and was approved by the National Development and Reform Commission ((2006/No.645) and allowed for three large and medium-sized mines to be built in a Phase 1 development including Yongan and Weiyi mines.

YangGuang Mining (Sunshine Mining) was established in 2006 to develop the mines and in that year acquired the mining rights of Yongan and Weiyi mines in the Weizhou mining area through bidding in a public auction. The company then launched the construction of an industrial plaza at Yongan with a planned coal processing plant and railway coal collection and distribution station for the Yongan mine and the Weiyi mine.

Construction and mine development work for the new Yong-an and Weiyi mine projects had commenced in 2009 after preparation of the mining studies. All construction activities ceased in 2010 due to the ongoing negotiation over the mining rights related payment.

By the time of the suspension, the mine construction work carried out at Yong-an covered the access and haul road pavement, construction of foundations for the structures of the mine surface plant (industrial site) including the structures for mine ventilation equipment and the power supply substation, warehouses and water supply pipelines, and part of the tunnelling and lining work of the inclined shafts.

At the Weiyi mine project site, the construction work until suspension covered the access and haul road pavement, foundations for structures at the mine surface industrial site, supply water pipelines, and part of the tunnelling work for the inclined shafts.

Views of the abandoned surface industrial sites of the two mine projects are shown in Figure 23 and Figure 24 below.

Figure 23: Yong-an Surface Plant Area – View of Two Inclined Shafts and Ventilation Fan Structure in the Background

Figure 24: Weiyi Mine Surface Plant Area – View Towards the West with Two Inclined Shafts

8.3 Mining Studies

The following mining studies have been prepared for the projects and were provided to SRK for this assessment.

- Yong-an Coal Mine and Washing Plant – Preliminary Mine Design Report, 2008; China Coal Xi'an Design Engineering Co. Ltd.
- Yong-an Coal Mine and Washing Plant – Updated Preliminary Design / Project Application Report, March 2013; China Coal Xi'an Design Engineering Co. Ltd.
- Weiyi Coal Mine – Preliminary Design of Weiyi Mine, September 2008; China Coal Handan Design & Engineering Co. Ltd.
- Weiyi Coal Mine – Updated Preliminary Design / Project Application Report of Weiyi Mine, 2013; China Coal Handan Design & Engineering Co. Ltd.

These mining studies have been prepared by experienced Chinese mine design consulting institutes licensed by the Chinese Government. The institutes have good reputation in the Chinese coal mining industry and have numerous reference projects in China which can be found from the web pages of the institutes.

After review SRK considers that the abovementioned mining studies are of high technical standard at the level of preliminary feasibility study and/or feasibility studies which could satisfy the requirements by the JORC Code to support reporting of Coal Reserves.

Mining studies prepared by Chinese institutes are generally following a recommended reporting format and the institutes have usually access to an extensive data base through Chinese mining institutes. SRK has for its project assessment also used its own database on Chinese and international coal mining projects to compare and validate selected data of the reports.

In this Report, reference to the "PMD" (Preliminary Mine Design report) refers to the Updated Preliminary Design report of 2013 for either project.

8.4 Summary of the Project Main Technical Data

The following Table 23 summarizes the main design parameters and technical data of the two mines according to the mining studies.

Table 23: Main Technical Data and Design Parameters

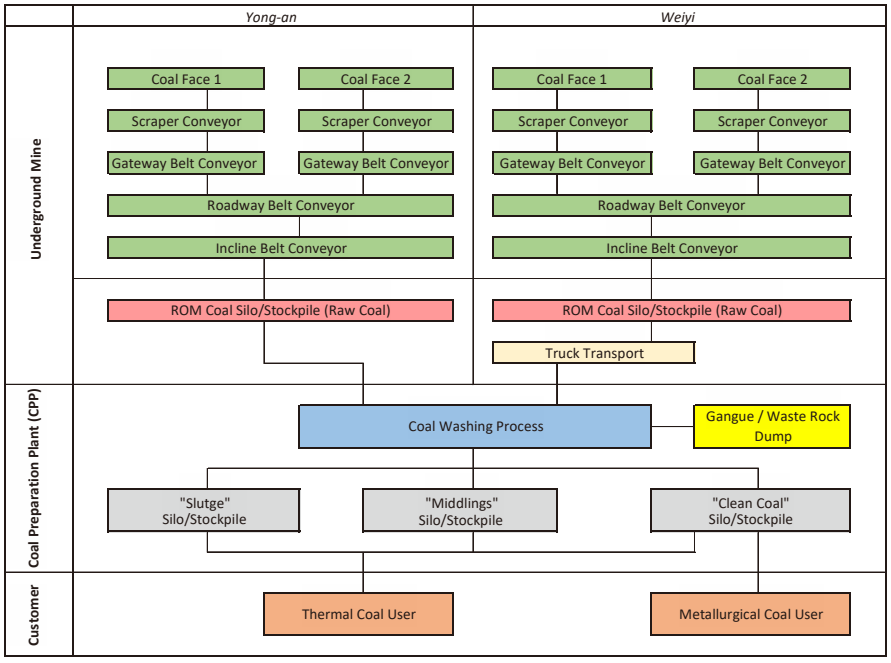
Item	Yong-an	Weiyi
Mine License Area	21.68 km²	26.66 km²
Elevation at Mine Mouth (Incline) at Surface	+1384 m ASL	+1382 m ASL
Inclined Shaft Bottom Elevation	+900 m (+1150 m initial) ASL	+710 m ASL
Approx. Depth of Shaft / Incline	484 m	672 m
Depth of Coal Seam (Elevation of Mining Operation)	+1280 m - +400 m ASL	+500 m - + 1200 m ASL
Number of Minable Coal Seams	13	9
Dip of Coal Seam in Designed Mining Area	20° - 30°	20° - 25°
Mine Gas Classification	high gas / high methane	high gas / high methane
Mine Hydrogeological Classification / Current Conditions	medium	medium
Coal Self-Ignition Tendency	high	low
Coal Dust	explosible	explosible
Coal Rank	Bituminous Coal	Bituminous Coal
Coal Classification (Use)	Metallurgical Coal	Metallurgical Coal
Density of Coal	1.4 – 1.5 t/m³	1.4 – 1.5 t/m³
Calorific Value Range of ROM Coal (ar)	4800 - 6000 kCal/kg	4800 - 6000 kCal/kg
Avg. Ash Content of ROM Coal	24 - 32%	28 - 33%
Avg. Sulphur Content	0.53 – 2.2%	0.75 - 2.0%
Coal Reserve (Preliminary Estimate SRK)	33.2 Mt	15.02 Mt
Designed Mine Capacity ROM	1.2 Mtpa	0.9 Mtpa
Coal Product / Yield	ROM Coal / 100%	ROM Coal / 100%
Coal Washing at Site	yes	Processed in Yong-an CPP
Designed LOM (incl. mine construction)	31.5 years	20 years
Mining Method	Underground mining; fully mechanized LW	Underground mining; fully mechanized LW
Coal Extraction Method	Coal shearer/coal plough, single cut	Coal shearer/coal plough, single cut
Mine Access	Incline shafts	Incline shafts
Main Incline (Coal Haulage) Length, Inclination and width	1338 m / 23° / 4 m width	2250 m / 16.5 - 17° / 5 m width

Item	Yong-an	Weiyi
Auxiliary Shaft - Length, Inclination and width	1240 m / 23° / 5 m width	2280 m / 16.5 - 20° / 4 m width
Ventilation Shaft - Length, Inclination and width	1178 m / 21.5 - 23° / 5.6 m width	2227 m / 16.5° / 5.2 m width
Roadway Lanes	3	3
Roadway/Gateway Development	Road-header; blasting driving	Road-header; blasting driving
Panel width	150 m – 180 m	100 m – 120 m
Panel Length （yearly progress）	1.5~2.0 km	2.8 km
Coal Haulage and Hoisting	Belt conveyor	Belt conveyor
Personnel and Material Transport in Mine	Cable car hoist	Cable car hoist
Estimated Water Influx	85 / 105 m³/h (normal, max)	114 / 134 m³/h (normal, max)
Mine Drainage (Pumping Capacity)	157.7 m³/h (+ 157.7 m³/h standby)	360 m³/h (+ 360 m³/h max)
Mine Ventilation Requirement / Fan Capacity	170 m³/s / 182.5 m³/s	140 m³/s / 179 m³/s
Expected Re-start of Construction	2022	2022
Total Workforce (planned)	700 (including CPP workforce)	487
Operating Days per Year	330	330
Operating Hours per Day (Number of Shifts per Day)	18 (3 + 1)	18 (3 + 1)
Installed Power - All Mine	16.8 MW	14.7 MW

8.5 Flow Sheet and Mining Schematic of the Yong-an and Weiyi Projects

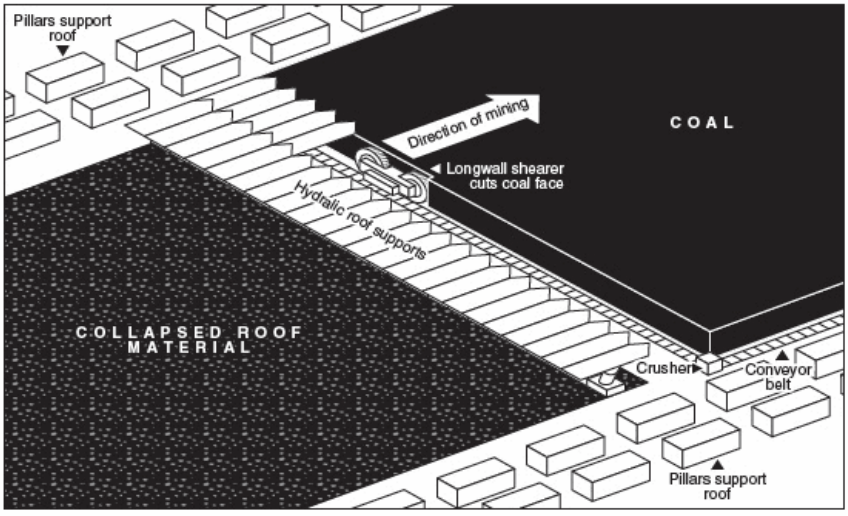
A flow sheet of the mining process for both mines is shown in Figure 25 below. According to the PMD mine design both mines would apply longwall mining technology and the coal flow to the surface would be by belt conveyor system. Both mines would be delivering their ROM coal mined to a coal preparation plant ("CPP") considered to be located in the Yong-an industrial area. Weiyi would haul its ROM coal by truck to the CPP in Yong-an.

Figure 25: Simplified Mining Flow Sheet for Yong-an and Weiyi Project



For explanation of fully mechanized longwall operation with a coal shearer as considered for the project a schematic is provided in Figure 26 below.

Figure 26: Schematic of Longwall Mining



8.6 Coal Production and Life of the Mine

The designed mine capacity and planned ROM coal production for the Yong-an project is 1.2 Mtpa and for the Weiyi project 0.9 Mtpa. This corresponds with the designed capacity of 2.4 Mtpa raw feed coal for the planned coal preparation plant in the Yong-an surface plant area. These capacities were also approved by the NDRC in 2006.

The differences in the designed capacity of the two mines is a result of the different levels of geological complexity and mining conditions.

The first coal production from both mines is now expected in the first half of 2025 after mine construction and development for the initial mining stage is completed. This would require that mine construction work re-starts in 2022. Coal production from both mines would be expected to quickly reach full capacity in 2027 after a short ramping-up period.

Based on the above considerations and the Coal Reserve tonnage as estimated by SRK a production schedule and life of mine ("LOM") as shown in Table 24 would be possible.

Table 24: Forecast Coal Production Schedule

ROM Coal Production (Mt)	2022-2024	2025	2026	2027 – 2041 (annual)	2042 (annual)	2043 – 2051 (annual)	2052	2053
Yong-an Mine	---	0.60	1.00	1.20	1.20	1.20	1.00	0.60
Weiyi Mine	---	0.30	0.70	0.90	0.52	---	---	---
CPP processing	---	0.90	1.70	2.10	1.72	1.20	1.10	0.60
Remarks	Construction	Production	Production	Production	Production	Production	Production	Production

Remarks: Small additional coal production from panel, gateway, and roadway development is possible

According to the assumptions of the above schedule the forecast LOM (incl. mine construction) of Yong-an and Weiyi would be about 31.5 and 20 years respectively. The LOM indicated would be substantially lower than the LOM estimated in the PMD which is a result of the lower Coal Reserve estimated by SRK in accordance with the JORC Code. While SRK is of the opinion that the reduced LOM between 20 and 30 years respectively are sound periods for investment decision and economic operation for a coal mine. Along with the supplementary drilling implemented, the LOM for both mines could be extended in future.

8.7 Assessment of Yong-an Mine (Mine #1)

8.7.1 Mining Conditions

Mine Geology

The Young-an mining area is located in the north of the eastern wing of the Weizhou reverse fault system with the overall structures and coal seams cropping out or sub-cropping in the east and dipping at about 20 to 30 degrees towards the west. There are 43 large and smaller faults (fractures) identified in the mine area including 11 with a displacement of 10-20 m, 11 faults with a displacement of 20-50 m, 8 faults with a displacement of 50-100 m, and 2 faults with a displacement of more than 100 m. The coal bearing strata in the area consists of a total of 38 coal seams of which 17 are considered suitable or partly suitable for mining. The coal bearing strata reaches a total thickness of about 800 m near the fault centre axis. The high number of partly oblique faults in the mine area will influence both mine and panel design as well as the mining operation.

Mineable Coal Seams

In the upper coal seam group, there are considered to be 5 recoverable seams which are named 0, 1, 2, 3 and 4. The lower coal seam group is considered to have 10 recoverable coal seams numbered as 5-0, 6-1, 9-0, 10-1; 12, 14; 17-1 and 18-3. Data for each coal seam is available from exploration reports and the conditions which apply to mining are described in detail for each seam in the PMD. A summary of the mineable coal seams and mining conditions is provided in the table below.

Table 25: Minable Coal Seams and Mining Conditions at Yong-an Project

Coal Seam	Seam Thickness		Dirt Bands/ Partitions		OB/IB	Coal Property and Other Conditions
	（m）	Description	（nos）	（m）	（m）	
0	0.47-4.24 (1.64)	most mineable, relatively stable	0-2	0.12	n/a	Upper Group: Medium volatile to High volatile, strong caking properties, low-medium Sulphur content; medium ash, medium geotechnical conditions, tendency for coal gas outburst explosive, need pay attention to the steeper and surface water form gob area, normal geothermal temperature
1	0.26-4.4 (1.69)	partly mineable, unstable	0-2	0.00	15 (2)	
2	0.35-4.37 (1.5)	most mineable, relatively stable	0-2	0.09	15	
3	0.35-2.8 (1.45)	most mineable, relatively stable	0-2	0.03	15	
4	0.66-4.72 (1.94)	most mineable, relatively stable	0-2	0.00	15	

Coal Seam	Seam Thickness		Dirt Bands/ Partitions		OB/IB	Coal Property and Other Conditions
	（m）	Description	（nos）	（m）	（m）	
50	0.3-2.64 (0.88)	partly mineable, unstable	0-1	0.03	16	
61	0.1-1.56 (0.6)	partly mineable, unstable	0-1	0.00	35	
90	0.28-2.96 (1.82)	most mineable, relatively stable	0-1	0.35	60	Lower Group: Medium volatile to High volatile, strong caking properties, medium-high Sulphur content, medium ash (low ash for seam12,14 and high ash for seam 90, 101), medium geotechnical conditions, tendency for coal gas outburst explosive, need pay attention to the steeper and surface water form gob area, normal geothermal temperature
101	0.4-1.96 (0.93)	partly mineable, unstable	0-1	0.05	50	
12	0.26-3.95 (1.52)	mineable, relatively stable	0-2	0.00	65	
14	0.4-2.42 (1.27)	partly mineable, relatively stable	0-2	0.04	15	
171	0.26-5.48 (1.48)	most mineable, relatively stable	0-1	0.06	10	
183	0.18-2.78 (0.93)	partly mineable, unstable	0-1	0.00	20	

SRK's geological seam model shows good consistency with the seam description of the PMD.

Geotechnical Conditions (Rock Mechanics)

The lithology of the roof and floor of the coal seams mainly consists of fine siltstone and mudstone, except for the limestone roof of coal seam 12. The roof and floor rock are described as mainly semi-hard, but with a few areas of both hard and softer rock. The conditions are considered suitable for fully mechanized mining methods. The estimated rock pressure is expected to be well managed with hydraulic support shields for roof support with a resistance force of 6000 kN. With the frequent geological faults and fractures in the mine area, mine design will have to allow sufficient coal pillars and barriers in order to allow safe operation in disturbed areas.

The coal seam roof is expected to provide acceptable caving properties which would be in line with the experience from nearby mines and of the old operations in the minefield. The geotechnical conditions would also allow the use of standard support methods such as rock anchors, mesh, and steel support frames for the gateways and roadways driven in coal to keep the structures open during the period required for mining.

Overlaying and interburden rock between the coal seams is mainly of solid sandstone and mudstone which should provide the stability and safe conditions for the roadways and the chambers of the mine. Reinforced support might be necessary in the areas where faults and fractures are present. Overlaying softer alluvial have already been worked successfully during sinking of the inclined shafts of the mine. Reinforced concrete lining has partly been used which is the standard method used in these upper layers.

The rock strength (compressive strength) in the solid overburden and interburden layers have been determined during exploration to be in the range of 50 to 80 kP/cm^2. This rock strength will require the use of blasting for the development work.

Hydrogeology and Mine Water

There is very low precipitation in the project area and the topography is favourable for any surface water to rapidly drain through the Weizhou River system. One of the rivers is adjacent to the mine area along the western border and will need to be protected by a structural pillar. Also protected by a pillar will be the irrigation water channel running south to north through the central part of the license area. The water table in the area is found at a depth of about 19 m to 40 m. The main aquifer in the mine area is a water bearing sandstone layer about 40 m above the coal seam strata, but the aquifer is very weak and also poorly recharged. The frequent faults in the mine area may be causing some hydraulic connection recharging aquifers and causing direct water influx to the mine locally. However, the area geological report also states that the fractures of the fault system may be compressed and that only insignificant seepage might be expected.

In the old historical mining areas within the Yong-an mining license area there are described to be over 100 small old pits and mine shafts reaching a depth of about 80 m to 400 m. Additionally there are numerous exploration boreholes that remain open or are poorly sealed. **These old structures could be water filled with surface water and could hydraulically communicate with historical and future mine workings. The possibility of water inrush from such old workings is a danger to mining and attention must be given to this situation by mine design and during operation, and the necessary precautions and preventive measures must be applied.**

Overall, the PMD describes the groundwater and hydrogeological conditions of the mine area as simple based on the relevant provisions in the Chinese "Regulations on Water Control in Coal Mines", and as favourable for a mining operation.

Mine Gas

During exploration selected boreholes within the coal field were tested for gas content and coal samples from drill cores were analysed. The tests showed a gas content of 0.01 ml/g to 6.12 ml/g within certain seams and the composition of the gas to be mainly methane (CH4). **Based on the results of the test, the future mine would requires the necessary precautions, safety and gas pre-drainage measures. Drainage measures and installations as per the Chinese mining regulations for coal mining are required according to the PMD.**

It has further been determined that gas outbursts from coal seams could be possible at elevations below +1050 m and near the reverse fault axis.

Coal bed methane ("CBM") is widely used for mine power generation or local power generation if collected. At Yong-an the mine gas could possibly be used for such purpose but due to the lack of sufficient gas well test data only a rough estimate for mine gas (methane) reserves could be provided in the PMD. For a decision on the possible commercial use of the mine methane (CBM) further study work would be necessary.

Coal Dust and Coal Seam Spontaneous Combustion

According to the PMD, coal samples from the mine field have been tested for the propensity to generate coal dust explosions and all samples showed a positive result.

Tests have also been conducted to determine the propensity for spontaneous combustion in the coal seams and gob and the results showed that the coal is easy to very easy to ignite by spontaneous combustion. The high propensity for spontaneous combustion would also indicate the possibility of such combustion taking place at surface area stockpiles. Such conditions are not uncommon for coal mines and the necessary precautions and ability to extinguish the fires have to be in place.

Ground Temperature

According to the PMD, the geothermal gradient of the mine field is 1.80ºC/100 m and the geothermal temperature in the mine should be acceptable even at deeper elevations. The PMD further states that there is no geothermal hazard in Yong-an.

Other Beneficial Minerals and Hazardous Elements

The trace elements found in the coal samples of the mine field are Ge, Ga, Th, U, and V but the content of each element is too low to be considered hazardous or for commercial exploitation.

The sulphur content of the Yong-an coal is within the limits recommended by the Chinese mining regulations and might be controlled if necessary by blending of different qualities or through treatment in the industries which are consuming the coal.

8.7.2 Mining Method and Mine Design

The mine is designed for coal extraction using underground methods. Open pit mining is not considered an option due to the depth required to be reached to extract the coal and the overburden to coal stripping ratio which would be beyond economic feasibility.

Mine access is provided by 3 inclined shafts following the dip of the coal seams which is technically appropriate with the existing geological setting. Inclined shafts allow for continuous haulage of coal to the surface by belt conveyor, and are overall more easily sunk, constructed and maintained compared to vertical shafts. A capital and operating cost advantage of the inclined shaft approach over vertical shafts has been established in the PMD and is also supported by numerous mining studies for coal mines of similar depth.

For the actual coal mining (coal extraction) method the PMD concluded that longwall mining by coal shearer and a fully mechanized face is appropriate, whereby the longwall face length and panel design would mainly be determined by the geological faults of the Yong-an mine. Extraction equipment of choice would be a coal shearer which is standard extraction equipment in coal mining and also suitable for shorter faces and also with harder coals.

In general, the design of the mining panels for coal extraction considers descending extraction working from the top seam down to the lowest seam and mining the sequence of the designed mine levels and seam sections. Initially, an area easily reached by the inclined shafts and roadways in the north of the mine area is considered for mining. Here, mining would start in the upper seam series with seam 0 to 4 at Level 1. Later, mining would be extended down to the lower Level 2 reaching a designed depth of about 600 m. Next, mining may turn to the southern areas of the mine which will be connected by a horizontal roadway, avoiding the area mined by historical operations. This area would also be divided into a Level 1 and a Level 2 which would be further subdivided in sections. An additional inclined shaft for ventilation in this area is also considered. The layout for the coal panels to be extracted would be kept as simple as possible at both sides of the roadway mains and dimensions will be adapted as necessary to the existing faults fractures and structural pillars. Some deviations from this initial design over LOM should be possible if necessary due to unexpected seam conditions, fractures, and other conditions. The mining panels in the Level 1 sections are generally designed to be about 120 m – 200 m wide which varies according to local conditions and faults. The length of the panels varies and could reach about 2000 m according to the local conditions.

For reference, Figure 27 below shows the design map for the development of the initial mining sections at Level 1 in the north of the mine area with the panel plan.

Figure 27: Initial Mine Development and Panel Plan for Yong-an Mine

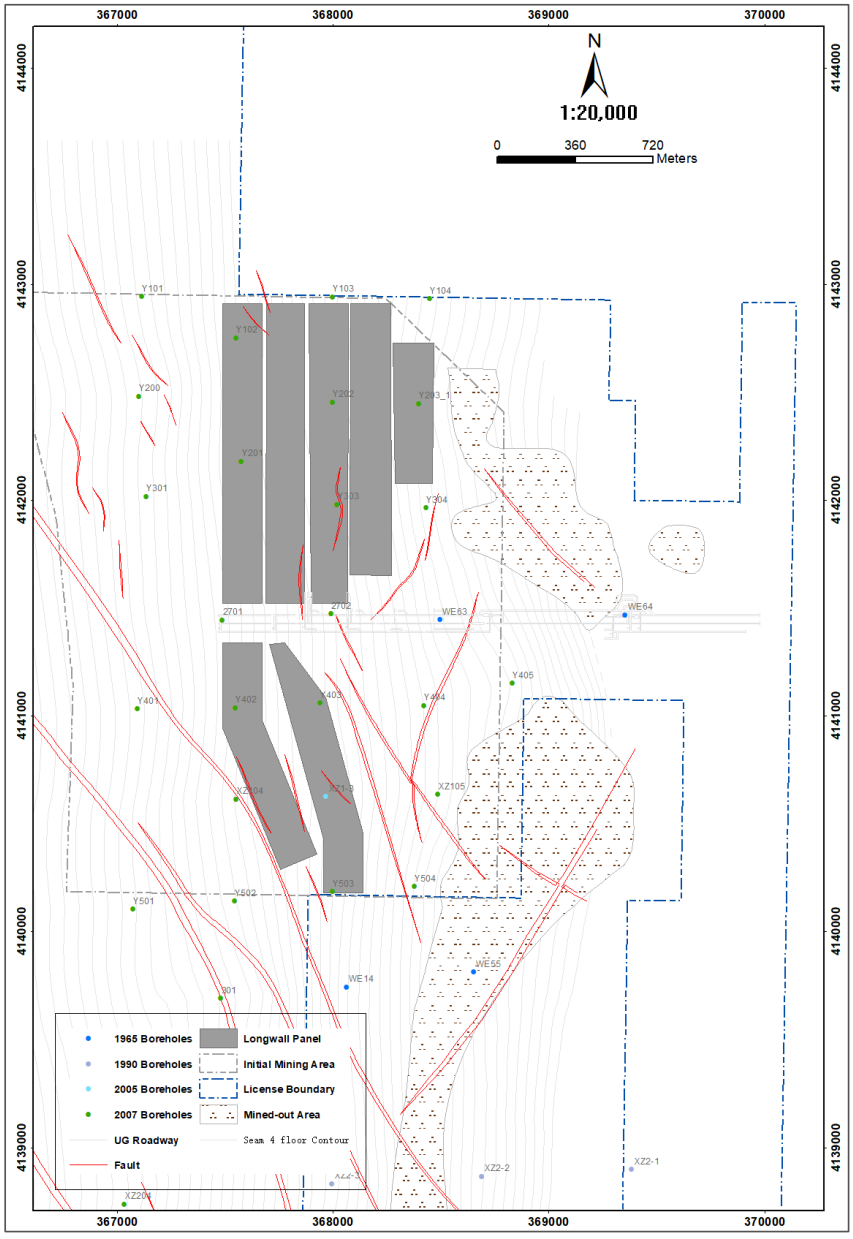
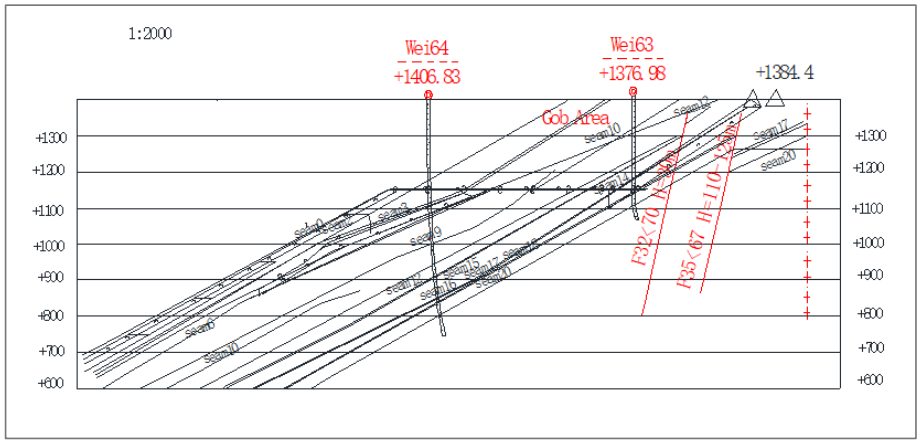


Figure 28 below shows the cross section mining plan of Yong-an indicating the mining levels, the inclined shafts, and roadways required to develop and operate the mine over the initial mining area.

Figure 28: Mine Cross Section with Inclined Shafts and Roadways Development



8.7.3 Mine Development, Mining Operation, and Mine Services

Mine Construction and Development

The initial mine development work at Yong-an will be the refurbishment of the existing inclined shafts sections and the continuation of the sinking work down to the +1150 level as originally planned in the PMD. It is assumed that blasting and excavating will be used as this is standard practice. The shaft lining should consist of a mixture of reinforced concrete, brickwork, or rock anchor, mesh and shotcrete method as required by the rock mechanical conditions and as proposed in the PMD. At the mining level the required underground chambers for mine services have to be excavated, lined and supported. Subsequently, the inclined roadways for access to the designed underground mining areas have to be developed, followed by the gateways and crosscuts in the coal panels according to the design and extraction schedule. Some adaptions of the panel plan and development work to accommodate the actual fault situation encountered underground will certainly be required. The installations for coal haulage, material and personnel transport, and the supply lines for power, water, and gas in the inclined shafts, and mine service installations in the chambers are permanent installations. These must be extended when the mine develops down to the second level in the later years. The panel gateways are temporary developments and will be closed, sealed and abandoned after a coal panel is mined out. Sectional roadways may also be temporary developments. Equipment and installations from such developments could be used again in the ongoing new section and panel development.

At the mine surface plant, some structures such as housing for ventilation equipment, housing for electrical switching station, and some storage buildings have already been constructed but have been abandoned since 2010. These must be examined to see if such structures can be refurbished and used, which could also allow for some shortening of the overall mine construction period.

Mining Operation

Mining operation is planned to take place 330 days per year with 3 shifts per day for coal production and one shift for maintenance. With major equipment changes, repair work and longwall changeovers as necessary, periods of maintenance and repair which are disrupting coal production must be considered in the overall mining plan.

According to PMD plan, operation should initially commence in the thin section of Seam 0 in Area 101 with a design capacity of 0.4 Mtpa, and in the medium-thick section of Seam 0 in Area 102 with a design capacity of 0.8 Mtpa which would ensure a total output of 1.2 Mtpa of ROM coal after a ramping up period. The number Seam 2 would be next to be mined since Seam 1 is missing in these areas.

Planned mining operation in Yong-an will employ mechanized longwall mining faces with a coal shearer for coal extraction from the seams although a coal plough might also be considered as cutting equipment. For support of the roof at the mining face, hydraulic shields are proposed in the PMD. The estimated resistance of the shield support required in Yong-an is 5200 kN. For coal transport along the face there is a scraper conveyor (also called armoured conveyor) and at the exit of the mining face there is usually a coal crusher to reduce the coal lumps to a size suitable for belt conveyor haulage. The belt conveyor haulage is used through the gateways and roadways and for lifting the coal to the surface by belt conveyor in an inclined shaft. Extensive electrical installation and hydraulic support within the panels are needed for operation which require transportation and lifting equipment for installation and maintenance.

Mining operations with mechanised longwall faces and with a belt conveyor system for coal haulage to the surface is called a “continuous mining system” or “continuous operation”. Such systems and operations are considered to be most effective but require uninterrupted operation of all the system components to reach a high utilization. Particularly preventive maintenance to keep the system running at the highest possible availability and efficient stand-by repair capacity and spare parts are essential for such an operational system.

Mine Dewatering

Based on the known hydrological conditions of the mine area, the PMD calculated a water influx to the mine of 85 m³/h under normal conditions, and a peak water influx of 105 m³/h. Such water influx should be considered as relatively small in a coal mine. Two drainage schemes have been designed, the first one would consider water collection and direct pumping to the surface from a sump at the deep part of the mine which is considered at elevation +900 m ASL. The second one would consider having a permanent pumping station with sump proposed at a higher elevation +1150 m ASL. Water from deeper levels would be pumped to this main station first before being lifted to the surface. The pumping capacity proposed in the PMD for one single pumping set is 157 m³/h which provides a high safety margin. The technical lifting height from level +1150 m to the surface at elevation +1390 m ASL is 250 m.

The design of the pumping systems proposed follows the standards and regulations for Chinese coal mines, is manufactured in China and is used in numerous coal mines in the country. For mine safety reasons, each main pumping station is equipped with a minimum of three sets of dewatering pumps whereby one pumping set could safely manage the normal and peak water influx volume, the second pump would be a permanent stand-by, and the third pump could be off-line for maintenance. For unexpected water surge two pumps would always be available. Two pipelines to the surface each has the necessary capacity. The consideration of any additional emergency pumps may not be necessary in a mine with such low water influx.

The mine water is collected at the surface in a sedimentation tank and will be used as industrial water for dust suppression and water spraying in the mine and for process water in the coal washing plant.

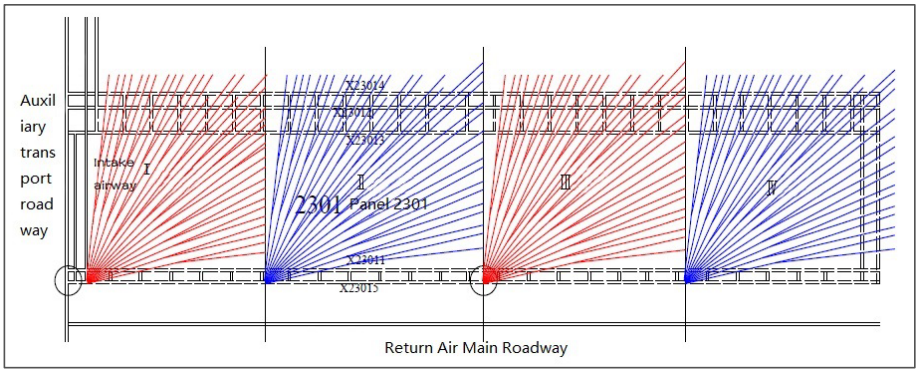
The dewatering system designed for the project mine and the equipment proposed appears to be of accepted standard and should provide sufficient capacity for the expected workload.

Mine Ventilation and Mine Gas (Methane) Extraction

The mine air ventilation system is essential in all underground mines and its main tasks is to provide sufficient air for the underground workforce, to dilute and discharge harmful mine and exhaust gases, and to provide acceptable working conditions and temperature in the mine. The third inclined shaft of the mine serves for air exhaust and is proposed to be equipped with two sets of horizontal ventilation fans at the mine mouth. One set should provide the estimated air volume required, while the second set would provide backup during maintenance and emergency. The required ventilation air capacity in Yong-an as per PMD design is 170 m³/s and matches with the proposed capacity of one fan which is 182 m³/s. Local suspended air fans with flexible air ducts should provide ventilation to the development faces in the mines. The proposed equipment is proven standard equipment in China and together with the designed air flow underground, the mine ventilation as proposed appears to be appropriate for the Yong-an mine. SRK would suggest reviewing the mine ventilation system as designed and specified after additional mine gas study has been carried out as proposed by the PMD.

Figure 29 below shows a typical fan shaped gas extraction drilling pattern in a coal seam as reference.

Figure 29: Typical Drilling pattern for Seam Gas Pre-Extraction in a Coal Seam



Mine Safety and Mine Control

According to the PMD, the mine will be provided with a computerized control room for monitoring of mine operation and production, mine workers, mine gas, air ventilation, dewatering, and the necessary recording of operational parameters. All mine communication is coordinated from the control room. Additionally, CCTV cameras will allow for direct visual control of selected operation points in the mine. Standard mine control equipment from specialized suppliers is used for the operations.

Standard safety installations such as underground rescue rooms, emergency rooms, overhead water barriers, firefighting equipment, mine rescue equipment, and the required trained rescue and emergency personnel are considered in the PMD reports. The required safety training and instructions must be provided for all mine workforces. A detailed mine safety and emergency plan must be elaborated to ensure safe operation and guidance in case of emergency.

SRK is of the opinion that according to the PMD design the Yong-an mine will be managed in accordance with the required safety regulations, and that the safety installations and safety measures proposed should provide the best possible operational safety.

Explosives required for the operations will be stored near the mine surface plant at a secured and fenced off facility.

Maintenance and Repair Service

According to PMD design, workshops and equipment assembly areas will be located at the mine surface plant near the mine mouth. The proposed workshops will be equipped for the maintenance and repair of hydraulic supports, the manufacturing of steel supports (frames and arches) for roadways and gateways, electrical and other repair work on mine equipment and mine installations. For other repairs and maintenance, the service of specialized contractors and suppliers is proposed by the PMD. Such service is expected to be readily available in the region which is a major coal mining area.

8.7.4 Mining Equipment and Capacity

The following table summarizes the proposed main mining equipment for the Yong-an mining project.

Table 26: Summary of Main Mining Equipment for Yong-an Mine

Item	Description	Mining Face 1	Mining Face 2
Coal Shearer	Plough/Double Drum	BH30/2×160, MG132/320－BWD	MG250/600－AWD
Armored Face Conveyor		SGZ630/264	SGZ630/264
Hydraulic Shields		ZY4800/06/16.5D	ZY4000/14/32D
Belt Conveyor - Gateways	800 mm belt	SSF800/2×250	SSJ800/2×315
Auxiliary Transport		600 mm rail, winch	600 mm rail, winch
People Transport	Chairlift	---	---
Dewatering Pump	Multi-stage submersible	MD155-30×4/3	MD155-30×7/3
Air Compressor		SRC-175SA/2	EAS-300/2

The equipment selected in the PMD appears to be of sufficient specifications and capacity to allow for the designed coal production of the mine to be achieved.

Power supply to the mine can be provided from the grid via short overhead line from a central main station to a mine supply sub-station.

8.7.5 Subsidence, Waste Rock Management, Mine Closure and Reclamation

Since a longwall mining method is considered for mining, subsidence and cracks at the surface above the extracted mining area may be unavoidable. The PMD indicates that the amount of subsidence might be relatively small due to the small size of the panels and the many coal pillars left behind which is required for the known fault fractures. To protect waterbodies and other structures at the surface, mine design must take the necessary precautions by designing support pillars. Damage at the surface may have to be repaired or compensated for as necessary.

Waste rock is generated from the underground development work and as tailings from the coal washing process. This material is usually not toxic and could be dumped in designated areas near the mine surface plant. The necessary planning and provision of dumping space could be of importance if permits are required, and environmental protection measures may have to be considered. The PMD does not provide design for the dumping of waste rock.

For mine closure and surface reclamation work, detailed and timely planning of the required tasks is of importance. Also, the necessary funds required for the work according to Chinese mining regulations should be set aside during the operational phase of the mine and considered as a cost item. Mine closure and possible surface reclamation work is also covered in Section *15: Environment, Permit, Social and Community Impact* of this Report.

8.8 Assessment of Weiyi Mine (Mine #2)

8.8.1 Mining Conditions

General and Surface

No small scale or historical mining has previously occurred on the mine area (license area). There are also no cultural relics and tourist sites, large industrial structures, and villages in the mine area. The agricultural value of the land is insignificant and the soil in the area could be frozen to a depth of about 1.3 m from October to April. The main natural watercourses in the mine area are the relatively small Kushui and "Sweet Water River", the latter running from south to north through the mine field. Both rivers are completely frozen in winter. There are also irrigation canals in the area. In the northern area a railway line and a highway exists which will restrict in this section. Structural pillars or other protective measures for the surface structures are required.

Mine Geology

The Weiyi mining area is located in the central part of the eastern wing of the Weizhou trend adjacent to the Yong-an mine area which is further north and thus there is a general similarity in the local geology on both deposits The strata in the Weiyi mine area are generally dipping at 20º to 30º towards the northwest, with local areas reaching up to a 35º dip. In the direction of the trend axis (strike) the coal bearing strata dip between 5º to 10º. There are numerous faults, mainly in the central section of the mine area with partly oblique intersections. A total of 27 main faults have been identified of which 13 have a displacement of over 50 m. Due to the presence of these faults, mining will need to be arranged accordingly.

Mineable Coal Seams and Seam Conditions

In total there are 9 coal seams considered to be mineable in Weiyi. In the upper coal seam group (or series) the minable coal seams are 2, 3, and 4. These seams are also the main seams of the Weiyi coal field. Seam 12, 14, 15 are mineable in the middle seam group, and in the lower group the mineable seams are 16, 17, and 20 of which 17 and 20 are considered to be only partially mineable.

According to the PMD mining plan, coal seam 2 is the first seam to be mined and has a thickness of between 0.76 m to 2.86 m with an average thickness of approximately 1.5 m. There are no significant partings in this seam. Seam 2 and the other seams are well described in the PMD as well as in the geological reports. Detail seam descriptions are also provided in the geological and exploration section of this report and maps showing the coal quality distribution, seam thickness, and sulphur content distribution are available.

The seam conditions in Weiyi are summarized in Table 27 below.

Table 27: Mineable Coal Seams and Seam Conditions in Weiyi Mine Area

Coal Seam	Seam Thickness		Dirt Bands/ Partitions		OB/IB	Coal Property and Other Conditions
	(m)	Description	(nos)	(m)	(m)	
2	0.2-3.13 (1.26)	most mineable, relatively stable	0-2	0.06	n/a	Medium volatile to High volatile, high calorific value (medium calorific value for seam2), strong caking properties, low-medium sulphur content; medium geotechnical conditions, manageable water influx condition, tendency for coal gas outburst explosive, normal geothermal temperature
3	0.32-5.94 (1.33)	most mineable, relatively stable	0-1	0.02	15	
4	0.23-3.82 (1.97)	most mineable, relatively stable	0-2	0.09	15	
12	0.2-2.75 (1.31)	most mineable, relatively stable	0-2	0.03	210	Medium volatile to High volatile, high calorific value, strong caking properties, low-medium sulphur content; medium geotechnical conditions, manageable water influx condition, tendency for coal gas outburst explosive, normal geothermal temperature
14	0.26-3.12 (1.23)	most mineable, relatively stable	0-1	0.00	30	
15	0.25-3.22 (1.16)	most mineable, relatively stable	0-2	0.04	20	
16	0.25-3.37 (1.28)	most mineable, relatively stable	0-2	0.09	40	Medium volatile to High volatile, high calorific value, strong caking properties, low-medium sulphur content; medium geotechnical conditions, manageable water influx condition, tendency for coal gas outburst explosive, normal geothermal temperature
17	0.25-4.42 (1.3)	partly mineable, unstable	0-3	0.08	10	
20	0.22-2.5 (0.75)	partly mineable, unstable	0-1	0.04	50	

Geotechnical Conditions

The lithology and local geology in Weiyi are similar to that in the adjacent Yong-an mine and therefore very similar geotechnical conditions should be expected. The roof and floor of the coal seams mainly consists of fine siltstone and mudstone and is of sufficient strength and caving property for mechanized longwall mining. The roof and floor rock are described as mainly semi-hard, but also with an occasional areas of hard as well as soft rock. The conditions are considered suitable and stable for mechanized mining methods using hydraulic supports or hydraulic shields. With the frequent geological faults and fractures in the mine area, mine design will have to allow sufficient structural pillars in order to allow safe operation in the disturbed areas. The roof and coal strength are also expected to allow the use of standard support means such as rock anchors, mesh, and steel support for gateways and roadways driven in coal and to keep it open for a sufficiently long period. The compressive strength of the solid overburden and interburden layers has been determined to be between 50 to 80 kP/cm^2. Such compressive strength will require blasting for development work. There is no indication of possible difficulties with the floor due to swelling. The overlaying softer alluvial has been worked successfully during sinking of the inclined shafts and. reinforced concrete lining has been used in the upper shaft sections.

Hydrogeology and Mine Water

The surface water conditions and underground hydrogeology in Weiyi are similar to Yong-an. A slightly higher water influx of max. 134 m³/h is expected. The frequent faults particularly in the central part of the mine area could cause some concern, but the geological report of the area states that the fractures may be compressed resulting in very low conductivity for water. The provision of coal pillars around faults to protect mining operation should also control and minimize water influx from this source. There are no significant historical mining works within the Weiyi mining license but the PMD mentions that there could be a number of unsealed or leaking exploration boreholes in the mine area which must be paid attention to.

Overall, the groundwater situation expected in Weiyi should be less complex then that in Yong-an due to the absence of historical mine workings and the associated danger of water accumulation in such old workings.

Mine Gas (Coal Seam Gas)

According to information in the PMD which is based on data from the geological exploration report for Weizhou, fifteen coal gas samples were collected in the Weiyi area. Of these samples four have been identified as "methane zone", and four as "nitrogen-methane zone". Additionally, it has been determined that the seam gas content and release is lower in the shallow seam sections and increases with the seam depth. According to the PMD estimate, the mine gas emission from the initial mining section in Seam 2 is expected to be 29.6 m³/min. According to the PMD there is the possibility of gas outbursts from an exposed coal face particularly at deeper seams and similar data from the Yong-an project would further support these assumptions.

As a conclusion, the Weiyi mine project has been classified as a "high gas mine" project which requires seam gas extraction.

According to the Chinese "Code of Practice for Geological Investigation of Coal and Peat" sampling for mine gas analysis should cover more than 50% of the number of exploration boreholes. Obviously, this number has not been reached for Weiyi and additional investigation to meet this requirement as well as to get a complete and accurate picture of the mine gas situation and methane (coal bed methane) reserve of the mine area is need.

Coal Dust, Spontaneous Combustion, and Coal Seam Fire

Although the tendency of the spontaneous combustion is low, the considerations and precautions considered on Yong-an mine should also have to be considered on Weiyi.

Ground Temperature

The geothermal gradient in the Weiyi mine area is 2.3ºC/100 m which is within normal range. In the upper coal seam sections of the mine field no high temperatures are expected. In the deeper level in the western part of the coal field there are however heat-effected zones which may reach temperatures of around 35ºC to 40ºC. If these zones are to be mined increased cooling measures may have to be considered, however additional data must be acquired to calculate and design for these cooling requirements.

Other Beneficial Minerals and Hazardous Elements

The sulphur content of the Weiyi coal is "medium-low" to "medium" according to exploration data and the PMD description and might be controlled if necessary, by the blending of different qualities.

During exploration three rock layers in the mine area with radioactive anomaly have been identified. One of the layers forms the roof of a mineable coal seam. It is recommended that after mining has commenced there should be tests if radioactive elements in the related coal could cause safety concerns and/or environmental pollution in order to consider preventive measures.

8.8.2 Mining Method and Mine Design

For the Weiyi coal mine project similar parameters as for Yong-an apply. The general mining method applicable is underground mining and for the coal extraction the economical method of choice is fully mechanized longwall mining with a drum shearer. The longwall dimensions for this mine will be relatively small (short) and are restricted by the seam geology. Semi-mechanized operation is, according to the PMD, not economical for this new project due to the labour-intensive operation and low output. For coal extraction at the longwall, a coal plough instead of a drum shearer might be an option particularly in thin seams.

The mine design for Weiyi is relatively simple with access to the seams along the dip with inclined shafts and panels designed both side of the inclines. Access to the lower mining continues by inclined roadway (drifts) and coal panels for longwall coal extraction to both sides as allowed by the geological seam conditions. The more distant mining sections are reached and connected underground through horizontal roadways at the deep part of the first mining level.

The designed capacity of 0.9 Mtpa ROM coal is based on the NDRC approved capacities of the area mining master plan. This capacity is suitable for the mining conditions and size of the mine area. To reach this output two longwall systems are considered to be installed. The equipment size may have to be adapted to the seam conditions (seam thickness) over time.

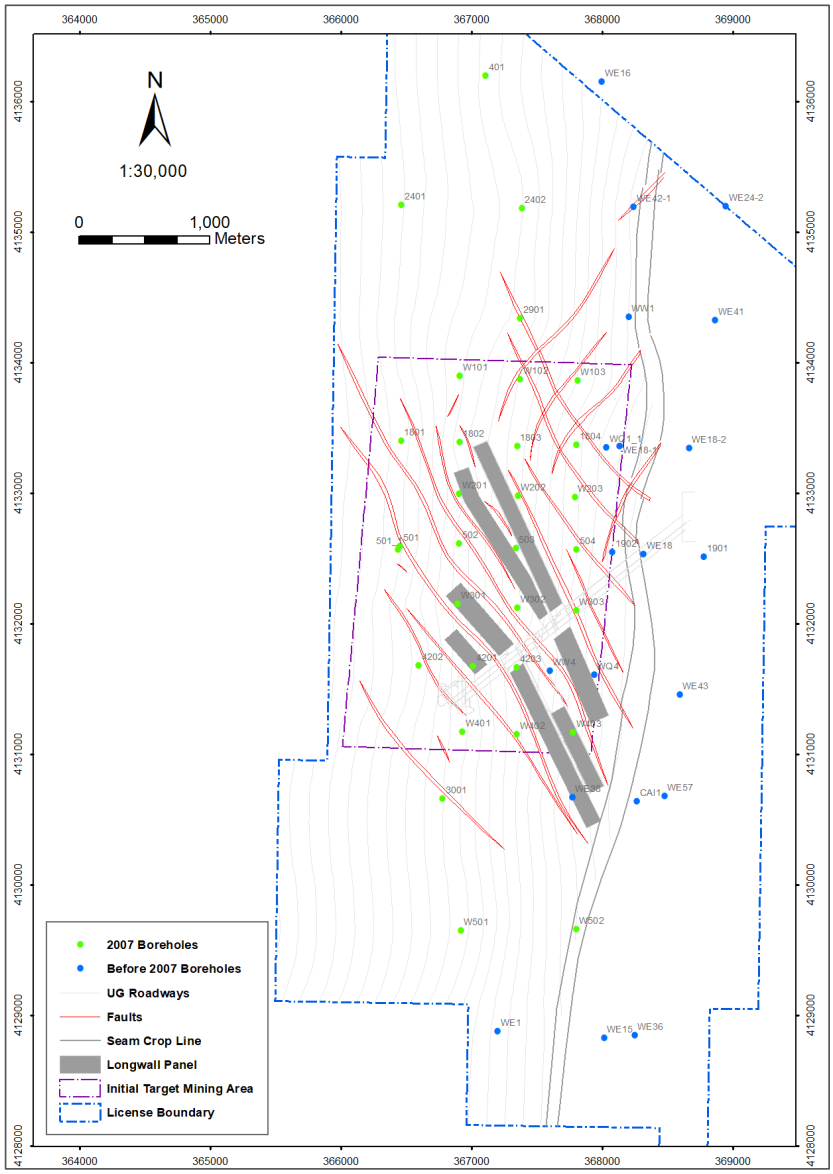
Mining of the coal seams and coal panels is planned to be in descending order. Detailed extraction schedules in order to ensure production and to avoid undercutting of unmined panels and sterilization by seam subsidence have been prepared by the PMD.

8.8.3 Mine Development, Mining Operation, and Mine Auxiliary Services

- Mine Construction and Development

Figure 30 below shows the development plan for inclined shafts and roadways of the Weiyi mine over LOM.

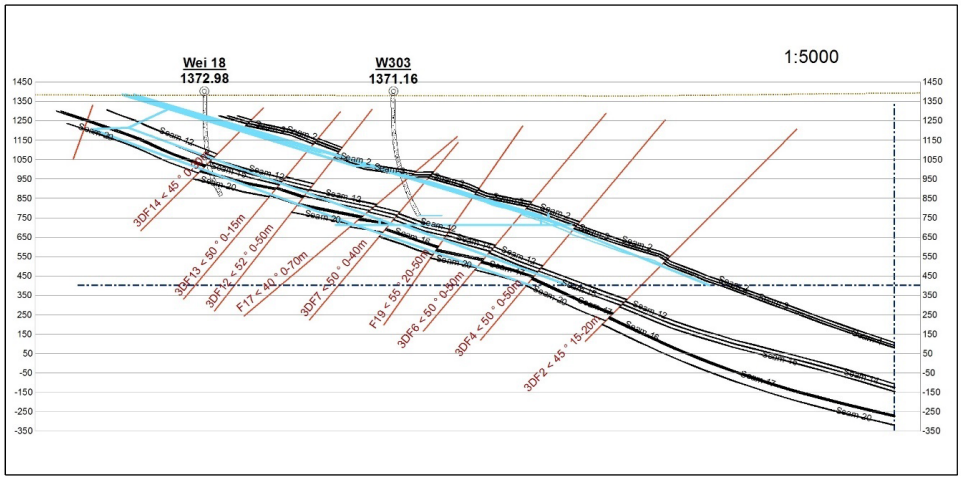
Figure 30: Proposed Long Term Development Plan for Inclined Shafts and Roadways in Weiyi



Mine development has been started from the mine surface plant site in the north-east of the license area. Three inclined shafts lead down in a south-western direction from a surface elevation of +1382 m ASL to +710 m ASL. The panels for the initial mining section in Seam 2 are arranged to the left and right of the inclined shaft. After all seams in this section are mined inclined roadways are planned to lead deeper to reach the lower coal seam sections. After mining of this northern area, a horizontal roadway system at +710 m ASL is planned to be driven to the middle and lower coal seam groups, where a similar pattern could be mined. There is the possibility for a connection to the surface with an additional incline for air ventilation in the very north-east of the minefield.

The inclined shafts have at the time of suspension of development work in 2010 been driven to a length of 1729 m and lined. The cross section of the main inclined shaft as designed with belt conveyor and chair lift for people transport is shown in Figure 31 below.

Figure 31: Cross Section of the Main Inclined Shaft in Weiyi



For the roadways underground rectangular cross sections of sufficient dimensions are designed. Development work in rock will be carried out by blasting while for sections of the roadways in the coal and the gateways a road-header is planned to be used.

Mining Operation

According to plan and similar to Yong-an, mine operation should take place at 330 days per year with three shifts per day for coal production and one shift for maintenance. The PMD proposes two longwalls for operation with one for medium thick seam panels and one for thinner seam panels to reach the annual output of 0.9 Mtpa. Maintenance and repair work is considered in the mining operation planning.

According to the PMD mining schedule, operation should commence in the Seam 2 and should reach 0.6 Mtpa in the first production year and reach designed production of 0.9 Mtpa in year five of the LOM. After seam 2 in the upper section is mined out the next lower coal seam 3 will be mined.

The planned mining operation is similar by system and operation to Yong-an but somewhat smaller equipment could be used in the longwall. For support of the roof at the mining face hydraulic shields are considered with the estimated resistance of the shield support required in Weiyi being 5200 kN. The maximum face width could reach 120 m according to the panel design.

Mine Dewatering

According to the PMD the estimated water influx into the mine should reach of 114 m³/h under normal conditions, and a peak water influx should be of 134 m³/h. Such water influx should be considered as relatively small for a coal mine.

The drainage scheme proposes to collect the mine water in a sump at the deep part of the mine and then pumped it to the surface. The initially installed pumps would have a combined capacity of 360 m³/h (operating and standby unit) and the. design of the pumping systems proposed follows the standards and regulations for Chinese coal mines. The equipment proposed is manufactured in China and used in numerous coal mines throughout the country. For mine safety reasons, each main pumping station is equipped with a minimum of three sets of dewatering pumps whereby one pumping set could safely manage the normal and peak water influx volume, the second pump would be a permanent stand-by, and the third pump could be off-line for maintenance. For unexpected water surge two pumps could always be available. Two pipelines to the surface would each provide the necessary capacity. The requirement for additional emergency pumps may not be necessary in a mine with such low water influx.

Over the LOM the dewatering system may have to be extended, first down to the deepest level and later also to the southern area of the mine and if necessary additional pumping capacity would need to be added.

At the surface, the mine water is collected in a sedimentation tank and will be used as industrial water for dust suppression and water spraying in the mine and for process water in the coal washing plant. The dewatering system designed for the project mine and the equipment proposed appears to be of accepted standard and should provide sufficient capacity for the conditions expected.

Mine Ventilation and Seam Gas (Methane) Extraction

One of the three inclined shafts of the mine will serve for air exhaust and according to PMD design will be equipped with two sets of horizontal ventilation fans installed at the mine mouth. As common practice, one set should provide the estimated air volume required, while the second set would provide backup during maintenance and emergency. In the mine, the air flow follows the designed path with the required maximum ventilation air volume in Weiyi, as per PMD design, being 140 m³/s, which is provided for the proposed fan capacity of 179 m³/s. Suspended air fans with flexible air ducts should provide air ventilation to dead-end development faces in the mines.

According to available but limited data on mine gas, a coal seam gas (methane) pre-extraction system should be installed in Weiyi. Because of the incomplete mine gas data, the PMD states that it was not possible to fully design and specify such a system. It was therefore proposed in the PMD that a qualified design institute/consulting engineer should be entrusted to carry out the final design and that the methane extraction system be installed before operation commences.

Mine Safety and Control

The PMD proposes that mine safety and control, as well as emergency and rescue services for the Weiyi project should be organized and coordinated together with the Yong-an project. This could be considered as a reasonable solution taking into account the close proximity of the two mines and services should be as centralized as possible. The review as indicated above for Yong-an also applies for the Weiyi project.

Maintenance and Repair

As per PMD proposal, maintenance and repair for Weiyi mine should be provided by Yong-an mine and commercial service companies. The same description of the services as for Yong-an applies.

8.8.4 Mining Equipment and Capacity

The following table summarizes the main mining equipment for the Weiyi mining project.

Table 28: Proposed Main Mining Equipment in Weiyi Coal Mine

Item	Description	Mining Face
Coal Shearer	double drum	MG2×125/580-WD
Armored Face Conveyor		SGZ730/400
Hydraulic Shields	Double column	ZY6000−10.5/25
Belt Conveyor - Gateways	800 mm belt	SSJ1000/2×250
Auxiliary Transport		rail car
People Transport		chairlift
Roadheader		EBZ-160

The equipment selected in the PMD appears to be of sufficient specifications and capacity to allow for the designed coal production of the mine to be achieved.

Power supply for the mine can be provided from the grid via short overhead line to a mine supply sub-station.

8.8.5 Subsidence, Waste Rock Management, Mine Closure and Surface Reclamation

For the Weiyi mine project the same considerations for subsidence, waste rock management, mine closure and reclamation apply as for the Yong-an project. Gangue waste rock will actually occur only at the coal washing plant in Yong-an. The scale and location of the designed mining areas and the geology in Weiyi may limit the extent of subsidence. In the opinion of SRK, plans for mine closure and possible reclamation of surface area have not been prepared at this stage of the project.

9 Coal Preparation Plant

9.1 Introduction

The Yong-an Coal Preparation Plant is proposed to be constructed in the Yong-an surface industrial area enabling it to directly process the ROM coal lifted from the longwall panels of the mine. The plant is designed for a maximum throughput of 2.4 Mtpa ROM coal with half of the raw coal feeding coming from the Yong-an coal mine through a conveyor belt connecting to the raw coal silo. The ROM coal mined from the Weiyi Mine is proposed to be transported to the Yong-an mine by trucks feeding into the CPP's raw coal silo, as well as the 0.3 Mtpa additional coal from a nearby local mine. The nominal 2.4 Mtpa capacity designed is based on operating 16 hours per day and assuming 330 effective operating days annually.

According to the exploration result and the historical coal quality data derived from the small village coal mines located within the Yong-an permit area, the coal type of the Yong-an and Weiyi can be classified as between Main Coking Coal (JM), Fat Coal (FM), and 1/3 Coking Coal (1/3JM), which are the three sub-categories of metallurgical coal in terms of the Chinese Standard. The main characteristics of the raw coal quality are as follows: low moisture, medium ash content, low-to medium-high sulphur, low phosphorus, medium-to-high volatile matter, good caking property, and good grindability.

9.2 Washability Analysis

As the two mine projects are not in operation, no bulk sample is available for washability assessment. In order to obtain sufficient coal samples that are similar to those expected to be mined, bulk coal samples were collected in close proximity at a small local village mine namely the Tai-yang-shan. The coal samples were combined to produce a typical sample to carry out sizing analysis and float-sink test for the PMD. The ash content of the combined coal sample is of 23.45%.

In order to assess the suitability of the various separation methods to different size fractions, dry sieve analysis was firstly carried out on the raw coal sample prior to conducting the float-sink test. The sizing result generally shows that the reference sample produced an approximate 8% of +50 mm lump coal with the ash content ranging from 16.4% to 20.24%, and an approximate 36% of -3 mm fraction with a relatively high ash content. The result is shown in Table 29.

Table 29: Results of the Dry Sieve Analysis of the different size fraction

Fraction Size (mm)	Product	Estimated Raw Coal Feed for Yong-an CPP		
		Wt (%)	Ad (%)	St, ad (%)
>100	Coal	0.70	16.40	0.36
	Parting	0.47	32.55	0.31
	Refuse	0.26	53.29	0.18
	Subtotal	1.43	28.42	0.31
100~50	Coal	4.74	20.24	0.26
	Parting	0.78	37.25	0.20
	Refuse	1.13	55.66	0.31
	Subtotal	6.64	28.30	0.26
50~25	Coal	8.12	19.20	0.21
	Pyrite + Refuse	2.05	49.22	0.34
	Subtotal	10.17	25.25	0.24
25~13	Coal	13.95	22.65	0.37
13~6	Coal	12.86	21.13	0.42
6~3	Coal	19.07	21.22	0.45
3~0.5	Coal	26.26	23.76	0.62
0.5~0	Coal	9.62	25.35	0.44
Raw Coal		100	23.45	0.44

After conducting the fraction analysis, the samples were crushed and classified into two fractions of -50+2 mm and -2+0.25 mm to conduct float–sink tests for separate washability assessment. The ash content of the -50+2 mm fraction and -2+0.25 mm fraction is 22.85% and 24.84%, respectively. The washability curves of the two fractions based on the float-sink tests are presented in Figure 32 and Figure 33, respectively.

Figure 32: Washability Curves of the -50+2 mm Size Fraction

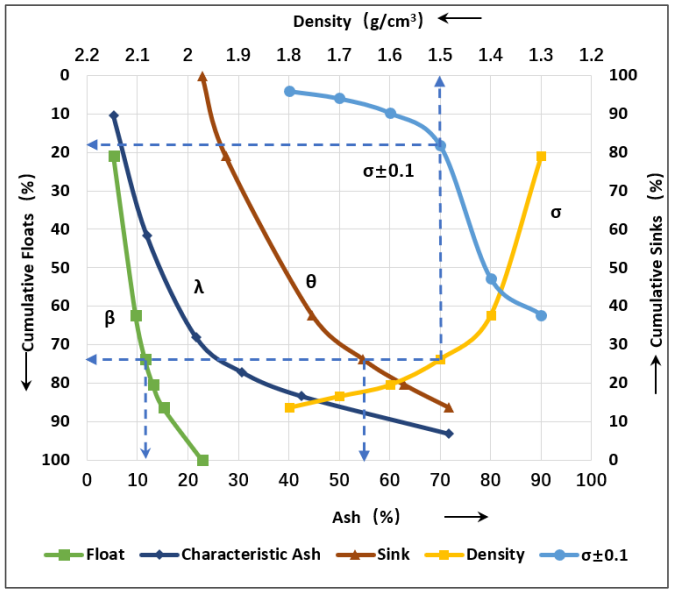
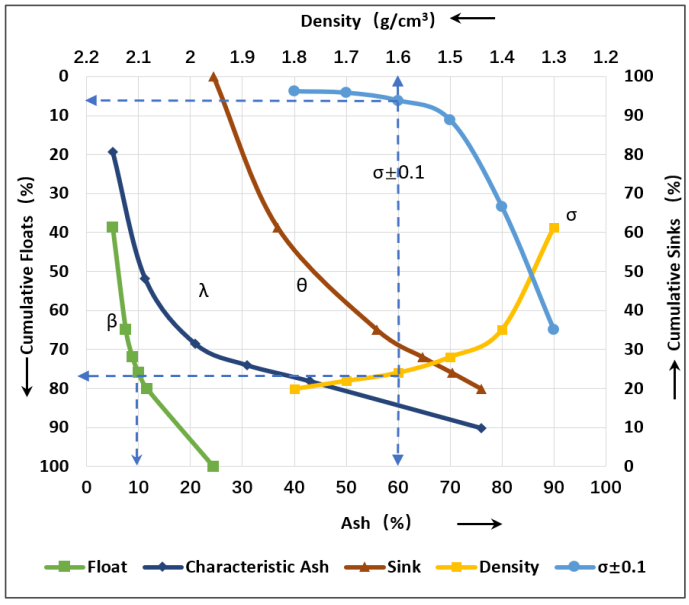


Figure 33: Washability Curves of the -2+0.25 mm Size Fraction



The washability curves shown in Figure 32 illustrate that in order to achieve a clean coal product with an approximately 11% of Ash content, the theoretical separation density should be set at near 1.5 g/cm^3.This should achieve an approximately 74% wash recovery with an approximately 18 of NGM although this value represents a very difficult washability according to the NGM classification standard.

The Figure 33 is for the -2+0.25 mm fraction, the ash content of the head sample for this fraction is 24.8%. In order to achieve a 10% of the target ash content of the clean coal product, the theoretical separation density should be set at near 1.6 g/cm^3. This should achieve an approximately 76% recovery with an approximately 7 of NGM and this value represents a moderately difficult washability according to the NGM classification standard.

The overall medium-difficult washability requires an efficient process with expert operation, like DMS with preciously control. Besides, the feed quality for the proposed Coal Preparation Plant may fluctuate because of the dilution of coal seam roof, floor, and partings. Especially the ash content could become the predominant factor that influences the dense medium separation of the next processing stage. Variability tests are recommended to assess the performance of the process and product quality under different ash content scenarios.

9.3 Yong-an Coal Preparation Plant

9.3.1 Introduction

9.3.2 Coal Preparation Process

Raw Coal Preparation and Desliming

Raw coal from silo and stockpile is delivered to the preparation workshop through belt conveyor and then fed to one set of Banana Screen (2.4 m x 6.1 m). The oversize lump coal larger than 50 mm will go through hand sorting, magnetic separator and then be crushed to less than 50 mm by a Model 625 Crusher, before passing through the following Banana Screen (3.6 m x 6.1 m) and sprayed with water to remove the -2 mm coal slime. Consequently, the -50+2 mm fractions are treated in the DMC circuit, and the -2 mm fractions are pumped to the coal slime tank.

Dense Medium Cyclone Circuit

The -50+2 mm raw coal is fed to one non-pressure three-product Dense Media Cyclone to produce clean coal, middling, and waste. Clean coal then passes on to one set of Banana Screen (3.6 m x 7.3 m) for dewatering and medium removal, and the oversize product undergo a secondary dewatering operation through a Model VM1400 Centrifuge. Then the clean coal is delivered to the lump coal silo by belt conveyor. The middling and waste undergo similar drainage and wash screening which uses one set of Dual-channel Banana Screen (3.6 m x 7.3 m), and the subsequent product is conveyed to the respective silos for storage.

Teetered Bed Separator Circuit

The -2 mm slurry in the coal slime tank is pumped to one set of Model NNX300×8 Hydrocyclone. After classification, the -2+0.15 mm underflow is fed to the separation stage of Teetered Bed Separator (TBS), and the -0.15 mm overflow would be recovered by the following flotation process. The clean coal obtained from the TBS circuit goes through preliminary dewatering by Sieve Bends and further draining by Model VM1400 Centrifuge, which is delivered to the coal bin. The underflow from the TBS circuit is screened and selected by Model 1837 High-Frequency Screen as a middling product stored in the middle bin.

Coal Slime Flotation

The overflow from Model NNX300×8 Hydrocyclone and the resultant effluent from the Sieve Bends in the TBS circuit, are together pumped to the Conditioners, where conventional collector and froth inducer are added under quantitative control. The flotation plant is a single process with two JM-S16A Cells. The froth concentrates (cleaned fine coal) are filtered on GPJ-120 Pressure Filter and then transported to the product bin. The flotation tailing and effluent from Model 1837 High-Frequency Screen are discharged to NGZ-30G Thickeners. The bottom flow of the thickener is filtered by three sets of ZKG2000 Pressure Filters, which can be delivered by belt to the tailing storage bin or the middling bin.

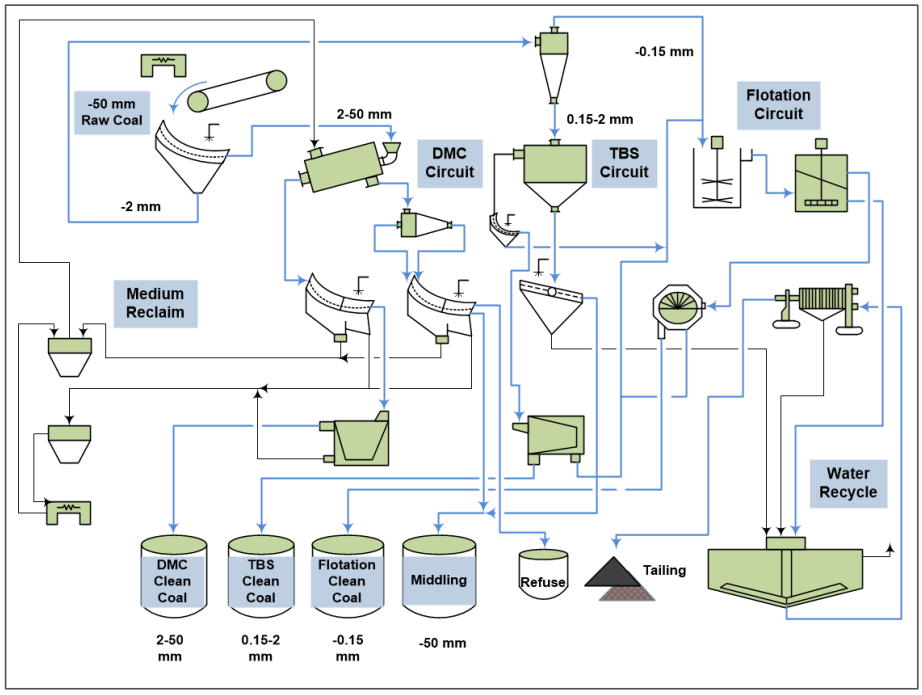
Slime Water Treatment

The water treatment system for the coal slime mainly consists of thickening and filtration steps. The clarified overflow is recycled to the plant after the flotation tailings are fed to the thickener. The thickened underflow is discharged to the ZKG2000 Pressure Filter and the filtrate is returned to the Thickener. The filter cake can be mixed with middling or stacked separately. The thickening section is equipped with an automatic flocculant adding device, to ensure that the slurry water achieves closed-circuit circulation.

Dense Medium Preparation and Recycling System

The undersize products from the washing screen consisting of medium, wash water and fines and are too dilute and contaminated to be returned directly as medium to the separating DMC. They are firstly collected in the dilutes medium sump and treated together by magnetic separation to recover the magnetic ferrosilicon or magnetite from the non-magnetite fines. After that, the reclaimed magnetic is sent to the main medium sump, together with the other qualified medium from the drain screen. The main medium sump is equipped with a liquid level gauge, and the density automatic control system is used to adjust the amount of water added to the medium to return it to the required density.

Figure 34: Schematic Flowsheet of the Yong-an CPP



9.3.3 Coal Product Output and Quality

The PMD estimated the yield and ash content of each circuits based on the four mainstream clean coal products supplied to the local coal market and the estimated results are shown in Table 30.

Table 30: Coal Product Portfolio in terms of the designed Ciruits in the PMD

Clean Coal Product		Ad=10%		Ad=10.5%		Ad=11.0%		Ad=11.5%	
		Yield	Ad	Yield	Ad	Yield	Ad	Yield	Ad
		(%)							
Clean Coal	Clean Coal in DMC Circuit	**44.53**	**10.1**	**48.87**	**10.83**	**51.72**	**11.49**	**53.91**	**12.13**
	Clean Coal in TBS Circuit	11.02	9.65	11.02	9.65	11.02	9.65	11.02	9.65
	Clean Coal In Flotation Circuit	7.83	9.65	7.83	9.65	7.83	9.65	7.83	9.65
	Subtotal	63.38	9.97	67.72	10.50	70.56	11.00	72.76	11.48

Clean Coal Product		Ad=10%		Ad=10.5%		Ad=11.0%		Ad=11.5%	
		Yield	Ad	Yield	Ad	Yield	Ad	Yield	Ad
		(%)							
Middling	Middling in DMC Circuit	18.50	33.04	14.15	37.57	11.31	41.28	9.11	44.69
	Middling in TBS Circuit	5.61	59.41	5.61	59.41	5.61	59.41	5.61	59.41
	Subtotal	24.11	39.18	19.76	43.77	16.92	47.29	14.72	50.30
Tailing		4.76	44.66	4.76	44.66	4.76	44.66	4.76	44.66
Refuse		7.76	71.71	7.76	71.71	7.76	71.71	7.76	71.71
Raw Coal		100.0	23.45	100.0	23.45	100.0	23.45	100.0	23.45

9.3.4 Mass Balance

An 11% of ash content was set in the PMD as the key quality specification of the target clean coal product for Yong-an CPP., The amount of product produced was estimated accordingly and shown in Table 31. The capacity shown in the table was estimated based on a 16 producing hours per day and 330 operating days per year, two-shift in production and one shift in maintenance per day.

Table 31: Mass Balance for the 11% Ash Content Target Marketable Coal

Product	Quantity				Quality	
	Yield	Output			Ad	Moisture
	(%)	(t/h)	(t/d)	(Mtpa)	(%)	(%)
Clean Coal	70.56	320.74	5131.91	1.69	11.00	10.32
Middling	16.92	76.91	1230.54	0.41	47.29	15.65
Tailing	4.76	21.63	346.06	0.11	44.66	21.00
Refuse	7.76	35.26	564.23	0.19	71.71	13.00
Raw Coal	100.00	454.55	7272.73	2.4	23.45	11.94

9.3.5 Major Equipment

A summary of the key equipment for the proposed Yong-an coal preparation plant is presented in Table 32.

Table 32: Proposed Major Equipment of the Yong-an CPP

Equipment	Specification	Qty.	Remark
Banana Screen	2.4 m x 6.1 m; single - deck	1	Raw coal sizing
	3.0 m x 6.1 m; single - deck	1	Desliming for raw coal
	3.6 m x 7.3 m; single - deck	1	Medium draining for clean coal in DMC circuit
	3.6 m x 6.1 m; dual - channel	1	Medium draining for middling and refuse in DMC circuit
High-Frequency Screen	Model 1837	1	Dewatering for underflow in TBS circuit
Crusher	Model 625	1	Crushing for raw coal
Magnetic Separator	Model HMDA-7, 1219 x 2972	2	Medium separation
Dense Medium Cyclone	1300/920 mm diameter	1	Separation for -50+2 mm coal
Hydro-cyclone	NNX300×8	1	Desliming for minus 2 mm coal slime
Teetered Bed Separator	3000 mm diameter	1	Separation for -2+0.15 mm coal slime
Flotation Cell	JM-S16A	2	Flotation for -1.5 mm coal slime
Centrifuge	Model VM1400	2	Dewatering for clean coal in DMC and TBS circuit
	1200 diameter	1	Dewatering for waste slime
Pressure Filter	GPJ-120; 0.45~0.5MPa	1	Filtration for flotation clean coal
	F700	4	Filtration for waste slime
Thickener	NGZ-30G	2	Thickening for waste slime

9.3.6 Conclusions

It is SRK's opinion that the process and flowsheet planned for the Yong-an CPP are applicable and reasonable, the wash yield and target coal quality outlined in Table 31 would be achieved as per the CPP plan. As the washability tests are conducted based on the sample with one ash content, SRK would suggest conducting more tests to further assess the wash process based on the different ash content of raw coal.

10 Project Infrastructure

There is sufficient macro infrastructure in the mining area to allow coal mining projects to be undertaken and mines to be operated.

10.1 Access to the Projects Area

The projects area is closely adjacent to the Tai-yang-shan Coal Chemical Industrial Park and can be readily reached the capital city of Ningxia Hui Autonomous Region through Yin-kun express way in 1.5 hours. The existing national road G238 and provincial road S202 can be used for coal transportation. Tai-yang-shan Coal Chemical Industrial Park has been operating for years with a local railway station connected to the major Tai-zhong-yin railway which operates at a standard speed and is used for chemicals and coal transportation. An express railway crossing the Park and a passenger station has been in operation since December 2020. In general, the projects area can be readily access either through express way or high railway and coal production can be readily transported either by truck or by railway.

10.2 Power Supply

Power supply in the area is good and stable. Each of the project can be connected to the national grid. Electrical power will be provided from multiple 35-kV substations and voltage is stepped down at the mines.

10.3 Water Supply

Water for each mine's operation is sourced from public water supply located in the Tai-yang-shan industrial park. The water supply is considered to be sufficient to provide the required water for domestic and industrial use. Mine water after basic treatment is used as supplementary water for industrial purpose and for process water at the CPP. Mine water is further used for the water spray systems of the mines for dust suppression and fire prevention.

10.4 Communication

Telecommunication for the Project region is well covered and there is access to national and international telecommunication networks from each mine. Communication in these areas is reliable and new connections to the mines could easily be established.

10.5 Supply of Materials

Construction materials and consumables typically used at coal mines and at coal processing plants can mainly be sourced and purchased locally. Equipment and materials could be procured from suppliers in the region or from suppliers further afield and transported to the site.

10.6 Availability of Services

Coal mining usually employs (sub-contracts) and requires specific services for development and operation of a mine. Typical such services are shaft sinking and roadway driving, change-over of entire longwall systems, plant and equipment hire, mechanical and electrical service, and surface plant operation and management (i.e. CPP). Ningxia has a long-standing coal mining industry with established service providers available. Non-mining service providers and suppliers including medical services are available from nearby townships and cities which have a well-developed commercial infrastructure with shops, accommodation and medical facilities.

11 Project Schedule

A 31.5 and 20 years of Life-of-mine schedule (incl. mine construction) with an expected 1.2 Mtpa and 0.9 Mtpa at full mining capacity for Yong-an and Weiyi were applied respectively in the model. The planned production schedule is presented in Table 33.

Table 33: Production Schedule

ROM Coal Production (Mt)	2022-2024	2025	2026	2027 – 2041 (annual)	2042 (annual)	2043 – 2051 (annual)	2052	2053
Yong-an Mine	--	0.60	1.00	1.20	1.20	1.20	1.00	0.60
Weiyi Mine	---	0.30	0.70	0.90	0.52	---	---	---
CPP processing	---	0.90	1.70	2.10	1.72	1.20	1.10	0.60
Remarks	Construction	Production	Production	Production	Production	Production	Production	Production

12 Capital and Operating Costs

12.1 Introduction

The capital and operating costs that SRK presented in this Section for Yong-an and Weilyi projects are based on the updated estimation in the Economic Analysis Report ("EAR") prepared by Xi'an Institute in June 2021. As the original cost information estimated in the 2013 preliminary mine design is out-of-date, it was necessary to update the cost information to reflect cost changes since 2013. The estimation from the Xi'an Institute was conducted in terms of the relevant Chinese standards and recommendations for coal mine construction issued by the Chinese National Energy Administration which also issues quotations (price and cost information) as a reference for such estimation.

Typical Chinese feasibility studies generally follow a cost breakdown and terminology distinguishing operating costs, coal production costs, and coal overall cost (cost of coal) as shown in Table 34 below. Operating costs are broken down in the general cost items labour, materials, and energy. More detailed cost breakdown, cost centres and annual operating cost figures are usually only provided in the underlying cost model and simplified cost models are commonly used at study level. In studies and reports, operating costs are usually presented as specific costs in RMB/t. Cost centres, if indicated, may deviate from Western (mining) estimation and accounting pattern and may require some adjustment if used for a Western project or with Western financers. Absolute figures are further frequently shown in "10,000" decimal units which is common in China.

Table 34: Typical Chinese Cost Breakdown for a Coal Project

Major Cost Item		Break down
Production Cost	Operating Costs	Labour and Contractor Fees
		Materials
		Energy (Fuel & Power)
		Safety Fee
	Capital Costs	Simple Pre-production Fee
		Depreciation
		Equipment Replacement and Repairing
	Production Funds (China only)	Sustainable Development and Reparation
		Industry Transferring Fund
		Environment Recovery Fund
		Pricing Adjustment Fund
	Taxes	Resource Tax

Major Cost Item	Break down
	Other Taxes and Duties
Charges	Marketing
	Administration
	Financial
Transportation Cost	Railway
	Road
	Port and Shipping

The cost model of the project as per EAR generally follows this cost estimation pattern. Costs are normally estimated for the initial mining stage, i.e. for mining in Mining Section 101 at a full ROM coal production capacity according to the mining plan. The costs shown in each PMDs are based and estimated on RMB cost and price information. The cost information available to the Chinese design institutes could generally be considered as of high accuracy and actualized. The Chinese coal mining industry has access to an extensive industry and project data base provided by the mining organizations. Taxes and import duties have already been considered and were covered in the EAR.

12.2 Capital Cost

12.2.1 Yong-an Mine Project

For Yong-an mine, the EAR estimated a total of RMB 1,352.99 million ("m") initial construction capital cost including the RMB 119.83 million of the net book value of the incurred investment of the mining system, the estimated RMB 1039.63 million for the new investment of the mining system, and the estimated RMB 193.53 million for coal preparation plant located in Yong-an surface industrial site area.

The capital investment of the mining system estimated in the EAR only covers to the point that enabling the mining system capable of operating in the first longwall panel 10101 of the Mining Section 101, the capital cost covers the cost aspects from the construction of the surface industrial facilities, drifts/shafts and the underground main-roads as well as the mining-related equipment procurement/installation, as follows.

- Underground construction: drifts/shafts and various underground main-roads construction-related investments;
- Surface civil Engineering investment: various surface facilities/buildings construction cost, such as the coal mines' industrial ground, road, mine office etc;
- Mining, transportation, development equipment investment;
- Other capital costs, such as land use cost, various studies cost etc.

The breakdown capital cost for the Yong-an mining system is shown in Table 35. As the cost estimation of the EAR didn't cover the additional costs mainly required for the roadway extension and equipment replacement for the rest of the LOM, a total of RMB 784.72 million was estimated by SRK as sustaining/continuing capital cost.

Table 35: Estimated Capital Cost of the Yong-an Mining System

Item	Capital Cost - Net book value (RMB M)	Capital Cost - New Investment (RMB M)
Drifts/shafts, UG Main Roadway Construction	28.94	315.41
Surface Civil Engineering	48.16	94.42
Equipment Procurement/installation	10.53	381.83
Other Costs	32.20	247.97
Total	119.83	1,039.63

12.2.2 Yong-an CPP

A breakdown of the EAR estimated capital cost of the CPP is tabulated in Table 36, as there's no capital cost had been incurred for CPP construction historically, all the capital costs estimated in Table 36 are prospective costs. A total of RMB 193.53 million and RMB 135.12 million was estimated by SRK as initial and sustaining/continuing capital cost, respectively.

Table 36: The Capital Cost of the Yong-an CPP

Item	Unit	Initial Capital Cost
Surface Civil Engineering	RMB M	74.86
Equipment Procurement	RMB M	85.50
Other Costs	RMB M	33.17
Total	RMB M	193.53

Weiyi Mine Project

In Weiyi mine, the EAR estimated a total of RMB 1,015.78 million ("m") initial capital cost, of which RMB 113.95 million is of the net book value of the incurred investment and RMB 901.83 million is of the new investment for the mining system. The breakdown of the capital cost is presented in Table 37. As all the ROM coal output from the Weiyi mine is planned to be washed in Yong-an CPP, therefore no capital cost of CPP was estimated for the mine. A total of RMB 586.79 million of the sustaining/continuing capital cost is estimated.

Table 37: The Capital Cost of the Weiyi Mining System

Item	Capital Cost - Net book value (RMB M)	Capital Cost - New Investment (RMB M)
Drifts/shafts, UG Main Roadway Construction	51.36	187.52
Surface Civil Engineering	5.95	114.94
Equipment Procurement/installation	33.60	393.03
Other Costs	23.04	206.34
Total	113.95	901.83

12.3 Operating Cost

As of May 2022, the projects were still in the study phase and no historical production data and accrued operating expenses were available for review and comparison.

The total estimated operating cost which SRK extracted from the EAR is 207.04 RMB/t and 219.95 RMB/t for Yong-an and Weiyi mining systems, respectively. The operating cost covers the various cost items from the underground mining operation to the loading cost to the surface ROM coal silos. For Weiyi mine, as it is necessary to transport the ROM coal to the Yong-an surface industrial site for preparation, a 10 RMB/t additional transportation cost should be added to the operating cost, this resulted in a 229.95 RMB/t overall operating cost for Weiyi mine project.

SRK has compared these estimations from the EAR against a database of similar projects and operations in China and SRK considers that the costs appear to be acceptable. Table 38 below summarises the estimated project operating costs and overall cost of coal.

Table 38: Summary of the Estimated Unit Operating Cost and Overall Cost

	Item	Unit (ROM Coal)	Yong-an	Weiyi	CPP
Operating Cost (VAT excl.)	Materials	RMB/t	22.50	28.00	7.42
	Wages	RMB/t	97.39	86.04	7.16
	Fuel/Power	RMB/t	14.07	24.66	3.55
	Repairment	RMB/t	14.08	20.75	1.07
	Safety Fee	RMB/t	30.00	30.00	---
	Subsidence Compensation	RMB/t	1.00	1.00	---
	Road Transportation to CPP	RMB/t	---	10.00	---
	Other Costs	RMB/t	28.00	29.50	3.75
	Total Operating Cost	RMB/t	207.04	229.95	22.95
	Simple Reproduction Fund*	RMB/t	8.50	8.50	---
	Depreciation/amortization	RMB/t	43.22	58.66	3.70
	Overall	RMB/t	258.76	297.11	26.65

The simple repair fund and the safety fee are a type of compulsory fund extracted by the local government as per output tonnage of the ROM coal, these funds can only be withdrawn back by the mining company monthly or annual for specified usage. The safety fee can only be used for safety measures in mining operations, the usage of the simple repair fund is limited to roadway related costs, such as roadway maintenance costs and heading costs. The safety fee is normally allocated into the operating cost in financial practice, while half of the simple reproduction fee is normally treated as part of the sustaining capital cost, the another part is treated as cost.

13 Commodity Price and Market

13.1 Coal Market

The economic impact of the Covid-19 pandemic has hit global coal demand in the year of 2020, but from a long-term perspective, coal demand will be steadily rising which coupled with its cost competitiveness will result in the continual growth of coal demand. Much of this growth will be in developing areas of the Pacific Basin such as SEA, India and China due to regional economic growth/recovery and subsequently large raw materials demand growth. China will continue to be a major importer of coking coal and it will still be a key source of demand growth.

Global coal price has been through an up-down cycle since 2016. Recently, the coal price appears to be in a new phase of the up cycle. Downcycle price and the pandemic of COVID-19 have resulted in a production curtailing, which in-turn leads to the shortage of the coal supply globally. The demand rebound may be supported beyond 2021 of post-COVID as governments around the globe seek to boost growth via infrastructure spending and with it increase the demand for more (coal-intensive to manufacture) steel especially in the emerging country of the Asia and the Pacific area.

It appears that China has been continue tightening its safety and environmental regulation in the coal mining field to avoid more incidents and reduce greenhouse gas emission, this in some degree leads to a shortage of the coal supply in China.

13.2 Historical Coking Coal Price in the region

Although China is home to the world's second-largest proven Coal Reserves after the United States, due to consumption soaring quickly, it has been a net coal importer since 2009, and consumes nearly half of global consumption in 2018. Coal is a cornerstone of the Chinese economy, representing over 70 percent of China's primary energy production.

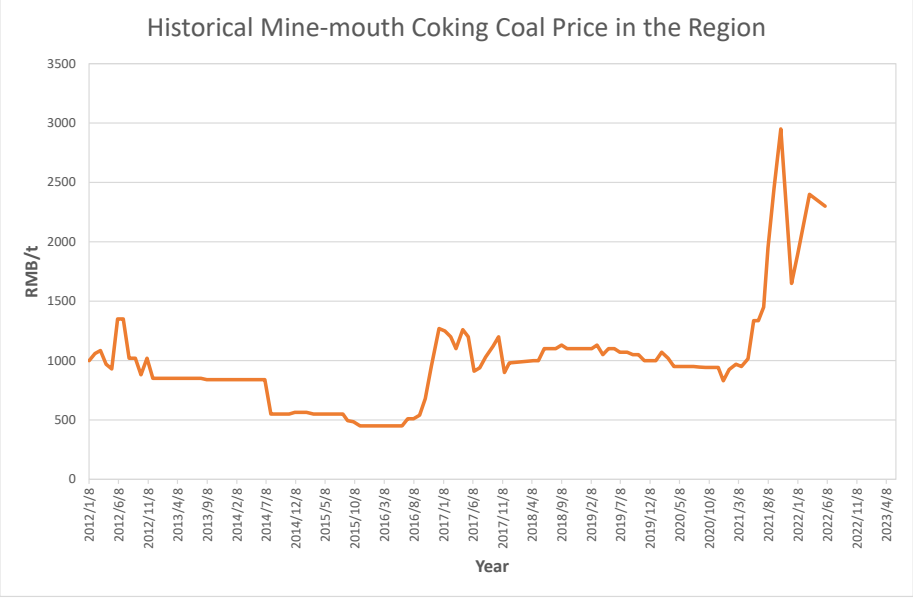
Ningxia was a traditional coking coal-producing area, historically its coking coal was primarily produced in the northern part of the province bordering Wuhai City of Inner Mongolia. The coking coal resources in this northern region have been gradually mined-out, currently the Wuhia is the major coking coal producing area with open price data available. The project area is located in the central part of Ningxia, although the coalfield to which it belongs has not been developed on a large scale. A large-scale coking plant near the mining area has been built and operated for years with the raw coking coal materials mainly being transported from the Wuhai coking coal mining area.

Located approximately 220 km north of the project area, Wuhai City is the largest source of coking coal production in the region. The specification of the clean coking coal produced from the Wuhai mining area is similar to the coal produced from the projects area and with the same transportation distance to the main target market. The typical specification of the coal produced for the market from the region is presented in. The historical mine-mouth coal price is presented in Figure 35.

Table 39: Specification of the Marketable Coal Produced in the Nigxia-Wuhai Region

Coal	Ash (d, %)	Volatile Matter (daf, %)	Total Moisture (%)	Total Sulphur (d, %)	G Index	Y Index
Metallurgical Coal	≤11	≤32	≤9	≤1.3	≥85	≥18

Figure 35: Mine-mouth Coal Price (VAT incl.) in the Ningxia-Wuhai region



Source: http://www.meitanwang.com/meitan/category_149/149_1709.html

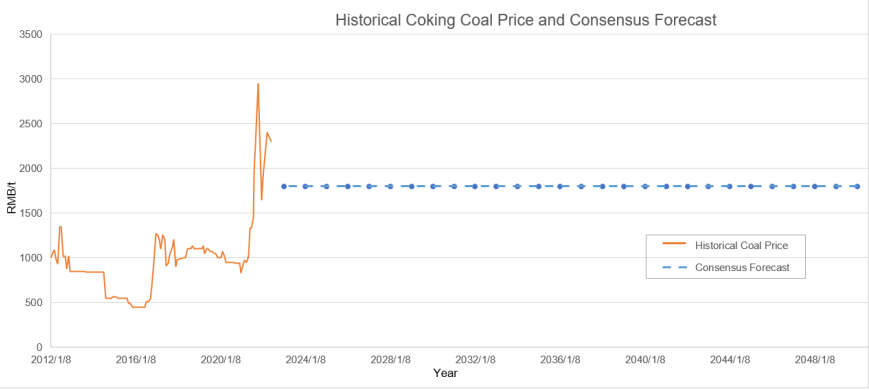
13.3 Coking Coal Price Consensus Forecast

In terms of Figure 35, the median and average mine-mouth coal prices (VAT incl.) for the last five years are approximately 1100 RMB/t and 900 RMB/t, respectively. The coal price shortly soared up to a high record of approximately 3000 RMB/t recently.

SRK is of the opinion that from the demand side the long-term Chinese economy growth appears to gradually go down, resulting in the demands reducing of the industrial materials such as steel and coal, however, this demand is believed to be sustained by the continuing economic growth from the Asia Pacific countries such as Vietnam, India etc. On the other hand, the tightening safety, environmental and mine combination regulations of China in the coal mining field for the long term would significantly reduce the domestic supply and in turn support the coal price at a medium-high level. In general, SRK is of the opinion that the average coking coal price (VAT incl.) in this region will generally remain at a medium to a high level in a long term compared with the historical price of the last ten years. According to the economic analysis report prepared by Xi'an Coal Mine Design Institute, the proportion of the coal type presented in Yong'an mine was main coking coal 40%, 1/3 coking coal 20% and fat coal 40%; in Weiyi mine the proportion is 30%, 60% and 10% for main coking coal, 1/3 coking coal and fat coal, respectively. It should be noted that each type of coal can barely mined out separately, as such, SRK considers that the coal type of the output clean coal would

in a range between main coking coal and 1/3 coking coal. Based on various considerations, the consensus forecast of the nominal price (mine-mouth) for the coking coal in this region is set in a range between 1500 and 2000 RMB/t.

Figure 36: Consensus Forecast Mine-mouth Coal Price (VAT incl.) in the Ningxia-Wuhai region



14 Economic Analysis

14.1 Introduction

Given the Yong-an and Weiyi mine projects are in a mine plan stage with the preliminary mine designs being completed, the Discounted Cashflow ("DCF") modelling of income approach was considered as an appropriate method to conduct the economic analysis.

The capital and operating costs estimated in the updated PMDs are carefully prepared with breakdown data available for a detailed analysis. The presented data allow SRK to build a financial model and analyse the economic viabilities of the future's mine operation. Besides that, SRK's estimation not only relies upon the PMDs but also upon some of the information collected through the site visits and SRK's experience of the coal mining industry. SRK believes that the technical inputs into the financial model are consistent with generally accepted calculation methodologies used industry wide.

It is important to note that the purpose of this analysis is only to demonstrate the economic viability of the projects. The derived NPVs do not indicate the fair market values or the profitability of the projects. The estimated cashflows and net present value were presented on an after-tax basis and the finance cost was not considered.

14.2 Principal Assumptions

As both mining licenses are registered under the Ningxia Yangguang Mining Co., Ltd and all of the ROM coal produced from the Weiyi mining system is proposed to blending-wash with the ROM coal output from the Yong-an mining system in Yong-an CPP. Therefore, the Yong-an and Weiyi mining system and the CPP can be considered as one project from a financial point of view, a combined financial model was created to assess the overall economic viability. The principal assumptions are presented in Table 40.

Table 40: Principal Assumptions for the DCF Model

Item	Units	Yong-an	Weiyi	CPP
Total coal mined/processed	Mt	33.20	15.02	48.22
Mine/process capacity	Mtpa	1.20	0.90	2.1
Life-of-Mine (project)	Year	31.5	20	31.5
CPP clean coal yield	%	---	---	67%
Initial capital cost	RMB M	1,159.46	1,015.78	193.53
Sustaining capital cost	RMB M	784.72	586.79	135.12
Working capital needed annually (full capacity)	RMB M	41.35	33.10	77.19
Operating cost (excl. royalty & tax)	RMB/t Rom Coal	207.04	229.95	22.95
Resource tax	%			6%@Sales Revenue
City facility maintenance tax	%			5%@payable VAT
Public education surcharges	%			5%@payable VAT
Corporate income tax	%			25%@Gross Profit
Equipment Depreciation	Year			10
Shafts, Surface facilities Depreciation	Year			40
Other Assets Depreciation/Amortization	Year			10

14.2.1 Mining Production and Process Capacities

A 31.5 and 20 years of Life-of-mine schedule with an ultimate 1.2 Mtpa and 0.9 Mtpa of full mining capacity for Yong-an and Weiyi were applied respectively in the model. SRK assumes that the CPP only processes the ROM coal produced from the two mines. The average wash yields of the clean coal, middling coal and sludge coal are approximately 70%, 17% and 5%, respectively.

Table 41: Production Schedule

ROM Coal Production (Mt)	2022-2024	2025	2026	2027 – 2041 (annual)	2042 (annual)	2043 – 2051 (annual)	2052	2053
Yong-an Mine	--	0.60	1.00	1.20	1.20	1.20	1.00	0.60
Weiyi Mine	---	0.30	0.70	0.90	0.52	---	---	---
CPP processing	---	0.90	1.70	2.10	1.72	1.20	1.10	0.60
Remarks	Construction	Production	Production	Production	Production	Production	Production	Production

14.2.2 Capital and Operating Costs

Capital Cost

The applied initial capital costs for the project construction is derived from the EAR, the sustaining capital cost is estimated by SRK based on EAR. The annual investment plan for the three years project construction is presented in Table 42 however the net book value of the incurred capital cost is not included.

Table 42: The Initial Capital Cost for Projects Construction (RMB M)

Projects	2022	2023	2024	Total
Yong-an Mine	311.89	415.85	311.89	1,039.63
Weiyi Mine	270.55	360.73	270.56	901.84
CPP	135.47	58.06	---	193.53
Total	**717.91**	**834.64**	**582.45**	**2,135**

Working Capital Cost

The estimation of the working capital included in the financial model was based on the following assumptions:

- Accounts receivable days 30 days;
- Inventory days
  - ✓ Raw materials 60 days;
  - ✓ Fuel 30 days;
  - ✓ Products in process 5 days;
  - ✓ Products 5 days;
- Cash 15 days;
- Accounts payable days 30 days.

The estimated overall annual needed working capital cost at full capacity for Yong-an mine, CPP and Weiyi mine is RMB 41.35 million, RMB 77.19 million and RMB 33.10 million, respectively.

14.2.3 Taxes and Surcharges

Taxes and surcharges are taxes related to the production and sale of products, including resource taxes, city facility maintenance tax, soil protection tax and education surcharges. The resource tax is levied according to the market values, and it is calculated based on the coal sales income and the tax rate determined by the local government. The tax rate of the washed coal products for this project is 6%. The following are the related calculation method:

Resource tax = washed coal sales (VAT excluded) * applicable tax rate

City facility maintenance tax and public education surcharges are based on VAT payable, and the tax rate varies with a company's address of registration. As part of this review, the applicable tax rate is 5%, of which the education surcharge includes 3% of the central government education fee and 2% of the local government education fee. The VAT is the output tax minus the input tax, and the ad valorem rate shall be calculated at 13%. Input tax mainly includes the VATs for purchasing materials, electricity, and power, etc. There are many items for input tax, and usually it is difficult to obtain VAT invoices, therefore the deduction is difficult to be estimated. SRK's estimation of VAT input tax is a simplified calculation that only consider the input VAT for purchasing materials, electricity and power.

14.2.4 Depreciation and Amortization

Wear and tear allowances are granted on fixed assets and other capital assets used in the production of income. Production nature biological assets are also classified as capital assets under the CIT regime and can also be depreciated. Generally, the straight-line method of depreciation is allowed.

Depreciation on fixed assets and production nature biological assets is computed beginning from the month following that in which the assets are put into use and ceasing from the month following that in which the assets are no longer used. Minimum depreciation periods for different kinds of assets are specified in Table 43.

Table 43: Minimum Depreciation Periods for Different Kinds of Assets

Item	Years
Buildings and structures	40
Aircrafts, train, vessels, machinery, mechanisms and other production equipment	10
Appliances, tools, furniture, etc.	5
Means of transport other than aircrafts, trains and vessels	4
Electronic equipment	3
Production-nature biological assets in the nature of forestry	10
Production-nature biological asset in the nature of livestock	3

14.3 Analysis Result

Different net present values were estimated by SRK through the DCF model by using the assumptions outlined in the above sections. The net present values based on different discount rate were also estimated and presented in Table 44. All the values were estimated on a 100% equity basis.

Table 44: Estimated NPV at Different Discount Rate

Discount Rate	6%	7%	8%	9%	10%	11%	12%
NPV (RMB M)	5,828	4,940	4,192	3,557	3,017	2,554	2,155

The estimated net present values have demonstrated the economic viability of the projects and therefore the result support the reserve estimation.

15 Environmental Studies, Permitting, and Social or Community Impact

15.1 Environmental, Permitting, and Social or Community Review Objective

The objective of this section of the due diligence review is to identify and/or verify the existing and potential Environmental, Permitting, and Social or Community liabilities and risks, and assess any associated proposed remediation measures for the Yong-an and Weiyi Underground Metallurgical Coal Project (the Project).

15.2 Environmental, Permitting, and Social or Community Review Process, Scope, and Standards

The objective of this environmental and social due diligence review is to identify any existing and potential environmental and social liabilities and risks, and assess and comment on any associated proposed remediation measures for the Project against:

- Chinese national environmental regulatory requirements; and
- World Bank/International Finance Corporation (IFC) environmental standards and guidelines, and internationally recognised environmental management practices.

The methodology applied for this environmental review of the Project consisted of a combination of documentation review, site visit, and interviews with Company technical representatives. The site visit for the environmental review was undertaken on 26 to 28 April 2021.

15.3 Status of Environmental Approvals

The basis of environmental policy in China is contained in the 2004 Constitution of the People's Republic of China. Pursuant to Article 26 of the Constitution, the state protects and improves the environment in which people live and the ecological environment. It prevents and controls pollution and other public hazards. The state organizes and encourages afforestation and the protection of forests.

The following are other Chinese laws that provide environmental legislative support to the Minerals Resources Law of the People's Republic of China (1996) and the Environmental Protection Law of the People's Republic of China (2014):

- Environmental Impact Assessment (EIA) Law (2016).
- Law on Prevention & Control of Atmospheric Pollution (2015).
- Law on Prevention & Control of Noise Pollution (1996).
- Law on Prevention & Control of Water Pollution (2017).
- Law on Prevention & Control Environmental Pollution by Solid Waste (2016).
- Forestry Law (1998).

- Water Law (2016).
- Land Administration Law (2004).
- Protection of Wildlife Law (2016).
- Regulations on the Administration of Construction Project Environmental Protection (2017).

In accordance with Chinese legislation the Project will be subjected to a comprehensive Environmental Impact Assessment ("EIA") to assess the environmental impacts of the proposed development on the human and natural environment prior to the commencement of mining operations.

The Company has provided SRK with the following Environmental Impact Assessment (EIA) reports and approvals for the Project:

- The EIA report for the Yong-an Mine and Coal Washing Plant was prepared by Nuclear Industry 203 Institute and Ningxia Institute of Petrochemical Environmental Science in March 2007.
- The EIA approval for the Yong-an Mine and Coal Washing Plant was issued by Ningxia Hui Autonomous Region Environmental Protection Bureau on March 12, 2007.
- The EIA report for the Weiyi Mine was prepared by Nuclear Industry 203 Institute and Ningxia Institute of Petrochemical Environmental Science in March 2007.
- The EIA approval for the Weiyi Mine was issued by Ningxia Hui Autonomous Region Environmental Protection Bureau on March 12, 2007.

The Company has provided SRK with the following Water and Soil Conservation Plans (WSCP) and approvals for the Project:

- The WSCP for the Yong-an Mine and Coal Washing Plant was prepared by Ningxia Institute of Petrochemical Environmental Science in February 2008.
- The WSCP approval for the Yong-an Mine and Coal Washing Plant was issued by Ningxia Hui Autonomous Region Water Bureau on March 5, 2008.
- The WSCP report for the Weiyi Mine was prepared by Ningxia Institute of Petrochemical Environmental Science in February 2008.
- The WSCP approval for the Weiyi Mine was issued by Ningxia Hui Autonomous Region Water Bureau on March 5, 2008.

The legal due diligence report issued by Commerce & Finance Law Offices on the Project makes the following statement relating to the EIA and WSCP approvals:

  - According to the "Catalogue of Construction Projects for Approval of EIA Documents by the Ministry of Ecology and Environment (2019)", coal development projects approved by the relevant departments of the State Council should be approved by the Ministry of Ecology and Environment. It is recommended to apply for the approval of the Ministry of Ecology and Environment.
  - Due to the long-term suspension of the Project, the approval of WSCP may need to be re-applied.

However, SRK has sighted a reply letter of EIA approval-related issues which was promulgated by Ningxia Hui Autonomous Region Environmental Protection Bureau on March 15, 2013. The letter states the environmental assessment document of the Yong-an Mine and Coal Washing Plant is valid. The Company also stated to SRK that the EIA approvals of the Project are still valid and only EIA alteration is needed before the reconstruction.

SRK has reviewed these documents against Chinese legislation and recognized international industry environmental management standards, guidelines and practices. In the following sections, SRK provides comments in respect to the Project's proposed environmental management measures.

15.4 Key Environmental, and Social or Community Aspects

15.4.1 Water Management

Due to the influence of meteorology, natural geography, geology and geomorphology, the water resources around the Project site are extremely poor. The perennial flowing waterbody includes the Weizhou River and the Kushui River, which have low runoff and poor water quality and are not utilized

According to the EIA reports of the Project, the water source for production and domestic use for Yong-an and Weiyi mine are from Oil base pipeline, Huianbao Reservoir, Taiyangshan water supply project and mine water. However, the Company reported that Huanghe River and water pipeline of Taiyangshan Industry Park may be the preferred option for the Project's water source. The EIA reports states that the total water use for Yong-an and Weiyi mine are 2,508.61 m^3/d and 1,331.4 m^3/d respectively. SRK recommends the Company acquire the necessary approval or agreement if the Project extracts water from the river.

The potential negative impacts of the Project to surface water and ground water are due to the indiscriminate discharge of untreated production and domestic waste-water. In addition, the mining activities may lead to the change of the groundwater table. The waste water for the Project consists of mine water, domestic waste water, etc.

According to the EIA reports, the normal mine water for Yong-an and Weiyi mine are 1,440 m^3/d and 1,200 m^3/d respectively. The mine water is treated by the underground mine water treatment system to meet the water quality standard and then reused for coal washing, fire-fighting and dust suppression. The domestic sewage is treated by integrated treatment facility and then reused for greening and floor washing on site. The EIA reports suggest the Project intercept the rainwater and construct drainage culvert for the waste rock dump, and avoid the negative impact on the surface and ground water quality caused by the leaching from the waste rock dump.

No comprehensive groundwater and surface water quality monitoring program has been sighted for the Project. SRK recommends that quality monitoring be undertaken of the groundwater and surface water resources within the project area (including upstream and downstream of the project area), and also any site water discharges. This water quality monitoring should form part of a broader site environmental monitoring program. SRK also recommends the Company construct an effective drainage system to divert run-off from undisturbed areas. In addition, some prevention measures, such as surface hardening, second containment facility, leachate collection and accident pool, are recommended to mitigate the water pollution risks.

15.4.2 Waste Rock Management

According to the EIA reports, temporary waste rock dump ("WRD") will be used to store the waste rock generated by underground mining and the coal washing plant. During the production period, the amount of waste rock from Yong-an coal washing plant is 144,000 t/a, and the amount of mining waste rock is 36,000 t/a. The waste rock generated by Weiyi mine is estimated to be 45,000 t/a. All of them will be temporarily stored in the WRD and used as raw materials of gangue power plant. During the time of this site visit, SRK sighted a WRD was present on the site of Yong-an mine.

No geochemical characterization of waste rocks or acid rock drainage assessment has been sighted as part of this review. Acid rock drainage ("ARD") refers to the acidic water that is created when sulphide minerals are exposed to air and water and, through a natural chemical reaction, produce sulphuric acid. ARD has the potential to introduce acidity and dissolved metals into water, which can be harmful to surface and groundwater. However, the EIA reports states that after analogous analysis of the waste rock leachate of Yangchangwan coal mine, leachate indicators are not more than the highest limit value of GB8978-1996. According to the relevant provisions of "General industrial solid waste storage, disposal site pollution control standards", the waste rock of the Project belongs to the general solid waste category I.

15.4.3 Hazardous Substances Management

Hazardous materials have the characteristics of corrosive, reactive, explosive, toxic, flammable and potentially biologically infection, which pose a potential risk to human and/or environmental health. The hazardous materials will be generated mainly by the Project's construction, mining, and coal washing operations and include of hydrocarbons (i.e. fuels, waste oils, and lubricants), processing reagents, chemical and oil containers, batteries, medical waste, and paint.

The main hazardous materials for the Project's operations will comprise the storage and handling of waste oil, reagents, fuel, etc. No hazardous materials management plan for the Project has been sighted as part of this review. SRK recommends that the collected waste oil, fuel tanks and reagents be stored with secondary containment which is in line with the recognised international industry management practices.

15.4.4 Site Ecological Assessment

The landform and topography in the mining area is commonly changed by mining, waste rock dumping, haul roads, office buildings and dormitories, and other facilities. The development of this Project may also result in impacts to or loss of flora and fauna habitat. If effective measures are not taken to manage and rehabilitate the disturbed areas, the surrounding land can become polluted and the land utilization function will be changed, causing an increase in land desertification, water loss and soil erosion. The Project's EIA should determine the extent and significance of any potential impacts to flora and fauna habitat. Where these potential impacts to flora and fauna habitat are determined to be significant, the EIA should also propose effective measures to reduce and manage these potential impacts. The EIA reports for the Project propose the ecological protection and restoration measures. In addition, there are no rare or endangered species mentioned in the EIA reports.

The WSCP reports for the Project state that the area of the original landscape that will be disturbed by Yong-an and Weiyi mine are 48.61 ha (including 11.41 ha of subsidence area) and 26.32 ha (including 9.72 ha of subsidence area). All disturbed land is used for pasture. At the time of writing, no other documented, estimated, and/or currently surveyed areas of land disturbance for the Project's mine site have been sighted as part of this review. SRK recommends that the operational areas of land disturbed for the Project be surveyed and recorded on an annual basis.

15.4.5 Dust and Noise Emissions

The dust emission sources for the Project are mainly from mining, loading and unloading, WRD, crushing, screening and movement of vehicles and mobile equipment. Dust management measures for the Project proposed in the EIA reports mainly comprises watering of roads and stockpiles, enclosed transport and greening on site. The EIA reports also suggest the exhaust gas generated by the boiler should be treated by dust removal facilities before being discharged.

The main sources of noise emissions for the Project are from the operation of the mining, coal washing plant operation and movement of vehicles/mobile equipment. The EIA reports for the Project proposes the following noise management measures:

- Use of low-noise equipment;
- Optimizing the layout on site;
- Enclosure of noisy equipment;
- Installation of sound-deadening equipment; and
- supply earplugs for the workforce.

It is SRK's opinion that the dust and noise prevention measures mentioned in the EIA reports are feasible and recommends that the Company adopt the proposed mitigation measures during the Project's construction and operation. SRK also recommends including ambient air quality and noise monitoring as part of a site environmental monitoring program.

15.4.6 Occupational Health and Safety

A well developed and comprehensive safety management system comprises site inductions, site policies, safe work procedures, training, risk/hazard management (including signage), use of personal protective equipment ("PPE"), emergency response process, incident/accident reporting, an onsite first aid/medical centre, designated safety responsibilities for site personnel, regular safety meetings and a work permit/tagging system.

No safety reports, present or historical, and occupational health and safety training program for the Project have been sighted as part of this review. SRK recommends the Company conduct safety record and develop incident analysis reports for the possible injuries in future. The proposed reports analysed the cause of injuries and identified measures to prevent a recurrence, which are in line with international recognized OHS accident monitoring practice.

15.4.7 Emergency Response Plan

The recognised international industry practice for emergency management is for a project to develop and implement an Emergency Response Plan ("ERP"). The general elements of an operational ERP are the following:

- Administration – policy, purpose, distribution, and definitions of potential site emergencies and organisational resources (including determining roles and responsibilities).
- Emergency response areas – command centres, medical stations, gathering points, and evacuation points.
- Communication systems – both internal and external communications.
- Emergency response procedures – work area–specific procedures (including area-specific training).
- Checking and updating – checklists (role and action list and equipment checklist) and regular reviews of the plan.
- Business continuity and contingency – options and processes for business recovery from an emergency.

No emergency response plan for the Project has been sighted as part of this review. However, the EIA reports mention the requirements of the geological hazard emergency response plan. SRK recommends that an operational ERP in line with Chinese National requirements and recognised international industry practices is developed and implemented for the Project.

15.4.8 Site Closure Planning and Rehabilitation

The Chinese national requirements for mine closure are covered under Article 21 of the Mineral Resources Law of People's Republic of China (1996), the Rules for Implementation of the Mineral Resources Law of the People's Republic of China (2006), the Mine Site Geological Environment Protection Regulations (2015), and the Land Rehabilitation Regulation (2011) issued by the State Council. In summary, these legislative requirements cover the need to conduct land rehabilitation, to prepare a site closure report, and to submit a site closure application for assessment and approval.

The recognised international industry practice for managing site closure and rehabilitation is to develop and implement an operational site closure and rehabilitation planning process and document this through an operational Closure and Rehabilitation Plan. This operational closure planning process generally includes the following components:

- Identify all site closure stakeholders (e.g. government, employees, community, etc.).
- Undertake stakeholder consultation to develop agreed site closure criteria and post operational land use.
- Maintain records of stakeholder consultation.
- Establish a site rehabilitation objective in line with the agreed post operational land use.
- Describe/define the site closure liabilities (i.e. determined against agreed closure criteria).
- Establish site closure management strategies and cost estimates (i.e. to address/reduce site closure liabilities).

- Establish a cost estimate and financial accrual process for site closure.
- Describe the post site closure monitoring activities/program (i.e. to demonstrate compliance with the rehabilitation objective/closure criteria).

While this site closure planning process is not specified within the Chinese national requirements for mine closure, the implementation of this process for a Chinese mining project will:

- Facilitate achieving compliance with these Chinese national legislative requirements; and
- Demonstrate conformance to a recognised international industry management practice.

The land reclamation reports for the Project were produced by Ningxia Institute of Petrochemical Environmental Science in June 2010. The reports were approved by Ningxia Hui Autonomous Region Land and Resources Bureau on July 26, 2010. SRK has also sighted two approvals for the Project's geological environmental protection and treatment plans which were issued by Ningxia Hui Autonomous Region Land and Resources Bureau in July 2010.

The land reclamation reports state the total investment of land reclamation for Yong-an and Weiyi mine are RMB 667,000 and RMB 505,400 respectively. According to the Chinese legal requirements, a mine geological environment treatment and restoration fund account should be established by the Company. However, SRK has not sighted any documentary evidence for the guarantee fund as part of this review. SRK notes that the application period of the geological environmental protection and treatment plans was expired, and it is recommended to update the report.

15.4.9 Environmental Protection and Management Plan

The purpose of an operational Environmental Protection and Management Plan ("EPMP") is to direct and coordinate the management of the project's environmental risks. The EPMP documents the establishment, resourcing, and implementation of the project's environmental management programs. The site environmental performance should be monitored and feedback from this monitoring could then be utilised to revise and streamline the implementation of the EPMP.

No such plan has been developed for the Project operations that cover the aforementioned components. However, the EIA reports reviewed by SRK describe the various components of a comprehensive operational EPMP, such as environmental administration, regular environmental monitoring to be conducted by the commissioned monitoring company and site environmental management. The EIA reports also specify the monitoring points, analysis items and monitoring frequency. The proposed monitoring items comprise dust, SO_2, TSP, noise, etc. SRK recommends that as the Project moves toward reconstruction and operation, the Company develop and implement an operational EPMP—inclusive of a monitoring programme—in line with the recognised international practices.

15.4.10 Social Aspects

The Yong-an and Weiyi Underground Metallurgical Coal Project is located in the Taiyangshan area of Weizhou Town, Tongxin County, Wuzhong City, Ningxia Hui Autonomous Region. The general surrounding land of the Project is farmland and pastureland.

The main administrative body for the Project is the Ningxia Hui Autonomous Region Government, with some delegation of environmental regulation to the Wuzhong City and Tongxin County. According to the provided documentation, SRK has not sighted any historical or current non-compliance notices and or other documented regulatory directives in relation to the development of Project. The EIA reports for the Project does not report any natural reserves or significant cultural heritage sites within or surrounding the mine site. However, SRK notes that the Taiyangshan National Wetland Park is about 2 km away from the Yong-an mine.

The EIA reports provided public participation survey for the Project's construction. The survey results showed 96.6% support for the Project's construction. In the survey, it is found that the 44% public believes that air pollution has a greater impact on their own lives. No other documented public consultation process for the development of the Project has been sighted as part of this review.

During the site visit, SRK observed that the Yellow River diversion channel passes through the Project area. In addition, wheat fields also exist within the mine site. SRK recommends that future construction and operation of the Project should be sensitive to the impact on these facilities. The Company stated to SRK that there is no longer any permanent residence in the project area, and some of the remaining houses are used for temporary grazing purposes.

SRK recommends that the Company acquire the necessary land use permits or agreements for the Project to meet the national legal requirements. In addition, a Public Consultation and Disclosure Plan is recommended to ensure ongoing community engagement. Furthermore, SRK recommends that the Company develop a Grievance Mechanism to receive and address specific concerns raised by members of host communities in a timely fashion.

16 Workforce

The proposed workforce according to the PMD and the EAR, the estimation of the workforce is based on a typical mine organization structure common for Chinese coal mines and follows design recommendations used by the Chinese coal mining industry.

The proposed workforce for the two mines at the stage of operation with the first mining section at full ROM capacity is shown below. It should be noted that the numbers of the workforce for the Yong-an project includes the workforce of the Yong-an CPP.

Table 45: Estimated Number of Workforce for Yong-an and Weiyi Mine

Coal Mine	Production	Management	Others	Total
Yong-an	608	30	62	700
Weiyi	431	21	35	487

17 Risk Assessment

17.1 Introduction

Coal mining is a relatively high-risk industry and is subject to a number of operational risks. Some of which can even be beyond a mine's management and operators' control. Project risk may decrease from the exploration and development stage to the production stage, and over the LOM through to mine closure.

Reporting standards and rules governing the listing of securities require the disclosure of general and specific risks associated with a project if relevant and material to the Company's business operation. For this risk assessment which is covering technical-economic project and operation risks SRK has identified the following relevant risk areas for which specific risks and hazards were reviewed and rated:

- Geology
- Mine construction and development
- Mining and processing
- Capex and Opex
- Environmental issues
- Social, health, and safety concerns; and
- Other risks (natural risks influencing operation; permitting; etc.)

The risks associated with the above items may cause incidents such as mine roof collapse, instability of mine workings and slopes, flooding, explosions caused by methane gas or coal dust, and fires. It may result in personal injury to employees as well as damage to or destruction of property, mine structures and facilities. These risks may also cause increased costs, business interruptions, legal liability, environmental damage, and other damages, and must be considered in project and investment decisions.

The risk assessment by SRK in this Report is qualitative and considers the risks at the time of the review. It follows the Australian Standards AS/NZ 3931:1998, AS/NZ 4360:1999, (Risk Management), and HB 203:2004 (Environmental Risk Management) which have been developed in line with comparable international standards.

SRK has further compared the results of its risk assessment with the risk assessment provided in the FS/PMD studies and concludes that the results and conclusions are consistent. For the IPO Prospectus, the Company will provide additional overall project risk assessment.

17.2 Risk Assessment

SRK's risk assessment covers the Yong-an and Weiyi coal mine projects. The risk assessment is shown in the table below. The overall technical-economic project risk for the two projects would be rated by SRK as "Medium" to "High".

Table 46: Risk Assessment

Risk Area / Hazard	Yong-an			Weiyi		
	Likelihood	Conse- quence	Risk Rating	Likelihood	Conse- quence	Risk Rating
Geological						
Coal Resource Risk (Quantitative Exploration or Estimation Errors)	Unlikely	Major	Low Risk	Unlikely	Major	Low Risk
Coal Quality Risk (Exploration, Sampling, Analysis Errors)	Unlikely	Moderate	Low Risk	Unlikely	Moderate	Low Risk
Undetected Significant Structural Disturbances/Faults	Possible	Moderate	Medium Risk	Possible	Moderate	Medium Risk
Severe Hydrogeological Conditions (Excessive Groundwater Influx)	Possible	Moderate	Medium Risk	Possible	Moderate	Medium Risk
Mine Development and Plant Construction						
Delay of Underground Development	Possible	Moderate	Medium Risk	Possible	Moderate	Medium Risk
Delay of Surface Mine Facilities and Plant Construction	Possible	Minor	Low Risk	Possible	Minor	Low Risk
Delay of Mine Equipment and Plant Procurement and Installation	Possible	Moderate	Medium Risk	Possible	Moderate	Medium Risk
Mining & Reserve						
Inadequate Mining Method and Design	Possible	Moderate	Medium Risk	Possible	Moderate	Medium Risk
Coal Reserve Risk (Estim. Error; Reduced Recovery by Mining Factors)	Possible	Moderate	Low Risk	Possible	Moderate	Low Risk
Inadequacy of Equipment and its Capacity / Equipment Failure	Unlikely	Major	Low Risk	Possible	Major	Low Risk
Adverse Micro-Geological Conditions (Faults and Disturbances)	Possible	Major	Medium Risk	Possible	Major	Medium Risk
Geotechnical Risks (Roof, Floor, Structural Stability; Stress)	Possible	Major	Medium Risk	Possible	Major	Medium Risk
Sterilizing of Coal Reserve (Panel Extraction Sequence)	Unlikely	Moderate	Low Risk	Unlikely	Moderate	Low Risk
Spontaneous Combustion / Mine Fire / Coal Dust Explosion	Possible	Moderate	Medium Risk	Possible	Moderate	Medium Risk
Coal Gas Explosion / Seam Gas Outbursts	Possible	Catastrophic	High Risk	Possible	Catastrophic	High Risk
Lack of Skilled Labour and Operation Management	Unlikely	Moderate	Low Risk	Unlikely	Moderate	Low Risk

Risk Area / Hazard	Yong-an			Weiyi		
	Likelihood	Conse- quence	Risk Rating	Likelihood	Conse- quence	Risk Rating
Coal Handling, Coal Preparation, Coal Transport						
Inadequate Coal Handling Systems, Coal Silo/Stockpile Capacity	Unlikely	Moderate	Low Risk	Unlikely	Moderate	Low Risk
Inadequate Coal Preparation Process, Capacity, Yield, Quality	Unlikely	Moderate	Low Risk	Unlikely	Moderate	Low Risk
Coal Transport – Interruption and Capacity (Truck, Train)	Unlikely	Moderate	Low Risk	Unlikely	Moderate	Low Risk
Costs, Coal Price and Market						
Construction and Development Cost Overrun	Possible	Moderate	Medium Risk	Possible	Moderate	Medium Risk
Unexpected Capital Investment (Cost) Requirement	Possible	Moderate	Medium Risk	Possible	Moderate	Medium Risk
Operating Costs Increase (Mining)	Possible	Moderate	Medium Risk	Possible	Moderate	Medium Risk
Operating Costs Increase (Coal Processing)	Unlikely	Moderate	Low Risk	Unlikely	Moderate	Low Risk
Shortage of Funds by Poor Project Financial Management	Possible	Major	Medium Risk	Possible	Major	Medium Risk
Coal Price Decrease	Possible	Moderate	Medium Risk	Possible	Moderate	Medium Risk
Market and Demand Shortage / Coal Oversupply	Unlikely	Moderate	Low Risk	Unlikely	Moderate	Low Risk
Environmental and Social						
Wastewater Discharge (including possible environmental impact)	Possible	Minor	Low Risk	Possible	Minor	Low Risk
Waste Rock and Gangue Dumping	Possible	Minor	Low Risk	Possible	Minor	Low Risk
Dust Emission	Possible	Minor	Low Risk	Possible	Minor	Low Risk
Hazardous Waste and Impact	Possible	Moderate	Medium Risk	Possible	Moderate	Medium Risk
Impact to Biodiversity	Possible	Minor	Low Risk	Possible	Minor	Low Risk
Resettlement and Land Rights	Possible	Moderate	Medium Risk	Possible	Moderate	Medium Risk

Risk Area / Hazard	Yong-an			Weiyi		
	Likelihood	Conse- quence	Risk Rating	Likelihood	Conse- quence	Risk Rating
Land Disturbance and Subsidence	Possible	Minor	Low Risk	Possible	Minor	Low Risk
Mine Closure Issues	Possible	Moderate	Low Risk	Possible	Moderate	Low Risk
Social and Work Force Issues	Unlikely	Moderate	Low Risk	Unlikely	Moderate	Low Risk
Stakeholder, Public, Community Engagement	Possible	Moderate	Medium Risk	Possible	Moderate	Medium Risk
Future Coal Use and CO2 Restrictions	Possible	Minor	Low Risk	Possible	Minor	Low Risk
Legal, Political and Other Risks						
Land Acquisition, Compensation, and Regulatory Issues	Unlikely	Moderate	Low Risk	Unlikely	Moderate	Low Risk
Exploration and Production Licenses	Unlikely	Minor	Low Risk	Unlikely	Minor	Low Risk
Other Licenses and Permits	Possible	Major	Medium Risk	Possible	Major	Medium Risk
Natural Risks in the Mine Area (Flood, Earthquake, etc.)	Unlikely	Minor	Low Risk	Unlikely	Major	Medium Risk
Interruption of Supplies (Power, Water, Fuel)	Unlikely	Moderate	Low Risk	Unlikely	Moderate	Low Risk

Closure

This report, Competent Person's Report for Yong-an and Weiyi Underground Metallurgical Coal Projects in Ningxia Hui Autonomous Region, China, was prepared by

Yongchun Hou, Principal Consultant (Geology)
Competent Person

Reviewed and endorsed by

Bruno Strasser, Associate Principal Consultant (Mining)
Competent Person

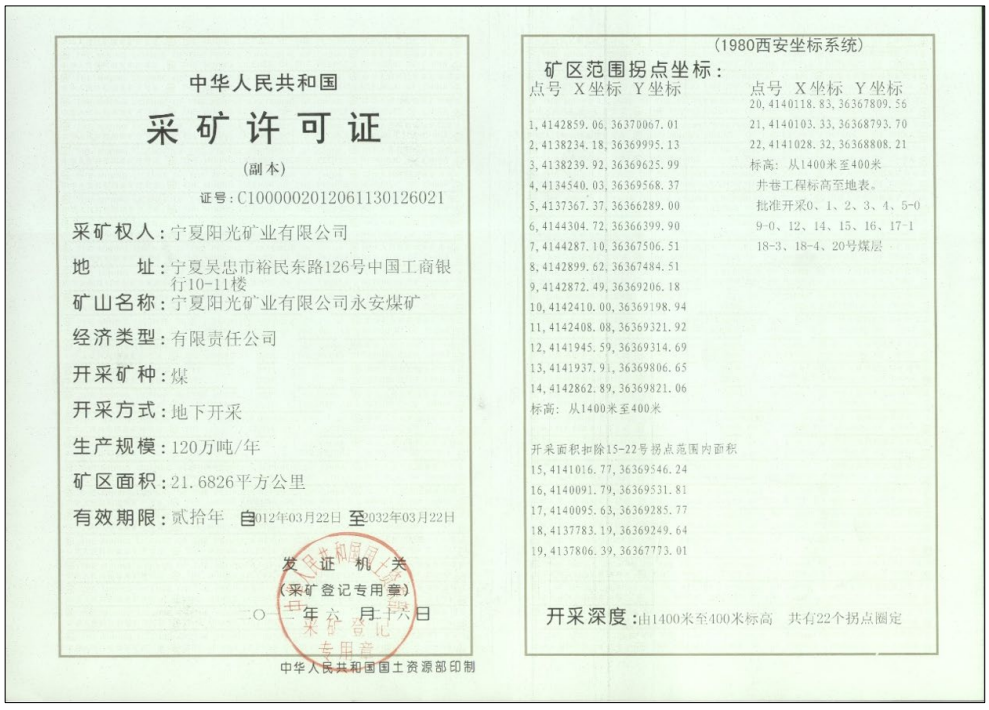
All data used as source material plus the text, tables, figures, and attachments of this document have been reviewed and prepared in accordance with generally accepted professional engineering and environmental practices.

References

- Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, 2012 Edition
- Detail Exploration & Geological Report on the Yong-an Mine in Ningxia Hui Autonomous Region ("2007 YOAN Geological Report"), 2007, prepared by the 2nd Geological Brigade of Jiangsu Coal Geology Bureau ("JS2B");
- Detail Exploration & Geological Report on the Weiyi Mine in Ningxia Hui Autonomous Region, 2007, prepared by Ningxia Coal Exploration and Engineering Company ("NXCE").
- Yong-an Coal Mine and Washing Plant – Preliminary Mine Design Report, 2008; China Coal Xi'an Design Engineering Co. Ltd.
- Yong-an Coal Mine and Washing Plant – Updated Preliminary Design / Project Application Report, March 2013; China Coal Xi'an Design Engineering Co. Ltd.
- Weiyi Coal Mine – Preliminary Design of Weiyi Mine, September 2008; China Coal Handan Design & Engineering Co. Ltd.
- Weiyi Coal Mine – Updated Preliminary Design / Project Application Report of Weiyi Mine, 2013; China Coal Handan Design & Engineering Co. Ltd.
- Updated Economic Analysis Report for the two 2013 Preliminary Mine Design, June 2021; China Coal Xi'an Design Engineering Co. Ltd.

Appendix A Mining Licenses

Mining License of Yong-an Mine



中华人民共和国

采矿许可证

(副本)

证号：C1000002012061130126021

采矿权人：宁夏阳光矿业有限公司

地　　址：宁夏吴忠市裕民东路126号中国工商银行10-11楼

矿山名称：宁夏阳光矿业有限公司永安煤矿

经济类型：有限责任公司

开采矿种：煤

开采方式：地下开采

生产规模：120万吨/年

矿区面积：21.6826平方公里

有效期限：贰拾年　自2012年03月22日至2032年03月22日

发证机关

(采矿登记专用章)

二〇一二年六月十八日

中华人民共和国国土资源部印制

(1980西安坐标系统)

矿区范围拐点坐标：

点号	X坐标	Y坐标
1	4142859.06	36370067.01
2	4138234.18	36369995.13
3	4138239.92	36369625.99
4	4134540.03	36369568.37
5	4137367.37	36366289.00
6	4144304.72	36366399.90
7	4144287.10	36367506.51
8	4142899.62	36367484.51
9	4142872.49	36369206.18
10	4142410.00	36369198.94
11	4142408.08	36369321.92
12	4141945.59	36369314.69
13	4141937.91	36369806.65
14	4142862.89	36369821.06

标高：从1400米至400米

开采面积扣除15-22号拐点范围内面积

15	4141016.77	36369546.24
16	4140091.79	36369531.81
17	4140095.63	36369285.77
18	4137783.19	36369249.64
19	4137806.39	36367773.01
20	4140118.83	36367809.56
21	4140103.33	36368793.70
22	4141028.32	36368808.21

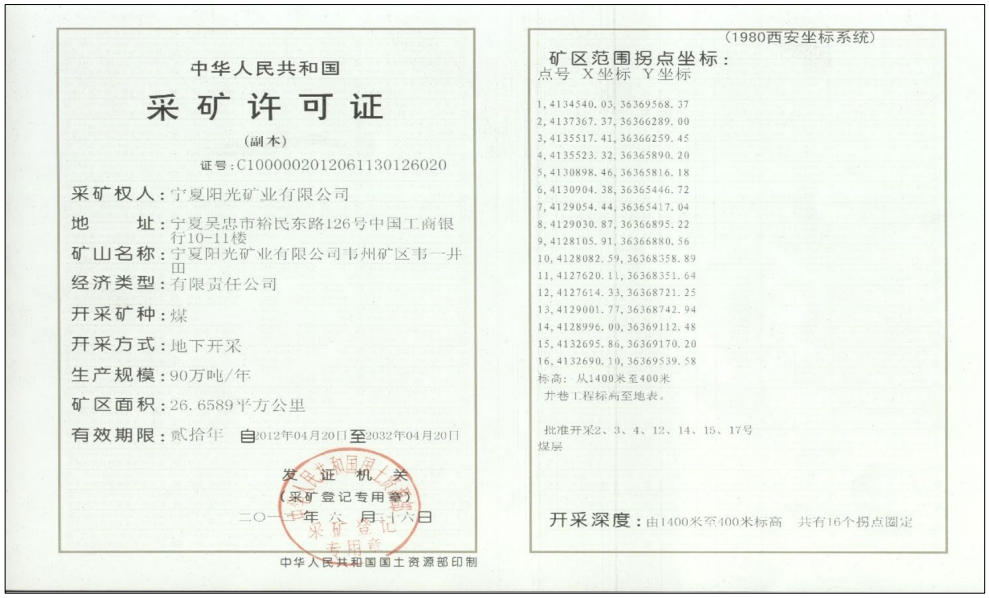
标高：从1400米至400米

井巷工程标高至地表。

批准开采0、1、2、3、4、5-0、9-0、12、14、15、16、17-1、18-3、18-4、20号煤层

开采深度：由1400米至400米标高　共有22个拐点圈定

Mining License of Weiyi Mine



中华人民共和国

采矿许可证

(副本)

证号：C1000002012061130126020

采矿权人：宁夏阳光矿业有限公司

地　　址：宁夏吴忠市裕民东路126号中国工商银行10-11楼

矿山名称：宁夏阳光矿业有限公司韦州矿区韦一井田

经济类型：有限责任公司

开采矿种：煤

开采方式：地下开采

生产规模：90万吨/年

矿区面积：26.6589平方公里

有效期限：贰拾年　自2012年04月20日至2032年04月20日

发证机关

(采矿登记专用章)

二〇一二年六月十八日

中华人民共和国国土资源部印制

(1980西安坐标系统)

矿区范围拐点坐标：

点号	X坐标	Y坐标
1	4134540.03	36369568.37
2	4137367.37	36366289.00
3	4135517.41	36366259.45
4	4135523.32	36365890.20
5	4130898.46	36365816.18
6	4130904.38	36365446.72
7	4129054.44	36365417.04
8	4129030.87	36366895.22
9	4128105.91	36366880.56
10	4128082.59	36368358.89
11	4127620.11	36368351.64
12	4127614.33	36368721.25
13	4129001.77	36368742.94
14	4128996.00	36369112.48
15	4132695.86	36369170.20
16	4132690.10	36369539.58

标高：从1400米至400米

井巷工程标高至地表。

批准开采2、3、4、12、14、15、17号煤层

开采深度：由1400米至400米标高　共有16个拐点圈定

Appendix B Resource and Reserve Standards

Categorisation of Mineral Resources and Ore Reserves

The system for categorisation of mineral resources and ore reserves in China is in a period of transition which commenced in 1999. The traditional system, which is derived from the former Soviet system, uses five categories based on decreasing levels of geological confidence – Categories A, B, C, D and E. The new system (Rule 66) promulgated by the Ministry of Land and Resources (MLR) in 1999 uses three dimensional matrices, based on economic, feasibility/mine design and geological degrees of confidence. These are categorised by a three number code of the form "123". This new system is derived from the UN Framework Classification proposed for international use. All new projects in China must comply with the new system, however, estimates and feasibility studies carried out before 1999 will have used the old system.

Wherever possible, the Chinese Resource and Reserve estimates have been reassigned by SRK to categories similar to those used by the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (JORC Code) to standardise categorisation. Although similar terms have been used, SRK does not mean to imply that in their present format they are necessarily classified as "Mineral Resources" as defined by the JORC Code.

A broad comparison guide between the Chinese classification scheme and the JORC Code is presented in the following table.

JORC Code Resource Category	Chinese Resource Category	
	Previous system	Current system
Measured	A, B	111, 111b, 121, 121b, 2M11, 2M21, 2S11, 2S21, 331
Indicated	C	122, 122b, 2M22, 2S22, 332
Inferred	D	333
Non-equivalent	E	334

Definition of the New Chinese Resource and Reserve Category Scheme

Category	Denoted	Comments
Economic	1	Full feasibility study considering economic factors has been conducted
	2	Prefeasibility to scoping study which generally considers economic factors has been conducted
	3	No prefeasibility or scoping study conducted to consider economic analysis
Feasibility	1	Further analysis of data collected in "2" by an external technical department
	2	More detailed feasibility work including more trenches, tunnels, drilling, detailed mapping
	3	Preliminary evaluation of feasibility with some mapping and trenches
Geologically controlled	1	Strong geological control
	2	Moderate geological control via closely-spaced data points (e.g. small scale mapping)
	3	Minor work which is projected throughout the area
	4	Review stage

Relationship between JORC Code and the Chinese Reserves System

In China, the methods used to estimate the resources and reserves are generally prescribed by the relevant government authority, and are based on the level of knowledge for that particular geological style of deposit. The parameters and computational methods prescribed by the relevant authority include cut-off grades, minimum thickness of mineralisation, maximum thickness of internal waste, and average minimum 'industrial' or 'economic' grades required. The resource classification categories are assigned largely on the basis of the spacing of sampling, trenching, underground tunnels and drill holes.

In the pre-1999 system, Category A generally included the highest level of detail possible, such as grade control information. However, the content of categories B, C and D may vary from deposit to deposit in China, and therefore must be carefully reviewed before assigning to an equivalent "JORC Code type" category. The traditional Categories B, C and D are broadly equivalent to the 'Measured', 'Indicated', and 'Inferred' categories that are provided by the JORC Code and USBM/USGS systems used widely elsewhere in the world. In the JORC Code system the 'Measured Resource' category has the most confidence and the 'Inferred' category has the least confidence, based on increasing levels of geological knowledge and continuity of mineralisation.

Chinese Classification Scheme Comparison to JORC

<table>
<tr><td colspan="2">Old Chinese Classification</td><td colspan="2">A & B</td><td colspan="2">C</td><td>D</td><td>E & F</td></tr>
<tr><td colspan="8">New Chinese Classification</td></tr>
<tr><td rowspan="2">"E" Economic Evaluation (100)</td><td>Designed mining loss accounted</td><td>Recoverable Reserve (111)</td><td>Probable Recoverable Reserve (121)</td><td></td><td>Probable Recoverable Reserve (122)</td><td></td><td></td><td></td></tr>
<tr><td>Designed mining loss not accounted (b)</td><td>Basic Reserve (111b)</td><td>Basic Reserve (121b)</td><td></td><td>Basic Reserve (122b)</td><td></td><td></td><td></td></tr>
<tr><td colspan="2">Marginal Economic (2M00)</td><td>Basic Reserve (2M11)</td><td>Basic Reserve (2M21)</td><td></td><td>Basic Reserve (2M22)</td><td></td><td></td><td></td></tr>
<tr><td colspan="2">Sub-Economic (2S00)</td><td>Resource (2S11)</td><td>Resource (2S21)</td><td></td><td>Resource (2S22)</td><td></td><td></td><td></td></tr>
<tr><td colspan="2">Intrinsically Economic (300)</td><td>-</td><td>-</td><td>Resource (331)</td><td></td><td>Resource (332)</td><td>Resource (333)</td><td>Resource (334)</td></tr>
<tr><td colspan="2">"F" Feasibility Evaluation</td><td>Feasibility (010)</td><td>Pre-Feasibility (020)</td><td>Scoping (030)</td><td>Pre-Feasibility (020)</td><td>Scoping (030)</td><td>Scoping (030)</td><td>Scoping (030)</td></tr>
<tr><td colspan="2" rowspan="2">"G" Geological Evaluation</td><td colspan="3">Measured</td><td colspan="2">Indicated</td><td>Inferred (003)</td><td>Predicted (004)</td></tr>
<tr><td colspan="3">(001)</td><td colspan="2">(002)</td></tr>
<tr><td colspan="2" rowspan="5">JORC</td><td colspan="5"></td><td>Unclassified or</td><td></td></tr>
<tr><td colspan="5"></td><td>Exploration Potential</td><td></td></tr>
<tr><td colspan="4"></td><td colspan="3">Inferred</td><td></td></tr>
<tr><td></td><td colspan="2">Probable Reserve or Indicated Resource</td><td colspan="4"></td><td></td></tr>
<tr><td colspan="2">Proved / Probable Reserve or Measured Resource</td><td colspan="6"></td></tr>
</table>

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the 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 OF DIRECTORS AND CHIEF EXECUTIVE

Long positions in shares and underlying shares of the Company and its associated corporation

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO); (ii) pursuant to Section 352 of the SFO, to be entered in the register of members of the Company; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long Positions in the shares of the Company

Name of Directors	**Capacity/ Type of interest**	**Number of ordinary shares**	**Approximate percentage of shareholding** *(Note 1)*
Mr. Ju Wenzhong	Beneficial Interests	4,523,659	0.05%
Ms. Xue Hui	Beneficial Interests	3,860,055	0.05%
Mr. Li Bo	Beneficial Interests	201,886	0.00%

Notes:

1. The calculation is based on the total number of issued ordinary shares of 8,430,000,000 shares as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, there was no other Directors or the chief executive of the Company or any of their associates who had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

As at the Latest Practicable Date, none of the Directors was a director or an employee of any shareholders of the Company or a company which has an interest or short position in Shares or 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.

As at the date of the circular, no Shareholders are required to abstain from voting under the Listing Rules or are entitled to exercise control over the voting right in respect of his shares in the Company.

As at the Latest Practicable Date, no Directors had direct or indirect interests in any assets which had been acquired or disposed of by or leased to any member of the Group since 31 December 2021 (the date to which the latest published audited combined financial statements of the Company were made up) or proposed to be acquired, disposed of or leased to any member of the Group.

3. DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a term of three years, which may be terminated by not less than three months' notice in writing served by either party on the other.

The non-executive and independent non-executive Directors have been appointed for a term of three years in accordance with their respective letters of appointment with the Company.

As at the Latest Practicable Date, none of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

4. EXPERTS' QUALIFICATIONS AND CONSENTS

The followings are the qualifications of the experts who have given opinions or advice for incorporation and as contained in this circular:

Name	Qualification
SRK	Competent person
BAW	Independent valuer
KPMG	Certified public accountants

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with its respective letter included or references to its name in the form and context in which it is included.

As at the Latest Practicable Date, the above experts did not have any (i) shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; (ii) direct or indirect interests in any assets which had been acquired or disposed of by or leased to any member of the Group since 31 December 2021 (the date to which the latest published audited combined financial statements of the Company were made up) or proposed to be acquired, disposed of or leased to any member of the Group.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2021, being the date to which the latest published audited consolidated financial statements of the Company were made up.

6. LITIGATION

As at the Latest Practicable Date and saved as disclosed in this circular, none of the members of the Group was engaged in any litigation or claim of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

7. MATERIAL CONTRACTS

The Group has entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this circular which is or may be material:

(a) the equity transfer agreement dated 6 December 2021 entered into among Zhunge'er Fuliang Coal Co., Limited* (准格爾旗富量礦業有限公司) (the "**ZGE Fuliang**") and Inner Mongolia Fuliang Mining Co., Limited (內蒙古富量礦業有限公司), as vendors, and IM Kinetic, as purchaser, in relation to the transfer of the entire equity interests in Wuhai Fuliang Real Estate Development Co., Ltd.* (烏海富量房地產開發有限公司) (the "**Dikuang Acquisition**");

(b) the acquisition agreement dated 24 December 2021 entered into between Guizhou Kinetic Energy Co., Ltd.* (貴州力量能源有限公司) (the "**Guizhou Energy**"), as vendor, and Guizhou Kinetic Mines Co., Ltd.* (貴州力量礦業有限公司) (the "**Guizhou Mining**"), as purchaser, in relation to the purchase of 75% share capital of Liupanshui Changlin Real Estate Development Co., Ltd* (六盤水昌霖房地產開發有限公司), and in relation to this acquisition agreement (the "**Guizhou Acquisition**"):

(i) a deed of indemnity dated 24 December 2021 entered into between Guizhou Mining and Mr. Zhang Li in relation to the indemnity to be provided by Mr. Zhang Li in favour of Guizhou Mining for any loss or damages suffered by Guizhou Mining in connection with the Guizhou Daxinan Mining Co., Ltd. Shuicheng County Tailin Coal Mine* (貴州大西南礦業有限公司水城縣猴場鄉泰麟煤礦) (the "**Target Mine**") (the "**Deed Indemnity**");

(ii) a share pledge agreement dated 17 June 2022 entered into between Guizhou Mining and Mr. Zhang Li in relation to his share pledge in ZGE Fuliang, constituting 100% of the shares of ZGE Fuliang, to Guizhou Mining, as security for the performance of Mr. Zhang Li's obligations under the Deed of Indemnity; and

(iii) a loan agreement dated 28 June 2022 entered into between Guizhou Mining, as lender, and Guizhou Energy, as borrower, for the purpose of construction and operation of the Target Mine.

(c) the property purchase agreement dated 29 April 2022 entered into among Qingdao Shihaoxing Real Estate Co., Ltd.* (青島實昊星置業有限公司), Huizhou Guopeng Color Printing Co., Ltd.* (惠州市國鵬彩印有限公司), Tianjin Jinhewan Real Estate Co., Ltd.* (天津金河灣置業有限公司), Wuhan Pingan Zhongxin Real Estate Co., Ltd.* (武漢平安中信置業有限公司), Jingmen Shiqiang Real Estate Co., Ltd.* (荊門實強房地產置業有限公司) and Qingdao Shilu Ocean Big Data Investment Development Co., Ltd.* (青島實錄海洋大數據投資開發有限公司) (together, the "**Original Vendors**"), as vendors, and Kinetic (Qinhuangdao) Energy Co., Ltd.* (力量(秦皇島)能源有限公司), as purchaser, in relation to the purchase of the target properties located in Wuhan, Jingmen, Tianjin, Huizhou and Qingdao (the "**Original Properties**");

(d) the supplemental agreement dated 12 July 2022 entered into among Qingdao Shihaoxing Real Estate Co., Ltd.* (青島實昊星置業有限公司), Huizhou Guopeng Color Printing Co., Ltd.* (惠州市國鵬彩印有限公司), Tianjin Jinhewan Real Estate Co., Ltd.* (天津金河灣置業有限公司) (together, the "**Terminating Vendors**"), Wuhan Pingan Zhongxin Real Estate Co., Ltd.* (武漢平安中信置業有限公司), Qingdao Shilu Ocean Big Data Investment Development Co., Ltd.* (青島實錄海洋大數據投資開發有限公司), Jingmen Shiqiang Real Estate Co., Ltd.* (荊門實強房地產置業有限公司), Zhongshan Shidi Real Estate Development Co., Ltd.* (中山實地房地產開發有限公司), Wuxi Shidi Real Estate Development Co., Ltd. * (無錫實地房地產開發有限公司), Zunyi Shidi Real Estate Development Co., Ltd.* (遵義實地房地產開發有限公司) (together, the "**Vendors**"), and Kinetic (Qinhuangdao) Energy Co., Ltd.* (力量(秦皇島)能源有限公司), as purchaser, in relation to the adjustment to the scope of the Original Properties;

(e) Share Transfer Agreement; and

(f) Property Rights Transfer Agreement.

Except for those disclosed above, there is no material contract (not being contracts entered into in the ordinary course of business) entered into by members of the Group after the date two years before the date of this circular.

8. DIRECTORS' INTERESTS IN ASSETS OR CONTRACTS

As at the Latest Practicable Date:

(a) none of the Directors had any interest, direct or indirect, in any assets which had been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2021, being the date to which the latest published audited accounts of the Company were made up; and

(b) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and was significant in relation to the business of the Group.

9. DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective close associates (as defined under the Listing Rules) had any interest in a business which competed or was likely to compete, either directly or indirectly, with the business of the Group, or had or might have any other conflicts of interest with the Group pursuant to Rule 8.10 of the Listing Rules.

10. GENERAL

(a) The company secretary of the Company is Ms. Cheng Lucy. Ms. Cheng is a Chartered Secretary, a Chartered Governance Professional and a fellow member of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom.

(b) The registered office of the Company is at Windward 3, Regatta Office Park, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands.

(c) The head office and principal place of business in PRC of the Company is at Dafanpu Coal Mine, Majiata Village, Xuejiawan Town, Zhunge'er Banner, Ordos City, Inner Mongolia, China.

(d) The principal place of business in Hong Kong of the Company is at Unit B, 20th Floor, Two Chinachem Plaza, 68 Connaught Road Central, Hong Kong.

(e) The address of the Company's branch share registrar in Hong Kong is Computershare Hong Kong Investor Services Limited, Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(f) In the event of inconsistency, the English language text of this circular shall prevail over the Chinese language text.

11. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.kineticme.com) for a period of 14 days from the date of this circular:

(a) the Share Transfer Agreement;

(b) the Property Rights Transfer Agreement and its supplemental agreements;

(c) the accountants' report prepared by KPMG on the financial information of Ningxia Sunshine, the text of which is set out in Appendix II of this circular;

(d) the valuation report prepared by BAW, the text of which is set out in Appendix III of this circular;

(e) the report from KPMG, with respect to the calculation of the discounted future cash flows used in the Valuation of the Target Company, the text of which is set out in Appendix IV of this circular;

(f) the Competent Person's Report prepared by the Competent Person, the text of which is set out in Appendix VII of this circular;

(g) the written consents referred to in the paragraph headed "Experts' qualifications and consents" in this appendix;

(h) the material contracts referred to in the paragraph headed "Material Contracts" of this appendix.