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兗礦能源集團股份有限公司
YANKUANG ENERGY GROUP COMPANY LIMITED*

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

(Stock Code: 01171)

**ANNOUNCEMENT ON MERGER AND ACQUISITION OF
HIGHFIELD RESOURCES LIMITED**

This is a voluntary announcement made by Yankuang Energy Group Company Limited* (the “**Company**”).

Reference is made to the announcement of the Company dated 19 July 2024 regarding the planning of strategic cooperation with Highfield Resources Limited (a company listed on the Australian Securities Exchange, stock code: HFR, “**HFR**”).

I. SUMMARY OF THE TRANSACTION

On 23 September 2024, the Company and HFR have entered into the Implementation Agreement (the “**Implementation Agreement**”) and the Equity Subscription Agreement (the “**Equity Subscription Agreement**”).

The Company will acquire the newly issued shares of HFR by way of asset injection and cash subscription, and become the largest shareholder of HFR after the transaction and control its board of directors (the “**Transaction**”). The Transaction comprises of two transactions which are inter-conditional, the details of which are as follows:

(I) Share Swap

According to the Implementation Agreement, the Company shall transfer its 100% equity interest in Yancoal Canada Resources Co., Ltd. (“**Yancoal Canada**”) to HFR, and HFR will issue ordinary shares at the issue price of A\$0.50 per share as the consideration for the Transaction. As at 30 April 2024, Yancoal International (Holdings) Co., Ltd. (“**Yancoal International**”), a wholly-owned subsidiary of the Company, had provided a shareholder’s loan with total principal of US\$83,250,000 to Yancoal Canada, which intends to convert the principal of the aforesaid loan together with the corresponding interest thereon to equity interests in Yancoal Canada before the completion of the Transaction or to directly subscribe for the shares of HFR at the issue price of A\$0.50 per share upon completion (the “**Share Swap**”).

(II) Cash Subscription

According to the Equity Subscription Agreement, HFR shall raise US\$220 million through a targeted issue of additional shares of HFR to certain strategic investors, including the Company, at a price of A\$0.50 per share, and the Company intends to contribute no more than US\$90 million to participate in the subscription. In the event that other strategic investors subscribe for more than US\$130 million, the Company's subscription amount can be reduced accordingly (the "**Cash Subscription**"). The proceeds will be primarily used for the capital expenditures required for construction of the Muga Project (a potash mine project held by HFR) and the general needs for liquidity.

As at the disclosure date of this announcement, each of Beijing Energy International Holding Co., Ltd.* (北京能源國際控股有限公司) and Singapore Taizhong Global Development Pte. Ltd. formally signed a share subscription agreement with HFR with a subscription amount of US\$50 million and US\$30 million, respectively. On the same day, some investors signed non-binding intentional subscription agreements with HFR.

II. BASIC INFORMATION OF THE SUBJECT COMPANY

(I) HFR

1. Basic information of the company

HFR is incorporated in Australia and its shares are listed on the Australian Securities Exchange in February 2012, and it is principally engaged in the development of potash fertilizer projects, with its core project being the Muga Project in northern Spain.

According to the JORC Code, the proved and indicated in-situ ore reserves amounted to 104 million tons at a potassium chloride grade of 16.1%. Both Phase I and Phase II are designed to have a production capacity of 500,000 tons per year, with a total production capacity of 1 million tons per year.

2. Key financial data

The key financial information of HFR for the past two years and four months is as follows:

Unit: RMB0'000

Items	30 April 2024	31 December 2023	31 December 2022
Total assets	97,726.50	98,866.44	79,173.39
Total liabilities	31,596.54	30,195.21	9,539.85
Owner's equity	66,129.97	68,671.23	69,633.54

Items	January to April 2024	2023	2022
Operating revenue	—	—	—
Operating profit	-962.13	-6,545.92	-2,728.99
Net profit	-968.35	-6,585.06	-2,728.99

Notes:

- (1) The mining rights owned by HFR are in the greenfield development stage and have not yet generated revenue;
- (2) The increase in loss of HFR in 2023 was mainly due to the increase in interest expenses and professional consultancy fees for financing activities;
- (3) The financial data of HFR for 2023 and January to April 2024 have been audited by ShineWing Certified Public Accountants (Special General Partnership) (“**ShineWing**”). The data for 2022 are the data disclosed in the annual report of HFR, which are converted based on the exchange rate as at 31 December 2022 (RMB/AUD: 4.7138). The financial data of HFR for 2022 have been audited by PricewaterhouseCoopers Australia International Pty. Ltd., the accountants for the annual audit of HFR.

(II) Yancoal Canada

1. Basic information of the company

Yancoal Canada, a wholly-owned offshore subsidiary of the Company established in 2011 and located in Saskatchewan, Canada, is engaged in the exploration and development of potash and holds a potash mine project (the “**Southey Project**”) and four other potash mining rights.

The main product of the Southey Project is potassium chloride potash fertilizer. In accordance with NI43-101 Standard, the proved and indicated potassium chloride reserves amounted to 173 million tons. Each of the Phase I and Phase II is designed to have a production capacity of 2 million tons per year and 800,000 tons per year, respectively, with a total production capacity of 2.8 million tons per year.

2. Key financial data

The key financial information of Yancoal Canada for the past two years and four months is as follows:

Unit: RMB0'000

Items	30 April 2024	31 December 2023	31 December 2022
Total assets	203,211.79	208,678.88	200,128.66
Total liabilities	76,051.98	74,879.96	70,443.66
Owner's equity	127,159.81	133,798.92	129,684.99

Items	January to April 2024	2023	2022
Operating revenue	24.60	45.56	–
Operating profit	-3,146.36	-1,900.32	-6,868.50
Net profit	-3,146.36	-1,900.32	-6,868.50

Notes:

- (1) The mining rights owned by Yancoal Canada are in the stage of greenfield development, and the main source of income in the past two years was the land lease income;
- (2) The fluctuation of Yancoal Canada's net profit in the past two years and four months was mainly due to the existence of US\$ loans payable to Yancoal International by Yancoal Canada, the re-evaluation of loans due to fluctuations in the exchange rate of RMB against US\$ and the resulting foreign exchange gains and losses, which in turn affected the financial expenses;
- (3) The financial data of Yancoal Canada for 2023 and January to April 2024 have been audited by ShineWing; and the financial data for 2022 have been audited by ShineWing within the scope of Yankuang Energy's consolidated financial statements for 2022.

3. Valuation

The Company has appointed Beijing Huaya Zhengxin Asset Appraisal Co., Ltd. (“**Huaya Zhengxin**”) to issue the Asset Valuation Report on the Project of the Proposed Capital Increase of Yankuang Energy Group Company Limited* to Highfield Resources Limited Involving the Entire Shareholders' Equity in Yancoal Canada Resources Co., Ltd. (Huaya Zhengxin Ping Zi Bao (2024) No. A11-0006) with the benchmark date of 30 April 2024. According to the valuation report issued by Huaya Zhengxin, as at the valuation benchmark date, the value of the entire shareholder' equity of Yancoal Canada was RMB1,313,490,300 based on valuation using the asset-based method. The appraised value does not include the shareholder borrowings from Yancoal International to Yancoal Canada and the corresponding interest thereon.

III. MAIN CONTENT OF THE AGREEMENT FOR THE TRANSACTION

On 23 September 2024, the Company entered into the Implementation Agreement and the Equity Subscription Agreement with HFR. The main content of the agreements are as follows:

(I) Implementation Agreement

1. *Principal terms of the agreement*

(1) *Consideration shares*

The number of shares of HFR acquired by the Company through the Share Swap = the total value of Yancoal Canada \div the price per share of HFR, where the total value of Yancoal Canada = the appraised value of Yancoal Canada + the principal of the shareholder's loan and the corresponding interest thereon, net (i.e. net of cash on book on the locked box date) + cash on book on the locked box date. As of the locked box date (30 April 2024), the total value of Yancoal Canada was US\$286 million, and the final total value depends on the specific completion date.

(2) *Price*

HFR is priced at A\$0.50 per share.

(3) *Price adjustment mechanism*

The Transaction adopts a mutual locked box mechanism, i.e. both parties undertake that there will be no leakage (except for permitted leakages in the ordinary course of operation using its existing working capital or paying taxes) to shareholders, related parties or employees/directors during the period between the locked box date (30 April 2024, i.e. the valuation benchmark date) and the date of completion. In the event of a leakage, the party who has incurred the leakage shall indemnify the other party in an amount corresponding to the leakage (or make corresponding adjustment to the total value of Yancoal Canada as appropriate).

(4) *Disposal of the shareholder's loan and convertible notes*

Prior to or on the date of completion, Yancoal International shall convert the principal and interest on its shareholder's loan to Yancoal Canada or directly subscribe for shares of HFR with such debt.

Prior to or on the date of completion, the shareholders of HFR (including EMR Capital Investments Pte Ltd, currently being the largest shareholder) shall convert the convertible notes of HFR held by them.

(5) Appointment of directors and senior management of HFR

HFR shall, on the date of completion, reorganise its board of directors so that the Company shall obtain a majority of the seats on the board at the time of completion. The board shall determine and appoint the management of HFR after the date of completion.

(6) Completion or termination

The final closing date of completion of the Transaction is 31 March 2025 (the “**Final Closing Date**”). The Company may, in its sole discretion, extend the Final Closing Date by up to three months by written notice to HFR. Either party may terminate the transaction agreement after the Final Closing Date if any of the conditions precedent to completion have not been satisfied (or waived) on or before the Final Closing Date. If the Company or HFR reasonably believes that any of the conditions precedent to completion cannot be satisfied by the Final Closing Date, it may terminate the transaction agreement by written notice to the other party from that date (the terminating party may not terminate it on the ground of circumstances caused by its own breach).

(7) Dispute resolution

Any dispute arising out of or in connection with the agreement shall be submitted to the Singapore International Arbitration Centre (SIAC) for final resolution by arbitration in accordance with the Arbitration Rules of the Singapore International Arbitration Centre (SIAC Rules) currently in force.

(8) Conditions to effectiveness

The agreement shall become effective upon signature by the parties hereto.

2. Principal conditions to completion

The completion of the Transaction is subject to the fulfilment of the conditions precedent, which, in addition to obtaining the approval from the general meeting of HFR and the approvals of the relevant regulatory authorities of each country, no default or material adverse effect by either party and the accuracy of the representations and warranties of both parties, mainly include:

- (1) The Share Swap and the Cash Subscription are completed at the same time.
- (2) The existing syndicated loans of HFR are valid and enforceable and have not been altered, varied, amended or surrendered in a manner which may adversely affect HFR; HFR is not in default under the syndicated loans; and HFR has obtained the written consent of the senior secured creditors of the syndicated loans (i.e. respective syndicated bank) in respect of the Transaction.

- (3) The conversion of all convertible bonds of HFR has been completed prior to or at the time of the completion of the Transaction and the conversion price is not affected by and is not linked to the price of the Cash Subscription.
- (4) The Company (or its nominee) and HFR have entered into an underwriting agreement which grants the Company (or its nominee) an underwriting right to sell and distribute the products of HFR.
- (5) The Company has the ability to obtain control of HFR at the time of completion.
- (6) HFR has obtained the consent or waiver of the relevant counterparties of material contracts to the Transaction.

(II) Equity Subscription Agreement

1. *Principal terms of the agreement*

Other than the representations and warranties of both parties, the principal terms of the agreement mainly include:

(1) Subscription amount and price

The Company shall subscribe for shares with a value not exceeding US\$90 million at the price of A\$0.5 per share. If other strategic investors or institutional investors subscribe for shares of more than US\$130 million in the Cash Subscription, the Company may elect to reduce its subscription amount accordingly.

(2) Method and timing of payment of the subscription amount

Payment in cash to HFR shall be made in at the time of completion.

(3) Obligations of HFR upon completion

Upon completion, HFR shall issue subscription shares to the Company and registers the Company as the holder of the subscription shares in its register of members.

(4) Maximum liability of HFR

In the event that HFR's breach of representations and warranties or other breaches under this agreement causes damage to the Company, HFR's maximum liability shall be limited to the subscription amount under this agreement.

(5) Time limit for claims

If the Company makes a claim for breach of representations and warranties by HFR, it must notify HFR of the full details of the claim within 18 months from the date of completion. The claim shall be deemed to have been withdrawn unless legal proceedings in respect of the claim are commenced within 6 months after service of the written notice of claim on HFR.

(6) Dispute resolution

Any dispute arising out of or in connection with the agreement shall be submitted to the Singapore International Arbitration Centre (SIAC) for final resolution by arbitration in accordance with the Arbitration Rules of the Singapore International Arbitration Centre (SIAC Rules) currently in force.

(7) Conditions to effectiveness

The agreement shall become effective upon signature by the parties hereto.

2. Conditions precedent to the subscription by the Company

The Share Swap and the Cash Subscription shall be completed simultaneously.

IV. IMPACT OF THE TRANSACTION ON THE COMPANY AND PROGRESS DISCLOSURE

The Transaction will be funded by the Company's own funds, which will not have a material impact on the financial position and operating conditions of the Company, and will not prejudice the interests of the Company and the minority shareholders.

(I) Impact of the Transaction on the Company

1. To enhance the Company's revenue level and create profit growth in the mining business

Through the Transaction, the Company will be able to acquire high-quality potassium resources in Spain and create synergy with the existing Southey Project, and the completion of the Muga Project and the Southey Project will substantially increase the Company's potassium production capacity and the revenue level of the potassium business segment upon construction and create profit growth in the mining business.

2. *To create synergy with the Southey Project of Yancoal Canada and realise value preservation and enhancement of the Company's assets*

The Transaction is capable of introducing an excellent team of HFR to the Southey Project, which will collaborate and share with the Company in terms of technology, management and resources, thereby facilitating the Southey Project to improve the efficiency of project development and operation. In addition, the operating cash flow of the Muga Project and the equity financing channels of HFR can provide effective capital supplement for the investment and construction of the Southey Project subsequently, promote the future achievement in terms of production and efficiency of the Southey Project and enhance the asset value, which will be conducive to the value preservation and enhancement of the Company's assets.

3. *To develop and operate overseas potassium resources to enhance the Company's mining business*

After the Transaction, the Company will hold the Muga Project, the Southey Project and a number of other reserve projects for development through HFR. After completion of the construction of the Muga Project and the Southey Project, the Company will have an annual production capacity of 3.80 million tons of potash through HFR, transforming from single coal mining to multi-mineral mining development, which fulfils the corporate strategy of enhancing the mining business.

(II) Progress disclosure of the Transaction

The Company will fulfil the information disclosure obligations in a timely manner according to the subsequent progress of the Transaction.

V. RISK WARNING FOR THE TRANSACTION

There are the following risks in the Transaction, with strong uncertainty, investors are advised to be aware of the investment risks.

(I) Approval Risk

The Transaction is subject to the approval of the State-owned Assets Supervision and Administration Commission of Shandong Province, the filing of overseas direct investment by the State or the Shandong Provincial Development and Reform Commission, the filing of overseas direct investment by the Department of Commerce of Shandong Province, and the corresponding foreign exchange registration. The foreign investment review of Australia, Canada and Spain are passed; it is approved by the general meeting of HFR, etc, and there is a greater risk of approval.

The Company will actively promote the relevant approval process and actively communicate with relevant departments to facilitate the completion of relevant approval or filing procedures.

(II) Risks of Failure to Complete

There are a series of completion conditions set for the Transaction, please refer to “III. Main content of the agreement for the transaction/2. Principal conditions to completion” in this announcement. There is uncertainty as to whether and when the conditions to completion can be met in the follow-up of the Transaction.

The Company will closely follow up on the fulfillment of the conditions to completion and proceed with the completion work steadily after all the conditions to completion are satisfied.

(III) Business Integration Risk

The Company is facing higher risks of asset integration and cross-border multi-location management. If the implementation of the integration plan is not effective and HFR fails to adapt to the Company’s management system in a timely manner, the Company may be adversely affected.

After the completion of the Transaction, the Company will establish an appropriate management structure and allocate relevant personnel in a timely manner to actively and steadily promote the integration with HFR.

(IV) Risk of Project Benefits

The Muga Project is a relatively higher up-front investment and requires a certain period of construction, and the main product is potash fertilizer, the price of potash fertilizer is linked to the international market price, which fluctuates constantly due to the influence of global macro-political economy and other factors (such as inflation, exchange rate, agricultural product prices, political situation). There is a risk that it may not be able to realise the economic benefits as currently forecasted.

After the completion of the Transaction, the Company will actively promote the production synergy of the potash project, promote the production of the Muga Project as soon as possible, and actively explore the domestic and international markets, pay close attention to market changes and flexibly adjust the production and operation strategy.

The Transaction is subject to the approval and filing of the relevant domestic and overseas authorities and the approval of the general meeting of HFR, and there is uncertainty as to whether such approval can be obtained; the Transaction is subject to the conditions to completion, and there is uncertainty as to whether or not they can be fulfilled; upon completion of the Transaction, the Company will become the largest shareholder of HFR and have the right to lead the development of the Muga Project, which involves certain risks of business integration and project benefits, and investors are advised to be aware of the investment risks.

By order of the Board
Yankuang Energy Group Company Limited*
Li Wei
Chairman of the Board

Zoucheng, Shandong Province, the PRC
23 September 2024

As at the date of this announcement, the Directors of the Company are Mr. Li Wei, Mr. Liu Jian, Mr. Liu Qiang, Mr. Zhang Haijun, Mr. Su Li and Mr. Huang Xiaolong, and the independent non-executive Directors of the Company are Mr. Peng Suping, Mr. Zhu Limin, Mr. Woo Kar Tung, Raymond and Ms. Zhu Rui.

* *For identification purpose only*