ATTACHMENT B:

NSW GOVERNMENT | Trade & Investment
Resources & Energy

PCU56239

OUT14/26729

Mr David Kitto
Director Mining and Industry Projects
Department of Planning and Environment
GPO Box 39
SYDNEY NSW 2001

Dear Mr Kitto

Thank you for the opportunity for NSW Trade & Investment – Division of Resources & Energy (DRE) to provide advice on the significance of the resource for the Watermark Coal Project (the Project) to assist in your Department's determination of the proposal.

In considering the significance of the resource in comparison with other resources across the State, DRE has outlined its assessments on the Project at **Tab A**.

DRE has concluded that the significance of the Project's coal resource lies mainly in its ability to significantly increase coal production from the Gunnedah coalfield. If approved, the project would be the second largest mine in the Gunnedah Coalfield with the tenth highest productive rate of the 56 current operating mines in the State. The project would also have the opportunity to add significantly to the total value of NSW exports (around $19 billion over the life of the Project) and in dollars of the day DRE expects royalty payments to the state of around $1.5 billion.

DRE also notes that approval of the Project will firmly establish the Proponent (a subsidiary of the world's largest coal producer), into the fabric of the NSW coal industry.

In summary DRE is supportive of the Project as a responsible utilisation of the State's coal resources that will generate employment opportunities and bring economic benefits to the local region and to the State as a whole.

Thank you for bringing this matter to my attention.

Yours sincerely

K Hargreaves 3.10.14

Kylie Hargreaves
Deputy Secretary
Resources & Energy
Enc.

Tab A

Watermark Coal Project
Assessment of the Significance of the Resource:

In considering the significance of the resource in comparison with other resources across the State, the Division of Resources & Energy (DRE) has made the following assessments.

Size, quality and availability of the resource
The Watermark Coal Project (the Project) is owned and operated by Shenhua Watermark Coal Pty Ltd (the Proponent). The Proponent is seeking approval for a new open cut coal mine on land located to the south south-east of the town of Gunnedah, within the Gunnedah Local Government Area.

DRE has assessed the potential in situ coal resource in the exploration licence area and agrees with the JORC-classified resource total of 932.3 million tonnes (Mt), as quoted in the Environmental Impact Statement (EIS).

DRE estimates the proposed open cut project area has a run-of-mine (ROM) reserve between 250 Mt and 270 Mt, which aligns with the 268.4 Mt estimate provided in the EIS. In addition, DRE considers the estimated mine life of 30 years, producing up to 10 Mt per annum (Mtpa) of ROM coal is reasonable. DRE also consider that the projected 10 Mtpa ROM extraction rate over the estimated 30 year mine life, utilising open cut mining techniques maximises resource extraction from the Project area.

The ash of the coal in the Project area compares favourably with other projects in the Gunnedah Coalfield. Average product ash content would be between 11% and 12%, which is marginally better than the Maules Creek mine (13%), which will also produce a similar mix of semi-soft coking and thermal coal products. The nearest open cut mine, Werris Creek, also produces low to moderate ash, semi-soft coking and thermal coal products.

At full production, the project will be the second largest mine in the Gunnedah Coalfield, with only the soon to be operating Maules Creek open cut mine (13 Mtpa) having a higher annual ROM production rate. The Project is important for the Gunnedah Coalfield, as it would be the second largest open cut mine to commence in the region in the next 4 years, Maules Creek mine will commence production in early 2015. The Gunnedah Coalfield already has one large scale open cut mine in operation; the Boggabri mine which in 2013-14 produced 5.3 Mt of ROM coal. If the Project were to start production it would significantly add to total tonnage produced from the Gunnedah Coalfield which has had strong growth over the last three years, albeit from a relatively low base. In 2013-14 total coal production from the Gunnedah Coalfield was 16.9 Mt of ROM coal, and 15.8 Mt of product coal. The addition of a further 10 Mtpa of ROM coal from the Project would represent a 60% increase on the 2013-14 Gunnedah Coalfield ROM tonnage.

If approved, the proposed mine would be considered a medium to large mine in comparison to existing open cut coal mines in NSW. Based on 2013-14 production data (from Coal Services Pty Ltd) and the proposed maximum saleable production rate of 6 Mtpa, this would be the tenth largest open cut coal mine in the State. The

Project would also have the tenth highest production rate out of the 56 currently operating coal mines in NSW based on 2013-14 data.

Over the life of the proposed mine, assuming most production is sold on the export thermal market, with around 15% sold on the export metallurgical market, the value of the coal produced would be worth around $19 billion in current dollars, with a NPV of around $5.9 billion using a 7% real discount rate.

The Proponent has estimated the net present value of the coal is $8.1 billion. DRE has taken a conservative estimate on future coal prices and therefore has a lower estimate, but notes that even with a lower figure, the project has a net benefit.

The resource is available to be mined, in that the Proponent intends to extract the resource once all the relevant Government approvals have been granted. DRE understands that the Proponent has sound financial backing for the Project and is fully committed to the commencement of production. The Project is also unique in NSW in that it will be the Proponent's first coal mining operation in the State. As the Proponent is part of one of the largest coal mining companies in the world, DRE believe it is an important Project as, if approved, it would provide an initial entry into the coal mining industry in our State for the Proponent.

Proximity to existing infrastructure
In its EIS, the Proponent proposes to construct a balloon loop and a short rail spur to join the existing Werris Creek to Moree Railway Line and the main Northern railway line. All coal will be sold on the export market and will be transported on the existing rail network and shipped through the Port of Newcastle. Therefore the Project will utilise the extensive existing Gunnedah to Newcastle Coalfield rail network and provide around 4% of the existing capacity on this network. The Project would also add to throughput at the Port of Newcastle.

Relationship of the resource to any existing mine, petroleum production facility or extractive industry
The Project is located some 30 km to the west of the established Werris Creek open cut coal mine, in the Gunnedah Coalfield, with a further four coal mines to the north of the Project located some 60-100 km from Watermark. The Project would be the second most southerly coal mine on the rail network.

The main relationship that the Project may have with other existing mines in the region is common use of the existing rail network. It is also possible that the Project may in the future utilise some of the workforce from the existing coal mines, as existing mines reach maturity or approach the end of their lives and scale back production. The Project is a standalone operation utilising its own equipment, coal handling facilities, rail loop, operational and administrative buildings, and as such will not share these facilities with other neighbouring mines.

Dependency of other industries on the resource project
Many local industries rely on the existing coal mines in the Gunnedah area and it is expected that this would expand, if the Project is approved. These industries include; mine equipment maintenance firms, mining equipment supply firms, coal preparation

and handling plant maintenance and supply firms. These firms are mainly local industries which employ locally and would rely on the Project for either their continued existence or expansion.

Based on other mine projects, DRE believes the indirect employment within the region and in NSW as a whole from the Project could be around 2400 positions.

Coal Royalty
The Project will be an open cut mine, and as such a royalty rate of 8.2% of net disposal value is applicable. Net disposal value is the price received per tonne minus any allowable deductions. The main allowable deduction is for coal beneficiation which is either; $3.50 per tonne for coal subjected to a full washing cycle, or $2.00 per tonne for coal subjected to a simple washing process, or $0.50 per tonne for coal that is washed and screened. As all coal from the Project will be subjected to a full washing cycle a deduction of $3.50 per tonne from the value of coal produced applies. A deduction for levies also applies which would amount to no more than $1.00 per tonne. As a result, the expected allowable deductions for royalty for the Project would amount to $4.50 per tonne.

One of the most important assumptions in the calculation of future Royalty for a coal proposal is the estimate of a future coal price over the life of a project. Coal price forecasting is inherently difficult and over the long term time frame of the Project there will be many variations in coal prices.

At present, NSW export coal prices are expected to be close to the bottom of the price cycle, with thermal coal dropping to $A80 per tonne for the June 2014 quarter and NSW export semi-soft prices currently around A$100 per tonne.

In the six quarters prior to June 2014 export thermal prices have been just below $A90 per tonne, and in the four quarters prior to this were in the range A$115 to A$95 per tonne. For NSW export semi-soft coal the prices have been around A$115 per tonne over the same period.

In the four quarters from September 2011 to September 2012 NSW thermal coal prices were in the range A$115 to A$95 per tonne and export semi-soft prices were in the range A$210 per tonne to A$140 per tonne.

For its export revenue and royalty calculation, DRE has taken a conservative approach and has assumed that NSW export coal prices will remain close to the current lows for around the next three years and gradually rise in the long term to a maximum of around A$115 per tonne for export thermal coal and around A$135 per tonne for export semi-soft coal.

DRE has assumed that most coal from the Project would be sold into the export thermal market and around 15% sold on the export metallurgical market.

Another important aspect of future royalty calculation for a proposed coal project is estimation of future annual production. DRE has used the production figures of approximately 6 Mtpa of product coal from 2017 to 2047, provided within the EIS.

Using the above parameters, DRE has calculated that in a typical full production year the State will receive around $50 million per annum and in dollars of the day total royalty payable from the Project would be around $1.5 billion. The net present value of this royalty stream would be around $460 million using a 7% real discount rate.

Other Factors
DRE notes from the EIS that the project will bring the following economic benefits to the regional economy:

- $913 million in annual direct and indirect output or business turnover;
- $507 million in annual direct and indirect value added;
- $91 million in annual direct and indirect household income; and
- 600 direct jobs at full production.

DRE also notes from the EIS that the project will bring the following economic benefits to the NSW economy:

- $1554 million in annual direct and indirect output or business turnover;
- $802 million in annual direct and indirect value added; and
- $276 million in annual direct and indirect household income.