PARINGA RESOURCES LIMITED

23 September 2015

ILLINOIS BASIN: EXPECTED FUTURE DEMAND GROWTH

HIGHLIGHTS:

- *Illinois Coal Basin ("**ILB**") market fundamentals continue to show potential for **strong future demand growth** and a need for additional ILB production capacity to meet this demand*
- *Growth in demand for ILB coals underpinned by the basin **remaining at the bottom of the delivered cost curve** for Eastern US coal-fired power markets*
- *Continuation of **"coal basin switching"** from higher cost coal basins even as natural gas prices have declined over the short term*
- *Future demand growth expected from **continued coal basin switching** and from **increased coal burn** by power plants should natural gas prices rise in the future*
- ***Paringa's high quality, low cost coal supply** is well positioned to capitalise on the significant future growth potential of the ILB*
- *Paringa is now in the final stages of **executing a forward coal sales agreement** with a major utility which will "cornerstone" the development and future coal sales of the Buck Creek No.1 Mine*

Paringa Resources Limited ("**Paringa**" or "**Company**") is pleased to provide an update on the current state of the ILB market which has resulted from detailed research and analysis. A comprehensive review of government forecasts and each target power plants' historical and current coal procurement activities has given the Company confidence that the ILB coal market fundamentals will continue to remain strong with significant future growth potential.

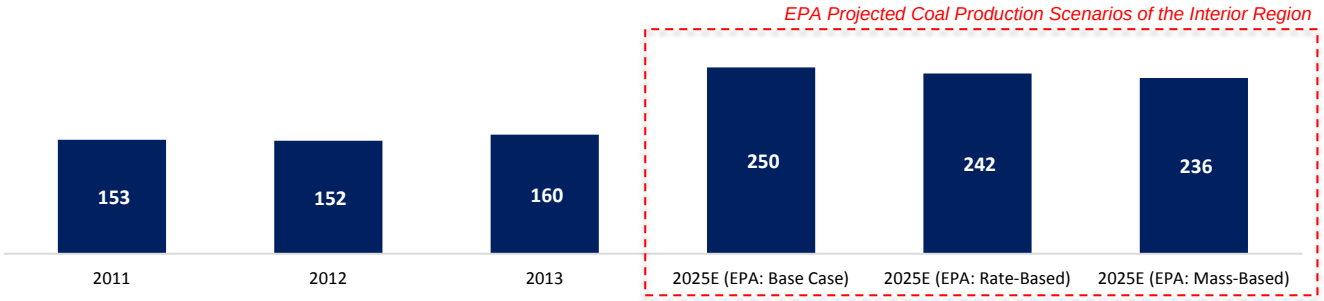

Figure 1: EIA Historical and EPA Projected Interior Region Coal Production Scenarios
(Million tons; Source: EPA and EIA Data; Note: Interior Region includes the Illinois Basin and the Interior Lignite Coal Basins)

Paringa's President and Chief Executive Officer, Mr David Gay, said: *"We continue to be highly encouraged by the market fundamentals supporting the growing Illinois Basin and we look forward to executing our forward coal sales contract with a major utility in the region which will underpin the development of our Buck Creek No. 1 Mine."*

For further information contact:

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President & CEO

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EPA: Projected US Coal Production Scenarios

The U.S. Environmental Protection Agency ("**EPA**"), using data supplied by the U.S. Energy Information Administration ("**EIA**"), has published forecasts for future US coal production for the electric power sector in its "Regulatory Impact Analysis for the Clean Power Plan Rule" (or "**RIA**"), released in August 2015. The RIA detailed future coal production (refer to Figure 2) for the three major US coal producing regions (refer to Figure 3) under three CO2 emissions scenarios, being: (i) *Base Case* (assuming no reduction of CO2 emissions under the Clean Power Plan); (ii) *Rate-Based* (calculation of CO2 emission reductions allowing for growth in base-load energy); and (iii) *Mass-Based* (calculation of CO2 emission reductions based on a set allocation of CO2 emissions for each power plant).

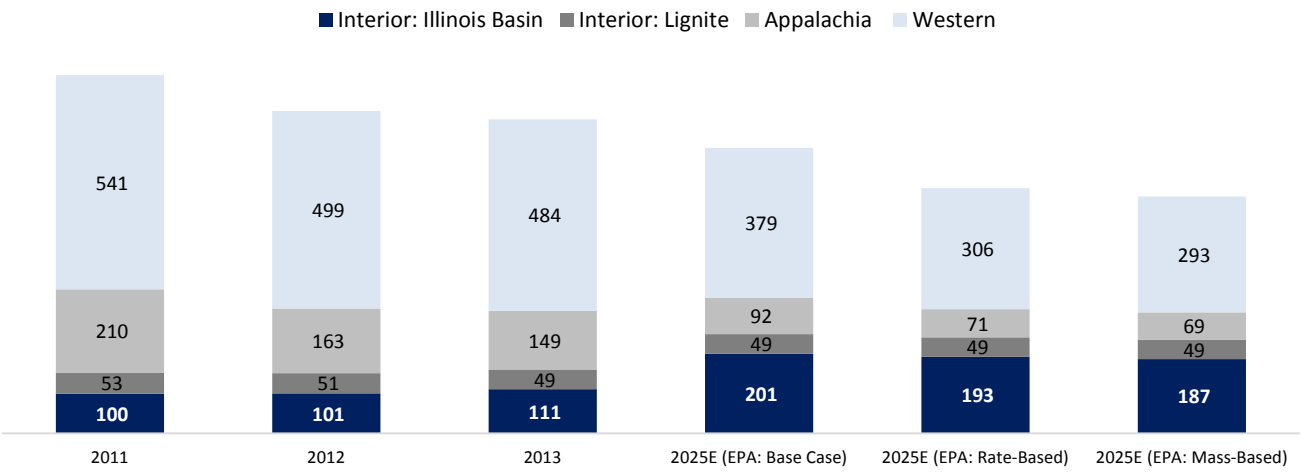


Figure 2: EIA Historical and EPA Projected Production for Interior (Illinois & Lignite), Appalachia and Western Regions
(Million tons; Source: EPA and EIA Data taken from latest Annual Distribution Report 2013)

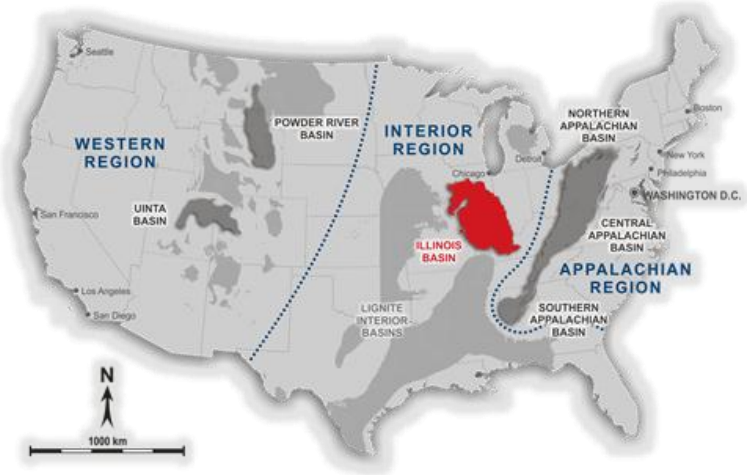


Figure 3: Three Major US Coal Producing Regions: Western, Interior and Appalachia

Under the Clean Power Plan's "worst-case" scenario (i.e. "Mass-Based" scenario) for the US coal industry, the forecasts project coal production from the Interior Region, consisting of the Illinois Basin and southern lignite coal fields, to be at 236 million tons by 2025E. The Interior Region's lignite coal production, typically associated with "mine-mouth" (i.e. coal mine to adjacent power plant) businesses, is not projected to grow since transportation of lignite coal across large distances is largely uneconomic, and therefore any growth in the Interior Region's lignite coal production would require the construction of new local coal fired power plants.

This implies growth within the Interior Region will need to be sourced from ILB coals, a high quality coal which can be transported via barge or rail throughout most of the Eastern US power market. Under the Mass-Based scenario, the EPA forecasts imply that the ILB is poised to grow by over 69%, adding 76 million tons of additional demand to the basin by 2025E. The increase in the ILB's market share is underpinned by the first quartile position of the ILB on a delivered cost curve (i.e. after accounting for transportation costs and the heating content of coal) into the Eastern US power market.

Illinois Basin Low Cost Supply

The ILB's position at the bottom of the delivered cost curve for the Eastern US power markets is the key driver for the basin's success. This position is dictated by both the consistent and highly productive geology of the basin, which lends itself to low cost underground mining methods, and the basins access to low cost barge and rail transportation infrastructure. When both are taken into account, the ILB excels as one of the lowest cost delivered fuel sources into the Eastern US power market (refer to Figure 4).

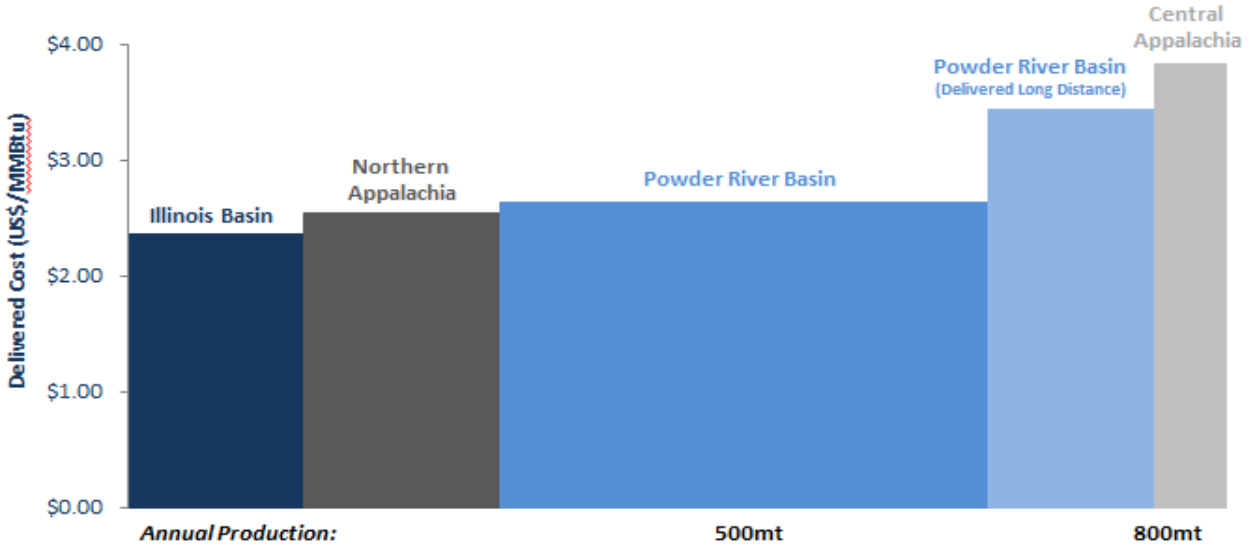


Figure 4: Major US Coal Basin Delivered Cost Curve to Eastern US Power Markets
(Source: Clarksons Platou; Note: Delivered cost curve for each coal basin represents the average operating mine cash costs plus the average transportation costs to Eastern US power markets)

The position of the ILB on the delivered cost curve will see it continue to take market share from other higher cost coal basins as it has done over the past decade, typically displacing the higher cost Central Appalachian coal basin ("**CAPP**").

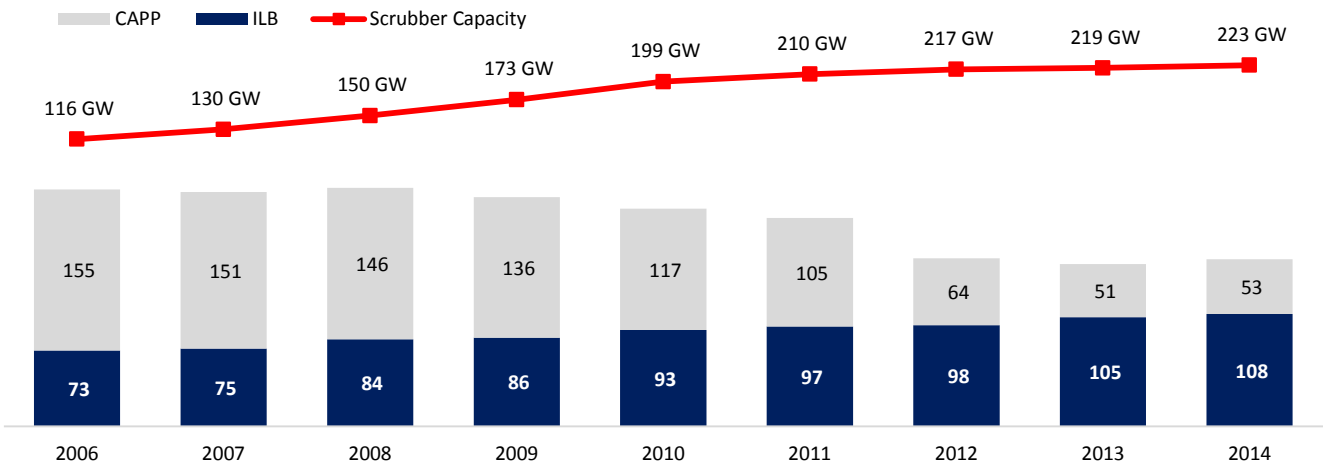
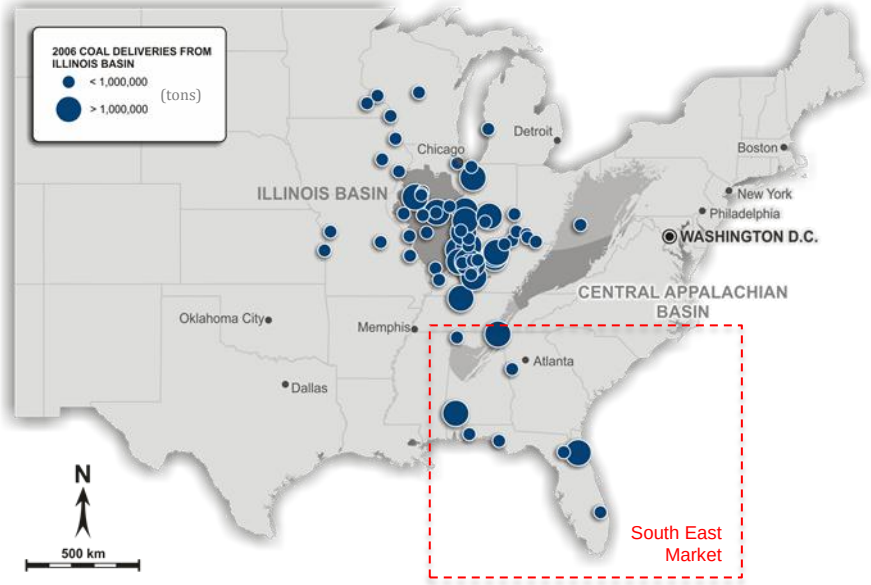


Figure 5: ILB and CAPP Coal Deliveries compared with US Scrubber Capacity Additions
(Source: SNL and EIA Data)

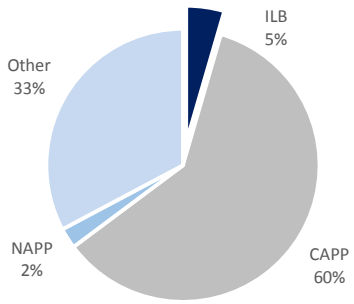
Coal basin switching from the higher cost Central Appalachian coals to lower cost ILB coals has also been facilitated from environmental standards requiring the installation of pollution control devices at coal fired power plants, including flue gas desulphurization units ("**Scrubbers**"). These Scrubbers now allow power plants to burn the cheapest fuels on a delivered basis with less regard to sulfur content since almost all of the sulfur and other harmful chemicals are removed before being released to the atmosphere.

The increase in Scrubber installations in the US (refer to Figure 5) has underpinned the low cost ILB coals to increasingly penetrate a large proportion of the Eastern U.S. power market which has been traditionally supplied by Central Appalachia. For example, the ILB's market share of the South East Market has increased from 5% in 2006, to a market share of 26% in 2014.

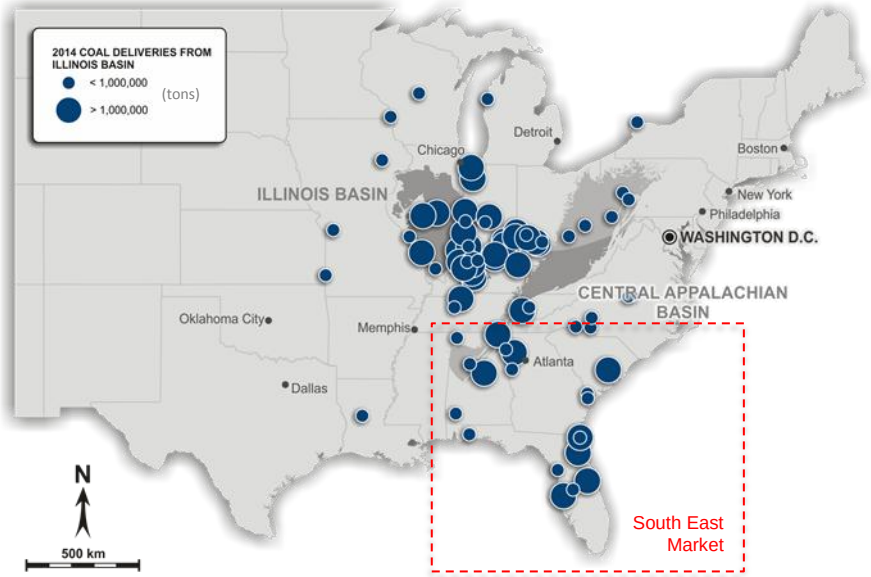
Location 2006 Illinois Basin Coal Deliveries



2006 South East Market Share



Location of 2014 Illinois Basin Coal Deliveries



2014 South East Market Share

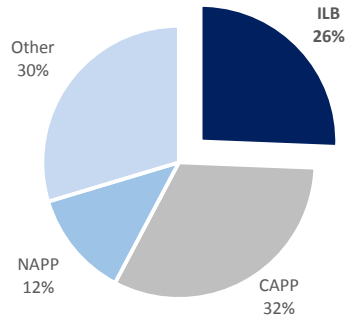


Figure 6: Location of ILB Coal Deliveries and ILB's South East Market Share (2006 vs. 2014)
(Source: SNL)

Illinois Basin's Target Markets

The ILB's target markets can be divided into the (i) Ohio River Market; (ii) Regional Rail and Truck Market; and (iii) South East Market.

An overview of the ILB's target markets is provided below:

- *Ohio River Market*
  - Predominately supplied by the ILB
  - Coal predominately delivered via low-cost barge transportation along the Ohio River
  - Typical delivered cost of coal is below US$2.50 per mmbtu

- *Regional Rail/Truck Market*
  - Traditionally supplied by the ILB and the Powder River Basin
  - Coal transported via rail and trucking routes
  - Typical delivered cost is between US$2.50 to US$3.50 per mmbtu, with some power plants that are proximal to local coal mines paying below US$2.50 per mmbtu

- *South East Market*
  - Traditionally supplied by Central Appalachia and increasingly ILB
  - Coal transported via rail networks
  - Delivered cost of coal is between US$2.50 to US$3.50 or above US$3.50 per mmbtu

Average 2014 Delivered Prices

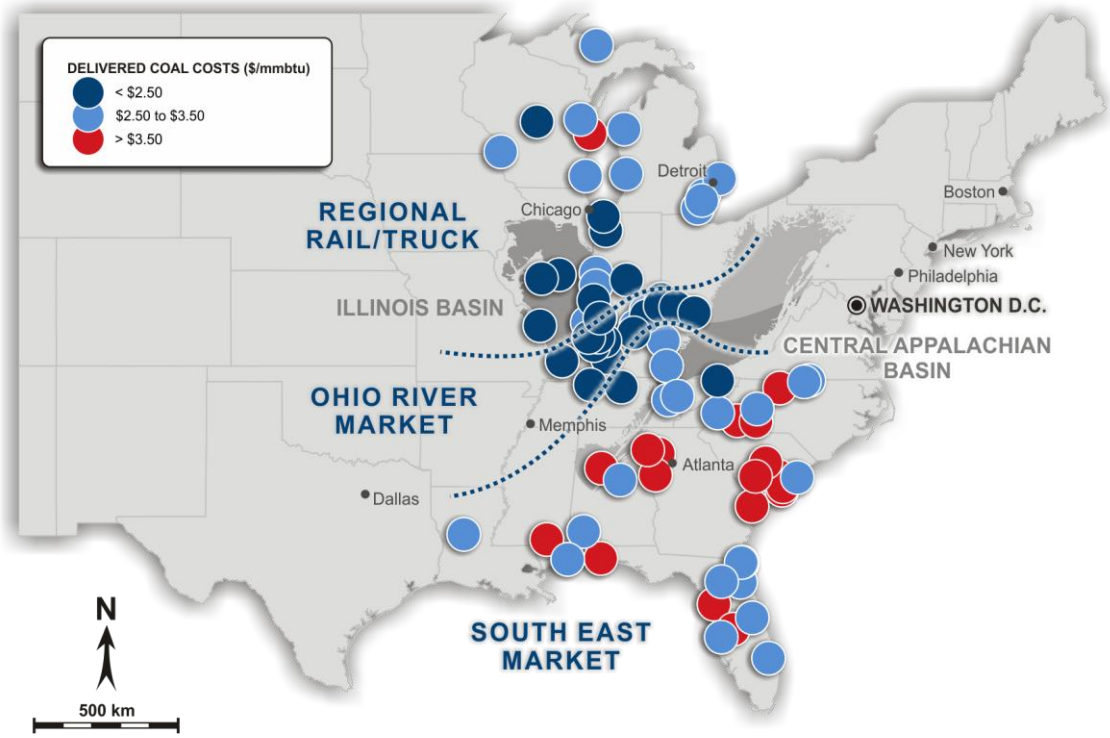


Figure 7: Average 2014 Delivered Coal Costs to Base-Load Coal Fired Power Plants within the ILB's Target Markets
(Source: SNL; US/mmbtu)

Ohio River Market vs Natural Gas

Even at currently depressed natural gas prices, coal remains a highly competitive and dominant energy source for the Ohio River market, which is the initial key target market for the Buck Creek No. 1 Mine. This is primarily due to the lower production costs of the ILB coals and the extremely favorable logistical and transportation costs of the barge supplied coal. With ILB coals supplying this region for a delivered cost of less than US$2.50 per mmbtu, it is expected the Ohio River Market will remain strongly in favor of coal going forward.

Available Delivered Prices for Natural Gas (Circle) and Coal (Square) for June 2015

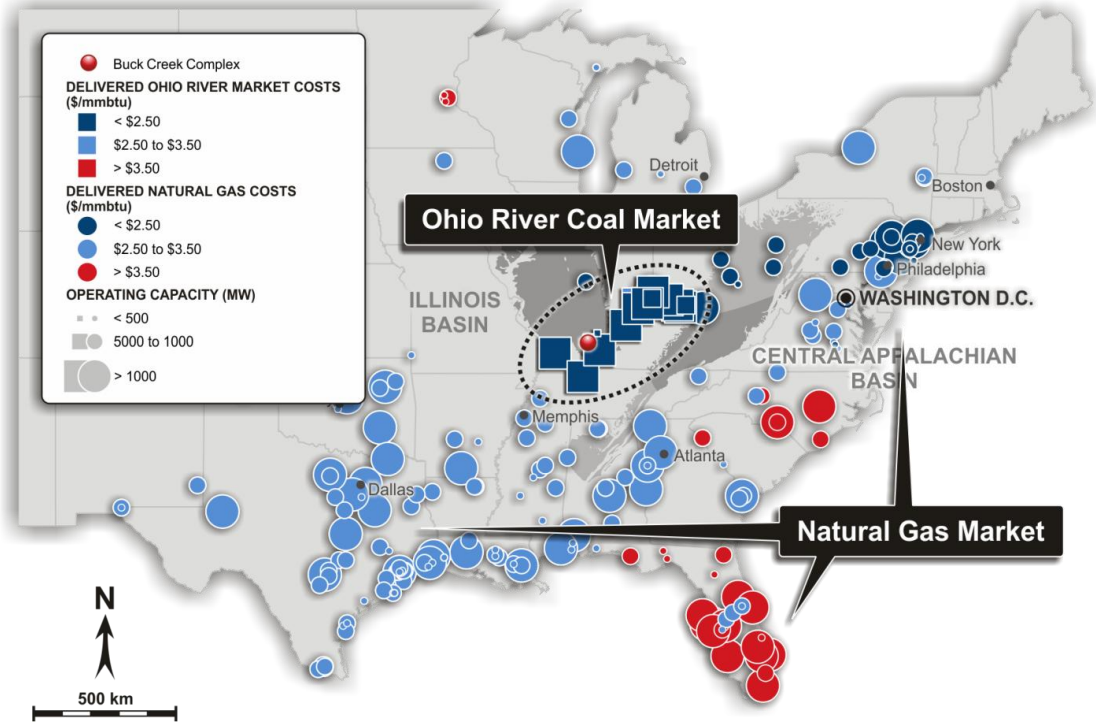


Figure 8: Ohio River Market Delivered Cost of Coal ($/mmbtu) vs. Regional Delivered Cost of Natural Gas ($/mmbtu)
(Note: Only those natural gas power plants with average utilization rates of greater than 30% for 2014 have been identified, utilization rates of less than 30% usually represent "peaking" power plants and are not typical of base-load energy power plants) (Source: SNL)

Within the Northeast of the US, low cost natural gas from the Marcellus and Utica basins is expected to remain the most economic fuel for power generation in that region. The physical limitations and costs of natural gas transportation rapidly increase the delivered cost of this natural gas as it moves towards the Ohio River Market or into the South East Market (represented by the high delivered cost of natural gas in Figure 8).

In the event natural gas prices rise in the future, there is the ability for US coal fired power plants based in the Ohio River Market and South East Market to increase utilization rates (i.e. "run harder"), potentially leading to an increase in ILB coal burn. This utilization demand dynamic is in addition to the coal basin switching dynamic that underpins the long term demand growth for ILB coals.

Forward Coal Sales Contract

Over the past year, the Company has been in negotiations with a major utility operating in the Ohio River Market. This utility has completed due diligence on the proposed Buck Creek No.1 Mine. Paringa and the utility are now in the final stages of documentation and approvals for this maiden sales contract. It is expected that this sales contract will "cornerstone" future coal sales from the Buck Creek No.1 Mine.

BUCK CREEK MINING COMPLEX

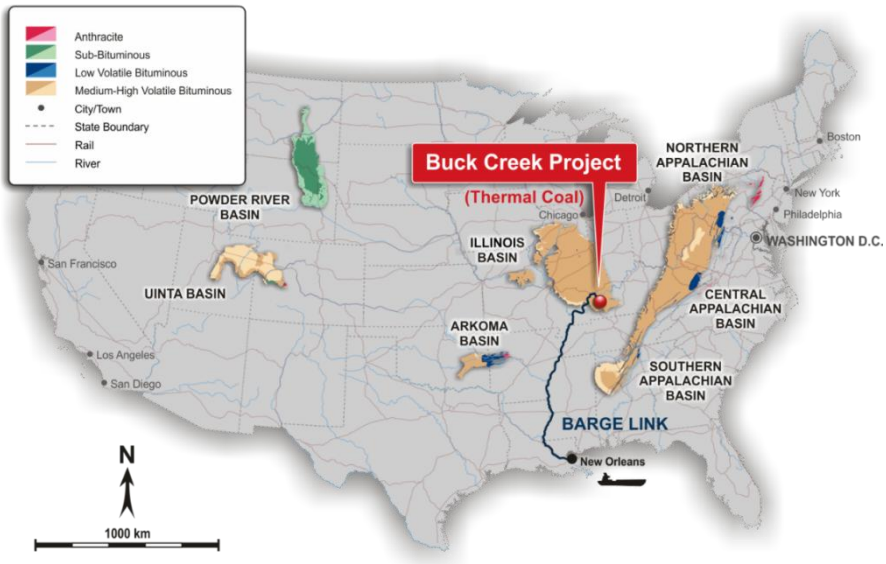
The Buck Creek Mining Complex is located in the Western Kentucky region of the Illinois Coal Basin ("**ILB**") which is one of the most prolific coal producing regions in the United States. Paringa controls over 32,200 gross acres (~13,842 ha) of coal leases within an area of interest of approximately 72,000 acres (~28,000 ha). The Buck Creek Mining Complex is one of the few remaining contiguous high quality thermal coal projects within the Western Kentucky No. 9 ("**WK No. 9**") seam that is not controlled by one of the major United States coal companies. It offers one of the highest quality, highest heating value products in the ILB. The WK No. 9 is now the second largest producer of coal in the United States by coal seam.

The Buck Creek Mining Complex has a JORC Measured and Indicated Coal Resource Estimate of 211 million tons (~192 million tonnes) of high quality thermal coal. The Project's Marketable Ore Reserve is classified as a Proven and Probable Ore Reserve Estimate, of which 16.4 million tons (or 26 percent) is considered proven and 46.3 million tons (or 74 percent) is considered probable.

Buck Creek Mining Complex – Coal Resource Estimate							
CRE Tonnage (Mt)					**Product Quality (+4% Eq. Moisture)**		
Measured	Indicated	**Total Measured & Indicated**	Inferred	**Total**	Calorific Value	Ash	Yield
57.7	153.5	**211.2**	5.3	**216.5**	11,855 Btu/lb (6,583 Kcal/kg)	8.35%	92.9%

Buck Creek No.1 Mine Maiden Ore Reserve Estimate						
Recoverable Coal Reserve (Mt)			**Product Yield**	**Marketable Coal Reserve (Mt)**		
Proven	Probable	**Total**	%	Proven	Probable	**Total**
22.25	62.91	**85.16**	73.54%	16.36	46.27	**62.63**

The Buck Creek Mining Complex is located adjacent to the Green River which provides year round linkage to the Ohio and Mississippi rivers systems. These systems feed domestic coal-fired power plants and coastal export coal terminals in the Gulf of Mexico.



Location of the Buck Creek Mining Complex

Forward Looking Statements

This announcement may include forward-looking statements. These forward-looking statements are based on Paringa's expectations and beliefs concerning future events. Forward looking statements are necessarily subject to risks, uncertainties and other factors, many of which are outside the control of Paringa, which could cause actual results to differ materially from such statements. Paringa makes no undertaking to subsequently update or revise the forward-looking statements made in this announcement, to reflect the circumstances or events after the date of that announcement.

Competent Persons Statements

The information in this announcement that relates to Exploration Results, Coal Resources, Coal Reserves, Mining, Coal Preparation, Infrastructure, Production Targets and Cost Estimation was extracted from Paringa's ASX announcements dated 17 March 2015 entitled 'Paringa Delivers Exceptional Pre-Feasibility Study at the Buck Creek No.1 Mine' and 25 February 2015 entitled 'Substantial 54% Increase in Measured and Indicated Coal Resources to 211 Million Tons' which are available to view on the Company's website at www.paringaresources.com.au.

The information in the original ASX announcements that related to Exploration Results and Coal Resources is based on, and fairly represents, information compiled or reviewed by Mr. Kirt W. Suehs, a Competent Person who is a Member of The American Institute of Professional Geologists. Mr. Suehs is employed by Cardno. Mr. Suehs has sufficient experience that is relevant to the style of mineralization and type of deposit under consideration and to the activity being undertaken 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' and to qualify as a Qualified Person as defined in the 2011 Edition of the National Instrument 43-101 and Canadian Institute of Mining's Definition Standards on Mineral Reserves and Mineral Resources.

The information in the original ASX announcements that related to Coal Reserves, Mining, Coal Preparation, Infrastructure, Production Targets and Cost Estimation is based on, and fairly represents, information compiled or reviewed by Messrs. Justin S. Douthat and Gerard J. Enigk, both of whom are Competent Persons and are Registered Members of the Society for Mining, Metallurgy & Exploration. Messrs. Douthat and Enigk are employed by Cardno. Messrs. Douthat, and Enigk have sufficient experience that is relevant to the style of mineralization and type of deposit under consideration and to the activity being undertaken to qualify as Competent Persons as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' and to qualify as Qualified Persons as defined in the 2011 Edition of the National Instrument 43-101 and Canadian Institute of Mining's Definition Standards on Mineral Reserves and Mineral Resources.

Paringa confirms that: a) it is not aware of any new information or data that materially affects the information included in the original ASX announcements; b) all material assumptions and technical parameters underpinning the Coal Resource, Coal Reserve, Production Target, and related forecast financial information derived from the Production Target included in the original ASX announcements continue to apply and have not materially changed; and c) the form and context in which the relevant Competent Persons' findings are presented in this presentation have not been materially modified from the original ASX announcements.