stanmorecoal

March 2017

QUARTERLY PRODUCTION REPORT

HIGHLIGHTS

- Safety performance improvements continued, with no recordable injuries (TRI) for 5 months
- Open-cut ROM coal production of 355kt (December Quarter 352kt)
- Operations impacted by labour shortages and mining through fault affected areas, however a strong performance at back-end of Quarter provides confidence on the June Quarter achievability
- Significant rainfall impact from Tropical Cyclone Debbie at end of Quarter, with rail infrastructure constraints anticipated to impact the business into following quarters
- June 2017 quarterly benchmark semi-soft price not yet finalised, however recent upward pressure for spot pricing is a positive

PRODUCTION AND SALES

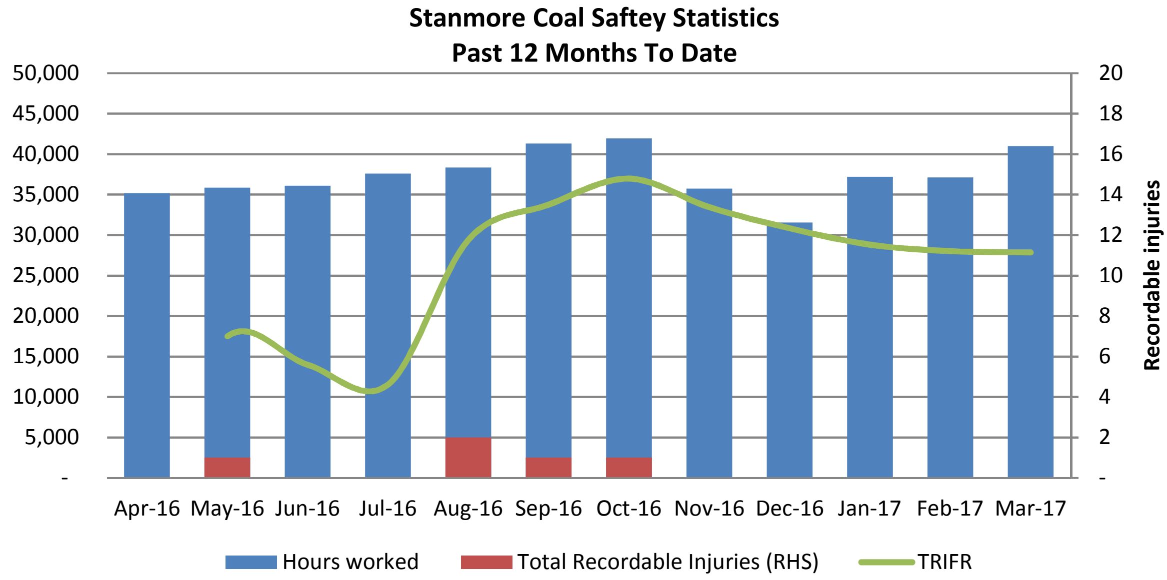
	Quarter Ended			FY to date (9 mths)
Thousands of tonnes	**Mar 2017**	**Dec 2016**	**Change %***	**Mar 2017**
ROM coal produced	355	424	(16%)	**1,173**
ROM strip ratio (bcm waste/ROM t)**	12.2	14.4	(15%)	**16.1**
Saleable coal produced	230	302	(24%)	**812**
Total coal sales	205	264	(22%)	**755**
Product coal stockpiles	126	104	21%	**126**
ROM coal stockpile	53	39	37%	**53**

* **Note:** Change is favourable/unfavourable

** Ratio calculation based on coal mined during quarter

SAFETY PERFORMANCE

During the March quarter, there was no injuries (TRI's) at the Isaac Plains Mining Complex, with no other injuries recorded across other projects and tenements of Stanmore Coal Limited (**Stanmore** or the **Company**). The Total Reportable Injury Frequency Rate at quarter end is 11.14 per million hours.



IMPACT OF RECENT WEATHER EVENT

The Isaac Plains Mine was impacted in late March by Tropical Cyclone Debbie (**TC Debbie**). Preventative measures were put in place prior to TC Debbie reaching the site and overall there was no material damage incurred to critical Company assets or other assets at the site. However, the Goonyella rail network owner advised on 3 April 2017[1] that track damage was extensive and would not be available for railings for five weeks. The Company understands the timing to resume railings is now Wednesday 26 April, being recently updated from the original guidance[2]. The outage affects access to the Port of Hay Point, a port complex which supports a significant portion of the seaborne metallurgical coal market.

The Company has sufficient cash reserves to withstand the current anticipated delays to railing and shipping operations. The Company anticipates that sales volumes will not be caught up prior to 30 June 2017 given the significant demand that will be placed on the network once the full logistic network is operational. The Company continues to assess the balance between working capital needs and maintaining full operations during this period.

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[1] Refer ASX announcement by Aurizon Holdings Limited 3 April 2017 (http://www.asx.com.au/asxpdf/20170403/pdf/43h7ktqd5y4krk.pdf)
[2] Refer ASX announcement by Aurizon Holdings Limited 18 April 2017 (http://www.asx.com.au/asx/statistics/displayAnnouncement.do?display=pdf&idsId=01848441)

ISAAC PLAINS OPERATIONS

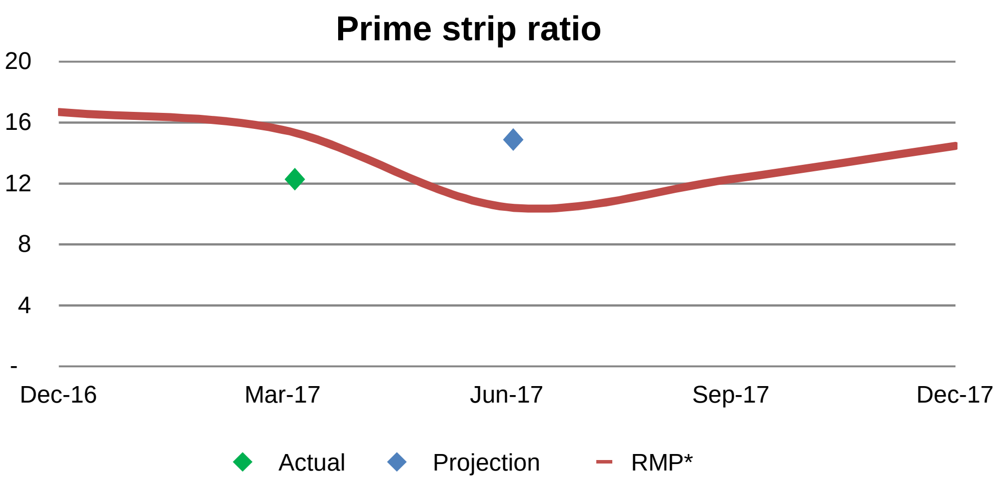
The March quarter results for mining were impacted by labour availability, slower than expected mining around a known major fault and cessation of operations for a period due to TC Debbie. Whilst open-cut ROM production was marginally exceeded compared to the prior quarter, delays arising from TC Debbie resulted in approximately 50kt (12% of the March Quarter) of ROM coal left uncovered but unable to be extracted in the pit. These tonnes will flow through to additional coal mined early in the June quarter. The decrease in total ROM coal production compared to the prior quarter is primarily due to the cessation of highwall mining which contributed to the December quarter only.

The strip ratio for the quarter was 12.2x, down from 14.4x in the December quarter. Although total overburden was in line with plan, the linear speed of the dragline was impacted by increased re-handle, designed to maximize recovery of each repeated coal sequence around the fault zone. The fault zone also adversely impacted the product split between coking coal and thermal coal and the volumes that could be mined. The June quarter mining sequence will be less impacted by faulted zones, which is anticipated to improve coal recovery and coal yields.

The washplant total yield was 74.8% for the quarter with the mix of semi soft coking coal to thermal coal produced being 71% to 29%. Coal inventory for ROM and product coal held at quarter end increased by 14kt and 22kt respectively, representing a further investment in working capital of $1.9m in the March quarter.

The ramp-up of pre-strip activities in the March quarter was impacted by a recent tightening in the labour market, with manning shortages impacting utilisation of the pre-strip fleet. Towards the end of the quarter the Contractor made positive steps toward securing additional operators which will significantly assist with meeting the planned production schedules for the following quarters. Overburden and coal mining performance for the month of March was encouraging and provides the Company with confidence around achievability of performance for the June quarter, notwithstanding the potential impacts on logistics and coal sales as a result of TC Debbie.

Graph 1: Prime strip ratio



*Note * : the "RMP" line refers to the guidance provided in the ASX announcement titled "Capital Raising Presentation" released on 14 December 2016*

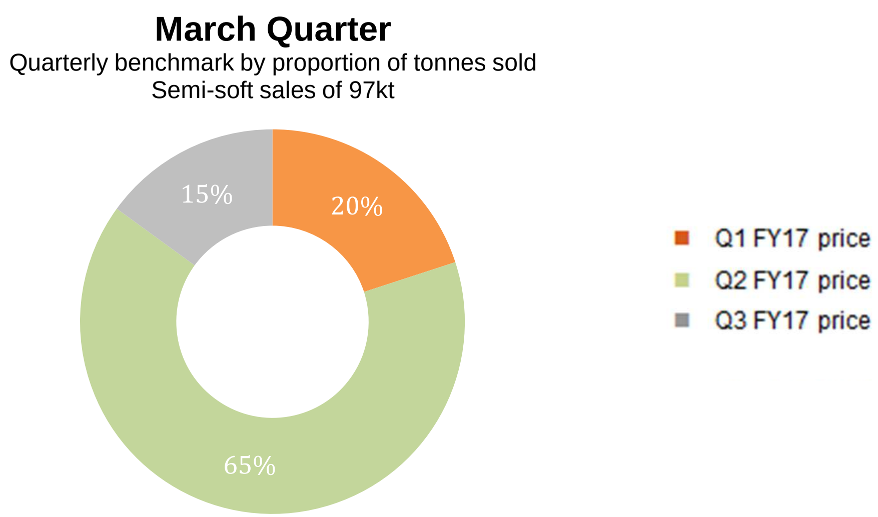
Given the delays experienced by TC Debbie and impacts from the mining and washing around the faulted zone, the Company anticipates FY17 production will reduce to approximately 1.15Mt. The primary constraint is the product stockpile holding capacity at the mine given the infrastructure chain delays. The Company intends to hold its level of planned production in the short term and continue to build ROM and product inventory whilst the infrastructure chain remains closed. The delay of sales to customers is anticipated to be caught up materially by the end of the September 2017 quarter.

FOB unit costs in the March quarter were impacted by a reduced level of coal sales, resulting from customers back-ending coal shipments to March, with both port queues and cyclone impacts delaying sales to April and May (impacting both the June and September quarters). The cost of production[3] for the March quarter was A$112 per tonne sold given fixed costs incurred over lower volumes sold.

COAL SALES AND MARKET OUTLOOK

During the quarter the Company sold 97kt of semi-soft coking coal and 107kt of thermal coal. The high proportion of thermal coal sales for the quarter was driven by a vessel loaded in early January that was delayed from December. For semi-soft coking coal sales, 85% of these sales were sold on prior quarter benchmarks with 15% sold on the March quarter benchmark. This is due to contracted carry-over tonnes which need to be delivered before the latest benchmark quarterly pricing takes effect. The average shipped price for all coal during the quarter was USD 94 per tonne (AUD 124 per tonne, accounting basis), including thermal coal sales.

Graph 2: Semi soft sales (actual) for the March 17 quarter, by price benchmark

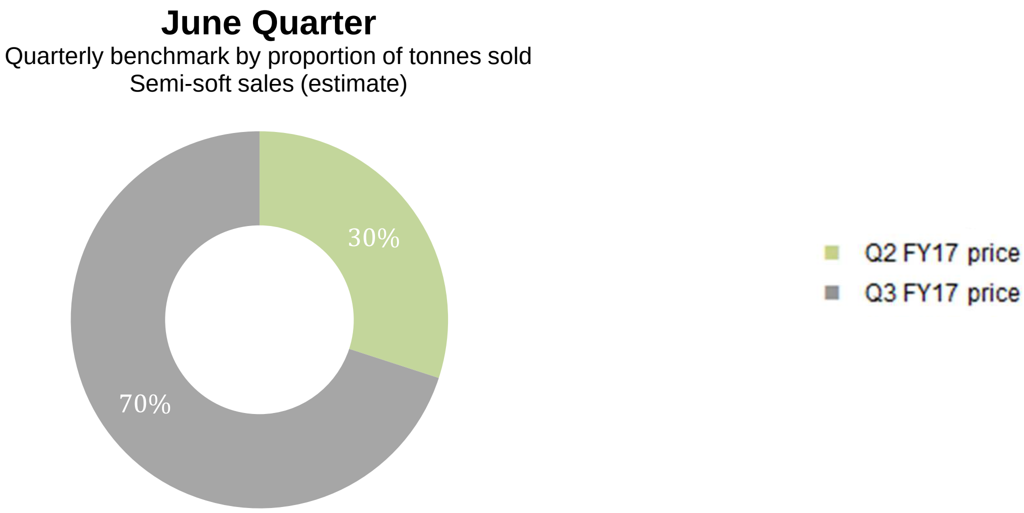


As the contracted carry-over tonne position at 31 March 17 is approximately 200kt, it is currently anticipated that the higher March quarterly price will apply to approximately 70% of sales in the June quarter, with 30% on the December quarterly price. The lag on sales is also impacted by TC Debbie

[3] Free on Board cost including state royalties and sustaining capital

with total shipments expected to be low for the June quarter. The delay of sales to customers is anticipated to be caught up materially by the end of the September 2017 quarter.

Graph 3: Semi soft sales (anticipated) for the June 17 quarter, by price benchmark



The June quarterly 4Q17 benchmark negotiations for semi-soft coking coal price have been delayed given both miners and end users continue to assess the impact of TC Debbie. The observed increase to spot price, driven by coal supply issues throughout key Queensland export regions caused by TC Debbie, is likely to drive an improved price outcome for the June quarter compared to prior expectations of the Company. The Company is close to completing negotiations in relation to Japanese Fiscal Year term contracts for semi soft coking coal. The completion has been impacted by the onset of TC Debbie. The Company has re-contracted with the same major parties from the first year of operations, at a total contracted volume of approximately 800kt including an improvement in price relativity to the Hunter Valley Benchmark for semi soft coking coal. The negotiations included agreed terms on shortfall or carry over tonnage for the contract year ending 31 March 2017 on a customer by customer basis. Of the 200kt of carryover, the Company achieved a significant portion of the carry-over position, which will be priced at the March 2017 quarter price.

EXPLORATION & DEVELOPMENT

Total exploration expenditure for the March quarter was $0.7m.

Isaac Plains East Project

Mine planning and feasibility studies have continued during the quarter, with the interpretation of the recently drilling and coal quality testing program nearing completion and alignment of mine planning against EA conditions such as noise and dust. The primary purpose of the recent drilling program was pit limit and fault zone definition. The Company anticipates an updated JORC statement to be released when the results are available in the June quarter.

Progress during the March quarter resulted in resolving overlapping tenure complexities being resolved and ongoing negotiation with landholders. The public notification process will follow the finalisation of these negotiations. The target of potential first production for Q3 FY18 may see some slippage if landholder negotiations are prolonged and or objections are lodged post the notification process.

Isaac Plains Underground Project

Following the acceleration of the of the feasibility assessments, the Company has completed a concept study on the proposed Isaac Plains Underground, which positively indicates the technical and financial merits of the project. Further studies will be commissioned in the coming months, underpinned by detailed 3D seismic and drilling program which provide an enhanced view for detailed risk assessment, mine planning, scheduling and costing purposes. An investment decision is anticipated during Q2 FY18.

Exploration Funding and Offtake arrangement with JOGMEC

After quarter end the Company announced a new Joint Exploration and Support Agreement (**JESA**) with the Japan Oil, Gas and Metals National Corporation (**JOGMEC**). The funding is aligned with the coal continuity strategy to bring projects into production to replace activity from the existing Isaac Plains open cut operations.

The JESA provides the Company with A$3 million of funding to accelerate exploration, approvals and studies to underpin finalisation of studies for the Isaac Plains East open cut project and the investment decision for Isaac Plains Underground project (the **Projects**). In return, the Company will provide JOGMEC with an annual right to tender a portion of the coking coal produced from these Projects to end users in Japan. The annual right will continue for 5 to 7 years whereby JOGMEC will be reimbursed over time. The annual right is split between product coal produced from each Project and therefore contingent on each Project reaching commercial production. The annual right may also fit within volumes shipped to current Japanese end users.

CORPORATE

Stanmore's cash position at 31 March 2017 was impacted by a large proportion of sales in the month of March, pushing cash receipts into April. Additionally, sales planned for the end of March were subsequently held out by TC Debbie and delayed until the infrastructure chain is re-opened. The cash balance at 31 March 2017 was $16.4m. The cash balance at the date of this report is $38.0m, following the collection of receipts from the strong March sales result.

During the quarter, a further $3.4m investment was made in pre-strip, ROM and product coal inventory compared to the prior quarter.

The remaining USD 6m from the Taurus Mining Finance Fund (**Taurus**) working capital facility was drawn in March to manage the timing of significant customers receipts due in April. The working capital facility is now fully drawn at USD 12m. The Company and Taurus are in the process of modifying the working capital facility to operate as a more traditional revolving facility. Bank guarantees held with Taurus are unchanged from the prior quarter, amounting to A$36.8m.

Yours faithfully

Andrew Roach
Company Secretary

FOR FURTHER INFORMATION, PLEASE CONTACT:

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ABOUT STANMORE COAL LIMITED (ASX CODE: SMR)

Stanmore Coal is an operating coal mining company with a number of additional prospective coal projects and mining assets within Queensland's Bowen and Surat Basins. Stanmore Coal owns 100% of the Isaac Plains Coal Mine and the adjoining Isaac Plains East Project and is focused on the creation of shareholder value via the efficient operation of Isaac Plains and identification of further local development opportunities. Stanmore continues to progress its prospective high quality thermal coal assets in the Northern Surat Basin which will prove to be valuable as the demand for high quality, low impurity thermal coal grows at a global level. Stanmore's focus is on the prime coal bearing regions of the east coast of Australia.

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