

stanmorecoal

Quarterly activities report

for the period ended 30 June 2014



Stanmore Coal Limited ACN 131 920 968
Phone: +61 (7) 3238 1000 | Fax: +61 (7) 3238 1098
Email: info@stanmorecoal.com.au | Web: www.stanmorecoal.com.au
Street address: Level 8, 100 Edward Street, Brisbane QLD 4000
Postal address: GPO Box 2602, Brisbane QLD 4001

Quarterly Overview

During the quarter ended 30 June 2014 Stanmore Coal Limited (“Stanmore Coal” or “the Company”) completed and released the results of coal quality analysis from the latest exploration program conducted at its flagship Belview Project. The Company increased the JORC Resource for the Belview Project and undertook significant planning and preparatory activities for the next phase of exploration at the Clifford Project. The Company continues to realise benefits from the aggressive cost reduction initiatives which enabled the Company to end with the quarter with cash reserves of \$18.2 million.

The Company reported an increase to the Belview Project’s JORC Inferred Resource estimate, from 322 million tonnes to 342 million tonnes. Pleasingly, coal quality analysis conducted on samples from these holes supports the previous coal quality results announced by the Company. The coking coal (primary product) is classified as a high rank coking coal of low ash with a high CSN value (typically 7 - 8.5). The secondary product will be a readily saleable low volatile PCI coal as the product displays high carbon content, calorific value and coke replacement ratio and would be attractive to most blast furnace operators. Together these products will be produced at a high overall washed yield (average laboratory yield of 73-83%) and will be comparable to those produced in neighbouring mines and sold into established markets including Japan, South Korea, Taiwan, China, India, and Europe.

The Company is currently planning a drilling program for the second half of the 2014 calendar year which aims to delineate a portion of the Project’s JORC Resource to an Indicated classification. Amongst other things this will provide an increased geological understanding of the deposit and additional information to support the planned Pre-Feasibility Study. We continue to hold discussions with our partners, Taiheiyo Kouhatsu Inc. (“Taiheiyo”) and the Japan Oil, Gas and Metals National Corporation (“JOGMEC”), in respect of their ongoing support of the project.

During the quarter Stanmore also worked closely with JOGMEC, our Joint Venture partner for the Clifford Project, to plan the second phase of the significant JOGMEC funded exploration program. As part of the joint venture funding arrangements announced in December 2013, JOGMEC have committed \$1.5 million (of \$4.5 million in total commitment) for this calendar year in order to drill a series of open chip holes and partially cored holes at Clifford. Objective of this years planned program include the definition of an initial JORC Resource and the completion of further scout drilling within prospective areas. Drilling activities are anticipated to commence by October with respective laboratory analysis to be undertaken as core samples are collected.

The current cyclical lows in the coal market are driven by oversupply while demand growth remains relatively robust. We believe the long term fundamentals of both the coking and thermal coal markets are very strong, based on increasing demand for high quality coal in fast growing regional economies including India, China, Taiwan and South East Asia as well as the traditional markets of Japan and Korea. Current coal producers have continued to aggressively pursue cost reduction programs and increase supply which serves to exacerbate oversupply. Given that a significant proportion of producers of both export thermal and coking coal are unprofitable, the current price environment is clearly not sustainable in the longer term. A recovery in coal prices is expected to follow the market deterioration which has been experienced in the last few years. Importantly, as the current generation of coal mines continue to deplete, end users are evaluating the next wave of

projects and assessing the pricing fundamentals required to incentivise investment. In addition, the environmental focus of various governments places greater emphasis on those projects with high quality, low impurity coal, the key characteristics which Queensland deposits host in abundance. As countries around the world choose to restructure the composition of their energy mix towards coal as a cheaper and more reliable supply, it will continue to play a significant role as a demand-driven commodity. The Company's diversified portfolio of development and exploration projects puts it in a strong position to benefit as coal markets recover.

Coal in the news

During the last quarter, the media picked up a number of public statements by emerging countries on their intention to expand their energy generation capability through the use of coal fired power-plants. Developed nations such as Japan appear very motivated to support these nations to address energy challenges, particularly with regard to advanced coal technologies which are more efficient and have the added benefit of reducing environmental impacts. Indonesia and the ASEAN region are placing greater emphasis on these technologies (such as Ultra Super Critical plants) as the long run efficiency and environmental benefits are significant. This is consistent with Stanmore Coal's view that Queensland remains well positioned to satisfy increasing thermal coal demand in Asia and other developing nations, with its high energy and low emission coal. The full text of these and other relevant coal market articles are accessible at our website and we encourage you to visit www.stanmorecoal.com.au to keep up to date with coal industry trends and information.

"Coal will also play an important role in diversification with its cheaper prices and abundance. Japan's clean coal technology helps to achieve sustainability."

*Nobuo Tanaka, Global Associate for Energy Security and Sustainability at the Institute for Energy Economics Japan (IEEJ) and a professor at the University of Tokyo.
10 April 2014*

"Coal use for power generation grew 3 per cent last year, the fastest of the fossil fuels, to breach 30 per cent of the global energy market for the first time since 1970, *The Guardian* reports."

*John Conroy, The Herald Sun
17 June 2014*

"Despite short to medium term oversupply creating a downward pressure on prices, Accenture estimates the market to be close to a price floor for thermal coal. With 85th percentile marginal cost prices of Australian export producers at \$87/tonne, and Indonesian producers at \$63.6/tonne, any market prices below these levels for sustained periods would lead to supply-side rationalisation and consequent increase in the coal price."

*Accenture "From Thermal Coal Production to Marketing and Trading"
October 2013*

"The world continues to turn to coal as a competitive fuel source, and ongoing urbanisation and industrialisation trends are expected to drive long-term global coal demand growth"

*Greg Boyce, Chief Executive
Peabody Energy
23 July 2014*

Project Snapshot

Project	Status
<u>Belview</u> Underground Coking Coal	<ul style="list-style-type: none"> • 342Mt JORC Inferred Resource • Mining Lease application lodged in September 2013 • Coal quality analysis confirms the project can produce a high quality coking coal plus secondary PCI product • Funding support provided by Taiheiyo Kouhatsu and JOGMEC • Studies planned for 2014 with a focus on reducing capital costs and developing initial mining options • Located adjacent to Blackwater rail line which connects to the coal ports of Gladstone
<u>Lilyvale</u> Underground Coking Coal	<ul style="list-style-type: none"> • Historical geological data indicates the Project area hosts the German Creek seam at a typical coal thickness of 2.2-2.5m • The region is not expected to be geologically complex and the German Creek seam is mined as a high quality coking coal in adjoining underground mines • Located close to an existing rail line that connects to an existing coal port
<u>The Surat Basin</u> The Range - Open Cut Thermal Coal and Clifford - Open Cut Thermal Coal	<ul style="list-style-type: none"> • Substantial resource position established at The Range - 94 Mt JORC Marketable Reserve¹, 287 Mt total JORC Resource (18Mt Measured, 187 Mt Indicated + 82Mt Inferred) • Substantial exploration opportunities within the 1,161km² Clifford Project Area with the potential to host a substantial thermal coal deposit suitable for open cut mining • Fully funded scout drilling program at Clifford completed in March 2014; planning for the next phase is underway with our project funding partners JOGMEC. Approximately \$1.5 million has been allocated for the next phase of exploration. • The Range EIS approved by the State and being progressed through Commonwealth approvals. • No material level of expenditure required on the Range prior to development of rail infrastructure and decision to proceed. JOGMEC sole funding allows for substantial exploration activity at Clifford

Project Updates

Belview Coking Coal Project

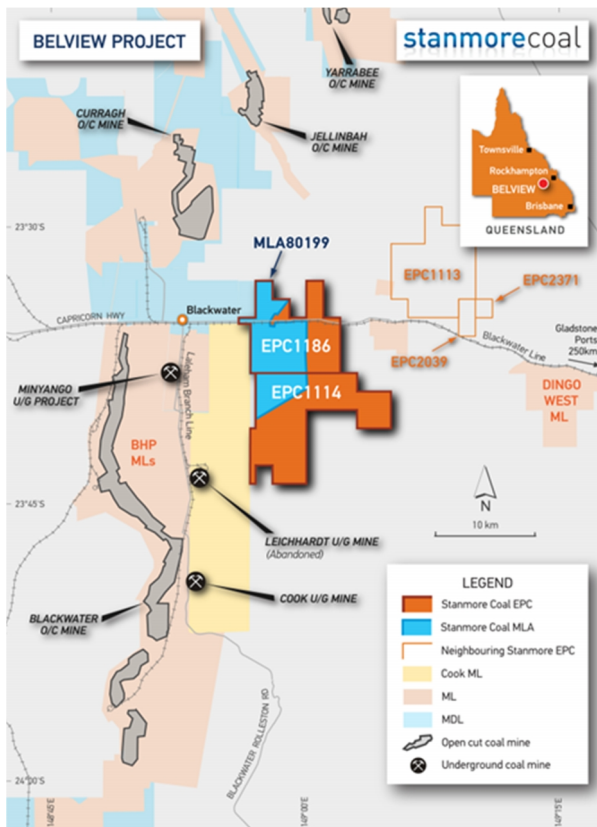
MLA80199, EPC 1114 & 1186

Stanmore Coal 100% ownership

Location: 10km south-east of Blackwater

Area: 120km²

JORC Inferred Resource: 342Mt



On the back of completing two part-cored holes in the prior quarter, the Company upgraded the JORC Resource from 322Mt to 342Mt and released updated coal quality analysis during the quarter. The results were in line with the positive coal quality results achieved in the previous exploration program. Coal quality testing was carried out using samples of coal collected from cores within representative areas from within the Castor and Pollux seams within the project area. The samples were washed to produce a 7.5% ash (adb) HCC product and a 9.0% ash (adb) PCI product.

Quality results indicate that the HCC product will be a low volatile, low ash, low sulphur coking coal from the Rangal coal measures that is similar in quality to other nearby Rangal coking coals of similar rank that are well established and accepted in the international coking coal

market, such as Curragh and South Blackwater. Such coals are noted for their consistent quality, low coke oven wall pressure, high mechanical coke strengths and excellent coke yields. Consequently, it is anticipated that the Belview HCC product can be sold in established markets including Japan, South Korea, Taiwan, China, India, Europe and South America.

Quality results indicate that the PCI product will be a low sulphur, low volatile, high calorific value PCI which has a well-established market in Asia and is supplied by a number of neighbouring mines. The low volatile matter content, combined with the high calorific value of the Belview product are its key features and indicate that it will exhibit a high coke replacement ratio. All other coal characteristics fall within the expected range for low volatile PCI coals. Other Bowen Basin PCI brands that fit into the low-volatile category include Moorvale, Curragh and Lake Vermont.

The Company has submitted a Mining Lease Application and is targeting first coal in 2018. Further studies are planned during late 2014 with a focus on reducing capital and operating costs and evaluating initial mining options. Planning for a further drilling campaign with the aim of establishing an initial JORC Indicated resource is underway.

Lilyvale Underground Coking Coal Project

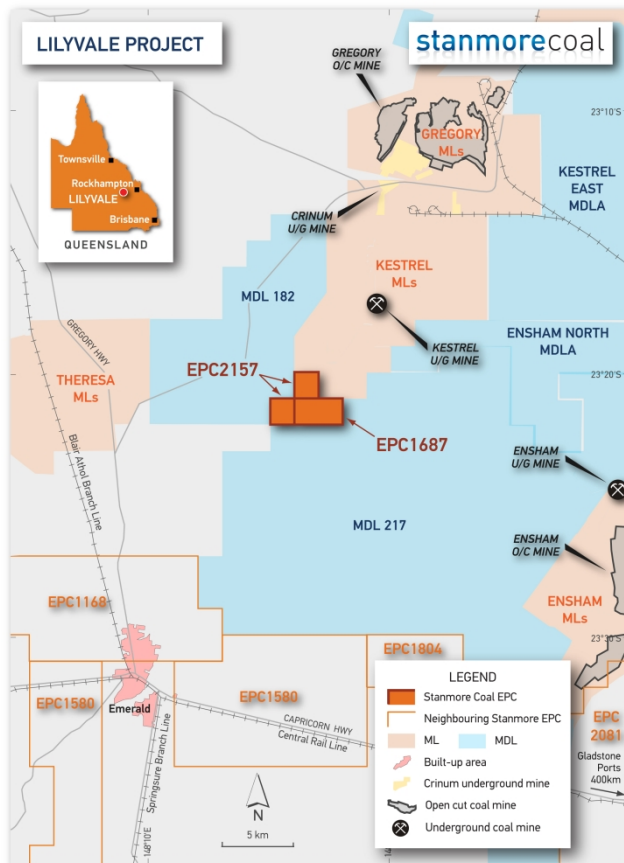
EPCs 1687 and 2157

Stanmore Coal 85% ownership/Cape Coal 15% ownership (on completion of farm-in)

Location: 25km north east of Emerald

Area: 13km²

JORC Resource: N/A



The Lilyvale project is located 25km north east of Emerald and is in close proximity to the operating Kestrel South and Gregory - Crinum coking coal mines. The project is owned 85% by Stanmore Coal and 15% by Cape Coal Pty Ltd.

The Company has identified the German Creek (or Lilyvale) seam as potentially amenable to underground extraction based on depth and estimated seam thickness. This seam is presently mined as a high quality coking coal at the adjacent Kestrel and nearby Gregory - Crinum operations.

The Company is assessing several natural expansion options to the project footprint which may provide the catalyst to undertake an exploration program in order to define the resource and perform detailed coal quality analysis. The Company will continue

to evaluate these opportunities and may consider introducing suitable funding partners at the appropriate time.

The Range Project

EPC 1112, 2030 / MLA 55001, 55009, 55010

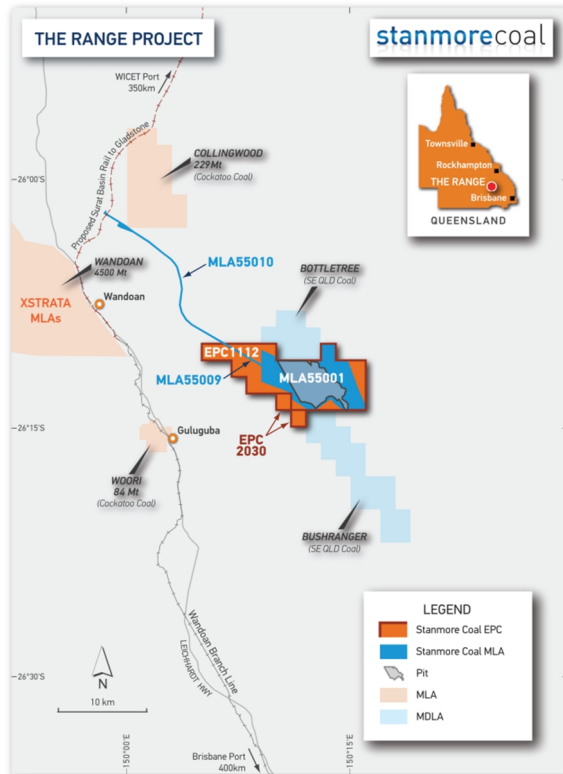
Stanmore Coal 100% ownership

Location: Surat Basin – 24km south-east of Wandoan

Area: 92km²

JORC Resource: Total of 287 Mt high quality open pit thermal coal (18Mt Measured + 187Mt Indicated + 82 Inferred Resource)

JORC Marketable Reserves¹: 94 Mt (included in the 287Mt, Measured, Indicated and Inferred Resource noted above)



A bankable feasibility study was completed in April 2013 which confirmed that the Range Project is an attractive 5Mtpa high quality, export grade, thermal coal project ready for execution upon the delivery of the Surat Basin Rail linking the basin to the existing Aurizon Moura network via a 200km rail link.

The Environmental Impact Statement (“EIS”) was approved by the DEHP in February 2013

The Company has reduced ongoing costs to a minimum given there is no visibility as to the timing of a defined infrastructure solution. The Company will continue with ongoing environmental monitoring and other minor on-site activities to maintain compliance with approvals. The project is strongly positioned to progress once a clear path to production can be realised.

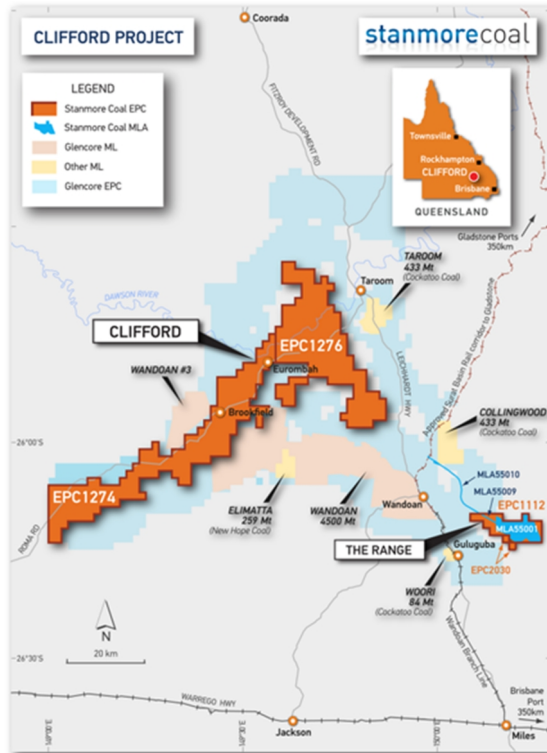
The Clifford Project

EPC 1274, 1276

Stanmore Coal 100% ownership (JOGMEC can earn up to 40% through provision of exploration funding)

Location: Surat Basin – 24km south-east of Wandoan

Area: 1,161km²



The Clifford Project (EPC 1274 and EPC 1276) is located within Queensland's highly prospective Surat Basin. Through a joint exploration initiative with Stanmore Coal, JOGMEC has an enhanced role in the development of a new, long term source of high quality thermal coal highly suitable for Japanese electricity generators. JOGMEC will provide up to \$4.5 million of funding for all of the planned exploration expenditure over three years within the Clifford Project area.

Planning activities for the next round of exploration under the JEA were undertaken during the quarter. The follow on drilling campaign will focus on specific areas with the objective of delineating a JORC Resource as well as additional scout drilling within prospective zones expected to host the shallowest coal. Landholder access discussions are

well underway with management anticipating on-site drilling to commence in October.

Schedule of Tenements as at 30 June 2014

Project & Location	Tenement Number	Status	Beneficial Interest Held
The Range Surat Basin, QLD	MLA 55001	Applied 3/11/10	n/a
	MLA 55009	Applied 30/1/12	n/a
	MLA 55010	Applied 30/1/12	n/a
	EPC 1112	Granted	100%
	EPC 2030	Granted	100%
Belview Bowen Basin, QLD	MLA80199	Applied 4/9/13	n/a
	EPC 1186	Granted	100%
	EPC 1114	Granted	100%
Lilyvale Bowen Basin, QLD	EPC 1687	Granted	85%
	EPC 2157	Granted	85%
Clifford Surat Basin, QLD	EPC 1274	Granted	100%
	EPC 1276	Granted	100%
Mackenzie Bowen Basin, QLD	EPC 2081	Granted	95%
Tennyson Bowen Basin, QLD	EPC 1168	Granted	100%
	EPC 1580	Granted	100%
New Cambria Bowen Basin, QLD	EPC 1113	Granted	100%
	EPC 2371	Granted	100%
	EPC 2039	Granted	100%
Iron Pot Creek Bowen Basin, QLD	EPC 1545	Granted	100%
	EPC 1567	Granted	100%
Kerlong Bowen Basin, QLD	EPC 1552	Granted	100%
	EPC 1769	Granted	100%
	EPC 2176	Granted	100%
Yamala North Bowen Basin, QLD	EPC 1804	Granted	100%
Ten Mile Creek Bowen Basin, QLD	EPC 1627	Granted	100%

Contacts

For further information, please contact:

Mr Nick Jorss
Managing Director
07 3238 1000

Mr Doug McAlpine
Company Secretary
07 3238 1000

Competent Persons Statement

The information in this report relating exploration results and coal resources is based on information compiled by Mr Troy Turner who is a member of the Australian Institute of Mining and Metallurgy and is a full time employee of Xenith Consulting Pty Ltd. Mr Turner is a qualified geologist and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking, to qualify as Competent Person as defined in the 2004 Edition of the “Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves”. Mr Turner consents to the inclusion in the report of the matters based on the information, in the form and context in which it appears.

The information in this report relating to coal reserves is based on information compiled by Mr Richard Hoskings who is a member of Minserve Pty Ltd. Mr Hoskings is a mining engineer, a Fellow of the Australian Institute of Mining and Metallurgy (AusIMM) and has the relevant experience (30+ years) in relation to the mineralisation being reported to qualify as a Competent Person as defined in the “Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (The JORC Code 2004 Edition)”. Mr Hoskings consents to the inclusion in the report of the matters based on the information, in the form and context in which it appears.

Note 1: Marketable Reserves Note

The Marketable Coal Reserves of 94Mt is derived from a JORC compliant run of mine (ROM) Coal Reserve of 117.5Mt based on a 14.8% ash product and predicted yield of 80%. The 94Mt Marketable Reserve is included in the 287Mt total JORC Resource (18Mt Measured + 187Mt Indicated + 82Mt Inferred Resource)

About Stanmore Coal Limited (ASX code: SMR)

Stanmore Coal is a growth focused coal exploration and development company with a number of prospective coal projects and exploration areas within Queensland’s Bowen and Surat Basins. Stanmore Coal is focused on the creation of shareholder value via the identification and development of coal deposits, with a focus on the prime coal bearing regions of the east coast of Australia.

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