



stanmorecoal

Capital Raising for Coal Projects

Queensland Exploration Council

28 October 2014

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Marketable Reserves Note: The Marketable Coal Reserves of 94Mt is derived from a JORC compliant run of mine (ROM) Probable 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).

Competent Persons Statement:

The information in this report relating to the Belview Project 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 2012 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 all other project exploration results and coal resources is based on information compiled by Mr Troy Turner who is a member of the Australasian Institute of Geoscientists and is a full time employee of Xenith Consulting Pty Ltd. Mr Turner is a qualified geologist and has sufficient experience that 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 JORC Code. Mr Turner consents to the inclusion in this document of the matters based on the information, in the form and context in which it appears.

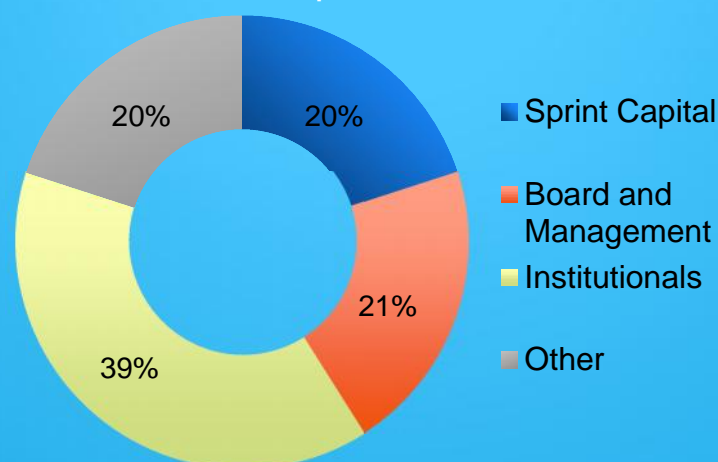
The information in this report relating to coal reserves is based on information compiled by Mr Richard Hoskings who is a member of Minserve Pty Ltd. Mr Hoskings is a mining engineer, a Fellow of the Australian Institute of Mining and Metallurgy (AusIMM) and has the relevant experience (30+ years) in 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.

ABOUT STANMORE COAL

- Queensland based coal development company
- Counter-cyclical investment opportunity with advanced thermal and metallurgical coal development projects
- Emerging coking coal producer at Belview
- Additional pipeline of attractive projects
- Rail and port infrastructure in place for key coking coal projects
- Strong Board and management team with proven track record of developing and operating coal mines
- Small, highly skilled team with low overhead cost base
- Well funded with a strong shareholder base
- No take or pay obligations
- Capacity to pursue opportunities in the down-cycle

ASX Code	SMR
Share price	A\$0.085 ²
Shares	209.1m
Market cap	\$17.8m ²
Cash	A\$18.1m ³

Share ownership



Large resource base

Total JORC Resource⁴
933.2 Mt

Measured and indicated JORC Resource⁴
231 Mt

JORC Marketable Reserves
94 Mt

1. Refer to Marketable Reserves Note (p.2) , JORC Probable Reserve (ROM) of 117.5 Mt • 2. As at 27 October 2014 • 3. As at 30 June 2014 • 4. 18 Mt Measured, 212.7 Mt Indicated, 702.5 Mt Inferred

LOCATED IN QUEENSLAND'S PREMIER COAL BASINS

Emerging Bowen Basin coking coal producer at Belview

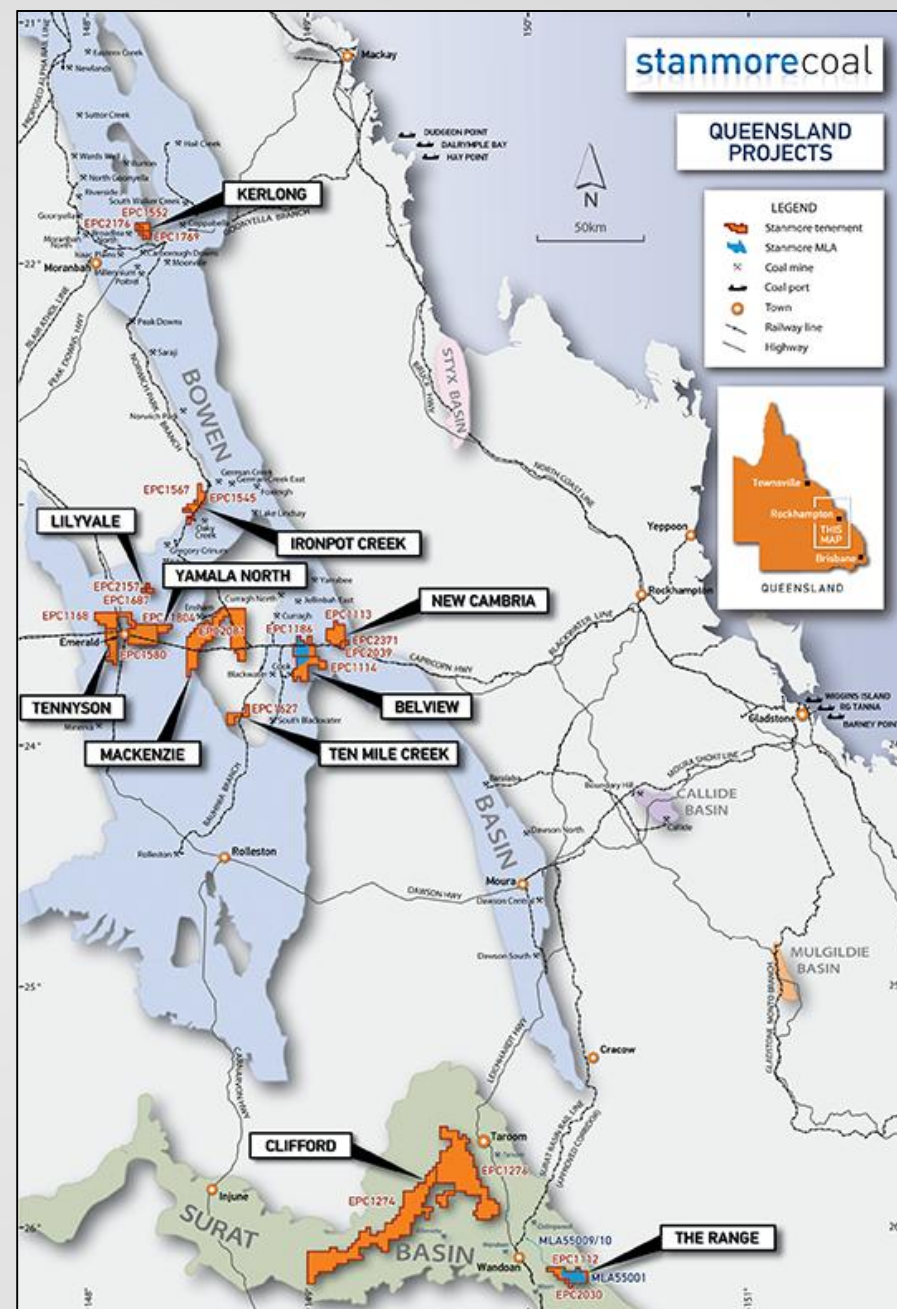
- Belview hosts high quality underground coking coal on existing rail line
- First coking coal exports planned from Belview in 2018

Pipeline of additional coal projects

- Lilyvale hosts underground coking coal in the German Creek seam
- The Range (Surat Basin) open-cut 5 Mtpa (low emission) export thermal coal at feasibility stage
- Other prospective thermal, PCI and coking deposits in the Bowen and Surat basins

Well located for infrastructure

- Rail and port capacity for Belview is expected to be available in line with development timeline
- Bowen Basin assets are adjacent to existing rail lines
- Surat Basin assets located within close proximity to proposed Surat Basin Rail line
- No “take or pay” exposure





Capital Raising for Coal Projects

Overview

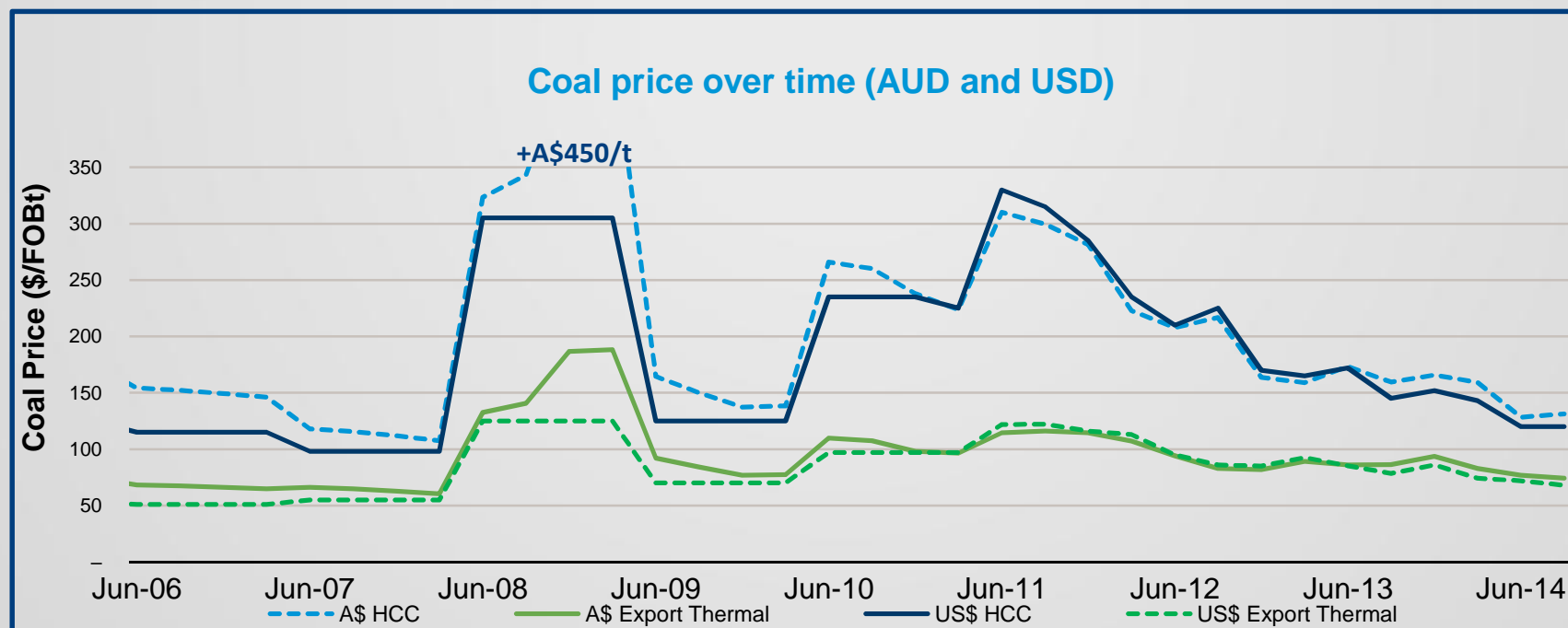
- Sources of capital for exploring and developing coal projects include:

Source	Current status
Grants & exploration support	Limited
Private equity	Some availability (in theory)
Strategic JV investment	Limited
Equity capital markets	Effectively closed
Debt capital markets	Limited

- The available “window” for these sources of capital varies over time as the coal price and economic sentiment changes. The stage of the project is also key with respect to the types of investors the project can attract
- In the current market non-traditional financing methods (ie exploration support) provide a useful alternative source of capital to progress projects whilst preserving cash and minimising headstock dilution
- These structures provide numerous benefits for both parties and retain flexibility at the project level to carry out further development and capital raising initiatives

Timing is critical: the coal price cycle typically drives investment decisions in the industry

- Significant fluctuation in the coal price over the last decade highlights the cyclical nature of the industry
- The price boom of 2008-2011 resulted in many new projects being developed. This new wave of supply has resulted in a material reduction in price for both thermal and metallurgical coal despite the demand profile continuing to grow
- Coal price expectation impacts transaction values and the share price of all listed explorers and producers



Project level equity has been an important source of development capital in the coal market historically

- Through development milestones and approvals, project capital raisings such as equity sell-downs can realise significant value for project owners. Recent examples include:
 - Maules Creek: Project owner achieved a 45% higher implied EV/Resources transaction for the J-Power sell-down compared to the Itochu sell-down less than a year earlier. This increase in project value can be attributed to the project attaining rail and port allocations in addition to project debt financing during the period; and
 - Narrabri achieved successive positive sell-downs as the asset neared production.

Date	Target Asset	Acquirer	Price Paid	Interest Acquired	EV	Resources	EV / Resources
			[AUD m]	[%]	[AUD m]	[mt]	[AUD/t]
Oct-11	Maules Creek	J-Power	370	10.0%	3,700	678	\$5.5
Dec-10	Maules Creek	ITOCHU	345	15.0%	2,300	610	\$3.8
Aug-09	Narrabri	Daewoo/KORES	125	7.5%	1,666	438	\$3.8
Jul-08	Narrabri	J-Power & EDF Trading	248	15.0%	1,653	438	\$3.8
Feb-08	Narrabri	Guangdong Yudean	68	7.5%	907	438	\$2.1

Source: Company announcements, Stanmore analysis

- In a non-disrupted market many coal projects will be funded via project level (JV) investment by off-takers

The diagram illustrates the progression of a mining project from discovery to production, showing increasing value and certainty over time. The diagram is divided into four main stages: MINERAL, PROSPECT EVALUATION, PROJECT CONSTRUCTION, and MINE PRODUCTION. The y-axis represents 'Increasing Value' and the x-axis represents 'Increasing Certainty'.

Key milestones and stages shown include:

- CLIFFORD** (Discovery)
- BELVIEW** (Desk Study)
- THE RANGE** (Feasibility)
- PROJECT COMMISSIONING**

The diagram also shows the progression of mineral resources from Blue Sky to Proven, and the progression of project stages from Discovery to Project Commissioning. A red star marks the transition from Discovery to Desk Study, and another red star marks the transition from Feasibility to Project Commissioning. The diagram includes a 'THE RANGE' oval and a 'BELVIEW' oval, both containing red stars.

Source: Lilford, 2007



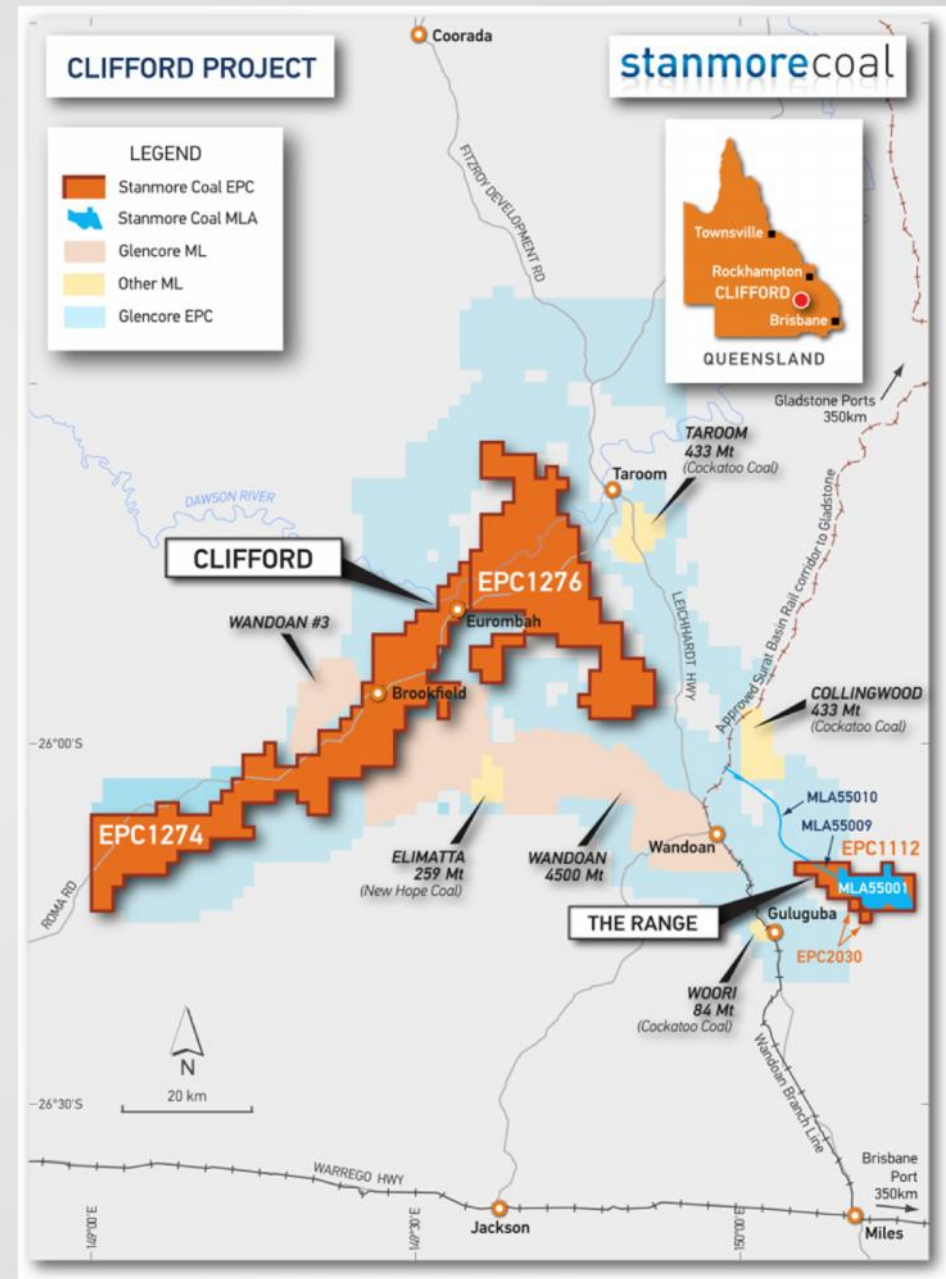
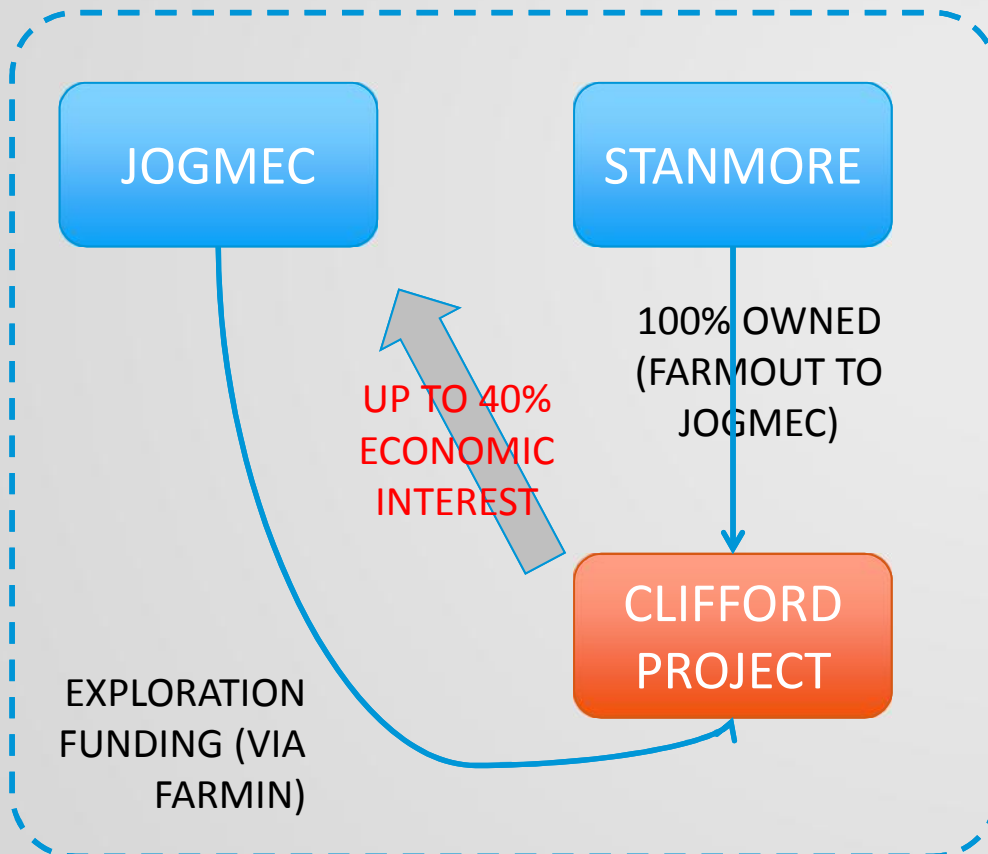
- ## Pre-Feasibility phase

- ## Feasibility/Construction phase

- 9

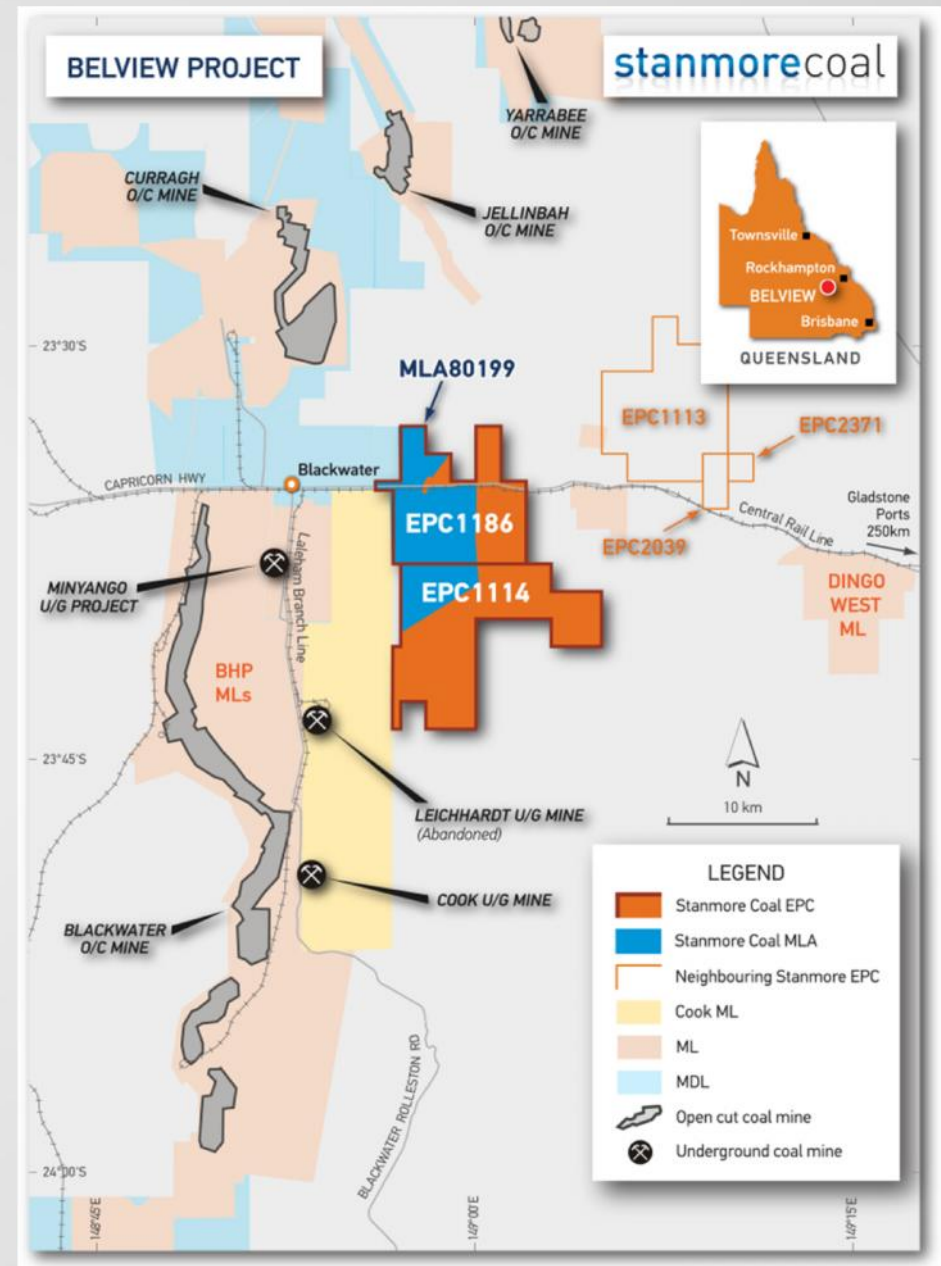
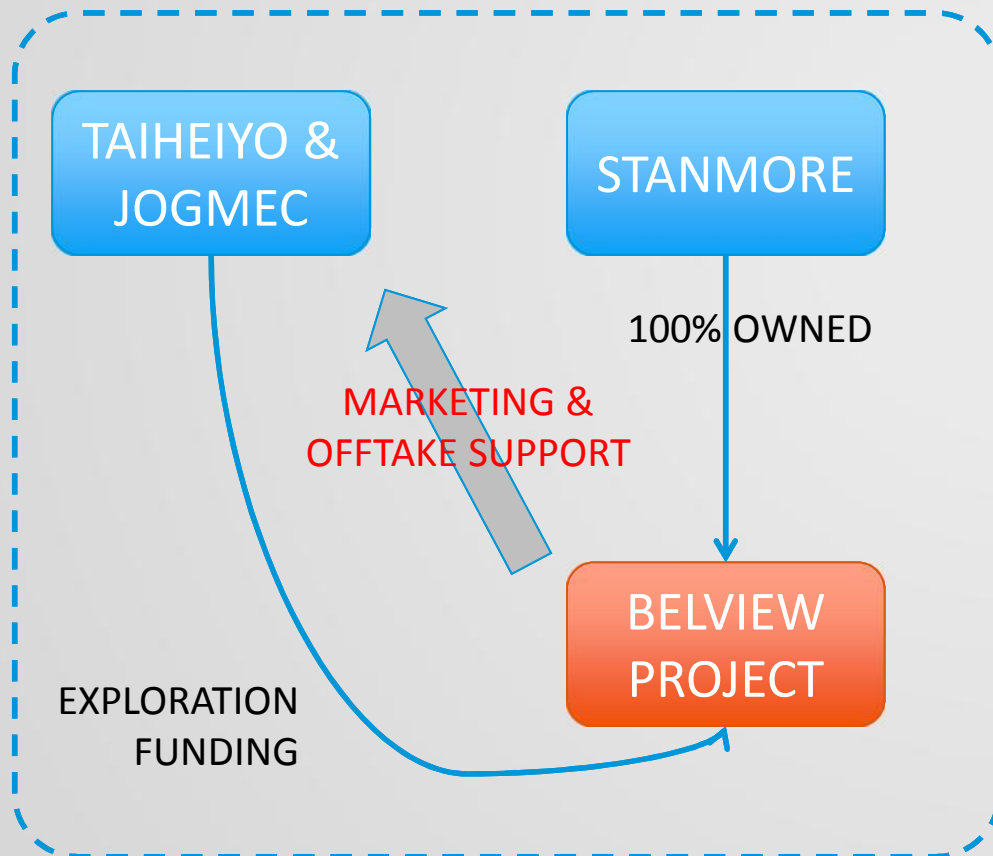
Recent capital raising experiences – Clifford Project

- Exploration agreement signed in 2013 with Japan Oil, Gas and Metals National Corporation (“JOGMEC”) to provide A\$4.5 million over 3 years to earn up to a 40% economic interest in the Clifford Project
- At completion of the farmin JOGMEC will on-sell the project interest to Japanese power generators /end-users
- The Clifford Project is located in the Surat Basin. Initial coal quality results indicate it has the potential to produce a high energy, high quality thermal coal



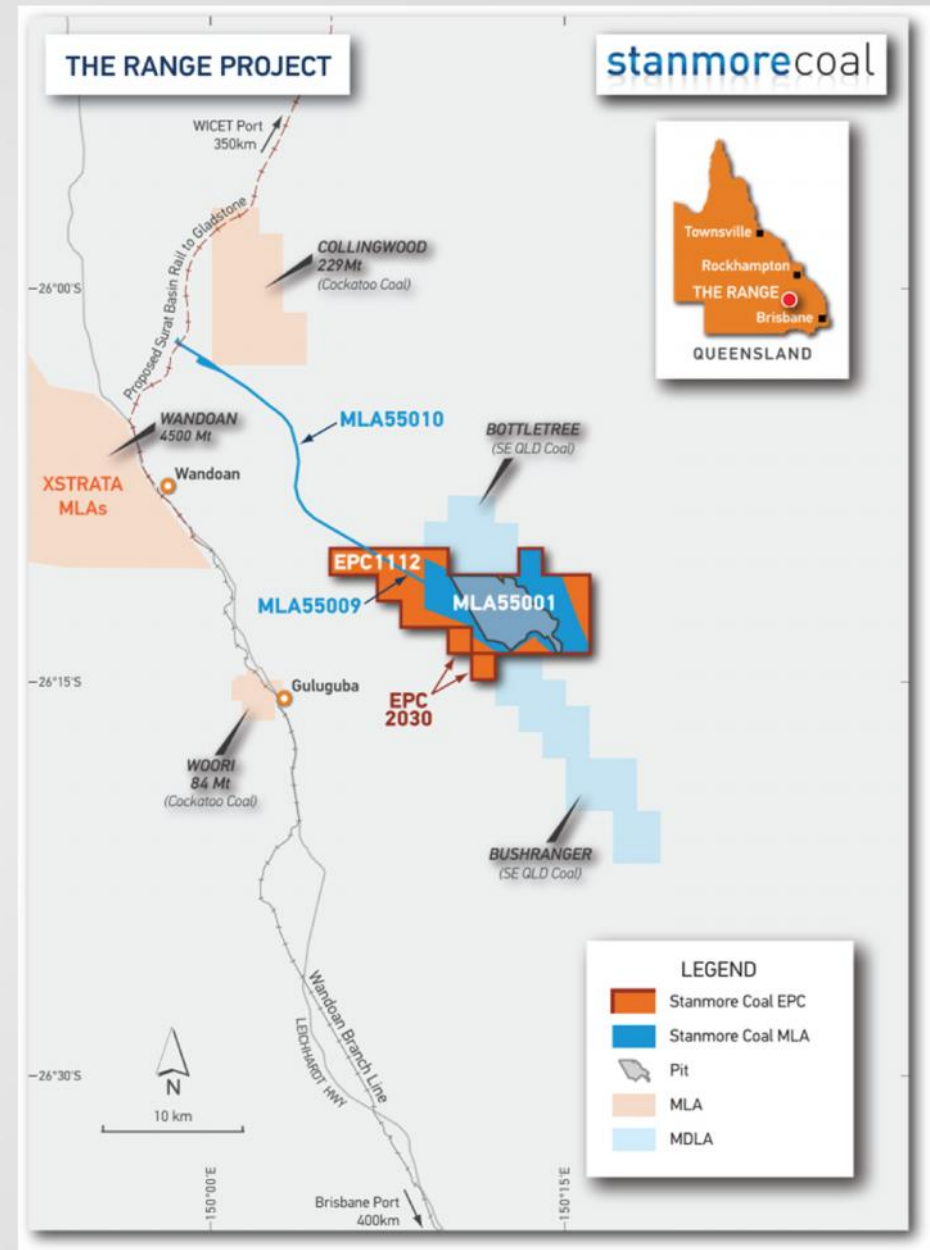
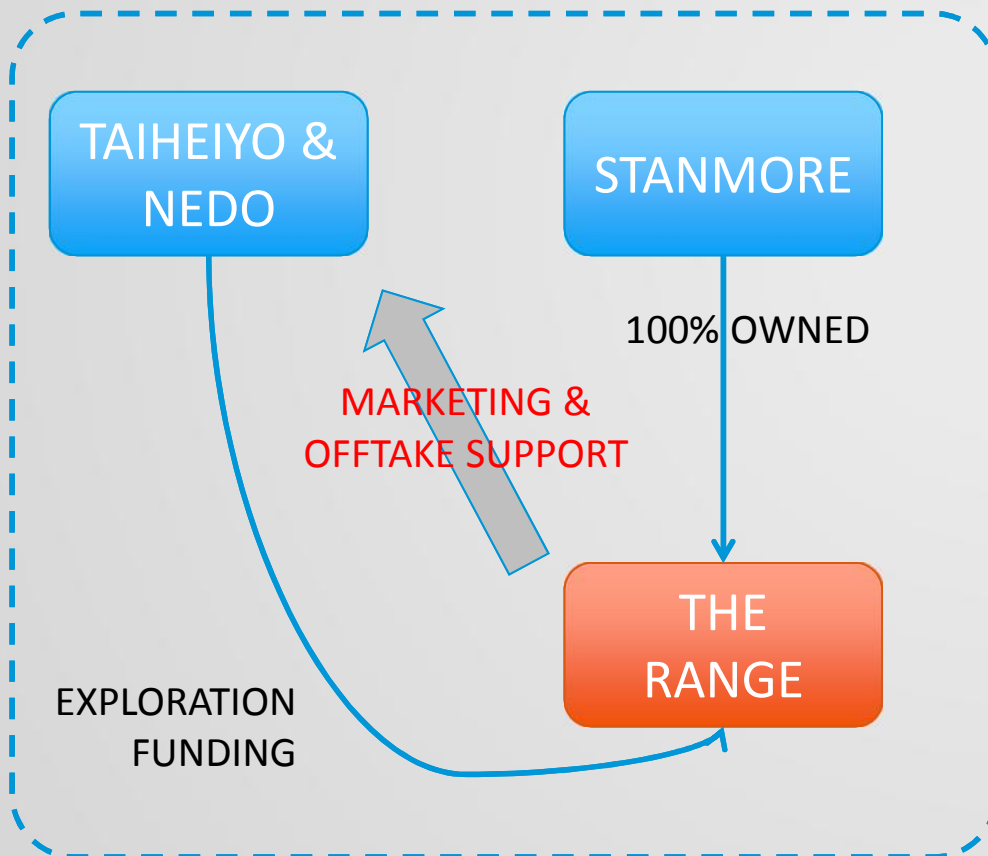
Recent capital raising experiences – Belview Project

- Exploration support agreement signed in 2013 with Taiheiyo Kouhatsu Inc. (“Taiheiyo”) supported by the Japan Oil, Gas and Metals National Corporation (“JOGMEC”) to provide A\$688k to fund drilling and coal quality testing activities at the Belview Project
- Taiheiyo undertakes promotion activities for the coal in Japan
- The Belview Project is an underground, metallurgical coal project that will produce a high quality coking coal with a secondary PCI product



Recent capital raising experiences – The Range Project

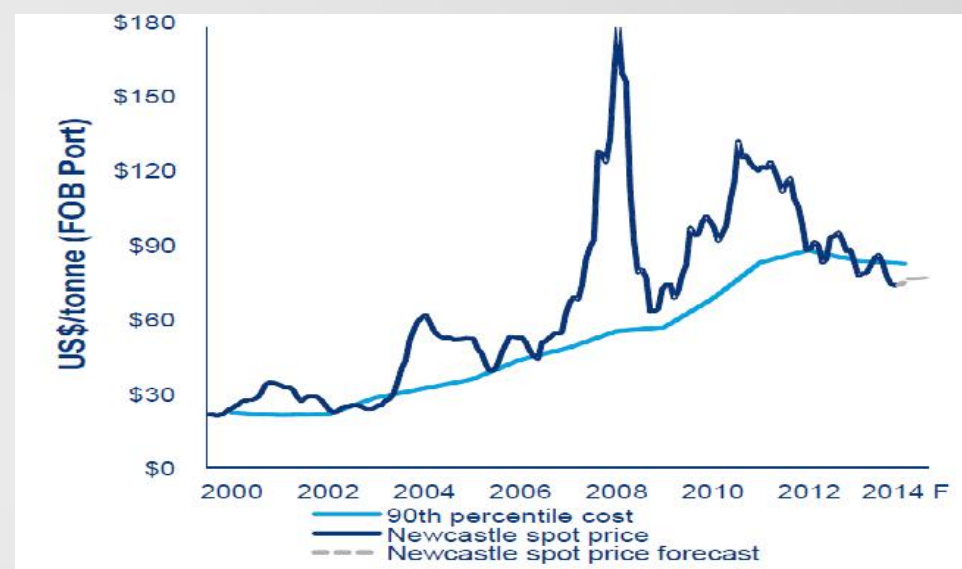
- Exploration support agreement signed in 2012 with Taiheiyo Kouhatsu Inc. (“Taiheiyo”) supported by the New Energy and Industrial Technology Development Organisation (“NEDO”) to provide A\$1.2 million to fund drilling activities at the Bankable Feasibility Study phase of The Range Project
- The Range Project is an open cut, high quality thermal coal project that will produce a high energy, low emission product suitable for the key Asian economies



Capital raising trends – when will the equity market window for coal reopen?

- The cost of extraction from existing mines increases over time as the resources typical get deeper and the mines deplete.
 - It is estimated that approximately one quarter of Queensland's coal mines operate at a loss, including half of all thermal coal production.¹
- If market prices stay around this level for a sustained period, three things are likely:
 - **Existing mines will close** – supply side rationalisation will continue
 - **New and replacement mines will be delayed** – incentivisation price for new coal projects is typically higher than current spot prices
 - **More coal fired power stations will be built in Asia** – coal is the most reliable and cost effective fuel source for electricity generation
- These factors are likely to lead to a bounce back in coal prices and investor sentiment in the future. The seeds of the next cycle in coal are now being sown.

Thermal coal spot price versus 90th percentile cost



Source: Wood Mackenzie Coal Supply Service and Coal Market Service

Some final words of encouragement

When everything seems to be
going against you, remember
that the airplane takes off
against the wind, not with it.

- Henry Ford



A photograph showing several large, dark, conical piles of coal or similar material in the foreground. In the background, there are power lines and a sunset sky with orange and yellow clouds. The scene is silhouetted against the bright sky.

Stanmore Coal Limited

(ASX:SMR)

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