

**Stanmore Coal Limited
and its controlled entities**

ABN 27 131 920 968

**Appendix 4D
&
Interim Financial Report
31 December 2017**

Contents

| | |
|--|----|
| Corporate Information | 3 |
| Results for Announcement to Market | 4 |
| Directors' Report | 5 |
| Auditor's Independence Declaration | 11 |
| Consolidated Statement of Profit or Loss and Other Comprehensive Income for the half-year ended 31 December 2017 | 12 |
| Consolidated Statement of Financial Position as at 31 December 2017 | 13 |
| Consolidated Statement of Changes in Equity for the half-year ended 31 December 2017 | 14 |
| Consolidated Statement of Cash Flows for the half-year ended 31 December 2017 | 15 |
| Notes to the Interim Financial Statements | 16 |
| Declaration by Directors | 33 |
| Independent Auditor's Report | 34 |

Corporate Information

DIRECTORS

Stewart Butel
Dan Clifford
Stephen Bizzell
Chris McAuliffe
Neal O'Connor
Patrick O'Connor

COMPANY SECRETARY

Ian Poole

**REGISTERED OFFICE AND PRINCIPAL
BUSINESS OFFICE**

Level 8, 100 Edward Street
Brisbane QLD 4000
Phone: + 61 7 3238 1000
Fax: +61 7 3238 1098

COUNTRY OF INCORPORATION

Australia

SHARE REGISTRY

Link Market Services
Level 21, 10 Eagle St
Brisbane Qld 4000
Phone: 1300 554 474
Fax: +61 2 8280 7662

AUDITORS

BDO Audit Pty Ltd
Level 10, 12 Creek Street
Brisbane QLD 4000
Phone: +61 7 3237 5999
Fax: +61 7 3221 9227

STOCK EXCHANGE LISTING

Australian Securities Exchange
ASX Code : SMR

INTERNET ADDRESS

www.stanmorecoal.com.au

AUSTRALIAN BUSINESS NUMBER

ABN 27 131 920 968

Results for Announcement to Market

Appendix 4d – Half-year ended 31 December 2017

This document relates to Stanmore's half-year results for the half-year ended 31 December 2017

| | |
|---------------------------|---|
| Reporting period | 6 months ended 31 December 2017 |
| Previous reporting period | 6 months ended 31 December 2016 (consolidated statement of profit or loss and Other Comprehensive Income) |
| | Year ended 30 June 2017 (consolidated statement of financial position) |

| | 31 December 2017 \$M | 31 December 2016 \$M | Change % |
|--|----------------------------|----------------------------|-------------|
| Revenue from ordinary activities | 82.772 | 59.352 | 39% |
| Profit/(loss) after tax from ordinary activities attributed to members | 8.036 | (0.541) | >100% |
| Net Profit/(loss) attributable to members | 8.036 | (0.541) | >100% |

Dividends paid and proposed

No dividends paid or proposed for the half-year ending 31 December 2017.

Explanation of key information and commentary on the results for the period

Refer to accompanying Directors' Report.

Rounding of amounts to the nearest thousand dollars

The company satisfies the requirements of ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to "rounding off" of amounts in the Directors' Report and the financial statements to the nearest thousand dollars. Amounts have been rounded off in the Directors' Report and financial statements in accordance with that ASIC Instrument.

Net tangible assets per security

| | 31 December 2017 \$ | 30 June 2017 \$ |
|----------------------------------|---------------------------|-----------------------|
| Net tangible assets per security | 0.192 | 0.1211 |

Details of entities over which control has been gained or lost during the period

There have been no entities in the period over which Stanmore has gained or lost control

Directors' Report

Your Directors present their report on the consolidated entity consisting of Stanmore Coal Limited (the Company) and the entities it controlled at the end of, or during, the half-year ended 31 December 2017 (referred to in this report as Stanmore Coal or the Company).

DIRECTORS

The directors of the Company during the half-year and up to the date of this report are:

| Name | Position |
|------------------|---|
| Stewart Butel | Chairman, Non-Executive Director (Appointed 18 September 2017 Non-Executive Director, and Appointed Chairman 1 February 2018) |
| Neville Sneddon | Chairman, Non-Executive Director (Resigned 31 January 2018) |
| Daniel Clifford | Managing Director |
| Stephen Bizzell | Non-Executive Director |
| Chris McAuliffe | Non-Executive Director |
| Neal O'Connor | Non-Executive Director (Appointed 18 September 2017) |
| Patrick O'Connor | Non-Executive Director |

OPERATING AND FINANCIAL REVIEW

Highlights

Highlights for the half-year ending 31 December 2017 include:

- Half year net profit after tax of \$8.036m
- Underlying EBITDA of \$18.758m (non-IRFS measure)
- Product coal sales of 594kt at an average sale price achieved of A\$131/t.
- Product coal production of 512kt, with the coal handling and processing plant (CHPP) delivering a total yield of 76.4% (product split of 69% to 31%, semi soft coking coal to thermal coal respectively).
- Prime strip ratio (bcm waste/ROM t) for the period was 13.0 resulting in 714kt ROM produced from the open cut;
- Total underlying adjusted Free-On-Board (FOB) cost of A\$99/t for a margin of A\$32/t sold during the period (non-IFRS measure).
- Completion of the Isaac Plains East bankable feasibility study and commitment to pre-production capital of \$9.7m, with approval of the amended Environmental Authority and in preparation of the expected granting of Mining Leases, with expected production commencement in early Q1 FY19.
- Evaluation of Isaac Plains Underground continues with the bankable feasibility study out for tender following the completion of the pre-feasibility study.
- Rehabilitation of the site has been progressing well, 104ha recontoured in the period.
- Toll handling agreement entered with a third party for the toll loading of 550kt of coal (+/-20%) between Q2 & Q3 FY18 with an optional 300kt (+/-20%) in Q4 FY18.
- Further investment in overburden in advance inventory of \$11.7m in H1 FY18 which will be substantively utilised in the second half and underpins a strong H2 FY18 production performance.

Financial Performance and Financial Position

The Company reports a profit after tax of \$8.036m (HY16: loss after tax of \$0.541m). The operating profit after tax confirms the continued improved operational performance at Stanmore's Isaac Plains Complex.

The gross profit from operations improved to \$20.111m (2016: loss \$5.911m) with revenue of \$82.772m in the first half of the financial year (2016: \$59.352m). The profit before tax expense (PBT) of \$13.944m (2016: loss \$16.159m) is driven by continued strong coking and thermal coal prices and a focus on cost control.

| | 31 December 2017 \$M | 31 December 2016 \$M |
|--|----------------------------|----------------------------|
| Revenue | 82.772 | 59.352 |
| Cost of sales | (62.661) | (65.263) |
| Gross profit/(loss) | 20.111 | (5.911) |
| Other income and expenses | (1.019) | (5.601) |
| Profit/(loss) before tax and net finance expenses | 19.092 | (11.512) |
| Net finance expenses | (5.148) | (4.647) |
| Profit/(loss) before tax | 13.944 | (16.159) |
| Income tax benefit /(expense) | (5.908) | 15.618 |
| Net profit/(loss) for the period | 8.036 | (541) |

Underlying EBITDA result (non-IFRS measure)

The Profit/(loss) before tax and net finance expenses results below has been adjusted to EBITDA and then for the following items to determine the underlying EBITDA:

- Impairment of The Range project (H1 FY17).
- Impairment of exploration and evaluation cost (H1 FY17).
- Remeasurement of the fair value of future rehabilitation liabilities recognised as part of the Isaac Plains acquisition.
- Remeasurement of the fair value of onerous contracts recognised as part of the Isaac Plains acquisition.
- Remeasurement of the fair value of future contingent consideration payments recognised under AASB3 business combinations.

| | 31 December 2017 \$M | 31 December 2016 \$M |
|---|----------------------------|----------------------------|
| Profit/(loss) before tax and net finance expenses | 19.092 | (11.512) |
| Depreciation and amortisation | 1.560 | 1.247 |
| Earnings before interest, depreciation and amortisation (EBITDA) | 20.652 | (10.265) |
| Adjustments for Underlying EBITDA | | |
| Impairment of development asset | - | (13.883) |
| Impairment and write-off of exploration assets | - | 0.908 |
| Remeasurement of rehabilitation provision | (1.246) | (1.568) |
| Remeasurement of onerous contracts | (0.858) | - |
| Fair value movement contingent consideration | 0.210 | 16.582 |
| Underlying EBITDA | 18.758 | (8.226) |

The variance between underlying EBITDA and cashflow from operations due to primarily to the settlement of liabilities which arose on the acquisition of Isaac Plains such as onerous contracts, vendor royalties and rehabilitation is as outlined in the table below.

| | 31 December 2017 \$M | 31 December 2016 \$M |
|---|----------------------------|----------------------------|
| Underlying EBITDA | 18.758 | (8.226) |
| Net Financing costs | (4.122) | (2.522) |
| Settlement of onerous contracts | (1.258) | (5.326) |
| Completion of rehabilitation works | (1.296) | (1.035) |
| Settlement of vendor royalties - contingent consideration | (2.737) | (3.193) |
| Net movement in working capital | (1.153) | (3.471) |
| Cash flow from operations | 8.192 | (23.774) |

Cashflow

In the half-year to 31 December 2017, a total net cash outflow of \$10.361m was recorded. The net inflow from operating activities was positive with \$8.192m being contributed by operations including an increase in overburden in advance of \$11.700m and the 16-day dragline shut down during the period. The outflows can be mainly attributed to investments in the planned maintenance of the major equipment of the dragline and coal handling and processing plant (CHPP) representing most of investing activities of \$5.921m and the net reduction of the working capital facility during the period of \$12.632m.

| | 31 December 2017 \$M | 31 December 2016 \$M |
|---|----------------------------|----------------------------|
| Net cash at beginning of period | 27.515 | 12.080 |
| Net cash from operating activities | 8.192 | (23.774) |
| Net cash from investing activities | (5.921) | 8.058 |
| Net cash from financing activities | (12.632) | 22.369 |
| Net increase/(decrease) in cash held | (10.361) | 6.653 |
| Net cash at end of period | 17.154 | 18.733 |

The Group ended the calendar year with total assets of \$153.158m. The Group has total net assets of \$75.1702m at 31 December 2017. The group continues to recognise provisions for onerous liabilities, contingent consideration and rehabilitation, which relate to the acquisition of the Isaac Plains Complex.

Operational Summary

Safety

The Group undertook or managed over 314,581 hours of coal mining, drilling and exploration activity directly and through its contractors during the 6-month period and reported no lost time injuries. The Total Reportable Injury Frequency Rate for the half-year was 12.7 per million hours, with a rolling 12-month average of 10.7 per million hours.

Safety remains of critical importance in the planning, organisation and execution of Stanmore Coal's exploration and operational activities. Stanmore Coal is committed to providing and maintaining a working environment in which its employees are not exposed to hazards that will jeopardise an employee's health, safety or the health and safety of others associated with our business.

Isaac Plains Coal Mine - Operation

The Isaac Plains Complex delivered a total of 714kt of ROM coal to the CHPP at a prime strip ratio of 13.0x.

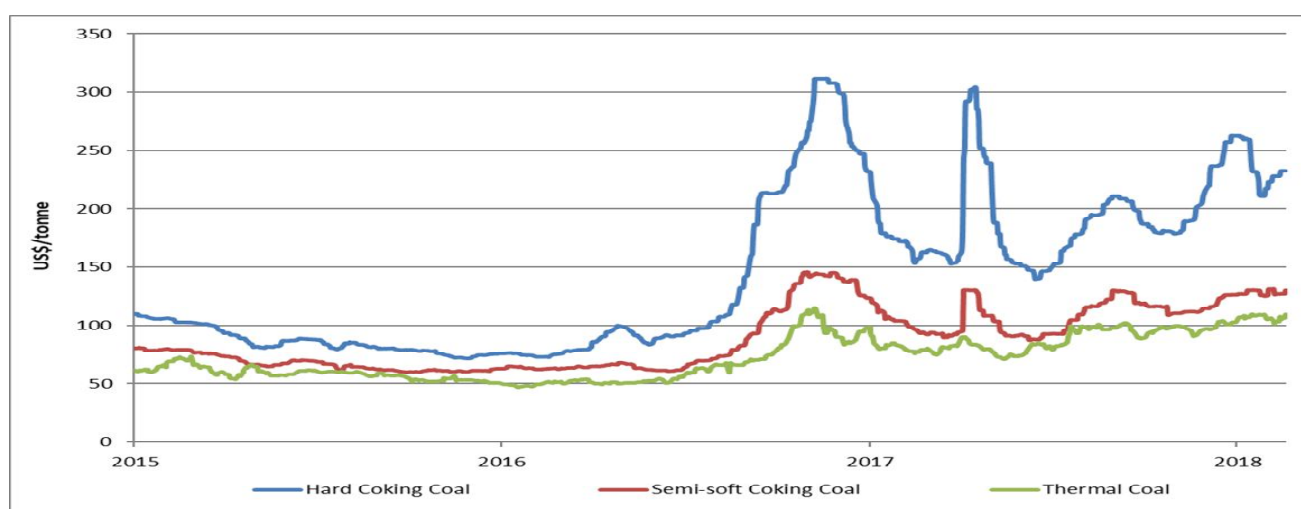
The Company has significantly invested in its operations by increasing investment in overburden in advance and inventory by \$10.570m in H1 FY18, which will be substantively utilised in the second half with strong H2 production performance and resulting strong cash flow from operations.

Product coal production of 512kt, with the coal handling and processing plant (CHPP) delivering a total yield of 74.6% (product split of 69% to 31%, semi soft coking coal to thermal coal respectively). The Company expects that the FY18 production split of semi soft and thermal coal will be approximately 75% semi-soft and 25% thermal.

The Company completed capital works for the CHPP and dragline during the half-year being the substantial part of \$5.921m invested. These major overhauls have been delivered on time and on budget.

Total coal sold during the period was 594kt with 53% of sales being semi-soft coking coal., with sales impacted by the timing of shipments of individual product coals from time to time.

The average sale price achieved for all coal during the half-year was A\$131/t, driven by a rising market for premium hard coking coal where the benchmark has increased significantly in December due to limited spot cargos and port congestion. Semi soft and thermal prices also moved upward along with hard coking coal increases although not to the same extent. In January / February 2018 the hard-coking price eased by US\$45/t following the reduction in the port queues whereas the semi-soft coal price has remained relatively stable in January / February 2018. It is expected semi-soft and thermal coal prices will remain strong and stable during H2 FY18.



Source: Platts – December 2017 Coal Trader International

| | H1 FY18 | H1 FY17 |
|---|------------|------------|
| Prime Overburden (bcm) | 13,528 | 11,010 |
| ROM coal produced - Open cut (kt) | 714 | 602 |
| ROM strip ratio (prime) | 13.0 | 18.3 |
| ROM coal produced - Highwall (kt) | - | 217 |
| Product Coal | | |
| - Metallurgical (kt) | 358 | 476 |
| - Thermal (kt) | 154 | 106 |
| Total coal production (kt) | 512 | 582 |
| Coal product stockpiles (kt) | 177 | 104 |
| Coal sales | | |
| - Metallurgical (kt) | 316 | 477 |
| - Thermal (kt) | 278 | 74 |
| Total coal sales (kt) | 594 | 550 |
| Unit costs of sales (A\$/t sold) Underlying (non-IFRS Measure) | | |
| Average sale price achieved | 131 | 108 |
| FOR cost | 74 | 96 |
| FOR to FOB cost | 15 | 14 |
| State royalties | 10 | 8 |
| Total FOB cost | 99 | 118 |
| Margin | 32 | (10) |

The variance between coal margins and underlying EBITDA is due to rail rebate, toll loading margin and net corporate overheads as shown in the table below.

| | 31 December 2017 \$M | 31 December 2016 \$M |
|---|----------------------------|----------------------------|
| Coal sales (t'000) | 594 | 550 |
| Margin (A\$/t) | 32 | (10) |
| Coal sales margin | 18.827 | (5.505) |
| Margin from toll loading 3 rd party coal | 1,114 | - |
| Unallocated corporate overhead | (1.178) | (800) |
| Vendor reimbursement | - | (1.923) |
| Underlying EBITDA | 18.758 | (8.226) |

Guidance for FY18 remains unchanged at 1.2Mt product tonnes produced. The FY18 underlying FOB costs per tonne sold is expected to be \$105 per product tonne.

Isaac Plains Coal Mine – Toll handling

During the half-year Stanmore entered an agreement with a 3rd party to handle their coal on a toll loading basis. At 31 December Stanmore had received 190kt and railed 106kt to DBCT. The toll loading agreement is to load 550kt (+/- 20%) by the end of Q3 FY18.

Isaac Plains East Project

There have been a number of key milestones achieved on the IPE project at the date of this report including:

- Completion of the bankable feasibility study.
- Approval of the Environmental Authority amendment for the Isaac Plains East Project on 24 January 2018.
- Commitment to pre-production capital of \$9.7m which will be self-funded from operation cashflows.
- All compensation and overlapping tenement agreements have been executed with the respective parties and are now lodged with the Department of Natural Resources and Mines.
- It is anticipated that the mining leases will be granted in the coming months.

It is expected that production at IPE will commence early Q1 FY19.

Isaac Plains Underground Project

There have been a number of key milestones achieved at the Isaac Plains Underground project date of this report including:

- A detailed 3D seismic survey of the Isaac Plains underground project was undertaken and analysed in the half allowing for the completion of a pre-feasibility study (PFS). The PFS found there was a potential economic underground resource at Isaac Plains and the Company is now progressing with a bankable feasibility study (BFS).
- A formal tendering process has commenced based on an early contractor engagement involvement model aiming to complete the BFS in six months. A financial investment decision on the project is planned for FY19.
- The underground mine is targeting to produce over 1Mt of ROM coal per annum at an underlying FOB cost of less than \$100/t

Outlook and developments

Operations

- Subject to the granting of the Isaac Plains East Mining Lease, Stanmore will boost ROM production to ~2.3M ROM tonnes in FY19, representing a ~40% increase over FY18.
- This results in ~1.8M product tonnes in FY19, representing an ~50% increase over FY18.
- The adopted mine plan is supported by strong coal prices in the immediate future. This increased short to

medium term margin incentivises production at a higher marginal cost of production resulting in higher EBITDA for shareholders over the short to medium term.

- All commercial structures impacting costs are being negotiated to ensure that Isaac Plains can revert to the lowest possible cost structure (i.e. dragline and minimal truck & shovel when pre-strip required) on short notice.
- The accelerated mine plan results in the dragline staying at Isaac Plains for the majority of FY19 and commencing Isaac Plains East with truck and shovel only operations. This is an important step for Stanmore in achieving its short-term objective of maximising ROM feed to the CHPP which has a nameplate capacity of 3.5Mtpa.
- The remaining capacity in the CHPP (approximately 1.2Mtpa) represents the short-term opportunities available to deliver additional EBITDA growth above this initiative. Further opportunities include regional open-cut and underground targets.

Exploration and development

The Company will continue to monitor and assess the opportunities to develop or monetise its existing portfolio of assets in the Surat Basin and South Bowen Basin, particularly with respect to The Range and Belview assets.

Stanmore is planning an exploration program for its EPC 755 tenement (15km south of the Isaac Plains Complex), to access the opportunity to provide further long-term ROM feed for its Isaac Plains infrastructure.

During the half-year due to pending environmental approval (EA) of the Isaac Plains East Project (at balance date, subsequent EA approval received on 24 January 2018) and the commencement of mine infrastructure works on the current lease for the Isaac Plains East Project it has been assessed that the exploration and evaluation phase has been completed, and the development phase has commenced. Therefore, all explorations and evaluation expenditure has been impairment tested and reclassified to development assets.

In addition, Stanmore reclassified The Range, (an undeveloped thermal deposit in the Surat Basin) from capitalised development costs to exploration and evaluation assets. This is due to an insignificant amount of development activities being completed since the asset was classified as a development asset. The Range was transferred at its fair value of \$15.7m. Stanmore continues to support The Range project and the potential development of the Surat Basin is a part of the medium-term strategy (2020-2025). The Surat Basin is a natural source of thermal coal for the HELE (high energy low emission) power plants being constructed in Asia.

Demand

High quality coking coal from Isaac Plains is purchased by top tier steel mills from a range of countries. The Company will continue to pursue high value selling opportunities and build new and further establish existing customers who have contracted for coking coal since recommencement of operations.

The Company has contracted with three significant steel mills since the commencement of production. Currently the company is planned to meet contract tonnages and it is not expected that there will be significant carry over contract tonnes from the Japanese fiscal year ending 31 March 2018, into the following Japanese fiscal year commencing 1 April 2018.

Auditor's Independence Declaration

The Auditor's Independence Declaration forms part of the Directors' Report and can be found on page 11.

This report is signed in accordance with a resolution of the Directors.



Dan Clifford
Managing Director

Brisbane
Date: 26 February 2018

Auditor's Independence Declaration



Tel: +61 7 3237 5999
Fax: +61 7 3221 9227
www.bdo.com.au

Level 10, 12 Creek St
Brisbane QLD 4000
GPO Box 457 Brisbane QLD 4001
Australia

DECLARATION OF INDEPENDENCE BY T J KENDALL TO THE DIRECTORS OF STANMORE COAL LIMITED

As lead auditor for the review of Stanmore Coal Limited for the half-year ended 31 December 2017, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Stanmore Coal Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'T J Kendall', is written over a light blue horizontal line.

T J Kendall
Director

BDO Audit Pty Ltd

Brisbane, 26 February 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the half-year ended 31 December 2017

| | Note | 31 December 2017 \$'000 | 31 December 2016 \$ '000 |
|---|------|-------------------------------|--------------------------------|
| Revenue | 1 | 82,772 | 59,352 |
| Cost of sales | 2 | (62,661) | (65,263) |
| Gross Profit/(Loss) | | 20,111 | (5,911) |
| Other income | 1 | 3,700 | 17,098 |
| Other expenses | 2 | (4,719) | (22,699) |
| Profit/(loss) before tax and net finance expenses | | 19,092 | (11,512) |
| Finance income | 1 | 155 | 77 |
| Financial expenses | 2 | (5,303) | (4,724) |
| Profit/(loss) before tax | | 13,944 | (16,159) |
| Income tax benefit/(expense) | 3 | (5,908) | 15,618 |
| Net profit/(loss) for the half-year | | 8,036 | (541) |
| Other comprehensive income | | - | - |
| Total comprehensive profit/(loss) for the half-year | | 8,036 | (541) |
| Profit/(loss) for the half-year is attributable to: | | | |
| Owners of Stanmore Coal Limited | | 8,036 | (541) |
| Total comprehensive income profit/(loss) for the half-year is attributable to: | | | |
| Owners of Stanmore Coal Limited | | 8,036 | (541) |
| Earnings/(loss) per share attributable to the owners of Stanmore Coal Limited: | | | |
| | | Cents | Cents |
| Basic loss per share (cents per share) | 16 | 3.19 | (0.24) |
| Diluted loss per share (cents per share) | 16 | 3.19 | (0.24) |

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position as at 31 December 2017

| | Note | 31 December 2017 \$ '000 | 30 June 2017 \$ '000 |
|---|------|--------------------------------|----------------------------|
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 4 | 17,154 | 27,515 |
| Trade and other receivables | 6 | 4,007 | 16,641 |
| Inventories | 5 | 38,030 | 27,460 |
| Other current assets | | 5,291 | 2,279 |
| Total current assets | | 64,482 | 73,895 |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 7 | 38,960 | 35,249 |
| Exploration and evaluation assets | 8a | 37,653 | 27,008 |
| Capitalised development costs | 8b | 6,888 | 15,700 |
| Intangible assets | 9 | 4,030 | 4,282 |
| Deferred tax assets | 3 | 838 | 6,746 |
| Other non-current assets | | 307 | 223 |
| Total non-current assets | | 88,676 | 89,208 |
| Total assets | | 153,158 | 163,103 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 10 | 22,540 | 22,282 |
| Interest-bearing loans and borrowings | 11 | 2,564 | 15,601 |
| Onerous contracts provision | 12 | 2,140 | 2,416 |
| Rehabilitation provision | 13 | 1,382 | 1,161 |
| Vendor Royalties - Contingent Consideration | 14 | 5,348 | 3,089 |
| Total current liabilities | | 33,974 | 44,549 |
| NON-CURRENT LIABILITIES | | | |
| Trade and other payables | | 108 | - |
| Onerous contracts provision | 12 | 18,420 | 19,844 |
| Rehabilitation provision | 13 | 21,519 | 23,717 |
| Vendor Royalties - Contingent Consideration | 14 | 3,965 | 8,175 |
| Total non-current liabilities | | 44,012 | 51,736 |
| Total liabilities | | 77,986 | 96,285 |
| Net assets | | 75,172 | 66,818 |
| EQUITY | | | |
| Issued capital | 17 | 113,200 | 113,200 |
| Share Based Payment Reserve | | 1,092 | 774 |
| Accumulated Losses | | (39,120) | (47,156) |
| Total equity attributable to the owners of Stanmore Coal Limited | | 75,172 | 66,818 |

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity for the half-year ended 31 December 2017

| | Issued Capital \$ '000 | Accumulated Losses \$ '000 | Share Based Payment Reserve \$ '000 | Total \$ '000 |
|---|------------------------------|----------------------------------|--|------------------|
| At 1 July 2016 | 97,368 | (62,660) | 4,377 | 39,085 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | | | | |
| Profit/(loss) for the year | - | (541) | - | (541) |
| Other comprehensive income | - | - | - | - |
| | - | (541) | - | (541) |
| TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS | | | | |
| Issue of Shares | 15,302 | - | - | 15,302 |
| Cost associated with issue of share capital | (751) | - | - | (751) |
| Share based payments | - | - | - | - |
| Deferred Tax recognised directly in equity | 1,129 | - | - | 1,129 |
| At 31 December 2016 | 113,048 | (63,201) | 4,377 | 54,224 |
| At 1 July 2017 | 113,200 | (47,156) | 774 | 66,818 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | | | | |
| Profit/(loss) for the year | - | 8,036 | - | 8,036 |
| Other comprehensive income | - | - | - | - |
| | - | 8,036 | - | 8,036 |
| TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS | | | | |
| Share based payments reserve | - | - | 318 | 318 |
| Deferred Tax recognised directly in equity | - | - | - | - |
| At 31 December 2017 | 113,200 | (39,120) | 1,092 | 75,172 |

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows for the half-year ended 31 December 2017

| | Note | 31 December 2017 \$ '000 | 31 December 2016 \$ '000 |
|--|------|--------------------------------|--------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers (inclusive of GST) | | 97,777 | 55,658 |
| Payments to suppliers and employees (inclusive of GST) | | (85,463) | (76,910) |
| Interest received | | 155 | 77 |
| Interest and other finance costs paid | | (4,277) | (2,599) |
| Net cash (outflow)/inflow from operating activities | | 8,192 | (23,774) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Payments for property, plant and equipment | | (5,066) | (4,130) |
| Net (payments) / receipts for exploration, evaluation and development assets | | (1,833) | (1,242) |
| Receipts relating to vendor payments | | 978 | 13,430 |
| Net cash (outflow)/inflow from investing activities | | (5,921) | 8,058 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of shares (net of costs) | | - | 14,476 |
| Proceeds from borrowings | | 9,211 | 7,893 |
| Repayment of borrowings | | (21,843) | - |
| Net cash (outflow)/inflow from financing activities | | (12,632) | 22,369 |
| Net increase/(decrease) in cash held | | (10,361) | 6,653 |
| Net cash at beginning of period | | 27,515 | 12,080 |
| Net cash at end of period | 4 | 17,154 | 18,733 |

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes

Notes to the Interim Financial Statements

Basis of Preparation

These general purpose interim financial statements for the half-year reporting period ended 31 December 2017 have been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standard (AASB) 134: Interim Financial Reporting. The group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investment Commission, relating to 'rounding-off'. Amounts in this financial report and the Director's Report have been rounded off in accordance with this ASIC Instrument to the nearest thousand dollars, unless otherwise stated.

The financial statements have been prepared on a historical cost basis, except for derivatives, and held-for-trading investments that have been measured at fair value.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Stanmore Coal Limited and its subsidiaries ("the Consolidated Entity"). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year with the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2017, together with any public announcements made following half-year.

The same accounting policies and methods of computation have generally been followed in these half-year financial statements as compared with the most recent annual financial statements.

Key judgement – During the half year, the Range project has been re-classified to exploration and evaluation from capitalised development costs. Refer note 8 for further details.

These interim financial statements were authorised for issue on 26 February 2018.

NOTE 1 REVENUE AND OTHER INCOME

| | Note | 31 December 2017 \$ '000 | 31 December 2016 \$ '000 |
|--|------|--------------------------------|--------------------------------|
| REVENUE | | | |
| Revenue from contracts with customers | | 82,772 | 59,352 |
| Total revenue | | 82,772 | 59,352 |
| OTHER INCOME | | | |
| Provision for impairment – development asset | 8b | - | 13,883 |
| Rehabilitation provision re-measurement | 13 | 1,246 | 1,568 |
| Onerous contract re-measurement | 12 | 858 | - |
| Other income | | 1,596 | 1,647 |
| Total other income | | 3,700 | 17,098 |
| FINANCE INCOME | | | |
| Interest income | | 155 | 77 |
| Total finance income | | 155 | 77 |

During the period the consolidated entity completed a contract for handling of coal to Dalrymple Bay Coal Terminal (DBCT) with a third party for the toll loading of the 3rd party coal. The key terms of this contract are as follows:

- Bank Guarantee received from the 3rd party for the take or pay commitments made by Stanmore for the contract;
- Stanmore provide coal handling, loadout, railing to DBCT, and DCBT port loading;
- Stanmore invoice the 3rd Party 7 days after the end of month based on train loaded tonnes with payment of the invoice due in 7 days.
- Take or pay can also be invoiced where the 3rd Party do not meet the contract tonnage, but this can be offset against future over-performance.

All other revenue contracts remain in-line with disclosures at 30 June 2017.

DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

| | South East Asia | Europe | Australia | Total |
|-------------------------------|--------------------|--------------|--------------|---------------|
| 31 December 2017 | AUD '000 | AUD '000 | AUD '000 | AUD '000 |
| Sales - thermal coal | 28,696 | - | - | 28,696 |
| Sales - semi soft coking coal | 44,213 | 5,192 | - | 49,405 |
| Coal sales - Subtotal | 72,909 | 5,192 | - | 78,101 |
| Toll loading revenue | - | - | 4,671 | 4,671 |
| TOTAL | 72,909 | 5,192 | 4,671 | 82,772 |

| | South East Asia | Europe | Australia | Total |
|-------------------------------|--------------------|----------|-----------|---------------|
| 31 December 2016 | AUD '000 | AUD '000 | AUD '000 | AUD '000 |
| Sales - thermal coal | 8,266 | - | - | 8,266 |
| Sales - semi soft coking coal | 51,086 | - | - | 51,086 |
| TOTAL | 59,352 | - | - | 59,352 |

NOTE 2 COST OF SALES AND OTHER EXPENSES

| | Note | 31 December 2017 \$ '000 | 31 December 2016 \$ '000 |
|---|----------|--------------------------------|--------------------------------|
| COST OF SALES | | | |
| Mining costs | | 28,752 | 37,297 |
| Processing costs | | 8,088 | 7,151 |
| Transport & logistics | | 9,649 | 7,606 |
| State royalties | | 6,229 | 4,171 |
| Private royalties | | 883 | 1,799 |
| Production overheads | | 1,956 | 2,574 |
| Other production costs | | 3,547 | 4,665 |
| Sub-total cost of sales | | 59,104 | 65,263 |
| Toll loading costs | | 3,557 | - |
| Total cost of sales | | 62,661 | 65,263 |
| OTHER EXPENSES | | | |
| Other expenses | | 4,509 | 5,209 |
| Fair value movement - vendor royalty - contingent consideration | 14 | 210 | 16,582 |
| Provision for impairment and write-off – exploration asset | 8a | - | 908 |
| Total other expenses | | 4,719 | 22,699 |
| FINANCIAL EXPENSES | | | |
| Interest paid – external parties | | 1,851 | 2,175 |
| Interest amortisation unwinding | 12,13,14 | 1,337 | - |
| Movement in foreign currency | | (9) | 1,072 |
| Borrowing costs | | 2,124 | 1,477 |
| Total financial expenses | | 5,303 | 4,724 |

Other expenses include the following specific items:

| | Note | 31 December 2017 \$ '000 | 31 December 2016 \$ '000 |
|---|------|--------------------------------|--------------------------------|
| Depreciation and amortisation | | | |
| Depreciation - plant & equipment | 7 | 1,308 | 995 |
| Amortisation - intangibles | 9 | 252 | 252 |
| Sub-total depreciation & amortisation | | 1,560 | 1,247 |
| Vendor reimbursements | | - | 1,923 |
| EMPLOYEE EXPENSES | | | |
| Employee - salaries and wages | | 1,165 | 1,331 |
| Employee superannuation | | 108 | 93 |
| Share-based payments (shares) | | 318 | - |
| Sub-total employee expenses | | 1,591 | 1,424 |
| Other overhead expenses | | 1,290 | 539 |
| Minimum lease payments made under operating lease | | 68 | 76 |
| Total other expenses | | 4,509 | 5,209 |

NOTE 3 INCOME TAX EXPENSE

| | 31 December 2017 \$ '000 | 31 December 2016 \$ '000 |
|--|--------------------------------|--------------------------------|
| RECONCILIATION | | |
| Current income tax expense | (19,858) | - |
| Deferred income tax benefit | 24,466 | (15,618) |
| Prior period under/over | 1,300 | - |
| Income tax expense/(benefit) | 5,908 | (15,618) |
| RECONCILIATION THROUGH EQUITY | | |
| Opening balance | (1,129) | - |
| Current year share issue expenses | - | (225) |
| Prior period DTA not brought to account | - | (904) |
| Income tax expense/(benefit) - equity | (1,129) | (1,129) |

The prima facie income tax on the profit/(loss) is reconciled to the income tax expense as follows:

| | | |
|---|--------------|-----------------|
| Prima facie tax benefit (30%) on profit/(loss) before tax | 4,183 | (4,848) |
| Add tax effect of: | | |
| - Non-deductible expenses | 1,725 | - |
| - Deferred tax asset not recognised | - | - |
| - Prior period deferred tax asset recognised | - | (10,770) |
| Income tax expense/(benefit) | 5,908 | (15,618) |

| | 31 December 2017 \$ '000 | 30 June 2017 \$ '000 |
|---|--------------------------------|----------------------------|
| RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES | | |
| DEFERRED TAX ASSETS | | |
| Unused tax losses | 19,858 | 20,645 |
| Deductible temporary differences | 13,198 | 14,912 |
| Sub-total deferred tax assets | 33,056 | 35,557 |
| DEFERRED TAX LIABILITIES | | |
| Assessable temporary differences | (32,218) | (28,811) |
| Deferred tax | 838 | 6,746 |

NOTE 4 CASH AND CASH EQUIVALENTS

| | 31 December 2017 \$ '000 | 30 June 2017 \$ '000 |
|--|--------------------------------|----------------------------|
| Cash at bank and in hand | 17,154 | 27,515 |
| Cash at bank bear floating and fixed interest rates between 1.5% and 1.75% (2017: 1.5% and 1.75%). | | |

RECONCILIATION OF CASH

The above figures are reconciled to the consolidated statement of cash flows as follows:

| | | |
|---|--------|--------|
| Balances as above | 17,154 | 27,515 |
| Balances per consolidated statement of cash flows | 17,154 | 27,515 |

NOTE 5 INVENTORIES

| | 31 December 2017 \$ '000 | 30 June 2017 \$ '000 |
|-----------------------------|--------------------------------|----------------------------|
| CURRENT | | |
| ROM coal stocks | 2,687 | 12,802 |
| Product coal stocks | 11,427 | 2,442 |
| Sub-total coal stock | 14,114 | 15,244 |
| Overburden in advance | 23,916 | 12,216 |
| Total inventories | 38,030 | 27,460 |

Coal stocks include run of mine (ROM) and product coal.

NOTE 6 TRADE AND OTHER RECEIVABLES

| | 31 December 2017 \$ '000 | 30 June 2017 \$ '000 |
|--|--------------------------------|----------------------------|
| CURRENT | | |
| GST receivable | 760 | 1,395 |
| Trade receivables | 3,153 | 14,690 |
| Vendor receivable | - | 556 |
| Other receivables | 94 | - |
| Total current trade & other receivables | 4,007 | 16,641 |

NOTE 7 PROPERTY, PLANT AND EQUIPMENT

| | 31 December 2017 \$ '000 | 30 June 2017 \$ '000 |
|---|---|-------------------------------------|
| Land deposit | | |
| At cost | 1,946 | 1,946 |
| Accumulated depreciation | - | - |
| | 1,946 | 1,946 |
| Plant and equipment | | |
| At cost | 39,610 | 31,152 |
| Accumulated depreciation | (5,045) | (3,778) |
| | 34,565 | 27,374 |
| Buildings and improvements | | |
| At cost | 1,379 | 1,379 |
| Accumulated depreciation | (259) | (219) |
| | 1,120 | 1,160 |
| Furniture and office equipment | | |
| At cost | 137 | 137 |
| Accumulated depreciation | (116) | (115) |
| | 21 | 22 |
| Capital work in progress | | |
| At cost | 1,308 | 4,747 |
| Accumulated depreciation | - | - |
| | 1,308 | 4,747 |
| Total property plant and equipment | 38,960 | 35,249 |

NOTE 7 PROPERTY, PLANT AND EQUIPMENT (cont.)

| | Land deposit | Plant and equipment | Buildings and improvements | Computer equipment | Furniture and office equipment | Capital work in progress | Total |
|---|--------------|---------------------|----------------------------|--------------------|--------------------------------|--------------------------|---------------|
| 31 December 2017 | \$ '000 | \$ '000 | \$ '000 | \$ '000 | \$ '000 | \$ '000 | \$ '000 |
| Balance at the beginning of the period | 1,946 | 27,374 | 1,160 | - | 22 | 4,747 | 35,249 |
| Additions – through ordinary course | - | - | - | - | - | 5,019 | 5,019 |
| Capital WIP transfers | - | 8,458 | - | - | - | (8,458) | - |
| Net disposals | - | - | - | - | - | - | - |
| WDV transfers – through ordinary course | - | - | - | - | - | - | - |
| Depreciation expense | - | (1,267) | (40) | - | (1) | - | (1,308) |
| Carrying amount at the end of the period | 1,946 | 34,565 | 1,120 | - | 21 | 1,308 | 38,960 |

| | Land deposit | Plant and equipment | Buildings and improvements | Computer equipment | Furniture and office equipment | Capital work in progress | Total |
|---|--------------|---------------------|----------------------------|--------------------|--------------------------------|--------------------------|---------------|
| 30 June 2017 | \$ '000 | \$ '000 | \$ '000 | \$ '000 | \$ '000 | \$ '000 | \$ '000 |
| Balance at the beginning of the period | 1,946 | 28,920 | 1,265 | 17 | - | 1,297 | 33,445 |
| Additions – through ordinary course | - | - | - | - | - | 5,218 | 5,218 |
| Capital WIP transfers | - | 1,768 | - | - | - | (1,768) | - |
| Net disposals | - | (586) | - | - | - | - | (586) |
| WDV transfers – through ordinary course | - | (4) | (14) | (17) | 35 | - | - |
| Depreciation expense | - | (2,724) | (91) | - | (13) | - | (2,828) |
| Carrying amount at the end of the period | 1,946 | 27,374 | 1,160 | - | 22 | 4,747 | 35,249 |

Class of fixed asset**Depreciation rate**

| | |
|---------------------------|--|
| Plant and equipment | 10-25% straight line/units of production |
| Computer equipment | 33.3% straight line |
| Furniture and equipment | 5-25% straight line |
| Building and improvements | 5-10% straight line |

NOTE 8 (a) EXPLORATION AND EVALUATION ASSETS

| | 31 December 2017 \$ '000 | 30 June 2017 \$ '000 |
|--|--------------------------------|----------------------------|
| NON-CURRENT | | |
| Exploration and evaluation expenditure capitalised | | |
| - exploration and evaluation phases | 37,653 | 27,008 |
| Recoverability of the carrying amount of exploration and evaluation assets is dependent on the successful development and commercial exploitation of coal, or alternatively, sale of the respective areas of interest. | | |
| MOVEMENTS IN CARRYING AMOUNTS | | |
| Balance at the beginning of the period | 33,734 | 29,784 |
| Additions and transfers from work in progress | 1,833 | 4,341 |
| Transferred to capitalised development | (6,889) | - |
| Transferred from capitalised development | 21,072 | - |
| Written-off | - | (391) |
| Sub-total capitalised cost | 49,750 | 33,734 |
| Provision for impairment | (12,097) | (6,726) |
| Carrying amount at the end of the period | 37,653 | 27,008 |
| MOVEMENTS IN PROVISION FOR IMPAIRMENT AMOUNTS | | |
| Balance at the beginning of the year | (6,726) | (6,200) |
| Provisions (raised) / reversed | - | (526) |
| Provision transferred from capitalised development | (5,371) | - |
| Provision for impairment at the end of the period | (12,097) | (6,726) |

During the half-year The Range was reclassified from capitalised development costs to exploration and evaluation assets as outlined in note 8(b).

NOTE 8 (b) CAPITALISED DEVELOPMENT COSTS

| | 31 December 2017 \$ '000 | 30 June 2017 \$ '000 |
|--|--------------------------------|----------------------------|
| NON-CURRENT | | |
| Capitalised development costs | 6,888 | 15,700 |
| Recoverability of the carrying amount of development assets is dependent on the successful completion of development activities, or alternatively, sale of the respective areas of interest. | | |
| MOVEMENTS IN CARRYING AMOUNTS | | |
| Balance at the beginning of the period | 21,071 | 21,058 |
| Transfers from exploration and evaluation | 6,889 | - |
| Transfers to exploration and evaluation | (21,072) | - |
| Other additions | - | 13 |
| Sub-total capitalised cost | 6,888 | 21,071 |
| Provision for impairment | - | (5,371) |
| Carrying amount at the end of the period | 6,888 | 15,700 |
| MOVEMENTS IN PROVISION FOR IMPAIRMENT AMOUNTS | | |
| Balance at the beginning of the period | (5,371) | (13,883) |
| Provisions raised | - | 8,512 |
| Provision transferred to exploration and evaluation | 5,371 | - |
| Provision for impairment at the end of the period | - | (5,371) |

NOTE 8 (b) CAPITALISED DEVELOPMENT COSTS (cont.)

During the half-year due to pending environmental approval (EA) of the Isaac Plains East Project (at balance date, subsequent approval on 24 January 2018) and the commencement of mine infrastructure works on the current lease for the Isaac Plains East Project it has been assessed that the exploration and evaluation phase has been completed, and the development phase has commenced. As required by AASB 136 impairment testing has been completed and it is shown that this asset will be recovered over the life of the Isaac Plains East project.

In addition, Stanmore reclassified The Range, (an undeveloped thermal deposit in the Surat Basin) from capitalised development costs to exploration and evaluation assets. This is due to an insignificant amount of development activities being completed since the asset was classified as a development asset in FY12. The Range was transferred at its fair value of \$15.7m, which is unchanged from FY17 and is reflected in its cost of \$21.072m less the impairment of \$5.371m. There were no transactions or significant market movements that affected the previous provision raised against The Range project.

NOTE 9 INTANGIBLE ASSETS

| | 31 December 2017 \$ '000 | 30 June 2017 \$ '000 |
|--|--------------------------------|----------------------------|
| INFRASTRUCTURE INTANGIBLE ASSET | | |
| At cost | 4,800 | 4,800 |
| Accumulated amortisation | (770) | (518) |
| | 4,030 | 4,282 |

MOVEMENTS IN CARRYING AMOUNTS

| | 31 December 2017 \$ '000 | 30 June 2017 \$ '000 |
|---|--------------------------------|----------------------------|
| Balance at the beginning of the period | 4,282 | 4,786 |
| Amortisation expense | (252) | (504) |
| Carrying amount at the end of the period | 4,030 | 4,282 |

Intangible assets

The infrastructure intangible asset relates to future rebates on the cost of coal railings based on an agreement with the below rail infrastructure owner. The asset was recognised upon acquisition of the Isaac Plains Coal Mine. Receipts of coal railing rebates are recognised in profit or loss. The estimated useful life of the asset is aligned with the term of the contractual agreement and is amortised on a straight-line basis over the life in accordance with the anticipated profile of benefits received.

NOTE 10 TRADE AND OTHER PAYABLES

| | 31 December 2017 \$ '000 | 30 June 2017 \$ '000 |
|---|--------------------------------|----------------------------|
| Current | | |
| Trade and other payables | 2,605 | 1,254 |
| Sundry payables and accrued expenses | 19,544 | 21,497 |
| Fair Value - Unrealised forward currency | (9) | (1,047) |
| Employee benefits | 400 | 578 |
| Total Current Trade and other payables | 22,540 | 22,282 |

NOTE 11 INTEREST BEARING LOANS AND BORROWINGS

| | 31 December 2017 \$ '000 | 30 June 2017 \$ '000 | 31 December 2017 USD '000 | 30 June 2017 USD '000 |
|--|--------------------------------|----------------------------|---------------------------------|-----------------------------|
| INTEREST BEARING LOANS AND BORROWINGS | | | | |
| Facility B - working capital facility | 2,564 | 15,601 | USD 2,000 | USD 12,000 |
| Total Interest-bearing loans and borrowings | 2,564 | 15,601 | USD 2,000 | USD 12,000 |

| | 31 December 2017 \$ '000 | 30 June 2017 \$ '000 | 31 December 2017 USD '000 | 30 June 2017 USD '000 |
|--|--------------------------------|----------------------------|---------------------------------|-----------------------------|
|--|--------------------------------|----------------------------|---------------------------------|-----------------------------|

TOTAL FACILITIES**Facility A - bank guarantee facility**

| | | | | |
|---------------------------|--------------|----------|------------------|--------------|
| Total available facility | 37,179 | 27,942 | USD 29,000 | USD 21,493 |
| Facility utilised | 29,464 | 27,942 | USD 22,982 | USD 21,493 |
| Available facility | 7,715 | - | USD 6,018 | USD - |

Facility A is a contingent liability (refer note 20)

Facility B - working capital facility

| | | | | |
|---------------------------|---------------|---------------|-------------------|-------------------|
| Total available facility | 28,205 | 28,601 | USD 22,000 | USD 22,000 |
| Facility utilised | 2,564 | 15,601 | USD 2,000 | USD 12,000 |
| Available facility | 25,641 | 13,000 | USD 20,000 | USD 10,000 |

On 29 August 2017 the company's debt finance facility was renewed for an additional 2 years extending the facilities to 15 November 2019. Key terms of the extended agreement are:

- Bonding/bank guarantee facility increased to US\$29.0m
- Revolving working capital facility of US\$22.0m (unchanged)
- Establishment fee of 3%
- Interest rate on utilised funds of 10.0% (unchanged)
- Interest rate on available facility of 2.0% (unchanged)
- Increase in royalty payable from 0.8% to 1.0% on proceeds from Isaac Plains Complex

Refer to *Note 20 Contingent Assets and Liabilities* for further discussion on the debt financing arrangements.

NOTE 12 ONEROUS CONTRACTS PROVISION

| | 31 December 2017 \$ '000 | 30 June 2017 \$ '000 |
|--|--------------------------------|----------------------------|
| CURRENT | | |
| Current onerous contract provision | 2,140 | 2,416 |
| NON-CURRENT | | |
| Non-current onerous contract provision | 18,420 | 19,844 |
| Total onerous contracts provision | 20,560 | 22,260 |

RECONCILIATION OF MOVEMENTS

| | | |
|-------------------------------------|---------------|---------------|
| Opening balance | 22,260 | 26,729 |
| Depletions through settlement | (1,258) | (5,326) |
| Adjustment - through re-measurement | (858) | (538) |
| Unwinding of discount | 416 | 1,395 |
| Closing balance | 20,560 | 22,260 |

NOTE 13 REHABILITATION PROVISION

| | 31 December 2017 \$ '000 | 30 June 2017 \$ '000 |
|--|--------------------------------|----------------------------|
| CURRENT | | |
| Current rehabilitation provision | 1,382 | 1,161 |
| NON-CURRENT | | |
| Non-current rehabilitation provision | 21,519 | 23,717 |
| Total rehabilitation liability | 22,901 | 24,878 |
| RECONCILIATION OF MOVEMENTS | | |
| Opening balance | 24,878 | 23,908 |
| Additions - current year disturbance | 220 | - |
| Depletion - rehabilitation works completed | (1,296) | (1,035) |
| Depletion - re-measurement | (1,246) | 1,357 |
| Unwinding of discount | 345 | 648 |
| Closing balance | 22,901 | 24,878 |

NOTE 14 VENDOR ROYALTIES – CONTINGENT CONSIDERATION

| | 31 December 2017 \$ '000 | 30 June 2017 \$ '000 |
|---|--------------------------------|----------------------------|
| CURRENT | | |
| Current vendor royalties - contingent consideration | 5,348 | 3,089 |
| NON-CURRENT | | |
| Non-current vendor royalties - contingent consideration | 3,965 | 8,175 |
| Total vendor private royalty | 9,313 | 11,264 |
| RECONCILIATION OF MOVEMENTS | | |
| Opening balance - vendor royalties - contingent consideration at fair value | 11,264 | - |
| Fair value adjustments taken to profit and loss in other expenses | 210 | 14,457 |
| Depletions through settlement | (2,737) | (3,193) |
| Unwinding of discount | 576 | - |
| Total vendor royalties - contingent consideration at fair value | 9,313 | 11,264 |

Vendor Private Royalty - Isaac Plains contingent consideration

During the business combination of Isaac Plains in 2016, AASB 3 Business Combinations required the recognition of contingent consideration. The contingent consideration relates to a royalty stream payable to the vendors of Isaac Plains, in the event that benchmark hard coking coal prices are above an Australian dollar equivalent of 160 (adjusted for CPI) and coal is produced and sold from either Isaac Plains or Isaac Plains East. Each royalty is capped at predetermined amounts for each vendor, reflecting the compensation payments received from each vendor. Once the price threshold and production requirements are met, the royalty is payable at \$2 per product tonne (2015 dollars) to each of the two vendors of Isaac Plains. Royalties have continued to be paid in H1 FY18 and as a result the remaining total cap is \$35.952m (2017 dollars), this cap represents the maximum remaining payable at 31 December 2017 excluding the contingent consideration liability recognised above.

NOTE 14 VENDOR ROYALTIES – CONTINGENT CONSIDERATION (cont.)

As outlined in AASB 13 Fair Value Measurement the remaining contingent consideration is estimated to be \$9.313m. This valuation has been performed using a discounted cash flow methodology, which was consistent with that used in FY16 & FY17. The method used is classed as a level 3 valuation under AASB 13 the following key unobservable inputs are used in its calculation:

- Hard coking coal forward price curve based on a compilation of short term (12 months) prices from Isaac Plains coal marketing consultants Square Trading Pty Ltd and long-term estimates completed by Wood McKenzie;
- AUD/USD Foreign exchange forward curve estimates are based on market consensus curves; and
- Coal sales based on the current mining plans of the Isaac Plains Complex, including the finalisation of the current mine, the Isaac Plains East Mine (approval in progress), and the Isaac Plains Underground (unapproved) these mining volumes, quality, washability and saleability are based on current coal expectations during the exploration and evaluation phase of these projects and are used to estimate sales volumes subject to the royalty.

As considered in AASB 13 para 93(h(i)) the following unobservable inputs contain sensitivities that would result in significant changes to the market valuation. There are interactions between the sensitivities in the coking coal price and the USD/AUD foreign exchange rate. As the coal commodity is currently traded in USD the interaction between the index price and the FX rate could both magnify and mitigate each other depending on the timing and direction of movements of both indexes.

A matrix is shown below of changes in the Hard-Coking Coal index and the AUD/USD exchange rate. The numbers are shown in millions.

| | | Hard Coking Coal Index curve | | | | |
|----------------|---------|------------------------------|--------|---------|--------|-------|
| | | +10% | +5% | Current | (5%) | (10%) |
| FX Index curve | +10% | 9.313 | 7.351 | 5.247 | 5.247 | 4.492 |
| | +5% | 18.324 | 9.313 | 7.351 | 5.247 | 5.247 |
| | Current | 27.686 | 18.908 | 9.313 | 7.351 | 5.247 |
| | (5%) | 27.801 | 27.801 | 19.906 | 9.313 | 7.351 |
| | (10%) | 27.801 | 27.801 | 27.801 | 21.058 | 9.313 |

The below shows the above as a percentage change in value.

| | | Hard Coking Coal Index curve | | | | |
|----------------|---------|------------------------------|---------|---------|---------|---------|
| | | +10% | +5% | Current | (5%) | (10%) |
| FX Index curve | +10% | - | (21.1%) | (43.7%) | (43.7%) | (51.8%) |
| | +5% | 96.8% | - | (21.1%) | (43.7%) | (43.7%) |
| | Current | 197.3% | 103.0% | - | (21.1%) | (43.7%) |
| | -5% | 198.5% | 198.5% | 113.8% | - | (21.1%) |
| | -10% | 198.5% | 198.5% | 198.5% | 126.1% | - |

The below shows changes in valuation due to changes to Isaac Plains Complex coal sales volume relating to a non-operating future mine not being approved for any reason and the acceleration of the Isaac Plains open cut operations by the concurrent operation of Isaac Plains and Isaac Plains East pits.

| Change | Valuation \$M | Valuation Change \$M | % Change |
|--|---------------|----------------------|----------|
| Isaac Plains Underground not approved | 9.313 | 0.000 | 0.0% |
| Isaac Plains East not approved | 5,827 | (3,486) | (37.4%) |
| Both Isaac Plains East and Isaac Plains Underground not approved | 5,827 | (3,486) | (37.4%) |
| Isaac Plains and Isaac Plains East concurrent operation | 12.263 | 2.590 | 31.7% |

NOTE 15 DIVIDENDS AND FRANKING CREDITS

There were no dividends paid or recommended during the half-year.

There are no franking credits available to the shareholders of Stanmore Coal Limited.

NOTE 16 EARNINGS PER SHARE

| | 31 December 2017 \$ '000 | 30 June 2017 \$ '000 |
|--|---|---|
| EARNINGS | | |
| Profit/(Loss) attributable to owners of Stanmore Coal Limited used to calculate basic and diluted earnings per share | 8,036 | 12,035 |
| | 31 December 2017 Number '000 | 30 June 2017 Number '000 |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 251,801 | 237,638 |
| Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share | 251,801 | 237,638 |

NOTE 17 ISSUED CAPITAL

| | | 31 December 2017 \$ '000 | 30 June 2017 \$ '000 |
|--|--|---|---|
| 251,800,978 fully paid ordinary shares (30 June 2017: 251,800,978) | | 116,547 | 116,547 |
| Share issue costs | | (4,476) | (4,476) |
| Deferred tax recognised through equity | | 1,129 | 1,129 |
| | | 113,200 | 113,200 |
| | 31 December 2017 Number | 30 June 2017 Number | 31 December 2017 \$ '000 |
| ORDINARY SHARES | | | |
| At the beginning of the year | 251,800,978 | 222,497,435 | 113,200 |
| Issue of new ordinary shares | - | 29,303,543 | - |
| Deferred tax recognised through equity | - | - | 1,129 |
| At reporting date | 251,800,978 | 251,800,978 | 113,200 |

Ordinary shares participate in dividends and the proceeds on winding up of the Consolidated Entity in proportion to the number of shares held. At shareholders' meetings, each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Ordinary shares have no par value and Stanmore Coal Limited does not have a limited amount of authorised capital.

NOTE 18 FAIR VALUE**Fair Values**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. Stanmore Coal Limited has adopted the amendment to AASB 7 Financial Instruments: Disclosures which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

At 31 December 2017 there were no financial assets measured and recognised at fair value (2017: nil). The Company has recorded a financial liability measured and recognised at fair value relating to the mark to mark position on forward exchange currency contracts. The liability at 31 December 2017 is \$0.009m (2017: \$1.047m). These contracts relate to short term forwards for converting US dollars into AU dollars with a maturity of less than 6 months, to manage the currency risk of the export commodity price in US dollars. They are classified under level 2 in the fair value measurement hierarchy and are valued based on the difference between the then current spot price on a liquid, tradeable platform on balance date and the adjusted forward position of the currency contract. This methodology represents the cash sum (inflow or outflow) that would be required to early-settle the currency position on balance date. The carrying value of a significant portion of all financial assets and financial liabilities approximate their fair values due to their short-term nature.

The fair value of financial assets and financial liabilities must be estimated for recognition, measurement and disclosure purposes. Stanmore Coal Limited has adopted the amendment to AASB 7 Financial Instruments: Disclosures which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

1. quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
2. inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
3. inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The entity completed level 3 a valuation on contingent consideration (note 14). The carrying value of a significant portion of all financial assets and financial liabilities approximate their fair values due to their short-term nature.

| Financial Liabilities | Level 1 | Level 2 | Level 3 |
|--|----------------|----------------|----------------|
| Contingent consideration held at fair value through profit or loss | - | - | 9,313 |
| Total Financial Liabilities | - | - | 9,313 |

There were no other financial assets or liabilities valued at fair value in H1 FY18 or FY17.

NOTE 19 OPERATING SEGMENTS

The Consolidated Entity has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers, "CODM") in assessing performance and determining the allocation of resources. The Consolidated Entity is managed primarily on a producing asset versus non-producing asset basis. Operating segments are determined on the basis of financial information reported to the Board which is at the Consolidated Entity level. All segments are located within Australia.

Accordingly, management currently identifies the Consolidated Entity as having two reportable segments, the first being the operation of the Isaac Plains Coal Mine (including the Isaac Plains East project) and the second being all other exploration and development coal assets and corporate.

Accounting policies adopted

Unless otherwise stated, all amounts reported to the Board of Directors, being the CODM with respect to operating segments, are determined in accordance with accounting policies that are consistent with those adopted in the annual financial statements of the Consolidated Entity.

Inter-segment transactions

An internally determined transfer price is set for all intersegment sales and services provided. All such transactions are eliminated on consolidation into the Consolidated Entity's financial statements.

Segment assets

Where an asset is used across multiple segments the asset is allocated to the segment that receives most of the economic value from the assets. In most instances, segment assets are clearly identifiable based on their nature and physical location.

Segment liabilities

Liabilities are allocated to segments where there is a direct nexus between the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the whole Consolidated Entity and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

Unallocated items

The following items of revenue, expenses, assets and liabilities are not allocated to operating segments as they are not considered core to the operation of any segment:

- a) Corporate head office costs and salaries of non-site based staff.

Major customers

Stanmore Coal has several customers to whom it sells export grade coal. Stanmore Coal supplies one such external customer who accounts for 33% of revenue. The next most significant customer accounts for 26% of revenue.

Recognition and measurement

The Consolidated Entity applies AASB 8 Operating Segments which requires a management approach under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are reported in a manner that is consistent with the internal reporting to the chief operating decision maker (CODM), which has been identified by the Consolidated Entity as the Managing Director and other members of the Board of Directors.

NOTE 19 OPERATING SEGMENTS (cont.)**Segment performance**

| | 31 December 2017 | | | 31 December 2016 | | |
|------------------------------|----------------------------|-----------------------------------|----------------------|----------------------------|-----------------------------------|----------------------|
| | Isaac Plains Complex | Exploration and Development | Total \$ '000s | Isaac Plains Complex | Exploration and Development | Total \$ '000s |
| SEGMENT REVENUE | | | | | | |
| External sales | 82,772 | - | 82,772 | 59,352 | - | 59,352 |
| Intersegment sales | - | - | - | - | - | - |
| Total segment revenue | 82,772 | - | 82,772 | 59,352 | - | 59,352 |

Reconciliation of segment revenue to Consolidated Entity revenue

| | | |
|----------------------------|---------------|---------------|
| Other revenue | - | - |
| Intersegment elimination | - | - |
| Total group revenue | 82,772 | 59,352 |

| | 31 December 2017 | | | 31 December 2016 | | |
|---|----------------------------|-----------------------------------|----------------------|----------------------------|-----------------------------------|----------------------|
| | Isaac Plains Complex | Exploration and Development | Total \$ '000s | Isaac Plains Complex | Exploration and Development | Total \$ '000s |
| Segment net profit/(loss) from continuing operations before tax | 14,093 | (149) | 13,944 | (15,120) | (14,535) | (29,655) |
| Reconciliation of segment result to Consolidated Entity net loss before tax | | | | | | |
| Amounts not included in segment result but reviewed by the Board: | | | | | | |
| Impairment of exploration assets | - | - | - | - | - | (387) |
| Impairment of development assets | - | - | - | - | - | 13,883 |
| Unallocated | - | - | - | - | - | - |
| Net profit/(loss) before tax from continuing operations | | | 13,944 | | | (16,159) |

| 31 December 2017 | Isaac Plains Complex | Exploration and Development | Total \$ '000s |
|---|----------------------------|-----------------------------------|----------------------|
| Segment assets | 99,890 | 88,229 | 188,119 |
| Reconciliation of segment assets to Consolidated Entity assets: | | | |
| Intersegment eliminations | | | (35,799) |
| Unallocated assets | | | 838 |
| Total Consolidated Entity assets | | | 153,158 |

| 31 December 2017 | Isaac Plains Complex | Exploration and Development | Total \$ '000s |
|--|----------------------------|-----------------------------------|----------------------|
| Segment liabilities | 76,126 | 26,748 | 102,874 |
| Reconciliation of segment liabilities to Consolidated Entity assets: | | | |
| Intersegment eliminations | | | (25,288) |
| Unallocated liabilities | | | 400 |
| Total Consolidated Entity liabilities | | | 77,986 |

NOTE 20 CONTINGENT ASSETS AND LIABILITIES

Contingent Asset – WICET Loan

In the 2014 financial year the Company impaired the full balance of the loan provided to third party infrastructure providers. The loan related to the WEXP1 project in Gladstone and the Company's participation in the Capacity Commitment Deed (CCD) which provided certain future access rights in return for a funding commitment from the Company. The Company provided \$8m in loans which were used to fund studies and complete initial dredging activities in respect of a future expansion to the port site. The CCD expired on 31 August 2014. The Company retains only those rights which relate to recoupment of loaned amounts as a result of a future port expansion, which may or may not occur. Based on a range of factors, a new expansion proponent who achieves financial close prior to 31 December 2020 will be required to reimburse the Company for a portion of the loaned amount which, in the opinion of an expert, provides a benefit to the proponents of that expansion. Until the timing of that future financing event is known, it is difficult to reliably estimate what portion of the Company's \$8m loan would be repaid.

Contingent Liability - Isaac Plains East acquisition

On 4 September 2015 the Company completed the acquisition of MDL 135 and (part) MDL 137 for an initial cash payment of \$2m. The transaction terms include two contingent consideration items, namely:

- A further \$2.000m payable upon grant of a Mining Lease; and
- A royalty capped at \$3.000m payable at \$1 per tonne of production for coal that is mined within the new Mining Lease.

As these items are dependent on future activities of the Company and government approvals these payments have not been recognised as provisions in the financial statements of the Consolidated Entity.

Contingent Liability - Debt finance facility

In November 2015 (extended in August 2017), the Company signed a Finance Facility which provides credit support for certain bank guarantees issued to third parties related to the Isaac Plains Coal Mine, such as rehabilitation bonds and to support major infrastructure and transport contracts. Given the structure of the arrangement the facility is backed-to-back with a major financial institution which provides credit support on the Company's behalf. This arrangement, amongst other things, avoids foreign currency translation risk as the guarantees issued to third parties are denominated in Australian dollars. The letters of credit arrangement is off-consolidated statement of financial position except in circumstances where the Company is in default under the facility agreement or the underlying infrastructure contract. If a default were to occur then the debt would convert into a US dollar loan which would result in Consolidated Statement of Financial Position recognition. At the date of these financial statements there is no default occurring or subsisting.

Contingent liability – Isaac Plains Complex Royalty

On 26 November 2015, the company entered a Royalty Deed and agreed to pay a royalty of 0.8% on:-

- the saleable value of all product coal owned by the company and processed through the Isaac Plains infrastructure
- any processing or handling fees arising from the treatment of 3rd party coal processed through the Isaac Plains infrastructure

On the 29 August 2017, the Company entered into a 2017 Royalty Deed and agreed to pay a revised royalty of 1%.

NOTE 21 EVENTS AFTER REPORTING DATE

There have been no events since 31 December 2017 that impact upon the financial report as at 31 December 2017.

Declaration by Directors

In the opinion of the directors of the Company:

1. The consolidated financial statements, comprising the consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity, and accompanying notes, are in accordance with the *Corporations Act 2001* and:
 - (a) comply with Australian Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the Consolidated Entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date.
2. In the Directors' opinion, there are reasonable grounds to believe that the Consolidated Entity will be able to pay its debts as and when they become due and payable.

This declaration is signed in accordance with a resolution of the Directors.



Dan Clifford
Managing Director

Brisbane
Date: 26 February 2018

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Stanmore Coal Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Stanmore Coal Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, and notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2017 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO Audit Pty Ltd

BDO



T J Kendall

Director

Brisbane, 26 February 2018