

**Stanmore Coal Limited
and its controlled entities**

ABN 27 131 920 968

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

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Corporate Information

DIRECTORS

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

COMPANY SECRETARY

Ian Poole

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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.

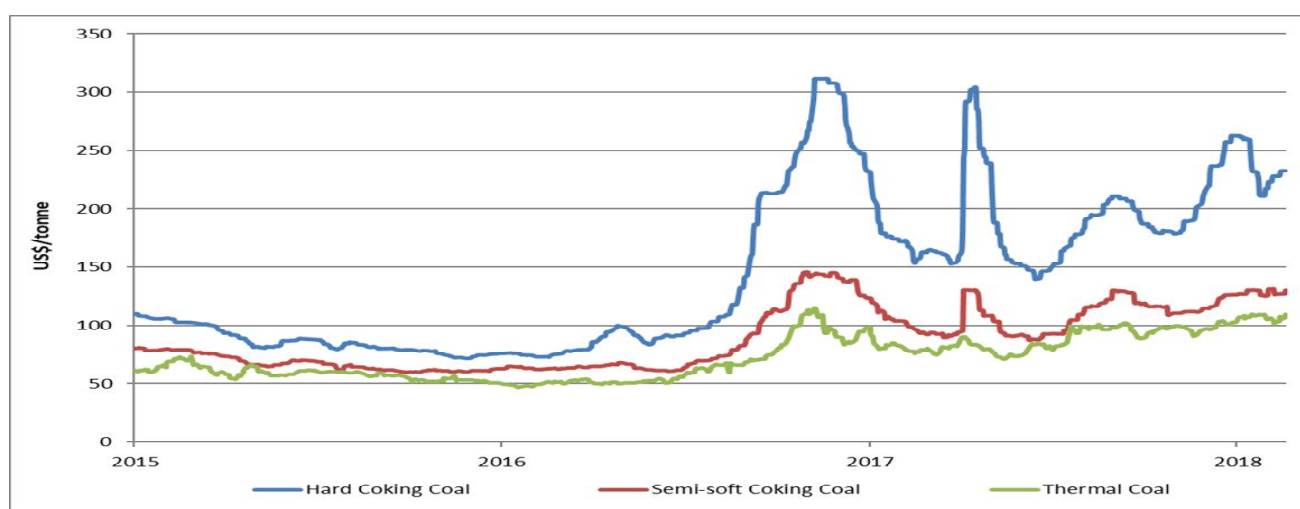
The Company has significantly invested in its operations by increasing investment in overburden in advance and inventory by \$10.570m in H1 FY18, which will be substantively utilised in the second half with strong H2 production performance and resulting strong cash flow from operations.

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



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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
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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	30 June 2017 \$ '000
ORDINARY SHARES				
At the beginning of the year	251,800,978	222,497,435	113,200	97,368
Issue of new ordinary shares	-	29,303,543	-	14,703
Deferred tax recognised through equity	-	-	-	1,129
At reporting date	251,800,978	251,800,978	113,200	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

A strong H1 with the fundamentals in place

FINANCIAL HIGHLIGHTS

Stanmore Coal Ltd (ASX: SMR) reports a profit after tax of \$8.036m for the half year ended 31 December 2017. This represents a significant improvement over the previous corresponding period (pcp) loss of \$0.541m and the results include the following financial highlights:

- Revenue increase to \$82.772m (39.4% increase pcp)
- Gross margin 24.5% (loss in pcp)
- Underlying EBITDA up to \$18.758m and in line with guidance for the half year
- Cash net of debt increased to \$14.590m (23% increase from June 17)
- Debt reduced by \$13.037m to \$2.564m

The gross profit from operations improved to \$20.111m (2016: loss \$5.911m) with coal sales delivering revenue of \$78.101m in the first half of the financial year (2016: \$59.352m). The profit before tax (PBT) of \$13.944m (2016: loss \$16.159m) is driven by continued strong coking and thermal coal prices and a focus on cost control.

OPERATING HIGHLIGHTS

Stanmore's Isaac Plains complex continued to perform well during the half and is set up for an improved second half. The operational highlights were:

- \$11.700m Overburden and prestrip investment to underpin improved H2
- Planned CHPP and Dragline major maintenance shutdown undertaken for reliability
- 714kt Open cut ROM production (18.6% increase pcp¹)
- 512kt of coal produced (12% decrease pcp)
- 594kt of sales (8% increase pcp)
- 177kt of product stockpiles at end of the period due to port congestion which will enable strong sales and cash conversion as port queues return to more normal levels
- Underlying FOB costs of \$99/t² (16% decrease pcp)

GUIDANCE

Stanmore maintains its 1.2mt coal production guidance for FY18 with an underlying FOB cost of \$105/t.

¹ pcp had 217kt highwall ROM production. There was no highwall ROM production in the period.

² Non-IFRS measure

Cashflow

The Company held cash at the end of the period of \$17.154 million.

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

Operational Summary

Safety

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.

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 inventories by \$10.570m in H1FY18, which will be substantively utilised in the second half with strong 2H production performance and resulting strong cash flow from operations.

Product coal production of 512kt, with the coal handling and processing plan (CHPP) delivering a total yield of 76.4% (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.

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

Underlying operating FOB costs where \$99/t sold which was a 16% decrease from the pcg of \$118/t sold.

The average coal price received for the half was A\$131/t. (Semi soft coking coal A\$156/t, Thermal coal A\$103/t)

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 the planned increased production at a higher marginal cost of production and should result 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.

Exploration and development

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

Stanmore Managing Director, Dan Clifford, said from the platform formed in FY17 has enabled a very positive outcome for H1 FY18 and set up a very valuable H2 and lead in to FY19.

“With the production, cost performance and extensive planned maintenance during the half, Stanmore can confidently capitalise on the current market conditions and operational performance. The progression of Isaac Plains, the committed predevelopment capital and EA grant for Isaac Plains East has put the company in a great position for substantial growth in returns as we head towards the objective of 3.5mt ROM for the complex”

“Metallurgical coal demand is strong and it’s our view in the long term it will remain that way, giving Stanmore, with the right fundamentals in place, the perfect opportunity to become a relevant participant in the sector”

Yours faithfully

Ian Poole

Company Secretary

FOR FURTHER INFORMATION, PLEASE CONTACT:

Mr Dan Clifford

Managing Director

07 3238 1000

Mr Ian Poole

Company Secretary

07 3238 1000

ABOUT STANMORE COAL LIMITED (ASX CODE: SMR)

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

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