stanmorecoal
annual report 2016

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Stock exchange listing

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Australian Business Number

ABN 27 131 920 968

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FY16 HIGHLIGHTS

Completion of the Isaac Plains East (formerly known as Wotonga) transaction in September 2015

Completion of the Isaac Plains transaction in November 2015 and recommencement of mining, leading to first coal sales in May 2016

Establishment of long term coking coal sales contracts with premium steel-mill customers

Significant JORC Resource and Reserve upgrade on 6 April 2016, with an estimated 10 years of open cut coal mining underpinned by JORC Reserves within the Isaac Plains Complex

Highwall mining commenced at Isaac Plains in June 2016

Continuation of exploration activity at the Clifford Project, delivering an increased JORC Resource estimate from 370 Mt to 620 Mt (Indicated 190 Mt, Inferred 430 Mt)

$12.7m
First coal sales revenue

10 years
Isaac Plains open cut mining

620 Mt
Clifford Project JORC resource estimate

0
Lost time injuries

$39m
Total net assets

29c
Share price

TRANSITIONED FROM EXPLORER TO PRODUCER

CHAIRMAN'S LETTER TO SHAREHOLDERS

The 2016 financial year has been a significant year of milestones for Stanmore Coal. We have successfully completed the transition from an explorer and developer of coal assets to an operating mine owner during a challenging phase for our industry. Importantly, Stanmore has secured a foot-hold in the prime coking coal Bowen Basin which provides key steel-making materials to steel mills all around the world.

Both the Isaac Plains Coal Mine and Isaac Plains East project (formerly Wotonga deposit) were acquired in the first half of the 2016 financial year on the back of extensive due diligence and negotiation phases. The combination of the strategic infrastructure of Isaac Plains with the significant, low cost mine life extension of Isaac Plains East provided a strong platform for the Company to recommence coal production at a mine that was placed into care and maintenance by the previous owners. The site infrastructure and good condition of the valuable dragline reduced the start-up working capital required by Stanmore to fast-track toward operating activities.

There are many challenges associated with bringing a mine back to life. The management team and key contractors successfully navigated the recommissioning and mobilisation phase including contracting with former buyers of our high quality coking coal to re-establish term relationships. Importantly the activities were undertaken with a key focus on safety and I am pleased to highlight that the mine reported nil lost time injuries. This was achieved during the rapid restart of operations with a number of contracting and consulting parties who have frequented the mine site during this intensive phase.

Stanmore has secured a foot-hold in the prime coking coal Bowen Basin which provides key steel-making materials to steel mills all around the world

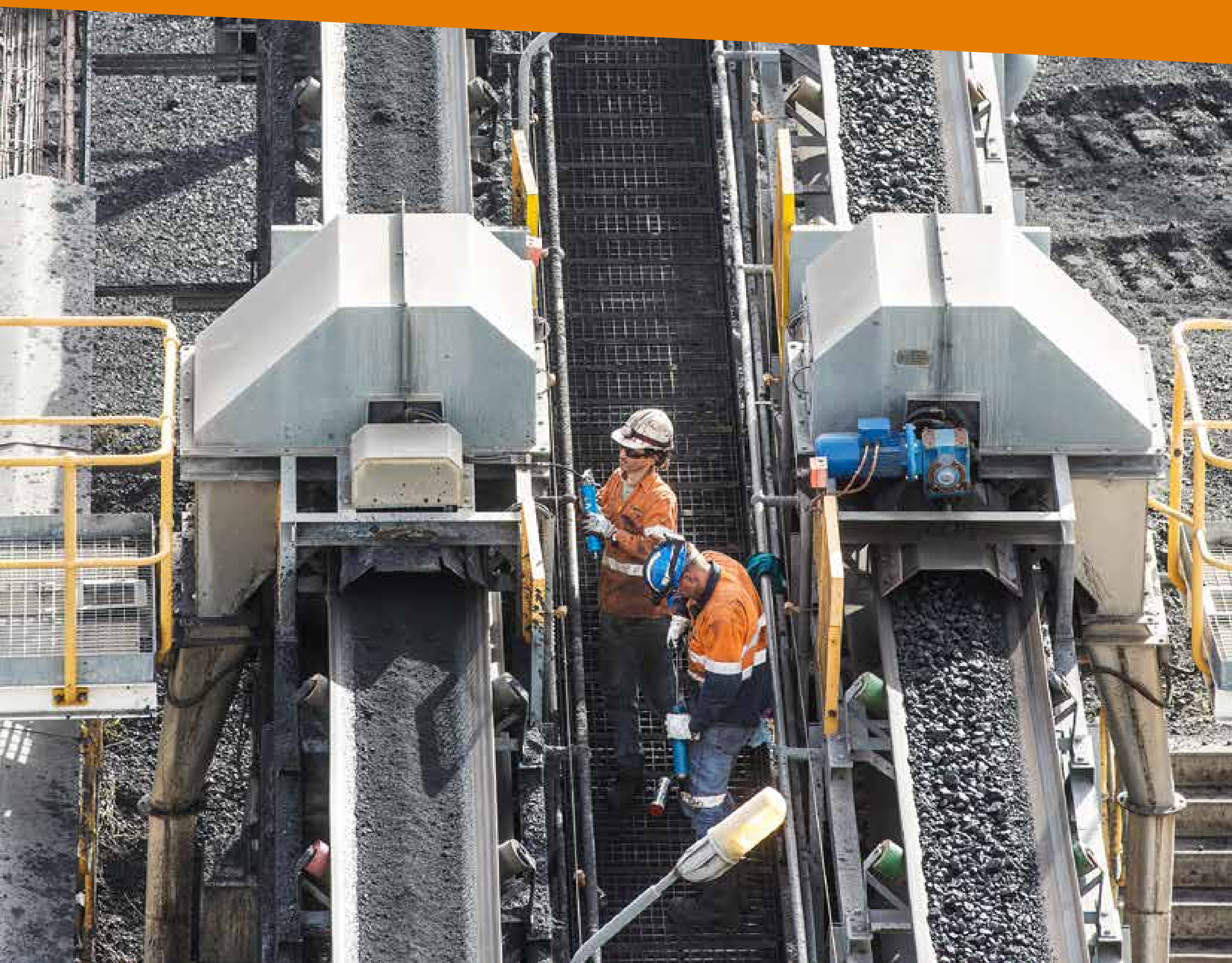
The coal market remains highly cyclical and susceptible to a range of international economic forces which drive the pricing of our Company's export commodity. The sustained coal price downtrend over several years has led to a lack of project pipeline and capital expenditure in our industry. This recent price environment has held back development of the next generation of high quality coking coal assets which are required to replace continued depletion of today's coking coal mines and resulted in the recent spike in coking coal prices.

In a short period of twelve months we have closed two significant transactions with three multinational vendors and recommenced mining operations at our high quality coking coal mine. The board and management of Stanmore are proud of these achievements and we sincerely thank our shareholders, local government and other key stakeholders for supporting us during the year.

We strive to maximise returns to our business during all phases of the cycle and we look forward to a promising 2017 financial year at what is a very exciting time for the Company. We continue to look for ways of growing long term shareholder value as we execute our strategy to become a significant independent coking coal producer.

Neville Sneddon
Chairman

OPERATIONS



ISAAC PLAINS COMPLEX

Coal type
Coking

Location
7 km east of Moranbah

JORC total resource[1]
76.9 Mt

JORC total reserve[1]
15.3 Mt

Ownership
100% Stanmore Coal

In November 2015, Stanmore Coal acquired the Isaac Plains Coal Mine from Vale S.A. and Sumitomo.

This acquisition provided the Company with an established coking coal mining operation with the potential to continue building a strategic platform in the region.

In December 2015, Stanmore Coal awarded the mining services and coal preparation contract to Golding Contractors Pty Ltd, and on 12 May 2016, the first shipment of coking coal following the acquisition was loaded at the Dalrymple Bay Coal Terminal (DBCT). This was followed on 18 May by the official reopening of the Isaac Plains Coal Mine by Queensland Premier Annastacia Palaszczuk.

In June 2016, Stanmore Coal announced the awarding of a contract to UGM Highwall Mining Pty Ltd (UGM) to commence highwall mining operations at Isaac Plains.

History

The Isaac Plains Mine commenced production in 2006 as a truck shovel operation, and dragline operations commenced in 2011/2012.

Coal is trucked to the Coal Handling and Preparation Plant (CHPP) and washed to form a product at a total yield of 70–75%. Product coal is then railed 172 km to DBCT via the Gooneyella Rail System, and sold primarily to Japanese, Korean and Taiwanese steel makers.

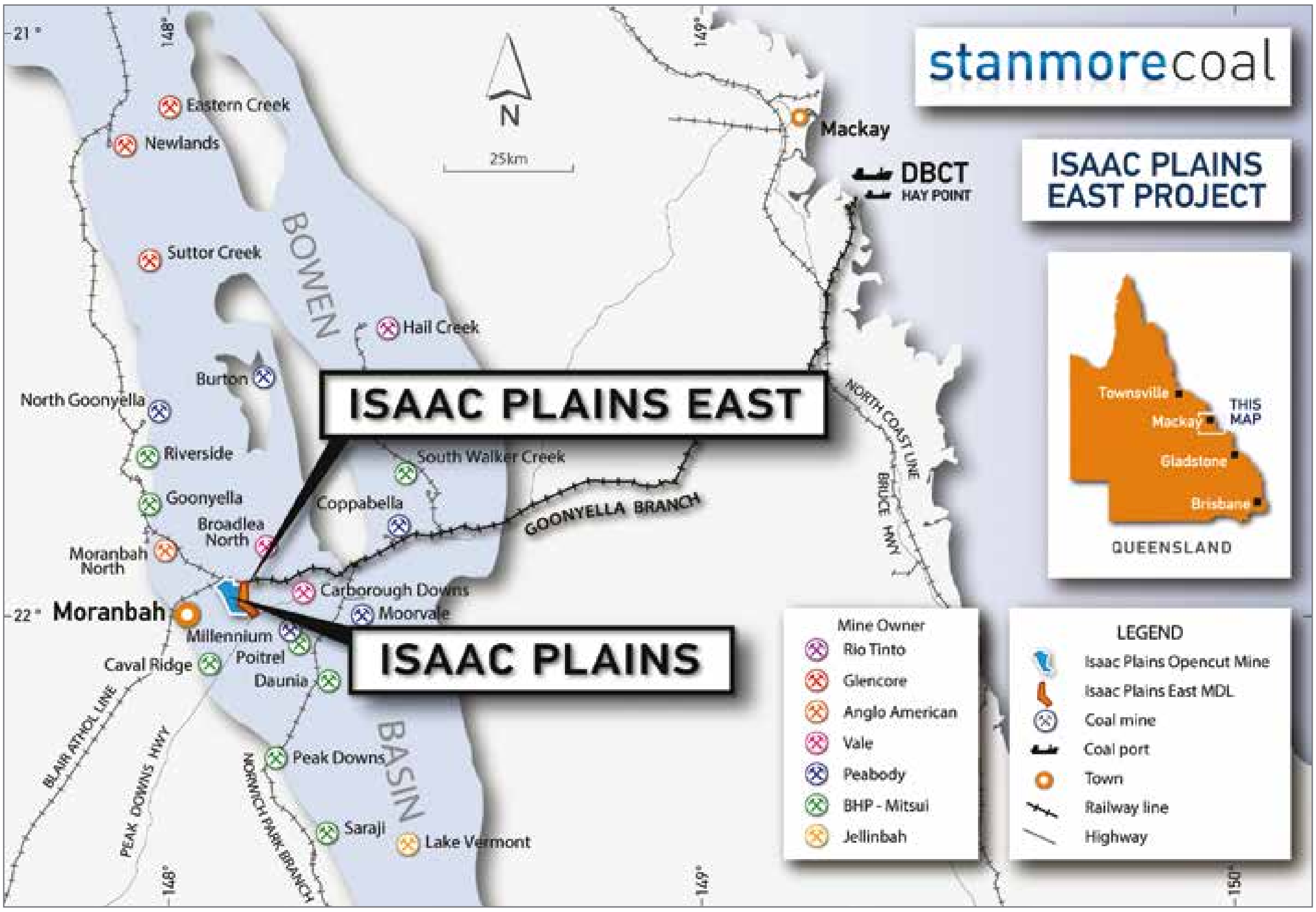
Operations

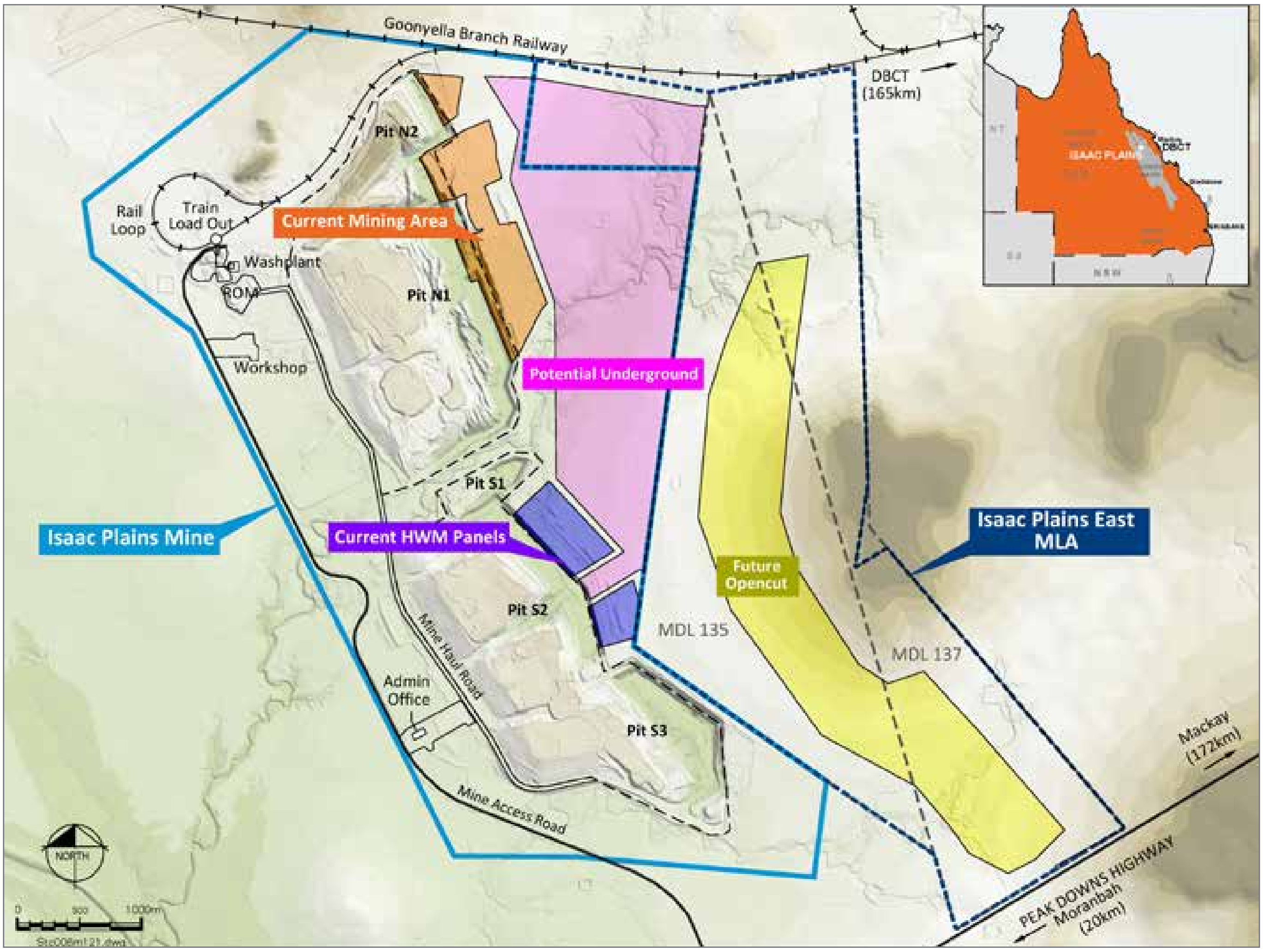
The June quarter marked the ramp-up phase of operations towards steady-state, with five shipments completed in the period, and development of coal stockpiles through mining activities carried out by Golding Contractors Pty Ltd (Golding). Overburden and coal mining in the northern pits progressed at a run-of-mine (ROM) strip ratio of 17:1 for the quarter. While the June quarter ratio is higher than the three year average ratio of 13:1 for the current Isaac Plains open cut area, this is typical for operational ramp-up where overburden is advanced to allow steady state coal mining to occur. The ROM strip ratio for the 2017 financial year is anticipated to trend toward the forecast life of mine strip ratio of circa 13:1.

During the June quarter the Company completed recommissioning works at the washplant facilities and handed operatorship to Golding. A number of additional capital works have been carried out since the handover due to noted issues with performance and reliability of the plant. Further capital items are planned for the first quarter of 2017 in order to optimise total washing yields and the proportion of coking product delivered. As a result of the initial start-up issues encountered and coal mining from a lower quality section of the pit, a significantly higher proportion of thermal coal was produced in the quarter (39% of the total) with surplus coal being sold on a spot basis. The lower quality area is anticipated to be largely mined out within the September quarter, with improved raw coal anticipated through the plant and a more typical coking/ thermal split going forward.

The Company continued to progress its assessment of the potential underground extension within the eastern portion of the Isaac Plains Mining Lease, an area which contains over 20 Mt of JORC compliant Measured and Indicated Resources. Approximately 7.5 Mt ROM may be extracted using a bord and pillar technique, with any potential underground activity able to run in parallel with open cut operations at either Isaac Plains or Isaac Plains East. This underground opportunity would require minimal capital expenditure as it would utilise access

1 Refer Competent Person Statement, page 114


stanmorecoal
ISAAC PLAINS EAST PROJECT
ISAAC PLAINS EAST
ISAAC PLAINS
BOWEN BASIN
Mackay
DBCT
HAY POINT
Moranbah
Eastern Creek
Newlands
Suttor Creek
Hail Creek
Burton
North Goonyella
Riverside
Goonyella
South Walker Creek
Coppabella
Broadlea North
Moranbah North
Carborough Downs
Moorvale
Millennium
Poitrel
Caval Ridge
Daunia
Peak Downs
Saraji
Lake Vermont
GOONYELLA BRANCH
NORTH COAST LINE
BRUCE HWY
BLAIR ATHOL LINE
PEAK DOWNS HWY
NORWICH PARK BRANCH
25km
Townsville
Mackay
THIS MAP
Gladstone
Brisbane
QUEENSLAND
Mine Owner
Rio Tinto
Glencore
Anglo American
Vale
Peabody
BHP - Mitsui
Jellinbah
LEGEND
Isaac Plains Opencut Mine
Isaac Plains East MDL
Coal mine
Coal port
Town
Railway line
Highway


Goonyella Branch Railway
DBCT (165km)
Pit N2
Rail Loop
Train Load Out
Current Mining Area
Washplant
ROM
Pit N1
Workshop
Potential Underground
Pit S1
Isaac Plains Mine
Current HWM Panels
Future Opencut
Isaac Plains East MLA
Pit S2
MDL 135
MDL 137
Mine Haul Road
Admin Office
Pit S3
Mine Access Road
Mackay (172km)
PEAK DOWNS HIGHWAY
Moranbah (20km)
NORTH
1000m

ISAAC PLAINS AT A GLANCE

Isaac Plains is an established mining asset, providing Stanmore with near-term cash flows

First coal shipped May 2016

Mining and transportation infrastructure in place

Includes dragline, coal handling and processing plant, and rail load-out facilities

Rail and port access agreements in place, exporting through Dalrymple Bay Coal Terminal

High value metallurgical coal products with market acceptance

Strong history of coal sales to major steel mills of Asia

Right scale of operation and risk profile

Mining scale of 1.1 Mtpa product coal provides for optimal mine economics to suit dragline and assumed take or pay profile

Contract mining provides lower risk for Stanmore in a competitive contracting market

Potential for future expansion via Isaac Plains East and underground mining at Isaac Plains from the existing highwall and surplus capacity within our wash plant and rail loadout infrastructure.

Highwall mining represents a short term, low cost, low impact incremental increase to production from the existing disused S2 pit in the south of the mining lease. The introduction of incremental highwall mining production provides benefits to Stanmore in better utilising the significant infrastructure and fixed cost base already in place for the Isaac Plains open cut mining operations.

Highwall mining activities are geographically separate from the existing open cut operations in the northern pits and have no impact on open pit production. Increased coking coal production is planned to be first utilised for the existing steel customers in Asia, with any surplus tonnage potentially being used to establish new customers.

Development

The updated JORC compliant open cut Reserve for the Isaac Plains Complex increases the total open cut mining life from three years to 10 years based on a steady state production rate of 1.5 Mtpa run of mine (ROM) coal (at least 1.1 Mtpa of product coal). The output of Reserves modelling indicated a seven year average prime strip ratio (bcm/ROM tonnes) of 11:1, with the first four years at sub 10:1 (compared to the three year average strip ratio of approximately 13:1 within Isaac Plains). Based on current contracted overburden removal and mining costs, the improved strip ratio at Isaac Plains East is estimated to result in an average free on board (FOB) cost reduction of around A$20 per product tonne in the first four years when compared to the existing planned three years of Isaac Plains open cut.

Indicative coal quality demonstrates improved coal rank and yield for the coking product at Isaac Plains East relative to Isaac Plains. The improved coal quality characteristics may give rise to a higher value coking coal product which the Company will assess for marketability and optimal sales mix strategies in near term studies.

The Company has made strong progress with field activities and ongoing baseline studies which will underpin the submission for the proposed Isaac Plains East Mining Lease. A top tier environmental consultant and dedicated internal environmental resources continue to manage the submission, which is anticipated to be lodged in the December quarter of 2016. The Company is targeting grant of the Mining Lease within the second half of 2017, with mining to commence shortly thereafter.

Isaac Plains Complex Resources and Reserves

Xenith Consulting Pty Ltd updated the Resource and Reserve estimate for Stanmore in 2016 within the unmined Mining Lease area. There is significant Resource coverage within the Mining Lease, and current Reserves support over three years of open cut mining at the planned mining rate of 1.5 Mtpa ROM, with the additional Isaac Plains East Resource extending the open cut mine life to over 10 years. The Company is also investigating potential underground resource extensions, with 20 Mt of JORC compliant Measured and Indicated Resources indentified within the eastern portion of the Isaac Plains Mining Lease.

Project	Ownership %	Primary coal type	JORC Proved Reserve	JORC Probable Reserve	Total JORC Recoverable Coal Reserve*^	Date of report
Isaac Plains Complex	100%	Coking	3.7 Mt	11.6 Mt	**15.3 Mt**	Apr 16

Project	Ownership %	Primary coal type	JORC Measured Resource*	JORC Indicated Resource*	JORC Inferred Resource*	Total JORC Resource*	Date of report
Isaac Plains Complex	100%	Coking	15.2 Mt	41.7 Mt	20.0 Mt	**76.9 Mt**	Apr 16

* Refer Competent Person Statement page 114

^ Refer Reserves Note page 114

Official reopening ceremony

On 11 April 2016 the Isaac Plains Mining Complex was declared as a "Prescribed Project" by the Department of State Development, Queensland, with the Queensland Premier Annastacia Palaszczuk officially opening the mine in May.

Dragline

Dragline

- Bucyrus BE1370
- High performance machine. In last year of operation under previous ownership moved >15m bcm
- Major pre-start service carried out, including replacement of swing rack

CHPP

- 500 tph feed rate (3.5 Mtpa) constructed in 2006
- Belt press filter – no tailings dams
- Flexible operating setup to produce multiple coal products

Train load out

- CHPP, stockpile and train loadout in close proximity
- Conveyor feed to rail surge/loading bin

Office facilities and workshops

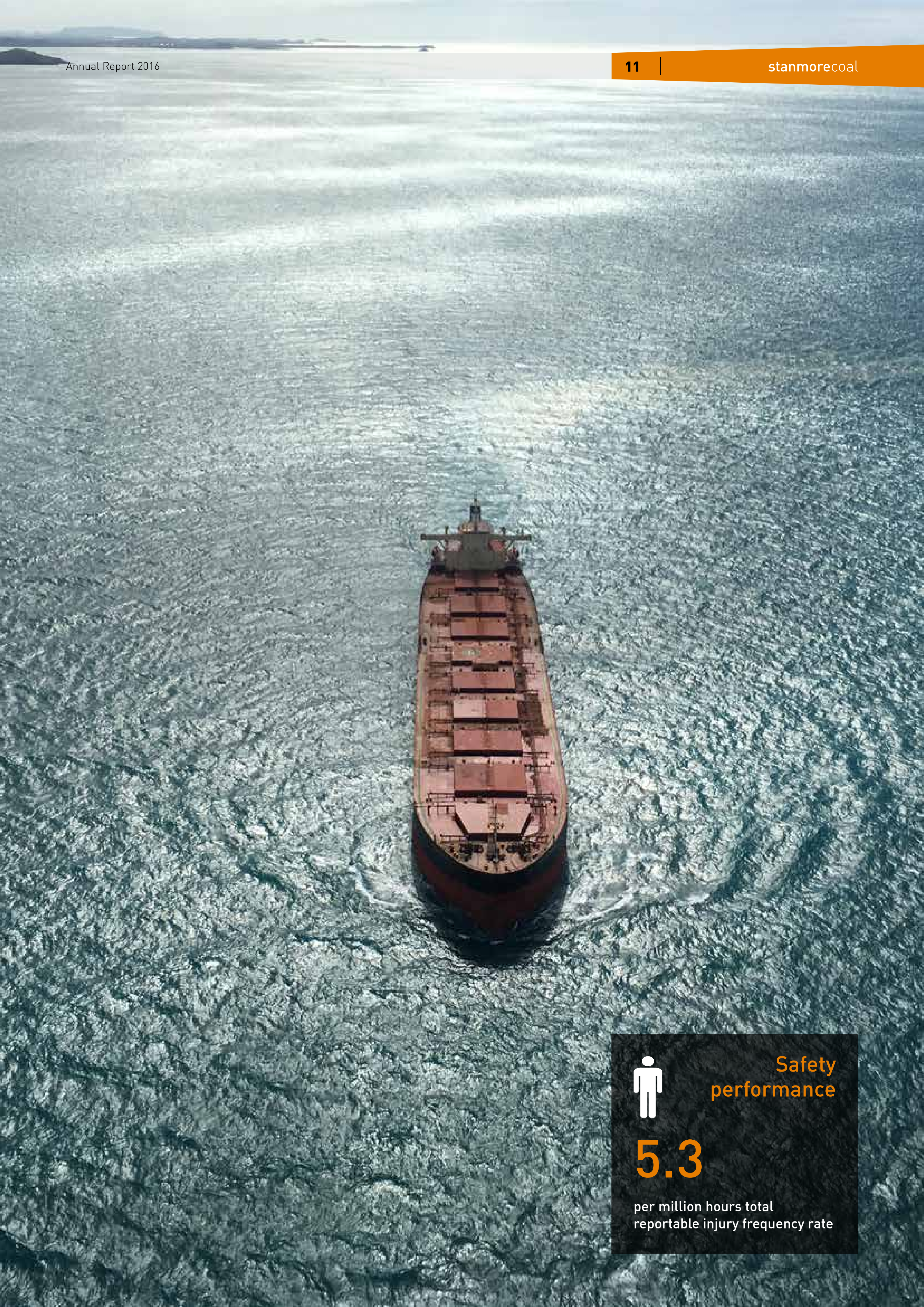
- Established office setup includes comms and other infrastructure
- Several maintenance workshops

Mine layout

- Well laid-out site
- Mine infrastructure located along the western side of the lease
- Short spur connection to Goonyella Branch Railway
- Ease of access for a potential Isaac Plains East extension provided via the haul road

Geology

- The Leichhardt seam (Rangal Coal Measures) averages 3.5 m thick across the deposit. The seam splits into an upper and lower section in the far northern area
- Depth of cover commences at 60 m, dipping to the east 6–7 degrees with a maximum depth of around 230 m in the north-east of the tenement.
- A nine year mining history provides significant information about the deposit
- Isaac Plains – over 100 cored holes drilled in unmined portion of Mining Lease
- Isaac Plains East – over 200 holes drilling within tenement area
- Over 18 km of 2D seismic over combined tenements



Safety performance

5.3

per million hours total reportable injury frequency rate

Coal quality

Historically the coal at Isaac Plains has been sold primarily to North Asian steel makers, but attractive coal qualities may broaden the customer base. The mine is currently producing semi-soft coking coal and thermal coal, with plans to reintroduce semi-hard coking coal:

- Semi-hard coking coal – moderate ash and volatile matter content, and low impurities such as sulphur and alkalis
- Semi-soft coking coal – attractive volatile matter content (lower than Hunter Valley benchmark), and low total sulphur with high calorific value
- Thermal – high energy content with low sulphur, ash and nitrogen content, excellent handling characteristics, and easy to grind.

Parameter*	Isaac Plains		Isaac Plains East (Indicative)
	Coking	Thermal	Coking
Product split (%)	80%	20%	+90%
Inherent moisture (%)	2.5	3.1	2.3
Ash (%)	9.4	14.0	9.5
Volatile matter	25.4	24.2	24.4
Fixed carbon (%)	62.3	58.7	63.7
Total sulphur (%)	0.36	0.37	0.40
Phosphorus (%)	0.100	0.161	0.070
CSN^	4		4+
HGI†		65	
Calorific value (kcal/kg)	7,434	6,600	7,380

* Air dried basis unless stated otherwise
^ Crucible swell number
† Hardgrove grindability index

Coal sales and market outlook

In May 2016, the first shipment of Stanmore IP Coal-branded coal was exported from Dalrymple Bay Coal Terminal. The Company has contracted with top tier Asian steel mills on a term basis for 900,000 tonnes of coking coal. This strong result reaffirms the market support for the quality of Isaac Plains coking coal and underpins a positive outlook as Stanmore's coal will continue to be a sought-after commodity.

Benchmark coking coal prices rose in the final two quarters of 2016, in line with recent market tightness and rising spot prices. Ongoing tightness in the coking coal market is being observed, with a number of supply disruptions in Queensland providing further support in the market.

The Company is continually monitoring its optimal product mix and in particular the potential for reintroducing a semi-hard coking coal product as was historically produced at Isaac Plains.

OUR CONTRIBUTION

150

jobs in the Isaac region created by the mine restart

$7m+

royalties payments to the State, with potential to increase

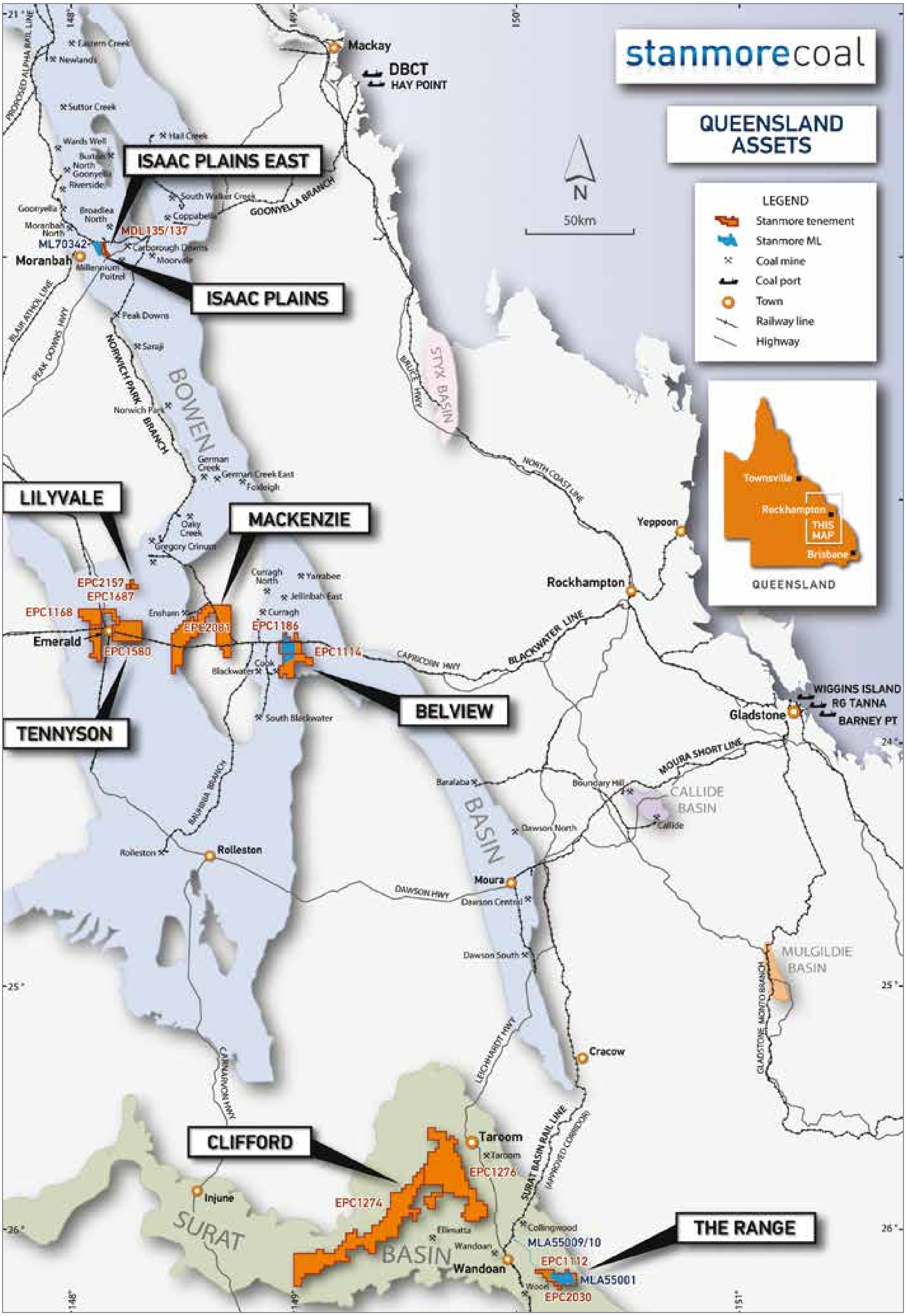
84ha

mine rehabilitation undertaken in the first year of ownership

4

initial Company sponsorships granted to support local communities, including the Queensland Royal Flying Doctors, local ambulance service and schools

PROJECT SNAPSHOTS


stanmorecoal
QUEENSLAND ASSETS
LEGEND
Stanmore tenement
Stanmore ML
Coal mine
Coal port
Town
Railway line
Highway
N
50km
Townsville
Rockhampton
THIS MAP
Brisbane
QUEENSLAND
ISAAC PLAINS EAST
ISAAC PLAINS
MDL135/137
ML70342
LILYVALE
EPC2157
EPC1687
MACKENZIE
EPC2081
EPC1186
EPC1168
EPC1580
EPC1114
TENNYSON
BELVIEW
CLIFFORD
EPC1274
EPC1276
THE RANGE
MLA55009/10
EPC1112
MLA55001
EPC2030
Mackay
DBCT
HAY POINT
Moranbah
Emerald
Blackwater
Rockhampton
Yeppoon
Gladstone
WIGGINS ISLAND
RG TANNA
BARNEY PT
Rolleston
Moura
Cracow
Taroom
Injune
Wandoan
BOWEN BASIN
SURAT BASIN
CALLIDE BASIN
MULGILDIE BASIN
STYX BASIN
GOONYELLA BRANCH
NORTH COAST LINE
BLACKWATER LINE
MOURA SHORT LINE
CAPRICORN HWY
DAWSON HWY
NORWICH PARK BRANCH
SURAT BASIN RAIL LINE
(APPROVED CORRIDOR)
LEICHHARDT HWY
CARNARVON HWY
BRUCE HWY
PEAK DOWNS HWY
BLAIR ATHOL LINE
PROPOSED ALPHA RAIL LINE
GLADSTONE MONTO BRANCH
BAUHINIA BRANCH

BELVIEW COKING COAL PROJECT

Tenements

EPC 1114, 1186

Area

170 km^2

Location

10 km south-east of Blackwater

JORC total resource[1]

330 Mt

Ownership

100% Stanmore Coal

The Belview Project is a large scale, metallurgical coal project located in the heart of Queensland's Bowen Basin. Belview currently hosts a 330 Mt JORC Inferred Resource[1] and further studies are underway with a focus on reducing capital costs and evaluating initial mining options.

As is the case for several other Rangal coal deposits, maintaining a minimum vitrinite content is important to ensure that the product displays adequate coking properties. This is achieved by separation at a low density and thus is accompanied by a low ash level (typically 6–7.5% (ad)). A washed coking coal is likely to exhibit low sulphur (0.4–0.55% ad) and moderate phosphorus (0.07–0.1% ad) with limited plastic properties. Given the correlation with current Rangal coking coals in the market place this coking coal product is well understood and would be readily accepted by steel mill end users.

The PCI coal has low-volatile matter, standard ash, low sulphur and moderate phosphorus content. At a typical ash level of 10–11% (ad) the calorific value is regarded as high (~7,500 kcal/kg gad). This calorific value level, along with the high carbon content, indicates a high coke replacement ratio. The variable iron and calcium content in the ash impact the ash fusion temperature. The HGI is high (~80–87).

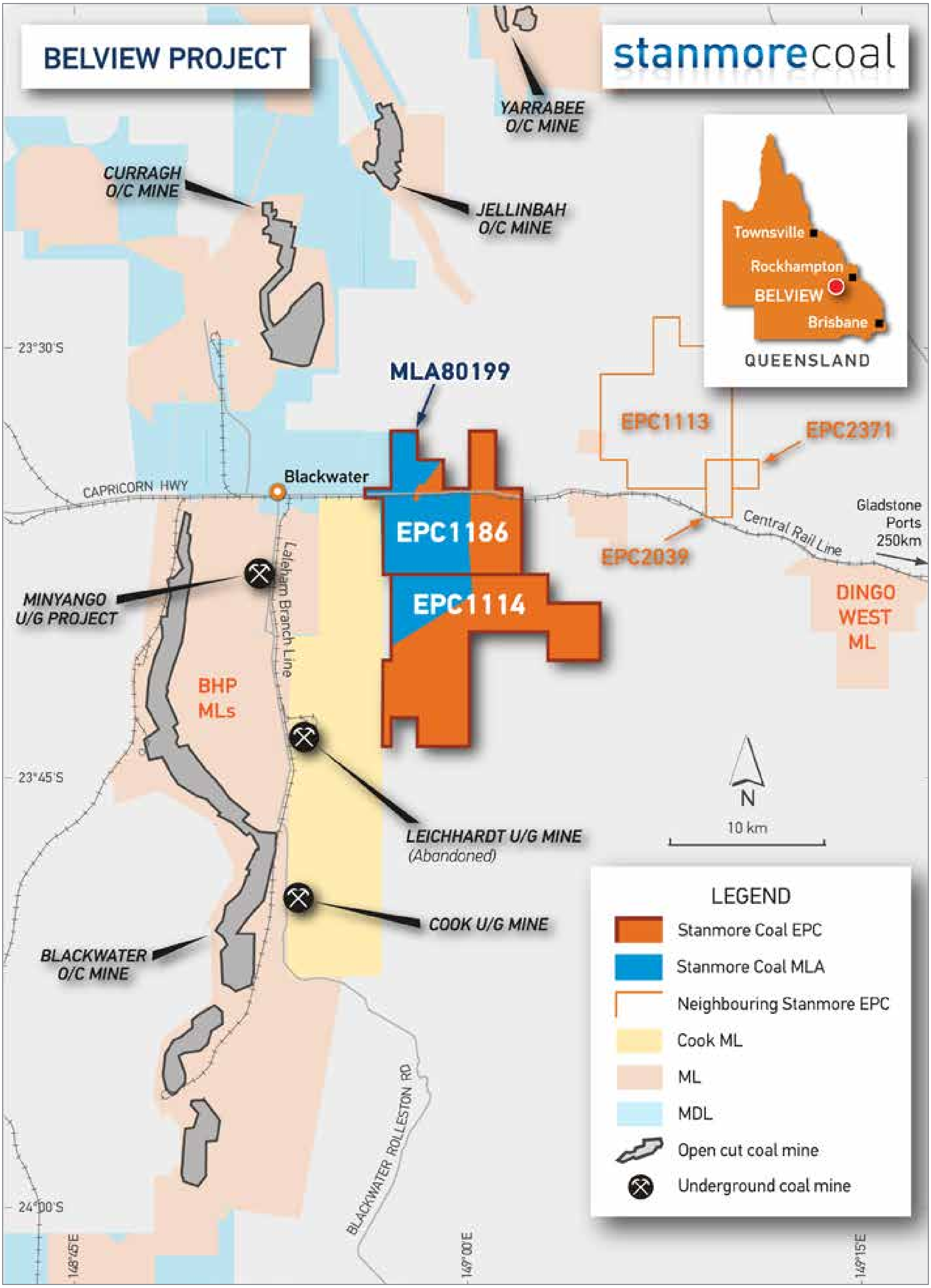
Together these products can be produced at a high overall washed yield, with an achieved laboratory yield for the Pollux seam of 79%. Under certain circumstances a thermal coal product may be produced to replace the PCI product, deriving a moderate ash (20% ad) coal with reasonably high energy content around 6,500 kcal/kg (gad) and attractive HGI of 75–80.

1 Refer Competent Person Statement, page 114

Estimated coal quality – Belview

Parameter*	Unit	Primary HCC product	Secondary PCI product
Product split	% Mass	61	39
Inherent moisture	%	1.5	1.7
Ash	% (ad)	6.5	9.5
Volatile matter	% (ad)	18.8	17.6
Fixed carbon	% (ad)	73.2	71.2
Total sulphur	% (ad)	0.41	0.37
Phosphorus	% (ad)	0.06	0.06
Calorific value	kcal/kg	7,900	7,620
Crucible Swell Number (CSN)		6 – 7	1
Vitrinite reflectance (RoMax)	%	1.50	1.48

* Air dried basis unless otherwise noted


BELVIEW PROJECT
stanmorecoal
YARRABEE O/C MINE
CURRAGH O/C MINE
JELLINBAH O/C MINE
Townsville
Rockhampton
BELVIEW
Brisbane
QUEENSLAND
23°30'S
MLA80199
EPC1113
EPC2371
Blackwater
CAPRICORN HWY
EPC1186
Gladstone Ports 250km
Central Rail Line
EPC2039
MINYANGO U/G PROJECT
Laleham Branch Line
EPC1114
DINGO WEST ML
BHP MLs
23°45'S
N
10 km
LEICHHARDT U/G MINE (Abandoned)
COOK U/G MINE
BLACKWATER O/C MINE
LEGEND
Stanmore Coal EPC
Stanmore Coal MLA
Neighbouring Stanmore EPC
Cook ML
ML
MDL
Open cut coal mine
Underground coal mine
BLACKWATER ROLLESTON RD
24°00'S
148°45'E
149°00'E
149°15'E

LILYVALE COKING COAL PROJECT

Tenements

EPC 1687, 2157

Area

13 km^2

Location

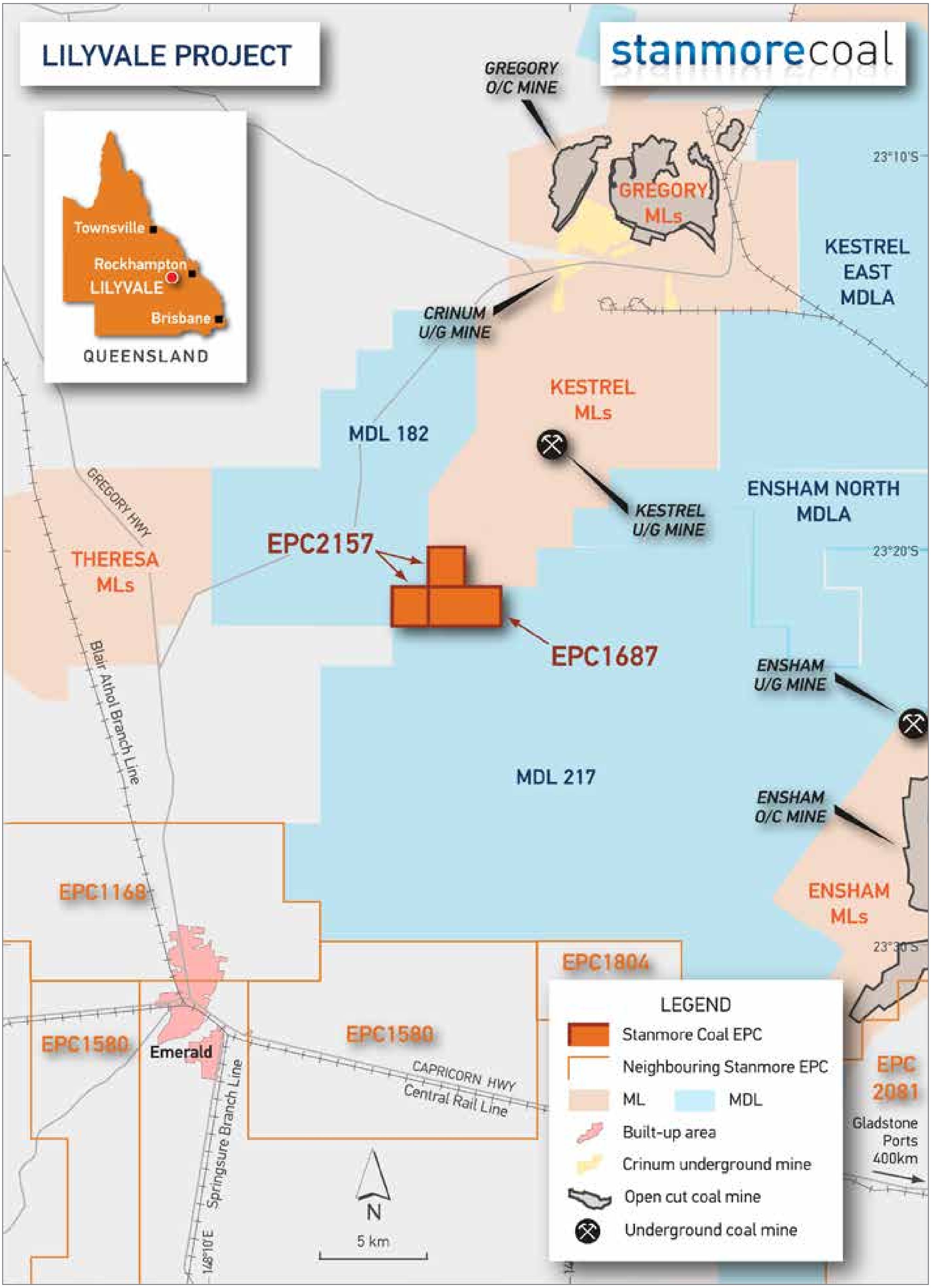
25 km north-east of Emerald

Ownership

85% Stanmore Coal
15% Cape Coal

The Lilyvale project is located 25 km north east of Emerald and is in close proximity to the operating Kestrel South and Gregory-Crinum coking coal mines.

Based on analysis of historical geophysical logs and bore holes in the surrounding region (including two cored holes with quality data within the project area) the Company estimates that the Lilyvale project hosts the German Creek seam from 336 m in depth with a typical thickness across the project area of 2.2–2.5m. The geology of the project and surrounding areas is well understood and not expected to be geologically complex. Adjacent underground mines at Kestrel (Rio Tinto) and Gregory-Crinum (BHP Mitsubishi Alliance) produce a low ash, high quality coking coal from the German Creek seam.


LILYVALE PROJECT
stanmorecoal
Townsville
Rockhampton
LILYVALE
Brisbane
QUEENSLAND
GREGORY O/C MINE
GREGORY MLs
KESTREL EAST MDLA
23°10'S
CRINUM U/G MINE
KESTREL MLs
MDL 182
ENSHAM NORTH MDLA
KESTREL U/G MINE
GREGORY HWY
EPC2157
THERESA MLs
23°20'S
EPC1687
ENSHAM U/G MINE
Blair Athol Branch Line
MDL 217
ENSHAM O/C MINE
EPC1168
ENSHAM MLs
EPC1804
LEGEND
Stanmore Coal EPC
Neighbouring Stanmore EPC
ML
MDL
Built-up area
Crinum underground mine
Open cut coal mine
Underground coal mine
EPC1580
Emerald
EPC1580
CAPRICORN HWY
Central Rail Line
Springsure Branch Line
EPC 2081
Gladstone Ports 400km
N
5 km
148°10'E

CLIFFORD THERMAL COAL PROJECT

Tenements

EPC 1274, 1276

Area

1,161km^2

Location

Surat Basin – north-west of Wandoan

JORC resource[1]

620 Mt (190 Mt Indicated; 430 Mt Inferred)

Ownership

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

The Clifford Project (EPC 1274 and EPC 1276) is a 1161km^2 area within Queensland's highly prospective Surat Basin.

The Surat Basin is an extensive coal basin featuring high energy, low emission thermal coal which is well suited for clean and efficient electricity generation in Asia. Surat Basin thermal coal features excellent environmental performance with a low emissions profile relative to other traded coals. There is a proven track record of Surat Basin coal being used for efficient power generation in Queensland and also for export to the Japanese market.

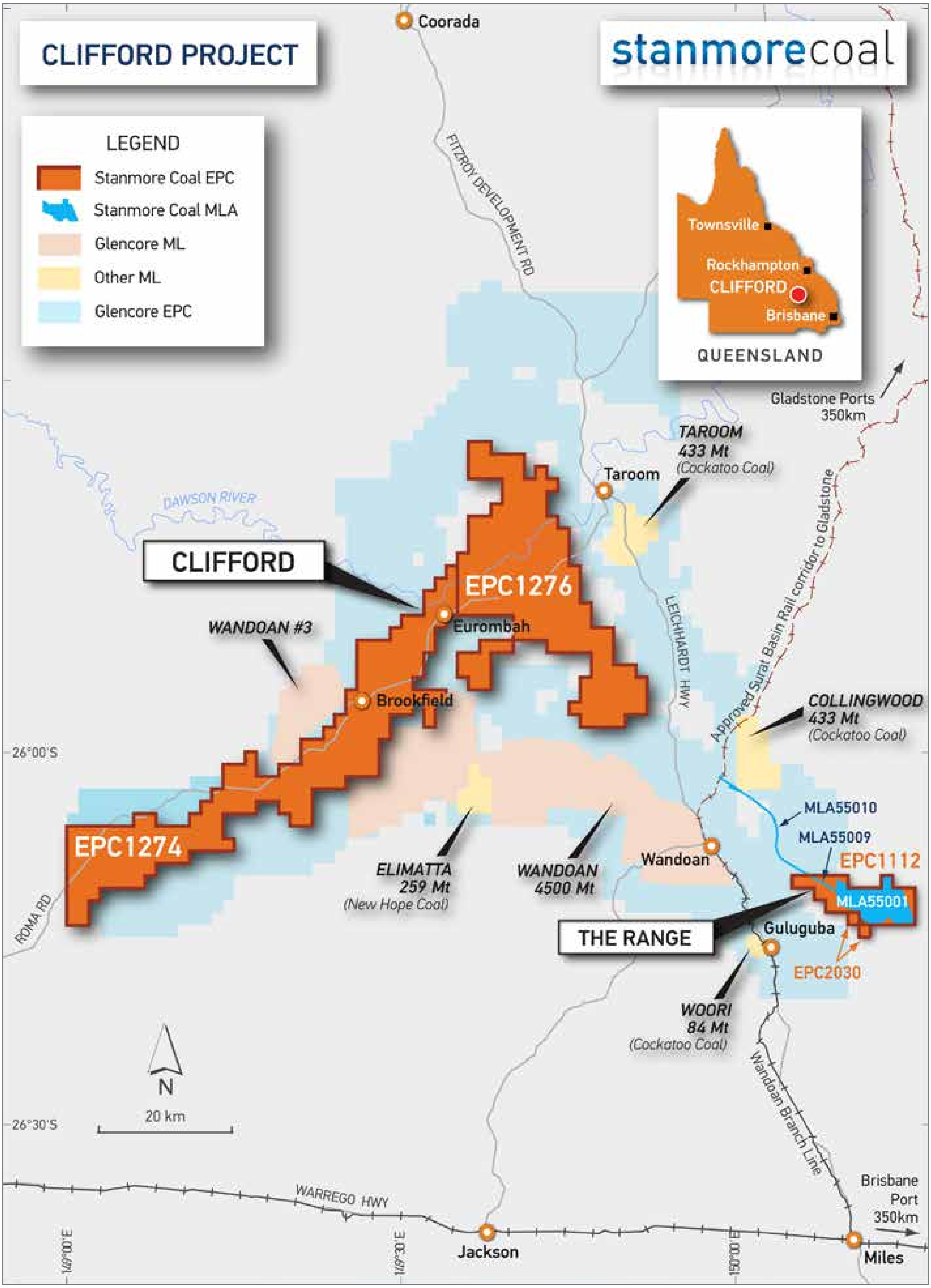
The Clifford Project is in close proximity to Stanmore Coal's The Range, a 5 Mtpa open cut export grade thermal coal project. The Clifford Project adjoins Glencore's Wandoan Project and is targeting thermal coal deposits at depths amenable to open cut mining.

Through a joint exploration initiative with Stanmore Coal, JOGMEC is providing up to $4.5 million of funding for all of the planned exploration expenditure over three years including drilling, associated coal quality analysis and feasibility studies within the Clifford Project area. Under this arrangement, JOGMEC will earn up to a 40% economic interest in the project. As a Japanese Government agency, JOGMEC plays a key role in the identification and development of new, long term sources of high quality thermal coal highly suitable for Japanese electricity generators. Funding provided under this arrangement will also allow Stanmore to build a comprehensive geological model of the area utilising historical data within and immediately surrounding the tenement area.

The Company is undertaking a concept study for the project with a focus on mining and infrastructure options. The study will be completed within the final farm-in period with JOGMEC, which is due to complete in March 2017.

Estimated coal quality – Clifford

Parameter	Unit	Basis	Liberty	Grange
Proximate analysis				
Ash	%	air dried	9.9	9.3
Volatile matter	%	air dried	42.6	42.7
Fixed carbon	%	air dried	41.4	40.9
Fuel ratio			0.97	0.96
Sulphur	%	air dried	0.47	0.42
Gross calorific value	kcal/kg	net as received	5,933	5,920
Hardgrove Grindability Index (HGI)		air dried	34	33
Abrasion index		air dried	<10	<10
Ash fusion temperature				
Deformation	C		1,540	1,520
Petrographics				
R max	%	0.51	0.48	
Total vitrinite	vol %		66.9	70.8


CLIFFORD PROJECT
stanmorecoal
LEGEND
Stanmore Coal EPC
Stanmore Coal MLA
Glencore ML
Other ML
Glencore EPC
Townsville
Rockhampton
CLIFFORD
Brisbane
QUEENSLAND
Gladstone Ports 350km
Coorada
FITZROY DEVELOPMENT RD
DAWSON RIVER
TAROOM 433 Mt (Cockatoo Coal)
Taroom
CLIFFORD
EPC1276
Eurombah
WANDOAN #3
Brookfield
LEICHHARDT HWY
Approved Surat Basin Rail corridor to Gladstone
COLLINGWOOD 433 Mt (Cockatoo Coal)
26°00'S
MLA55010
MLA55009
EPC1112
EPC1274
ELIMATTA 259 Mt (New Hope Coal)
WANDOAN 4500 Mt
Wandoan
MLA55001
THE RANGE
Guluguba
EPC2030
ROMA RD
WOORI 84 Mt (Cockatoo Coal)
N
20 km
26°30'S
Wandoan Branch Line
Brisbane Port 350km
WARREGO HWY
Jackson
Miles
149°00'E
149°30'E
150°00'E

THE RANGE THERMAL COAL PROJECT

Tenements

EPC 1112, 2030
MLA 55001, 55009, 55010

Area

92 km^2

Location

Surat Basin – 24 km south-east of Wandoan

JORC resource[1]

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

Ownership

100% Stanmore Coal

A definitive feasibility study has previously been completed for The Range covering geology, mining and cost structures which confirmed that it is an attractive 5 Mtpa high quality, export grade, thermal coal project ready for execution upon the delivery of the Surat Basin Rail linking the basin to the existing Moura network via a 190 km rail link.

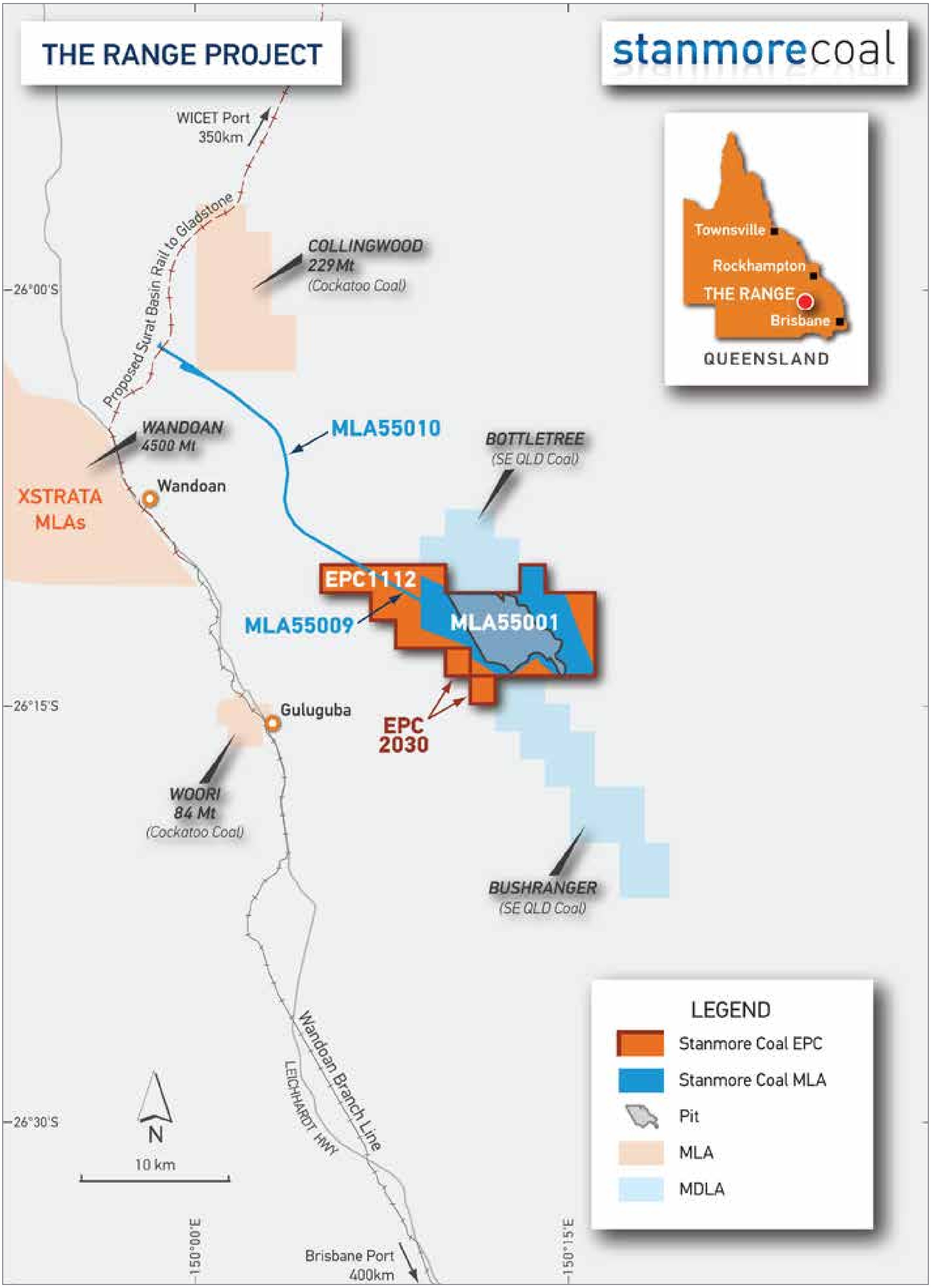
An Environmental Impact Statement ("EIS") and supplementary EIS have previously been completed and assessed by the Department of Environment and Heritage Protection ("DEHP").

The focus of the Company in relation to The Range project is on supporting the delivery of rail and port infrastructure and as such it is not expected that further material expenditure will be required prior to the infrastructure solution being finalised. When the timetable to a final investment is understood, the Company will undertake a further project review with a focus on optimising project capital costs in light of current market conditions.

The Company has reduced ongoing costs at The Range to a minimum until there is certainty as to the timing of the rail solution. The Company will continue with ongoing environmental monitoring and other minor on-site activities to maintain compliance with approvals. The project is well positioned to progress once a clear path to production can be realised and the Company continues to work with infrastructure providers to support the delivery of essential rail infrastructure necessary to support commercialisation of the Surat Basin.

In the financial year ending 30 June 2016, a partial impairment of the project was recognised to reflect recent market conditions for coal development assets. Refer to Note 10(b) of the Financial Statements for further discussion.

1 Refer Competent Persons Statement, page 114



THE RANGE PROJECT
stanmorecoal
Townsville
Rockhampton
THE RANGE
Brisbane
QUEENSLAND
WICET Port 350km
Proposed Surat Basin Rail to Gladstone
COLLINGWOOD 229Mt (Cockatoo Coal)
26°00'S
26°15'S
26°30'S
150°00'E
150°15'E
WANDOAN 4500 Mt
XSTRATA MLAs
Wandoan
MLA55010
BOTTLETREE (SE QLD Coal)
EPC1112
MLA55009
MLA55001
EPC 2030
Guluguba
WOORI 84 Mt (Cockatoo Coal)
BUSHRANGER (SE QLD Coal)
Wandoan Branch Line
LEICHHARDT HWY
N
10 km
Brisbane Port 400km
LEGEND
Stanmore Coal EPC
Stanmore Coal MLA
Pit
MLA
MDLA

DIRECTORS' REPORT

Your Directors present their report for the year ended 30 June 2016.

The following persons were Directors of Stanmore Coal Limited during the financial year and up to the date of this report, unless otherwise stated:

Neville Sneddon

B. Eng (Mining) (Hons), M. Eng, MAusIMM, Grad AICD

Non-executive Chairman

A mining engineer with over 40 years' experience in most facets of the Queensland and NSW resource sectors, Neville Sneddon brings substantial Board and industry knowledge to Stanmore Coal. He has developed and operated both underground and open cut mines working for Coal & Allied in the Hunter Valley and from 1997 worked in a senior role in the NSW Mines Inspectorate, covering operations in all forms of mining in the state.

Moving to Queensland in 1999, Neville accepted the position of Chief Operating Officer with Shell Coal which was acquired by Anglo American's Australian coal operations the following year. Leaving as CEO in 2007, he held several Board positions with mining and infrastructure companies including Chairman of the operating company at Dalrymple Bay Coal Terminal near Mackay and Director of Port Waratah Coal Services, a major coal export facility at Newcastle.

Neville has also been a member of the Boards of the Queensland, NSW and National Mining Councils. His expertise has been sought by several government committees such as the NSW Mine Subsidence Board, the NSW Mines Rescue Board, Queensland Ministerial Coal Mine Safety Advisory Committee and the joint federal/state advisory committee which is developing nationally consistent mining safety legislation. Neville is a Non-Executive Director of CSM Energy Limited, Cobbora Coal Limited and Solid Energy Limited.

Neville is Chairman of the Remuneration & Nominations Committee.

During the past three years Neville has not served as a Director of any other listed companies.

Nicholas Jorss

BE (Hons) Civil, MBA, GDip App Fin (Sec Inst)

Managing Director

Nick Jorss is a founding Director and shareholder of Stanmore Coal and has over 20 years' experience in investment banking, civil engineering, corporate finance and project management. In his roles in investment banking he has been involved in leading advisory mandates with corporate, government and private equity clients across industry sectors ranging from resources to infrastructure. Nick was previously a Director of Pacific Road Corporate Finance and was an engineer with Baulderstone Hornibrook prior to that where he delivered infrastructure and resource projects over a period of approximately eight years.

Nick is a founding shareholder and Director of St. Lucia Resources International, Kurilpa Uranium and Wingate Capital. He was previously a Director of Vantage Private Equity Growth, Vantage Asset Management and WICET Holdings Pty Ltd. During the past three years Nick has not served as a Director of any other ASX listed companies.

Nick holds a Bachelor with Honours in Civil Engineering, a Masters of Business Administration and a Graduate Diploma of Applied Finance and Investment.

Chris McAuliffe

LLB (Hons), MBA

Non-executive Director

Chris McAuliffe is co-founder and Managing Director of Sprint Capital, a Hong Kong based private equity investment management group. Chris has more than 20 years' experience in private equity and investment banking with significant relationships across Asia. Prior to co-founding Sprint Capital in 2008, Chris was a Managing Director and co-head of Asia Pacific Industrials Group at Citigroup in Hong Kong, prior to which he was a Managing Director and head of Asia Industrials and Services Group at Credit Suisse in Singapore.

During the past three years Chris has also served as a Director of the following listed companies:

- Asian Bamboo AG (Germany)
- Xplorer PLC[1] (London)
- Chaswood Resources Holdings Limited[1] (SGX)

Chris is a member of the Audit & Risk Committee and the Remuneration & Nominations Committee.

Patrick O'Connor

BCom, FAICD

Non-executive Director

Patrick has experience in a wide range of industries including mining, oil and gas exploration, forestry, biotechnology and government utilities across several international jurisdictions (Australia, Africa, New Zealand, United Kingdom and USA).

He is a Non-Executive Director of Tech Mpire Limited. He was previously the non-executive chairman of TFS Corporation Limited (ASX:TFC) and a Non-Executive Director of Optiscan Imaging Limited (ASX:OIL) and Buccaneer Energy Limited. Patrick retired as non-executive Deputy Chairman of Perilya Limited in December 2013 upon its take-over by Shenzhen Zhongjin Lingnan Nonfemet Co. Ltd (China's third largest zinc producer) and retired as non-executive Chairman of Xceed Resources Limited in February 2014 upon its take-over by Keaton Energy Limited (JSE listed). Patrick also spent nine years as a director of the Water Corporation in Western Australia, four years as its Chairman and was prior to that the Managing Director of Macraes Mining Company Limited, during which time he oversaw the development of the Macraes Gold Project and the acquisition of the Reefton Gold Project in New Zealand. Patrick was also the Chief Executive Officer for Oceanagold Corporation Limited at the time of its listing on the ASX and remained for a period as a Non-Executive Director.

During the past three years Patrick has also served as a Director of the following listed companies:

- Buccaneer Energy Limited
- Optiscan Imaging Limited
- Perilya Limited
- Tech Mpire Limited[2]
- TFS Corporation Limited
- Xceed Resources Limited

Patrick is a member of the Audit & Risk Committee and the Remuneration & Nominations Committee.

Stephen Bizzell

BCom, MAICD

Non-executive Director

Stephen is the Chairman of boutique corporate advisory and funds management group Bizzell Capital Partners Pty Ltd. Stephen was an Executive Director of Arrow Energy Ltd from 1999 until its acquisition in 2010 by Shell and PetroChina for $3.5 billion. He was instrumental in Arrow's corporate and commercial success and its growth from a junior explorer to a large integrated energy company. He was also a co-founder and director of Bow Energy Ltd until its $550 million takeover.

Stephen qualified as a Chartered Accountant and early in his career was employed in the Corporate Finance division of Ernst & Young and the Corporate Tax division of Coopers & Lybrand. He has had considerable experience and success in the fields of corporate restructuring, debt and equity financing, and mergers and acquisitions. He has over 20 years' corporate finance and public company management experience in the resources and energy sectors in Australia and Canada with various public companies.

Stephen is the Chairman of the Audit & Risk Management Committee and a member of the Remuneration & Nominations Committee.

During the past three years Stephen has also served as a Director of the following listed companies:

- Armour Energy Limited[3]
- Dart Energy Ltd
- Diversa Ltd[3]
- Hot Rock Ltd
- Renascor Resources Limited[3]
- Laneway Resources Limited[3]
- Titan Energy Services Limited
- UIL Energy Ltd[3]

1 Denotes current directorship.

2 Denotes current directorship.

3 Denotes current listed directorship.

Viv Forbes

BScApp (Geol), FAusIMM, FSIA

Non-Executive Director

Viv Forbes is a geologist, financial analyst and business manager with more than 40 years of coal-industry experience including government service, field exploration, mine valuation and acquisition, financing, development, operations and successful asset sales. Viv has been involved in various capacities at the Queensland Geological Survey Office, United Uranium, Burton Coal, Dalrymple Bay Coal Terminal, South Blackwater Coal Mine, Tahmoor Coal Mine, Newlands/Collinsville Coal Mines, Utah Goonyella/Saraji coal exploration, and mining investment management at MIM Holdings and Consolidated Gold Fields. He has also directed companies in oil and gas exploration and metals exploration. He has a degree in Applied Science Geology and is a Fellow of the Australasian Institute of Mining and Metallurgy.

Viv is a member of the Remuneration & Nominations Committee.

During the past three years Viv has not served as a Director of any other listed companies.

Andrew Martin

B.Ec (Hons)

Director (resigned 10 March 2014)

Alternate Director (for Viv Forbes, appointed 10 March 2014)

An investment banker with Deutsche Bank, Andrew Martin offers more than 15 years financial, advisory and corporate experience within the infrastructure, utilities and natural resources industries. In recent years, Andrew has advised on transactions within the power generation, utilities, gas, water, road, rail and ports sectors.

Holding a Bachelor of Economics (Honours) from the University of Sydney, Andrew is a founding Director and shareholder in St Lucia Resources International, Stanmore Coal and Kurilpa Uranium, which was acquired by Renaissance Uranium Ltd before its listing.

Andrew was appointed as an Alternate Director for Mr Viv Forbes.

Andrew also serves as a Director of Renascor Resources Limited.

Andrew Roach

B.Com, B Econ, CA, GDip App Fin, GDip CG

Chief Financial Officer and Joint Company Secretary

Andrew Roach was appointed as joint company secretary of Stanmore Coal Limited on 6 May 2014. Andrew has held the position of Financial Controller for two years and was appointed as Chief Financial Officer on 4 August 2014.

Andrew has 10 years of experience in accounting, finance and mergers and acquisitions. Prior to joining Stanmore Coal in 2012, Andrew worked for PricewaterhouseCoopers within the corporate finance and financial assurance divisions. Andrew holds a Bachelor Degree in Economics and Commerce, a Graduate Diploma in Applied Finance, a Graduate Diploma of Corporate Governance and is a Member of the Institute of Chartered Accountants.

Duncan Cornish

B.Bus (Acc), CA

Joint Company Secretary

Duncan Cornish held the position of joint company secretary up to 31 December 2013. He was reappointed as joint company secretary of Stanmore Coal Limited on 8 August 2014. Duncan was previously the Chief Financial Officer and Company Secretary for a number of years after the initial public offering of the Company.

Duncan is an accomplished and highly efficient corporate administrator and manager. Duncan has more than 20 years' experience in the accountancy profession both in England and Australia, mainly with the accountancy firms Ernst & Young and PricewaterhouseCoopers. He has extensive experience in all aspects of company financial reporting, corporate regulatory and governance areas, business acquisition and disposal due diligence, capital raising and company listings and company secretarial responsibilities, and serves as corporate secretary and chief financial officer of several Australian and Canadian public companies. Duncan holds a Bachelor of Business (Accounting) and is a member of the Australian Institute of Chartered Accountants.

Directors' meetings

The number of meetings of Directors (including meetings of committees of Directors) held during the year and the number of meetings attended by each Director was as follows:

	Board		Audit & Risk Management Committee		Remuneration & Nominations Committee	
	Number of meetings held while in office	Meetings attended	Number of meetings held while in office	Meetings attended	Number of meetings held while in office	Meetings attended
Neville Sneddon	13	13	n/a	n/a	1	1
Nicholas Jorss	13	13	n/a	n/a	n/a	n/a
Stephen Bizzell	13	13	4	4	1	1
Viv Forbes	13	13	n/a	n/a	1	1
Chris McAuliffe	13	13	4	4	1	1
Patrick O'Connor	13	13	4	4	1	1

Interests in shares and options

As at the date of this report, the interests of the Directors in the shares and options of Stanmore Coal Limited are shown in the table below:

	Ordinary Shares	Unlisted Options
Neville Sneddon	500,000	-
Nicholas Jorss	32,263,375*	-
Stephen Bizzell	7,372,514	-
Viv Forbes	2,613,270	-
Patrick O'Connor	500,000	
Chris McAuliffe	-	-

* 31,700,270 shares are held by St Lucia Resources International Pty Ltd of which Nicholas Jorss has an interest in a trust which owns › 20% and is a Director.

Principal activities

During the financial year ended 30 June 2016, the principal activity of Stanmore Coal Limited and its subsidiaries ("the Company", "the Group" or "the Consolidated Entity") was the development of operation of coal mines in Queensland, Australia. The Company announced and completed the acquisition of the Isaac Plains Coal Mine during the year ended 30 June 2016 with first commercial production and export sales occurring before year end. The acquisition of the Isaac Plains Coal Mine represents a transformational investment for the Company and has been detailed in the operating and financial review.

Operating and financial review

Stanmore Coal during the year completed the acquisition of the Isaac Plains Coal Mine and transitioned from explorer to a producing coal miner, with the first commercial sale of product coal achieved in May 2016. Highlights for the year include:

- Completion of the Isaac Plains East (formerly known as Wotonga) transaction in September 2015;
- Completion of the Isaac Plains transaction in November 2015 and recommencement of mining, leading to first coal sales in May 2016;
- Establishment of term coking coal sales contracts with premium steel-mill customers;
- Significant JORC Resource and Reserve upgrade on 6 April 2016, with an estimated 10 years of open cut coal mining underpinned by JORC Reserves within the Isaac Plains Complex[4];
- Highwall mining commenced at Isaac Plains in June 2016; and
- Continuation of exploration activity at the Clifford Project, delivering an increase JORC Resource estimate from 370 Mt to 620 Mt (Indicated 190 Mt, Inferred 430 Mt)[5].

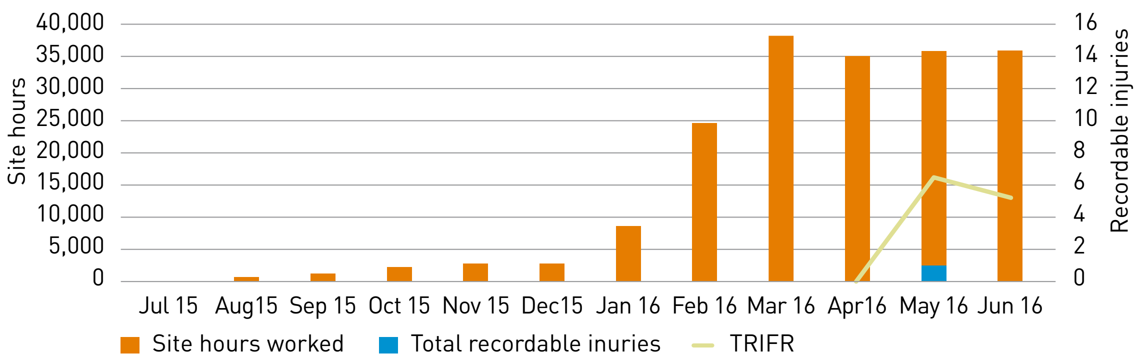
The transition from explorer to an operating coal mining business is significant for the Company at a time when coal markets are showing signs of improvement after several years of decline. Given the importance of the acquisition to driving long term shareholder value, the Company's focus during the recent financial year has been heavily weighted to bedding down operations at the Isaac Plains Complex.

In addition the Company is actively reviewing further potential acquisition opportunities that offer synergies with the existing Isaac Plains Complex and provide value adding growth for shareholders.

Safety

The Group undertook or managed over 170,000 hours of coal mining, drilling and exploration activity directly and through its contractors during the twelve month period and reported no lost time injuries. The Total Reportable Injury Frequency Rate at balance date was 5.3 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 and safety, or the health and safety of others associated with our business.



4 Refer ASX announcement 6 April 2016 titled "Significant JORC Reserve Increase for Isaac Plains Complex"
5 Refer ASX announcement 30 May 2016 titled "Clifford Project – Resource increase"

Directors' Report

continued

Resources and Reserves

At the date of this report the Company has the following Reserves:

Project	Ownership %	Primary coal type	JORC Recoverable Coal Reserve[6,7]	Date of report
Isaac Plains Complex	100%	Coking	15.3	Apr 16
The Range	100%	Thermal	-*	Aug 11
Totals			**15.3**	

* The Company has elected to adjust the JORC Reserve for The Range to nil to reflect the decision to recognise a provision for a material portion of the cost carried on the balance sheet. Refer to note 10(b).

At the date of this report the Company has the following Resources:

Project	Ownership %	Primary coal type	JORC Measured Resource[6]	JORC Indicated Resource[6]	JORC Inferred Resource[6]	Total JORC Resource[6]	Date of report
Isaac Plains Complex	100%	Coking	15.2	41.7	20.0	76.9	Apr 2016
Belview	100%	Coking	-	50.0	280.0	330.0	Apr 2015
Clifford	60%*	Thermal	-	190.0	430.0	620.0	May 2016
The Range	100%	Thermal	18.0	187.0	82.0	287.0	Oct 2012
Mackenzie	85%	Coking	-	25.7	117.5	143.2	Nov 2011
Tennyson	100%	Thermal	-	-	161.0	161.0	Nov 2012
Totals			**33.2**	**494.4**	**1,090.5**	**1,618.1**	

* Joint venture partner JOGMEC has an option for to up to a 40% beneficial interest in the project.

Financial performance and financial position

The Company reports an operating loss of $19.746 million (2015: loss of $12.148 million) with first coal sales revenue delivering $12.700 million in the financial year (2015: nil). The loss is driven in part by one-off transaction and start-up costs and working capital requirement relating to the re-commencement of mining activities at Isaac Plains. The mine start-up was also impacted by unseasonal heavy rain. The Company re-opened the initial section of the northern pits of the open cut mine using a dragline and truck shovel fleet. Initial overburden activities and strip preparation represent a period of significant working capital investment as the mine is re-established. The majority of this initial work was completed by end of the financial year.

The loss includes a $13.883 million impairment provision against Development Assets in the Surat Basin during the year. The loss also includes corporate costs, overhead costs and financing charges, which are necessary to support the ongoing management of coal mining operations at Isaac Plains.

6 Refer Competent Person Statement page 114
7 Refer Reserves Note page 114

	2016 $m	2015 $m
Coal sales revenue	12.700	-
Cost of sales	(24.600)	-
Gross margin	(11.900)	-
Other income and expenses	(5.004)	(12.709)
Finance income	0.355	0.561
Finance expense	(3.137)	-
Profit/(loss) before income tax benefit/(expense)	**(19.746)**	**(12.148)**
Income tax benefit/(expense)	-	-
Profit/(loss) after income tax expense	**(19.746)**	**(12.148)**

When compared against the prior year, the Group's cost structure has changed given the acquisition and recommencement of mining at Isaac Plains. After adjusting for non-cash items and movements in net working capital, the Company delivered an operating net cash outflow of $33.573 million.

	2016 $m	2015 $m
Accounting profit/(loss) after income tax expense	**(19.746)**	**(12.148)**
Amortisation of share based payments	0.073	0.206
Depreciation	1.292	-
Asset impairment adjustments	13.883	8.630
Gain on bargain purchase	(0.565)	-
Rehabilitation	(9.012)	-
Onerous contracts	(11.376)	-
Contingent consideration	(0.400)	-
Net working capital adjustments	(7.722)	(0.145)
Operating cash flow	**(33.573)**	**(3.457)**

In the year to 30 June 2016, a total net cash outflow of $3.119 million was recorded. This outflow was largely attributed to pre-production costs and recommissioning capital expenditure at Isaac Plains, balanced with compensation during the financial year of $43.416 million received from the vendors of the mine (recorded within Investing cash flow). This has enabled the Company to ramp-up operations toward steady state with several shipments made to coal customers prior to year-end.

	2016 $ mill	2015 $ mill
Net cash at beginning of year	15.199	17.830
Net cash from operating activities	(33.573)	(3.457)
Net cash from investing activities	30.454	0.844
Net cash from financing activities	-	(0.18)
Net increase/(decrease) in cash held	**(3.119)**	**(2.631)**
Net cash at end of year	**12.080**	**15.199**

The Group ended the year with gross assets of $112.274 million including $12.080 million of available cash. The Group has a strong current ratio and total net assets of $39.085 million at 30 June 2016. Other than operating trade payables, at 30 June 2016 the Group has recognised provisions for onerous liabilities which relate to contracts acquired as part of the Isaac Plains acquisition. The onerous nature primarily relates to long-dated contracts where the Company does not have sufficient Reserves at balance date to cover production for the life of the contract.

Operational summary

Isaac Plains Coking Coal Mine – operation

The Isaac Plains Coal Mine recommenced overburden removal operations in February 2016 with first coal exposed in March 2016. The ROM strip ratio (bcm per run of mine tonne) for FY2016 was 22.4:1. The FY2016 ratio is substantially higher than the three year average ratio of 13:1 for the current Isaac Plains open cut area which has resulted from re-establishing overburden in advance to allow for steady state operations after the mine restart. The ROM strip ratio in following periods is expected to trend towards the forecast life of mine strip ratio of 13:1.

Highwall mining activities were commenced in late June 2016, targeting additional low cost coal in the disused southern mining pits.

The Company completed the recommissioning works for the coal handling and processing plant during the June quarter and handed operatorship to the site contractor. A number of additional capital works have been carried out since the handover due to noted issues with performance and reliability of the plant.

The Company has contracted with top tier Asian steel mills on a term basis for 900,000 tonnes of coking coal. Revenue in FY2016 was adversely affected by the lower proportion of coking coal sold in the initial phase of production, leading to an average sale price achieved for the June quarter of US$60 per tonne. The lower proportion of coking coal in the start-up phase has resulted from issues with recommissioning the wash plant and commencing coal mining in a lower quality area of the pit, which has now been mined out.

Recent coking coal price increases have yet to be reflected in the revenues of the Company. Spot hard coking coal prices have increased some 70% since the start of calendar 2016 and semi-soft prices have increased by approximately 31% in the same period. These increases are expected to add considerable strength to upcoming quarterly benchmark pricing settlements which drive the Company's revenue. The Company is continually monitoring its optimal product mix in light of the recent strength in export coal markets.

Thousands	YTD Jun 16
Prime overburden (bcm)	7,395.9
ROM coal produced – open cut (tonnes)	**330.8**
ROM strip ratio (prime)	22.4
ROM coal produced – highwall (tonnes)	**13.9**
CHPP Feed (tonnes)	**323.7**
Saleable coal produced (tonnes)	**231.0**
Metallurgical	140.3
Thermal	90.8
Product yield %	**71.4%**
Metallurgical	43.3%
Thermal	28.0%
Total coal sales (tonnes)	**156.3**
Metallurgical	88.8
Thermal	67.5
Coal product stockpiles (tonnes)	**74.3**
Average sale price achieved (US$/t)	$60.0
Average sale price achieved (A$/t)	$81.2
Total free on board cost including pre-strip, royalties and interest (A$/t)	**$101.4**

Operations for the year ending 30 June 2016 represent the re-commencement phase of open cut mining, with first overburden activity commenced in February 2016 and first coal mining in late March 2016. These initial activities primarily establish overburden in advance of coal mining to enable efficient operation of the mine at future steady-state. This phase of re-establishment is therefore at a high cost on a per product tonne basis given the high initial strip ratio to develop the mine into the steady-state production phase. It should also be noted that the Company has not adopted a deferred stripping accounting policy, such that overburden mining costs are recognised as incurred rather than capitalised, resulting in higher initial costs on a per tonne basis.

Wash plant yield performance was 71.4% due to reliability issues encountered at start-up. Further investment was made prior and post year-end to improve these areas. The proportion of coking coal was lower than the three year plan for open cut operations given initial mining in the lower quality N2 pit. The lower proportion of coking coal sales has reduced the average sale price achieved for the year. Following completion of the N2 pit, mining from the N1 pit indicates higher in-situ quality parameters with improved coking coal as a proportion of total product coal.

Isaac Plains – underground

The JORC compliant open cut Resource for the Isaac Plains Complex estimates 32.3 Mt (10.3 Measured, 22.0 Indicated) within the target underground zone in the east of the mining lease. The Company has conducted initial concept-level investigations into a bord and pillar operation within this zone. A potential bord and pillar operation off the existing highwall would require modest capital expenditure and the Company will progress its assessment in FY17 and confirmatory exploration where necessary.

Directors' Report

continued

Isaac Plains East Project – development

The updated JORC compliant open cut Reserve for the Isaac Plains Complex increases the total open cut mining life from three years to 10 years based on a steady state production rate of 1.5 Mtpa run of mine (ROM) coal (at least 1.1 Mtpa of product coal). The output of Reserves modelling indicated a seven year average prime strip ratio (bcm/ROM tonnes) of 11:1, with the first four years at sub 10:1 (compared to the three year average strip ratio of approximately 13:1 within Isaac Plains). The nature of the deposit also supports a higher proportion of dragline movement which has a favourable impact on cost of extraction compared to Isaac Plains.

Indicative coal quality demonstrates improved coal rank and yield for the coking product at Isaac Plains East relative to Isaac Plains. The improved coal quality characteristics may give rise to a higher value coking coal product which the Company will assess for marketability and optimal sales mix strategies in near term studies.

Based on current coal pricing and normal business operation, Isaac Plains open cut is anticipated to be margin-positive in FY17.

Clifford Thermal Coal Project – Exploration

The Company announced an upgrade to the JORC Resource for the Liberty and Grange deposits within the Clifford project in the Surat Basin. A total JORC Resource of 620Mt[8] was estimated as coal intersections continue to be promising for a potential open cut deposit with early in-situ strip ratios of less than 7:1.

The Company has agreed a joint exploration initiative at the Clifford project with the Japanese Government agency JOGMEC to develop a new, long-term source of high quality thermal coal suitable for Japanese electricity generators. JOGMEC is providing up to $4.500 million of funding to cover all of the planned exploration expenditure over three years within the Clifford Project area.

Outlook and developments

Operations

In FY16 the Company transitioned from an explorer to production through the acquisition of Isaac Plains. The Company will initially target production of around 1.1 Mtpa in FY17 and continually assess opportunities to augment production given the significant site-infrastructure capacity.

Highwall mining will continue at Isaac Plains until around October 2016. The system has recently improved performance after the initial phase of commissioning at site.

Development

The Company made strong progress on the approval process for a proposed Mining Lease within Isaac Plains East during the year. The Company will continue to work with its top tier consultants, community stakeholders and government departments to secure necessary approvals next calendar year and allow open cut mining to commence thereafter.

The Company will continue to assess underground mining opportunities within the existing Isaac Plains mining lease. A series of studies and confirmatory exploration to support a potential bord & pillar operation will be undertaken in FY17.

8 Refer Competent Person Statement p2

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 900 kt of coking coal in the first year of operation.

Pricing

Index and benchmark measures for both coking and thermal coal have experienced considerable improvement in the last few months. Continued supply restraint from overseas mining regions is anticipated to provide further support for pricing in the short to medium term.

Managing risk

Stanmore Coal is a producing coal Company in a market which has experienced significant downward pressure in the last few years. Factors specific to Stanmore or those which impact the market more broadly, may individually or in combination affect the financial and operating performance of the Company. These events may be beyond the control of the Board or management of Stanmore.

The major risks associated with an investment in the Company are summarised below.

Operating risks

Stanmore is a single-mine producer and therefore reliant on continued performance of operations at Isaac Plains. There are numerous operating risks which may result in a reduction in performance that decreases the Company's ability to produce high quality coal to meet customer shipping needs. The risks include, but are not limited to, factors such as weather conditions, machinery failure, critical infrastructure failure or natural disasters.

Market risks

The key drivers for the business's financial performance are commodity price and foreign currency markets. Stanmore is not of a size to have influence on coal prices or the exchange rate for Australian dollars and is therefore a price-taker in general terms.

Stanmore sells export coal in United States Dollars and is therefore exposed to adverse movement in currency rates. Stanmore uses forward exchange contracts to hedge a portion of its short and medium term currency risk in accordance with a Board approved hedging policy.

The market price for Stanmore's coking coal and thermal coal products is impacted by many factors which could be favourable or unfavourable for the Company.

Geological risk

Resource and Reserve estimates are prepared by external experts in accordance with the JORC code for reporting. The estimates are inherently subjective in some aspects therefore there is a risk that the interpretation of data may not align with the future experienced conditions in the field. Due care is taken with each estimation.

Safety

The Board views safety as a critical element for the Company to be able to deliver on its strategy. Safety is of the highest importance in the planning, organisation and execution of Stanmore Coal's operational and development activities. The Board is also aware of the increased safety focus for the organisation as Stanmore Coal has transitioned to a coal producer in the last financial year.

Stanmore Coal remains committed to providing and maintaining a working environment in which its employees are not exposed to hazards that will jeopardise their health and safety, or the health and safety of others associated with our business. Safety is both an individual and shared responsibility of all employees, contractors and other persons involved with the operation of the organisation.

Regulatory risk

The Company has limited influence over the direction and development of government policy. Successive changes to the Australian resources policy, including taxation policy, have impacted Australia's global competitiveness and reduced the attractiveness of Australian coal projects to foreign investors. The Company's view is that whilst there is currently a negative perception of coal, it will continue to play an important role as an export commodity. Coking coal is critical for future steel production and thermal coal will continue to play a major role in the global energy mix as part of sustaining global growth, particularly in developing regions, through efficient electricity generation.

Access to capital

At 30 June 2016, the Company remains well funded with cash reserves and a contingent working capital expected to be sufficient to meet the business's operating costs. Stanmore Coal's ability to effectively continue as a coal producing business may be dependent upon a number of factors including the success of the mine operations, or the successful exploration and subsequent exploitation of the Company's tenements. Should these avenues be delayed or fail to materialise, the Group expects to have the ability to successfully raise additional funding through debt, equity or farmout/selldown to allow the Group to continue as a going concern and meet its debts as and when they fall due.

Regulatory and land access risk

The Company's operations and projects are subject to State and Federal laws and regulation regarding environmental hazards. These laws and regulations set various standards regulating certain aspects of health and environmental quality, provide for penalties and other liabilities for the violation of such standards and establish, in certain circumstances, obligations to remediate current and former facilities and locations where operations are or were conducted. The ability to secure and undertake exploration and operational activities within prospective areas is also reliant upon satisfactory resolution of native title and management of overlapping tenure.

To address these risks, the Company develops strong, long-term effective relationships with landholders, with a focus on developing mutually acceptable access arrangements as well as appropriate legal and technical advice to ensure it manages its compliance obligations appropriately. The Company minimises these risks by conducting its activities in an environmentally responsible manner, in accordance with applicable laws and regulations and where possible, by carrying appropriate insurance coverage. In addition the Company engages experienced consultants and other technical advisors to provide expert advice where necessary.

REMUNERATION REPORT (AUDITED)

This report details the nature and amount of remuneration for each Director of Stanmore Coal Limited, and for the Company's key management personnel ("KMP"). KMP are defined as those persons who have the authority and responsibility for planning, directing and controlling the activities of the Company. The Company's KMP during the year were:

Details of key management personnel

Directors	
Neville Sneddon	Non-Executive Chairman
Nicholas Jorss	Managing Director
Chris McAuliffe	Non-Executive Director
Patrick O'Connor	Non-Executive Director
Stephen Bizzell	Non-Executive Director
Viv Forbes	Non-Executive Director
Senior Management	
Michael McKee	Chief Operating Officer
Andrew Roach	Chief Financial Officer and Joint Company Secretary

Response to vote against 2015 Remuneration Report

At the 2015 Annual General Meeting, the Company received votes against its Remuneration Report representing greater than 25% of the votes cast by persons entitled to vote. In other words, the Company received a "First Strike" against its 2015 Remuneration Report.

In these circumstances, the *Corporations Act 2001* requires that the Company include in this year's Remuneration Report, an explanation of the Board's proposed action in response to that First Strike or, alternatively, if the Board does not propose any action, the Board's reason for such inaction.

It should be noted that due to the high concentration of ownership in the Company's share register, a significant number of shares held by directors, management and their associates were excluded from voting on the remuneration report. The First Strike arose from votes against the remuneration report cast by a relatively small number of shareholders.

The Company's response to the First Strike was to meet with those investors to discuss and to understand the main reasons why the Company received the vote against the 2015 Remuneration Report. A common theme identified through those discussions was continued poor performance of the Company's share price.

In response to the First Strike, the Company provides the following commentary:

- The Board has not issued any shares or options as remuneration to any employees in respect of the current financial year;
- Board fees have remained fixed since the IPO in 2009; and
- Overheads have been reasonably stable despite significant increase in workload and responsibility as a result of the acquisition of Isaac Plains Coal Mine.

The Board deems the above outcomes to be an appropriate response to the First Strike whilst enabling the Company to retain a small, highly skilled team, able to execute on the acquisition of Isaac Plains and deliver on a safe recommencement of mining.

Remuneration policy overview

Stanmore Coal's business strategy of managing an operating coal business can only be achieved by identifying and retaining high calibre employees with appropriate experience and capability. Developing an appropriate compensation strategy for the Company's employees is a key factor in ensuring employees are engaged and motivated to improve the Company's performance over the long term. The Board's intention is to maximise stakeholder benefit from the retention of a high quality Board and executive team without creating an undue cost burden for the Company, but allowing the Company to respond to opportunities quickly and rapidly progress development opportunities at the appropriate point in the cycle.

The Board regularly reviews the appropriateness of employees' fixed compensation in light of the Company's cost structure and the practices of its peers. In FY16, as the Company undertook the transition from coal explorer to producer, the Board established a short term incentive structure that aligned key operational milestones with driving value for shareholders. As with several previous years there were only limited changes to fixed compensation for key management personnel or any other employees of the Company. Very few employees have received any change to base remuneration arrangements since FY12. The short term incentive structure in FY16 was deemed necessary to align rewards with key performance outcomes associated with the recommencement of mining at Isaac Plains

The following describes the Company's remuneration arrangements for Key Management Personnel, company Directors and Senior Management. A Short Term Incentive ("STI") plan was introduced for FY16 to specifically deal with completion of the Isaac Plains transaction and operational milestones to recommence mining activity. The Long Term Incentive ("LTI") scheme, suspended in FY14, remained suspended, however is proposed to be re-established in FY17.

Fixed remuneration

Managing Director and senior management remuneration

The Group aims to reward the Managing Director and senior management with a base level of remuneration which is both appropriate to the position and competitive in the market. Fixed remuneration is reviewed annually by the Remuneration & Nominations Committee and the Board. The Managing Director reviews all senior management performance and remuneration and then makes recommendations to the Remuneration & Nominations Committee. The Remuneration & Nominations Committee reviews the Managing Director's performance and remuneration.

The process consists of a review of Company-wide and individual performance, relevant comparative remuneration in the market and internal, and where appropriate, external advice on policies and practices.

There was no increase to fixed remuneration for the Managing Director or majority of senior management in FY16. There has been no change to base remuneration for most of the key management personnel since the last adjustment in FY12. The Remuneration Committee and the Board deemed this an appropriate outcome given the continued soft market conditions and focus on driving shareholder returns through the delivery of Isaac Plains.

Non-executive Director fixed remuneration

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

The Constitution of Stanmore Coal Limited and the ASX Listing Rules specify that the Non-Executive Directors are entitled to remuneration as determined by the Consolidated Entity in a general meeting to be apportioned among them in such manner as the Directors agree and, in default of agreement, equally. The maximum aggregate remuneration currently determined by Stanmore Coal Limited is $350,000 per annum. Additionally, Non-Executive Directors are also entitled to be reimbursed for indirect expenses associated with execution of their responsibilities (for example travel costs). Total Non-Executive Director remuneration for FY16 was $215,000 (FY15: $205,000).

If a Non-Executive Director performs extra services, which in the opinion of the Directors are outside the scope of the ordinary duties of the Director, the Consolidated Entity may remunerate that Director by payment of a fixed sum determined by the Directors in addition to or instead of the remuneration referred to above. However, no payment can be made if the effect would be to exceed the maximum aggregate amount payable to Non-Executive Directors. No such payments were made this year. A Non-Executive Director is entitled to be paid travel and other expenses properly incurred by them in attending Directors' or general meetings of Stanmore Coal Limited or otherwise in connection with the business of the Consolidated Entity.

The fixed remuneration of Non-Executive Directors for the year ending 30 June 2016 is detailed in this Remuneration Report.

Short term and long term incentive plan structures

The Board considers that the use of STI and LTI are a reasonable means of remunerating employees, on the basis that they:

- encourage Senior Management to drive toward the realisation of shareholder value;
- provide flexibility to the Company to actively manage the way in which it remunerates and incentivises Senior Management;
- preserve the Company's cash resources; and
- contribute to the attraction and retention of skilled talent in a competitive employment market.

An STI plan was provided in FY16 for key management personnel which aligned rewards with key performance outcomes associated with the recommencement of mining at Isaac Plains. No LTI was offered in FY16 and FY15.

Directors' Report

Remuneration report (audited)

continued

Incentive outcomes for FY15 and FY16

The table below illustrates the remuneration outcomes for both the STI and LTI schemes.

Incentive	Award Outcome	Discussion
FY 2016 – STI	**Stage 1 Incentive** – 1/3 of target incentive paid to key management and personnel in December 2015. **Stage 2 incentive** – 2/3 of target subject to KPI weighting for each key management personnel. Range of earned outcomes from 90% to 103% (of individual entitlement relative to 2/3 of calculated FY16 target). Payable September 2016. Across all eligible key management personnel: • Stage 1 total $260k • Stage 2 total $518k • FY16 STI total $778k.	Total FY16 incentive for key management staff split into two components. Each key management personnel was allocated a target incentive value based on a percentage of their fixed remuneration. The target ranged from 10% (low) to 75% (high). **Stage 1 incentive** – payable as 1/3 of calculated FY16 incentive amount following completion of Isaac Plains transaction in November 2015. **Stage 2 incentive** – balance 2/3 of calculated FY16 incentive measures against a range of KPIs including (but not limited to) safety performance, first coal date, capital overhaul management of dragline and operating cost performance in June quarter.
FY 2016 – LTI	Nil	N/A
FY 2015 – STI	Nil	N/A
FY 2015 – LTI	Nil	N/A

The Company does not intend to issue more than an aggregate of 5% of its share capital, from time to time, under the STI and LTI plans.

In the year ended 30 June 2016 there were no fees paid to remuneration consultants (2015: nil).

Relationship between remuneration and Company performance

During the financial year, the Company transitioned from being a coal explorer to a coal producer through the acquisition of the Isaac Plains Coal Mine. Given the ramp-up nature of operations and the fact that first revenue was achieved near year end (May 2016), the Company generated an accounting loss in FY16. Exploration and development activity for all other coal projects held by the Company was nominal during the financial year.

On 9 December 2009, official quotation of the Stanmore Coal Limited's shares on the ASX commenced at a price of $0.20. The share price at the end of the financial year ended 30 June 2016 was $0.28 (2015: $0.06).

Year	2016	2015	2014	2013	2012
Revenue ($million)	12.700	-	-	-	-
Profit/(loss) attributable to the Group ($million)	(19.746)	(12.148)	(11.864)	(7.203)	(7.682)
Share price at year end ($/sh)	0.28	0.06	0.105	0.115	0.36
Basic EPS (c/sh)	(8.9)	(5.8)	(5.7)	(2.5)	(5.3)
Diluted EPS (c/sh)	(8.9)	(5.8)	(5.7)	(2.5)	(5.3)
Dividends (c/sh)	-	-	-	-	-

There were no dividends paid during the year ended 30 June 2016.

As the Company transitioned to operations in FY16, no formal remuneration framework has been established to align fixed compensation with short and long term incentives with financial performance of the Company and shareholder wealth. The Board is currently developing a remuneration framework for FY17 and beyond which is intended to reflect a more typical operational business. It is anticipated that the revised LTI framework will be presented to shareholders at the 2016 Annual General Meeting.

Employment contracts and consultancy agreements

It is the Board's policy that employment contracts or consultancy agreements are entered into with all Executive Directors and senior management.

Contracts do not provide for pre-determining compensation values or method of payment. Rather the amount of compensation is determined by the Remuneration & Nominations Committee and the Board in accordance with the Company's remuneration policies.

The current consultancy agreement with the Joint Company Secretary has a three month notice period. All other employment contracts or consultancy agreements have three month (or lower) notice periods. No current employment contracts contain early termination clauses. All Non-Executive Directors have received letters outlining the key terms of their appointment. The contracts have no specified duration.

Key management personnel are entitled to their statutory entitlements of accrued annual leave and long service leave together with any superannuation on termination.

Managing Director

Stanmore Coal Limited has an Employment Contract with Mr Nick Jorss for the position of Managing Director which commenced on 1 January 2012. Mr Jorss' base remuneration is $380,000 per annum. The employment contract may be terminated by either party by providing three month's written notice, or immediately in the case of gross negligence or serious misconduct. Mr Jorss is eligible to participate in the STI/LTI scheme which commenced in 2012 during the year pursuant to shareholder approval. Detail of instruments issued under the schemes is provided on page 48 of this report. These include the following unlisted securities which were held at the date of this report:

- On 26 October 2012 500,000 (expiry 30 June 2020) performance rights were granted following shareholder approval at the EGM 10 October 2012. 50% of these rights vest upon the grant of the Mining Lease for The Range Project and the balance of 50% vest upon achieving an annualised production rate of 5 Mtpa of product coal at The Range Project. At the date of this report none of these rights have vested.

Senior Management

Chief Financial Officer

Stanmore Coal Limited has an Employment Contract with Mr Andrew Roach for the position of Chief Financial Officer which commenced on 4 August 2014. Prior to this role, Mr Roach performed the role of Financial Controller since July 2012. Mr Roach receives a salary of $250,000 per annum effective from 1 August 2015. The employment contract may be terminated by either party by providing three month's written notice, or immediately in the case of gross negligence or serious misconduct.

Mr Roach was previously granted 693,000 unlisted options, expiring 4 September 2017, exercisable as follows:

- 693,000 at $0.22 (vesting 4 September 2015).

Mr Roach is eligible to participate in the STI/LTI scheme which commenced in 2012 pursuant to shareholder approval. Detail of instruments issued under the schemes is provided on page 48 of this report. These include the following unlisted securities which were held at the date of this report:

- 450,000 performance rights (expiry 30 June 2020). 50% of these rights vest upon the grant of the Mining Lease for The Range Project and the balance of 50% vest upon achieving an annualised production rate of 5 Mtpa of product coal at The Range Project. At the date of this report none of these rights have vested (2015: Nil).

Chief Operations Officer

Stanmore Coal Limited has an Employment Contract with Mr Michael McKee for the position of Chief Operations Officer (formerly the General Manager – Operations) which commenced on 1 February 2011. Mr McKee receives a salary of $353,200 per annum. The employment contract may be terminated by either party by providing two month's written notice, or immediately in the case of gross negligence or serious misconduct.

Under the terms of the contract, on 16 March 2011, Mr McKee was issued 20,000 ordinary shares and on 27 April 2011 granted 2,000,000 unlisted options, expiring 31 December 2015, exercisable as follows:

- 500,000 at $1.75 (vesting 27 April 2012)
- 500,000 at $2.00 (vesting 27 April 2013)
- 500,000 at $2.25 (vesting 27 April 2014)
- 500,000 at $2.50 (vesting 27 April 2015)

On 12 October 2012 Mr McKee was issued 250,000 ordinary shares upon being promoted to the role of General Manager – Operations.

Mr McKee held the following unlisted securities at the date of this report:

- 500,000 performance rights (expiry 30 June 2020). 50% of these rights vest upon the grant of the Mining Lease for The Range Project and the balance of 50% vest upon achieving an annualised production rate of 5 Mtpa of product coal at The Range Project. At the date of this report none of these rights have vested (2015: Nil).

Directors' Report

Remuneration report (audited)

continued

Remuneration details

The following table details the components of remuneration for each key management personnel of the Company, in respect of the financial years ending 30 June 2015 and 30 June 2016.

	Short-term benefits			Post-Employment
	Salary & fees $	Cash bonus $	Other short-term benefits $	Superannuation $
2016				
Directors				
Neville Sneddon	60,000	-	-	-
Nicholas Jorss	380,000	289,467	-	19,616
Patrick O'Connor	40,000	-	-	-
Stephen Bizzell	40,000	-	-	-
Viv Forbes	40,000	-	-	-
Chris McAuliffe	40,000	-	-	-
Total	**600,000**	**289,467**	**-**	**19,616**
Senior Management				
Michael McKee	353,200	209,596	-	19,616
Andrew Roach	245,416	145,840	-	19,616
Total	**598,616**	**355,436**	**-**	**39,232**
2015				
Directors				
Neville Sneddon	60,000	-	-	-
Nicholas Jorss	367,577	-	-	18,783
Patrick O'Connor*	30,000	-	-	-
Stephen Bizzell	40,000	-	-	-
Viv Forbes	40,000	-	-	-
Chris McAuliffe	40,000	-	-	-
Total	**577,577**	**-**	**-**	**18,783**
Senior Management				
Doug McAlpine**	83,582	-	-	4,696
Michael McKee	334,408	-	-	18,783
Andrew Roach***	192,000	-	-	18,240
Total	**609,990**	**-**	**-**	**41,719**

* Patrick O'Connor was appointed on 1 October 2014
** Doug McAlpine resigned on 4 August 2014 (Chief Financial Officer)
*** Andrew Roach was appointed on 4 August 2014 (Chief Financial Officer)

Directors' Report

Remuneration report (audited)

continued

Termination benefits $	Share-based payments: Equity-settled (options) $	Share-based payments: Equity-settled (shares) $	Total $	Remuneration as share-based payments %	Performance-related remuneration %
-	-	-	60,000	0%	0%
-	-	14,402	703,485	2%	41%
-	-	-	40,000	0%	0%
-	-	-	40,000	0%	0%
-	-	-	40,000	0%	0%
-	-	-	40,000	0%	0%
-	**-**	**14,402**	**918,485**		
-	3,960	14,402	600,774	3%	35%
	3,759	14,402	429,033	4%	34%
-	**7,719**	**28,804**	**1,029,807**		
-	-	-	60,000	0%	0%
-	-	14,363	400,723	4%	0%
-	-	-	30,000	0%	0%
-	-	-	40,000	0%	0%
-	-	-	40,000	0%	0%
-	-	-	40,000	0%	0%
-	**-**	**14,363**	**605,723**		
-	-	-	88,278	0%	0%
-	63,517	14,363	431,071	18%	0%
	20,790	14,363	245,393	14%	0%
-	**84,307**	**28,726**	**764,742**		

Directors' Report

Remuneration report (audited)

continued

Cash bonuses, performance-related bonuses and share-based payments

For the financial year ending 30 June 2016 the following cash performance bonuses were paid or accrued at year end.

	Target STI % of base salary	Stage 1 Incentive* $	Stage 2 Incentive** $	Total STI incentive $	% of Stage 2 Incentive achieved
Nicholas Jorss	75%	95,000	194,467	289,467	102%
Michael McKee	60%	70,640	138,956	209,596	98%
Andrew Roach	60%	49,083	96,756	145,839	99%

* one third of target STI, paid in December 2015 upon completion of the Isaac Plains acquisition

** Stage 2 incentive accrued and payable in September 2016

The Stage 1 Incentive performance test was successful completion of the Isaac Plains transaction. This was achieved in November 2015. The Stage 2 Incentive performance test had multiple parameters which were specific to each key management personnel. These hurdles were targeted around key operational milestones to recommence mining at Isaac Plains in a relatively short timeframe. Targets such as capital overhaul budgets, first coal date and operating costs were set by the Board at the start of the financial year and reviewed throughout.

There were no share-based payments made to key management personnel and other executives during the year ended 30 June 2016 other than accounting charges for issuances made in prior periods.

Equity instruments

Shareholdings

Details of ordinary shares held directly, indirectly or beneficially by key management personnel and their related parties are as follows:

	Balance 1 July 2015	Granted as remuneration	On exercise of Options or Rights	Net change other	Balance 30 June 2016
Directors					
Neville Sneddon	300,000	-	-	200,000	500,000
Nicholas Jorss*	32,263,375	-	-	-	32,263,375
Patrick O'Connor	500,000	-	-	-	500,000
Stephen Bizzell	7,372,514	-	-	-	7,372,514
Viv Forbes	2,613,270	-	-	-	2,613,270
Chris McAuliffe	-	-	-	-	-
Senior Management					
Michael McKee	422,540	-	-	213,000	635,540
Andrew Roach	101,464	-	-	-	101,464

* 31,700,270 shares are held by St Lucia Resources International Pty Ltd of which Nicholas Jorss is a Director, and has an interest in trusts which own >20%.

There were no shares held nominally at 30 June 2016.

Options holdings

	Balance 1 July 2015	Granted as remuneration	Exercise of Options	Net change other	Balance 30 June 2016	Total vested at 30 June 2016	Total vested and exercisable at 30 June 2016	Total vested and not exercisable at 30 June 2016
Directors								
Neville Sneddon	-	-	-	-	-	-	-	-
Nicholas Jorss	-	-	-	-	-	-	-	-
Stephen Bizzell	-	-	-	-	-	-	-	-
Patrick O'Connor	-	-	-	-	-	-	-	-
Viv Forbes	-	-	-	-	-	-	-	-
Chris McAuliffe	-	-	-	-	-	-	-	-
Senior Management								
Michael McKee*	2,730,000	-	-	(2,000,000)	730,000	730,000	730,000	-
Andrew Roach	693,000	-	-	-	693,000	693,000	693,000	-

* The movement of "net change other" represents expiry of unlisted options that were not exercised during the year.

Directors' Report

Remuneration report (audited)

continued

Performance rights

	Balance 1 July 2015	Granted as remuneration	Exercise of rights	Net change other	Balance 30 June 2016	Total vested at 30 June 2016	Total vested and exercisable at 30 June 2016	Total vested and not exercisable at 30 June 2016
Directors								
Neville Sneddon	-	-	-	-	-	-	-	-
Nicholas Jorss	500,000	-	-	-	500,000	-	-	-
Stephen Bizzell	-	-	-	-	-	-	-	-
Patrick O'Connor	-	-	-	-	-	-	-	-
Viv Forbes	-	-	-	-	-	-	-	-
Chris McAuliffe	-	-	-	-	-	-	-	-
Senior Management								
Michael McKee	500,000	-	-	-	500,000	-	-	-
Andrew Roach	450,000	-	-	-	450,000	-	-	-

Transactions with Directors and Director-related entities

There were no transactions with Directors or Director-related entities during the year ending 30 June 2016 (2015: None).

Loans to key management personnel

There were no loans to key management personnel during the year (2015: none).

End of Remuneration Report (Audited)

Indemnification and insurance of Directors, officers and auditor

Each of the Directors and the Secretaries of Stanmore Coal Limited have entered into a Deed with Stanmore Coal Limited whereby Stanmore Coal Limited has provided certain contractual rights of access to books and records of Stanmore Coal Limited to those Directors and Secretary.

Stanmore Coal Limited has insured all of the Directors of the Consolidated Entity. The contract of insurance prohibits the disclosure of the nature of the liabilities covered and amount of the premium paid. The Corporations Act does not require disclosure of the information in these circumstances.

Stanmore Coal Limited has not indemnified or insured its auditor.

Options and performance rights

At the date of this report there were 2,766,000 unissued ordinary shares under options, and 2,150,000 unissued ordinary shares under performance rights as follows:

- 2,766,000 unlisted options exercisable at $0.22 on or before 4 September 2017
- 2,150,000 unlisted performance rights which vest upon achieving development and production milestones at The Range Project. There is no consideration payable upon vesting.

No option holder and performance right holder has any right under the options to participate in any other share issue of Stanmore Coal Limited or any other entity.

During the year ended 30 June 2016 there were nil fully paid ordinary shares in Stanmore Coal Limited issued.

Changes to capital structure

At the date of this report, the Consolidated Entity had 222,497,435 ordinary shares, 2,766,000 unlisted options, and 2,150,000 performance rights on issue.

Events after reporting date

There have been no events since 30 June 2016 that impact upon the financial report as at 30 June 2016 and future periods.

Dividends paid or recommended

There were no dividends paid or recommended during the financial year.

Environmental issues

The Consolidated Entity is subject to environmental regulation in relation to its exploration activities. There are no material matters that have arisen in relation to environmental issues up to the date of this report.

Proceedings on behalf of the consolidated entity

No person has applied for leave of Court to bring proceedings on behalf of the Consolidated Entity or intervene in any proceedings to which the Consolidated Entity is a party for the purposes of taking responsibility on behalf of the Consolidated Entity for all or any part of those proceedings.

The Consolidated Entity was not a party to any such proceedings during the year.

Non-audit services

The following non-audit services were provided by the entity's auditor BDO Audit Pty Ltd. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

BDO Audit Pty Ltd received the following amounts for the provision of non-audit services:

Tax services	$58,811

Auditor's Independence Declaration

The Auditor's Independence Declaration forms part of the Directors' Report and can be found on page 54.

Corporate governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Stanmore Coal Limited support and have adhered to the principles of corporate governance. Stanmore Coal Limited's Corporate Governance Statement can be found on page 57.

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

Nicholas Jorss
Managing Director

Brisbane
Date: 31 August 2016

AUDITOR'S INDEPENDENCE DECLARATION

BDO

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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 of Stanmore Coal Limited for the year ended 30 June 2016, 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 audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

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

Tim Kendall

T J Kendall
Director

BDO Audit Pty Ltd
Brisbane
31 August 2016

SHAREHOLDER INFORMATION

Shareholder Information

Additional information required by the Australian Securities Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 31 July 2016.

Distribution of equity securities

The number of holders, by size of holding, in each class of security is:

	Ordinary shares		Unlisted options ($0.22 @ 04/09/16)		Unlisted Performance Rights)	
	Number of holders	Number of shares	Number of holders	Number of options	Number of holders	Number of options
1–1,000	138	42,917	-	-	-	-
1,001–5,000	278	864,445	-	-	-	-
5,001–10,000	179	1,402,249	-	-	-	-
10,001–100,000	614	22,155,724	-	-	-	-
100,001 and over	151	198,032,100	7	2,766,000	5	2,150,000
Total	**1,360**	**222,497,435**	**7**	**2,766,000**	**5**	**2,150,000**

The number of shareholders holding less than a marketable parcel (1,852 ordinary shares) is 192 (116,790 ordinary shares.

20 largest holders

The names of the 20 largest holders as at 31 July 2016, in each class of quoted security are:

Ordinary shares:

		Number of shares	% of total shares
1	GREATGROUP INVESTMENTS LTD	53,393,407	24.00
2	3RD WAVE INVESTORS LTD	35,099,150	15.78
3	ST LUCIA RESOURCES	31,700,270	14.25
4	ONE MANAGED INVT FUNDS LTD	8,915,000	4.01
5	ROOKHARP INVESTMENTS PTY LIMITED	5,737,270	2.58
6	MR SLOBODAN KOVIJANIC & MRS NADEZDA KOVIJANIC	3,270,973	1.47
7	WHITTINGHAM SECURITIES PTY LIMITED	3,000,000	1.35
8	JH NOMINEES AUSTRALIA PTY LTD	2,806,313	1.26
9	COMMON SENSE PTY LTD	2,613,270	1.17
10	MRS ELIZABETH ANNE FOGARTY & MISS CAITLYN ELIZABETH FOGARTY	2,000,000	0.90
11	KABILA INVESTMENTS PTY LTD	1,793,502	0.81
12	GREATGROUP INVESTMENTS LIMITED	1,545,388	0.69

		Number of shares	% of total shares
13	CAYTHORPE PTY LTD	1,300,000	0.58
14	CHENGDU DI'AO INTERNATIONAL INVESTMENT PTY LTD	1,233,000	0.55
15	INVIA CUSTODIAN PTY LIMITED	1,205,000	0.54
16	TAIHEIYO KOUHATSU INCORPORATED	1,200,000	0.54
17	ALBIANO HOLDINGS PTY LTD	1,104,232	0.50
18	BCP ALPHA INVESTMENTS LIMITED	1,034,000	0.46
19	WISHART FAMILY SUPER PTY LTD	1,010,000	0.45
20	BIZZELL CAPITAL PARTNERS PTY LTD	972,341	0.44
Total of 20 largest holders		**160,933,116**	**72.33**
Total ordinary shares		**222,497,435**	**100.00**

Substantial shareholders

Substantial shareholders as shown in substantial shareholder notices received by Stanmore Coal Limited at 31 July 2016 are:

Name of Shareholder:	Ordinary Shares:
Greatgroup Investments Limited	54,938,795
3rd Wave Investors Limited	34,999,150
St Lucia Resources International Pty Ltd	31,700,270
VW & AC Pty Ltd*	31,700,270
Olross Investments Pty Ltd*	31,700,270
Raplon Pty Ltd*	31,700,270

* Relevant interest under s.608(3)(a) Corporations Act 2001 (Cth) by having voting power of above 20% in St Lucia Resources International Pty Ltd, which holds 31,700,270 shares in Stanmore Coal Limited.

Voting rights

All ordinary shares carry one vote per share without restriction.

Options and performance rights do not carry voting rights.

Restricted securities

There are no restricted securities on issue at 31 July 2016.

Shareholder Information

continued

Interests in tenements

Stanmore Coal Limited held the following interests in tenements as at 31 July 2016. All tenements are located in the State of Queensland, Australia.

Tenement name	Tenement no.	% interest	Date granted	Date expires
Isaac Plains	EPC 755	100	10/04/2002	9/04/2018
The Range	EPC 1112	100	23/03/2007	22/03/2017
New Cambria	EPC 1113	100	23/03/2007	22/03/2017
Belview	EPC 1114	100	28/02/2008	27/02/2018
Tennyson	EPC 1168	100	24/10/2007	23/10/2020
Belview North	EPC 1186	100	12/03/2008	11/03/2018
Clifford West	EPC 1274	60**	10/09/2008	9/09/2018
Clifford East	EPC 1276	60**	10/09/2008	9/09/2018
Tennyson South	EPC 1580	100	3/07/2009	2/07/2019
Lilyvale	EPC 1687	100	28/07/2011	27/07/2021
Belview East	EPC 1798	100	19/02/2010	18/02/2020
The Range	EPC 2030	100	12/10/2010	11/10/2020
New Cambria	EPC 2039	100	12/10/2010	11/10/2020
Mackenzie	EPC 2081	95	15/10/2010	14/10/2020
Lilyvale	EPC 2157	85	21/05/2013	20/05/2018
New Cambria	EPC 2371	100	28/07/2011	27/07/2021
Isaac Plains	ML 70342	100	1/01/2006	31/12/2025
Isaac Plains East	MDL 135*	100	1/07/1993	30/06/2018
Isaac Plains East	MDL 137* (part)	100	1/07/1993	30/06/2018
The Range	MLA 55001	Application	-	-
The Range (Transport)	MLA 55009	Application	-	-
The Range (Transport)	MLA 55010	Application	-	-

* Acquired as part of Wotonga Acquisition – subject to regulatory approval

** Joint venture partner has an option to acquire up to a 40% economic interest in the project

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Stanmore Coal Limited is responsible for the corporate governance of the Consolidated Entity. The Board guides and monitors the business and affairs of Stanmore Coal Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

Stanmore Coal Limited's Corporate Governance Statement is structured with reference to the Australian Securities Exchange (ASX) Corporate Governance Council's (the Council) "Corporate Governance Principles and Recommendations, 3rd Edition". A copy of the Company's Corporate Governance Charter can be downloaded from the Company's website at www.stanmorecoal.com.au.

Structure of the Board and Director Independence

The skills, experience and expertise relevant to the position of Director held by each Director in office at the date of the Annual Report is included in the Director's Report. The Corporate Governance Council defines an independent Director as a Non-Executive Director who is not a member of management and who is free of any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the independent exercise of their judgement.

In the context of Director independence, "materiality" is considered from both the Company and the individual Director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is greater than 5% of the appropriate base amount. Qualitative factors considered included whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the Director in question to shape the direction of the Company's loyalty. Factors that may impact on a Director's independence are considered each time the Board meets.

Stanmore Coal Limited considers industry experience and specific expertise, as well as general corporate experience, to be important attributes of its Board members. The Directors noted above have been appointed to the Board of Stanmore Coal Limited due to their considerable industry and corporate experience. The Company conducts comprehensive background checks prior to the appointment of any new Director. Formal letters of appointment are in place for all Directors.

There are procedures in place, agreed by the Board, to enable Directors, in furtherance of their duties, to seek independent professional advice at the Consolidated Entity's expense. Based on the size and complexity of the Company, the Company Secretary has close working relationships with the Board of Directors and the Senior Management Group. In respect of matters relating to the proper functioning of the Board and Corporate Governance, the Company Secretary has direct access to the Chairman.

Mr Nicholas Jorss is the Managing Director. The Consolidated Entity does not consider Mr Jorss to be an independent Director as defined in the ASX Guidelines on the basis that he is a Director of St Lucia Resources International Pty Ltd, a substantial shareholder (greater than 5%) in the Consolidated Entity.

Mr Chris McAuliffe is a Non-Executive Director. The Consolidated Entity does not consider Mr McAuliffe to be an independent Director as defined in the ASX Guidelines on the basis that he is the Managing Director of Sprint Capital, the investment management group responsible for Greatgroup Investments Limited, who is a substantial shareholder (greater than 5%) in the Consolidated Entity.

Based on the above, for the purposes of the ASX Corporate Governance Principles and Recommendations, Messrs Jorss and McAuliffe are not considered independent Directors.

Corporate Governance Statement

continued

The term in office held by each Director in office at the date of this report is as follows:

Name	Term in office
Neville Sneddon	6 year 11 months
Nicholas Jorss	8 years 3 months
Stephen Bizzell	6 year 11 months
Viv Forbes	6 year 11 months
Chris McAuliffe	4 year 2 months
Patrick O'Connor	1 year 9 months

ASX Principles and Recommendations

The Board is of the view that with the exception of the departures from the ASX Corporate Governance Council Principles and Recommendations (3rd edition) as set out in the table below, it otherwise complies with all of the ASX Guidelines.

ASX Principles and recommendations	"Why not" explanation
Principle 7 – Recognise and Manage Risk	
Recommendation 7.3 – A listed entity should disclose if it has an internal audit function, how the function is structured and what role it performs	The Company has not established an internal audit function as it does not believe it is of the size or complexity to justify this function. The Company is audited annually and reviewed each half year by its auditors who provide an independent report to the Board on the systems and processes in place. This external audit process provides the Board with sufficient comfort that the Company has appropriate internal procedures in place.

Principle 1

The Board has not established formal evaluation criteria for the review of itself or its committees and has not undertaken a specific performance evaluation. The Board uses a personal evaluation review to review the performance of Directors. Individual Directors are asked to communicate to the Chairman on a confidential basis to comment on their own performance, and the performance of the Board and its committee. Key executives are reviewed periodically against the business objectives and their own contractual obligations, including their personal KPIs.

Appropriate background checks are conducted on proposed new Directors and material information about a Director being re-elected is provided to security holders.

Principle 2

The Board is comprised of six Directors from a range of backgrounds with significant experience, skills and attributes. The following table demonstrates the skills and experience of the Directors across a number of areas that are relevant to the Company's business.

Technical and operations	Sustainability and stakeholder management	Business, risk and finance
Coal mining experience in Australia Project delivery Coal marketing Contractor management	Community relations Human resources Remuneration Government affairs	Audit Legal Accounting Tax Risk management Mergers and acquisitions Finance
Corporate governance	**Health and safety**	
Public Listed Company experience Governance and compliance Leadership	Working knowledge of systems and best practice Management of contractor system	

The Board is of the view that its current Directors hold an appropriate mix of skills, experience and diversity to enable the Board to discharge its responsibilities and deliver on the corporate objectives.

Principle 3

The Company has a published corporate code of conduct to guide executives, management and employees in carrying out their duties and responsibilities. The code of conduct covers such matters as:

- act in the best interests of the Company;
- act honestly and with high standards of personal integrity;
- comply with the laws and regulations that apply to the Company and its operations;
- not knowingly participate in any illegal or unethical activity;
- not enter into any arrangement or participate in any activity that would conflict with the Company's best interests or that would be likely to negatively affect the Company's reputation;
- not take advantage of the property or information of the entity or its customers for personal gain or to cause detriment to the entity or its customers; and
- not take advantage of their position or the opportunities arising from their position with the Company for personal gain.

Principle 4

The Company has established an Audit and Risk Management Committee as follows:

- Stephen Bizzell (Chairman)
- Chris McAuliffe
- Patrick O'Connor

The activities and policies of the Committee are stated in Section B of the Charter: (www.stanmorecoal.com.au/corporate)

For additional details of Directors' attendance at Audit and Risk Management Committee meetings and to review the qualifications of the members of the Audit and Risk Management Committee, please refer to the Directors' Report.

Corporate Governance Statement

continued

The Board has received written assurances from the Managing Director and Chief Financial Officer that to the best of their knowledge and belief, the declaration provided by them in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

The Audit and Risk Management Charter has been made publicly available on the Company's website.

Principle 5

Detailed compliance procedures for ASX Listing Rule disclosure requirements have been adopted by the Consolidated Entity. Stanmore Coal Limited's Obligation of Disclosure Policy can be found within Stanmore Coal Limited's Corporate Governance Charter on the Stanmore Coal Limited website (www.stanmorecoal.com.au/corporate).

Principle 6

The Company promotes effective communication with shareholders and encourage effective participation at general meetings by providing information to shareholders:

- Through the release of information to the market via the ASX;
- Through the distribution of the Annual Report and notices of annual general meeting;
- Through shareholder meetings and investor relation presentations;
- By offering security holders the option to receive ASX announcements and other notices from the Company electronically; and
- By posting relevant information on Stanmore's website: www.stanmorecoal.com.au

The Company's website has a dedicated investor relations section for the purpose of publishing all important company information and relevant announcements made to the market.

Principle 7

The Company's Risk Management Policy is detailed in Section B of the Corporate Governance Charter located at (www.stanmorecoal.com.au/corporate). Management has evaluated the various risks and disclosed in the Directors' Report.

In respect of the Company's financial statements and systems of accounting control, the Company's external auditor attends the Company's Annual General Meeting to address questions from shareholders. The Audit & Risk Committee (see Principal 4) evaluates and addresses risks within the business as outlined in the Corporate Governance Charter (www.stanmorecoal.com.au/corporate). A review of the risk management framework was undertaken by the Committee during the year.

Principle 8

The Company has established a Remuneration & Nominations Committee as follows:

- Neville Sneddon (Chairman)
- Chris McAuliffe
- Patrick O'Connor
- Stephen Bizzell
- Viv Forbes

The Remuneration & Nominations Committee's objectives and compliance are detailed in Section C of the Corporate Governance Charter. Refer to (www.stanmorecoal.com.au/corporate).

All matters of remuneration and executive appointments were also considered by the full Board. At this stage it is reasonable that the Board be accountable for setting their own remuneration and that of senior executives.

The remuneration of the Board's non-executive and executive Directors is set out in the relevant section of the Annual Report. Details of the nature and amount of each element of the remuneration of each Director of the Company and the key management personnel of the Company are disclosed in the relevant section of the Annual Report. There is no retirement benefit scheme for Directors other than payment of statutory superannuation.

The Company has adopted a Trading Policy that includes a prohibition on hedging, aimed at ensuring participants do not enter in to arrangements which would have the effect of limited their exposure to risk relating to an element of their remuneration.

FINANCIAL STATEMENTS

Notes index

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2016

	Note	2016 $'000	2015 $'000
Revenue	1	12,700	-
Cost of sales	2	(24,600)	-
Gross profit		**(11,900)**	**-**
Other income	1	23,459	298
Pre-production mining expenses	2	(6,650)	-
Other expenses	2	(21,873)	(12,999)
Profit before income tax and net finance expenses		**(16,964)**	**(12,701)**
Finance income		355	561
Financial expenses	2	(3,137)	(8)
Loss before income tax expense		**(19,746)**	**(12,148)**
Income tax benefit	3	-	-
Net loss for the year		**(19,746)**	**(12,148)**
Other comprehensive income		-	-
Total comprehensive loss for the year		**(19,746)**	**(12,148)**
Loss for the year is attributable to:			
Owners of Stanmore Coal Limited		(19,746)	(12,148)
Total comprehensive income/(loss) for the year is attributable to:			
Owners of Stanmore Coal Limited		(19,746)	(12,148)
Earnings/(loss) per share attributable to the owners of Stanmore Coal Limited:			
Basic loss per share (cents per share)	18	(8.9)	(5.8)
Diluted loss per share (cents per share)	18	(8.9)	(5.8)

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

Consolidated statement of financial position

As at 30 June 2016

	Note	2016 $'000	2015 $'000
Current assets			
Cash and cash equivalents	4	12,080	15,199
Restricted cash	5	76	83
Trade and other receivables	8	22,285	186
Inventories	7	5,079	-
Other current assets	12	2,845	11
Total current assets		**42,365**	**15,479**
Non-current assets			
Trade and other receivables	8	738	-
Property, plant and equipment	9	33,445	1,995
Exploration and evaluation assets	10a	23,584	21,565
Capitalised development costs	10b	7,175	20,108
Intangible assets	11	4,786	-
Other non-current assets	12	181	156
Total non-current assets		**69,909**	**43,824**
Total assets		**112,274**	**59,303**
Current liabilities			
Trade and other payables	13	22,552	545
Onerous contracts provision	14	5,153	-
Rehabilitation provision	15	1,687	-
Total current liabilities		**29,392**	**545**
Non-current liabilities			
Onerous contracts provision	14	21,576	-
Rehabilitation provision	15	22,221	-
Total non-current liabilities		**43,797**	**545**
Total liabilities		**73,189**	**545**
Net assets		**39,085**	**58,758**
Equity			
Issued capital	19	97,368	97,368
Option reserve	20	4,377	4,304
Accumulated losses	16	(62,660)	(42,914)
Total equity attributable to owners of Stanmore Coal Limited		**39,085**	**58,758**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Consolidated statement of changes in equity

For the year ended 30 June 2016

	Issued capital $'000	Convertible note reserve $'000	Accumulated losses $'000	Option reserve $'000	Total
At 1 July 2014	**88,359**	**9,027**	**(30,766)**	**4,098**	**70,718**
Total comprehensive income for the financial year					
Profit/(loss) for the year	-	-	(12,148)	-	**(12,148)**
Other comprehensive income	-	-	-	-	**-**
	-	**-**	**(12,148)**	**-**	**(12,148)**
Transactions with owners in their capacity as owners					
Conversion of convertible notes into share capital	9,027	(9,027)	-	-	**-**
Costs associated conversion of convertible notes	(18)	-	-	-	**(18)**
Share based payments	-	-	-	206	**206**
At 30 June 2015	**97,368**	**-**	**(42,914)**	**4,304**	**58,758**
Total comprehensive income for the financial year					
Profit/(loss) for the year	-	-	(19,746)	-	**(19,746)**
Other comprehensive income	-	-	-	-	**-**
	-	**-**	**(19,746)**	**-**	**(19,746)**
Transactions with owners in their capacity as owners					
Share based payments	-	-	-	73	**73**
At 30 June 2016	**97,368**	**-**	**(62,660)**	**4,377**	**39,085**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 june 2016

	Note	2016 $'000	2015 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		10,993	705
Payments to suppliers and employees (inclusive of GST)		(31,027)	(4,899)
Payments for onerous contracts		(7,920)	-
Interest received		257	738
Interest and other finance costs paid		(5,876)	(1)
Net cash (outflow)/inflow from operating activities	**6**	**(33,573)**	**(3,457)**
Cash flows from investing activities			
Payments for property, plant and equipment		(8,278)	(17)
Net (payments)/receipts for exploration, evaluation and development assets		(4,658)	483
Receipts relating to vendor payments		43,416	-
Security deposit (payments)/refunds		(26)	378
Net cash (outflow)/inflow from investing activities		**30,454**	**844**
Cash flows from financing activities			
Proceeds from issue of shares		-	-
Conversion of convertible notes expenses		-	(18)
Net proceeds from/(repayment of) borrowings		-	-
Net cash (outflow)/inflow from financing activities		**-**	**(18)**
Net increase/(decrease) in cash held		(3,119)	(2,631)
Net cash at beginning of year		15,199	17,830
Net cash at end of year	**4**	**12,080**	**15,199**

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

NOTES TO THE FINANCIAL STATEMENTS

About this report

The financial statements of Stanmore Coal Limited for the year ended 30 June 2016 covers the Consolidated Entity consisting of Stanmore Coal Limited and its subsidiaries ("the Consolidated Entity") as required by the *Corporations Act 2001*.

The financial statements are presented in the Australian currency.

Stanmore Coal Limited is a company limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Securities Exchange.

The consolidated general purpose financial report of the Consolidated Entity for the year ended 30 June 2016 was authorised for issue in accordance with a resolution of the directors on 31 August 2016. The Directors have the power to amend and reissue the financial report.

The financial report is a general purpose financial report which:

- has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board;
- is presented in Australian dollars with all values rounded to the nearest thousand dollars ($'000) unless otherwise stated, in accordance with ASIC Corporations (Rounding in Financial / Directors Report) Instrument 2016/191;
- presents reclassified comparative information where required for consistency with the current year's presentation;
- adopts all new and amended Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Consolidated Entity and effective for reporting periods beginning on or after 1 July 2015. Refer to note 33 for further details; and
- does not early adopt any Australian Accounting Standards and Interpretations that have been issued or amended but are not yet effective, except for those described in note 33. Refer to note 33 for details on others not early-adopted.

The financial statements have been prepared on a historical cost basis, except for derivatives, available-for-sale financial assets and held-for-trading investments that have been measured at fair value. The entity is a for-profit entity for the purposes of Australian Accounting Standards.

Key judgements and estimates

In the process of applying the Consolidated Entity's accounting policies, management has made a number of judgements and applied estimates of future events. Judgements and estimates which are material to the financial report are found in the following notes:

Note 9	Property Plant and equipment	Page 79
Note 10(a)	Exploration and evaluation expenditure	Page 81
Note 10(b)	Capitalised development costs	Page 83
Note 14	Onerous contracts provision	Page 86
Note 15	Rehabilitation provision	Page 87
Note 28	Business combination	Page 100
Note 31	Share-based payments	Page 106

Going concern

The financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the ordinary course of business. The ability of the Company to continue to adopt the going concern assumption will depend upon a number of factors including the success of the Isaac Plains mine operations, or the successful exploration and subsequent exploitation of the Company's tenements. Should these avenues be delayed or fail to materialise, the Consolidated Entity expects to have the ability to successfully raise additional funding through debt, equity or farmout/selldown to allow the Consolidated Entity to continue as a going concern and meet its debts as and when they fall due.

Basis of consolidation

Subsidiaries are all those entities (including special purpose entities) over which the Company has control. The Consolidated Entity controls an entity when the Consolidated Entity is exposed, or has the rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

All intercompany balances and transactions, including unrealised profits arising from intragroup transactions have been eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. The financial statements of subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies.

Non-controlling interests in the results and consolidated equity of subsidiaries are shown separately in the consolidated statement of profit or loss and other comprehensive income and statement of financial position respectively. Total comprehensive income is attributable to owners of Stanmore Coal Limited and non-controlling interests even if this results in the non-controlling interests having a debit balance.

Other accounting policies

Significant and other accounting policies that summarise the measurement basis used and are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

The notes to the financial statements

The notes include information which is required to understand the financial statements and is material and relevant to the operations, financial position and performance of the Consolidated Entity. Information is considered relevant and material if for example:

- the amount in question is significant because of its size or nature;
- it is important for understanding the results of the Consolidated Entity;

- it helps to explain the impact of significant changes in the Consolidated Entity's business for example, acquisitions and impairment write-downs; or
- it is related to an aspect of the Consolidated Entity's operations that is important to its future performance.

The notes are organised into the following sections:

- **Key numbers:** provides a breakdown of individual line items in the financial statements that the directors consider most relevant and summarises the accounting policies, judgments and estimates relevant to understanding these line items;
- **Capital:** provides information about the capital management practices of the Consolidated Entity and shareholder returns for the year;
- **Risk:** discusses the Consolidated Entity's exposure to various financial risks, explains how these affect the Consolidated Entity's financial position and performance and what the Consolidated Entity does to manage these risks;
- **Consolidated Entity structure:** explains aspects of the Consolidated Entity structure and how changes (if any) have affected the financial position and performance of the Consolidated Entity;
- **Unrecognised items:** provides information about items that are not recognised in the financial statements but could potentially have a significant impact on the Consolidated Entity's financial position and performance; and
- **Other:** provides information on items which require disclosure to comply with Australian Accounting Standards and other regulatory pronouncements.

Note 1: Revenue and other income

	2016 $'000	2015 $'000
Revenue		
Revenue from contracts with customers	12,700	-
Total revenue	**12,700**	**-**
Other income		
Gain on bargain purchase (refer note 28)	565	-
Rehabilitation provision write-back (refer Note 15)	9,053	-
Onerous contract write-back (refer Note 14)	11,376	-
Other	2,465	298
Total other income	**23,459**	**298**

Recognition and measurement

Revenue is measured at the fair value of consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. The following specific recognition criteria must also be met before revenue is recognised:

Contracts with customers – coal sales

Revenue from the sale of coal is recognised in the profit or loss when the significant risks and rewards of ownership have been transferred to the buyer. Transfer of risk and rewards are considered to have passed to the buyer under the terms of the individual contracts. Typically the risk transfer occurs as the coal passes the ship rail when loading at the port. In the case of coal sold from Isaac Plains, all coal is exported through the Dalrymple Bay Coal Terminal and all coal sold during the financial year ending 30 June 2016 was on a contracted 'free on board' basis.

As is customary with free on board contracts, parameters such as coal quality and mass are tested using independent experts and weightometers as the vessel is being loaded. The bill of lading is only issued upon verification and confirmation from several parties involved with the logistic and handling process. Once confirmed, the measured parameters form the basis for calculation of final price on the commercial invoice. All customer contracts specify a known price and tolerance range for quality parameters prior to the Consolidated Entity committing to the supply of coal to the customer.

Payment terms for coal customers range from letter of credit basis to up to 20 days from issuance of the commercial invoice. There were no breaches of payment terms noted during the financial year and contracts recognised as fulfilled and therefore receivable at 30 June 2016 have subsequently been receipted in July 2016 without issue.

Gain on bargain purchase

The gain on bargain purchase relates to the acquisition of the Isaac Plains Coal Mine in November 2015. The gain represents the difference between the fair value of consideration paid or payable and the fair value of the assets and liabilities acquired. Refer to Note 28 Business Combination for information on the purchase price allocation.

Rehabilitation provision write-back

The write-back of the rehabilitation provisions relates to a reduction in liability due to the transition from care and maintenance to operational status following completion of the acquisition of Isaac Plains and the maiden JORC reserve announcement for Isaac Plains East. Refer to Note 15 for further information.

Onerous contract write-back

The write-back of onerous contract provisions relates to the difference between initial recognition of contracts acquired, determined by the purchase price allocation, and the assessed business plan of the Company to utilise those contracts as at 30 June 2016 following the maiden JORC reserve announcement for Isaac Plains East. Refer to Note 14 for further information.

Note 2: Cost of sales and other expenses

	2016 $'000	2015 $'000
Production costs		
Mining costs	14,159	-
Processing costs	1,548	-
Transport and logistics	1,624	-
State royalties	602	-
Production overheads	1,503	-
Other costs	5,164	-
Total production costs	**24,600**	**-**
Pre-production mining costs		
Site establishment	1,632	-
Other costs	5,018	
Total pre-production costs	**6,650**	**-**
Other expenses		
Other expenses	7,990	4,369
Provision for impairment – exploration asset (refer note 10(a))	-	8,630
Provision for impairment – development asset (refer note 10(b))	13,883	-
Total other expenses	**21,873**	**12,999**
Financial expenses		
Interest paid – external parties	2,085	1
Borrowing costs	1,052	7
Total financial expenses	**3,137**	**8**

Recognition and measurement

Production costs

Production costs are costs incurred directly or indirectly relating to the mining and preparation of coal for sale to third party customers. Costs have been recognised on an accruals basis at the time the sale is recognised, in line with movements through inventory and survey information from site. Refer to Inventory in Note 7.

Pre-production mining costs

Pre-production costs relate to those incurred during transition from care & maintenance to operations at the Isaac Plains Coal Mine. The costs represent all-in costs such as take-or-pay contractual commitments prior to first commercial production. Items have been recognised when incurred.

Other expenses

Other expenses include the following specific items:

	Note	2016 $'000	2015 $'000
Depreciation			
Plant and equipment	9	1,292	32
Acquisition costs on business combination	28	2,538	-
Share-based payments (shares)	31	70	11
Share-based payments (options)	31	3	195
Employee benefits expense		2,939	1,767
Superannuation expense		138	124
Minimum lease payments made under operating lease		153	172

Recognition and measurement

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the end of the reporting period are recognised in respect of employees' services rendered up to the end of the reporting period and are measured at amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when leave is taken and measured at the actual rates paid or payable. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy vesting requirements.

Operating leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leases assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Lease assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Note 3: Income tax expense

	2016 $'000	2015 $'000
Reconciliation		
Current income tax expense	-	-
Deferred income tax expense	-	-
Deferred income tax through equity	-	-
Income tax expense/(benefit)	**-**	**-**
The prima facie income tax on the loss is reconciled to the income tax expense as follows:		
Prima facie tax benefit (30%) on loss before income tax	(5,924)	(3,646)
Add tax effect of:		
• Permanent differences	2,622	(835)
• Deferred tax asset not recognised	3,302	4,482
Income tax expense/(benefit)	**-**	**-**
Recognised deferred tax assets and liabilities		
Deferred tax assets		
Unused tax losses	8,485	11,722
Deductible temporary differences	12,992	3,373
	21,477	**15,095**
Deferred tax liabilities		
Assessable temporary differences	(21,477)	(15,095)
Deferred tax	-	-
Unrecognised deferred tax assets		
Gross unused tax losses	44,495	35,583
Deferred tax assets not taken up at 30% (2015: 30%)	13,349	10,675

In order to recoup carried forward losses in future periods, either the Continuity of Ownership Test (COT) or Same Business Test (SBT) must be passed. There are approximately $6.300 million SBT losses and $66.778 million in COT losses carried forward at 30 June 2016.

Deferred tax assets which have not been recognised as an asset, will only be obtained if:

- the Consolidated Entity derives future assessable income of a nature and of an amount sufficient to enable the losses to be realised;
- the Consolidated Entity continues to comply with the conditions for deductibility imposed by the law; and
- no changes in tax legislation adversely affect the Consolidated Entity in realising the losses.

Recognition and measurement

The income tax expense for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for all temporary differences, between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases, at the tax rates expected to apply when the assets are recovered or liabilities settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. Exceptions are made for certain temporary differences arising on initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit.

Deferred tax assets are only recognised for deductible temporary differences and unused tax losses if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in subsidiaries, associates and interests in joint ventures where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances relating to amounts recognised directly in other comprehensive income and equity are also recognised directly in other comprehensive income and equity, respectively.

Amounts received under the Research & Development Tax Incentive Scheme are treated as an income tax benefit as it is effectively the monetisation of future tax benefits. These amounts are recognised in the period in which they are received as there is no reliable method to measure or quantify the potential incentive at the end of the financial period to which the claim relates.

Tax consolidation

Stanmore Coal Limited and its wholly-owned subsidiaries have implemented the tax consolidation legislation for the whole of the financial year. Stanmore Coal Limited is the head entity in the tax consolidated group. These entities are taxed as a single entity. The stand-alone taxpayer/separate taxpayer within a group approach has been used to allocate current income tax expense and deferred tax expense to wholly-owned subsidiaries that form part of the tax consolidated group. Stanmore Coal Limited has assumed all the current tax liabilities and the deferred tax assets arising from unused tax losses for the tax consolidated group via intercompany receivables and payables because a tax funding arrangement has been in place for the whole financial year. The amounts receivable/payable under tax funding arrangements is due upon notification by the head entity, which is issued soon after the end of each financial year. Interim funding notices may also be issued by the head entity to its wholly-owned subsidiaries in order for the head entity to be able to pay tax instalments. These amounts are recognised as current intercompany receivables or payables.

Note 4: Cash and cash equivalents

	2016 $'000	2015 $'000
Cash at bank and in hand	12,080	15,199

Cash at bank bear floating and fixed interest rates between 1% and 2.25% (2015: 1% and 3.75%).

Reconciliation of cash

The above figures are reconciled to the cash at the end of the financial year as shown in the consolidated statement of cash flows as follows:

Balances as above	**12,080**	**15,199**
Balances per consolidated statement of cash flows	12,080	15,199

Cash and cash equivalents held at 30 June 2016, includes term deposits of $nil (2015: $13.400 million). Average maturity of term deposits was nil days (2015: 21 days)

Recognition and measurement

For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents includes cash on hand and at bank, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts.

Note 5: Restricted cash

	2016 $'000	2015 $'000
Restricted cash	76	83

Restricted cash held at 30 June 2016 is an amount held on term deposit to cash-back a bank guarantee.

Recognition and measurement

Restricted cash includes term deposits which securitise a bank guarantee or other facility provided by an external third party lender. These amounts are not able to be converted to readily accessible cash without the consent of an external third party.

Note 6: Cash flow information

(a) Reconciliation of profit/(loss) after income tax to net cash flow from operating activities

	2016 $'000	2015 $'000
Loss for the year	(19,746)	(12,148)
Depreciation	1,292	32
Amortisation	14	-
Gain on bargain purchase	(565)	-
Rehabilitation provision write-back	(9,053)	-
Onerous contract write-back	(11,376)	-
Contingent consideration write-back	(400)	-
Impairment of exploration and evaluation expenditure	-	8,630
Impairment of development assets	13,883	-
Share-based payments expense	73	206
Change in operating assets and liabilities:		
(Increase)/Decrease in trade and other receivables	(8,783)	77
(Increase)/Decrease in coal inventory	(5,079)	-
(Increase)/Decrease in other assets	(3,398)	5
Increase/(Decrease) in trade and other payables	18,075	(259)
Increase/(Decrease) in provisions for onerous contracts	(8,371)	-
Increase/(Decrease) in rehabilitation provisions	(139)	-
Net cash flow from operating activities	**(33,573)**	**(3,457)**

(b) Non-cash investing and financing activities

With the exception of the business combination described in note 28, there were no non-cash investing or financing activities during the current year. (2015: nil activities).

Note 7: Inventory

	2016 $'000	2015 $'000
Current		
Coal stocks at lower of cost or net realisable value	5,079	-
Inventory	**5,079**	**-**

Recognition and measurement

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimate selling price in the ordinary course of business, less the estimate costs of completion and selling expenses.

Notes to the Financial Statements

Key numbers

Note 7: Inventory continued

The cost of coal inventories is determined using a direct costing basis. Costs include blasting, overburden removal, coal mining, processing, labour, transport and other costs which are directly related to mining activities at site.

Inventories are classified as follows:

- run of mine material extracted through the mining process and awaiting processing at the coal handling and preparation plant
- product coal which has been processed into final saleable form. Product coal may be held at the site or at port shared stockpile facilities awaiting delivery to customers

The Consolidated Entity does not capitalise the value of overburden removed to allow access to coal seams.

Note 8: Trade and other receivables

	2016 $'000	2015 $'000
Current		
GST receivable	757	152
Trade receivables	11,633	-
Vendor receivable	9,895	-
Sundry receivables	-	34
	22,285	**186**
Non-current		
Vendor receivable	738	-
	738	**-**

No receivables balances are past due or impaired at the end of the reporting period. Sundry receivables reflect interest receivable in relation to $nil of term deposits held as at 30 June 2016 (2015: $13.400 million) with various financial institutions.

Recognition and measurement

Trade receivables are recognised at original invoice amounts less an allowance for uncollectible amounts and have repayment terms between 30 and 90 days. Collectability of trade receivables is assessed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance is made for doubtful debts where there is objective evidence that the Consolidated Entity will not be able to collect all amounts due according to the original terms. Objective evidence of impairment includes financial difficulties of the debtor, default payments or debts more than 180 days overdue. On confirmation that the trade receivable will not be collectible the gross carrying value of the asset is written off against the associated provision.

From time to time, the Consolidated Entity elects to renegotiate the terms of trade receivables due from customers with which it has previously had a good trading history. Such renegotiations will lead to changes in the timing of payments rather than changes to the amounts owed and are not, in the view of the Directors, sufficient to require the derecognition of the original instrument.

GST

Revenues, expenses and assets are recognised net of GST except where GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

Cash flows are included in the consolidated statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Note 9: Property, plant and equipment

	2016 $'000	2015 $'000
Land deposit		
At cost	1,946	1,946
Plant and equipment		
At cost	30,035	17
Accumulated depreciation	(1,115)	(12)
	28,920	**5**
Buildings and improvements		
At cost	1,398	-
Accumulated depreciation	(133)	-
	1,265	**-**
Computer equipment		
At cost	111	105
Accumulated depreciation	(94)	(92)
	17	**13**
Furniture and office equipment		
At cost	162	139
Accumulated depreciation	(162)	(108)
	-	**31**
Capital work in progress		
At cost	1,297	-
Accumulated depreciation	-	-
	1,297	**-**
Total property, plant and equipment	**33,445**	**1,995**

2016	Land deposit $'000	Plant and equipment $'000	Buildings and improvements $'000	Computer equipment $'000	Furniture and office equipment $'000	Capital work in progress $'000	Total $'000
Movements in carrying amounts							
Balance at the beginning of the year	1,946	5	-	13	31	-	1,995
Additions – through business combination (Note 28)	-	22,367	1,398	-	-	-	23,765
Additions – through ordinary course	-	7,651	-	6	23	1,297	8,978
Depreciation expense	-	(1,103)	(133)	(2)	(54)	-	(1,293)
Carrying amount at the end of the year	**1,946**	**28,920**	**1,265**	**17**	**-**	**1,297**	**33,445**

2015	Land deposit $'000	Plant and equipment $'000	Computer equipment $'000	Furniture and office equipment $'000	Total $'000
Balance at the beginning of the year	1,946	8	9	47	2,010
Additions	-	3	14	-	17
Depreciation expense	-	(6)	(10)	(16)	(32)
Carrying amount at the end of the year	**1,946**	**5**	**13**	**31**	**1,995**

Recognition and measurement

Property, plant and equipment are measured on the cost basis less depreciation and impairment losses.

The cost of fixed assets constructed within the Consolidated Entity includes the cost of materials, direct labour, borrowing costs and an appropriate portion of fixed and variable costs.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Consolidated Entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation

The depreciable amount of all non-mining property fixed assets is depreciated over their useful life to the Consolidated Entity commencing from the time the asset is held ready for use. Mining property fixed assets are depreciated on a units of production basis over the life of the economically recoverably reserves. The estimate is based on 14.2 Mt of run-of-mine open cut coal within the mine plan for Isaac Plains and Isaac Plains East. This is supported by an open cut JORC Recoverable Reserve of 15.3 Mt across the Isaac Plains Complex.

The depreciation rates used for each class of assets are:

Class of fixed asset	Depreciation rate
Plant and equipment	10–25% straight line/units of production
Computer equipment	33.3% straight line
Furniture and office equipment	5–10% straight line
Buildings and improvements	5–10% straight line

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains and losses on disposal are determined by comparing proceeds with the carrying amount. The gains and losses are included in profit or loss.

Impairment

At the end of each reporting period the Consolidated Entity assesses whether there is any indication that property, plant and equipment assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in profit or loss where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where it is not possible to estimate recoverable amount for an individual asset, the Consolidated Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Key judgements – property, plant and equipment

The Consolidated Entity performs regular reviews on property, plant and equipment to determine the appropriateness of classification and methodology to apply depreciation. The methodology and rate of depreciation is assessed with reference to residual values and useful lives.

Note 10(a): Exploration and evaluation assets

	2016 $'000	2015 $'000
Non-current		
Exploration and evaluation expenditure capitalised		
Exploration and evaluation phases	23,584	21,565

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.

Notes to the Financial Statements

Key numbers

Note 10(a): Exploration and evaluation assets continued

	2016 $'000	2015 $'000
Movements in carrying amounts		
Balance at the beginning of the year	30,195	29,713
Additions	2,019	482
Written-off	(2,430)	-
	29,784	**30,195**
Provision for impairment	(6,200)	(8,630)
Carrying amount at the end of the year	**23,584**	**21,565**
Movements in provision for impairment amounts		
Balance at the beginning of the year	(8,630)	-
Provisions (raised)/released)	2,430	(8,630)
Provision for impairment at the end of the year	**(6,200)**	**(8,630)**

Commitments for exploration and evaluation expenditure are disclosed in Note 23.

Recognition and measurement

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. Such expenditures comprise net direct costs and an appropriate portion of related overhead expenditure but do not include overheads or administration expenditure not having a specific nexus with a particular area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and active or significant operations in relation to the area are continuing.

A regular review has been undertaken on each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made. Where an uncertainty exists for further exploration of the area, a provision is raised for the costs of exploration.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structure, waste removal, and rehabilitation of the site in accordance with clauses of mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that restoration will be completed within one year of abandoning the site.

Key judgements – exploration and evaluation assets

The Consolidated Entity performs regular reviews on each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. While there are certain areas of interest from which no reserves have been extracted, the Directors are of the continued belief that such expenditure should not be written off since feasibility studies in such areas have not yet concluded. Such capitalised expenditure is carried at the end of the reporting period at $23.584 million (2015: $21.565 million).

Note 10(b): Capitalised development costs

	2016 $'000	2015 $'000
Non-current		
Capitalised development costs	7,175	20,108

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.

	2016 $'000	2015 $'000
Movements in carrying amounts		
Balance at the beginning of the year	20,108	20,022
Other additions	950	86
	21,058	**20,108**
Provision for impairment	(13,883)	-
Carrying amount at the end of the year	**7,175**	**20,108**
Movements in provision for impairment amounts		
Balance at the beginning of the year	-	-
Provisions raised	(13,883)	-
Provision for impairment at the end of the year	**(13,883)**	**-**

Recognition and measurement

Development expenditures on an individual project are recognised as an intangible asset when the Consolidated Entity can demonstrate:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset; and
- the ability to measure reliability the expenditure during development.

Following initial recognition of the development expenditures as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins

Notes to the Financial Statements

Key numbers

Note 10(b): Capitalised development costs continued

when development is complete and the asset is available for use. During the period of development, the asset is tested for impairment annually.

Key judgements – fair value of development costs

Development costs are capitalised in accordance with the accounting policy above. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a PFS has been completed. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generating potential of the Project, discount rates to be applied and the expected period of which cashflows are expected to be received. As at 30 June 2016, the carrying amount of capitalised developments costs was $7,175k (2015: $20,108k). This amount relates wholly to The Range Project located in the Surat Basin. A provision for impairment totalling $13,883k has been raised in the current period to reflect the uncertain commercialisation potential of The Range given the current coal market greenfield project environment and infrastructure constraints. The directors have raised a provision to reduce the carrying value to a level that is supportable by current transactional activity in the sector over the last year. In making this assessment the directors have had regard to the comparable features of observed transactions and aligned the remaining carried value to the lower end of the implied transaction range ($0.025 per Resource tonne).

Note 11: Intangible assets

	2016 $'000	2015 $'000
Infrastructure intangible asset		
At cost	4,800	-
Accumulated amortisation	(14)	-
	4,786	**-**

2016	Infrastructure intangible $'000
Movements in carrying amounts	
Balance at the beginning of the year	-
Additions – through business combination (Note 28)	4,800
Additions – through ordinary course	-
Amortisation expense	(14)
Carrying amount at the end of the year	**4,786**

Impairment of assets

At the end of each reporting period the Consolidated Entity assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in profit or loss where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where it is not possible to estimate recoverable amount for an individual asset, the Consolidated Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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 (refer Note 28). 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 12: Other assets

	2016 $'000	2015 $'000
Current		
Prepayments	2,845	11
	2,845	**11**
Non-current		
Security deposits	181	156
	181	**156**

Note 13: Trade and other payables

	2016 $'000	2015 $'000
Current		
Trade and other payables	8,377	341
Sundry payables and accrued expenses	13,444	117
Employee benefits	731	87
	22,552	**545**

Recognition and measurement

Trade and other payables represent liabilities for goods and services provided to the Consolidated Entity prior to the year end and which are unpaid. These amounts are unsecured and have 7–60 day payment terms. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. No assets of the Consolidated Entity have been pledged as security for the trade and other payables.

After initial recognition, loans and borrowings are subsequently recognised at amortised cost.

Note 14: Onerous contracts provision

	2016 $'000	2015 $'000
Current		
Current onerous contract provision	5,153	-
Non-current		
Non-current onerous contract provision	21,576	
Total onerous contracts provision	**26,729**	**-**
Reconciliation of movements		
Opening balance	-	-
Additions – business combination recognition (refer note 28)	49,800	-
Depletions through settlement	(11,695)	-
Depletion through re-measurement	(11,376)	
Closing balance	**26,729**	**-**

Recognition and measurement

The provision for onerous contracts relates to the transaction to acquire the Isaac Plains Coal Mine which completed in November 2015. The Company acquired various long term contracts necessary for mining activities at Isaac Plains including rail haulage, port allocations, water supply, electricity supply and accommodation. Based on the initial Isaac Plains mine plan, a portion of these contracts were estimated to be underutilised and the fixed charges incurred above the deemed requirement was recognised as an onerous contract liability. The fair value of onerous contracts at acquisition was estimated by calculating the present value of expected future cash outflows for the onerous portion of each contract, discounted at a rate reflecting the risk profile of each contract. Excluding the assessed onerous portion of the contracts already recognised in the balance sheet, the minimum payments required under the identified contracts is approximately $110 million (undiscounted). These payments are expected to be met as part of normal operational expenditure at Isaac Plains and Isaac Plains East in the coming years.

In the period from acquisition through to 30 June 2016, a number of onerous contracts have been settled through the ordinary course of business. The onerous position at 30 June 2016 has been re-measured for all contracts having regard to the latest internal Isaac Plains mine plan. In addition, Coal Reserves within Isaac Plains East have been factored into the measurement for the first time given the anticipated transition of open cut mining activities to Isaac Plains East at the completion of the current three year open cut within Isaac Plains. The JORC compliant Reserves report was released on the ASX 6 April 2016, noting sufficient Reserves for approximately seven years of mining at an annual ROM production rate of 1.5 Mtpa. The inclusion of Isaac Plains East production has reduced the assessed onerous portion of these contracts with the movement recognised in the profit or loss.

Key estimates – onerous contracts

The Consolidated Entity assesses onerous contracts at each reporting date by evaluating conditions specific to each contract and the then-current business plan. Where a contract provides capacity above that required to meet the business plan or for a longer period than the current extent of the business plan, the contract is deemed onerous and the onerous portion of the contract is recognised as a liability using an estimate of future onerous cashflows discounted to a net present value. The release of the maiden JORC reserve for Isaac Plains East in April 2016, and the subsequent extension to the mine life and planned production of the Isaac Plains Complex has reduced the onerous portion of a number of contracts. Any remeasurement of the assessed level of onerous contracts is taken through profit or loss in the period in which the assessment is made. During the year a total of $7,920k of onerous contracts were settled through payment and $3,775k is recognised in trade and other payables, with $11,376k taken through profit or loss due to the re-assessment in onerous contract liability for the inclusion of Isaac Plains East in the mine plan.

Note 15: Rehabilitation provision

	2016 $'000	2015 $'000
Current		
Current rehabilitation provision	1,687	-
Non-current		
Non-current rehabilitation provision	22,221	
Total rehabilitation liability	**23,908**	**-**
Reconciliation of movements		
Opening balance	-	-
Additions – business combination	33,100	-
Less re-measurement	(9,192)	
Closing balance	**23,908**	**-**

Recognition and measurement

The provision for rehabilitation closure costs relates to areas disturbed during operation of the mine up to reporting date and not yet rehabilitated. Provision has been made to rehabilitate all areas of disturbance including surface infrastructure, contouring, topsoiling and revegetation, using internal and external expert assessment of each aspect to calculate an anticipated cash outflow discounted to a net present value. At each reporting date the rehabilitation liability is re-measured in line with the then-current level of disturbances, cost estimates and other key inputs. The amount of provision relating to rehabilitation of areas caused by mining disturbance is recognised in profit or loss as incurred.

Key estimates – rehabilitation provision

The Consolidated Entity assesses rehabilitation liabilities at each reporting date as there are numerous factors that may affect the ultimate liability payable. This includes, but is not limited to, the extent and nature of rehabilitation activity to be undertaken, changes in technology and techniques, changes in discount rates and regulatory impacts. There may be differences between the future actual expenditure and the assessment made at the balance date. The provisions at balance date represent management's best estimate of the present value of rehabilitation cost to completely rehabilitate the site.

During FY16 the rehabilitation liability relating to the Isaac Plains Coal Mine was recognised upon completion of the acquisition in November 2015. The rehabilitation obligation at the time of acquisition related to the mine in a care & maintenance phase. Since completing the acquisition, the Consolidated Entity submitted a plan of operations with the relevant State government department which was accepted in January 2016. This revised operating plan changes the assessed value of rehabilitation liability based on the key inputs into the operational timeline and contemporary cost estimates. The release of the maiden JORC reserve for Isaac Plains East in April 2016, and the subsequent extension to the mine life of the Isaac Plains Complex, has extended the operational timeline for the majority of the rehabilitation activities. The reduction in the rehabilitation provision of $9,192k (2015: $nil) is recognised in profit or loss in the financial year ending 30 June 2016.

Note 16: Accumulated losses

	2016 $'000	2015 $'000
Accumulated losses attributable to members of Stanmore Coal Limited at beginning of the financial year	(42,914)	(30,766)
Losses after income tax	(19,746)	(12,148)
Accumulated losses attributable to members of Stanmore Coal Limited at the end of the financial year	**(62,660)**	**(42,914)**

Note 17: Dividends and franking credits

There were no dividends paid or recommended during the financial year.

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

Note 18: Earnings per share

	2016 $'000	2015 $'000
Earnings		
Loss attributable to owners of Stanmore Coal Limited used to calculate basic and diluted earnings per share	(19,746)	(12,148)

	2016 Number '000	2015 Number '000
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	222,497	210,640
Adjustments for calculation of diluted earnings per share:		
Options*	-	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	222,497	210,640

* Options are considered anti-dilutive as the Consolidated Entity is loss making. Options could potentially dilute earnings per share in the future. Refer to note 31 for details of options granted as at 30 June 2016.

Recognition and measurement

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of Stanmore Coal Limited by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Notes to the Financial Statements

Capital

Note 18: Earnings per share continued

Diluted earnings per share

Earnings used to calculate diluted earnings per share are calculated by adjusting the amount used in determining basic earnings per share by the after-tax effect of dividends and interest associated with dilutive potential ordinary shares. The weighted average number of shares used is adjusted for the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Note 19: Issued capital

	2016 $'000	2016 $'000
222,497,435 fully paid ordinary shares (2015: 222,497,435)	101,246	101,246
Share issue costs	(3,878)	(3,878)
	97,368	**97,368**

(a) Ordinary shares

	2016 Number	2015 Number	2016 $'000	2016 $'000
At the beginning of the year	222,497,435	209,124,058	97,368	88,359
4 May 2015*	-	13,373,377	-	9,027
Share issue costs	-	-	-	(18)
At reporting date	**222,497,435**	**222,497,435**	**97,368**	**97,368**

• On 4 May 2015, 13,373,377 Convertible Notes held by Greatgroup Investments Limited was converted into ordinary shares of the Company at a ratio of 1:1

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.

(b) Options, performance rights and convertible notes

For information relating to the Stanmore Coal Limited employee option plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end refer to the Remuneration Report which is contained within the Directors' Report.

For information relating to the Stanmore Coal Limited performance rights, including details of rights issued, exercised and lapsed during the financial year and the performance rights outstanding at year-end refer to the Remuneration Report which is contained within the Directors' Report.

During the year ended 30 June 2016, 2,000k options held by employees of the company expired due to expiration of the options in accordance with the terms.

All options on issue at 30 June 2016 were as follows:

Number of options	Exercise price	Expiry date
2,766,000	$0.22	4 September 2017

(c) Capital management

The capital of the Consolidated Entity is managed in order to provide capital growth to shareholders and ensure the Consolidated Entity can fund its operations and continue as a going concern.

The Consolidated Entity's capital comprises equity as shown in the Consolidated Statement of Financial Position. There are no externally imposed capital requirements.

Management manages the Consolidated Entity's capital by assessing the Consolidated Entity's financial risks and adjusting its capital structure in response to changes in these risks and the market. These responses include the management of share issues and debt.

There have been no changes in the strategy adopted by management to control the capital of the Consolidated Entity since the prior year other than the need to limit dilution arising from our issuances of capital at low share prices.

(d) Recognition and measurement

Ordinary shares are classified as equity. Costs directly attributable to the issue of new shares or options are shown as a deduction from the equity proceeds, net of any income tax benefit.

Note 20: Option reserve

	2016 $'000	2015 $'000
Option reserve – capital raising	286	286
Option reserve – Director, executive and employee options	3,655	3,582
Option reserve – other options	436	436
	4,377	**4,304**

The option reserve records the value of options issued as part of capital raisings, as well as expenses relating to Director, executive and employee share options

Notes to the Financial Statements

Risk

continued

Note 21: Financial risk management

(a) General objectives, policies and processes

In common with all other businesses, the Consolidated Entity is exposed to risks that arise from its use of financial instruments. This note describes the Consolidated Entity's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements

There have been no substantive changes in the Consolidated Entity's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

The Consolidated Entity's financial instruments consist mainly of deposits with banks, trade and other receivables, security deposits and trade and other payables.

The Board has overall responsibility for the determination of the Consolidated Entity's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Consolidated Entity's finance function. The Consolidated Entity's risk management policies and objectives are therefore designed to minimise the potential impacts of these risks on the results of the Consolidated Entity where such impacts may be material.

The overall objective of the Board is to set polices that seek to reduce risk as far as possible without unduly affecting the Consolidated Entity's competitiveness and flexibility. Further details regarding these policies are set out below:

(b) Credit risk

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Consolidated Entity incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the Consolidated Entity. The Consolidated Entity's objective is to minimise the risk of loss from credit risk exposure.

The Consolidated Entity's maximum exposure to credit risk at the end of the reporting period, without taking into account the value of any collateral or other security, in the event other parties fail to perform their obligations under financial instruments in relation to each class of recognised financial asset at reporting date, is as follows:

	2016 $'000	2015 $'000
Cash and cash equivalents	12,080	15,199
Restricted cash	76	83
Receivables	23,023	186
Security deposits and debt service reserve	181	156
	35,360	**15,624**

Credit risk is reviewed regularly by the Board and the audit committee.

The Consolidated Entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Consolidated Entity except for $12.956 million recognised within receivables at reporting date due from a vendor of the Isaac Plains Coal Mine. All payments due from the vendor during the financial year have been made within payment terms and the Consolidated Entity is not aware of any information that would indicate the ability to pay the balance of the debt is impaired. No receivables balances were past due or impaired at year end. The credit quality of receivables that are neither past due nor impaired is good. Bank deposits are held with National Australia Bank Limited and Westpac Banking Corporation.

(c) Liquidity risk

Liquidity risk is the risk that the Consolidated Entity may encounter difficulties raising funds to meet financial obligations as they fall due. The object of managing liquidity risk is to ensure, as far as possible, that the Consolidated Entity will always have sufficient liquidity to meets its liabilities when they fall due, under both normal and stressed conditions. Liquidity risk is reviewed regularly by the Board and the Audit & Risk Management Committee.

The Consolidated Entity manages liquidity risk by monitoring forecast cash flows and liquidity ratios such as working capital. The Consolidated Entity's working capital, being current assets less current liabilities has decreased from $14.934 million in 2015 to $12.793 million in 2016. As outlined Note 1, the ability for the Company to deliver on its strategic and operational objectives is dependent upon the mining operations of the Isaac Plains Coal Mine and supporting funding avenues such as debt, equity or farm-out, or the successful exploration and subsequent exploitation of the Consolidated Entity's tenements.

	Carrying amount $'000	Contractual cash flows $'000	‹6 months $'000	6–12 months $'000	1–3 years $'000	›3 years $'000
Maturity analysis – consolidated – 2016						
Financial liabilities						
Trade payables	8,377	8,377	8,377	-	-	-
Other payables	14,175	14,175	14,175	-	-	-
	22,552	**22,552**	**22,552**	**-**	**-**	**-**
Maturity analysis – consolidated – 2015						
Financial liabilities						
Trade payables	341	341	341	-	-	-
Other payables	204	204	204	-	-	-
	545	**545**	**545**	**-**	**-**	**-**

Further information regarding commitments is included in Note 23.

(d) Market risk

Market risk arises from the use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk). The consolidated entity does not have any material exposure to market risk other than as set out below.

Interest rate risk

Interest rate risk arises principally from cash and cash equivalents. The objective of interest rate risk management is to manage and control interest rate risk exposures within acceptable parameters while optimising the return.

Interest rate risk is managed with a mixture of fixed and floating rate investments. For further details on interest rate risk refer to the tables below:

2016	Floating interest rate $'000	Fixed interest rate $'000	Non-interest bearing $'000	Total carrying amount as per the consolidated statement of financial position $'000	Weighted average effective interest rate %
Financial assets					
Cash and cash equivalents	12,080	-	-	12,080	1.88
Restricted cash	-	76	-	76	3.11
Receivables	-	-	23,023	23,023	-
Security deposits	-	-	181	181	-
Total financial assets	**12,080**	**76**	**23,204**	**35,360**	**-**
Financial liabilities					
Trade payables	-	-	8,377	8,377	-
Other payables	-	-	14,175	14,175	-
Total financial liabilities	**-**	**-**	**22,552**	**22,552**	**-**

2015	Floating interest rate $'000	Fixed interest rate $'000	Non-interest bearing $'000	Total carrying amount as per the consolidated statement of financial position $'000	Weighted average effective interest rate %
Financial assets					
Cash and cash equivalents	1,849	13,350	-	15,199	2.86
Restricted cash	-	83	-	83	3.11
Receivables	-	-	186	186	-
Security deposits	-	-	156	156	-
Total financial assets	**1,849**	**13,433**	**342**	**15,624**	
Financial liabilities					
Trade payables	-	-	341	341	-
Other payables	-	-	204	204	-
Total financial liabilities	**-**	**-**	**545**	**545**	

The Consolidated Entity has performed a sensitivity analysis relating to its exposure to interest rate risk. This sensitivity demonstrates the effect on the current year results and equity which could result from a change in these risks.

At 30 June 2016 the effect on profit and equity as a result of changes in the interest rate would be as follows:

		Increase in interest rate by 1%		Decrease in interest rate by 1%	
	Carrying amount $'000	Profit $'000	Other comprehensive income $'000	Profit $'000	Other comprehensive income $'000
2016					
Cash and cash equivalents	12,080	121	-	(121)	-
Tax charge of 30%		-	-	-	-
After tax increase/(decrease)		121	-	(121)	-
2015					
Cash and cash equivalents	1,849	18	-	(18)	-
Tax charge of 30%		-	-	-	-
After tax increase/(decrease)		**18**	**-**	**(18)**	**-**

The above analysis assumes all other variables remain constant.

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).

There were no financial assets or financial liabilities measured and recognised at fair value at 30 June 2016 and 2015 (nil). The carrying value of a significant portion of all financial assets and financial liabilities approximate their fair values to their short term nature.

Notes to the Financial Statements

Group structure

continued

Note 22: Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described below.

Name of entity	Principle activities	Country of incorporation	Class of shares	Percentage owned (%)* 2016	Percentage owned (%)* 2015
Mackenzie Coal Pty Ltd	Coal exploration	Australia	Ordinary	100%	100%
Comet Coal & Coke Pty Ltd	Coal exploration	Australia	Ordinary	100%	100%
Belview Coal Pty Ltd	Coal exploration	Australia	Ordinary	100%	100%
Belview Expansion Pty Ltd	Coal exploration	Australia	Ordinary	100%	100%
Brown River Project Pty Ltd	Coal exploration	Australia	Ordinary	100%	100%
Emerald Coal Pty Ltd	Coal exploration	Australia	Ordinary	100%	100%
New Cambria Pty Ltd	Coal exploration	Australia	Ordinary	100%	100%
Kerlong Coking Coal Pty Ltd	Coal exploration	Australia	Ordinary	100%	100%
Stanmore Surat Coal Pty Ltd	Coal exploration	Australia	Ordinary	100%	100%
Theresa Creek Coal Pty Ltd	Coal exploration	Australia	Ordinary	100%	100%
Stanmore Wotonga Pty Ltd	Coal exploration & mining	Australia	Ordinary	100%	100%
Stanmore IP Coal Pty Ltd	Coal mining	Australia	Ordinary	100%	100%
Stanmore Bowen Coal Pty Ltd	Coal exploration & mining	Australia	Ordinary	100%	100%
Isaac Plains Coal Management Pty Ltd**	Coal exploration & mining	Australia	Ordinary	100%	-
Isaac Plains Sales & Marketing Pty Ltd**	Coal exploration & mining	Australia	Ordinary	100%	-

* the proportion of ownership interest is equal to the proportion of voting power held.

** these entities were acquired in 2016 (refer to Note 28).

Note 23: Commitments

(a) Future exploration

The Consolidated Entity has certain obligations to expend minimum amounts on exploration in tenement areas. These obligations may be varied from time to time and are expected to be fulfilled in the normal course of operations of the Consolidated Entity.

The commitments to be undertaken are as follows:

	2016 $'000	2015 $'000
Payable:		
Not later than 12 months	1,885	5,186
Between 12 months and 5 years	2,430	2,607
Greater than 5 years	-	-
	4,315	**7,793**

To keep tenements in good standing, work programs should meet certain minimum expenditure requirements. If the minimum expenditure requirements are not met, the Consolidated Entity has the option to negotiate new terms or relinquish the tenements. The Consolidated Entity also has the ability to meet expenditure requirements by joint venture or farm-in agreements.

(b) Operating leases

The commitments to be undertaken are as follows:

	2016 $'000	2015 $'000
Payable:		
Not later than 12 months	143	143
Between 12 months and 5 years	114	228
Greater than 5 years	-	-
	257	**371**

The Consolidated Entity has an operating lease commitment in relation to the lease of commercial office premises. The lease commenced on 1 December 2013 for a term of four years. The Consolidated Entity has provided a bank guarantee of $68,000 as a security bond on the premises.

(c) Capital commitments

The commitments to be undertaken are as follows:

	2016 $'000	2015 $'000
Payable:		
Not later than 12 months	3,100	-
Between 12 months and 5 years	-	3,100
Greater than 5 years	-	-
	3,100	**3,100**

Land acquisitions

On 7 April 2011 the Consolidated Entity announced that it had completed an agreement for the right to purchase a key property at The Range thermal coal Project in the Surat Basin. This agreement gives the Company access to undertake evaluation and development work as the Project moves to coal production. The terms of the acquisition are confidential but are within normal market expectations and involve a series of staged payments over a number of years.

A completion payment of $3,100,000 in cash is due the earlier of 30 days after the Mining Lease is granted by the Department of Mines and Energy or November 2016. An extension to the payment date from November 2014 to November 2016 was granted through an agreement with the landholder. The Company is in discussions with the landholder to extend the payment date beyond November 2016.

Note 24: Contingent liabilities and contingent assets

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 $8 million 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 $8 million loan would be repaid.

Contingent liability – Isaac Plains 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, but some of the vendor payments are dependent on uncertain future contract expenditure. Therefore, until these payments are known, the actual amount of the cap is unknown and can only be estimated. The estimated maximum contingent consideration, assuming price thresholds are reached, is approximately $52 million (2015 dollars). 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. The fair value of the contingent consideration at the date of acquisition was $0.400 million and had been estimated by calculating the present value of expected future cash flows from the Isaac Plains coal mine using a range of coal price revenue scenarios. As at 30 June 2016 the fair value was assessed as $nil.

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 $2 million. The transaction terms include two contingent consideration items, namely:

- A further $2.000 million payable upon grant of a Mining Lease; and
- A royalty capped at $3.000 million 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 the Company signed a debt facility with Taurus which provides US$30.000 million 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. A contingent US$12.000 million facility has also been provided for general project working capital purposes. Given the structure of the arrangement with Taurus, 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-balance sheet 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 from Taurus which would result in balance sheet recognition. At the date of these financial statements there is no default occurring or subsisting.

The Directors are not aware of any other significant contingent liabilities or contingent assets at the date of this report.

Note 25: Events after reporting date

There have been no events since 30 June 2016 that impact upon the financial report as at 30 June 2016.

Note 26: Key management personnel

(a) Total key management personnel compensation

	2016 $	2015 $
Payable:		
Short-term employee benefits	1,838,519	1,182,567
Post-employment benefits	58,848	60,502
Termination benefits	-	-
Share-based payments	50,925	127,396
	1,948,292	**1,370,465**

Further information regarding the identity of key management personnel and their compensation can be found in the Audited Remuneration Report contained in the Directors' report on pages 39 to 50 of this annual report.

Note 27: Auditors' remuneration

	2016 $	2015 $
Audit services		
Amounts paid/payable to BDO Audit Pty Ltd for audit or review of the financial statements for the entity or any entity in the Consolidated Entity	160,631	46,000
Taxation services		
Amounts paid/payable to related entities of BDO Audit Pty Ltd for non-audit taxation services performed for the entity or any entity in the Consolidated Entity:		
• Preparation of income tax return	58,811	12,920
	219,442	**58,920**

Note 28: Business combination

On 27 November 2015, Stanmore IP Coal Pty Ltd (subsidiary of Stanmore Coal Limited) completed the acquisition of 100% of the issued share capital of Isaac Plains Coal Management Pty Ltd and the assets and liabilities of the Isaac Plains Coal Joint Venture, a coal mine in Queensland's Bowen Basin. This acquisition provides Stanmore with an established coking coal mine capable of re-instatement of mining activity.

Key judgements – business combination

The acquisition has been deemed an acquisition of a business, rather than an acquisition of assets, having regard to the inputs and processes acquired which are necessary to the recommencement of mining activities. Several inputs and processes were not acquired, however they been determined to be readily replaceable in the current market as evidenced by the Company's ability to recommence activities within several months of transaction completion. On this basis the rules of AASB 3 Business Combinations have been applied to the acquisition.

Details of the final purchase price allocation of all the assets and liabilities acquired are as follows:

	$'000s
Purchase consideration	
Cash paid	-
Contingent consideration[1]	400
Total purchase consideration	**400**
Acquisition related costs	
Included in other expenses in the consolidated statement of profit or loss and other comprehensive income	2,538

	Fair value $'000s
Assets and liabilities acquired	
Vendor compensation payments receivable[2]	55,300
Property, plant and equipment	23,765
Intangibles – rail loop benefit[3]	4,800
Provision – onerous contracts[4]	(49,800)
Provision – rehabilitation[5]	(33,100)
Bargain gain on acquisition[6]	(565)
Net assets acquired	**400**

1. 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, but some of the vendor payments are dependent on uncertain future contract expenditure. Therefore, until these payments are known, the actual amount of the cap is unknown and can only be estimated. The estimated maximum contingent consideration, assuming price thresholds are reached, is approximately $52.000 million (2015 dollars). 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. The fair value of the contingent consideration of $0.400 million has been estimated by calculating the present value of expected future cash flows from the Isaac Plains coal mine using a range of coal price revenue scenarios. At balance date 30 June 2016, the contingent consideration value has been assessed as $nil. This is due to re-assessment of long term coal price expectations and foreign currency, which reduced the net present value calculation to $nil. The discount rate attributable to this is 13.75%.

2. Receivables

The vendors of Isaac Plains agreed to pay a series of compensation payments, the majority up front with the balance paid in instalments, to cover certain underutilised contracts and general working capital requirements. The gross amount of compensation payments is unknown as a portion is linked to an estimate of payments that may or may not occur. The fair value of the receivable is estimated to be $55.000 million and determined by calculating the present value of expected future cash inflows from the vendors. As at 30 June 2016 the remaining vendor compensation receivable is $10.633 million.

3. Rail loop benefit

The rail loop benefit arises from a contractual relationship with the below rail infrastructure provider where rebates will be paid to the Company in the future based on utilisation of the rail loop asset. The benefit is assessed as an intangible asset given the nature of this contractual relationship. Refer Note 11 for further information.

4. Onerous contracts

The Company acquired various long term contracts necessary for mining activities at Isaac Plains including rail haulage, port allocations, water supply, electricity supply and accommodation. Based on the current Isaac Plains mine plan, a portion of these contracts will be underutilised and the fixed charges incurred above the deemed requirement has been recognised as an onerous contract liability. The fair value of onerous contracts has been estimated by calculating the present value of expected future cash outflows for the onerous portion of each contract, discounted at a rate reflecting the risk profile of each contract.

5. Provision for rehabilitation

The Company assumed the liability for future rehabilitation of mining activities at the Isaac Plains coal mine. The fair value of the rehabilitation liability has been determined by calculating the present value of expected future cash outflows to undertake the rehabilitation of the Isaac Plains coal mine, using an appropriate discount rate in accordance with standard market practice.

6. Bargain gain on acquisition

The Company's acquisition of Isaac Plains for nominal consideration was an arm's length transaction between non-related third parties. Given current market conditions it is reasonable that within the overall transaction there is not a material residual value remaining to allocate to goodwill. In this acquisition the calculated result is negative goodwill, or a bargain gain on acquisition of $565 thousand. This gain has been reflected within Other Income in profit or loss. The net bargain gain on acquisition is immaterial when compared to the total assets acquired of $83.865 million. In this context the outcome does not appear unreasonable.

7. Other notes

The Company has assessed each of the assets and liabilities noted above at reporting date and determined whether any adjustment to the recognised value is appropriate. Since the acquisition, changes in events and conditions required several adjustments to be made during the financial year that have had an impact on the consolidated entity's profit or loss. Refer to Note 15 Rehabilitation Provision and Note 14 Onerous Contract for information on these adjustments.

The Company has assessed the impact of tax effect accounting from the acquisition. At the half year ending 31 December 2015 the Company assessed a small net deferred tax asset but given the net tax loss position the Company has elected not to recognise this asset. This has been reflected as a decrease to the bargain gain on acquisition noted above and included in profit or loss.

Revenue from the Isaac Plains mine included in the consolidated entity's revenue since the date of acquisition amounted to $12.700 million. The loss for the Isaac Plains mine included in the consolidated entity's loss since the date of acquisition amounted to $6.132 million.

Had the results of the Isaac Plains mine been consolidated from 1 July 2015 there would have been no change in revenue as the mine was in care and maintenance. The consolidated loss would have been $34.865 million due to the continued payments for take or pay agreements.

Note 29: Parent entity information

The *Corporations Act 2001* requirement to prepare parent entity financial statements where consolidated financial statements are prepared has been removed and replaced by the new regulation 2M.3.01 which requires the following limited disclosure in regards to the parent entity (Stanmore Coal Limited). The consolidated financial statements incorporate the assets, liabilities and results of the parent entity in accordance with the Group accounting policy. The financial information for the parent entity, Stanmore Coal Limited, has been prepared on the same basis as the consolidated financial statements, except as follows:

Investments in subsidiaries

Investments in subsidiaries, associates and joint ventures are accounted for at cost.

	2016 $'000	2015 $'000
Current assets	11,116	46,372
Non-current assets	38,707	15,981
Total assets	**49,823**	**62,353**
Current liabilities	1,286	547
Non-current liabilities	-	-
Total liabilities	**1,286**	**547**
Net assets	**48,537**	**61,806**
Issued capital	97,352	97,352
Convertible Note Reserve	-	-
Reserves	4,377	4,304
Accumulated losses	(53,192)	(39,850)
Total shareholder's equity	**48,537**	**61,806**
Profit/(loss) for the year	**(13,342)**	**(12,209)**
Total comprehensive income for the year	**(13,342)**	**(12,209)**

Guarantees

Under the terms of the Secured Financing Facility entered with Taurus Mining Finance Fund LLP in November 2015, Stanmore Coal Limited has provided certain guarantees in relation to the arrangements between Taurus and the borrowing entity (Stanmore IP Coal Pty Ltd. These guarantees relate primarily to payment performance and maintaining the tenure of the Isaac Plains Coal Mine in good standing. (2015: $nil).

Contingent liabilities

The parent entity has no contingent liabilities.

Capital commitments

The parent entity has no capital commitments.

Note 30: 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. This represents a change from prior years when the Company had only one operating segment as all assets were non-producing in nature.

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 the majority of the economic value from the assets. In most instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Segment liabilities

Liabilities are allocated to segments where there is a direct nexus between the incurred of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Consolidated Entity as a whole 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:

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

Segment performance

30 June 2016	Isaac Plains Coal Mine $'000	All other segments $'000	Total $'000
Revenue			
External sales	12,700	-	12,700
Intersegment sales	-	-	-
Interest revenue	-	-	-
Total segment revenue	**12,700**	**-**	**12,700**
Reconciliation of segment revenue to Consolidated Entity revenue			
Other revenue			-
Intersegment elimination			-
Total group revenue			**12,700**
Segment net loss from continuing operations before tax	**(6,132)**	**(1)**	**(6,133)**
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 and development assets			(13,883)
Unallocated			270
Net loss before tax from continuing operations			**(19,746)**
Segment assets	**71,824**	**31,235**	**103,059**
Reconciliation of segment assets to Consolidated Entity assets:			
Intersegment eliminations			(3,162)
Unallocated assets			12,377
Total Consolidated Entity assets			**112,274**
Segment liabilities	**77,955**	**46,812**	**124,767**
Reconciliation of segment liabilities to Consolidated Entity assets:			
Intersegment eliminations			(52,864)
Unallocated liabilities			1,286
Total Consolidated Entity liabilities			**73,189**

Major customers

The Consolidated Entity has a number of customers to whom it sells export grade coal. The Consolidated Entity supplies one such external customer who accounts for 25% of external revenue. The next most significant customer accounts for 20% of external 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 31: Share-based payments

The following share based payment arrangements existed at 30 June 2016.

Share-based payments to Directors, executives and employees

During the year ended 30 June 2016, no options were granted to key management personnel as share-based payments.

	2016 Number of options	2016 Weighted average exercise price $	2015 Number of options	2015 Weighted average exercise price $
Outstanding at beginning of year	4,766,000	1.02	8,841,000	1.42
Granted	-	-	-	-
Forfeited	-	-	(1,800,000)	2.13
Exercised	-	-	-	-
Expired	(2,000,000)	2.12	(2,275,000)	1.90
Outstanding at year-end	2,766,000	0.22	4,766,000	1.02
Exercisable at year-end	2,766,000	0.22	2,000,000	2.13

The options exercisable at 30 June 2016 had a weighted average exercise price of $0.22 (2015: $2.13) and weighted average remaining contractual life of 1.2 years (2015: 0.5 years). The exercise price was $0.22 in respect of all options outstanding at 30 June 2016 (2015: $1.75 to $2.50).

In the year ending 30 June 2016, no options were exercised (2015: nil)

Pursuant to the Consolidated Entity's Incentive Option Scheme, if an employee ceases to be employed by the Consolidated Entity then options will expire three months from the date employment ceases.

The weighted average fair value of the options granted during the year ended 30 June 2014 was $0.07. This price was calculated by using a Black-Scholes options pricing model applying the following inputs:

	2016	2015	2014
Weighted average exercise price	-	-	$0.22
Weighted average life of the option	-	-	4.00 years
Weighted average share price	-	-	$0.18
Weighted average expected share price volatility	-	-	58.36%
Weighted average risk free interest rate	-	-	3.81%

Historical volatility has been the basis for determining expected share price volatility.

The expected life of the options has been taken to be the full period of time from grant date to expiry date. The options pricing model assumes that options will be exercised on or immediately before the expiry date.

The settlement method for the above options is on a 1:1 basis. During the year ended 30 June 2016, no options were exercised (2015: nil) resulting in nil issue of additional shares in lieu of options.

During the year ended 30 June 2016, no performance rights were granted to key management personnel as share-based payments.

The amount included in profit or loss is as follows:

	2016 $'000	2015 $'000
Employee benefits expense	73	195
Administration and consulting expense	-	11
	73	**206**

These amounts have been recognised in equity in the Consolidated Statement of Financial Position as follows:

	2016 $'000	2015 $'000
Share capital	-	-
Option reserve	(73)	(206)
	(73)	**(206)**

Recognition and measurement

The Consolidated Entity provides benefits to employees and consultants in the form of share-based payment transactions, whereby they render services in exchange for shares or options over shares (equity-settled transactions).

The fair value of share or options granted to employees and consultants are recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees or consultants become unconditionally entitled to the instruments. For options, fair value is determined by an independent valuer using a Black-Scholes option pricing model. In determining fair value, no account is taken of any performance conditions other than those related to the share price of Stanmore Coal Limited (market conditions). The cumulative expense recognised between grant date and vesting date is adjusted to reflect the Directors' best estimate of the number of instruments that will ultimately vest because of internal conditions of the instruments, such as the employees having to remain with the Consolidated Entity until vesting date, or such that employees are required to meet internal sales targets. No expense is recognised for instruments that do not ultimately vest because internal conditions were not met. An expense is still recognised for instruments that do not ultimately vest because a market condition was not met.

Where the terms of options are modified, the expense continues to be recognised from grant date to vesting date as if the terms had never been changed. In addition, at the date of the modification, a further expense is recognised for any increase in fair value of the transaction as a result of the change.

Where options are cancelled, they are treated as if vesting occurred on cancellation and any unrecognised expenses are taken immediately to profit or loss. However, if new options are substituted for the cancelled options and designated as a replacement on grant date, the combined impact of the cancellation and replacement options are treated as if they were a modification.

Key estimates – share-based payments

The Consolidated Entity uses estimates to determine the fair value of equity instruments issued to Directors, executives and employees. The estimates include volatility, risk free rates and consideration of satisfaction of performance criteria for recipients of equity instruments. During the period no additional equity instruments were issued and the accounting impact of prior issuances and determinations remains unchanged.

Note 32: Related party transactions

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

(a) Parent entity

The parent entity and ultimate controlling entity is Stanmore Coal Limited, which is incorporated in Australia.

(b) Subsidiaries

Interests in subsidiaries are disclosed in Note 22.

(c) Key management personnel

Disclosures relating to key management personnel are set out in Note 26 and the Remuneration Report contained in the Directors' Report.

(d) Other related party transactions

There were no transactions with other related parties during the year (2015: nil).

Note 33: Other accounting policies

(a) Business combinations

The acquisition method of accounting is used to account for all business combinations. Consideration is measured at the fair value of the assets transferred, liabilities incurred and equity interests issued by the Consolidated Entity on acquisition date. Consideration also includes the acquisition date fair values of any contingent consideration arrangements, any pre-existing equity interests in the acquiree and share-based payment awards of the acquiree that are required to be replaced in a business combination. The acquisition date is the date on which the Consolidated Entity obtains control of the acquiree. Where equity instruments are issued as part of the consideration, the value of the equity instruments is their published market price at the acquisition date unless, in rare circumstances it can be demonstrated that the published price at acquisition date is not fair value and that other evidence and valuation methods provide a more reliable measure of fair value.

Identifiable assets acquired and liabilities and contingent liabilities assumed in business combinations are, with limited exceptions, initially measured at their fair values at acquisition date. Goodwill represents the excess of the consideration transferred and the amount of the non-controlling interest in the acquiree over fair value of the identifiable net assets acquired. If the consideration and non-controlling interest of the acquiree is less than the fair value of the net identifiable assets acquired, the difference is recognised in profit or loss as a bargain purchase price, but only after a reassessment of the identification and measurement of the net assets acquired.

For each business combination, the Consolidated Entity measures non-controlling interests at either fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Acquisition-related costs are expensed when incurred. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Where the Consolidated Entity obtains control of a subsidiary that was previously accounted for as an equity accounted investment in associate or jointly controlled entity, the Consolidated Entity remeasures its previously held equity interest in the acquiree at its acquisition date fair value and the resulting gain or loss is recognised in profit or loss. Where the Consolidated Entity obtains control of a subsidiary that was previously accounted for as an available-for-sale investment, any balance on the available-for-sale reserve related to that investment is recognised in profit or loss as if the Consolidated Entity had disposed directly of the previously held interest.

Where settlement of any part of the cash consideration is deferred, the amounts payable in future are discounted to present value at the date of exchange using the entity's incremental borrowing rate as the discount rate.

Contingent consideration is classified as equity or financial liabilities. Amounts classified as financial liabilities are subsequently remeasured to fair value at the end of each reporting period, with changes in fair value recognised in profit or loss.

Assets and liabilities from business combinations involving entities or businesses under common control are accounted for at the carrying amounts recognised in the Consolidated Entity's controlling shareholder's consolidated financial statements.

(b) Derivative financial liabilities

Obligations to settle fees payable to financiers as either cash or shares are reflected as derivative financial liabilities with changes in fair value recognised directly through profit and loss.

(c) Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Consolidated Entity has a present legal or constructive obligation as a result of a past event, it is probable that that an outflow of economic resources will be required to settle the obligation and the amount can be reliably estimated.

(d) New and amended standards and interpretations not yet adopted

New Accounting Standards and Interpretations not yet mandatory or early adopted Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2016 (with the exception of AASB 15 Revenue from Contracts with Customers which has been early adopted). The consolidated entity's assessment of the impact of these new or amended Australian Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. When effective, the Standard will replace current accounting requirements applicable to leases in AASB 117. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases. The main changed introduced by the new standard include: recognition of a right-to-use asset and liability for all leases; depreciation of right-to-use assets in line with AASB 116 in profit or loss and unwinding of the liability in principal and interest components; and additional disclosure requirements. The Consolidated Entity will adopt this standard from 1 January 2019 but the impact of its adoption is yet to be assessed by the Consolidated Entity.

(e) New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

The adoption of these Australian Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

The following Accounting Standard has been adopted early by the consolidated entity:

AASB 15 Revenue from Contracts with Customers

The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard requires: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied.

The Consolidated Entity has adopted this standard from 1 July 2015 with no impact on prior periods given the Consolidated Entity has transitioned to a producing miner in the year ending 30 June 2016.

DECLARATION BY DIRECTORS

The Directors of the Consolidated Entity declare that:

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 Standards and the Corporations Regulations 2001; and

   (b) give a true and fair view of the Consolidated Entity's financial position as at 30 June 2016 and of its performance for the year ended on that date.

2. The Consolidated Entity has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.

3. 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.

4. The remuneration disclosures included in pages 39 to 50 of the Directors' report (as part of audited Remuneration Report) for the year ended 30 June 2016, comply with section 300A of the *Corporations Act 2001*.

5. The Directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

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

Nicholas Jorss
Managing Director

Brisbane
Date: 31 August 2016

INDEPENDENT AUDITOR'S REPORT

Indpendent auditor's report

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To the members of Stanmore Coal Limited

Report on the Financial Report

We have audited the accompanying financial report of Stanmore Coal Limited, which comprises the consolidated statement of financial position as at 30 June 2016, 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 year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In the notes to the financial statements on page 68, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards.*

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, 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 Stanmore Coal Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of Stanmore Coal Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in the notes to the financial statements on page 68.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 39 to 50 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Stanmore Coal Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

T J Kendall
Director

BDO Audit Pty Ltd
Brisbane
31 August 2016

Marketable Reserves Note

The Isaac Plains Marketable Coal Reserve of 3.7 Mt is derived from a run of mine (ROM) Coal Reserve of 5.0 Mt that is JORC compliant based with a predicted yield of 73%. The 3.7 Mt Marketable Reserve is included in the 48.2 Mt JORC Resource (15.2 Mt Measured + 23.0 Mt Indicated + 10.0 Mt Inferred Resource).

The Isaac Plains East Marketable Coal Reserve of 8.3 Mt is derived from a run of mine (ROM) Coal Reserve of 10.3 Mt that is JORC compliant based with a predicted yield of 81%. The 8.3 Mt Marketable Reserve is included in the 28.7 Mt JORC Resource for Isaac Plains East (18.7 Mt Indicated + 10.0 Mt Inferred Resource).

Production Target

The production target of 1.1 Mtpa for 10 years (equivalent to 1.5 Mtpa run of mine production) is underpinned solely by total Marketable Reserves of 11.9 Mt (10.8 years equivalent) within Isaac Plains and Isaac Plains East, as announced on 6 April 2016, titled "Significant JORC Reserves Increase for Isaac Plains Complex".

The Company confirms that it is not aware of any new information or data that materially affects the information included in the announcement made on 6 April 2016 and that all material assumptions and technical parameters underpinning the estimates in the announcement made on 6 April 2016 continue to apply and have not materially changed.

Competent Persons Statement

The information in this report relating to coal reserves for Isaac Plains and Isaac Plains East was announced on 6 April 2016, titled "Significant JORC Reserve Increase for Isaac Plains Complex", and is based on information compiled by Mr Ken Hill who is a full-time employee of Xenith Consulting Pty Ltd. Mr Hill is the Managing Director of Xenith Consulting Pty Ltd, is a qualified civil engineer, a member of the Australian Institute of Mining and Metallurgy (AusIMM) and has the relevant experience (30+ years) in relation to the mineralisation being reported to qualify as a Competent Person as defined in the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (The JORC Code 2012 Edition)".

The Company confirms that it is not aware of any new information or data that materially affects the information included in the announcement made on 6 April 2016 and that all material assumptions and technical parameters underpinning the estimates in the announcement made on 6 April 2016 continue to apply and have not materially changed.

The information in this report relating to coal resources for Isaac Plains and Isaac Plains East was announced on 6 April 2016, titled "Significant JORC Resource Increase for Isaac Plains Coking Coal Complex", and is based on information compiled by Mr Troy Turner who is a full-time employee of Xenith Consulting Pty Ltd. Mr Turner is a qualified geologist and a member of the Australian Institute of Mining and Metallurgy (AusIMM) and has sufficient experience in relation to the style of mineralisation and type of deposit being reported to qualify as a Competent Person as defined in the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (The JORC Code 2012 Edition)".

The Company confirms that it is not aware of any new information or data that materially affects the information included in the announcement made on 6 April 2016 and that all material assumptions and technical parameters underpinning the estimates in the announcement made on 6 April 2016 continue to apply and have not materially changed.

The information in this report relating to the Clifford Project exploration results and coal resources is based on information compiled by Mr Oystein Naess who is a member of the Australian Institute of Mining and Metallurgy and is a full time employee of Xenith Consulting Pty Ltd. Mr Naess is a qualified geologist and has sufficient experience which is relevant to the style of mineralisation

and type of deposit under consideration and to the activity which he is undertaking, to qualify as Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves".

The Company confirms that it is not aware of any new information or data that materially affects the information included in the announcements and that all material assumptions and technical parameters underpinning the estimates in the announcements continue to apply and have not materially changed.

The information in this report relating to coal resources for all other projects was announced on the dates noted in the table within the Directors' Report, and is based on information compiled by Mr Troy Turner who is a full-time employee of Xenith Consulting Pty Ltd. Mr Turner is a qualified geologist and a member of the Australian Institute of Mining and Metallurgy (AusIMM) and has sufficient experience in relation to the style of mineralisation and type of deposits being reported to qualify as a Competent Person as defined in the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (The JORC Code 2012 Edition)".

The Company confirms that it is not aware of any new information or data that materially affects the information included in the announcements and that all material assumptions and technical parameters underpinning the estimates in the announcements continue to apply and have not materially changed.

NOTES

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