TRANSCRIPTION

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Operator: Thank you for standing by. Welcome to the Stanmore Resources quarterly production report, third quarter 2023 conference call. All participants are in a listen-only mode. There'll be a presentation, followed by a question and answer session. If you wish to ask a question, you'll need to press the star key, followed by the number one on your telephone keypad. I would now like to hand the conference over to Mr. Marcelo Matos, CEO. Please go ahead.

Marcelo Matos: Thank you. Morning, everyone, and thanks for joining us today. I would like to begin by acknowledging the traditional owners of the land on which we meet, the Turrbal and Jagera peoples here in Meanjin in Brisbane, and, also acknowledge of the traditional custodians of the lands on which our operations are based, which are the Baranha/Barna, the Jangaa, and the Widi peoples of Central Queensland. Pay my respects to the elders past, present, and emerging. Happy to host the first quarterly call for Stanmore. As we've indicated previously, our plan now is to be hosting these calls each quarter.

We'll keep things very simple so the intention is not to actually make a presentation, given it is just a release. There's no actual appraisal, so we do a 10, 15-minute summation of the quarterly activities, followed by Q&A. I'm starting with safety. A strong record of [inaudible] continues, although we did edge above the prior quarter, the following three recordable injuries I think thankfully they've been non-severe. Obviously, every injury is a reminder for us to remain vigilant and continue to focus on preventative initiatives and on lead indicators, as well as the processes to ensure that we don't take our eyes off the ball and our priorities are in the right space.

Overall highlights for the quarter, we had a pretty strong quarter operationally speaking. All sites meeting production expectations and well positioned for the fourth quarter. We are on track to deliver on the full year guidance, fortunately. We're also pleased to report that the business began to benefit from the proactive acquisitions of additional rail report which was spoke previously. So during September of course we saw an improved sales performance and so I think some of the additional capacity has helped to address some of the logistics of the performance that we've been observing, especially in the first half and that's reported of course a good sales performance of 3.3 million tonnes in the quarter.

Of course, this is coming across to the business given that we are now having to carry additional surge capacity above our usual required contracted volumes. Net cash position improved by $64 million US dollars by the end of the quarter, even considering that we have stepped up our spend on numerous capital projects. We did speak about this before, we had a spend profile in the year that was always planned to be more backhanded in the year and towards the second half. You've seen our guidance range before and it's pretty obvious that with the actual expand in the first half, the second half was always expected to be higher and that was the case in the third quarter.

Having said that, there's still [inaudible] to finish the year within the guidance and I'll talk a bit more about progress of projects soon, obviously improved prices have helped with this cash generation despite the highest spend in capital in the second half. Having said that, the third quarter was quite an interesting quarter. We've seen the lowest, especially in PCI prices towards beginning to the middle of the third quarter with good recovery since then. Having said that, despite the fact that PCI has significantly increased, it bounced around 150 US towards the middle of Q3, but we saw a reasonable improvement now just above 205 with coking coal prices above 360.

So, PCI relativity is still very low despite the fact that there are prices a lot better than the bottom that we see in the middle of the quarter. We saw the inclusion of steam into the ASX 300 in September. It's a significant milestone for us and of course we look forward to the additional reach and liquidity that this will promote to the company. Moving to a brief summary of the operational performance of each of the sites. Salt Walker Creek closed out a strong quarter with the highest quarterly saleable production from our CHPP for the year. Continues to be a very consistent and predictable operation demonstrated by the stable production figures each quarter.

From a sales perspective, the logistics bottleneck is during the quarter some of these initiatives that spoke about came to creation, so sales were up 11.5% on the average of their first two quarters and importantly, product stockpiles have trended downwards, assisting with onsite eventually management. If you recall, eventually management during the first half was quite a challenge given of course the last thing we wanted was to get stock bound, so there was a lot of rehandling in the first quarter. Fortunately, this is a lot improved now with the improved shipping as well.

For Port Trail, the first half was characterised by a catch-up on eventually of stripping, as I spoke before, given that we prioritise a lot of coal flow in the backend of '22 when we had very high prices. So, the good news is during the third quarter, the mine sequencing return to high co-production and CHPP output, which saleable production up almost 50% on the average of the first two quarters. It was always meant to be a stronger second half as we spoke before and this is materialising now, and good to see a strong third quarter production result.

And like in South Walker coupled with the improved logistics performance or let's say sales performance, this flow through an improvement of around 30% compared to the first half in shipments as well. Ramp 10 north is also progressing well. Catching up on the delays we experienced in the first half, especially in the first quarter given some of the weather delays. Project's on track, we are still expecting to finish the line with all plans in ramp 10. As a place, we saw the plant three weeks shutdown down of the drag line and, also the commencement of pit five North overburden stripping, and this of course we saw the results in our lower coal exposure and higher strip ratio.

Of course, with the drag line down three weeks, of course we lose a bit of stripping, but likewise with introduction of pit five north, which was not a surprise, we are doing a lot of waste in starting stripping in pit five, but we only see first coal in pit five in the end of the year. A little bit of coal in December where most of the pit five coal, which is around 1.4 million tonnes of rock will be mined in 2024/2025. Projects progressing well, we're expecting about two and a half million BCMs pre-stripped by the end of this year and all on track on that front as well. Just touching briefly on our 50/50 Millennium and Mavis JV.

Development of the underground that Mavis have made good progress during the quarter including the introduction of a second continuous miner, of course to improve the ramp up pace. Unfortunately there was a short temporary outage. We've been working closely with the operator PIMS and, also with inspector and the regulator to manage that incident. And we are pleased to report that just the day before yesterday we returned to safe operations, and are now again ramping up production. On the projects front, South Walker expansion remains on schedule and on budget with the initial tendering outcomes for the additional fleet requirements, the CHPP upgrade and the mining infrastructure looking promising.

Total capital for the projects is expected to be within the planned $100 million, and will facilitate a step-up in raw mining through 9.4 million tonnes per [inaudible] between mid '24 and '25, and they increased saleable production to 7 million tonnes from early 2025. The MRHOC project at South Walker continues to remain on schedule and on budget. Progress to date includes the creek and levy alignment clearing. Some of you who were with us during the recent investment tool could see the scale of the project and the amount of clearing and progress that's been done. Power line relocation and over 90% of the work's packages had been already award.

Projects expected to come online in early '25 and will bring important cost benefits and it's an important enabler for the future expansion as previously explained. Spoke about ramp 10 in Port Trail, but also our southern levee in Port Trail, the soil construction is head of sched, which is great. It's an important project to allow us to keep progressing mining towards the southern end of the mine, and of course maintain our workable strike lane. Project's ahead of schedule, which is great. We expect that we will achieve our design to 1,000 design level by the end of the year before the wet season, which was always the plan.

Quickly on exploration. Focus during the quarter remained on Lance Wood northern part of the [inaudible] area as we presented previously. Good progress made on seismic analysis as well as setting up works for the commencement of drilling in Q4. Project remains a very interesting organic prospect. We'll provide this exposure to a premium quality coking coal, and we're looking forward to continue to update the market on the latest developments. As previously indicated, we are planning a made statement. We are hoping that we can do it still within this year.

Of course, this will demand on the progress of drilling on the first quarter, but we definitely want to provide a good update to the market around concept studies that we are doing certainly by the beginning of 2025. On the market certainly being one of the interesting quarters as I previously explained with premium hot cooking coal rally around 40% over the quarter, following the lows that we reached towards the end of June, we see this rally being primarily a supply side story with plant maintenance and production issues resulting in constraint availability of the top end of the market.

No premium grades have not followed the same trends necessarily, especially evidenced by the PCI widening with relativities as previously discussed. You can see that in the chart in our announcement in page five, we can see the PCI testing those floors of 150. We are obviously a large player in the PCI market and we see the price dynamics being characterised by steel, by Russian competition and ongoing soft [inaudible] to look for steel demand.

Having said that, we have taken some comfort that price has bounced from those 150 lows, and there is an ongoing market segmentation and decoupling between benchmark quality PCI material with some of the competing materials we can see that clearly reflected in some of the industry assessments and that's demonstrated by the robust appetite for Australian Prime quality PCIs. So, there's also decoupling between some of the FOB prices with the CFR prices in China, for example, for Russian materials. I'll hand over to Shane now. Shane will provide a quick update on corporate level positions before we move into Q&A.

Shane Young: Thanks Marcelo. From a cash perspective, the strong operational results and uptick in sales contributed positively to our balance sheet this quarter with a net cash position improving by $64 million US dollars to finish the quarter at US $134 million, and that was underpinned by $470 million of cash on hand as at 30 September. It's important to note that from our operating cash flows we continue to cash fund our numerous capital projects where spend stepped up in the third quarter, following below run rate spend of only $46 million US in the first half compared to our stated full year guidance of between $175 and $195 million US, which we remain on track for.

This CapEx is in addition to an additional 30 million Aussie spend or drawdowns under the MetRes facility to support the capital development of the Mavis Downs project, and also some business as usual payments such as pay as you go tax and interest. Looking ahead to the fourth quarter, we thought it would be helpful to guide people with respect to an anticipated tax payment of approximately 120 million Australian dollars due in December, which relates to the final tax return for the SMC or what was formally called BMC legal entity for the period of 1 July, 2022, until we completed the acquisition of Mitsui’s remaining 20% interest in that legal entity on the 7th of October, 2022.

At that point, that legal entity joined the Stanmore Consolidated tax group and is caught up in the tax returns for SMR on a consolidated basis. So that payment will be the final payment related to that old SMC or BMC legal entity. On the debt facility, the quarterly scheduled amortisation component of our repayments stepped up to US $15 million reducing the balance to US $333 million as of September 30, or just above half of the original $625 million US draw down just under 18 months ago.

As Marcelo highlighted earlier, we are very pleased to have been added to the ASX 300. This is a remarkable achievement and demonstrates the significant value that has been added to our company since the acquisition of SMC. We look forward to continuing to engage with the market constructively following the positive impact to mandates and investor reach that this ASX 300 inclusion will bring. We're also pleased to report that progress has been made on our Aboriginal and Torres Strait Islander people's engagement with the endorsement of the reflect stage of our reconciliation action plan on August 17th.

Finally, on guidance as Marcelo hinted at earlier, we remain on track to deliver our stated saleable production targets with free onboard cash cost and capital expenditure currently remaining within the ranges previously provided. As such, we're not changing guidance at this time and with strong results highlighted today, we feel the operations are well positioned for the fourth quarter. Now we'll hand over to our moderator so that we can take your questions.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you're on a speakerphone, please pick up the handset to ask your question. Your first question comes from Tom Sartor with Morgans. Please go ahead.

Tom Sartor: Oh, good day Marcelo and Shane, thanks for the call. Three quick ones for me. Firstly, if we can start with the recordable incidents during the quarter. Clearly from the site visits you guys are really busy internally on projects and I'm just curious as to whether your evaluation of the fundamental causes around those incidents, what you've learned as to what drove those and if that relates to what you're up to or perhaps the labour base?

Marcelo Matos: Morning, Tom. Look, it's obvious that there is a significant increase in activity at sites. Interestingly, none of them relate to projects. So, it's mostly related to existing operations. There's an increasing trend, a number of those were in the Isaac Plains complex as you are where we are not the coal mine operator for the planes is our mining services contractor, EPSA. We run only the wash plant under the EPSA panel as a CMO, so of course we work closely with EPSA.

There's a lot of work we are doing there to make sure that the same work we are doing in South Walker and Port Trail by focusing on lead indicators, critical control verifications and making sure that priorities are well aligned and the systems and the tools are in place. I think that the culture there is strong. I think we are seeing some of the actions and initiatives, Tom, and we are expecting improvements. But it's unfortunate that we saw some of those events still happening. We are pivoting as well just so you know, Tom, towards focusing also and reporting more also around serious accidents rather than [inaudible] that's something that we want to align even with the Queensland government, let's say priorities. And we intend to start to also be reporting of those lines from the fourth quarter this year. As I always say, safety is like a rabid dog, we need to keep the foot on his neck, otherwise going to go and bite you. So, it's making sure that the behaviours and the focus is on the right space, the culture is there, the tools are there. We just need to make sure that leadership and everyone's working towards not dropping the ball.

Tom Sartor: Terrific, thank you. Just on, we've talked before about the coal inventories, you've touched on it there in the summation, they've come down marginally during the quarter but are still high. The extra logistics you've acquired, can that materially eat into those inventories in the upcoming quarters even though basin volumes perhaps might be improving from here?

Marcelo Matos: Look, September unfortunately was a pretty disappointing month. We ship less than 900,000 in September, but where we actually had an extremely strong July and August, so this is one of the consequences of the September slippages. So, a lot of that volume actually October is looking pretty strong, above 1.3 million just as an indication. So, a lot of those slippages were on a boat, we had probably close to half a million tonnes on a boat in the first days in October.

So, I think it is going to be a strong third quarter and October looking good. I think the concern is always the same, but when the potential slippages from December to January and we are doing everything we can to make sure we get early month nominations and we get coal to the ports and we get as many trains as possible, Tom. So, things are looking good, we are looking confident that the guidance will be met. Nothing so far indicating otherwise.

Tom Sartor: No worries. And finally for me, we haven't talked about the MetRes JV for a while. Can you remind us around the scope of the opportunity there into the medium term potentially around further capital or working capital required? And then what's achievable in your minds around volume and maybe a comment on margins also?

Marcelo Matos: Look MetRes, I think the important thing that most of the investment in let's say in the Mavis underground project has been made. Investment is done, now even Shane mentioned here about some of the drawdowns. This is mostly working capital to support ramp up. I think the focus on MetRes now is ramp up. We need to get the tonnes, it's a hot coking coal product. It's a pretty attractive product. Price realisation is strong as an average for that project. So, the prices are good. I think the focus now is making sure that we work closely with PIMS who is the underground contractor to get the volumes.

The second unit is there. What we are doing now, just to be frank, is we are having a good look together with M Mining and MetRes to make sure, let's say the target volumes are achievable considering that we're going to have two units working and so that we understand the plans, that the plans are realistic and achievable. We are probably looking at around the mid 150s Aussie type of cost position for that operation. There is a small operation as you are aware.

We have around three years of life in the Mavis pit and the idea is to move that same setup into the millennial A pit next door, and we are now proving up and doing work in seismic in the Millennium pit, which could be another three to five years extension. So, it was always meant to be a small project, not necessarily long life project, but let's say a low capital project to start with a good average sales price. Millennium needs EA amendments to be able to mine underground, these are happening as we speak.

There's a lot of work especially on groundwater and the exploration to prove up the reserves and then be able to extend mine beyond Mavis. So, it's work in progress, Tom. I think we did have a few headwinds there and this suspension of operations in the last 10 days, well of course was a surprise. There was a slab that fell on on the roof and Mavis needed to do the work to address that, but fortunately it's back on track and it was reopened and approved by the inspector to reopen. So now it's focusing on the tones and getting the ramp up concluded.

Shane Young: Just probably one thing to add to that, to what Marcelo mentioned. And just as a reminder to everyone, as a non-controlled JV, so it's a 50/50 JV, the MetRes does not consolidate into our physicals as you see or into our financials. So obviously we monitor and we'll participate in the success of that JV, but it's not reflected in the same way on a consolidated basis in our financial statements.

Marcelo Matos: I would anticipate, Tom, maybe I'll take the opportunity of this question to anticipate that we are looking at a potential re-rating of the production volumes in the project to make sure that the mine plan is realistic and achievable. And we are working with MetRes, the joint venture and with the PIMS and we hope to come back and update all of you once we have concluded that exercise. Of course, if we re-rate the annual production, we get a bit more on my life given that the reserves are still there. So that's something that it's work in progress as well.

Tom Sartor: Terrific. Appreciate the details, gents. I'll pass that on.

Operator: Your next question comes from Jim Xu with Barrenjoey. Please go ahead.

Jim Xu: Hi Marcelo and Shane, just a couple of questions from me. The first one is, the pricing on those sales that you said slipped from the September month to October. Will they be sold at the higher prices we're seeing in October or were they fixed at the lower prices we saw the start of September?

Marcelo Matos: Jim, there's a basket of different pricing mechanisms inside some of those slippages. Some of our coking costs for example, depending on where they're shipped, they are exposed to quality averages as well rather than just monthly averages. Most of them monthly average is

30 days before the first day of [inaudible] for example. So, it is a bit of a basket, Jim, it's not so simple.

But they usually will be either looking at the previous 30 days depending on the first day of [inaudible] if so, which means if it slipped to October, you are talking about probably sometime mid-September, second half of September [inaudible] for example. So, look back 30 days from that, that's what the price exposure you have. But in some cases it could be still having those lag effects of some of the sales to some markets that are still exposed to quarterly averages. So yeah, it's a bit of a basket there.

Jim Xu: Okay, understood. Thank you. And then just, I know you touched on it earlier, but if you just get a bit more colour on the MetRes safety issue, what was the issue the regulator identified? And just confirming it's been addressed now.

Marcelo Matos: A bit of a slab fell off the roof through the mesh, so fortunately no injuries and of course the regulator was informed, notified as required and the attended site made a series of recommendations and they've been attended by PIMS, by the contractor who is the actual operator of that project. The inspector has since attended and provided the approval to restart or finish.

Jim Xu: Okay, thank you.

Operator: Once again, if you wish to ask a question, please press dial one on your telephone and wait for your name to be announced. Your next question comes from Vince Musumeci with Petra Capital. Please go ahead. Hello, you're now live. Please go ahead.

Marcelo Matos: You're there, Vince? You are on mute.

Operator: Sorry they're not speaking. There are no further questions at this time. I'll now hand back for closing remarks.

Marcelo Matos: Look, thanks everyone for the questions and your ongoing support. I think we trust that the commencement of this quality call will provide an additional constructive source of engagement with you all. Of course, like to take the opportunity to thank our teams and employees and contractors overall for all the efforts. It was a pretty strong quarter. Operations are going well and we are on track to achieve our guidance by year end. So, thanks everyone. Thanks for your time.

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