

BOARD OF STANMORE COAL REJECTS TAKEOVER OFFER

The Board of Stanmore Coal recommends shareholders reject the \$0.95 takeover offer from Golden Investments

Attached is the Chairman's letter to Shareholders

Yours faithfully

Ian Poole
Company Secretary

FOR FURTHER INFORMATION, PLEASE CONTACT:

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ABOUT STANMORE COAL LIMITED (ASX CODE: SMR)

Stanmore Coal operates the Isaac Plains coking coal mine in Queensland's prime Bowen Basin region. Stanmore Coal owns 100% of the Isaac Plains Complex which includes the original Isaac Plains Mine, the adjoining Isaac Plains East (now a new open cut mine that commenced operations in July 2018), and the Isaac Plains Underground Mine (currently being assessed in a Bankable Feasibility Study). The company is focused on the creation of shareholder value via the efficient operation of Isaac Plains and Isaac Plains East, identification of further development opportunities (such as the Isaac Plains Underground Mine and the Isaac Downs Project) within the region. In addition, Stanmore Coal holds a number of high-quality development assets (both coking and thermal coal resources) located in the Queensland's Bowen and Surat Basins.

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The Board of Stanmore Coal recommends shareholders reject the inadequate \$0.95 takeover offer from Golden Investments

Dear fellow shareholder,

I am writing to Stanmore Coal Limited ("**Stanmore**") shareholders to let you know your Board's views in relation to the unsolicited, conditional takeover Offer which has recently been made for your Company by Golden Investments (Australia) Pte Ltd. ("**Golden Investments**").

Based on detailed analysis undertaken by the Company and its advisers, the Board's very strong view is that the Offer significantly undervalues your shares in Stanmore Coal, and shareholders should reject the Offer.

You will shortly receive a Bidder's Statement from Golden Investments in relation to the Offer. **To reject the Offer, shareholders should take no action.**

The Company will respond to Golden Investments' Bidder's Statement with a Target's Statement in due course, which will contain your Directors' formal recommendations, and an Independent Expert's Report on whether the Offer is fair and reasonable to Stanmore shareholders. However, we thought it important to let you know the Board's view before you receive the Bidder's Statement.

In reaching the recommendation that shareholders reject the Offer, the Board has considered a number of factors which are outlined below.

1. The Offer significantly undervalues Stanmore Coal shares.

- **The multiple represented by the Offer price is materially below the trading multiples of coal producers listed on ASX.**

As Stanmore has increased the level and quality of its production with additional tonnes coming from the recently opened Isaac Plains East deposit, the margins from the Company's coal sales have materially improved. The Company recently stated forecast guidance for FY 2019 of earnings before interest, tax, depreciation and amortisation (EBITDA) of between A\$130 million and A\$150 million. The Offer implies an Enterprise Valuation for Stanmore of only A\$225 million¹, which values the shares at only 1.5 to 1.7 times our forecast FY 2019 EBITDA. This is materially below the trading multiples for the shares of all of the coal producing companies listed on ASX.

¹ Enterprise Value calculated as Market Capitalisation adjusted for Unvested Rights less Net Cash. Market Capitalisation calculated as Golden Investments' Offer Price (A\$0.95 per share) multiplied by 252.8 million shares outstanding plus 4.6 million unvested Rights (see Appendix 3B published on 23 November 2018). Net Cash calculated as cash (\$19m) less interest-bearing debt (nil) as at 30 September 2018. Adjusted Market Capitalisation \$244 million less Net cash \$19 million = Enterprise Value \$225 million

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- **The Offer is materially below the average premium paid in Australian corporate control transactions.**

The Offer implies very low premiums of only 14.5% to the closing price of Stanmore on 16 November (the last trading day prior to the announcement of the Offer) and only 8.1% to the volume weighted average price of Stanmore shares in the one month prior to the announcement of the Offer². The premiums implied for your shares in the Offer are materially below the average premiums paid in Australian corporate control transactions.

2. The Offer does not recognise the material value in Stanmore's growth strategy and assets, and the Company's track record for delivering on its strategic objectives.

Stanmore Coal is putting its growth strategy into action to generate certainty of outcomes and returns for shareholders. There are a number of important points that demonstrate this value is not recognised by the Offer.

- **Stanmore is currently forecasting FY 2019 coal production of 2 million tonnes and is well positioned to further increase production over the near to medium term.**

With our established 3.5 Mtpa ROM capacity at the Isaac Plains Coal Handling and Preparation Plant (CHPP), Stanmore has the ability to increase production and reduce unit costs by efficiently commercialising nearby deposits. This has been demonstrated with the commencement of mining at the Isaac Plains East project. The recent purchase of the Wotonga South project (now known as Isaac Downs) will allow for coal from that project to be processed through the Isaac Plains CHPP. In addition, significant Coal Resources have been identified within EPC 755 (Isaac South Project, 52Mt³) which can also be processed through the Isaac Plains CHPP.

Stanmore has obtained port capacity so that the Company will be able to ship more tonnes and expand production further beyond the expected FY 2019 production level of 2Mtpa of product coal.

We believe there is material strategic value in this "hub" approach in the world's premier metallurgical coal basin (the Bowen Basin) and we strongly believe this is not recognised in the inadequate Offer from Golden Investments.

- **Stanmore expects an improvement in the quality and therefore, the value of the coal it produces.**

The Isaac Downs deposit which currently has a resource of over 23Mt⁴ has significant levels of semi-hard coking coal and pulverised coal injection coal. Historically, these coal types have attracted significant premiums to the semi-soft coking coal which is the principal product currently being produced and sold by Stanmore. Consequently, we are confident of improving our sale price per unit relative to hard coking coal reference prices over time as our sales mix gravitates to higher value coal.

² VWAP between 17 October 2018 and 16 November 2018 of \$0.8787.

5-day VWAP between 12 October 2018 and 16 November 2018 of \$0.8930 results in a 6.4% premium

³ Refer ASX announcement on 27 July 2018 "Coal Resource – Isaac South Project" Measured Resources 11.9mt, Indicated Resources 14.5mt, Inferred Resources 25mt

⁴ Refer ASX announcement on 12 June 2018 "Acquisition of Wotonga South Coking Coal Deposit" Measured Resources 18.7mt, Indicated Resources 3.6mt, Inferred Resources 1mt

- **Stanmore is well positioned in the metallurgical coal sector which has a positive outlook for pricing and demand.**

Metallurgical coal prices are well supported and it is the Company's view that they will remain that way over the long term as there is no replacement technology for this product in the steel-making process.

Stanmore has established supply relationships with a number of significant steel manufacturers in Asia and more recently in Europe. Stanmore is well positioned in the metallurgical coal sector with a reducing cost structure, which will add further strength to the Company as we grow returns and value.

These factors, in conjunction with economic growth in south-east Asia and India, are very positive for the Company's outlook.

3. The Offer does not recognise the material optionality in Stanmore's development projects.

As well as being able to expand production from tenements near the Isaac Plains CHPP, Stanmore also has a number of significant coal projects at varying levels of development which provide material optionality for shareholders, including in the Surat Basin (The Range and Clifford projects) and in the Southern Bowen Basin (Mackenzie, Belview, Tennyson and Lilyvale).

Further detail regarding the reasons for the Board's recommendation to reject the unsolicited Offer from Golden Investments will be set out in the Target's Statement which we expect to dispatch to shareholders around 17 December.

At the time of announcing its unsolicited Offer, Golden Investments also announced that it had acquired 19.9% of Stanmore from Greatgroup Investments Limited ("**Greatgroup**") which had been, up until the announced sale of its shareholding, Stanmore's largest shareholder with a total stake of 21.8% of the Company. Greatgroup had been represented on the Board of Stanmore Coal by its nominee, Mr Chris McAuliffe. Following the announcement that Greatgroup had sold the majority of its shareholding to Golden Investments, Mr McAuliffe has indicated his intention to resign as a Non-Executive Director.

In addition to the Offer price being materially inadequate, the Offer is also subject to a number of conditions, including Golden Investments achieving a relevant interest of more than 50% in Stanmore Coal shares, and receiving approval for its Offer from the Foreign Investment and Review Board (FIRB). Should Golden Investments receive any acceptances for its Offer, those shareholders would not receive the Offer consideration until the Offer is declared to be free of all conditions.

For the reasons set out above, we recommend shareholders simply ignore all documentation sent to you by Golden Investments in relation to its unsolicited Offer to acquire your shares.

The Board thanks you for your support and we look forward to further communicating with you during the course of the Offer process.

Regards



Stewart Butel

Chairman

Stanmore Coal Limited