


stanmorecoal

21 December 2018

The Manager
Companies Announcement Office
Australian Securities Exchange
Level 4, 20 Bridge Street
Sydney, NSW 2000

Dear Sir / Madam

STANMORE COAL LIMITED
TAKEOVER OFFER BY GOLDEN INVESTMENTS (AUSTRALIA) PTE. LTD

As required by s647(3) of the Corporations Act 2001 (Cth), we enclose a copy of the second Supplementary Target's Statement dated 21 December 2018 and served today by Stanmore Coal Limited (***Stanmore***) on Golden Investments (Australia) Pte. Ltd (***Golden Investments***), supplementing Stanmore's Target's Statement dated 12 December 2018 and Stanmore's first Supplementary Target's Statement dated 21 December 2018 in response to Golden Investments' Bidder's Statement dated 19 November 2018 as supplemented by the Supplementary Bidder's Statement dated 14 December 2018.

Yours faithfully,

Ian Poole
Company Secretary

For further information, please contact:

Dan Clifford
Managing Director
07 3238 1000

Ian Poole
Chief Financial Officer & Company Secretary
07 3238 1000

About Stanmore Coal Limited (ASX: 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 (operational), Isaac Downs (open cut mine project) 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 the Isaac Plains Complex and the identification of further development opportunities within the region. In addition, Stanmore Coal holds a number of high-quality development assets (both coking and thermal coal resources) located in Queensland Bowen and Surat basins.

SECOND SUPPLEMENTARY TARGET'S STATEMENT BY STANMORE COAL LIMITED (ACN 131 920 968)

1 Introduction

This document is a supplementary target's statement under section 644 of the Corporations Act 2001 (Cth) (***Second Supplementary Target's Statement***). It is the second Supplementary Target's Statement to the Target's Statement issued by Stanmore Coal Limited (***Stanmore***), dated 12 December 2018 (***Original Target's Statement***) and the Supplementary Target's Statement issued by Stanmore dated 21 December 2018 (***First Supplementary Target's Statement***) in relation to Golden Investments (Australia) Pte. Ltd's (***Golden Investments***) unsolicited, conditional off-market takeover offer for all the ordinary shares in Stanmore, made pursuant to the Bidder's Statement dated 19 November 2018 as supplemented by the Supplementary Bidder's Statement dated 14 December 2018.

This Second Supplementary Target's Statement supplements, and should be read together with, the Original Target's Statement and the First Supplementary Target's Statement. This Second Supplementary Target's Statement will prevail to the extent of any inconsistency with the Original Target's Statement and the First Supplementary Target's Statement. Unless the context requires otherwise, terms defined in section 9 of the Original Target's Statement have the same meaning where used in this Second Supplementary Target's Statement.

This Second Supplementary Target's Statement is dated and was lodged with ASIC and ASX on 21 December 2018. Neither ASIC or ASX, nor any of their respective officers, takes any responsibility for the contents of this Second Supplementary Target's Statement.

The Second Supplementary Target's Statement is an important document and requires your immediate attention.

The Second Supplementary Target's Statement does not take into account the individual investment objectives, tax position, financial or particular needs of any person. It does not contain financial product advice. You should seek independent legal, investment, financial or taxation advice before making a decision as to whether or not to accept the Offer.

If you have recently sold all of your Stanmore Shares, please disregard this document.

2 Supplementary disclosure from Independent Expert

At ASIC's request, the Independent Expert has provided supplementary disclosure in relation to certain aspects of the Independent Expert's Report contained in Annexure A to the Original Target's Statement.

The Independent Expert's supplementary disclosure is contained in the Annexure to this Second Supplementary Target's Statement. Importantly, there has been no change to the Independent Expert's estimate of the value of your Stanmore Shares and no change to the Independent Expert's conclusion that the Offer is **NOT FAIR AND NOT REASONABLE**.

3 No change to your Director's recommendation

Your Directors continue to unanimously recommend that Stanmore Shareholders **REJECT** the Offer, by **TAKING NO ACTION**, for the reasons set out in Section 1 of the Original Target's Statement as supplemented by the First Supplementary Target's Statement and this Second Supplementary Target's Statement.

4 Shareholder Information Line

Stanmore Shareholders can call the Shareholder Information Line on 1300 970 086 (within Australia) or +61 1300 970 086 (outside Australia), between 8.30am and 5.30pm (AEDT) Monday to Friday if they have any queries in relation to the Offer.

5 Authorisation

This Second Supplementary Target's Statement has been approved by a resolution passed by the Directors of Stanmore.

Dated 21 December 2018

Signed for and on behalf of Stanmore Coal Limited by:

Stewart Butel

Chairman

BDO

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The Shareholders
C/- The Directors
Stanmore Coal Limited
Level 8, 100 Edward St
Brisbane, QLD, 4000

21 December 2018

Dear Shareholders

SUPPLEMENTARY DISCLOSURE

BDO Corporate Finance (QLD) Ltd ('BDOCF', 'we', 'us' or 'our') was engaged to provide an independent expert's report ('the IER') to the non-associated shareholders ('the Shareholders') of Stanmore Coal Limited ('Stanmore' or 'the Company') in relation to the off-market takeover bid made by Golden Investments (Australia) Pte. Ltd. ('Golden Investments') for all the ordinary shares in Stanmore ('the Offer'). BDO CFQ's report was finalised and dated 11 December 2018 and included in Stanmore's Target's Statement released on 12 December 2018.

The Australian Securities and Investment Commission ('ASIC') has asked that we provide further disclosure in relation to certain aspects of the IER. This further disclosure is provided under the relevant headings below.

Assumed Start Date for Production in Isaac Downs in the Base Case Discounted Cash Flow Model

Isaac Downs ('ID') is a pre-development asset that currently still requires approvals and licences (including mining licences and environmental approvals) studies to be undertaken and infrastructure construction. Our Base Case Discounted Cash Flow ('DCF') valuation assumes production will begin from FY22 and we believe there to be a reasonable basis for including ID in our DCF valuation.

In forming our view, we had regard to the work of the Independent Technical Specialist, Palaris Australia Pty Ltd ('the ITS'), who concurs with our view. The ITS prepared a report which was attached as Appendix B of the IER. Our work also included discussions with the ITS about certain matters set out in their report that we considered relevant to us forming a view on ID.

Based on information provided by the ITS and our own enquiries, we understand that:

- Infrastructure requirements are minimal for ID being mainly related to haul roads, as ID will continue to utilise existing infrastructure at the Isaac Plains Complex ('the Complex');
- The following key risks, in the specific context of ID, were considered by the ITS in forming their view regarding the risks of meeting the proposed development timeframe for ID:
  - The long lead time approvals required for ID are the mining lease, state and federal environmental approvals and a native title determination. Stanmore propose to lodge these as follows:
    - Mining lease applications for ID with the state regulator in Quarter 1, 2019;
    - Environmental referral with the federal environmental regulator in Quarter 1, 2019, and
    - Environmental Impact Statement with the state environmental regulator in Quarter 3, 2019;

- Stanmore's internal timeline for obtaining its state and federal approvals is Quarter 1, 2021 which appears achievable based on statutory assessment timeframes and provided there are no significant delays in the assessment process;

- Stanmore proposes to commence discussions with the Native Title holder in early 2019 with a view to obtaining a Native Title agreement by Quarter 4, 2020. This appears achievable based on Stanmore having an existing relationship with the Native Title holder through an existing cultural heritage management plan and cultural heritage agreement;

- Design for all infrastructure required for ID has commenced. A preferred alignment of the haul road has been selected with input from the Isaac Plains operations team and engagement with the overlapping tenement owners, the land owner and government departments. This work will provide boundaries for the disturbances to be addressed within the environmental impact studies;

- Detailed mine design and scheduling has occurred for ID taking into account specific geotechnical requirements for ID (drill & blast of floor). As noted above, the mining operation is a continuation of the existing Complex mining area;

- An excavator is planned to commence mining the boxcut for the entire length of ID in September 2021. Capital expenditure for this additional excavator has been included in the capital expenditure of ID. The boxcut will allow the dragline to move to ID and uncover large quantities of lower ratio coal;

- Mining is planned to commence at the northern end of the mineral development licence ('MDL') in September 2021 and progress from north to south. This provides adequate time to construct the levy required adjacent to the Isaac River prior to mining in the flood plain adjacent to the river;

- Four weeks has been scheduled for the dragline to walk from IPE to ID. The dragline walk road from IPE to ID is separate to the haul road required to be built between IP CHPP and ID for coal haulage; and

- The coal haul road between IP and ID requires a bridge to cross the Peak Downs Highway. The bridge construction timeline defines a seven-month construction period. Coal mining from ID occurs in January 2022.

Port and Rail Capacity within the Base Case DCF

Stanmore currently hold 2.4 million tonnes per annum ('mtpa') in port capacity and 1.8mtpa of rail capacity. The Base Case DCF assumes further capacity of approximately up to 0.5mt and 0.2mt is procured for production in excess of 2.4mt in FY22 and FY23.

The Base Case DCF assumes that the additional rail capacity will be procured to match the port capacity. While there are risks that port and/or rail capacity may not be procured as needed, we believe, on balance, that adopting these port and rail capacity assumptions are reasonable for the Base Case DCF.

In forming this view, we had regard to the work of the ITS and their sub consultant, Balance Advisory Pty Ltd. Based on the ITS report and our discussions, we understand that:

a) In relation to the additional rail capacity required to match contract port capacity there is a low risk of this rail capacity not being procured as, based on the available documentation at the time of the IER:

   - Stanmore is currently progressing the process prescribed by the below rail regulation to secure the required capacity;

   - The port and below rail regulatory undertakings are built on a principle of contract alignment between port and below rail volumes. Therefore, should short term misalignment exist, commensurate below rail capacity should exist over time;

- The below rail regulatory undertaking allows the ability to transfer below rail capacity between producers and for the below rail provider to resume contracted paths from access holders if they are not being utilised;
- The below rail provider is able to undertake an assessment of additional upgrades required to cater for the necessary volume and these are typically added progressively to match increasing demand;
- The volumes required are relatively small in the context of the Dalrymple Bay Coal Terminal ('DBCT') nameplate capacity (i.e. <1.5%); and
- Stanmore has sought additional above rail capacity to match the relevant port volumes.

b) In relation to the additional capacity required in FY22 and FY23:

- To balance capacity requirements against potential take or pay exposure, industry practice is to contract based on average production levels rather than peak production levels;
- The required volumes are very small in the context of the DBCT supply chain capacity (i.e. <1%);
- Stanmore has lodged requests with DBCT for additional capacity within that period and that request is in the access queue;
- An active secondary market for capacity exists at DBCT for various volumes over various terms. Secondary market transactions undertaken in the July 2015 to June 2018 period indicate that between 9-17Mtpa (approximately) of capacity was traded between DBCT producers in those years;
- DBCT's contract profile set out in its 2018 Master Plan indicates that contracts are subject to renewal within that period; and
- Sufficient lead time exists to install any additional above rail haulage resources should they be required.

If this capacity is unable to procured at DBCT, Stanmore has also lodged requests with alternate ports.

Inclusion of ID Resources in our Base Case DCF

The Base Case DCF includes substantially all the ID resources (which at the date of the IER were not reserves). We believe that there is a reasonable basis for including the ID resources in our Base Case DCF.

Our view, which was formed in consultation with the ITS, included the following considerations:

- ID is a natural progression of an existing mine and will leverage existing infrastructure at the Complex;
- Over 80% of the resources in ID are Measured;
- Work completed on the costings and capital estimates for ID has been done to a feasibility level;
- The coal qualities of ID are well known and coals from the Complex are well known in the market;
- ID is forecast to use well known and existing mining methods already applied in the Complex;
- The purchase of the MDL was completed in July 2018 and included a Resource of the MDL. Stanmore advised the release of the reserve statement was imminent. Based on the review of available information the ITS concurred with this view; and
- The ID design included in the DCF was limited by the MDL, and therefore by an existing Resource. A conversion factor from Resource to Reserves was not applied as a detailed mine design and schedule were used to determine quantities and qualities.

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Additional Disturbance Footprint of Isaac Plains East

Our Base Case DCF assumes that there will be additional disturbances beyond the footprint included in the current approvals. We are of the view that this assumption is reasonable for the Base Case DCF.

Our view, which was formed in conjunction with consultation with the ITS, included the following considerations:

- The current state and federal environmental approvals for Isaac Plains East specify an approved disturbance footprint for mining activities;
- Stanmore has provided an alternative disturbance footprint which is greater in size then currently approved and will therefore require an amendment to the state environmental approval and may require the federal environmental approval to be amended;
- Stanmore is undertaking investigations to determine whether it meets the trigger requirements for amending its federal environmental approval; and
- Based on the information provided by Stanmore and an assessment of risks factors relating to the process for approvals expanding the footprint is not considered to be a material risk and nothing suggested that an amendment application (when lodged) to extend the approved disturbance footprint would not be approved by the state environmental regulator.

Mining Sequence and Movement Between Areas

Our Base Case DCF assumes movement between mining areas in the Complex, as illustrated in Figure 8.3 of the IER.

In consultation with the ITS, we are comfortable that adequate allowance has been made in the Base Case DCF for the capital expenditure required (mainly haul roads) and that appropriate allowances for movement of equipment have been included in the assumed production schedules.

Capital Costs Funding

The Base Case DCF indicates that the capital required for the areas included in the forecast will be self-funded from operating cash flow from the Complex.

Adopted Discount Rate within the Base Case DCF

Our discount rate range adopted for the Base Case DCF is 9.0% to 11.0% on a real basis which equates to approximately 11.7% to 13.8% on a nominal basis (assuming 2.5% inflation). We have used the same discount rate across the forecast period for the Complex, which includes, ID (which is yet to be developed), Isaac Plains and Isaac Plains East (which are current producing pits in the Complex).

While accounting for risks in cash flows is a matter that requires professional judgement, we are comfortable that we have applied an appropriate average weighted discount rate, with an appropriate risk premium, across the forecast cash flows of the Complex. While the risks of each particular mining area are not the same, we think an appropriately considered discount rate across the Complex is reasonable.

Debt Assumed in our Discount Rate

Our discount rate range (set out above), has regard to a debt level of approximately 10% and a return on debt of approximately 5% to 6%. These debt assumptions have been determined having regard to broadly comparable companies and observed interest rates.

Yardstick Valuation of Other Assets

As set out in Table 8.2 of the IER, our valuation of Stanmore includes assets valued by the ITS using a 'yardstick' or multiple of resources methodology.

While we are not a Technical Specialist, we have made enquiries in relation to the transactions selected by the ITS and have identified no issues which indicate these values, as a whole, are not appropriate for our valuation work. Our analysis included considering among other matters, transactions we have identified and the stage of the relevant assets. We also confirmed that the ITS analysis included considering, among other matters, the stage of the relevant assets and other matters such as expected coal qualities.

The valuation of pre development assets (which is the nature of the assets detailed in Table 8.2 of the IER) is subject to an increased level of uncertainty and the wide valuation range for this methodology appears appropriate having regard to this.

Typographical Error in Table 8.5 of the IER

The IER contains a typographical error in the first line of Table 8.5 of the IER. The figures set out in the top row of Table 8.5 should match the figures at the bottom of Table 8.4. For the avoidance of doubt, the other figures in Table 8.5 are correct and the calculations were performed on the correct figures.

No Change in our Opinion on the Offer

For the avoidance of doubt, we note that the information set out above represents additional disclosure only and our conclusion remains that the Offer is Not Fair and Not Reasonable to the shareholders of Stanmore.

BDO Corporate Finance (QLD) Ltd

Mark Whittaker
Director

Scott Birkett
Director