

stanmorecoal

25 November 2019

INTERIM CEO – AGM ADDRESS

I would like to open by welcoming our shareholders to today's Annual General Meeting. I also acknowledge the Barada Barna people who are the traditional custodians of the land that the Isaac Plains Mine shares. It is my pleasure to present this update to shareholders as Interim CEO of Stanmore Coal.

I am pleased to say that the 2019 financial year was a milestone year for Stanmore Coal in a number of ways, including the financial returns the business generated for shareholders. The Total Shareholder Return of Stanmore Coal over FY19 was 69.5%, combining the appreciation in the Company's share price and total dividends declared. This was the best return for an ASX-listed coal company for that year and a significant outperformance compared to the ASX All Ordinaries index.

Overview – Certainty and Value

The record return was generated by strong operating performance and a disciplined focus on implementing our strategy to provide certainty from our operations and value for our shareholders.

Stanmore Coal is an independent Australian producer of metallurgical coal, the type of coal that is instrumental in the production of steel for a myriad of applications in our daily lives. The business is built on our foundation asset, the Isaac Plains Complex.

Our strategy aims to provide certainty in a number of ways: reliable operating performance, disciplined investments to extend the overall mine life of the Isaac Plains Complex, and a relentless focus on managing operating costs. All of these factors contribute to providing certainty of cashflow generation, and as a result, certainty of returns for our shareholders.

FY2019 in focus

Before I speak in detail on the performance of the business, I would like to recap the highlights of the 2019 financial year.

Importantly, we commenced operations at Isaac Plains East, with the transfer of our mining contractors (Golding Contractors) pre-strip fleet from the original Isaac Plains Mine in August 2018 to excavate the first box cut in the shallow coal areas of Pit 4. The dragline was subsequently transferred from Isaac Plains to Isaac Plains East in December 2018. This was completed safely, on time and according to budget – an impressive achievement for the team on site and reinforces our track record of reliable operations. The transition to Isaac Plains East underpinned record coal production over the course of the year, which in turn delivered record underlying earnings.

Environmental rehabilitation as the mine progresses is an important part of our operations. During the year, the amount of land we rehabilitated post-mining exceeded the requirements under our Environmental Authority from the Queensland Government.

In 2018 we completed the acquisition of the Wotonga South Coal resource south of the Isaac Plains Mine and renamed the project as Isaac Downs. We initiated the work to commence on the government approval process for the Isaac Downs Project and we remain on track to commence construction and mining operations in the middle of 2021.



Safety performance

Health and safety for everyone on our site is central to the success of our operations. Unfortunately, safety performance during the financial year did not meet the standards we expect. Our Total Recordable Injury Frequency Rate was 16.7 per million hours worked.

We are implementing an intervention plan and working closely with our mining contractor, Golding to improve safety performance. We have achieved some encouraging results in the three months to September 2019, with our Total Recordable Injury Frequency Rate reduced by 21% to 13.2 per million hours worked.

The Queensland mining industry has experienced six fatalities since July 2018. In line with all of the state's mining companies, we carried out a "safety re-set" across Stanmore sites and head office, including all of our staff and contractors, to ensure we stay focused on the fatal risks at our operations.

Operational performance

Stanmore delivered record operating performance during the year, with a 10% increase in overburden removal, and a 78% increase in open cut run of mine (or ROM) coal production to 2.93 million tonnes. Our guidance for the current financial year is to increase ROM coal production to 3 million tonnes.

Total product coal production for the financial year was 2.39 million tonnes and the % of metallurgical coal produced increased to 89%, with an 11% thermal coal by-product. This increased our average sale price to \$173.80/tonne sold. Our guidance for this year is that product coal quantities will be maintained at this level with 2.35 million tonnes produced, with over 95% of the coal produced marketed as IPE Coking Coal.

The quality of coal resource and lower strip ratio at Isaac Plains East has meant the cost of producing coal is lower than it was at Isaac Plains. Underlying FOB costs for the financial year were reduced by 9.5% to \$88.8 per tonne excluding state royalties, or \$104.7 per tonne with royalties included. We expect that production costs will increase to \$100/tonne excluding royalties this year driven by increases to strip ratios at Isaac Plains East as the open-cut operations mine deeper coal resources.

The strong operational performance supported an increase of 240% in underlying earnings before interest, depreciation, tax and amortisation, to \$154.9 million for FY19. After a solid start in the first quarter of this financial year, we remain on track to achieve EBITDA guidance of \$53-56 million for the six months to December 2019.

Financial performance

In terms of financial performance, Stanmore achieved substantial improvements against all of the key financial measures for earnings and cash, and in terms of margins and unit costs. We generated \$140 million in cash from operations, and finished the financial year with \$90.5 million of net cash.

Rehabilitation performance

Our aim is to return all mined areas to grazing pasture. All rehabilitation areas are topsoiled and seeded with native flora and pasture species. During the financial year, we recontoured 150 hectares of mined land, and top-soiled and seeded 109 hectares. We also completed significant flood protection measures on the site, which have been certified and recorded to meet State Government requirements.

Strategy into action during 2019

Over the period from 2021 to 2022, our strategy is to further expand saleable coal production from 2.4 million with an aspirational goal of 5 million tonnes per annum. This will require us to secure approvals to develop new coal sources using our 'capital light' approach and acquire further coal prep plant capacity and port capacity to support this goal.

The Isaac Downs Project will be an integral part of this expansion. I will talk about the Isaac Downs Project further shortly.

During the financial year, the Bankable Feasibility Study for the Isaac Plains Underground was completed, confirming the financial viability of the project. A decision on proceeding with the project has been deferred, with Isaac Downs open-cut taking preference due to the superior margins forecast from the surface operations in the first 5-10 years of mine life.

Isaac Downs Progress

The project approval process for Isaac Downs is now well established. The environmental studies for the project have been completed, and our Environmental Impact Statement is complete and currently being considered by both the state and federal governments as a precursor to the public display process. Once community feedback is sought, the subsequent approvals for the environmental authority and mining leases are expected to be finalised in late 2020 and early 2021. Pending approvals, we anticipate that construction and mining operations will commence in mid-2021.

A number of project development elements of the Isaac Downs Project are running in parallel with the environmental approval process. Tender processes for a Bankable Feasibility Study and a Design and Construct contract for the required infrastructure are underway. The next phase of mine planning has commenced with new information gained from an exploration programme. Plans for progressive rehabilitation and mine closure have been incorporated into the Environmental Impact Statement, matching the expected legislative requirements, with more than 90% of the final post-mining landform to be returned to grazing pasture.

Outlook and guidance

While hard coking coal prices have come under pressure in the past six months, a large proportion of Stanmore's tonnage is contracted to long-term customers, which provides us with some insulation against price volatility. We expect achieved sales prices to be under pressure over the short term but are expected to remain well above our cost of production. Opportunities to enhance product quality and focus on producing higher value metallurgical coal will also support our achieved margins.

As our operations move into Isaac Downs, we expect that a lower strip ratio and higher ranking coking coals will provide a considerable improvement in unit margins.

Conclusion

I would like to take the opportunity to thank the team at Stanmore Coal for their continued efforts. Developing the strategy to create certainty and value has been a collaborative effort, and the whole of our team at site and in head office is committed to successfully implementing this strategy.

I would also like to thank Dan Clifford, who led Stanmore Coal as Managing Director from November 2016 until his resignation a few weeks ago, including leading the business through the successes of the 2019 financial year. Dan made a significant contribution, leading the team through the transformation of Stanmore into a business with a growing track record for reliable operating and financial performance, and a clear growth path. We wish him well in his new role.

Thank you also to the Directors, for their guidance in my current role as Interim CEO, and to our shareholders for your continued support for Stanmore Coal.

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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 Project. 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.

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