TRANSCRIPTION

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[START OF TRANSCRIPT]

Operator: Thank you for standing by and welcome to the Stanmore Resources Limited quarterly activities report 1Q 2024 conference call. All participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session. If you wish to ask a question, you will 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, Chief Executive Officer and Executive Director. Please go ahead.

Marcelo Matos: Thank you. Morning, everyone. Thank you again for joining us today to go through our first quarterly activities report for 2024. It's been another strong quarter for Stanmore operationally, with progression in shipments, tracking on plan, and in line with the guidance run rate, with good recovery from the weather events experienced in the quarter.

Market conditions were clearly a weakness, with a headline, "Premium low vol hard coking coal prices reducing by around 32% over the quarter, as demand conditions soften and some recovering global supply materialised." Nonetheless, we take a little bit of comfort in our relatively lower impact to PCI prices, as PCI prices found some support and relativity to prime low vol hard coking coal improved, slightly from the previous levels of below 50%.

We also remain optimistic that coal seasonal factors in India, such as the monsoon season and the unfolding of elections as well as further new coke oven conditioning, together may provide a positive catalyst to prices in the second half of the year.

The March quarter has some exciting development from the corporate and M&A side, including the acquisition of 100% of the Eagle Downs Project, and the addition of Stanmore to the ASX 200.

Starting with safety, unfortunately we recorded one incident that was categorised as a serious accident during the quarter, which was a result of a finger injury requiring hospital admission. That occurred during the assembly of an exploration drill at Poitrel. The operator is well and recovering well.

We also have seen a spike in hand and finger as well as musculoskeletal related non-finger injuries, which are of course always a concern. We're committed to continuing improving our safety standards from internal track record, including implementing the learnings from any injury and continuously improving our standards.

Overall, I would say the track record remains robust, with our rolling 12-month serious accident frequency rate of 0.35 remaining well below the latest industry average.

Moving on to operations, South Walker Creek had a solid first quarter, with record quarterly dragline stripping, enabling a strong pit setup and prompt recovery from what's gathered early in the quarter. Combined with healthy opening stock levels, development is believed around production to move above the quarterly plan in March.

CHPP performance was boosted by above the average use of 78%, driven primarily by the timing of feed mix, with a rollout of the additional ultra fine recovered sift with less quota, we expect that overall use of the asset to be benefited by approximately 1% of improvement over the course of the year.

Projects-wise, South Walker Creek expansion project continues to progress well, with the mobilisation of additional fields, connected [inaudible], and the awarding of the majority of the construction packages for the CHPP expansion.

The timing of the [inaudible] module to the CHPP is expected to occur in the fourth quarter this year, aligned to a plant major shut down, to minimising any additional downtime.

MRA2C still remains ahead of schedule and well below budget, it's 45% of both works are now complete, equating to around 2.9 million field DCMs.

Poitrel coal production returned to normalised levels quarter on quarter, following strong coal mining volumes late last year, which have been brought forward into Q4 2023, starting 2024, with very healthy long spots. We took the opportunity to return focus on catching up on stripping activities with the optimization and lengthening of those that push past, and increased cap volumes, driving a 32% increase in treating compared to the same field last year.

[inaudible] production in shipments was strong, with strong optimization of the wash plant and fine-tuning of [inaudible] to improve yields.

In the last quarter, we were pleased to report that the Southern Levee had reached the milestone height to manage a one in a thousand year flood event, and that was below budget and ahead of schedule. I can now confirm that the levee is almost complete, with a final certification of project completion expected in the second quarter.

Finally, still with Poitrel, stripping and coal mining at Ramp 10 North are progressing well and ahead of plan, despite the wet weather, with much less impact compared to the same period last year.

Lastly, at Isaac Plains despite the fact we don't have many mining areas and less flexibility compared to the other two open cut corporations. Coal mining trended up through the quarter overcoming challenges with wet weather, dragline availability, and geotechnical challenges in January to execute plan overall, and rebuilt stockpiles to healthy levels.

CHPP performance was impacted by the timing of coal flow concentrated later in the quarter, which resulted in the low run rate saleable production and sales. We don't foresee any issues and delivery should be fully caught up from expected unrealised levels by the end of the first half. Pit 5 mark is now well established and expect coal flows to increase in their satellite feed through 2024 and early 25.

Before I hand it over to Shane, just wanted to give a quick update on the other development projects and explorations going on across the portfolio. Development activities at Millenium have experienced some challenging conditions, with the remnants of non-geotechnical issues and water management impacting development of coal in the southeast main area of the mine, where the second production centre was set to be established.

Productivity of the first production centre has been encouraging, culminating 119,000 tonnes of raw coal, and 90,000 tonnes of sellable production for the first quarter, though still below our expected plant levels.

Across the portfolio, we commence net exploration at Nebo west, next door to South Walker, are studies are progressing well with the processing [inaudible] seismic data and planning for fieldwork during the second quarter, as well as continuing work on infrastructure options to support the project. Obviously, we are yet to complete all the respective Eco balance transactions, but we're excited to getting our hands on the assets, to commence further optimization studies and build our understanding of how these opportunities may form part of our long-term strategy.

I'll now hand it over to Shane for an update on cashflow and corporate activities.

Shane Young: Thanks, Marcelo. While our Q1 production performance showed strong operating cashflow for the quarter, cash was used in funding our $76 million US dividend payment in March and the delivery of that extensive capex programme, which you may recall we're guiding to between $155 and $185 million US over the course of the full year in 2024.

The timing of sales and cash receipts also saw our working capital build towards the end of the quarter, which when combined together with the dividend and Q1 CAPEX, ultimately reduced consolidated net cash by $40 million US over the course of the quarter.

It should be noted, however, that this working capital build has already started to unwind, with strong cash receipts from Q1 receivables in the first week of April, contributing to a net cash improvement of $63 million US in just that week alone, corresponding to an increase in net cash to $149 million US by the 5th of April as highlighted in our report.

This, along with the receipt on the 16th of April of $136 million US from the recently completed Wards Well South transaction with Peabody, sees the balance sheet well positioned for upcoming cash requirements in second quarter.

Financing cash [inaudible] for 2024 of $77.5 million US was paid against the SNC acquisition financing facility in February, which together with 15 million of scheduled amortisation in Q1 has reduced the principal balance of that facility to $225 million US. Remarkably, total repayments today of that facility amount to a reduction of 64% in the principal balance of the debt in just under three years. And it was taken out to fund the BMC acquisition in May 2022.

Of course, a large highlight of the quarter has been the successive announcement to separately acquire both 50% interest in the Eagle Downs Metallurgical Coal Project and South32 and Aquila respectively. This will ultimately bring Stanmore's ownership to 100% of the Eagle Downs and provide Stanmore with full control of the project. We look forward to completing on those acquisitions and providing further updates to the market, as we deal with our understanding of the project, including opportunities to leverage our unique infrastructure and logistics portfolio, to facilitate this development.

Finally, we are pleased to report there is no change to our guidance figures, at least for the annual results. This demonstrates they're agreeing to the portfolio, and it is a credit to our operations team in the way that they've continued to maintain a strong production performance, following on from 2023's outstanding performance.

I will now hand it back to Marcelo to close out the report with an update on coal markets.

Marcelo Matos: Thank you, Shane. As highlighted earlier, you should be not surprised that it has been a softer quarter for net coal prices overall, with the headline, "Premium low vol hot coking coal prices falling approximately $80 US over the period."

There has been another factor driving this trend, mainly persisting [inaudible] China, it generally improved global supply conditions for net coal. Meanwhile, in India, despite stocks of Australian coal running low, still producers were encouraged to [inaudible 00:12:19] the seasons at the comparatively higher prices early in the quarter.

Nonetheless, interest was seen coming back late in the quarter, which provide the price of coal around $225 US per tonne, for prime hot coking coal, and around mid 140s for PCIs, which prices had already improved since.

We've remained optimistically cautious, as key seasonal factors, including the Indian monsoon season and upcoming elections play their part, we have continued coke over commissioning and are recovering the amounts together with the interplay of historically lower, eventually it should theoretically provide support for prices thereafter.

On PCI specifically, while prices also trended down in the quarter. [inaudible] had improved with the premium low vol PCI index seeing at 65% of PLD as of today, which is indicating that the PCI market has found some support at these levels and has been more balanced, with a new rolling out of sanctions in markets like Korea, having potential to play also a positive role in creating additional demand for Australian PCIs.

We are also encouraged by the recent uplifting overall demand in prices, through the middle of April showing signs of improving sentiment in China as well as increased demand from India.

I will now hand it over to the moderator so we can take your questions before we conclude the call.

Operator: Thank you. If you wish to ask a question, please press *1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press *2. And if you're on a speakerphone, please pick up the handset to ask your question. Your first question comes from Brett McKay from Petra Capital. Please, go ahead.

Brett Mckay: Morning, gents. Another solid result. Just a couple quick questions from me. Just the timing of the studies on Lancewood and Eagle Downs, I know that we had a very, I guess loose idea of the expected timing of more detail on both of those projects. But are you in a position to give us any more granularity at this point, or not yet?

Marcelo Matos: Morning, Brett. Look, there's a lot of work going on in Lancewood as we speak, not only on actual data interpretation, okay, we've ramped up exploration in sizes quite a lot. And of course, that will include a bit of coke quality work as well, so that will of course take a bit of time. But in parallel, as we explained in previous discussions, there's a lot of work going on the auctioneering around infrastructure solutions for the project. That's progressing.

Obviously, with the conclusion of the Wards Well transaction, let's say the study of options, now they can really contemplate using their Centurion, which is the renamed North Goonyella complex, as part of the option status, given that the transaction now is done and dusted. But our focus is more towards, let's say the second half of the year, for us to be able to update the market more, with a bit more flavour on what we expect, in a way that we can narrow down the development path for the project and allow the infrastructure. But that's going to be, let's say the key direction that we expect in the second half, as in what is the appropriate infrastructure path to support development of the project.

As far as Eagle Downs is concerned, I think we closed it, it should give in a sequence, so they would be completed, and we expect them all to be completed in a sequence. The [inaudible] transaction also requires some regulatory approvals in China, okay, [inaudible] the state assets, supervision, and administration commission. So that's, I would say a third quarter story in terms of a completion timetable, possibly.

And we are now, of course, working on setting up ourselves, to do all the, let's say optimization studies. More realistically, as I explained before, it's probably going to be earlier 2025 type of timing, as to when we should be able to understand what the project can look like, especially around startup development capital. Okay?

Brett Mckay: Okay, that's great. Thanks for clarifying, Marcelo. Just another couple of quick ones, if you don't mind. Just on the South Walker Creek shutdown in Q4, can you remind us how long that time is expected to take?

Marcelo Matos: 14 days shut. We would be doing the shut anyway, it was already planned as part of the main CHPP plant maintenance. So it is critical that we take the opportunity to shut together for the time, to avoid to have to do a second shut if, for any reason we experience any delays. Okay? So, as you know, [inaudible] so if we need to stop the plant once again in early '25, it will have production implications.

So, they are working hard to make sure that that happens. So far, so good. I think everything is on track. And of course, we will avoid as best as we can to have to do a second shut, but it's a 14-day shut. Okay?

Brett Mckay: Okay. And just clarifying, clearly that's been baked into the production guidance for the year, for that asset?

Marcelo Matos: Correct. Yes.

Brett Mckay: Yep, yep. Just maybe one for Shane, quick... and the receipt of the money from Peabody in early and mid-April, respectively. It looks like in that cash balance, all else being equal, is now at US $285 million, up from that $86 million that you report at the end of March. Is that a fair representation of where you might be around that middle of the month April?

Shane Young: Yeah, I think that's in the ballpark, following the turnaround in some of those [inaudible] as well as the cash coming in from Peabody. It's up there, thereabouts.

Brett Mckay: Okay, all right. Perfect. Thanks. And just finally on Millenium, can you just remind us how long you expect that typical portion of the deposit to be around for, before you get both of those panels up to full production rates?

Marcelo Matos: It was always approximately around the three years [inaudible], Brett. So, it is, let's say a short life asset. And the idea was to move that setup into the Millennium [inaudible]. It's been challenging, okay? I think for initially geotech, water, and conditions around the first years of P&Ls, I think the major contractor is experiencing labour constraints as well. I think we rarely have been able to man both panels to have all, let's say the uptime, the operating house you would have expected. So, multiple challenges. It was always a project as we've discussed before. It was always very coal price and production dependent, given that there's a setup where that contract is mostly, let's say a fixed cost type of process.

So, we are now expecting... I mean the plan was to start secondary extraction from late May, during June, which will of course improve recovery, because now we are not going [inaudible 00:21:19] yet. But of course, we are now doing a good review of that, because we need to understand what we can expect just in terms of tonnes at different coal prices, to make sure that we are managing that project prudently. I mean it is requiring additional working capital injections to continue to grow. But as I said, I think we're always going to be making sure we have a lot of discipline on how much cash we keep, let's say investing in the project, depending on how the market landscape looks like. Okay?

We are producing, at the moment, a little bit more than 40,000 tonnes of ROM at this sort of rate. And if we were to introduce secondary extraction, we could expect probably another 20 plus. But I think the plan was always to grow up more than that, was always to do closer to the 800,000 tonnes of ROM per year or above that. So at local prices, it becomes a much less attractive value proposition. So, of course, we need to make sure we manage that asset with a lot of discipline.

Brett Mckay: If you made a decision to, say based on care and maintenance, because of coal prices, would there be any material financial impact?

Marcelo Matos: Look, I think we are reviewing all options, Brett. I think care maintenance is some... Whatever way we want to call it, if we were to do something, it would be a temporary suspension of production. But I think we are not there yet. I think we are considering the options. And, of course, stopping, it needs to be a lot worse than... It continues to mine it. I don't think it's going to be a material impact for Stanmore as a whole, given our size at the moment and how the project compares to our overall size.

But as I said, we're always looking at that relatively, to continue to mine, with coal prices being a very important input into that decision.

Brett Mckay: Thank you very much.

Operator: Thank you. Your next question comes from Jim Xu from Barrenjoey. Please, go ahead.

Jim Xu: Hello, Marcelo. Just a couple of questions from me. So, despite the rain in the quarter, I still know you had a pretty strong quarter for production. Should we expect to see that run rate maintain for the June quarter, or did you prioritise sellable production in the quarter given the heavy rainfall?

Marcelo Matos: Look, we've done 3.3 supply chains, so right on the mark around mid-range in that guidance range. So, actually we were originally planning to do a lot more than that.

Our original plan for Q1 was a lot higher. With impact, we are basically now back to, let's say mid type of the range. I think Q2 will be strong quarter. We will find that this year, the first half of the year will look a lot stronger from both coal flow and sales than, for example, relatively to last year. We will have a slightly lower second half of this year compared to last year, simply by the fact that we did bring a lot of coal products into Q4 last year. We started the year with very healthy... and eventually with ROM.

Jim Xu: Okay, thank you. Maybe just following on that Millennium and Mavis conversation, can you give any guidance on breakeven price at that mine?

Marcelo Matos: It all depends on how much we can get then. It's always been, let's say a very thin, let's say balance between tonnes and coal price. And getting the tonnes was always critical. It was always an opportunistic project, given that it was, let's say... It wasn't a large amount of CAPEX to start. Then the prolonged ramp-up and the challenge experienced, of course, brought some additional headwinds. At the current pace of production, which was around 46,000 tonnes of ROM, at current prices we are not making any money. Okay? We are actually having to put more core cash to sustain operation. We obviously expect the tonnes to go up.

What we are doing now is, of course, a lot of trade off and sensitivity analysis to understand at different production levels and different prices, what we can expect, because for every month, we keep going at this... For production rate and price, we are putting actually more working capital into the project. But what I can tell you is that at current prices, even if we were producing a bit more, it would still be like a very marginal outcome for us, given the effort required. Okay? We need a substantial increase in production relatively to where we are today, at current prices, let's say for it to be a bit more meaningful as an operational tool for us.

Jim Xu: Okay, understood. And maybe just a question on the market. We've seen a big step up in the PLD price last week, to about 250. You've mentioned that for now conditions have improved, the Indians are coming back in the market as well. Have the Indians [inaudible] passed or is there still a bit there left?

Marcelo Matos: Well, there's been a monsoon coming, right? So I think that's something we need to still wait and go through. Then some controversial reaction from yields, let's say from buyers, around that big spike from 225 to above 250. A few days ago it was a premium, fresh cargo out of Queensland, that got prices up $25. So we need to see if that's going to hold.

I think, interestingly, a lot of the previous activity that brought prices down consistently was not fresh tonnes being offered by producers. We saw a lot of activity in the past [inaudible 00:28:28] positions, and even still makers offering cargo. So, this was probably one of the first times we've seen a fresh cargo offered that had a meaningful impact to prices.

So, I think the good news is we saw that there wasn't a lot of fresh tonnage activity that was driving prices down. I think PCI, we haven't seen any significant, let's say offering as well, and you'll see the PCIs just following coking coal, hopefully now at a higher level of activity. The prices that could move now on the premium coal side of things, you might be seeing PCI moving together, hopefully at a higher relativity as well.

It's still a bit early, Jim. I think we need to see if that's going to hold. As I said, there's been a bit of reaction from steelmakers, questioning whether the market was there at that level for this product that was built and [inaudible].

Jim Xu: Okay. Thank you very much.

Operator: Thank you. Once again, if you wish to ask a question, please press *1 on your telephone and wait for your name to be announced. Your next question comes from Tom Sartor from Morgans Financial. Please, go ahead.

Tom Sartor: Thanks, Marcelo. I think most of my questions have been answered. Just one on the debt facility. You mentioned you'd been doing some planning on testing that market for refinancing, once the window opens in May, after which it can be done at part. Curious if you're progressed on that and if we can expect some news on that during the calendar year, perhaps.

Shane Young: Yeah. Thanks, Tom. Look, we are expecting to explore options in that regard, as previously mentioned with this good opportunity with the non-coal period expiring in just a couple of weeks. So, it's an opportunity for us to really consider our facilities and have them more rightsized for a company of our complexity and our size. So, yeah, we've started exploring that in earnest, and we'll see where that comes out over the next quarter or so.

Tom Sartor: All right. That's all I had. Thanks, guys.

Shane Young: Yeah.

Operator: Thank you. There are no further questions at this time. I will now hand the conference back to Mr. Matos for closing remarks.

Marcelo Matos: Thanks, everyone, for your questions and joining this call today. As always, I would like to thank our teams, employees and contractors who are the key drivers for our business success operationally and the ongoing support of our investors in the equity market. It certainly continues to be a busy and growing field for Stanmore, and we look forward to continuing to update the market on further developments. Thanks, everyone. Thanks for your time.

Operator: That does conclude our conference for today. Thank you for participating. You may now disconnect.

[END OF TRANSCRIPT]