

**Company:** Stanmore Resources Limited

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## Start of Transcript

Operator: Good day, and welcome to the Stanmore Resources Limited full year 2022 Results conference call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question and answer session. If you would like to ask a question during this time, simply press Star followed by the Number 1 on your telephone keypad. If you would like to withdraw your question, press the Star 1 again. For operator assistance throughout the call, please press Star Zero. Finally, I would like to advise all participants that this call is being recorded. Thank you. Today's presentation speakers are Marcella Matos, CEO and Shane Young, CFO. I'd now like to welcome Marcela Matos, CEO, to begin the conference. Marcelo, over to you.

Marcelo Matos: Thank you, and good morning everyone. Thanks for joining us today or for the call. I would like for us to begin acknowledging the traditional owners of the land on which we meet today, the Turrbal, the Jagera Peoples here in Brisbane. I also acknowledge the traditional custodians of the lands on which our operations are based, the Barada, Barna, the Jangaa, and the Widi Peoples of Central Queensland. I pay my respects to the Elders past and present. Pleased to be with you this morning and sharing our 2022 full year results. I'll begin the presentation with an overview of the financial '22 highlights.

Despite some headwinds as a result of inflation, supply chain disruptions and unprecedented wet weather, we are pretty pleased to report '22 delivered pretty strong operating safety and sustainability results for Stanmore. The completion of the acquisition of 100% of BMC which is now renamed as SMC, was a highlight for us, transforming Stanmore into a leading [met coal] producer, with four operating assets strategically located within 50 kilometres of radius.

We are particularly pleased with our results in safety, with a significant reduction in our injury frequency rate. All while [unclear] mining operations were transitioning to Isaac Downs; it was a pretty busy period in Isaac Plains with a lot of activity. Of course, the integration and the major efforts to integrate the SMC sites, it was a pretty impressive safety performance. I'll cover that in a bit more details.

The growth in our production profile during the core price tail end in '22 enabled us to generate significant cash, which is demonstrated with our underlying EBITDA and our operating cash flows, building value and capital appreciation for our shareholders and enabling our rapid deleveraging during the year. But also now, we're just early - a couple weeks ago in January when we made our first large cash sweep payment, which Shane is going to cover soon. Our EBITDA was US\$1.456 billion, a significant jump compared to what we are seeing here in 2021. Our operating cash flows of US\$1.182 billion relatively to the \$96 million we have seen in financial year '21, with the share price jumping 245% in less than 12 months since our entitlement offer in March '22.

Just moving on to our safety performance in slide 5, of course safety is our number one priority, and we are pretty pleased with how the employees and our new, let's say enlarged workforce, embraced our safety journey, and aligned and supported the transition process. In a lot of learning, strong and positive culture since the integration of the assets, lots of learnings and of course best practices shared across the now integrated businesses, successful integration of the safety and health management systems from BHP, development and implementation of new systems. A shift from focusing on lag to lead safety indicators together with simplifying the way we manage injury and hazards, and our incident and investigation processes.

You can see here that despite the huge jump in exposed hours in the larger business, we've seen an outstanding effort across all our sites, resulting in our recordable injury frequency rate down to 1.5, significantly below industry averages. With Isaac Plains, the whole complex - with the Isaac Complex currently running injury free for 15 months despite the significant activity and transition work that we've seen at Isaac overall, including the move into Isaac Downs, the taking over of the CHPP owner operators and the changing of mining contractors and overhauling service providers.

Moving to slide 6, in conjunction with our growth story, Stanmore has also [sought] significantly growth in sustainability in our maturity journey towards our sustainability journey. We released our first sustainability report back in 2021, and we have since developed a roadmap. We've conducted emissions data assessments, developed clear objectives and targets ahead of releasing our next sustainability report, which is coming soon by the end of March. As highlighted on this slide, we believe the various materiality topics will provide us with the right direction to focus on the needs of our internal workforce and external stakeholders. We will continue on our sustainable development pathway to ensure we maintain our social license in this very dynamic space.

In slide 7, here, you can see an example of our forward looking aspirational objectives and targets. In this case, in relation to land management and rehabilitation, there's a lot more that will be coming in the sustainability report to be released. But you can see here it was a pretty impressive track record with 2022, 270 hectares of rehabilitation including levelling, re-contouring, top soiling and seeding. Vast majority was done in Isaac Plains, and some nice pictures in slide 8 here. You can see the green [shoots] in Isaac Plains, a significant amount of work done. I mean, one of the benefits of wet weather is to be able to seeding, and the green shoots already starting now in January.

Moving to a slide 9, given the regional location of our assets, we view the opportunities to engage with traditional owners in the local communities as one of our most impactful ways to provide a good and positive social impact. In addition to the landmark Indigenous land user agreements that we announced last year, we are working now also with Reconciliation Australia to endorse our draft reconciliation action plan, which has been recently updated to include traditional owners across our expanded portfolio.

In Poitrel, the New to Industry Program was another highlight, providing the opportunity for employment to more than 60 new to industry trainees to date only. There's more coming. We continue to seek opportunities also to prioritise local vendors in our supply chains and provide funding donation opportunities to local communities. Obviously, on the left side of the chart here, you can see significant contribution to Queensland via the [core royalties] around the \$458 million after the latest royalty increases. We do expect this amount actually to be higher in '23, given that we're going to have a full year of operations with the acquired assets, South Walker Creek and Poitrel, assuming of course that the prices remain strong.

Moving into operations and the performance of the mines in slide 11, you can see there was a very strong operational performance across all sites. Despite some significant headwinds, we had a wet weather, unprecedented and seasonal wet weather, inflationary pressures. Strip ratios, they are lower year-on-year, and mostly driven by the transition first to Isaac Downs, which is of course a new, young mine with low strip ratios. But also, the introduction of the lowest strip ratio SMC assets, especially South Walker Creek, which is blessed with the, you know, large reserves of low strip ratio, high quality coal.

Various records achieved during the year, and mostly importantly, very consistent performance across all sites. We do continue though to experience inflationary on input costs and consumables, which unfortunately we do expect to continue to feel during 2023.

The South Walker Creek, slide 12. South Walker is really industry leader in - if you look at lag indicators of safety performance, it only had two non-severe recordable injuries between May and December. We have multiple pits being worked at any one time, providing us with a lot of flexibility in the operation, especially when events such as rain or even

geo-tech hazards happen; of course minimising downtime and providing us with flexibility to of course produce our products and blend different satellite stockpile coals.

I mean, we have significant improvement. We do expect significant future improvement and expansion opportunities. I think we've approved MRA2C project during the year, and I'm going to talk briefly about what that project means for South Walker. A best in class CHPP performance with leading availability and reliability metrics. Last week alone, we've done 164 hours in that wash plant, with pretty robust throughput rates. It is a fantastic wash plant generating best in class performance.

Poitrel, we had above run rate production during this financial year '22, and that's important to highlight. If you want to analyse the Poitrel performance, since we took over in May to December, it is reasonably higher than the normal annualised historic rates. Of course that has allowed us, Stanmore, us to benefit from the good strong marketing momentum. The discipline by the Poitrel team in turning what is a very busy pit around now with seven fleets in a constrained strike length, it's been very impressive. Lots of discipline and a pretty impressive outcome for 2022. We produced 2.812 billion tons, with a 96.2 FOB cash cost, with an average selling price of 271 at Poitrel.

The development of Ramp 10 in Poitrel, it's going to be important. It's going to leverage the fuel prices to help us transition to a major fault, to ensure the future sustainability of volumes at the operation and of course, managing strip ratio and maintaining good strike length in what, as I said, is a very busy pit.

We've seen optimisation also and streamlining the operations of the RMI wash plant, with both RMI and Poitrel now consolidated under a single safety and health management system, and a single SSE. Still lots of opportunities for additional [unclear] washing arrangements. We have been washing already Isaac Downs at IMI since late last year. As I spoke in previous presentations, we did commence mining and processing two seams; the Vermont two and three plies, and the Vermont lower at pretty low incremental strip ratios and enhanced costs. Which was a fantastic opportunity to bring incremental volume during 2022 to assist with these results, but also going forward, incorporating some of these volumes into our results.

The Isaac Complex in slide 14, produced 2.401 million tons of saleable coal during the year, with the FOB cash cost of US\$80.80 per ton and average selling price of US\$270 per ton. It was a year of lots of milestones for the IP complex. As I explained before, the change out to a new mining contractor, the transition of CHPP operations from contractor to owner operator, the key infrastructure achievements, the construction and the staff of the underpass whole road. Of course, the transition from Isaac Plain East to Isaac Downs, the relocation of the drag line, and as I said before, first class rehabilitation performance for the year all completed without a single recordable injury. A pretty impressive year for Isaac plains, more to come in 2023.

Concluding with Millennium, pretty good safety outcome for Millennium as well. For the complex, has been outstanding. We had no recordable injury since November in Millennium, with a TRIFR rate at zero. We did finish 2022 with just above 0.5 million tons of ROM coal production; a majority from open cut mining and a small amount 50,000 tons from opportunistic auger mining out of the existing highwalls.

The high price environment during the year increased the economic envelope also of the open cut in Millennium, presenting some opportunity to mine some additional incremental coal around 100,000 relatively to what we envisaged in the beginning of the year

2023 is a transitional year for Millennium. The underground development is ongoing and we expect to be reaching nameplate capacity during 2023. We have faced delays in in the underground project, especially due to geo-tech and weather issues, so we are now hoping to - still hoping that by the end of the year we should achieve nameplate capacity at the underground. I'll hand over to Shane to cover in more details our financial results.

Shane Young: No worries. Thanks, Marcelo. If we start on slide 17, I think it's important to recap exactly how this year has been so transformational for Stanmore, beginning with the equity raise back in March, and then the 80% acquisition of SMC completed in May. We weathered the storms of higher royalties being announced mid-year, and then come through and wrapped up the remaining 20% of SMC announced in August and also completed in October, and funded through cash. All in all, it's been a, a transformational year, and one in which we've been able to generate significant total shareholder returns, with a 245% return on investment for those who participated in our equity raise at \$1.10.

This was driven from some fantastic financial results for 2022 on slide 18, summarised some of these all in US dollars, as our functional reporting currency is now. US\$2.7 billion worth of revenue, almost us\$1.5 billion of underlying EBITDA, which translates to AUS\$2 billion, and cash flows in Australian dollar terms of about AUS\$1.7 billion. So remarkable year, and really no comparison to the prior year earnings of 2021.

I think you also see that manifest in the graph on the right hand side of this slide, where we see a decrease in the coal price from the first half to the second half, yet an increase in overall revenues for the organisation. That's just a reflection of now having a full six months' ownership of the SMC assets. It's always something that we have to remind ourselves, and looking at all these financial results, is that they are only including eight months of Poitrel and South Walker Creek's results. We haven't yet owned the assets for a full year.

A little bit more detail on slide 19, on our income statement, obviously those results have manifest themselves in a very strong net profit after tax figure of US\$727 million, which is AUS\$1 billion. That has been adjusted for a couple of below the line items, one in which being the inventory re-evaluation adjustment and out of our purchase accounting, as well as some adjustments for the one soft transaction costs associated with the acquisitions. But overall, a remarkable result, almost over AUS\$1 billion of net profit after tax being generated.

This has enabled us in the following slide to meet one of our cash management and capital management objectives, which I'll talk to in a moment, of strengthening our balance sheet to deleveraging our business. As you can see on slide 20, the change in net debt upon acquisition of the SMC assets was approaching that US\$750 million mark, which is close enough to AUS\$1 billion net debt. Very quickly over a four-month period, we've been able to reduce that almost down to a net cash position just through the strength of operations of the new assets and careful cash management.

It peaks again in October, as we make the acquisition using internal cash sources for the 20% and wrapping up the total ownership of SMC, and then again, continues its trajectory down from that point forward. Overall, in total debt terms, we've reduced total debt from the acquisition by about over 50% with \$500 million of deleveraging, half of which was prior to the end of the year, and the second - and the other half, \$252 million, being contained in the cash flow sweep, which was paid in February this year based on cash flows generated in 2022.

Slide 21, we talked to our capital management strategy, and a lot of the deleveraging efforts play very strongly into the work that - into that strategy and delivering on that. It's a four pronged approach. It starts with value protection, which is really the manifestation of the strong operating performance as we talked about earlier. Balance sheet resilience, which is highlighting and has also been shown in our deleveraging efforts over the course of 2022 and now beginning in 2023. Shareholder returns, as mentioned earlier, the significant improvement and overall shareholder returns is illustrated through our strong share performance; share price performance. Then that enables additional capital investment and returns using that strong balance sheet position and excess cash flows.

Finally, on slide 22, obviously it's been a significant year of transition for Stanmore. In that respect, we're always conscious though of our dividend policy and our objectives in that area to return value to shareholders. In considering our dividend policy for 2022, the Board looked carefully at cash flows and adjusted free cash flows generated by the business in 2022. The significant cash flows from operations were used to fund obviously capital expenditure, but also our acquisitions, and primarily that of the Mitsui 20% acquisition, as well as the deleveraging efforts that I spoke about

earlier; both pre end of the year, and then immediately post end of year, with the cash flow sweep payment made in February.

This would leave us with adjusted free cash of around US\$100 million, which could indicate a dividend of 50% of that or US\$50 million. But in the context of total shareholder returns and an effort to assist with strengthening our balance sheet after what has been an extremely busy 2022, the Board has resolved to retain that cash at this time. Of course, we'll continue to always review and consider our cash returns to shareholders in the context of our dividend policy on an ongoing basis. At this point, I'll hand back to Marcelo to look ahead and priorities and outlook for '23.

Marcelo Matos: Thanks, Shane. Just looking at slide 24, here we have a summary of our strategic priorities going forward in three different key areas. The first one is basically optimising what we now own the, the portfolio of operating assets and accelerating delivery of value out of this enlarged portfolio. A lot of opportunities, and we are now running those three operations that historical steady state rates. The bottlenecks in the three operations are well understood and learned at the moment, with lots of work going on, understanding how to unlock value and realise some of the synergies. They are of course, always being assessed with some already being captured as I said before. Product blending, the haulage of coal between Isaac Downs and Red Mountain, equipment carrying amongst the others.

In number 2, as we can see here in this slide, we have now a much more comprehensive project pipeline than we had before this acquisition. We are just here highlighting some of the key priority projects. Of course, we have a portfolio [unclear] that's a lot more extensive than this, but you can see here on the exploration front, Bee Creek and Nebo West in South Walker Creek, which are projects that are in here categorised as being replacement projects for depleted reserves going forward, but also potential expansion opportunity.

If we were to expand our wash plant and expand South Walker Creek, with the Isaac South Project in the Isaac Plains Complex, which is just further south from Isaac Downs and also let's say the natural progression of the open cut development in the Isaac Complex. On the development front, we do have a very interesting opportunity in 2023, which is the pit 5 in Isaac Plains. It's a small 1.5 million tons, [run of mine] ton resource at Isaac Plains, at around 12:1 strip ratio, which we could bring into production reasonably quickly.

We are now looking at accelerating development of pit 5 to benefit from the expanded CHPP capacity now at Isaac Plains, so it's work in progress as we speak. Isaac underground is also being revisited and updated. We have presented this before as mining around 20 million tons of exposed highwalls in Isaac Plains North.

We have the Kemmis North Project at South Walker, which it's quite a faraway north from the existing wash plant, but it's an interesting opportunity again, for potential replacement of capacity or as part of an expansion, or even as a potential separate satellite project. The Poitrel extension, a lot of work at the moment on of course, looking at opportunities to extend life of Poitrel, which relatively to South Walker is a shorter life operation.

The Wards Well project, which actually we are now splitting between two separate developments, the Lancewood lease is at the north part of Wards Well. We are now calling it Lancewood. It's an interesting potential development with a good amount of open, cuttable coal as an opportunity, and the Wards Well - the massive Wards Well underground development is further south.

In the existing operations, we've approved the MRA2C Creek diversion project in South Walker. Extremely quick payback project to access low strip ratio reserves with shorter haulage distances to the wash plant. Of course, it could be an improvement project in its current form, but it could also be a very important project as part of a potential expansion in case we were to pull the trigger to expand Salt Walker Creek.

We committed to the upgrade of one of our drag lines in South Walker Creek from DC to AC, which is going to provide a lot of benefits including increased reliability and lower emissions. The development of Ramp 10 and Poitrel I spoke



about, which is ensuring consistent strike going forward, accessing [unclear] across the major fault that we were facing in Ramp 10. The construction of the eastern Levies just close to the Isaac River to protect our southern pits Poitrel with certified flood protection structures. A pretty busy path ahead of us with a lot of opportunity in the large portfolio.

MRA2C, as I spoke about, it's all about accessing around 58 million tons of reserves, in slide 25. A lot closer to the wash plant, increasing drag lines, strike land, and reducing peak intensity as well. As I said, it could be part of an expansion project in case we were to pull the trigger. It would become a fundamental element as part of an expansion, but as it stands, it is an improvement project that will keep our strip ratio low and competitive once we start mining that resource with the extremely quick payback. Work has commenced. We start clearing very soon.

On slide 26, it's a snapshot of our reserves and resources base. It hasn't materially changed since the last time we've released this. It's just natural depletion since then. But as everyone can see, a pretty robust reserve and resource base to support not only the existing operation, but eventually incremental growth going forward. We have a portfolio now that present a very interesting and capital efficient incremental volume opportunities.

On slide 28, met coal market remains pretty robust. I think we've seen peak prices during 2022. Very volatile though as the first - of course peak to 670 was a reaction to the start of the Russian sanctions. We're now seeing the reopening of the Chinese market present the potential upside again to demand for seaborne met coal. Still, demand though remain prone to supply chain disruption or subdued end user demand, as a result of the ongoing global inflationary pressures.

Australian supply performance should recover as the wet weather season abates through second quarter and mid-2023. We however continue to see installation of new blast furnaces primarily in Southeast Asia and India, supporting a net increase in seaborne met coal demand in the medium and long term going forward. But we do expect of course prices to normalise from the recent very high levels that we've seen during 2022. That includes as well the relativity of some of our products, for example including the PCI price realisation relativity against the premium low vol coking coal references. They were extremely high during '22. They already started to normalise. They're already now around late 80s or 90 percentiles. But the historical levels for PCI, it trends between 75% to 80% or to low 80%. I'll hand over now to the moderator so we can start then the Q&A session. Thank you very much.

Operator: Thank you. At this time, I would like to remind everyone, in order to ask a question, please press star then the number 1 on your telephone keypad. Your first question comes from the line of [Tom Sartor] from Morgans. Your line is open.

Tom Sartor: (Morgans, Analyst) Good morning gents, thanks for your time this morning. Just a few quick ones from me, you are not giving guidance today, not even the comments there. Can you give us a feel though for how you're tracking so far through this, what's been a very wet summer so far in terms of logistics and port and rail slowing down? You do hold a lot of stock, but you've made some comments about maintaining production levels on a portfolio basis. Would flat production for the portfolio be a fair result given the wet weather so far? Any colour you can give us on volume this year would be great.

Marcelo Matos: Tom, Thanks. I think you are right. I think it was a difficult start with some very let's say heavy rain, wet weather in January. Interestingly, of course the mines were affected, but I think the worst impact was at the port, right at the [ECT], which was, I mean, exposed to a significant amount of water. it took some time for the port and even of course the rail system to recover from the rain. January was heavily affected in terms of if you look at shipments and train cancelations. We of course are hoping to be able to recover now in February and March.

I would say that it would be possible to recover to what we would expect to be reasonable annualised production levels within Q1, but that will depend to be very frank, a lot more on the performance of the rail system than on our core availability. I think the operations have recovered well. South Walker ended 2022 with a very healthy amount of ROM and in pit coal inventory. Although of course you have different dynamics between the three, I would say that production

wise, I see no reason why we will not be able to recover to what would be healthy annualised levels. But again, the performance of the railing system is going to be - what's going to be the main defining effect on whether we – we should be able within Q1 for example, to recover to what we would otherwise be planning to achieve.

Tom Sartor: (Morgans, Analyst) No problem. Thank you. You've spoken before about the optionality in the portfolio around incremental production, third-party processing, that sort of thing. Just thinking about Kemmis North and Lancewood, is the environment for being able to negotiate access to additional rail and port capacity becoming any easier, or can we expect sort of progress on that front potentially through this year?

Marcelo Matos: I don't think the environment is getting easier. I mean, one of the constraints in that system, in the Goonyella system has always been rail below. But more recently also above, has been above rail performance being quite a challenge for different reasons between the different service providers. Of course we are working hard on ensuring we get trains and we get consistent above rail performance going forward. In terms of securing below rail paths and network paths for incremental tons, I think there are options there in the secondary market. Some of them are more short term assignments for producers that maybe are not using but intend to use their capacity in the longer run.

As you know, we have DBCT 8X expansion with the port, we hope to be able to go ahead with, but it also depends on the below rail system expanding. I'm confident that we should be able, Tom, to benefit from some of the opportunities we've been working on. When the time comes, we should be able to provide a bit more colour on that.

Tom Sartor: (Morgans, Analyst) Excellent, thank you. Finally, your dividend policy is very clearly defined, but can you talk about whether the Board has a notional target level for what a sufficient amount of liquidity is in the business through the cycle, and excluding any cash you might want to reserve for M&A at any particular time? Do you think about a cash buffer that you want to hold in the business like some of your peers talk about, or an amount of liquidity that you think is prudent to maintain through the cycle?

Shane Young: Thanks Tom it's Shane here. Yes, we do look mainly to target liquidity and access to liquidity being in multiple sources, obviously in cash as well as facilities. We do have around \$200 million of liquidity available to us in excess of our cash at the moment. That's something that we wanted to maintain through the cycle. I think it's important to be continually monitoring though the ever-changing environment in which we work and in which the industry is. You know, we've seen obviously the changes with royalties come through that was unexpected. Having the balance sheet to be able to cover us for those unexpected items is critical. Yes, it is something that we are very conscious of and I think that played into the dividend determination at this point. But it's not to say though that, you know, we're very conscious of our policy and going forward it's something that we will monitor and continually review on an ongoing basis.

Tom Sartor: (Morgans, Analyst) Terrific. Thanks guys. I'll pass it on there.

Operator: Your next question comes from the line of Brett McKay from Petra Capital. Your line is open.

Brett McKay: (Petra Capital, Analyst) Yes, thank you. Just following on from the previous question on dividends, are you able to state that you might consider dividends on a half yearly basis as well as the obvious consideration on a full yearly basis?

Shane Young: Thanks Brett, Shane here again. Previously, we had mentioned that we would add a minimum look at dividends on an annual basis. That was tied primarily to the existence of our cash flow sweep mechanism under our acquisition financing, which is paid on an annual basis by reference to cash flows from the previous year. On that basis, that would be the minimum at which we would assess for dividends. But I think in circumstances of very high pricing, and to the extent that we've been able to deleverage our balance sheet, absolutely, the Board can consider dividends on a more regular basis. It may not happen every year, it will be price dependent and cash flow dependent, but it's

certainly something that could be reassessed if we see the, you know, very strong coal prices at \$400 a ton continuing for the first half. It's definitely something the Board can reconsider once that half year results are confirmed.

Brett McKay: (Petra Capital, Analyst) All right, perfect. Thanks Shane. Just secondly, relating to your comments in the announcements around the GEAR corporate actions up in Singapore, you've got there a final stop date of August of this year. Is that when you might be able to provide a bit more granular guidance, or would you hope that there's an earlier point in time you can come to the market with sort of more granular production guidance by asset on the cost side of things? Just trying to get a bit more colour around when that might be possible please.

Shane Young: Yes, no worries, Brett. I mean, it's obviously detailed in our ASX release. As you've touched on, there are some transactions going on at our majority shareholder GEAR, which basically result in forward-looking information that Stanmore publishes, as Stanmore as a material subsidiary of GEAR. It would also constitute forward-looking information at the GEAR level, which would require then a lot of admin and unnecessary cost and burden on Stanmore to make sure that they're all being reviewed by independent experts, and assumptions are being tested, et cetera. That's played into the decision at this point not to release updated guidance, forward-looking guidance. Once the transaction is concluded, then absolutely, we'll re-evaluate at that time.

Brett McKay: (Petra Capital, Analyst) Okay, thanks Shane. Just finally, on Wards Well, given that fits under the development category in your pipeline, when might you be making a decision as to the approach to take to that project given it is probably one of the bigger capital projects in the portfolio as it stands?

Marcelo Matos: Brett, as I started to explain before, we are now splitting what used to be called by BHP of the overall Wards Well let's say tenure, into two separate projects on the way. We are naming them internally here. That includes the Lancewood part of that, you know resource, which is the northern part of the mining leases. Then the Wards Well, which sits at the south just north of the Peabody North Goonyella operation.

In Lancewood, we have identified a reasonable volume of open, cuttable coal and even a potential extension on the ground once we mine their open cut resource, and of course have some exposed highwalls. Our focus going forward will be on improving up Lancewood. We will need to do - of course there's a lot of work going to understand what will be the right approach, a lot of let's say [optioneering] around to define what's the right approach to develop the resource. There is a mining lease, we will need to do environmental studies and get environmental approvals. But it could be a very interesting place to start the project. It's a premium quality hot coking coal, and a reasonable amount of open cuttable coal.

Probably sometime this year, we should be able to provide a bit more colour on where things are at with Lancewood and the development path, but I would say that the southern path of Wards Well, we'll take let's say second priority behind what we intend to progress in relation to Lancewood.

Brett McKay: (Petra Capital, Analyst) Okay, great. Thanks, Marcelo. Cheers guys.

Shane Young: Thank you.

Operator: Your next question comes from the line of Colin McClelland from Petra Capital. Your line is open.

Colin McClelland: (Petra Capital, Analyst) Thank you. Hi guys. With thermal coal having sort of dropped back in the last couple of months, because mining the two additional thermal coal seams at Poitrel, is that still in the long term plan? Secondly, would thermal coal, would you expect it to sort of drop back from the 3% you had in the December quarter back to more normal levels?



Marcelo Matos: Colin definitely yes, because the incremental cost to mine those additional plies is extremely low. But if you assume that the level - the percentage of our costs are - by far the vast majority are fixed and we are mining those seams with the same setup or the same let's say fleet, we are not like introducing incremental costs to do that, I think that it's extremely cheap to mine them at very low strip ratios to access them. So yes, it's going to pay easily even at low thermal coal prices.

Obviously, we need to validate volumes yields and of course recoveries because a lot of those seams, they have not been well explored and we don't have a huge amount of washability tests historically done by BHP, given that they were not targeted as part of the old mine plan. But we are doing a lot of infield drilling and more work to better define those reserves.

Colin McLelland: (Petra Capital, Analyst) Cool, thank you. Just another one, in terms of the Red Mountain wash plant and hauling Isaac Plains coal, now that the Isaac Plains wash plant has been expanded, is that still - like is that hauling going ahead or still continuing past March?

Marcelo Matos: We have decided to extend that a bit further. We've had some teething issues with the secondary crusher at Isaac Plains since the upgrade. The full secondary crusher assembly has just been actually replaced 10 days ago, a bit more consistent let's say, results since the restart. But to catch up with a bit of the lost hours, we decided to extend the Red Mountain campaign a bit further within Q2. But going forward, assuming the wash plant at Isaac Plain performs well as we hope, I think Red Mountain will be a more opportunistic assessment on a case by case basis. Of course, we have lumpy production from time to time but that flexibility is there.

Colin McLelland: (Petra Capital, Analyst) Okay, thank you. Sorry, just one last question for Shane probably, you had \$198.5 million in deferred tax. What's the implications of that longer term? Can you talk around what that was from and how it'll play out?

Shane Young: Yes, no worries. Thanks Colin. Deferred tax was impacted this year primarily through the acquisition of the remaining 20% of SMC. Upon owning 100% of the SMC assets, we're now able - in fact, we're required to tax, consolidate those mines into the Stanmore Group. Upon tax consolidation, there is a tax asset based reset that's applied. That reset has a future tax benefit to Stanmore, and that tax benefit has been accounted for this year and represent US\$151 million of deferred tax benefit going through the P&L and the tax expense line. That's what's probably showing up in your numbers, Colin, and obviously it was a good benefit of the Mitsui acquisition.

Colin McLelland: (Petra Capital, Analyst) Yes, but that's a, that's a one-off benefit?

Shane Young: It's a one-off impact to the P&L, yes. From a cash perspective, it'll be a cash benefit in lower taxes, cash costs over the next 10, 15 years.

Colin McLelland: (Petra Capital, Analyst) Okay, super. Thank you.

Operator: Your next question comes from the line of Jon Ogden from Eastern Value Ltd. Your line is open

Jon Ogden: (Eastern Value Ltd, Analyst) Morning guys and great result. Well done. Just a few from me, I'll just give you a little list. Firstly, I know you're not giving guidance, but if we look at the second half numbers in terms of cost volumes and CapEx, I mean, is that a rough ballpark thing to look at? I think in terms of cost, we've got diesel and so on coming up, some other things like wages might have gone up, but maybe falling all pretty flat. Then on volumes, I don't know if there's - you know, you mentioned the bolt at Poitrel you've got to work around. Then specifically Millennium, I noticed the volumes were low in the second half and you've got some development going on there in terms of underground. I don't think there's any flavour on that.

Then royalties, I don't know if there's any further discussion between the industry and the Queensland government. If they've now got a little bit of remorse about what they did in terms of, you know, really sort of disincentivising any greenfield development. What's the world's most important on coking coal field? Any thoughts on that?

Then the final one is just on your appetite for M&A. Obviously, there's a couple of assets for BHP on the market. Again, one is [near your mine], which is quite small. The other one, Blackwater, is big and further away. I just wonder if you have appetite for a very big deal or if you're only - you're going to be kind of more looking to consolidate and won't really be chasing these assets. Any kind of flavour on, you know, how aggressive you're going to be? What's probably going to be more competitive bidding field this time with prices higher, and obviously you guys showing what can be done when you get hold of some of these BHP assets. Thanks very much.

Marcelo Matos: No worries. Let me cover the guidance bit first. I'll try to of course help you guys as best as we can in the absence of, you know, putting numbers out there. I think starting with production, as I said before, I think we are in a pretty let's say, steady state. If you look at the three operations, starting with South Walker, it is an operation that has plenty of options and ability to produce run off mine coal, with the current bottle neck being a wash plant which has been running at this six ton per annum product or rate. That's the steady state for South Walker Creek. I see no reason why steady state is not achievable during 2023. We are now as I said, working on what's next, what to expect, how we can accelerate delivery of value in that asset.

It will require some of the bottlenecking projects. MRA2C is a project that now is a cost improvement project. We're keeping strip ratio low. Potentially, it could be part of an expansion, but it's a project that's only going to start producing in 2025. That's more or less what South Walker is from a volume standpoint, and what you expect. Poitrel is going through an interesting time. It had a fantastic second half in '22. As I said before, if you look at annualised rate in that period, it is a bit above what it has done historically. I think that provides you with a bit of a hint about what you expect. It is going to a time where the mine is constrained until we open the ramp 10 and increase the available strike for seven fleets or six fleets to work.

It will work in a tighter space, but we are working hard to try to keep volumes. I would say that the annualised space in second half was reasonably high for historical levels. Once we get ramp 10 developed starting in 2025, strip ratio will be good, will be lower and we should get consistent volumes. But until then, I think we're going to be a little bit on the pressure on strip ratios and volumes in Poitrel. With the benefit of some opportunities, as I said, this mining of these additional incremental coal applies that we've been mining, doing a bit of auger mining which is something else we are envisaging for this year to help bridge any potential shortfall as well.

On the Isaac Complex, I think we have a potential going ahead to be probably one of the best years ever in terms of volumes. The mining is stabilised, wash plant is upgraded. We are mining, you know, good volumes of ROM, the drag line is progressing well, and we still have the Pit 5 north opportunity. I think without putting hard numbers there, I think it has a potential to be a pretty strong year for Isaac in 2023.

We did hope that would be the case in '22, we ended up in a good place but we did have some headwinds with the CHPP teething after the start and some wet weather. '23 has all the potential to be a pretty strong year. Again, on the capital side, just to answer to your point, I think we've had for me two significant projects; South Walker Creek, MRA2C is a \$183 million project. It's going to pay extremely quickly, but in the meantime, between now and '25, we will need to of course be spending money to develop that pit.

It's an infrastructure spend at the end of the day, and box cut and opening the pit. In Poitrel, the development of Ramp 10 is also being now capitalised. Where you would see before that in opex I think for many reasons it's being capitalised, and I think Shane can talk to this a bit more, that's going to also show in a relative comparison to 2022. That because of Ramp 10, and because the fact that we are capitalising rather than putting that in P&L, that brings our annualised levels a bit higher. I don't think sustaining capital in general is moving materially.

On the operational cost, the pressure is still on. I think we still have strip ratio going up. Not materially higher, just the normal strip ratio progression that we would expect otherwise. Although Isaac and South Walker they're still in a pretty good healthy place, both Poitrel and south Walker as I said, in 2025, once MRA2C is developing South Walker, and once Ramp 10 is developed in Poitrel, it should be back to pretty healthy strip ratio as an average as well. I'll let Shane talk a bit more about royalties.

Shane Young: I think the second question was around the Queensland royalties. As we've noted in our investor presentations, royalty increases did have an impact in the second half of 2022. We saw US\$124 million of royalties incurred in that period, just as a result of, of the changes. That's something just to note that that is incurred rather than cash payments. There is obviously a timing difference between accruing those and paying those, but that gives a bit of a flavour for the impact in just six months. Of course Queensland government's within its rights to do these type of things. However, it was unforeseen and unfortunate and something that that we're conscious of in considering moving forward,

Marcelo Matos: I think just finalising on your question on acquisitions and the process with the BHP, it's not surprising that these assets are now formally unofficially in the market. I think it's been long expected as part of the BHP exit process and it's been long announced. I think we're going to continue to see that pattern happening especially with the major miners as they decarbonise their portfolio. We are a met coal company, we believe in the fundamentals of the met coal industry, and we think it could be pretty rewarding for the ones that, you know, stay and are the responsible producers like us.

As I said before, we do have a very interesting organic portfolio now. Some of these opportunities that we spoke about, they're very capital efficient. Having said that, we're going to continue assessing some of these acquisition opportunities. If they present a compelling value proposition for us, I mean, we will assess them and we'll have a look. Daunia is next door to Poitrel. You know, we have a very collaborative relationship with Daunia and BHP. It is literally beside us, it uses our rail no doubt. But again, we have options. If there's a compelling value proposition, of course we are also going to be open and looking.

Jon Ogden: (Eastern Value Ltd, Analyst) Thank you very much. Sorry, one last one guys. Can you just walk us through the different projects in terms of, what was the mix of coal produced? Like for example, I think Isaac Plains is mostly semi-soft with some PCI. I'm just wondering if you could just give us a mix, actual coal quality coming out of each project, and, you know, if that's going to continue. I imagine it probably would, the mix would be the same again this year. Thanks.

Marcelo Matos: It's a good question. We should think about illustrating that maybe in an easier way in the upcoming releases. But South Walker Creek is 100% PCI producer. It produces a low vol benchmark quality PCI. Poitrel produces a combination of a hard coking coal or a semi hard coking coal that's priced at a slight discount to the low vol coking coal index. But it has a secondary product which is a PCI.

We did sell as I said before, a little bit of opportunistic thermal coal, some of those seams that we've mined that haven't been mined before. But there are small volumes blend between the semi-hard and the PCI in Poitrel. It varies historically between, you know, 60-40 to 50-50. With the PCI index, as it was during 2022, very close to the premium or low coking coal. It just made sense to try to increase PCI volumes, which as you said, we also did in Isaac Plains. We also did direct some of our Isaac Plains volumes into some PCI blends to benefit from some of those prices. But the vast majority of the volume in Isaac Plains if not always - it's a semi-hard, semi-soft coking coal with some opportunistic thermal and PCI from time to time.

Jon Ogden: (Eastern Value Ltd, Analyst) Okay, thanks. Sorry, the last one was just about Millennium. I think I looked at the numbers and was it lower production in the second half with higher costs? I just wonder what was happening there. I think maybe some, you know, re-orientation of the operations there, you're talking about underground, so just wondering what's happening there? What can we expect, if you can tell us anything for 2023?

Marcelo Matos: I think one of the main paths in the underground developing Millennium were caused by first water and wet weather, but also some geo-tech in the low wall close to the portals in the [unclear], which is where we are setting up the access portals. We needed to redesign that, and we also ended up having to do additional storm [drainage] because of those changes, you know, to make sure now we have a safe and a reliable entry and portal going forward. That caused a bit of delay.

Where we were looking at ramping up in midyear, between June July ramping up on the underground, now we could be looking at more like the second half of the second half, more towards the last quarter in the year. We have mined a bit of incremental tonnes, there is an opportunity for that to be a bit quicker. But yes, unfortunately, some of those delays have impacted on the ramp up schedule.

Operator: This concludes today's Q&A session. I would like to turn the call back over to Marcelo for closing remarks.

Marcelo Matos: As a business, we remain confident in Stanmore's ability to deliver long-term value. As I said, we want to continue focus on deleveraging, realising synergies, delivering value and accelerating delivery of value out of this portfolio, of this enlarged portfolio. Looking at incremental volumes and growth going forward, we have lots of options. I've been really impressed by the way our people have embraced the new Stanmore and the culture we are building here.

I would like to take this opportunity to thank everyone, to thank our, our people and our teams and our of course contractors and employees and all the stakeholders. They are working with us for the ongoing contribution to the business, as well as our shareholders; some here on the line and all the stakeholders for the continuous support to Stanmore. Thanks everyone for your time and for your questions this morning.

Operator: This concludes today's conference call. You may now disconnect.

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