



ASX RELEASE (ASX:AQC)

Australian Pacific Coal

Quarterly Activities Report for the period ended 30 September 2018

Highlights

- *Agreement signed with strategic partner for development of the Dartbrook Mine*
- *Modification 7 approval materially progressed, with determination anticipated by end of the year*
- *Proposed amendments to financing arrangements agreed with cornerstone funders, subject to shareholder approval*

Dartbrook Project

Strategic Partner Agreement

On 6 August 2018, Australian Pacific Coal Limited (**AQC** or **Company**) announced it had signed a binding agreement to partner with Stella Natural Resources (**SNR**) as equal-share participants in the Dartbrook Joint Venture to recommence sustainable underground operations. SNR possesses the development and operational execution capability through its highly experienced management team with significant coal mining expertise. SNR, as Manager of the Dartbrook Joint Venture, will be responsible for all aspects of development and operations, including the procurement of all required funding for the life of the operation. AQC will not be required to directly contribute to any holding, development or operational costs at Dartbrook. The intent of the Dartbrook Joint Venture is to optimise the return to shareholders through the successful recommencement of operations at Dartbrook

Transaction overview

SNR will pay AUD 20 million to AQC (**Purchase Price**) for a 50% interest in AQC Investments 2 Pty Ltd, the entity which holds AQC's interest in the Dartbrook Mine, including freehold land, infrastructure and mining tenements. The DJV will provide an AUD 10 million loan to AQC (**Loan**) to pay out the existing Anglo American secured loan. The Company intends to use the Purchase Price proceeds to repay a significant portion of outstanding convertible notes held collectively by Mr Nicholas Paspaley, Mr John Robinson (Snr) and Trepang Services Pty Ltd (**Financiers**), and to obtain their agreement to the conversion of all remaining convertible notes to ordinary shares of the Company in accordance with the terms of the convertible notes held at the time.

The parties have progressed the various conditions precedent with the main outstanding items being the NSW State Government consent and agreement on the fully funded development plan. Subject to finalisation of these items, completion is anticipated by March 2019. Further updates will be provided by the Company as they become available.

Modification 7 Update

As previously disclosed, the Modification 7 (**MOD 7**) environmental assessment, along with other supporting documentation, was submitted and accepted for adequacy in June 2018. Public exhibition of the application closed in the last week of July 2018.

The Company has completed its response to submissions and the application is with the NSW department for finalisation. The Company anticipates determination of the application to be made by December 2018.

Open Cut Update

Following completion of the Open Cut Prefeasibility Study (**OC PFS**), announced 28 March 2018, the Company continued to progress long-lead items which will underpin an environmental impact assessment of the open cut project. The Company will assess final stakeholder feedback on the MOD 7 approval and the development plans of the joint venture with SNR prior to further advancement of the open cut project.

Corporate and Funding

At quarter end the Company held \$0.5 million in cash reserves, representing a decrease of \$2.1 million over the prior quarter. Funds during the quarter were primarily used to progress the modification environmental assessments (\$0.7 million), environmental drilling program (\$0.8 million), care & maintenance holding costs (\$2.4 million, including one-off payments relating to the change of contractor) and corporate administration (\$0.7 million).

During the quarter, the Company secured \$2.0 million in funding from Trepang Services Pty Ltd by way of an unsecured loan. The loan accrues interest at 10% per annum with interest to be capitalised or paid in cash at the Company's election. This loan, which is inclusive of the \$1.0 million disclosed in the Company's June 2018 quarterly report¹, is subject to further shareholder approval to provide, amongst other things, the capability to convert the principle plus capitalised interest to ordinary shares of the Company. Information on this approval will be provided in the notice of meeting materials provided to shareholders for the upcoming annual general meeting.

Post quarter end, the Company agreed to issue 1,250,000 fully paid ordinary shares at an issue price of \$0.80 per share to raise a total of \$1,000,000 for general working capital purposes. Further funds will be required in calendar 2018 to service the holding costs for care & maintenance and implementation of the agreement with SNR.

Proposed amendments to financing terms with Existing Financiers

Subject to shareholder approval in accordance with ASX Listing Rule requirements and the *Corporations Act 2001* (Cwth), Australian Pacific Coal Limited (**Company** or **AQC**) announced on 27 September 2018 it had agreed revised terms with Mr Nicholas Paspaley, Mr John Robinson (Snr) and Trepang Services Pty Ltd (**Trepang**) (collectively, the **Existing Financiers**) in relation to their existing financing arrangements with AQC. If approved by shareholders, the amendments provide for both a successful or unsuccessful completion of the Dartbrook Joint Venture (**DJV**) transaction².

In summary, on receipt of shareholder approval:

- All loan maturity dates to be extended and aligned to 1 February 2021;
- The conversion price of the existing convertible loan deeds will be varied such that all existing loans will be convertible at a price of \$0.80 per ordinary share; and
- The existing \$5 million face value Trepang Secured Loan and \$2 million face value Trepang Unsecured Loan will be converted into a new convertible note, on the same terms as the other convertible loans held by the Existing Financiers.

¹ Refer ASX announcement titled "Quarterly Activities and Cashflow Report" dated 31 July 2018

² Refer ASX announcement titled "Strategic Partner for Development of Dartbrook Mine" dated 6 August 2018

If the DJV transaction is successfully completed:

- The Company must repay the existing \$15 million convertible note (plus capitalised interest) held by Trepang in full;
- All loans held by Existing Financiers must be converted into ordinary shares of the Company at Completion. The conversion price for all convertible notes is (as set out above) \$0.80 per ordinary share;
- Each Mr Nicholas Paspaley and Mr John Robinson (Snr) to be granted a \$1.00 per product tonne royalty (\$2.00 in aggregate) for coal produced and sold by the DJV. The royalty will be based on the Company's interest in the DJV (being 50% on completion of the DJV transaction).

As a result, the Company will no longer hold any debt to the Existing Financiers and the DJV would be free of encumbrances.

In the event that the DJV transaction does not complete:

- All loans will continue to accrue interest at 10% per annum with security arrangements over all existing and future assets of the Company;
- If the Company requests that the Existing Financiers release all security held over the Company's existing and future assets, and the Existing Financiers accept the request (at their election), the Existing Financiers would be granted a production royalty of \$2.50 per sold tonne of Dartbrook coal consistent with the proposed variation previously announced by the Company³.

Details of the revised financing arrangements have been provided to shareholders in a notice of meeting issued in conjunction with the resolutions to be put to shareholders for their approval at the annual general meeting. The meeting will be held on 29 November 2018.

Yours faithfully,



Andrew Roach
Company Secretary
Australian Pacific Coal Limited

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³ Refer ASX announcement titled 'Proposed amendment to financing terms with Existing Financiers' dated 17 October 2017

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

Name of entity

Australian Pacific Coal Limited

ABN

49 089 206 986

Quarter ended ("current quarter")

30 September 2018

Consolidated statement of cash flows	Current quarter \$A	Year to date (3 months) \$A
1. Cash flows from operating activities		
1.1 Receipts from customers	27,494	27,494
1.2 Payments for		
(a) exploration & evaluation	(817,119)	(817,119)
(b) development	(679,926)	(679,926)
(c) production	-	-
(d) staff costs	(310,469)	(310,469)
(e) administration and corporate costs	(354,347)	(354,347)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1,112	1,112
1.5 Interest and other costs of finance paid	(8,481)	(8,481)
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other (mine care and maintenance)	(2,366,352)	(2,366,352)
1.8 Other (business development)	-	-
1.8 Other (GST refunds received)	459,757	459,757
1.8 Other (transaction and financing costs)	-	-
1.9 Net cash from / (used in) operating activities	(4,048,331)	(4,048,331)

Consolidated statement of cash flows	Current quarter \$A	Year to date (3 months) \$A
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(100,027)	(100,027)
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-
2.2 Proceeds from the disposal of:		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (Dartbrook completion adjustment)	-	-
2.6 Net cash from / (used in) investing activities	(100,027)	(100,027)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	-
3.2 Proceeds from loan drawdown	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	9,988	9,988
3.5 Proceeds from borrowings	2,000,000	2,000,000
3.6 Repayment of borrowings	(3,140)	(3,140)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	2,006,848	2,006,848

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	2,662,033	2,662,033
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(4,048,331)	(4,048,331)

Consolidated statement of cash flows		Current quarter \$A	Year to date (3 months) \$A
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(100,027)	(100,027)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	2,006,848	2,006,848
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	520,523	520,523

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A	Prior quarter \$A
5.1	Bank balances	203,666	191,035
5.2	Call deposits	31,415	2,185,556
5.3	Bank overdrafts	-	-
5.4	Other (short term deposits)	285,442	285,442
5.4	Other (funds held in escrow)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	520,523	2,662,033

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3

Current quarter \$A
94,734
-

- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Director fees paid in the quarter.

7. Payments to related entities of the entity and their associates	Current quarter \$A
7.1 Aggregate amount of payments to these parties included in item 1.2	-
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A	Amount drawn at quarter end \$A
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	25,000	14,662
8.3 Other (please specify)	49,700,000	49,700,000

8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.

8.1
8.2 NAB Business Visa. Interest 15.50%. Unsecured
8.3 Mr N Paspaley Convertible Loan Deed. Interest 10.0%. Secured. \$10,000,000 fully drawn
8.3 Mr J Robinson Convertible Loan Deed. Interest 10.0%. Secured. \$10,000,000 fully drawn
8.3 Trepang Services Pty Ltd Secured Loan Deed. Interest 10.0%. Secured. \$5,000,000 fully drawn
8.3 Trepang Services Pty Ltd Convertible Loan Deed. Interest 10.0%. Secured. \$15,000,000 fully drawn
8.3 Trepang Services Pty Ltd Unsecured Loan. Interest 10.0% \$2,000,000
8.3 Anglo American Metallurgical Coal Assets Pty Ltd Secured Loan. Interest 10.0%. \$7,700,000 fully drawn

9. Estimated cash outflows for next quarter	\$A
9.1 Exploration and evaluation	1,000,000
9.2 Development	150,000
9.3 Production	-
9.4 Staff costs	250,000
9.5 Administration and corporate costs	400,000
9.6 Other (Mine care and maintenance)	1,500,000
9.7 Total estimated cash outflows	3,300,000

Mining exploration entity and oil and gas exploration entity quarterly report

10.	Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1	Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced	N/a			
10.2	Interests in mining tenements and petroleum tenements acquired or increased	N/a			

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:



 Company secretary

Date: 31 October 2018

Print name: Andrew Roach

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.