Australian Pacific Coal Limited

ABN 49 089 206 986

Interim Report - 31 December 2017

Australian Pacific Coal Limited
Directors' report
31 December 2017

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Australian Pacific Coal Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2017.

Directors

The following persons were directors of Australian Pacific Coal Limited during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

Mr Peter Ziegler
Mr John J Robinson
The Hon. Shane Stone
Mr Bruce Munro

Review of operations

The loss for the consolidated entity after providing for income tax amounted to $7,908,373 (31 December 2016: $3,901,536).

During the half-year the Company progressed studies on potential recommencement of underground mining at Dartbrook Mine, NSW, in addition to studies on how part of the Dartbrook Mine resource could be extracted via low impact, modern open cut mining technologies. These studies involved a range of external expert consultants covering areas including geology, mine planning, infrastructure engineering and environmental considerations.

The Company continued to undertake modest exploration and evaluation activities on its tenements located in Queensland, Australia. During the half year the Company entered arrangements to divest certain Queensland exploration projects in return for the issue of ordinary shares in a new coal-based ASX-listed entity (Bowen Coking Coal Limited, ASX:BCB). The Company completed the divestment of the Cooroorah and Mount Hillalong projects during the half-year and holds shares in the ASX-listed entity as an investment at balance date.

Matters subsequent to the end of the half year

On 1 March 2018, the Company announced it has submitted an application to recommence limited, first workings underground mining at Dartbrook Mine via the bord and pillar method. The proposed mining is to take place within the approved Kayuga seam area. The Company anticipates submission of an environmental assessment in May 2018.

No other matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect the company's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Rounding of amounts

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

Peter Ziegler
Chairman

12 March 2018
Brisbane

AUSTRALIAN PACIFIC COAL LIMITED
ABN 49 089 206 986
AND CONTROLLED ENTITIES

SYDNEY
Level 40
2 Park Street
Sydney NSW 2000
Australia
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AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF AUSTRALIAN PACIFIC COAL LIMITED

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2017 there have been no contraventions of:

(i) the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Hall Chadwick

Hall Chadwick
Level 40, 2 Park Street
Sydney NSW 2000

SANDEEP KUMAR
Partner
Date: 12 March 2018

Statement of profit or losss and other comprehensive income	5
Statement of financial position	6
Statement of changes in equity	7
Statement of cash flows	8
Notes to the financial statements	9
Directors' declaration	20
Independent auditor's review report to the members of Australian Pacific Coal Limited	21

General information

The financial statements cover Australian Pacific Coal Limited as a consolidated entity consisting of Australian Pacific Coal Limited and the entities it controlled at the end of, or during, the half-year. The financial statements are presented in Australian dollars, which is Australian Pacific Coal Limited's functional and presentation currency.

Australian Pacific Coal Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Registered office	**Principal place of business**
Level 4 10 Felix Street Brisbane QLD 4000	Level 4 10 Felix Street Brisbane QLD 4000

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 12 March 2018.

Australian Pacific Coal Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2017

	Note	Consolidated 31 Dec 2017 $	31 Dec 2016 $
Revenue	3	544,498	399,712
Expenses			
Employee benefits expense		(1,070,495)	(814,360)
Depreciation and amortisation expense		(575,906)	(21,272)
Exploration and evaluation expense		(17,450)	(28,058)
Loss on disposal of tenements		(74,014)	-
Fair value movement of financial assets		(217,393)	-
Business development expenses		-	(1,014,946)
Administration and consulting expenses		(4,124,758)	(1,335,950)
Finance costs		(2,372,855)	(1,086,662)
Profit/(Loss) before income tax expense	4	(7,908,373)	(3,901,536)
Other comprehensive income			
Other comprehensive income for the half-year, net of tax		-	-
Total comprehensive income for the half-year		(7,908,373)	(3,901,536)

		Cents	Cents
Earnings per share for profit attributable to the owners of Australian Pacific Coal Limited			
Basic earnings per share	*	(16.06)	(0.09)
Diluted earnings per share	*	(16.06)	(0.09)

* Based on post consolidation of shares which occurred on 8th December 2017.

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Australian Pacific Coal Limited
Consolidated Statement of financial position
As at 31 December 2017

	Note	31 Dec 2017 $	30 Jun 2017 $
		Consolidated	
Assets			
Current assets			
Cash and cash equivalents	5	4,021,090	12,283,724
Trade and other receivables		157,597	241,677
Other		238,734	380,363
Total current assets		4,417,421	12,905,764
Non-current assets			
Property, plant and equipment	6	45,029,283	45,502,913
Intangibles		5,620,000	5,620,000
Exploration and evaluation		5,021,221	3,673,084
Financial assets		1,032,607	-
Other	7	9,570,026	9,575,026
Total non-current assets		66,273,137	64,371,023
Total assets		70,690,558	77,276,787
Liabilities			
Current liabilities			
Trade and other payables		5,032,772	3,433,155
Borrowings	8	45,232,802	45,495,997
Total current liabilities		50,265,574	48,929,152
Non-current liabilities			
Borrowings	9	-	14,278
Provision for rehabilitation		9,245,001	9,245,001
Provision for vendor royalty		11,100,000	11,100,000
Total non-current liabilities		20,345,001	20,359,279
Total liabilities		70,610,575	69,288,431
Net assets		79,983	7,988,356
Equity			
Issued capital	10	59,487,791	59,487,791
Reserves		-	-
Retained profits/(Accumulated Losses)		(59,407,808)	(51,499,435)
Total equity		79,983	7,988,356

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

Australian Pacific Coal Limited
Consolidated Statement of changes in equity
For the half-year ended 31 December 2017

Consolidated	Issued capital $	Reserves $	Retained Profits/(loss) $	Total equity $
Balance at 1 July 2016	53,179,591	492,700	(42,557,019)	11,115,272
Profit/(Loss) after income tax expense for the half-year	-	-	(3,901,536)	(3,901,536)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	(3,901,536)	(3,901,536)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs	158,440	-	-	158,440
Contributions of equity, transfers from reserves	153,939	(153,969)	-	-
Balance at 31 December 2016	53,492,000	338,731	(46,458,555)	7,372,176

Consolidated	Issued capital $	Reserves $	Retained Profits/(loss) $	Total equity $
Balance at 1 July 2017	59,487,791	-	(51,499,435)	7,988,356
Profit/(Loss) after income tax expense for the half-year	-	-	(7,908,373)	(7,908,373)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	(7,908,373)	(7,908,373)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs	-	-	-	-
Contributions of equity, transfers from reserves	-	-	-	-
Balance at 31 December 2017	59,487,791	-	(59,407,808)	79,983

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

Australian Pacific Coal Limited
Consolidated Statement of cash flows
For the half-year ended 31 December 2017

	Note	Consolidated 31 Dec 2017 $	31 Dec 2016 $
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		604,230	-
Payments to suppliers and employees (inclusive of GST)		(5,645,465)	(2,857,252)
		(5,041,235)	(2,857,252)
Interest received		24,348	399,712
Interest and other finance costs paid		-	(5,875)
Net cash used in operating activities		(5,016,887)	(2,463,415)
Cash flows from investing activities			
Prepayment for acquisition		-	(146,122)
Payments for property, plant and equipment		(649,618)	(1,013)
Payments for exploration and evaluation		(2,667,151)	(74,576)
Working capital adjustment post-acquisition		348,495	-
Net cash used in investing activities		(2,968,274)	(221,711)
Cash flows from financing activities			
Proceeds from issue of shares		-	250,000
Repayment of borrowings		(277,473)	(262,534)
Share issue transaction costs		-	(91,560)
Net cash used in financing activities		(277,473)	(104,094)
Net decrease in cash and cash equivalents		(8,262,634)	(2,789,220)
Cash and cash equivalents at the beginning of the financial half-year		12,569,166	29,107,134
Cash and cash equivalents at the end of the financial half-year	5	4,306,532	26,317,914

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2017 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

Historical cost convention
The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Critical accounting estimates
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2 of the annual report for the year ended 30 June 2017.

Going Concern
The company has incurred a net loss of $7,908,373 and a deficiency in operating cash flows of $5,016,887 for the half year ended 31 December 2017. The company as at 31 December 2017 had a deficiency of net current assets of $45,848,153.

This financial report has been prepared on a going concern basis as the Directors consider that the company and the consolidated entity will be able to realise its assets and settle its liabilities in the normal course of business and at amounts stated in the financial report. The continuation of the company and the consolidated entity as a going concern is dependent on their ability to achieve the following objectives:

- Capital raising to support existing projects including further development of Dartbrook coal mine.
- Development and exploitation of its coal tenements.
  Budgeted expenditure will allow the Company to meet tenement commitments on tenements which are not planned to be relinquished. If tenement commitments are not met then the Company will seek a variation of required expenditure from the relevant authority which, it is expected, will be granted.
- Realisation of surplus assets.
- Drawdown of $5,000,000 available from the Secured Loan provided by Trepang Services Pty Ltd.

Should the anticipated capital raisings not generate the expected cash flows, the company may not be able to pay its debts as and when they become due and payable and it may be required to realise assets and extinguish liabilities other than in the ordinary course of business and at amounts different from those stated in the financial statements. This report does not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the company and the consolidated entity not continue as going concerns.

New or amended Accounting Standards and Interpretations adopted
The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Note 2. Operating segments

Identification of reportable operating segments
The consolidated entity is currently organised into two operating segments based on resource category: exploration and evaluation, and bentonite mining. These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ("CODM")) in assessing performance and determining the allocation of resources. There is no aggregation of operating segments.

The CODM reviews segment receipts and expenditure for each operating segment at each board meeting. The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

Types of products and services
The principal products and services of each of these operating segments are as follows:

Exploration and evaluation	The exploration and evaluation segment seeks to identify prospective resource areas, secure tenure over the relevant tenements and manage the exploration and evaluation process.
Bentonite mining	The bentonite mining segment mines bentonite for sale.

Intersegment transactions
Intersegment transactions are made at market rates. Intersegment transactions are eliminated on consolidation.

Intersegment receivables, payables and loans
Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

Operating segment information

	Net loss from continuing operations before tax		Total Assets	
	2017 $	2016 $	2017 $	2016 $
Exploration & Evaluation	2,996,898	283,828	66,508,870	2,058,586
Bentonite mining	23,134	30,277	121,206	132,340
Unallocated	4,888,341	3,587,431	4,060,483	28,430,110
	7,908,373	3,901,536	70,690,559	30,621,036

Note 3. Revenue

	Consolidated	
	31 Dec 2017 $	31 Dec 2016 $
Other revenue		
Interest	24,348	399,712
Rent from investment properties	191,645	-
Sundry revenue	328,505	-
	544,498	399,712
Revenue	544,498	399,712

Note 4. Expenses

	Consolidated 31 Dec 2017 $	Consolidated 31 Dec 2016 $
Loss before income tax includes the following specific expenses:		
Finance costs		
Interest and finance charges paid/payable	2,372,855	1,086,662
Rental expense relating to operating leases		
Minimum lease payments	119,043	111,580
Superannuation expense		
Defined contribution superannuation expense	45,460	47,924

Note 5. Cash and cash equivalents

	Note	Consolidated 31 Dec 2017 $	Consolidated 30 Jun 2017 $
Current:			
Cash at bank and on hand		4,021,090	12,283,724
		4,021,090	12,283,724

Reconciliation to cash and cash equivalents at the end of the financial period

	Note	31 Dec 2017	31 Dec 2016
Balance as per above		4,021,090	26,032,472
Cash on deposit	7	285,442	285,442
Balance as per statement of cash flows		4,306,532	26,317,914

Note 6. Property, plant and equipment

	Note	Consolidated 31 Dec 2017 $	Consolidated 30 Jun 2017 $
Land – at cost		36,620,297	36,620,297
		36,620,297	36,620,297
Buildings, fixtures and fittings – at cost		1,266,676	642,007
Less: Accumulated depreciation		(180,518)	(74,223)
		1,086,158	567,784
Plant and equipment – at cost		8,004,063	8,558,182
Less: Accumulated depreciation		(681,235)	(243,350)
		7,322,828	8,314,832
		45,029,283	45,502,913

Depreciation on the acquired property, plant and equipment at Dartbrook Mine is to be applied over the remaining life of the acquired mining leases, less any residual value.

Note 7. Other non-current assets

		Consolidated 31 Dec 2017 $	Consolidated 30 Jun 2017 $
Security deposits		9,284,584	9,289,584
Cash on deposit	*	285,442	285,442
		9,570,026	9,575,026

*The non-current cash on deposit amount represents restricted term deposit facilities provided as security for finance and bank guarantee facilities that company's bankers have provided to the consolidated entity.

Note 8. Current liabilities – borrowings

	Consolidated	
	31 Dec 2017	**30 Jun 2017**
	$	**$**
Bank loans	-	41,381
Convertible securities (a)	37,532,802	37,532,802
Insurance premium funding	-	221,814
Interest bearing liabilities (b)	7,700,000	7,700,000
	45,232,802	45,495,997

a) On 1 February 2016 the consolidated entity issued two convertible securities, with a face value of $10,000,000 each, for total proceeds of $20,000,000. Interest is payable at a rate of 10.0% per annum based on the face value. The notes are convertible into ordinary shares of the parent entity, at any time at the option of the holder, or repayable on 1 February 2017, with an ability for the financier to request (and for the company to accept such request) to extend the maturity date by two further periods of 1 year (with the last possible maturity date being 1 February 2019). The number of ordinary shares to be issued is calculated as the conversion amount divided by the market price per share at the date of the issue of the convertible securities ($0.015), but subject to adjustments for reconstructions of equity. The maturity date for the notes was extended by agreement to 1 February 2019. Total accrued interest, classified as Trade and Other Payables in the balance sheet, as at balance date is $834,724.

On 1 March 2017 the consolidated entered into the Trepang Convertible Loan Deed, to conditionally secure an additional $15,000,000 in funding to assist in completing the acquisition of 100% of the Dartbrook Joint Venture. The issuance of the note was one of a number of resolutions approved by shareholders of the consolidated company at a general meeting held 13 April 2017, with approval also being provided for the conversion price of $0.0138 per ordinary share. Interest is payable at a rate of 10.0% per annum based on the face value. The note is convertible into ordinary shares of the parent entity, at any time at the option of the holder, or repayable on 1 February 2018, with an ability for the financier to request (and for the company to accept such request) to extend the maturity date by two further periods of 1 year (with the last possible maturity date being 1 February 2020). The number of ordinary shares to be issued is calculated as the conversion amount divided by the market price per share at the date of the issue of the convertible securities ($0.0138), but subject to adjustments for reconstructions of equity. The maturity date for the notes was extended by agreement to 1 February 2019. Total accrued interest relating to the notes as at balance date is $960,648.

b) On 29 May 2017, the consolidated entity announced it has agreed terms with Anglo American Metallurgical Coal Assets Pty Ltd for the provision of a loan for $7,700,000, secured against certain assets of the consolidated entity for a term of three years with at a 10% interest rate. The loan was conditional upon, amongst other things, approval from shareholders of the consolidated entity at a general meeting relating to financial assistance provisions. The loan was deemed to be a current liability at balance date, given the default provisions in the loan agreement related to the extension of various funding provided by Trepang Services Pty Ltd. Total accrued interest relating to the loan as at balance date is $467,428.

The convertible notes held are secured. Refer to Note 9 for further information on assets pledged as security and financing arrangements.

At balance date the Company has an undrawn loan from Trepang Services Pty Ltd of $5,000,000. The loan is anticipated to be fully drawn by April 2018 and will be a secured, interest bearing, loan to the consolidated entity. The loan has a three-year term and an interest rate of 10% per annum.

Note 9. Non-current liabilities - borrowings

	Consolidated	
	31 Dec 2017	**30 Jun 2017**
	$	**$**
Bank loans	-	14,278
	-	14,278

Total secured liabilities
The total secured liabilities (current and non-current) are as follows:

	Consolidated	
	31 Dec 2017	**30 Jun 2017**
	$	**$**
Bank loans	-	41,381
Insurance premium funding	-	221,814
Convertible securities	37,532,802	37,532,802
Loan – Anglo American	7,700,000	7,700,000
	45,232,802	45,495,997

Assets pledged as security
The bank loans are secured by a restricted short term deposit held by the bank.

The insurance premium funding is secured by the underlying insurance policy.

Trepang Services Pty Ltd has agreed to provide $5,000,000 by way of a secured, interest bearing, loan to the consolidated entity. The loan has a three-year term and an interest rate of 10% per annum when drawn. As at the date of this report the loan had not been drawn but remains available for drawdown by the consolidated entity.

The convertible securities, issued to Mr Robinson Snr, Mr Paspaley and Trepang Services Pty Ltd, share in the same security package as the loan from Trepang Services Pty Ltd.

Shareholders of the consolidated entity approved, at the extraordinary general meeting on 11 August 2017, the granting of first ranking security to Anglo American Metallurgical Coal Assets Pty Ltd in respect of the $7.7 million vendor loan provided on completion of the Dartbrook acquisition. The loan from Trepang Services Pty Ltd, and convertible note holders, is subordinated to the secured loan from Anglo American Metallurgical Coal Assets Pty Ltd.

Note 9. Non-current liabilities - borrowings (continued)

Financing arrangements
Access was available at the reporting date to the following lines of credit:

	Consolidated	
	31 Dec 2017 $	30 Jun 2017 $
Total facilities		
Bank loans	-	205,000
Loan – Trepang Services Pty Ltd	5,000,000	5,000,000
	5,000,000	5,205,000
Used at the reporting date		
Bank loans	-	55,659
	-	55,659
Unused at the reporting date		
Bank loans	-	149,341
Loan – Trepang Services Pty Ltd	5,000,000	5,000,000
	5,000,000	5,149,341

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Note 10. Equity - issued capital

	Consolidated			
	31 Dec 2017 Shares	30 Jun 2017 Shares	31 Dec 2017 $	30 Jun 2017 $
Ordinary shares - fully paid	49,234,810	4,923,434,264	59,487,791	59,487,791

Movements in ordinary share capital

Details	Date	Shares	$
Balance	1 July 2017	4,923,434,264	59,487,791
Consolidation: 1 for 100			
Balance	31 December 2017	49,234,810	59,487,791

On 28 November 2017, shareholders of the Company approved a consolidation of Ordinary Shares on the basis of 1 for 100 (subject to rounding up to the nearest 1 Ordinary Share). There were no other changes to Issued Capital during the half year ending 31 December 2017.

Note 11. Fair value measurement

Fair value hierarchy

The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:
Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: Unobservable inputs for the asset or liability

Consolidated - 31 Dec 2017	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Ordinary shares held for trading – fair value through P&L	1,032,607	-	-	1,032,607
Total assets	1,032,607	-	-	1,032,607

Consolidated - 30 Jun 2017	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Non-current assets – receivables	103,500	-	-	103,500
Total assets	103,500	-	-	103,500

Assets and liabilities held for sale are measured at fair value on a non-recurring basis.

There were no transfers between levels during the financial half-year.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

The financial assets are represented by the company's holding in Bowen Coking Coal Limited (ASX:BCB). The shares were acquired on 4th October 2017 as part settlement for the sale of tenement MDL453 (Cooroorah) and EPC 1824 (Mt Hillalong). AQC was issued AU$1.250 million of ordinary shares (54,347,826 shares, approximately 11.6% of total ordinary shares post issuance) by Bowen Coking Coal Limited as consideration for the tenements. The directors have calculated the fair value of the shares as $1,032,607, based on the closing price on the ASX as at 31 Dec 2017 ($0.019 per share).

Note 12. Contingent liabilities

Vendor Royalty

On 7 June 2016 the consolidated entity announced it had reached agreement with the minority joint venture partner at Dartbrook to acquire the minority partner's stake, thereby taking the Company's ownership of Dartbrook to 100%. A combined production-based royalty arrangement was agreed with the vendors on the following terms:

- An aggregate royalty to the vendors at a rate of A$3.00 per tonne of coal sold or otherwise disposed of and A$0.25 per tonne of any third party coal processed through the Dartbrook infrastructure, capped at A$30 million with indexation to apply to the rate and the cap.

At present the Dartbrook Mine is permitted to operate as an underground mine by longwall mining method. The vendor royalty is contingent on the Company achieving future development milestones which may or may not occur. The Company has assessed the acquisition of Dartbrook Mine in Note 13 Business Combinations and, through the work undertaken by the expert, assessed a discounted net present value associated with the obligation to pay the vendor royalty. The maximum amount payable under the product-based royalty remains capped at $30 million with indexation to apply to the cap. Refer to Note 13 Business Combinations.

Bank Guarantees
The consolidated entity has given bank guarantees as at 31 December 2017 of $80,442 (2016: $80,442) to its landlord.

Note 13. Business Combination

On 29 May 2017 AQC Investments #2, a subsidiary of Australian Pacific Coal Limited, acquired 100% of the ordinary shares of AQC Dartbrook Pty Limited (formerly known as Dartbrook Anglo Pty Ltd), AQC Dartbrook Management Pty Ltd (formerly known as Dartbrook Management (Anglo) Pty Ltd), and Dartbrook Coal (Sales) Pty Ltd for a total consideration of $39,295,376. Collectively these entities controlled and managed the joint venture operations of the vending joint venture partners of the Dartbrook Mine in New South Wales, including land, water rights, key mining infrastructure, mining information and other surface facilities. The consolidated entity also assumed the current rehabilitation obligation for the remediation of the Dartbrook Mine of $9,245,001. The acquired Dartbrook Mine has been in a care and maintenance phase for approximately ten years prior to the transaction. The acquired business contributed revenues of $542,466 and a loss after tax of $4,154,171 to the consolidated entity for the period from 29 May 2017 to 31 December 2017. The values identified in relation to the acquisition of the Dartbrook Mine are final as at 31 December 2017.

Details of the acquisition are as follows:

	Fair value $
Security deposit (a)	9,245,001
Property, plant and equipment	8,127,310
Land	36,620,297
Intangible - Water Access Licences (b)	5,620,000
Rehabilitation liability (a)	(9,245,001)
Vendor royalty obligation (c)	(11,100,000)
Other assets	27,769
Net assets acquired	39,295,376
Goodwill	-
Acquisition-date fair value of the total consideration transferred	39,295,376
Representing:	
Cash paid or payable to vendors	31,595,376
Funds contributed toward rehabilitation bond	7,700,000
Contingent consideration	-
Total purchase consideration	39,295,376

The fair value of net assets acquired was $39,295,376. This outcome is reflective of the nature of the Dartbrook mine which was operated in a care and maintenance phase for an extended period by the former owners. This value is final and has been assessed by an independent valuation expert within the time limit permitted by AASB 3. The prior reported numbers have been revised accordingly.

(a) Security Deposit and Rehabilitation Liability
The approved care and maintenance mine operating plan at Dartbrook Mine stipulates the rehabilitation cost estimate to be deposited within the New South Wales State Government. The $9.245 million deposit was part funded by the vendor loan provided to the Company at completion of the acquisition and matches the rehabilitation liability assumed by the Company.

(b) Intangible – Water Access Licences
The Dartbrook Mine holds various water rights associated with land owned by the mine. These rights have been valued using a market approach by reference to publicly available information regarding the recent trading of similar licences. Only water rights associated with high or general security have been valued given the risk of water supply for other licence types. A mid-point of the valuation range has been applied to determine a valuation of $5.620 million.

(c) Vendor Royalty Obligation
The transaction also included a production-based vendor royalty, payable when the Dartbrook mine recommences saleable production. The vendor royalty has been assessed via probabilistic analysis as part of the Business Combination, having regard to a range of factors, including potential timing and production volumes. The assessed potential payment stream has been discounted to fair value of $11.100 million adopting a weighted average cost of capital (nominal, post tax) of 11.7%.

Note 13. Business combinations (continued)

The maximum amount payable to the vendors is $30.0 million with indexation to apply to the rate and the cap. Refer to Note 12 for further information on the vendor royalty.

(d) Other Notes
The Company has assessed each of the identified assets and liabilities noted above at the reporting date and determined whether any adjustment to the recognized value is appropriate. Since the acquisition, there have been no material changes in events and conditions that require adjustment.

The Company has assessed the impact of tax effect accounting from the acquisition. At the half year ending 31 December 2017 the Company assessed a small net deferred tax asset. Given the consolidated tax loss position of the Company, the Directors have elected to not recognize this asset.

Revenue from the Dartbrook Mine included in the Company's revenue since the date of acquisition amounted to $542,466. The loss from the Dartbrook Mine included in the Company's loss since the date of acquisition amount to $4,154,171.

Had the results of the Dartbrook Mine been consolidated from 1 July 2016 revenue from property rent would amount to $380,795. The consolidated loss would have been $6,274,693 due to the continued payments for care and maintenance holding costs.

Note 14. Events after the reporting period

On 1 March 2018, the Company announced it has submitted an application to recommence limited, first workings underground mining at Dartbrook Mine via the bord and pillar method. The proposed mining is to take place within the approved Kayuga seam area. The Company anticipates submission of an environmental assessment in May 2018.

There are no other material events which have occurred post balance date.

Australian Pacific Coal Limited
Directors' declaration
31 December 2017

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the financial half-year ended on that date; and

- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

Peter Ziegler
Chairman

12 March 2018
Brisbane

AUSTRALIAN PACIFIC COAL LIMITED
ABN 49 089 206 986
AND CONTROLLED ENTITIES

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INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE DIRECTORS OF
AUSTRALIAN PACIFIC COAL LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Australian Pacific Coal Limited, which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of Australian Pacific Coal Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of Australian Pacific Coal Limited's financial position as at 31 December 2017 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Australian Pacific Coal Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001.

AUSTRALIAN PACIFIC COAL LIMITED
ABN 49 089 206 986
AND CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE DIRECTORS OF
AUSTRALIAN PACIFIC COAL LIMITED

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Australian Pacific Coal Limited is not in accordance with the Corporations Act 2001 including:

(i) giving a true and fair view of Australian Pacific Coal Limited's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and

(ii) complying with AASB 134: Interim Financial Reporting and the Corporations Regulations 2001.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the half-year financial report, which indicates that the Group incurred a net loss after tax of $7,908,373 during the half-year ended 31 December 2017 and as of that date, the Group's current liabilities exceeded its current assets by $45,848,153. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt about the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Hall Chadwick

HALL CHADWICK
Level 40, 2 Park Street
Sydney NSW 2000

SKumar

SANDEEP KUMAR
Partner
Dated: 12 March 2018