Australian Pacific Coal Limited

ABN 49 089 206 986

Interim Report - 31 December 2016

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 2016.

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:

Peter Ziegler
John J Robinson
Shane Stone (appointed 1 August 2016)
Paul Byrne (resigned on 15 February 2017)

Review of operations

The loss for the consolidated entity after providing for income tax and non-controlling interest amounted to $3,901,536 (31 December 2015: $2,064,401).

Dartbrook Acquisition

On 24 December 2015, the company entered into a binding agreement to acquire an 83.33% interest in the Dartbrook Joint Venture ("Dartbrook") through the purchase of all of the shares on issue in Anglo Coal (Dartbrook) Pty Ltd, a subsidiary of Anglo American Plc. Subsequently, on 18 May 2016, Marubeni Coal Pty Ltd formally notified the company of its decision to exercise its tag-along right for the sale of its 16.67% interest in the Dartbrook Joint Venture to the company.

Total consideration for the acquisition includes:

- a A$30 million cash payment; and
- a royalty over the consolidated entity's share of coal from Dartbrook at a rate of A$3.00 per tonne of coal sold or otherwise disposed of and A$0.30 per tonne of any third party coal processed through the Dartbrook infrastructure, but capped at A$30 million (and subject to escalation in accordance with CPI).

In addition, the consolidated entity will be replacing approximately A$9.245 million in financial assurances in respect of the Dartbrook mining tenements.

As at the date of this report, completion of the acquisition is subject to certain conditions precedent, including:

- Marubeni releasing Anglo from any further liability in respect of the Dartbrook Joint Venture, which it has agreed to do on completion of the sale of its interest;
- receipt of standard regulatory consents relating to tenement change of control conditions; and
- the company providing reasonable evidence of its ability to replace the financial assurances of approximately A$9.245 million referred to above. The company has agreed to pay a break fee of $1,000,000 (increased from $500,000 on 8 February 2017) if it is unable to satisfy this condition (subject to all other conditions having been satisfied).

The company has paid deposits of $500,000 to Anglo and $100,000 to Marubeni. A further $24,500,000 has been paid into an escrow account to enable completion of the acquisition upon the remaining conditions precedent being waived or satisfied.

The company announced on 27 April 2016 that cornerstone investor Trepang Services Pty Ltd has undertaken to provide the necessary purchase consideration of $5 million by way of a secured, interest bearing, loan to the company for the Marubeni acquisition. The loan has a three-year term and an interest rate of 10% per annum. The provision of the loan is subject to the execution of a general security deed over all property of the Company and the receipt of all required waivers to the grant of the security as required by the ASX Listing Rules.

During the half-year the Company has also focused on the review of its existing exploration tenements and potential future drilling programs to assess the likelihood of further development of the assets or potential sale.

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.

Australian Pacific Coal Limited
Directors' report
31 December 2016

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

16 March 2017
Brisbane

HALL CHADWICK
MELBOURNE AUDIT

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

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 2016 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 6, 468 ST KILDA RD
MELBOURNE, VIC 3004

SKumar

SANDEEP KUMAR
Partner
Date: 16 March 2017

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Hall Chadwick Melbourne Audit ABN 41 134 806 025 Registered Company Auditors.

Australian Pacific Coal Limited
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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 7 10 Felix Street Brisbane QLD 4000	Level 7 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 14 March 2017.

Australian Pacific Coal Limited
Consolidated Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2016

	Note	Consolidated	
		31 Dec 2016	**31 Dec 2015**
		$	**$**
Revenue from continuing operations	3	399,712	86,373
Expenses			
Cost of goods sold		-	(1,699)
Employee benefits expense		(814,360)	(808,031)
Depreciation and amortisation expense		(21,272)	(9,843)
Impairment of trade and other receivables		-	109,170
Exploration and evaluation expense		(28,058)	(38,768)
Capitalised exploration expensed on surrender of tenement		-	(21,993)
Business development expenses		(1,014,946)	-
Administration and consulting expenses		(1,335,950)	(1,378,259)
Finance costs		(1,086,662)	(1,359)
Profit/(Loss) before income tax expense from continuing operations	4	(3,901,536)	(2,064,401)
Income tax expense		-	-
Profit/(Loss) after income tax expense from continuing operations		(3,901,536)	(2,064,401)
Profit/(Loss) after income tax expense from discontinued operations		-	-
Profit/(Loss) after income tax expense for the half-year		(3,901,536)	(2,064,401)
Other comprehensive income			
Other comprehensive income for the half-year, net of tax		-	-
Total comprehensive income for the half-year		(3,901,536)	(2,064,401)
Profit/(Loss) for the half-year is attributable to:			
Owners of Australian Pacific Coal Limited		(3,901,536)	(2,064,401)
Total comprehensive income for the half-year is attributable to:			
Continuing operations		(3,901,536)	(2,064,401)
Owners of Australian Pacific Coal Limited		(3,901,536)	(2,064,401)
		(3,901,536)	(2,064,401)
		Cents	**Cents**
Earnings per share for profit from continuing operations attributable to the owners of Australian Pacific Coal Limited			
Basic earnings per share		(0.09)	(0.13)
Diluted earnings per share		(0.09)	(0.13)

The above consolidated 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 2016

	Note	Consolidated 31 Dec 2016 $	Consolidated 30 Jun 2016 $
Assets			
Current assets			
Cash and cash equivalents	5	26,032,472	28,821,692
Trade and other receivables		171,469	48,615
Other		1,632,511	1,226,832
Total current assets		27,836,452	30,097,139
Non-current assets			
Cash and cash equivalents	5	285,442	285,442
Receivables		103,105	103,105
Property, plant and equipment		326,643	346,994
Exploration and evaluation		2,017,311	1,970,793
Other		52,083	52,083
Total non-current assets		2,784,584	2,758,417
Total assets		30,621,036	32,855,556
Liabilities			
Current liabilities			
Trade and other payables		3,122,086	1,350,976
Borrowings	6	20,067,699	20,295,965
Total current liabilities		23,189,785	21,646,941
Non-current liabilities			
Borrowings	7	59,075	93,343
Total non-current liabilities		59,075	93,343
Total liabilities		23,248,860	21,740,284
Net assets		7,372,176	11,115,272
Equity			
Issued capital	8	53,492,000	53,179,591
Reserves		338,731	492,700
Retained profits/(Accumulated Losses)		(46,458,555)	(42,557,019)
Total equity		7,372,176	11,115,272

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 2016

Consolidated	Issued capital $	Reserves $	Retained Profits/(loss) $	Total equity $
Balance at 1 July 2015	37,695,544	-	(36,566,018)	1,129,526
Profit/(Loss) after income tax expense for the half-year	-	-	(2,064,401)	(2,064,401)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	(2,064,401)	(2,064,401)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs	15,567,197	-	-	15,567,197
Share based payments	-	492,700	-	492,700
Balance at 31 December 2015	53,262,741	492,700	(38,630,419)	15,125,022

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

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 2016

	Note	Consolidated 31 Dec 2016 $	31 Dec 2015 $
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		-	4,250
Payments to suppliers and employees (inclusive of GST)		(2,857,252)	(1,595,793)
		(2,857,252)	(1,591,543)
Interest received		399,712	82,509
Interest and other finance costs paid		(5,875)	(1,351)
Net cash used in operating activities		(2,463,415)	(1,510,385)
Cash flows from investing activities			
Prepayment for acquistion		(146,122)	(500,000)
Payments for property, plant and equipment		(1,013)	(208,953)
Payments for exploration and evaluation		(74,576)	(22,423)
Proceeds from release of security deposits		-	17,500
Net cash used in investing activities		(221,711)	(713,876)
Cash flows from financing activities			
Proceeds from issue of shares		250,000	14,440,059
Proceeds from borrowings		-	202,405
Repayment of borrowings		(262,534)	(11,276)
Share issue transaction costs		(91,560)	(442,777)
Net cash used in financing activities		(104,094)	14,188,411
Net (decrease)/increase in cash and cash equivalents		(2,789,220)	11,964,150
Cash and cash equivalents at the beginning of the financial half-year		29,107,134	101,201
Cash and cash equivalents at the end of the financial half-year	5	26,317,914	12,065,351

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 2016 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 2016 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 2016.

Going Concern
The company has incurred a net loss of $3,901,536 and a deficiency in operating cash flows of $2,463,415 for the half year ended 31 December 2016.

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 the acquisition 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.

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.

Note 2. Operating segments (continued)

Operating segment information

Consolidated - 31 Dec 2016	Exploration and evaluation $	Bentonite mining $	Unallocated $	Total $
Revenue				
Interest revenue	-	-	399,712	399,712
Total sales revenue	-	-	-	399,712
Total revenue	-	-	399,712	399,712
Segment net profit/(loss) from continuing operations before tax	(283,828)	(30,277)	(3,587,431)	(3,901,536)
Profit before income tax expense				(3,901,536)
Income tax expense				-
Profit after income tax expense				(3,901,536)
Amounts included in segment result and reviewed by the board:				
- depreciation and amortisation	-	(5,614)	(15,659)	(21,272)
- exploration and evaluation	(3,642)	(24,416)	-	(28,058)
Assets				
Segment assets				
Included in segment assets are:				
Cash and cash equivalents	-	-	26,317,914	26,317,914
Trade and other receivables	7,425	23	267,126	274,574
Property, plant and equipment	-	114,084	212,559	326,643
Capitalised exploration and evaluation	2,017,311	-	-	2,017,311
Other assets	33,850	18,233	1,632,511	1,684,594
Total assets	2,058,586	132,340	28,430,110	30,621,036
Liabilities				
Segment liabilities	59,386	3,547	23,185,927	23,248,860
Total liabilities	59,386	3,547	23,185,927	23,248,860

Note 2. Operating segments (continued)

Consolidated - 31 Dec 2015	Exploration and evaluation $	Bentonite mining $	Unallocated $	Total $
Revenue				
Sales to external customers	-	3,864	-	3,864
Interest revenue	-	-	82,509	82,509
Total sales revenue	-	3,864	82,509	86,373
Total revenue	-	3,864	82,509	86,373
Segment net profit/(loss) from continuing operations before tax	(37,244)	(30,247)	(1,996,910)	(2,064,401)
Profit before income tax expense				(2,064,401)
Income tax expense				-
Profit after income tax expense				(2,064,401)
Amounts included in segment result and reviewed by the board:				
- depreciation and amortisation	-	(5,599)	(4,244)	(9,843)
- impairment of loans receivable			109,170	109,170
- exploration and evaluation	(12,447)	(26,321)	-	(38,768)
- capitalised exploration expensed on surrender of tenement	(21,993)	-	-	(21,993)

Note 3. Revenue

	Consolidated 31 Dec 2016 $	Consolidated 31 Dec 2015 $
From continuing operations		
Sales revenue		
Sale of bentonite	-	3,864
	-	3,864
Other revenue		
Interest	399,712	82,509
	399,712	82,509
Revenue from continuing operations	399,712	86,373

Note 4. Expenses

	Consolidated	
	31 Dec 2016 $	31 Dec 2015 $
Profit before income tax from continuing operations includes the following specific expenses:		
Cost of sales		
Cost of sales	-	1,699
Finance costs		
Interest and finance charges paid/payable	1,086,662	1,351
Rental expense relating to operating leases		
Minimum lease payments	111,580	63,387
Superannuation expense		
Defined contribution superannuation expense	47,924	13,115
Share-based payments expense		
Share-based payments expense	-	492,700

Note 5. Cash and cash equivalents

	Consolidated	
	31 Dec 2016 $	30 Jun 2016 $
Current:		
Cash at bank and on hand	1,147,326	4,321,692
Cash on deposit	24,885,146	24,500,000
	26,032,472	28,821,692
Non-current:		
Cash on deposit	285,442	285,442
	285,442	285,442
	26,317,914	29,107,134

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 6. Current liabilities - borrowings

	Consolidated	
	31 Dec 2016	30 Jun 2016
	$	$
Bank loans	67,699	66,014
Convertible securities	20,000,000	20,000,000
Insurance premium funding	-	229,951
	20,067,699	20,295,965

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.

Total transactions costs were $Nil at the date of issue and unamortised transaction costs of $Nil (2015: $Nil) have been offset against the convertible notes payable liability.

The convertible notes are currently unsecured with security terms to be put to shareholders for approval at a general meeting of the company.

Refer to note 9 for further information on assets pledged as security and financing arrangements.

Note 7. Non-current liabilities - borrowings

	Consolidated	
	31 Dec 2016	30 Jun 2016
	$	$
Bank loans	59,075	93,343
	59,075	93,343

Trepang Services Pty Ltd has undertaken to provide $5,000,000 by way of a secured, interest bearing, loan to the consolidated entity for the purpose of providing the funding necessary to purchase Marubeni Coal Pty Ltd's 16.67% interest in the Dartbrook Joint Venture. The loan has a three-year term and an interest rate of 10% per annum. The provision of the Loan is subject to the execution of a general security deed over all property of the Company and the receipt of all required waivers to the grant of the security as required by the ASX Listing Rules. As at the date of this report the loan had not been drawn.

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

	Consolidated	
	31 Dec 2016	30 Jun 2016
	$	$
Bank loans	126,774	159,357
Insurance premium funding	-	229,951
	126,774	389,308

Note 7. Non-current liabilities - borrowings (continued)

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.

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

	Consolidated 31 Dec 2016 $	Consolidated 30 Jun 2016 $
Total facilities		
Bank loans	205,000	205,000
Loan – Trepang Services Pty Ltd	5,000,000	5,000,000
	5,205,000	5,205,000
Used at the reporting date		
Bank loans	126,774	159,357
	126,774	159,357
Unused at the reporting date		
Bank loans	78,226	45,643
Loan – Trepang Services Pty Ltd	5,000,000	5,000,000
	5,078,226	5,045,643

The provision of the Loan – Trepang Services Pty Ltd is subject to the execution of a general security deed over all property of the Company and the receipt of all required waivers to the grant of the security as required by the ASX Listing Rules. As at the date of this report the loan had not been drawn.

Note 8. Equity - issued capital

	Consolidated 31 Dec 2016 Shares	Consolidated 30 Jun 2016 Shares	Consolidated 31 Dec 2016 $	Consolidated 30 Jun 2016 $
Ordinary shares - fully paid	4,349,684,264	4,318,434,264	53,492,000	53,179,591

Movements in ordinary share capital

Details	Date	Shares	Issue price	$
Balance	1 July 2016	4,318,434,264		53,179,591
Exercise of options	11 August 2016	12,500,000	$0.01297	161,587
Exercise of options	19 October 2017	12,500,000	$0.01297	161,588
Exercise of options	20 December 2017	6,250,000	$0.01297	80,794
Share issue transaction costs, net of tax				(91,560)
Balance	31 December 2016	4,349,684,264		53,492,000

Note 9. 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 2016	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Non-current assets – receivables	103,500	-	-	103,500
Ordinary shares available-for-sale	-	-	-	-
Total assets	103,500	-	-	103,500

Consolidated - 30 Jun 2016	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Non-current assets – receivables	103,500	-	-	103,500
Ordinary shares available-for-sale	-	-	-	-
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.

Valuation techniques for fair value measurements categorised within level 2 and level 3
The directors have determined that the fair values of the existing available-for-sale financial assets carried at cost and at recoverable amount cannot be reliably measured. The directors have made an estimate of the fair value at the end of the reporting period based on the reported financial results of the underlying investment. There is no active market for these investments, and there is no present intention to dispose of these investments.

These available-for-sale financial assets are represented by the company's holding of 1,000,000 ordinary shares in Scott Creek Coal Limited. The shares were acquired on as part settlement for the sale of tenement EPC1548 on 2 April 2013 at an acquisition cost of $100,000. The directors have estimated the fair value of the shares as $Nil (2015: $Nil)

Note 10. Contingent liabilities

Dartbrook Acquisition
On 24 December 2015, the company entered into a binding agreement to acquire an 83.33% interest in the Dartbrook Joint Venture ("Dartbrook") through the purchase of all of the shares on issue in Anglo Coal (Dartbrook) Pty Ltd, a subsidiary of Anglo American Plc. Subsequently, on 18 May 2016, Marubeni Coal Pty Ltd formally notified the company of its decision to exercise its tag-along right for the sale of its 16.67% interest in the Dartbrook Joint Venture to the company.

Total consideration for the acquisition includes:
- a A$30 million cash payment; and
- a royalty over the consolidated entity's share of coal from Dartbrook at a rate of A$3.00 per tonne of coal sold or otherwise disposed of and A$0.30 per tonne of any third party coal processed through the Dartbrook infrastructure, but capped at A$30 million (and subject to escalation in accordance with CPI).

In addition, the consolidated entity will be replacing approximately A$9.245 million in financial assurances in respect of the Dartbrook mining tenements.

As at the date of this report, completion of the acquisition is subject to certain conditions precedent, including:
- Marubeni releasing Anglo from any further liability in respect of the Dartbrook Joint Venture, which it has agreed to do on completion of the sale of its interest;
- receipt of standard regulatory consents relating to tenement change of control conditions; and
- the company providing reasonable evidence of its ability to replace the financial assurances of approximately A$9.245 million referred to above. The company has agreed to pay a break fee of $1,000,000 if it is unable to satisfy this condition (subject to all other conditions having been satisfied).

The company has paid deposits of $500,000 to Anglo and $100,000 to Marubeni. A further $24,500,000 has been paid into an escrow account to enable completion of the acquisition upon the remaining conditions precedent being waived or satisfied.

The company announced on 27 April 2016 that cornerstone investor Trepang Services Pty Ltd has undertaken to provide the necessary purchase consideration of $5 million by way of a secured, interest bearing, loan to the company for the Marubeni acquisition. The loan has a three-year term and an interest rate of 10% per annum. The provision of the loan is subject to the execution of a general security deed over all property of the Company and the receipt of all required waivers to the grant of the security as required by the ASX Listing Rules.

The company announced on 1 March 2017 that cornerstone investor Trepang Services Pty Ltd had agreed to provide $15 million by way of a secured, interest bearing, convertible loan to the company for the replacement of the environmental bonds, payment of stamp duty and working capital. Trepang will not be obliged to advance the money unless on or before the sunset date for the Anglo share purchase agreement, currently 14 April 2017, the company obtains shareholder approval for the convertible loan deed. The loan has a three-year term and an interest rate of 10% per annum. The provision of the loan is subject to the execution of a general security deed over all property of the Company and the receipt of all required waivers to the grant of the security as required by the ASX Listing Rules.

Bank Guarantees
The consolidated entity has given bank guarantees as at 31 December 2016 of $80,442 (30 June 2016: $80,442) to its landlord.

Note 11. Events after the reporting period

Trepang Secured Loan Deed

On 3 February 2017 the Company received an additional $1 million cash advance from Trepang Services Pty Ltd for working capital. The interest rate is 10% per annum. The loan matures on 1 February 2018 with the ability for Trepang to request (and for the Company to accept such request) to extend the maturity date by by two further periods of one year each (with the last possible maturity date being 1 Februrary 2020). The provision of the loan is subject to the execution of a general security deed over all property of the Company and the receipt of all required waivers to the grant of the security as required by the ASX Listing Rules.

Trepang Convertible Loan Deed

The company announced on 1 March 2017 that cornerstone investor Trepang Services Pty Ltd had agreed to provide $15 million by way of a secured, interest bearing, convertible loan to the company. Trepang will not be obliged to advance the money unless on or before the sunset date for the Anglo share purchase agreement, currently 14 April 2017, the company obtains shareholder approval for the convertible loan deed. The loan has a three-year term and an interest rate of 10% per annum. The provision of the loan is subject to the execution of a general security deed over all property of the Company and the receipt of all required waivers to the grant of the security as required by the ASX Listing Rules.

Exercise of Options
On 1 February 2017 the company issued 12,500,000 ordinary shares on the exercise of 12,500,000 options at an exercise price of $0.008 per share. Total cash consideration received for the share issue was $100,000.

On 2 March 2017 the company issued 12,500,000 ordinary shares on the exercise of 12,500,000 options at an exercise price of $0.008 per share. Total cash consideration received for the share issue was $100,000.

On 15 March 2017 the company issued 6,250,000 ordinary shares on the exercise of 6,250,000 options at an exercise price of $0.008 per share. Total cash consideration received for the share issue was $50,000.

Australian Pacific Coal Limited
Directors' declaration
31 December 2016

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 2016 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

16 March 2017
Brisbane

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

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 2016, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, and the 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 2016 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 2016 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 financial report, which indicates that the company incurred a net loss of $3,901,536 and a deficiency in operating cash flows of $2,463,415 during the half-year ended 31 December 2016. As stated in Note 1 these conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report. Our conclusion is not modified in respect of this matter.

Hall Chadwick

HALL CHADWICK
LEVEL 6, 468 ST KILDA RD
MELBOURNE, VIC 3004

SKumar

SANDEEP KUMAR
Partner
Date: 16 March 2017