Australian Pacific Coal Limited

ABN 49 089 206 986

Interim Report - 31 December 2018

Australian Pacific Coal Limited
Directors' report
31 December 2018

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 2018.

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 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 $7,912,188 (31 December 2017: $7,908,373). This result is primarily due to accrued interest costs on convertible notes provided by the major shareholder, Trepang Services Pty Ltd, and holding costs associated with the Dartbrook Mine.

Dartbrook Mine - Underground modification to recommence operations
On 1 March 2018, Australian Pacific Coal Ltd announced it had lodged an application to modify the existing mining approval to recommence the underground mining operations at the Dartbrook Coal Mine in New South Wales.

The modification proposes bord and pillar mining of the Kayuga coal seam (as an alternative to the approved longwall mining activities). The modification also seeks to extend the period of approval by 5 years (until 5 December 2027).

The Company submitted the environmental assessment, along with other supporting documentation in June 2018. The period for public display and submissions closed in July 2018 with the Company providing a response on the submissions to the appropriate NSW Government Department. The NSW Department of Planning and Environment has finalised its report and provided its positive submission to the Independent Planning Commission (IPC). A copy of the submission is located on the department website at http://majorprojects.planning.nsw.gov.au/. There is no prescribed timeline for the IPC to determine the application.

Dartbrook Mine - Strategic Development Partner
On 6 August 2018, the Company announced it had signed a binding agreement with Stella Natural Resources (SNR) to form an equal share joint venture for the Dartbrook Mine (the Dartbrook Joint Venture, or DJV). SNR will pay AUD 20 million to the Company (Purchase Price) for a 50% interest in AQC Investments 2 Pty Ltd, the entity which holds the Company's interest in the Dartbrook Mine, including freehold land, infrastructure and mining tenements. The DJV will provide an AUD 10 million loan to the Company (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 transaction is subject to certain conditions precedent, including SNR securing funding for the Purchase Price and Loan, FIRB, NSW State Government and other third party consents and approvals (including the Financiers releasing their security over the Dartbrook Mine assets), limited confirmatory financial diligence, and agreement on a fully funded development plan to recommence underground mining.

At the date of this report, the parties are negotiating an extension to the agreement given the conditions precedent relating to funding and ministerial consent to change of control have not yet been achieved.

Other tenements
The Company also continued to undertake desktop evaluation activities on its tenements located in Queensland, Australia. These activities have been limited given the focus of the Company on the development of the Dartbrook Mine.

Corporate and Funding
At balance date the Company held $1.0 million in cash reserves. Funds during the financial half-year were primarily used to complete the modification submission and environmental drilling program ($2.5 million), care & maintenance holding costs ($3.7 million) and corporate administration ($1.2 million).

On 29 October 2018, the Company issued 1,250,000 fully paid ordinary shares at an issue price of $0.80 per share to raise a total of $1.0 million for general working capital purposes.

During the financial half-year, further funding was provided by Trepang Services Pty Ltd (Trepang) in the form of an unsecured loan accruing capitalised interest at 10% per annum. At balance date a total of $2.0 million had been provided by Trepang as an unsecured loan for general working capital.

The Board continues to evaluate the short term cash flow requirements of the Company with respect to general corporate costs and anticipated completion of the transaction with SNR.

Approved amendments to financing terms with Existing Financiers
At the Annual General Meeting of the Company held 29 November 2018, shareholders of the Company approved the revised terms with Mr Nicholas Paspaley, Mr John Robinson (Snr) and Trepang (collectively, the Existing Financiers) in relation to their existing financing arrangements with AQC. The amendments provide for both a successful or unsuccessful completion of the DJV transaction.
In summary, on receipt of shareholder approval:

- All loan maturity dates were extended and aligned to 1 February 2021;
- The conversion price of the existing convertible loan deeds was varied such that all existing loans are 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 have been converted into a new convertible note, on the same terms as the other convertible loans held by the Existing Financiers.

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 Company.

Small Holding Sale Facility
The Company announced on 9 November 2018 that it was conducting a small holding share sale facility (Facility) pursuant to its constitution and the ASX Listing Rules, which provided eligible shareholders with the opportunity to sell their shareholding without incurring brokerage or handling costs. The Company also considered the Facility to be an appropriate way to reduce the costs associated with managing the Company's register given the significant proportion of low value holdings.

The Facility was offered to persons registered as the holders of ordinary shares in AQC (Shares) at 7:00pm (AEDT) on 5 November 2018 (Record Date) who, on the Record Date, held Shares valued at less than $500 (Small Holding) and continued to have a Small Holding as at 21 December 2018.

Based on a share price of $0.75 per Share, being the closing price of AQC ordinary shares on the Australian Securities Exchange on the Closing Date, the Facility was available to those Shareholders holding less than 667 Shares. A total of 156,646 Shares held by 971 shareholders were consolidated as a result of the Facility and sold at an average price of $0.62 per Share. The Company announced on 1 March 2019 that the distribution and communications in relation to the distribution were made same day. All monies received as a result of the Facility will be held in trust until distribution to all holders is completed.

Matters subsequent to the end of the half year
No matter or circumstance has arisen since 31 December 2018 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

John Robinson
Chairman

14 March 2019
Brisbane

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

SYDNEY
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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 2018 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: 14 March 2019

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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 36 71 Eagle Street Brisbane QLD 4000	Level 36 71 Eagle 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 2019.

Australian Pacific Coal Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2018

	Note	Consolidated 31 Dec 2018 $	31 Dec 2017 $
Revenue	3	62,326	544,498
Expenses			
Employee benefits expense		(689,891)	(1,070,495)
Depreciation and amortisation expense		(642,649)	(575,906)
Exploration and evaluation expense		(22,151)	(17,450)
Acquisition costs		-	(74,014)
Fair value movement of financial assets		274,735	(217,393)
Administration and consulting expenses		(3,900,973)	(4,124,758)
Finance costs		(2,993,585)	(2,372,855)
Loss before income tax expense	4	(7,912,188)	(7,908,373)
Other comprehensive income			
Other comprehensive income for the half-year, net of tax		-	-
Total comprehensive income for the half-year		(7,912,188)	(7,908,373)

	Cents	Cents
Earnings per share for profit attributable to the owners of Australian Pacific Coal Limited		
Basic earnings per share	(15.93)	(16.06)
Diluted earnings per share	(15.93)	(16.06)

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 2018

	Note	Consolidated 31 Dec 2018 $	30 Jun 2018 $
Assets			
Current assets			
Cash and cash equivalents	5	698,958	2,376,591
Trade and other receivables		127,966	293,800
Other		521,333	725,826
Total current assets		1,348,257	3,396,217
Non-current assets			
Property, plant and equipment	6	44,411,868	45,046,544
Intangibles		5,620,000	5,620,000
Exploration and evaluation		8,433,362	6,752,709
Financial assets		1,032,607	760,870
Other	7	9,275,025	9,275,025
Total non-current assets		68,772,862	67,455,148
Total assets		70,121,119	70,851,365
Liabilities			
Current liabilities			
Trade and other payables		3,013,055	7,718,145
Borrowings	8	10,025,255	50,886,205
Provisions		16,755	15,853
Total current liabilities		13,055,065	58,620,203
Non-current liabilities			
Borrowings	9	51,806,704	59,620
Provisions		20,050,000	20,050,000
Total non-current liabilities		71,856,704	20,109,620
Total liabilities		84,911,765	78,729,823
Net assets		(14,790,646)	(7,878,458)
Equity			
Issued capital	10	60,487,791	59,487,791
Retained profits/(Accumulated Losses)		(75,278,437)	(67,366,249)
Total equity		(14,790,646)	(7,878,458)

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 2018

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

Consolidated	Issued capital $	Reserves $	Retained Profits/(loss) $	Total equity $
Balance at 1 July 2018	59,487,791	-	(67,366,249)	(7,878,458)
Loss after income tax expense for the half-year	-	-	(7,912,188)	(7,912,188)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	(7,912,188)	(7,912,188)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs	1,000,000	-	-	1,000,000
Contributions of equity, transfers from reserves	-	-	-	-
Balance at 31 December 2018	60,487,791	-	(7,912,188)	(14,790,646)

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 2018

	Note	Consolidated 31 Dec 2018 $	31 Dec 2017 $	
Cash flows from operating activities				
Receipts from customers (inclusive of GST)		27,131	604,230	
Payments to suppliers and employees (inclusive of GST)		(4,704,844)	(5,645,465)	
		(4,677,713)	(5,041,235)	
Interest received		35,195	24,348	
Interest and other finance costs paid		-	-	
Net cash used in operating activities		(4,642,518)	(5,016,887)	
Cash flows from investing activities				
Payments for property, plant and equipment		(7,973)	(649,618)	
Payments for exploration and evaluation		(1,675,653)	(2,667,151)	
Proceeds /(payment) of security deposits		(5,000)		
Working capital adjustment post-acquisition		-	348,495	
Net cash used in investing activities		(1,688,626)	(2,968,274)	
Cash flows from financing activities				
Proceeds from issue of shares		1,000,000	-	
Proceeds from borrowings		4,289,000	-	
Repayment of borrowings		(635,489)	(277,473)	
Share issue transaction costs		-	-	
Net cash used in financing activities		4,653,511	(277,473)	
Net decrease in cash and cash equivalents		(1,677,633)	(8,262,634)	(2,7
Cash and cash equivalents at the beginning of the financial half-year		2,662,033	12,569,166	29,
Cash and cash equivalents at the end of the financial half-year	5	984,400	4,306,532	26,

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 2018 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 2018.

Going Concern
The company has incurred a net loss of $7,912,188 and a deficiency in operating cash flows of $4,642,518 for the half year ended 31 December 2018. The company as at 31 December 2018 had a deficiency of net current assets of $11,706,808.

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 and borrowings from related and not related parties to support existing projects including development of the Dartbrook coal mine. During the financial half year, the consolidated entity entered a joint venture transaction which, if the transaction is completed, provides adequate funding to support development at operations at the Dartbrook Mine
- Commercialisation of the Dartbrook Mine, whether by joint venture or other arrangements.
- 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 or joint venture arrangements 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.

Note 1. Significant accounting policies (continued)

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

The group has adopted AASB 15 Revenue from contracts with customers and there has been no impact on adoption of this standard. The group has adopted AASB 9 Financial Instruments and there has been no impact on adoption of this standard.

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. 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 and develop prospective resource areas, secure tenure over the relevant tenements and manage the exploration and evaluation process.
Corporate	The corporate segment supports all exploration and evaluation activities.

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**	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
Exploration & Evaluation	3,403,913	2,996,898	68,759,000	66,508,870
Corporate	4,508,276	4,888,341	1,362,420	4,060,483
	7,912,189	7,908,373	70,121,420	70,690,559

Note 3. Revenue

	Consolidated	
	31 Dec 2018	**31 Dec 2017**
	$	**$**
Other revenue		
Interest	4,382	24,348
Rent from investment properties	57,944	191,645
Other revenue – sale of scrap metal	-	328,505
	62,326	544,498
Revenue	62,326	544,498

Note 4. Expenses

	Consolidated	
	31 Dec 2018	**31 Dec 2017**
	$	**$**
Loss before income tax includes the following specific expenses:		
Finance costs		
Interest and finance charges paid/payable	2,993,585	2,372,855
Rental expense relating to operating leases		
Minimum lease payments	158,585	119,043
Superannuation expense		
Defined contribution superannuation expense	34,974	45,460

Note 5. Cash and cash equivalents

	Consolidated	
	31 Dec 2018	**30 Jun 2018**
	$	**$**
Current:		
Cash at bank and on hand	698,958	2,376,591
	698,958	2,376,591

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

	Note	**31 Dec 2018**	**30 Jun 2018**
Balance as per above		698,958	2,376,591
Cash on deposit	7	285,442	285,442
Balance as per statement of cash flows		984,400	2,662,033

Note 6. Property, plant and equipment

	Consolidated	
	31 Dec 2018	**30 Jun 2018**
	$	**$**
Land and buildings – at cost	38,202,079	38,199,555
Less: Accumulated depreciation	(214,092)	(134,703)
	37,987,987	38,064,852
Leasehold improvements – at cost	170,929	170,929
Less: Accumulated depreciation	(170,929)	(117,420)
	-	53,509
Plant and equipment – at cost	8,155,589	8,150,139
Less: Accumulated depreciation	(1,731,708)	(1,221,956)
	6,423,881	6,928,183
	44,411,868	45,046,544

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 2018	**30 Jun 2018**
		$	**$**
Security deposits		8,989,583	8,989,583
Cash on deposit	*	285,442	285,442
		9,275,025	9,275,025

*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 2018	**30 Jun 2018**
	$	**$**
Bank loans	36,255	35,395
Convertible securities (a)	-	37,532,802
Secured Loan (b)	-	5,000,000
Insurance premium funding	-	618,008
Interest bearing liabilities (b)	9,700,000	7,700,000
Holding Cost Loan (c)	289,000	-
	10,025,255	50,886,205

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 2021. The number of ordinary shares to be issued is calculated as the conversion amount divided by the conversion price per share ($0.80), but subject to adjustments for reconstructions of equity. The terms of the convertible securities were approved by shareholders at the annual general meeting of shareholders on 29 November 2018.

On 1 March 2017 the consolidated entity 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. 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 2021. The number of ordinary shares to be issued is calculated as the conversion amount divided by the conversion price per share ($0.80), but subject to adjustments for reconstructions of equity. The terms of the convertible securities were approved by shareholders at the annual general meeting of shareholders on 29 November 2018.

On 26 March 2018 the consolidated entity completed the full drawdown of the $5,000,000 Secured Loan Deed provided by Trepang. On 31 July 2018, the consolidated entity entered an Unsecured Loan Deed with Trepang with a face value of $2,000,000 to be used for working capital purposes. On 29 November 2018, shareholders approved the issuance of a New Convertible Note Deed to Trepang on terms materially the same as existing convertible notes issued to Trepang. 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 2021. The number of ordinary shares to be issued is calculated as the conversion amount divided by the conversion price per share ($0.80), but subject to adjustments for reconstructions of equity.

All Convertible Securities are classified as Non Current Liabilities at balance date due to the extension and alignment of all maturity dates to 1 February 2021, approved by shareholders on 29 November 2018.

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.

During the financial half-year, Trepang has provided further amounts by way of an Unsecured Loan to the consolidated entity for general working capital purposes. Interest is payable at a rate of 10.0% per annum based on the face value. At balance date, the amounts provided by Trepang for this value total $2,000,000.

c) On 6 August 2018, the Company entered a binding agreement with Stella Natural Resources (SNR) to form an equal share joint venture for development of the Dartbrook Mine. On and from 1 December 2018, Stella is responsible for funding holding costs associated with the Dartbrook Mine until transaction close under the terms of the agreement. As at balance date, $289,000 had been contributed as an unsecured loan to enable holding cost payments to be made in the ordinary course of business.

Note 9. Non-current liabilities - borrowings

	Consolidated	
	31 Dec 2018	**30 Jun 2018**
	$	**$**
Bank loans	41,281	59,620
Convertible Securities	51,765,423	-
	51,806,704	59,620

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

	Consolidated	
	31 Dec 2018	**30 Jun 2018**
	$	**$**
Bank loans	77,536	95,015
Insurance premium funding	-	618,008
Secured Loan – Trepang Services Pty Ltd	-	5,000,000
Convertible securities	51,765,423	37,532,802
Loan – Anglo American	7,700,000	7,700,000
	59,542,959	50,945,825

Note 10. Equity - issued capital

	Consolidated			
	31 Dec 2018 Shares	**30 Jun 2018 Shares**	**31 Dec 2018 $**	**30 Jun 2018 $**
Ordinary shares - fully paid	50,484,810	49,234,810	60,487,791	59,487,791

Movements in ordinary share capital

Details	**Date**	**Shares**	**$**
Balance	1 July 2018	49,234,810	59,487,791
Share Placement	29 October 2018	1,250,000	1,000,000
Balance	31 December 2018	50,484,810	60,487,791

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 2018	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Financial Assets	1,032,607	-	-	1,032,607
Total assets	1,032,607	-	-	1,032,607

Consolidated - 30 Jun 2018	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Financial Assets	760,870	-	-	760,870
Total assets	760,870	-	-	760,870

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 4 October 2017 as part settlement for the sale of tenement MDL453 (Coorooorah) and EPC 1824 (Mt Hillalong). AQC was issued AU$1.250 million of ordinary shares (54,347,826 shares) 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 2018 ($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 prior reporting periods 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.

Royalty for Existing Financiers

On 27 September 2018, entity announced it had agreed revised terms with Mr Nicholas Paspaley, Mr John Robinson (Snr) and Trepang (collectively, the Existing Financiers) in relation to their existing financing arrangements with AQC. These amendments were approved by shareholders in November 2018 and included two potential royalties payable to the Existing Financiers:

- In the instance where the proposed joint venture transaction with SNR is completed, the Existing Financiers will receive a $2.00 per product tonne royalty for coal produced and sold by the joint venture, based on the Company's interest in the joint venture.
- In the instance where the proposed joint venture transaction with SNR does not complete, the Existing Financiers will receive a $2.50 per product tonne royalty for all coal produced and sold at Dartbrook.

At present the Dartbrook Mine is permitted to operate as an underground mine by longwall mining method. The potential royalties payable to the Existing Financiers become payable after the vendor royalty is full discharged.

Bank Guarantees
The consolidated entity has given bank guarantees as at 31 December 2018 of $80,442 (30 June 2018: $80,442) to its landlord.

Note 13. Events after the reporting period

No matter or circumstance has arisen since 31 December 2018 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.

Australian Pacific Coal Limited
Directors' declaration
31 December 2018

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 2018 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

John Robinson
Chairman

14 March 2019
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

SYDNEY
Level 40
2 Park Street
Sydney NSW 2000
Australia
Ph: (612) 9263 2600
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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 2018, 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 2018 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.

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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 2018 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 $7,912,188 during the half-year ended 31 December 2018 and as of that date, the Group's current liabilities exceeded its current assets by $11,706,808. 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
Level 40, 2 Park Street
Sydney NSW 2000

SANDEEP KUMAR
Partner
Dated: 14 March 2019