

Australian Pacific Coal Limited

ABN 49 089 206 986

Annual Financial Report - 30 June 2019

Australian Pacific Coal Limited
Corporate directory
30 June 2019

| | |
|--|--|
| Directors | Mr John J Robinson (Executive Director) The Hon Shane Stone Mr Bruce Munro |
| Company secretary | Mr Andrew Roach |
| Registered office and Principal place of business | Level 36, 71 Eagle Street Brisbane QLD 4000 |
| Share register | Link Market Services Level 21 10 Eagle Street Brisbane QLD 4000 Phone: 1300 554 474 or +61 7 3320 2200 www.linkmarketsevices.com.au |
| Auditor | Hall Chadwick, Chartered Accountants Level 40 2 Park Street Sydney NSW 2000 |
| Solicitors | HopgoodGanim Lawyers Level 8 Waterfront Place 1 Eagle Street Brisbane QLD 4000 |
| Bankers | National Australia Bank Level 23 100 Creek Street Brisbane QLD 4000 |
| Stock exchange listing | Australian Pacific Coal Limited shares are listed on the Australian Securities Exchange (ASX code: AQC) |
| Website | www.aqcltd.com |

Australian Pacific Coal Limited
Directors' report
30 June 2019

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 year ended 30 June 2019.

Directors

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

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

Principal activities

During the financial year the principal continuing activities of the consolidated entity consisted of exploration, development and production activities at the consolidated entity's mining tenements situated in Queensland and New South Wales, Australia.

Dividends

No dividends were declared or paid for the financial year ended 30 June 2019.

Review of operations

The loss for the consolidated entity after providing for income tax and non-controlling interest amounted to \$13,230,706 (30 June 2018: loss of \$15,866,814). The accounting loss is largely driven by care and maintenance holding costs associated with the Dartbrook Coal Mine (Dartbrook Mine) and corporate expenses incurred during the year including the interest expense incurred on debt instruments.

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) and changes to the method of transferring coal to the train loadout facility. The modification seeks to extend the period of approval by 5 years (until 5 December 2027) and provide an additional method of mining and coal clearance for the mine.

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. The NSW Department of Planning and Environment finalised its report in January 2019 and provided its recommendation to the Independent Planning Commission (IPC) that the modification is approvable.

The IPC convened a public meeting on 9 April 2019 as a requirement of the approval process. The Company provided the IPC with various supplementary information since the public meeting. The IPC determined the modification after balance date, refer to *Matters Subsequent to the end of the financial year*.

Dartbrook Development Partnership

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). Under the terms of the agreement, SNR would 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 would also provide an AUD 10 million loan to the Company (Loan) to pay out the existing Anglo American secured loan. The transaction agreement was terminated shortly after balance date. Refer to Matters subsequent to year end disclosure.

The consolidated entity continued to undertake modest exploration and evaluation activities on its tenements located in Queensland, Australia. During the year the consolidated entity completed the divestment of certain Queensland exploration projects in return for the issue of ordinary shares in a new coal-based ASX-listed entity.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial year.

Matters subsequent to the end of the financial year

Update on Dartbrook Development Partner

On 2 July 2019, the Company announced that certain conditions under the Share Sale Agreement (SSA) with SNR were not satisfied by SNR by 1 July 2019 (the cut-off date for satisfaction of those conditions) and the SSA was terminated by AQC effective on 4 July 2019.

Partial Divestment of Investment Holding

On 18 July 2019, the Company announced the sale of a portion of its shareholding in Bowen Coking Coal Limited (ASX:BCB). A total of 35.3 million shares were sold at \$0.045 per share, providing the Company with a cash inflow of \$1.589 million.

Modification 7 Update

On 13 August 2019, the Company announced it had received approval from the Independent Planning Commission (IPC) in relation to some elements of its application to modify the consent for the Dartbrook Coal Mine (DA 231-7-2000, MOD 7). The IPC did not approve the request for an additional five years of mine life. Notwithstanding, the approval is a significant milestone for Dartbrook as it provides a platform to recommence mining operations.

Following the approval, the Company will work with the respective government departments to contemporise a range of management plans and a plan of operations for the mine.

No other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

The consolidated entity intends to continue its exploration and development activities on its existing projects and to acquire further suitable projects for exploration as opportunities arise. The primary focus of the consolidated entity is on the development and approvals for the Dartbrook Coal Mine in New South Wales.

Environmental regulation

The consolidated entity is subject to, and is compliant with, all aspects of environmental regulation in its exploration and mining activities. The directors believe that the Company is in compliance with all environmental laws.

The consolidated entity is subject to the reporting requirements of both the Energy Efficiency Opportunities Act 2006 and the National Greenhouse and Energy Reporting Act 2007.

The Energy Efficiency Opportunities Act 2006 requires the consolidated entity to assess its energy usages, including the identification, investigation and evaluation of energy saving opportunities, and to report publicly on the assessments undertaken, including what action the consolidated entity intends to take as a result of these assessments. Due to this Act, the consolidated entity has registered with the Department of Resources, Energy and Tourism as a participant entity and reports the results from its assessments.

The National Greenhouse and Energy Reporting Act 2007 require the consolidated entity to report its annual greenhouse gas emissions and energy use. The consolidated entity has previously implemented systems and processes for the collection and calculation of data.

Further information on the reporting and results of the application of the above Acts to the Company's activities can be found on the consolidated entity's website.

Information on directors

Name: Mr John Robinson
Title: Managing Director and Chief Executive Officer
Appointed Chairman on 31 May 2018
Qualifications: B. Acc
Experience and expertise: Mr Robinson gained a Bachelor of Accounting from the Charles Darwin University and has led numerous private equity acquisitions in the property and retail sectors. He also has extensive experience with the support services that the mining and oil and gas sector require at their Australian operations. Director of Australian Pacific Coal Limited since 30 October 2015 and appointed as Managing Director in July 2016. Mr Robinson was appointed as Chairman effective 31 May 2018.
Other current directorships: None
Former directorships (last 3 years): None
Special responsibilities: None
Interests in shares: 21,061,667
Interests in options: None
Contractual rights to shares: None

Name: The Hon. Shane Stone
Title: Non-executive Director
Experience and expertise: AC QC, PGDK, B.A (ANU), LLB (Melbourne), Grad Dip Ed Admin (Adelaide), Dip Teaching (Sturt), TPTC (Vic), FACE, FAIM, FAICD, F Fin
Mr Stone has a strong commercial and legal background and considerable experience in dealing with Commonwealth and State governments. Mr Stone has at various times acted as an independent director to various public and private companies. Formerly Deputy Chairman UK listed Impellam plc, Chairman of ASX listed Regalpoint Resources Limited and Mayfair Limited (Anne Street Partners and QNV Constructions). Former Chief Minister of the Northern Territory and Federal President of the Liberal Party of Australia. Formerly a barrister he is a graduate of the Australian National University, Sturt, Adelaide and Melbourne Universities. He is a Fellow of the Australian Institute of Management, Australian College of Education and Australian Institute of Company Directors. He was made a Companion of the Order of Australia in 2006. He has also been conferred national awards from Indonesia and Malaysia. Appointed as a Director of Australian Pacific Coal Limited on 2 August 2016. Mr Stone was appointed as Chairman of the Audit Committee on 12 June 2018.
Other current directorships: None
Former directorships (last 3 years): Chairman of Energex Limited (from 31 May 2012 to 20 March 2015)
Special responsibilities: Chairman of the Audit Committee (appointed 12 June 2018)
Interests in shares: 72,000
Interests in options: None
Contractual rights to shares: None

Australian Pacific Coal Limited
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30 June 2019

| | |
|--------------------------------------|--|
| Name: | Mr Bruce Munro |
| Title: | Non-executive Director |
| Qualifications | B Eng (Honours) UNSW |
| Experience and expertise: | Mr Munro has a strong management and operational background and considerable experience with over 40 years' experience as an engineer and manager with major construction and mining contractors in a number of countries including Australia, Asia, India and southern Africa. From 2011 until his retirement in 2015 Mr Munro was the Managing Director of Thiess Pty Ltd, which during this period had around 20,000 employees and annual revenues up to A\$7 billion. Mr Munro has been involved as a contractor in the development and/or operation of numerous mines for clients such as BHP, Glencore, Rio Tinto, BP, Peabody, Bumi Resources, Inco, Wesfarmers, Vale and Fortescue. During his career, he served as a Director on a number of industry bodies, international business councils and diversity groups. |
| Other current directorships: | None |
| Former directorships (last 3 years): | None |
| Special responsibilities: | None |
| Interests in shares: | 100,000 |
| Interests in options: | None |
| Contractual rights to shares: | None |

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Company secretary

Mr Andrew Roach B Econ, B Comm, CA, AGIA ACIS, Grad Dip App Fin, was appointed Company Secretary on 2 August 2017. Mr Roach has more than 10 years' experience in the resource and financial service sectors. Mr Roach was the Chief Financial Officer and Company Secretary for Stanmore Coal Limited, during which time he played a key role delivering the acquisition and financing of the Isaac Plains Coal Mine through to recommencement of operations. Prior to his 5 years with Stanmore Coal, Mr Roach worked within the corporate finance and assurance divisions of PwC.

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2019, and the number of meetings attended by each director were:

| | Full board | | Audit and Risk Committee | |
|----------------------|------------|------|--------------------------|------|
| | Attended | Held | Attended | Held |
| Mr John J Robinson | 12 | 12 | - | - |
| The Hon. Shane Stone | 11 | 12 | 2 | 2 |
| Mr Bruce Munro | 12 | 12 | - | - |

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

Remuneration report (audited)

The remuneration report details the key management personnel remuneration arrangements for the consolidated entity in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

Australian Pacific Coal Limited
Directors' report
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The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

The objective of the consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

The Board is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the consolidated entity depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high-quality personnel.

The Board has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the consolidated entity.

The reward framework is designed to align executive reward to shareholders' interests. The Board has considered that it should seek to enhance shareholders' interests by:

- having economic profit as a core component of plan design
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key financial and non-financial drivers of value
- attracting and retaining high calibre executives

Additionally, the reward framework seeks to enhance executives' interests by:

- rewarding capability and experience
- reflecting competitive reward for contribution to growth in shareholder wealth
- providing a clear structure for earning rewards

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

Non-executive director's remuneration

Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the Board. The Board may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration. Non-executive directors do not receive share options or other incentives.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The most recent determination was at the General Meeting held on 30 October 2015 where the shareholders approved a maximum annual aggregate remuneration of \$500,000.

Non-executive directors are also entitled to consulting fees to the extent that they provide services in excess of those typically provided as a non-executive director of the Company.

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Executive remuneration

The consolidated entity aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits
- short-term performance incentives
- share-based payments
- other remuneration such as superannuation and long service leave

The combination of these components comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, is reviewed annually by the Board and subject to individual contracts is based on individual and business unit performance, the overall performance of the consolidated entity and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the consolidated entity and provides additional value to the executive.

The Board is currently reviewing the company's short-term and long-term incentive arrangements for executive directors, non-executive directors and employees and consultants to ensure the appropriate alignment of interests of all stakeholders and to reward the achievement of pre-specified Key Performance Indicators.

Consolidated entity performance and link to remuneration

Remuneration for certain individuals is directly linked to the performance of, and outcomes achieved for, the consolidated entity together with bonus and incentive payments at the discretion of the Board.

The Board, advised by a remuneration consultant, is developing a revised Group incentive program. When complete, it is proposed that this incentive program and ancillary arrangements to implement the same will be put to shareholders for their approval. Further detail on the proposed incentive arrangements and their alignment with key outcomes for all shareholders of the Company will be provided in the accompanying notice of meeting.

Voting and comments made at the company's 2018 Annual General Meeting ('AGM')

At the 2017 AGM, shareholders voted to support the adoption of the remuneration report for the year ended 30 June 2018. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

Amounts of remuneration

Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables.

The key management personnel of the consolidated entity consisted of the following directors of Australian Pacific Coal Limited:

- John Robinson – Non-executive Director (from 30 October 2015), Executive Director (from 9 March 2016), Chief Executive Officer (from 13 April 2016), Managing Director (from 7 July 2016), Chairman (appointed 31 May 2018)
- The Hon Shane Stone – Non-executive Director (appointed 2 August 2016)
- Mr Bruce Munro – Non-executive Director (appointed 19 May 2017)

And the following persons:

- Andrew Roach - Company Secretary and Chief Financial Officer

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| | Short-term benefits | | | Post-employment benefits | Long-term benefits | Share-based payments | | Total |
|--|----------------------|------------|-------------|--------------------------|--------------------|-----------------------|------------------------|------------------|
| | Cash salary and fees | Cash bonus | Termination | Super-annuation | Long service leave | Equity-settled shares | Equity-settled options | |
| 2019 | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| <i>Non-Executive Directors:</i> | | | | | | | | |
| Shane Stone | 100,000 | - | - | - | - | - | - | 100,000 |
| Bruce Munro | 91,324 | - | - | 8,676 | - | - | - | 100,000 |
| <i>Executive Directors:</i> | | | | | | | | |
| John J Robinson | 500,000 | - | - | 20,926 | - | - | - | 520,926 |
| <i>Other Key Management Personnel:</i> | | | | | | | | |
| Andrew Roach | 372,950 | - | - | 20,531 | - | - | - | 393,481 |
| | <u>1,064,274</u> | <u>-</u> | <u>-</u> | <u>50,133</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,114,407</u> |

* John Robinson elected to defer a portion of his salary during FY19. The deferred component of \$148,270 (not paid in cash) is recorded as an accrual.

| | Short-term benefits | | | Post-employment benefits | Long-term benefits | Share-based payments | | Total |
|--|----------------------|------------|----------------|--------------------------|--------------------|-----------------------|------------------------|------------------|
| | Cash salary and fees | Cash bonus | Non-monetary | Super-annuation | Long service leave | Equity-settled shares | Equity-settled options | |
| 2018 | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| <i>Non-Executive Directors:</i> | | | | | | | | |
| Shane Stone | 100,000 | - | - | - | - | - | - | 100,000 |
| Bruce Munro | 91,324 | - | - | 8,676 | - | - | - | 100,000 |
| Peter Ziegler | 479,167 | - | - | - | - | - | - | 479,167 |
| <i>Executive Directors:</i> | | | | | | | | |
| John J Robinson | 487,820 | - | - | 20,049 | - | - | - | 507,869 |
| <i>Other Key Management Personnel:</i> | | | | | | | | |
| Andrew Roach | 59,878 | - | 137,500 | 5,012 | - | - | - | 202,390 |
| Kevin Mischewski | 219,249 | - | - | 18,904 | - | - | - | 238,153 |
| | <u>1,437,438</u> | <u>-</u> | <u>137,500</u> | <u>52,641</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,627,579</u> |

* Peter Ziegler retired as Chairman of the Company on 31 May 2018

** Kevin Mischewski resigned as Chief Financial Officer and Company Secretary on 2 August 2017

*** Andrew Roach was appointed Chief Financial Officer and Company Secretary on 2 August 2017

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The proportion of remuneration linked to performance and the fixed proportion are as follows:

| Name | Fixed remuneration | | At risk - STI | | At risk - LTI | |
|--|--------------------|------|---------------|------|---------------|------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| <i>Non-Executive Directors:</i> | | | | | | |
| Shane Stone | 100% | 100% | - | - | - | - |
| Bruce Munro | 100% | 100% | - | - | - | - |
| Peter Ziegler | 100% | 100% | - | - | - | - |
| <i>Executive Directors:</i> | | | | | | |
| John J Robinson | 100% | 100% | - | - | - | - |
| Paul Byrne | 100% | 100% | - | - | - | - |
| <i>Other Key Management Personnel:</i> | | | | | | |
| Andrew Roach | 100% | 100% | - | - | - | - |
| Kevin Mischewski | 100% | 100% | - | - | - | - |

There was no cash bonus paid/payable or forfeited for the year ended 30 June 2019.

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Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Current agreements:

Name: John Robinson
Title: Managing Director and Chief Executive Officer;
Chairman (appointed 31 May 2018)
Agreement commenced: 30 October 2015
Term of agreement: Ongoing appointment, subject to termination rights noted below.
Details: Base salary for the year ending 30 June 2019 of \$500,000 including superannuation to be indexed for inflation on 1 January of each year commencing on 1 January 2018, and to be reviewed by the Board in light of any increases in the market for similar positions held. Mr Robinson or his nominee is eligible to receive any forms of equity type compensation as reasonably determined by the Board from time to time. Death & disability insurance will be provided and the consultant will be reimbursed for out of pocket expenses as well as costs pertaining to relevant trade shows, seminars, professional memberships, and Continuing Professional Development together with incidental AQC related business expenditure. The officer may give 3 months' notice of termination. The company may terminate the arrangements without cause by giving 12 months' written notice or by making payment in lieu of such notice. Such payment shall not be more than the maximum amount permitted by the Corporations Act on termination in such circumstances, unless shareholder approval is obtained pursuant to the Corporations Act.

During the year Mr Robinson elected to defer a portion of his base salary. The deferred element of his base salary has been accrued and will be paid at a future milestone to be agreed by the Board.

Name: Andrew Roach
Title: Company Secretary and Chief Financial Officer
Agreement commenced: 2 August 2017
Terms of Agreement: Ongoing appointment, subject to termination rights noted below.
Details: Base salary for the year ending 30 June 2019 of \$350,000 plus superannuation to be indexed for inflation on the 1 January of each year commencing on 1 January 2018, and to be reviewed by the Board in light of any increases in the market for similar positions held. Mr Roach or his nominee is eligible to receive any forms of equity type compensation as reasonably determined by the Board from time to time. Death & disability insurance will be provided and the employee will be reimbursed for out of pocket expenses as well as costs pertaining to relevant trade shows, seminars, professional memberships, and Continuing Professional Development together with incidental AQC related business expenditure. Mr Roach may give 3 months' notice of termination. The company may terminate the arrangements without cause by giving 6 months' written notice or by making payment in lieu of such notice. Such payment shall not be more than the maximum amount permitted by the Corporations Act on termination in such circumstances, unless shareholder approval is obtained pursuant to the Corporations Act.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct

Australian Pacific Coal Limited
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30 June 2019

Options

There were no options over ordinary shares issued as remuneration to directors or other key management personnel in the year ending 30 June 2019.

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

| | Balance at the start of the year | Received as part of remuneration | Additions | Disposals*/ Other** | Balance at the end of the year |
|------------------------|--|--|-----------|------------------------|--------------------------------------|
| <i>Ordinary shares</i> | | | | | |
| John Robinson | 21,061,667 | - | - | - | 21,061,667 |
| Shane Stone | 72,000 | - | - | - | 72,000 |
| Bruce Munro | 100,000 | - | - | - | 100,000 |
| Andrew Roach | - | - | - | - | - |
| | <u>21,233,667</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>21,233,667</u> |

Option holding

There were no options over ordinary shares in the company held during the financial year by any director and other members of key management personnel of the consolidated entity, including their personally related parties.

Other transactions with key management personnel and their related parties

There were no other transactions with key management personnel and their related parties during the financial year other than those transactions disclosed within this annual financial report.

This concludes the remuneration report, which has been audited.

Shares under option or convertible note

Unissued ordinary shares of Australian Pacific Coal Limited under option or convertible note at the date of this report are as follows:

| Issue date | Maturity date & Face Value | Exercise price | Number under option or convertible note |
|--|--------------------------------|-------------------|--|
| 18 April 2017 (Mr John Robinson Snr) | 1 February 2021 - \$10 million | \$0.80 | 12,500,000 |
| 18 April 2017 (Mr Nick Paspaley) | 1 February 2021 - \$10 million | \$0.80 | 12,500,000 |
| 25 May 2017 (Trepang Services Pty Ltd) | 1 February 2021 - \$15 million | \$0.80 | 18,750,000 |
| 29 Nov 2018 (Trepang Services Pty Ltd) | 1 February 2021 - \$7 million | \$0.80 | 8,750,000 |

Each of the convertible notes attract capitalised interest of 10% (compounding monthly). Upon conversion, accrued interest may be paid, at the consolidated entity's election, either via cash or settlement in shares based on the 5 day trailing volume weighted average price.

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the company or of any other body corporate.

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Indemnity and insurance of officers

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in Note 25 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in Note 27 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

The following fees were paid or payable to Hall Chadwick Melbourne for non-audit services provided during the year ended 30 June 2019:

| | |
|-------------------|-----------------|
| | \$ |
| Taxation services | \$11,100 |
| | <u>\$11,100</u> |

Officers of the company who are former partners of Hall Chadwick Chartered Accountants

There are no officers of the company who are former partners of Hall Chadwick Chartered Accountants.

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
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2019

| | Note | Consolidated 2019 \$ | 2018 \$ |
|--|------|----------------------------|---------------------|
| Revenue | 4 | 144,740 | 887,218 |
| Other income | 5 | 2,032,967 | - |
| Expenses | | | |
| Employee benefits expense | | (1,323,315) | (2,158,337) |
| Depreciation and amortisation expense | 6 | (1,242,872) | (1,186,913) |
| Impairment of capitalised exploration and evaluation | | (77,243) | (74,014) |
| Exploration and evaluation expense | | (45,793) | (22,415) |
| Unrealised loss on financial assets | | - | (489,130) |
| Provision remeasurement | | 500,000 | 295,001 |
| Administration and consulting expenses | | (7,057,768) | (8,152,430) |
| Finance costs | 6 | (6,163,422) | (4,965,794) |
| Loss before income tax expense from continuing operations | | (13,230,706) | (15,866,814) |
| Income tax expense | 7 | - | - |
| Other comprehensive income | | | |
| Other comprehensive income for the year, net of tax | | - | - |
| Total comprehensive income for the year | | <u>(13,230,706)</u> | <u>(15,866,814)</u> |
| | | Cents | Cents |
| Earnings per share for profit attributable to the owners of Australian Pacific Coal Limited | | | |
| Basic earnings per share | 33 | (26.5) | (32.2) |
| Diluted earnings per share | 33 | (26.5) | (32.2) |

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

Australian Pacific Coal Limited
Statement of financial position
As at 30 June 2019

| | Note | Consolidated 2019 \$ | 2018 \$ |
|--------------------------------|------|----------------------------|---------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 8 | 395,626 | 2,376,591 |
| Trade and other receivables | 9 | 181,511 | 293,800 |
| Other | 10 | 760,561 | 725,826 |
| Total current assets | | <u>1,337,698</u> | <u>3,396,217</u> |
| Non-current assets | | | |
| Property, plant and equipment | 11 | 43,811,646 | 45,046,544 |
| Intangibles | 12 | 5,620,000 | 5,620,000 |
| Exploration and evaluation | 13 | 8,461,943 | 6,752,709 |
| Financial assets | 15 | 2,717,391 | 760,870 |
| Other | 16 | 9,275,025 | 9,275,025 |
| Total non-current assets | | <u>69,886,005</u> | <u>67,455,148</u> |
| Total assets | | <u>71,223,703</u> | <u>70,851,365</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 17 | 2,688,629 | 7,718,145 |
| Borrowings | 18 | 14,612,774 | 50,886,205 |
| Provisions | 20 | 22,591 | 15,853 |
| Total current liabilities | | <u>17,323,994</u> | <u>58,620,203</u> |
| Non-current liabilities | | | |
| Borrowings | 19 | 54,458,873 | 59,620 |
| Provisions | 20 | 19,550,000 | 20,050,000 |
| Total non-current liabilities | | <u>74,008,873</u> | <u>20,109,620</u> |
| Total liabilities | | <u>91,332,867</u> | <u>78,729,823</u> |
| Net assets | | <u>(20,109,164)</u> | <u>(7,878,458)</u> |
| Equity | | | |
| Issued capital | 21 | 60,487,791 | 59,487,791 |
| Retained profits | | <u>(80,596,955)</u> | <u>(67,366,249)</u> |
| Total equity | | <u>(20,109,164)</u> | <u>(7,878,458)</u> |

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

Australian Pacific Coal Limited
Statement of changes in equity
For the year ended 30 June 2019

| Consolidated | Issued capital \$ | Retained profits \$ | Total equity \$ |
|--|----------------------------------|------------------------------------|----------------------------|
| Balance at 1 July 2017 | 59,487,791 | (51,499,435) | 7,988,356 |
| Loss after income tax expense for the year | - | (15,866,814) | (15,866,814) |
| Other comprehensive income for the year, net of tax | - | - | - |
| Total comprehensive income for the year | - | (15,866,814) | (15,866,814) |
| <i>Transactions with owners in their capacity as owners:</i> | | | |
| Contributions of equity, net of transaction costs | - | - | - |
| Balance at 30 June 2018 | <u>59,487,791</u> | <u>(67,366,249)</u> | <u>(7,878,458)</u> |
| Consolidated | Issued capital \$ | Retained profits \$ | Total equity \$ |
| Balance at 1 July 2018 | 59,487,791 | (67,366,249) | (7,878,458) |
| Loss after income tax expense for the year | - | (13,230,706) | (13,230,706) |
| Other comprehensive income for the year, net of tax | - | - | - |
| Total comprehensive income for the year | - | (13,230,706) | (13,230,706) |
| <i>Transactions with owners in their capacity as owners:</i> | | | |
| Contributions of equity, net of transaction costs | <u>1,000,000</u> | - | <u>1,000,000</u> |
| Balance at 30 June 2019 | <u>60,487,791</u> | <u>(80,596,955)</u> | <u>(20,109,164)</u> |

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

Australian Pacific Coal Limited
Statement of cash flows
For the year ended 30 June 2019

| | Note | Consolidated 2019 \$ | 2018 \$ |
|--|------|----------------------------|------------------|
| Cash flows from operating activities | | | |
| Receipts from customers | | 83,058 | 900,417 |
| Payments to suppliers and employees | | (9,502,745) | (11,245,869) |
| | | (9,419,687) | (10,345,452) |
| Net interest received / (paid) | | 7,614 | 35,195 |
| Net cash from operating activities | 32 | (9,412,073) | (10,310,257) |
| Cash flows from investing activities | | | |
| Payments for property, plant and equipment | | (7,974) | (1,279,049) |
| Payments for exploration and evaluation | | (1,789,475) | (4,398,639) |
| Proceeds from sale of property, plant and equipment | | - | 1,765 |
| Proceeds from release of security deposits | | - | 295,001 |
| Proceeds from working capital adjustment post-acquisition | | - | 348,495 |
| Net cash used in investing activities | | (1,797,449) | (5,032,427) |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | | 1,000,000 | - |
| Proceeds from borrowings | | 9,272,888 | 6,134,887 |
| Share issue transaction costs | | - | - |
| Repayment of borrowings | | (1,044,331) | (699,337) |
| Net cash used in financing activities | | 9,228,557 | 5,435,550 |
| Net increase/(decrease) in cash and cash equivalents | | (1,980,965) | (9,907,134) |
| Cash and cash equivalents at the beginning of the financial year | | 2,662,033 | 12,569,167 |
| Cash and cash equivalents at the end of the financial year | 8 | <u>681,068</u> | <u>2,662,033</u> |

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

Australian Pacific Coal Limited
Notes to the financial statements
30 June 2019

Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

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.

Going Concern

The consolidated entity has incurred a net loss of \$13,230,706 for the year ended 30 June 2019 and has a deficiency in net assets of \$20,109,164 as at 30 June 2019.

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.
- 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.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in Note 29.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Australian Pacific Coal Limited ('company' or 'parent entity') as at 30 June 2019 and the results of all subsidiaries for the year then ended. Australian Pacific Coal Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Note 1. Significant accounting policies (continued)

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Foreign currency translation

The financial statements are presented in Australian dollars, which is Australian Pacific Coal Limited's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Note 1. Significant accounting policies (continued)

Revenue recognition

The Group has applied AASB 15: *Revenue from Contracts with Customers*. The major components of revenue are recognised as follows:

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Rent

Rent revenue from investment properties is recognised on a straight-line basis over the lease term. Lease incentives granted are recognised as part of the rental revenue. Contingent rentals are recognised as income in the period when earned.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Australian Pacific Coal Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Note 1. Significant accounting policies (continued)

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

A simple approach is followed in relation to trade receivables, as the loss allowance is measured at lifetime expected credit loss.

Inventories

Inventories are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity, and, where applicable, transfers from cash flow hedging reserves in equity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Cost is determined on the following basis:

- (a) Ore and other metals on hand is valued on an average total production cost method
- (b) Ore stockpiles are valued at the average cost of mining and stockpiling the ore, including haulage
- (c) A proportion of related depreciation and amortisation charge is included in the cost of inventory

Stock in transit is stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Note 1. Significant accounting policies (continued)

Initial application of AASB 9: *Financial Instruments*

The Group has adopted AASB 9: *Financial Instruments* with an initial application date of 1 July 2018.

Considering the initial application of AASB 9 during the period, financial statement line items have been affected for the current and prior periods.

Impairment

As per AASB 9, an expected credit loss model is applied, not an incurred credit loss model as per the previous Standard applicable (AASB 139). To reflect changes in credit risk, this expected credit loss model requires the Group to account for expected credit loss since initial recognition.

A simple approach is followed in relation to trade receivables, as the loss allowance is measured at lifetime expected credit loss.

Property, plant and equipment

Land and buildings are shown at historical cost. On any revaluation, accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Increases in the carrying amounts arising on revaluation of land and buildings are credited in other comprehensive income through to the revaluation surplus reserve in equity. Any revaluation decrements are initially taken in other comprehensive income through to the revaluation surplus reserve to the extent of any previous revaluation surplus of the same asset. Thereafter the decrements are taken to profit or loss.

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

| | |
|---------------------------------|---------------|
| Buildings | 25 years |
| Leasehold improvements | 5 years |
| Plant and equipment | 2 ½ - 8 years |
| Plant and equipment under lease | 5-8 years |

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Note 1. Significant accounting policies (continued)

Exploration and evaluation assets

Exploration and evaluation expenditure in relation to separate areas of interest for which rights of tenure are current is carried forward as an asset in the statement of financial position where it is expected that the expenditure will be recovered through the successful development and exploitation of an area of interest, or by its sale; or exploration activities are continuing in an area and activities have not reached a stage which permits a reasonable estimate of the existence or otherwise of economically recoverable reserves. Where a project or an area of interest has been abandoned, the expenditure incurred thereon is written off in the year in which the decision is made.

Mining assets

Capitalised mining development costs include expenditures incurred to develop new ore bodies to define further mineralisation in existing ore bodies, to expand the capacity of a mine and to maintain production. Mining development also includes costs transferred from exploration and evaluation phase once production commences in the area of interest.

Amortisation of mining development is computed by the units of production basis over the estimated proved and probable reserves. Proved and probable mineral reserves reflect estimated quantities of economically recoverable reserves which can be recovered in the future from known mineral deposits. These reserves are amortised from the date on which production commences. The amortisation is calculated from recoverable proven and probable reserves and a predetermined percentage of the recoverable measured, indicated and inferred resource. This percentage is reviewed annually.

Restoration costs expected to be incurred are provided for as part of development phase that give rise to the need for restoration.

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Water licences

The Company acquired various water licences associated with the Dartbrook Coal Mine through the acquisition of the mine in May 2017. The water licences were valued at fair market value via the final purchase price accounting for the business combination. The licences continue to be held in good standing and are renewable at the Company's election, subject to ongoing compliance with regulatory requirements of each licence. Subsequent period reporting is on a cost basis.

Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Note 1. Significant accounting policies (continued)

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs.

On the issue of the convertible notes the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. The remainder of the proceeds are allocated to the conversion option that is recognised and included in shareholders equity as a convertible note reserve, net of transaction costs. The carrying amount of the conversion option is not remeasured in the subsequent years. The corresponding interest on convertible notes is expensed to profit or loss.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Provisions

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions is measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

Note 1. Significant accounting policies (continued)

The cost of equity-settled transactions is recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Note 1. Significant accounting policies (continued)

Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the company.

Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Australian Pacific Coal Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Note 1. Significant accounting policies (continued)

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

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.

New and Amended Accounting Policies Adopted by the Group

Initial application of AASB 15 : Revenue from Contract with Customers

The Group has adopted AASB 15 : Revenue from Contract with Customers with a date of initial application of 1 July 2018. The change in the accounting policy has not resulted in any impact to the group.

Initial application of AASB 9 : Financial Instruments

The Group has adopted AASB 9 : Financial Instruments with an initial application date of 1 July 2018. The financial assets are continued to be measured at fair value through profit and loss. The change in accounting policy has not resulted in any impact to the Group.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2019. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 16 Leases

The Group has elected not to early-adopt AASB 16. However the Group has conducted a preliminary assessment of the impact of this new Standard and has assessed that its adoption will not have a material impact in the 2020 financial year.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Note 2. Critical accounting judgements, estimates and assumptions (continued)

Provision for impairment of receivables

A simple approach is followed in relation to trade receivables, as the loss allowance is measured at lifetime expected credit loss.

Provision for impairment of inventories

The provision for impairment of inventories assessment requires a degree of estimation and judgement. Costs incurred in or benefits of the productive process are accumulated as stockpiles, copper and other metals in process, ore on leach pads and product inventory. Net realisable value tests are performed at least annually and represent the estimated future sales price of the product based on prevailing metal prices, less estimated costs to complete production and bring the product to sale.

Stockpiles are measured by estimating the number of tonnes added and removed from the stockpile, the number contained metal ounces based on assay data, and the estimated recovery percentage based on the expected processing method. Stockpile tonnages are verified by periodic surveys.

Although the quantity of recoverable metal is reconciled by comparing the grades of the ore to the quantities of metals actually recovered (metallurgical balancing), the nature of the process inherently limits the ability to precisely monitor recoverability levels. As a result, the metallurgical balancing process is constantly monitored and the engineering estimates are refined based on actual results over time.

Fair value measurement hierarchy

The consolidated entity is required to classify all assets and liabilities, measured 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; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

Estimation of useful lives of assets

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

It is reasonably possible that the underlying metal price assumption may change which may then impact the estimated life of mine determinant and may then require a material adjustment to the carrying value of mining plant and equipment, mining infrastructure and mining development assets. Furthermore, the expected future cash flows used to determine the value-in-use of these assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including reserves and production estimates, together with economic factors such as metal spot prices, discount rates, estimates of costs to produce reserves and future capital expenditure.

Note 2. Critical accounting judgements, estimates and assumptions (continued)

Income tax

The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Employee benefits provision

As discussed in note 1, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Lease make good provision

A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

Rehabilitation provision

A provision has been made for the present value of anticipated costs for future rehabilitation of land explored or mined. The consolidated entity's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. The consolidated entity recognises management's best estimate for assets retirement obligations and site rehabilitations in the period in which they are incurred. Actual costs incurred in the future periods could differ materially from the estimates. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision.

Exploration and evaluation costs

Exploration and evaluation costs have been capitalised on the basis that the consolidated entity will commence commercial production in the future, from which time the costs will be amortised in proportion to the depletion of the mineral resources. Key judgements are applied in considering costs to be capitalised which includes determining expenditures directly related to these activities and allocating overheads between those that are expensed and capitalised. In addition, costs are only capitalised that are expected to be recovered either through successful development or sale of the relevant mining interest. Factors that could impact the future commercial production at the mine include the level of reserves and resources, future technology changes, which could impact the cost of mining, future legal changes and changes in commodity prices. To the extent that capitalised costs are determined not to be recoverable in the future, they will be written off in the period in which this determination is made.

Vendor royalty provision

A provision has been made for the present value of the anticipated production royalty payable to the vendors of the Dartbrook Mine. The net present value adopted is lower than the full nominal amount of the vendor royalty to reflect, amongst other things, the risk and probability associated with recommencing mining operations and the consequential time value of the royalty payment stream. Accordingly, the vendor royalty in excess of the recognised net present value amount is a contingent liability, with remeasurement likely to occur once development approvals are obtained and the directors resolve to progress toward construction and operation. The consolidated entity will review the measurement of the provision each annual reporting period to reflect the then-current probability weighted estimate of incurring royalty payments to the vendors.

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Note 2. Critical accounting judgements, estimates and assumptions (continued)

Business combinations

The acquisition method is used to account for business combinations. The fair value of assets acquired, liabilities and contingent liabilities are measured by the consolidated entity taking into consideration all acquisition costs at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

Note 3. Operating segments

Identification of reportable operating segments

The consolidated entity is organised into two operating segments, being bentonite mining and 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 in determining the allocation of resources.

The CODM reviews net profit or loss before tax and total assets of each operating segment. The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on a monthly basis.

Types of products and services

The principal products and services of this operating segment are the bentonite mining operations and exploration and evaluation activities in Australia. The bentonite operations are currently under care and maintenance with no production or external sales recorded for the year ended 30 June 2019.

Major customers

During the year ended 30 June 2019 there were no external sales made from operations (2018: Nil).

Financial information

| | Net loss from continuing operations before tax | | Total Assets | |
|--------------------------|--|-------------------|-------------------|-------------------|
| | 2019 | 2018 | 2019 | 2018 |
| | \$ | \$ | \$ | \$ |
| Exploration & Evaluation | 4,450,567 | 6,636,621 | 70,476,408 | 67,116,800 |
| Bentonite mining | 40,744 | 33,875 | 107,081 | 115,690 |
| Corporate | 8,739,395 | 9,196,318 | 640,215 | 3,618,875 |
| | <u>13,230,706</u> | <u>15,866,814</u> | <u>71,223,704</u> | <u>70,851,365</u> |

Note 4. Revenue

| | Consolidated | |
|-------------------------------------|----------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| <i>Other revenue</i> | | |
| Interest | 7,687 | 35,195 |
| Rent | 137,053 | 381,141 |
| Other revenue – sale of scrap metal | - | 470,882 |
| | <u>144,740</u> | <u>887,218</u> |
| Total Revenue | <u>144,740</u> | <u>887,218</u> |

Australian Pacific Coal Limited
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Note 5. Other income

| | Consolidated | |
|---------------------------------------|---------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Water recharge from rental properties | 76,446 | - |
| Unrealised gain on financial assets | 1,956,521 | - |
| | <u>2,032,967</u> | <u>-</u> |
| Other income | <u>2,032,967</u> | <u>-</u> |

Note 6. Expenses

| | Consolidated | |
|--|---------------------|------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Loss before income tax includes the following specific expenses: | | |
| <i>Depreciation</i> | | |
| Land and buildings | 158,097 | 80,284 |
| Plant and equipment | 1,084,775 | 1,106,629 |
| | <u>1,242,872</u> | <u>1,186,913</u> |
| Total depreciation | <u>1,242,872</u> | <u>1,186,913</u> |
| <i>Finance costs</i> | | |
| Interest and finance charges paid/payable | 6,163,422 | 4,965,794 |
| | <u>6,163,422</u> | <u>4,965,794</u> |
| Finance costs expensed | <u>6,163,422</u> | <u>4,965,794</u> |
| <i>Rental expense relating to operating leases</i> | | |
| Minimum lease payments | 235,091 | 295,139 |
| | <u>235,091</u> | <u>295,139</u> |
| <i>Superannuation expense</i> | | |
| Defined contribution superannuation expense | 65,022 | 87,451 |
| | <u>65,022</u> | <u>87,451</u> |

Note 7. Income tax expense

| | Consolidated | |
|--|---------------------|---------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| <i>Numerical reconciliation of income tax expense and tax at the statutory rate</i> | | |
| Profit before income tax expense from continuing operations | (13,230,706) | (15,866,814) |
| Profit before income tax expense from discontinued operations | - | - |
| | <u>(13,230,706)</u> | <u>(15,866,814)</u> |
| Tax at the statutory tax rate of 27.5% | (3,638,445) | (4,760,044) |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Depreciation and amortisation | 341,790 | - |
| Entertainment expense | 1,056 | 2,963 |
| Other non-allowable items | 3,048,100 | 1,720,798 |
| Write downs to recoverable amounts | - | 168,944 |
| Other allowable items | <u>(2,248,530)</u> | <u>(624,723)</u> |
| | (2,495,530) | (3,492,062) |
| Tax losses and temporary differences not brought to account | <u>2,495,530</u> | <u>3,492,062</u> |
| Income tax expense | <u>-</u> | <u>-</u> |

Note 8. Current assets - cash and cash equivalents

| | Consolidated | |
|--------------------------|---------------------|------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| <i>Current:</i> | | |
| Cash at bank and on hand | 395,626 | 2,376,591 |
| | <u>395,626</u> | <u>2,376,591</u> |

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

The above figures are reconciled to cash and cash equivalents at the end of the financial year as shown in the statement of cash flows as follows:

| | | |
|---|----------------|------------------|
| Balances as above | 395,626 | 2,376,591 |
| Deposit as security for rental bonds and equipment leases (Note 16) | <u>285,442</u> | <u>285,442</u> |
| Balance as per statement of cash flows | <u>681,068</u> | <u>2,662,033</u> |

Australian Pacific Coal Limited
Notes to the financial statements
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Note 9. Current assets - trade and other receivables

| | Consolidated | |
|---|---------------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Trade and other receivables | 237,663 | 293,800 |
| Less: Provision for impairment of receivables | - | - |
| | <u>237,663</u> | <u>293,800</u> |

Note 10. Current assets - other

| | Consolidated | |
|-------------|---------------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Prepayments | 760,561 | 725,826 |
| | <u>760,561</u> | <u>725,826</u> |

Australian Pacific Coal Limited
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Note 11. Non-current assets - property, plant and equipment

| | Consolidated | |
|----------------------------------|--------------------------|--------------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Land and buildings - at cost | 38,202,079 | 38,199,555 |
| Less: Accumulated depreciation | <u>(292,800)</u> | <u>(134,703)</u> |
| | <u>37,909,279</u> | <u>38,064,852</u> |
| Leasehold improvements - at cost | 170,929 | 170,929 |
| Less: Accumulated depreciation | <u>(170,929)</u> | <u>(117,420)</u> |
| | <u>-</u> | <u>53,509</u> |
| Plant and equipment - at cost | 8,155,589 | 8,150,139 |
| Less: Accumulated depreciation | <u>(2,253,222)</u> | <u>(1,221,956)</u> |
| | <u>5,902,367</u> | <u>6,928,183</u> |
| | <u><u>43,811,646</u></u> | <u><u>45,046,544</u></u> |

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| Consolidated | Land and buildings \$ | Leasehold improvements \$ | Plant and equipment \$ | Total \$ |
|---|-----------------------------|---------------------------------|------------------------------|--------------------------|
| Balance at 1 July 2017 | 37,188,081 | 39,423 | 8,275,409 | 45,502,913 |
| Additions | 983,464 | 111,703 | 183,882 | 1,279,049 |
| Remeasurement of assets acquired under business combinations | (26,409) | - | (403,215) | (429,624) |
| Disposals | - | - | (118,881) | (118,881) |
| Depreciation expense | <u>(80,284)</u> | <u>(97,617)</u> | <u>(1,009,012)</u> | <u>(1,186,913)</u> |
| Balance at 30 June 2018 | 38,064,852 | 53,509 | 6,928,183 | 45,046,544 |
| Additions | 2,524 | - | 5,450 | 7,974 |
| Depreciation expense | <u>(158,097)</u> | <u>(53,509)</u> | <u>(1,031,266)</u> | <u>(1,242,872)</u> |
| Balance at 30 June 2019 | <u><u>37,909,279</u></u> | <u><u>-</u></u> | <u><u>5,902,367</u></u> | <u><u>43,811,646</u></u> |

Refer to Note 23 for further information on fair value measurement.

Note 12. Non-current assets - intangibles

| | Consolidated | |
|--------------------------|---------------------|------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Dartbrook water licenses | <u>5,620,000</u> | <u>5,620,000</u> |

Water licences were initially measured at cost on acquisition. Subsequent period reporting is on the basis of cost less any impairment as water licenses have been deemed to have an indefinite life.

Note 13. Non-current assets - exploration and evaluation

| | Consolidated | |
|--------------------------------------|---------------------|------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Exploration and evaluation - at cost | <u>8,461,943</u> | <u>6,752,709</u> |

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| Consolidated | Exploration and evaluation \$ | Total \$ |
|-------------------------|--|------------------|
| Balance at 1 July 2017 | 3,673,084 | 3,673,084 |
| Additions | 4,398,639 | 4,398,639 |
| Tenements surrendered | <u>1,319,014</u> | <u>1,319,014</u> |
| Balance at 30 June 2018 | 6,752,709 | 6,752,709 |
| Additions | 1,789,475 | 1,789,475 |
| Tenements surrendered | <u>80,241</u> | <u>80,241</u> |
| Balance at 30 June 2019 | <u>8,461,943</u> | <u>8,461,943</u> |

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable resources and active or significant operations in relation to the area are continuing.

Where the minimum expenditure on some tenements have not been met in the current period, rent continues to be paid and various tenement renewals are in progress. This process and potential delays with respect to the renewals are not considered to be significant or material to warrant impairment of the tenement assets.

Note 14. Non-current assets - deferred tax

| | Consolidated | |
|--|---------------------|---------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| <i>Deferred tax asset comprises temporary differences attributable to:</i> | | |
| Amounts recognised in profit or loss | 3,035,040 | 1,852,515 |
| Tax losses – operating losses | 16,449,917 | 13,954,387 |
| Tax losses – capital losses | 523,984 | 523,984 |
| Dartbrook Mine Acquisition | 331,086 | 329,086 |
| | <u>(20,340,126)</u> | <u>(16,659,972)</u> |
| Tax assets not brought to account | | |
| Deferred tax asset | <u><u>-</u></u> | <u><u>-</u></u> |

Note 15. Non-current assets – financial assets

| | Consolidated | |
|---------------------------------|---------------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Investments – Bowen Coking Coal | 2,717,391 | 760,870 |
| | <u>2,717,391</u> | <u>760,870</u> |

Note 16. Non-current assets - other

| | Consolidated | |
|--|---------------------|------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Cash on deposit for rental bonds and bank facilities | 285,442 | 285,442 |
| Security deposits | 8,989,583 | 8,989,583 |
| | <u>9,275,025</u> | <u>9,275,025</u> |

Note 17. Current liabilities - trade and other payables

| | Consolidated | |
|---|---------------------|------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Trade and other payables | 710,798 | 2,041,192 |
| Accrued interest – convertible securities and loans | 1,977,831 | 5,676,953 |
| | <u>2,688,629</u> | <u>7,718,145</u> |

Refer to Note 22 for further information on financial instruments.

Australian Pacific Coal Limited
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Note 18. Current liabilities - borrowings

| | | Consolidated | |
|---|----|---------------------|-------------------|
| | | 2019 | 2018 |
| | | \$ | \$ |
| Bank loans | | 30,814 | 35,395 |
| Convertible securities | a) | - | 37,532,802 |
| Secured loan | b) | - | 5,000,000 |
| Insurance premium funding | | 693,912 | 618,008 |
| Unsecured Loan – Trepang Services Pty Ltd | c) | 3,500,000 | - |
| Unsecured Loan – SNR Mineral Assets Pty Ltd | d) | 2,688,048 | - |
| Interest bearing liabilities | e) | <u>7,700,000</u> | <u>7,700,000</u> |
| | | <u>14,612,774</u> | <u>50,886,205</u> |

a) Refer to Note 19. Convertible securities have been reclassified as a Non-Current Liability following shareholder approval obtained 29 November 2018

b) Refer to Note 19. Secured Loan has been reclassified as a Convertible Security Non-Current Liability following shareholder approval obtained 29 November 2018.

c) During the financial year, Trepang Services Pty Ltd has contributed further capital to the Company by way of an unsecured loan bearing 10% interest, capitalised on a monthly basis. Total accrued interest relating to the loan as at balance date is \$198,400.

d) On 6 August 2018, the Company signed binding documentation with SNR Mineral Assets Pty Ltd (SNR) in relation to a proposed joint venture arrangement at the Dartbrook Coal Mine. As part of those arrangements, SNR contributed to various holding costs of the mine by way of an unsecured, interest free loan to be repaid via the financing of the mine at financial close. As at balance date the total amount paid by SNR to meet holding costs is classified as an unsecured, non-interest bearing current liability.

e) 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, prior to the shareholder vote, given the default provisions in the loan agreement that may have been triggered if approval was not received. Approval from shareholders was received at a general meeting held 11 August 2017. Total accrued interest relating to the loan as at balance date is \$1,779,431.

Refer to Note 22 for further information on financial instruments.

Note 19. Non-current liabilities - borrowings

| | Consolidated | |
|------------------------|----------------------|---------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Bank loans | 28,806 | 59,620 |
| Convertible securities | a) <u>54,430,067</u> | <u>-</u> |
| | <u>54,458,873</u> | <u>59,620</u> |

a) The Convertible securities balance is comprised of following instruments:

- i. 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 (\$0.80), but subject to adjustments for reconstructions of equity. The revised terms of the notes were approved by shareholders on 29 November 2019.
- ii. 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. 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 (\$0.80), but subject to adjustments for reconstructions of equity. The revised terms of the notes were approved by shareholders on 29 November 2019.
- iii. On 29 November 2018, shareholders of the Company approved the issuance of a new convertible note to Trepang Services Pty Ltd with a face value of \$7,000,000. 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 (\$0.80), but subject to adjustments for reconstructions of equity.

Refer to Note 22 for further information on financial instruments.

Total secured liabilities

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

| | Consolidated | |
|---------------------------------|---------------------|-------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Bank loans | 59,620 | 95,015 |
| Insurance premium funding | 693,912 | 618,008 |
| Loan – Trepang Services Pty Ltd | - | 5,000,000 |
| Convertible securities | 54,430,067 | 37,532,802 |
| Loan – Anglo American | <u>7,700,000</u> | <u>7,700,000</u> |
| | <u>62,883,599</u> | <u>50,945,825</u> |

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Note 19. 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.

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 Service 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 convertible note holders, is subordinated to the secured loan from Anglo American Metallurgical Coal Assets Pty Ltd.

Financing arrangements

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

| | Consolidated | |
|---------------------------------|---------------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Total facilities | | |
| Bank loans | 205,000 | 205,000 |
| Loan – Trepang Services Pty Ltd | - | - |
| | <u>205,000</u> | <u>205,000</u> |
| Used at the reporting date | | |
| Bank loans | 59,620 | 95,015 |
| | <u>59,620</u> | <u>95,015</u> |
| Unused at the reporting date | | |
| Bank loans | 145,380 | 109,985 |
| Loan – Trepang Services Pty Ltd | - | - |
| | <u>145,380</u> | <u>109,985</u> |

Note 20. Provisions

| | | Consolidated | |
|---|-------------|---------------------|-------------------|
| | Note | 2019 | 2018 |
| | | \$ | \$ |
| <i>Current:</i> | | | |
| <i>Employee Entitlements</i> | | 22,591 | 15,853 |
| | | <u>22,591</u> | <u>15,853</u> |
| <i>Non-Current:</i> | | | |
| Rehabilitation provision | | 8,950,000 | 8,950,000 |
| Vendor Royalty provision | 28 | 10,600,000 | 11,100,000 |
| | | <u>19,550,000</u> | <u>20,050,000</u> |
| <i>Reconciliation of movements:</i> | | | |
| <i>Employee Entitlements</i> | | | |
| Opening balance | | 15,853 | 12,342 |
| Additions – Leave accrued | | 8,959 | 36,315 |
| Depletion – Leave taken | | (2,221) | (32,804) |
| Closing | | <u>22,591</u> | <u>15,853</u> |
| Vendor Royalty provision | | | |
| Opening balance | | 11,100,000 | 9,245,001 |
| Remeasurement | | (500,000) | - |
| Depletion – rehabilitation activities completed or reassessed | | - | (295,001) |
| Closing | | <u>10,600,000</u> | <u>8,950,000</u> |

Rehabilitation

The provision for rehabilitation closure costs relate to a present assessment to reinstate disturbed areas in accordance with the Dartbrook mining consent. Provision has been made to rehabilitate all areas of disturbance including surface infrastructure, buildings, underground mine workings and underground entries, using internal and external expert assessment of each aspect to calculate an anticipated cash outflow discounted to a net present value. At each reporting date the rehabilitation provision is re-measured in line with the then-current level of disturbance, cost estimates and other key inputs. The amount of provision relating to rehabilitation of areas is recognised in profit or loss as incurred.

The Dartbrook mine was acquired under care and maintenance remained in that state through the financial year ended 30 June 2019. The consolidated entity has provided cash of \$8,950,000 to the NSW government, as required under relevant laws and assessed by the relevant NSW government department. The consolidated entity will continue to assess the available and efficient rehabilitation options in parallel with potential development options for the mine.

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 contingent 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.

Note 20: Provisions (continued)

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 had assessed the acquisition of Dartbrook Mine and, through the work undertaken by the expert, assessed a discounted net present value associated with the obligation to pay the vendor royalty of \$11.1 million, which had been recognised as a Non-Current Liability. Given the strategic intent of the Company and the Modification 7 application to progress the mine via underground methods, the directors have reviewed the net present liability and remeasured the liability based on an assumed bord & pillar production profile. The liability has been assessed at \$10.6 million with the net movement (\$0.5 million gain) recorded in the Statement of profit or loss.

The maximum amount payable under the product-based royalty remains capped at \$30 million with indexation to apply to the cap. The net present value adopted is lower than the full nominal amount to reflect, amongst other things, the risk and time value of the royalty payment stream. Accordingly, the vendor royalty in excess of the recognised net present value amount is a contingent liability.

Note 21. Equity - issued capital

| | 2019 | Consolidated | | |
|------------------------------|-------------------|---------------------|-------------------|-------------------|
| | Shares | 2018 | 2019 | 2018 |
| | | Shares | \$ | \$ |
| Ordinary shares - fully paid | <u>50,484,810</u> | <u>49,234,810</u> | <u>60,522,291</u> | <u>59,522,291</u> |

Movements in ordinary share capital

| Details | Date | No of shares | Issue price | \$ |
|-----------------------------|-------------|------------------------|--------------------|-------------------|
| Balance | 30/06/2017 | <u>4,923,434,264</u> | | <u>59,487,791</u> |
| Share consolidation (1:100) | 08/12/2017 | <u>(4,874,199,457)</u> | | - |
| Total for the year | | | | |
| Balance 30 June 2018 | 30/06/2018 | 49,234,810 | | 59,487,791 |
| (i) Share Issue | 29/10/2018 | <u>1,250,000</u> | | <u>1,000,000</u> |
| Balance 30 June 2019 | | <u>50,484,810</u> | | <u>60,487,791</u> |

(i) 1,250,000 shares issued at \$0.80 per share

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

Capital risk management

The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

Note 21: Equity – issued capital (continued)

The consolidated entity is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

The capital risk management policy remains unchanged from the 30 June 2018 Annual Report.

Note 22. Financial instruments

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and other price risks, ageing analysis for credit risk.

Risk management is carried out by the Chief Financial Officer ('CFO') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. The CFO identifies, evaluates and hedges financial risks within the consolidated entity's operating units. The CFO reports to the Board on a monthly basis.

Market risk

Foreign currency risk

The consolidated entity is not currently exposed to foreign currency risk.

Price risk

The consolidated entity is not currently exposed to price risk.

Interest rate risk

The consolidated entity's main interest rate risk arises from long-term borrowings or convertible securities. Borrowings obtained at variable rates expose the consolidated entity to interest rate risk. Borrowings obtained at fixed rates expose the consolidated entity to fair value risk.

The consolidated entity's convertible securities (face value \$42,000,000) attract a fixed interest rate of 10% per annum, with interest either capitalised or settled by way of issue of ordinary shares, at the consolidated entity's election. The consolidated entity also holds a vendor loan for \$7,700,000 at a fixed rate of 10% per annum and a variable bank loan for motor vehicles for \$205,000. An official increase/decrease in interest rates of 100 (2018: 100) basis points for all interest-bearing items would have an adverse/favourable effect on profit before tax of \$499,050 (2018: \$425,328) per annum.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. Credit risk is managed through the maintenance of procedures (such procedures include the utilisation of systems for the approval, granting and renewal of credit limits, regular monitoring of exposures against such limits and monitoring of the financial stability of significant customers and counterparties), ensuring to the extent possible, that customers and counterparties to transactions are of sound credit worthiness. Such monitoring is used in assessing receivables for impairment. Depending on the division within the Group, credit terms are generally 14 to 30 days from the invoice date.

The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral.

The consolidated entity has no significant concentration of credit risk with any single counterparty or group of counterparties.

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Note 22: Financial instruments (continued)

Liquidity risk

Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Financing arrangements

Unused borrowing facilities at the reporting date:

| | Consolidated | |
|---------------------------------|---------------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Bank loans | 145,380 | 109,985 |
| Loan – Trepang Services Pty Ltd | - | - |
| | <u>145,380</u> | <u>109,985</u> |

The bank loan facility may be drawn at any time and has an average maturity of 1 ½ years (2018: 2.5 years), subject to the terms of the loan.

Remaining contractual maturities

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

| Consolidated - 2019 | Weighted average interest rate % | 1 year or less \$ | Between 1 and 2 years \$ | Between 2 and 5 years \$ | Over 5 years \$ | Remaining contractual maturities \$ |
|--------------------------------------|---|----------------------|--------------------------------|--------------------------------|--------------------|--|
| Non-derivatives | | | | | | |
| <i>Non-interest bearing</i> | | | | | | |
| Trade and other payables | - | 710,798 | - | - | - | 710,798 |
| <i>Interest-bearing - fixed rate</i> | | | | | | |
| Bank loans | 5.04% | 30,814 | 28,806 | - | - | 59,620 |
| Other loans | 5.68% | 693,912 | - | - | - | 693,912 |
| Secured loans | 10.00% | 7,700,000 | - | - | - | 7,700,000 |
| Convertible notes payable | 10.00% | - | 44,532,802 | - | - | 44,532,802 |
| Total non-derivatives | | <u>9,135,524</u> | <u>44,561,608</u> | - | - | <u>53,697,132</u> |

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Note 22: Financial instruments (continued)

| | Weighted average interest rate % | 1 year or less \$ | Between 1 and 2 years \$ | Between 2 and 5 years \$ | Over 5 years \$ | Remaining contractual maturities \$ |
|--------------------------------------|---|----------------------|--------------------------------|--------------------------------|--------------------|--|
| Consolidated - 2018 | | | | | | |
| Non-derivatives | | | | | | |
| <i>Non-interest bearing</i> | | | | | | |
| Trade and other payables | - | 2,041,192 | - | - | - | 2,041,192 |
| <i>Interest-bearing - fixed rate</i> | | | | | | |
| Bank loans | 5.04% | 35,395 | 59,620 | - | - | 95,015 |
| Other loans | 5.68% | 618,008 | - | - | - | 618,008 |
| Secured loans | 10.00% | 12,700,000 | - | - | - | 12,700,000 |
| Convertible notes payable | 10.00% | 37,532,802 | - | - | - | 37,532,802 |
| Total non-derivatives | | 52,927,397 | 59,620 | - | - | 52,987,017 |

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Note 23. 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

| | Level 1 \$ | Total \$ |
|---------------------------------------|---------------|-------------|
| Consolidated - 2019 | | |
| <i>Assets</i> | | |
| Non-current assets – financial assets | - | - |
| Ordinary shares | 2,717,391 | 2,717,391 |
| Total assets | 2,717,391 | 2,717,391 |

| | Level 1 \$ | Total \$ |
|---------------------------------------|---------------|-------------|
| Consolidated - 2018 | | |
| <i>Assets</i> | | |
| Non-current assets – financial assets | - | - |
| Ordinary shares | 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 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.

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Note 23. Fair value measurement (continued)

These financial assets are represented by the company's holding of 54,347,826 ordinary shares in Bowen Coking Coal Limited (ASX: BCB) as at balance date.

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 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.

Note 24. Key management personnel disclosures

Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

| | Consolidated | |
|------------------------------|---------------------|------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Short-term employee benefits | 1,064,272 | 1,574,938 |
| Post-employment benefits | 50,133 | 52,641 |
| Long-term benefits | - | - |
| Share-based payments | - | - |
| | <u>1,114,407</u> | <u>1,627,579</u> |

Note 25. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Hall Chadwick Chartered Accountants, the auditor of the company, its network firms and unrelated firms:

| | Consolidated | |
|---|---------------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| <i>Audit services – Hall Chadwick Chartered Accountants</i> | | |
| Audit or review of the financial statements | <u>102,567</u> | <u>147,149</u> |
| <i>Other services – Hall Chadwick Chartered Accountants</i> | | |
| Preparation of the tax return | <u>11,100</u> | <u>15,517</u> |
| | <u>113,667</u> | <u>162,666</u> |

Note 26. 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 contingent 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 balance date 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 had assessed the acquisition of Dartbrook Mine and, through the work undertaken by the expert, assessed a discounted net present value associated with the obligation to pay the vendor royalty of \$11.1 million, which had been recognised as a Non-Current Liability. Given the strategic intent of the Company and the Modification 7 application to progress the mine via underground methods, the directors have reviewed the net present liability and remeasured the liability based on an assumed bord & pillar production profile. The liability has been assessed at \$10.6 million with the net movement (\$0.5 million gain) recorded in the P&L. The maximum amount payable under the product-based royalty remains capped at \$30 million with indexation to apply to the cap.

The net present value adopted is lower than the full nominal amount to reflect, amongst other things, the risk and time value of the royalty payment stream. Accordingly, the vendor royalty in excess of the recognised net present value amount is a contingent liability, with remeasurement likely to occur once development approvals are obtained and the directors resolve to progress toward construction and operation.

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. Post balance date the proposed joint venture transaction with SNR was terminated and therefore this proposed royalty mechanism is no longer applicable. Refer to Note 32.

Bank Guarantees

The consolidated entity has given bank guarantees as at 30 June 2019 of \$80,442 (2018: \$80,442) to its landlord.

Australian Pacific Coal Limited
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Note 27. Commitments

| | Consolidated | |
|---|---------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| <i>Exploration and evaluating expenditure commitments – operating</i> | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | 350,000 | 162,000 |
| One to five years | 908,000 | 1,258,000 |
| More than five years | - | - |
| | 1,258,000 | 1,420,000 |
| <p>The consolidated entity is required to meet minimum exploration and evaluation expenditure commitments in accordance with the terms of the tenement grant documents. Any shortfall in annual expenditure is planned to be made up in the following period with a view to avoiding any penalties that the government may impose. At this stage no penalties for under-expenditure have been or are expected to be incurred.</p> | | |
| <i>Lease commitments - operating</i> | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | 22,199 | 148,499 |
| One to five years | - | 11,019 |
| More than five years | - | - |
| | 22,199 | 159,518 |
| | 22,199 | 159,518 |

Operating lease commitments include contracted amounts for offices and plant and equipment under non-cancellable operating leases expiring within one year with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

Note 28. Related party transactions

Parent entity

Australian Pacific Coal Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in Note 30.

Key management personnel

Disclosures relating to key management personnel are set out in Note 24 and the remuneration report included in the directors' report.

Australian Pacific Coal Limited
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Note 28. Related party transactions (continued)

Receivable from and payable to related parties

The following balances are outstanding at the reporting date in relation to transactions with related parties:

| | Consolidated | |
|---|---------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Current convertible securities (payable): | | |
| Mr John Robinson (Snr) | 11,226,401 | 11,226,401 |
| Mr Nick Paspaley | 11,226,401 | 11,226,401 |
| Trepang Services Pty Ltd | 22,000,000 | 15,000,000 |
| Current secured loans (payable): | | |
| Trepang Services Pty Ltd | - | 5,000,000 |
| Current unsecured loans (payable): | | |
| Trepang Services Pty Ltd | 3,500,000 | - |

The terms of convertible securities issued to Mr Robinson (Snr), Mr Paspaley and Trepang Services Pty Ltd are set out in Note 19.

The Company has received funding support from Trepang Services Pty Ltd by way of an unsecured loan. The terms of the loan are set out at Note 18.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Note 29. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

| | Parent | |
|----------------------------|--------------------|--------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Loss after income tax | <u>(7,876,866)</u> | <u>(8,379,740)</u> |
| Total comprehensive income | <u>(7,876,866)</u> | <u>(8,379,740)</u> |

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Note 29. Parent entity information (continued)

Statement of financial position

| | Parent | |
|-----------------------------|---------------------------|-----------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Total current assets | <u>531,715</u> | <u>2,986,513</u> |
| Total assets | <u>51,803,288</u> | <u>49,081,329</u> |
| Total current liabilities | <u>4,015,248</u> | <u>49,081,329</u> |
| Total liabilities | <u>58,474,123</u> | <u>48,840,638</u> |
| Equity | | |
| Issued capital | 60,487,791 | 59,487,791 |
| Share based payment reserve | - | - |
| Retained profits | <u>(67,158,625)</u> | <u>(59,247,100)</u> |
| Total equity | <u><u>(6,670,834)</u></u> | <u><u>240,691</u></u> |

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity has entered into a guarantee in connection with the consolidated entities' purchase of the Dartbrook coal mine.

The parent entity has not entered into any other guarantees, in the current or previous financial year, in relation to the debts of its subsidiaries.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2019.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2019.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.

Note 30. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following wholly-owned subsidiaries in accordance with the accounting policy described in Note 1:

| Name | Principal place of business / Country of incorporation | Ownership interest | |
|----------------------------------|---|--------------------|-----------|
| | | 2019 % | 2018 % |
| AQC Investments 1 Pty Ltd | Australia | 100.00% | 100.00% |
| AQC Investments 2 Pty Ltd | Australia | 100.00% | 100.00% |
| Area Coal Pty Ltd | Australia | 100.00% | 100.00% |
| AQC Services Pty Ltd* | Australia | 100.00% | 100.00% |
| AQC Dartbrook Pty Ltd | Australia | 100.00% | 100.00% |
| AQC Dartbrook Management Pty Ltd | Australia | 100.00% | 100.00% |
| Dartbrook Coal (Sales) Pty Ltd | Australia | 100.00% | 100.00% |
| Ipoh Pacific Resources Pty Ltd | Australia | 100.00% | 100.00% |
| Felix St Pty Ltd | Australia | 100.00% | 100.00% |
| IPR Operations Pty Ltd | Australia | 100.00% | 100.00% |
| Mining Investments One Pty Ltd | Australia | 100.00% | 100.00% |

* previously called Mining Investments Six Pty Ltd

Note 31. Events after the reporting period

Update on Dartbrook Development Partner

On 2 July 2019, the Company announced that certain conditions under the Share Sale Agreement (SSA) with SNR were not satisfied by SNR by 1 July 2019 (the cut-off date for satisfaction of those conditions) and the SSA was terminated by AQC effective on 4 July 2019.

Partial Divestment of Investment Holding

On 18 July 2019, the Company announced the sale of a portion of its shareholding in Bowen Coking Coal Limited (ASX:BCB). A total of 35.3 million shares were sold at \$0.045 per share, providing the Company with a cash inflow of \$1.589 million.

Modification 7 Update

On 13 August 2019, the Company announced it had received approval from the Independent Planning Commission (IPC) in relation to some elements of its application to modify the consent for the Dartbrook Coal Mine (DA 231-7-2000, MOD 7). The IPC did not approve the request for an additional five years of mine life. Notwithstanding, the approval is a significant milestone for Dartbrook as it provides a platform to recommence mining operations.

Following the approval, the Company will work with the respective government departments to contemporise a range of management plans and a plan of operations for the mine.

No other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Australian Pacific Coal Limited
Notes to the financial statements
30 June 2019

Note 32. Reconciliation of profit after income tax to net cash from operating activities

| | Consolidated | |
|--|---------------------|---------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Loss after income tax expense for the year | (13,230,706) | (15,866,814) |
| Adjustments for: | | |
| Depreciation and amortisation | 1,242,872 | 1,186,913 |
| Impairment of exploration & evaluation | 80,241 | - |
| Loss on disposal of tenements | - | 74,014 |
| Unrealised (gain) / loss on financial assets | (1,956,521) | 489,130 |
| Accrued finance costs | 6,138,515 | 4,965,794 |
| Loss on disposal of motor vehicle | - | 117,116 |
| Business combination working capital adjustment | - | 81,130 |
| Remeasurement of provision | (500,000) | (295,001) |
| Change in operating assets and liabilities: | | |
| Increase / (decrease) in trade and other receivables | 112,289 | (52,123) |
| Increase / (decrease) in prepayments | (34,735) | (345,463) |
| (Increase) / decrease in trade and other payables | (1,264,028) | (664,953) |
| Net cash from operating activities | <u>(9,412,073)</u> | <u>(10,310,257)</u> |

Note 33. Earnings per share

| | Consolidated | |
|--|---------------------|---------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| <i>Earnings per share for profit from continuing operations</i> | | |
| Profit after income tax | (13,230,706) | (15,866,814) |
| Non-controlling interest | - | - |
| Profit after income tax attributable to the owners of Australian Pacific Coal Limited | <u>(13,230,706)</u> | <u>(15,866,814)</u> |
| | Cents | Cents |
| Basic earnings per share | (26.5) | (32.2) |
| Diluted earnings per share | (26.5) | (32.2) |
| | | |
| | Consolidated | |
| | 2019 | 2018 |
| | \$ | \$ |
| <i>Earnings per share for profit</i> | | |
| Profit after income tax | (13,230,706) | (15,866,814) |
| Non-controlling interest | - | - |
| Profit after income tax attributable to the owners of Australian Pacific Coal Limited used in calculating diluted earnings per share | <u>(13,230,706)</u> | <u>(15,866,814)</u> |
| | Cents | Cents |
| Basic earnings per share | (26.5) | (32.2) |
| Diluted earnings per share | (26.5) | (32.2) |

Australian Pacific Coal Limited
Notes to the financial statements
30 June 2019

Note 33. Earnings per share (continued)

| | Number | Number |
|---|-------------------|-------------------|
| <i>Weighted average number of ordinary shares</i> | | |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 49,933,440 | 49,234,810 |
| Adjustments for calculation of diluted earnings per share: | | |
| Options over ordinary shares | - | - |
| Convertible notes | - | - |
| | <u>49,933,440</u> | <u>49,234,810</u> |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | <u>49,933,440</u> | <u>49,234,810</u> |

Convertible notes are considered anti-dilutive as the consolidated entity is loss making. Convertible notes potentially dilute earnings per share in the future.

Note 34. Share-based payments

During the financial year ended 30 June 2019 there were no share-based payments made to directors, executives or other personnel.

Australian Pacific Coal Limited
Directors' declaration
30 June 2019

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the financial 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.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors



John Robinson
Executive Chairman

18 August 2019
Brisbane

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

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

REPORT ON THE AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS

Report on the Financial Report

Opinion

We have audited the financial report of Australian Pacific Coal Limited and Controlled Entities (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion the accompanying financial report of Australian Pacific Coal Limited and Controlled Entities is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110: *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 \$13,230,706 during the year ended 30 June 2019 and, as of that date; the company's total liabilities exceeded its total assets by \$20,109,164. 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 opinion is not modified in respect of this matter.

SYDNEY

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the year ended 30 June 2019. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key Audit Matter | How Our Audit Addressed the Key Audit Matter |
|--|--|
| <p>Recognition and measurement of vendor royalty provisions</p> <p><i>Refer to Note 21 'Provisions' and Note 2 'Critical accounting judgements, estimates and assumptions' vendor royalty</i></p> <p>The Group has vendor royalty provisions of \$10,600,000 at 30 June 2019. The calculation of these provisions requires judgment in estimating the future production, the timing as to when the future production will be incurred and the determination of an appropriate rate to discount the future costs to net present value.</p> <p>We focused on this area due to significance of the balance in the consolidated statement of financial position relative to net assets, and the significant judgments and assumptions involved in the recognition and measurement of this obligation.</p> | <p>Our Procedures included, amongst others:</p> <ul style="list-style-type: none"> • We evaluated the legal and/or constructive obligations with respect to the vendor royalty provisions for the Dartbrook operations and the associated estimates. • We assessed the accuracy of the calculations and the appropriateness of the discount rates. • We assessed the adequacy of group's disclosures in relation to provisions. |

| Key Audit Matter | How Our Audit Addressed the Key Audit Matter |
|---|---|
| <p>Exploration and evaluation expenditure</p> <p><i>Refer to Note 14 'Exploration and Evaluation'</i></p> <p>At 30 June 2019, the Consolidated Entity had capitalised exploration assets of \$8,461,944. The Group's accounting policy in respect of exploration and evaluation assets is outlined in Note 1.</p> <p>This is a key audit matter because the carrying value of the assets are material to the financial statements and the significant judgements applied in determining whether an indicator of impairment exists in relation to capitalised exploration and expenditure assets in accordance with Australian Accounting Standard AASB 6 <i>Exploration for and Evaluation of Mineral Resources</i>.</p> | <p>Our Procedures included, amongst others:</p> <ul style="list-style-type: none"> • We confirmed the existence and tenure of the exploration assets in which the Group has a contracted interest by obtaining confirmation of title from the relevant government agency. • In assessing whether an indicator of impairment exists in relation to the Group's exploration assets in accordance with AASB 6 – Exploration for and Evaluation of Mineral Resources, we: <ul style="list-style-type: none"> ○ examined the minutes of the Group's board meetings and updates from the Group's exploration partners; ○ discussed with management the Group's ability and intention to undertake further exploration activities; and ○ reviewed any tenements that have been surrendered ensuring these have been expensed as required. • We tested a sample of additions of capitalised exploration expenditure to supporting documentation. |

**AUSTRALIAN PACIFIC COAL LIMITED
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ABN 49 089 206 986**

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

| Key Audit Matter | How Our Audit Addressed the Key Audit Matter |
|--|--|
| <p>Property, Plant and Equipment <i>Refer to Note 12 'Property, Plant and Equipment'</i></p> <p>The group has \$43,811,645 of property, plant and equipment at 30 June 2019. Included in the carrying value is land and buildings amounting to \$37,909,279.</p> <p>We focused on this matter as a key audit matter as land and buildings is the most significant asset of the group.</p> | <p>Our procedures included amongst others:</p> <ul style="list-style-type: none"> Assessed the Group's analysis for indicators of impairment, including views of managements valuation specialists. This included consideration of whether any movements in the valuation drivers indicated potential impairment by comparing them to historical results in addition to economic and industry forecasts. We assessed the adequacy of group's disclosures in relation to the carrying value of property, plant & equipment. |

| Key Audit Matter | How Our Audit Addressed the Key Audit Matter |
|---|---|
| <p>Borrowings <i>Refer to Note 19 'Current - Borrowings' and Note 20 'Non-Current - Borrowings'</i></p> <p>The Group has \$14,612,774 of current borrowings and \$54,458,875 of non-current borrowings as at 30 June 2019.</p> <p>This is considered to be a key area of audit focus due to its materiality to the financial report.</p> | <p>Our Procedures included, amongst others:</p> <ul style="list-style-type: none"> We have reviewed the loan documentation including the terms of the convertible notes and secured loans and evaluated the accounting treatment adopted by management in accounting for the borrowings. We recalculated the interest in relation to the borrowings and ensured it has been accurately recognised. We assessed the adequacy of the Group's disclosures in respect of borrowings. |

**AUSTRALIAN PACIFIC COAL LIMITED
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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AUSTRALIAN PACIFIC COAL LIMITED

Information Other Than The Financial Report And Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon. Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon. In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

We have audited the remuneration report included in pages 5 to 10 of the directors' report for the year ended 30 June 2019.

In our opinion, the remuneration report of Australian Pacific Coal Limited, for the year ended 30 June 2019, complies with 300A of the Corporations Act 2001.

Responsibilities

The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Hall Chadwick

Hall Chadwick
Sydney NSW 2000

S. Kumar

SANDEEP KUMAR

Partner

Date: 19 August 2019

ASX ADDITIONAL INFORMATION

Australian Pacific Coal Limited Shareholder information 30 June 2019

Additional information required by the Australian Stock Exchange Limited and not shown elsewhere in this report is as follows. This information is current as at 31 July 2019.

1. Shareholding

| a. Distribution of Shareholders – Ordinary Securities | Number | Number |
|--|-------------------|-----------------------|
| | of holders | of shares held |
| Category (size of holding) | | |
| 1 – 1,000 | 338 | 157,290 |
| 1,001 – 5,000 | 371 | 959,571 |
| 5,001 – 10,000 | 138 | 1,070,460 |
| 10,001 – 100,000 | 188 | 5,488,570 |
| 100,001 – and over | 42 | 42,808,919 |
| Total | 1,077 | 50,484,810 |

b. The number of shareholdings held in less than a marketable parcel of 500 shares (closing price \$0.385 on 31 July 2019) is 275 and they hold 212,763 shares.

c. The names of the substantial holders in the company as at 31 July 2019 are:

| Substantial Holder | Number of shares |
|---------------------------|-------------------------|
| Trepang Services Pty Ltd | 21,061,667 |
| Jet Arm Limited | 5,000,000 |

d. Voting Rights

The voting rights attached to each class of equity security are as follows:

Ordinary shares:

- Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

Unlisted options:

- Options do not entitle the holders to vote in respect of the option, nor participate in dividends, when declared, until such time as the options are exercised and subsequently registered as ordinary shares.

ASX ADDITIONAL INFORMATION

Australian Pacific Coal Limited Shareholder information 30 June 2019

e. 20 Largest Shareholders — Ordinary Shares

| | Name | Number of Ordinary Fully Paid Shares Held | % Held of Issued Ordinary Capital |
|-----|--|---|--|
| 1. | TREPANG SERVICES PTY LTD | 19,770,000 | 39.16 |
| 2. | JET ARM LIMITED | 5,000,000 | 9.90 |
| 3. | MR BUGUO WANG | 3,767,986 | 7.46 |
| 4. | CITICORP NOMINEES PTY LIMITED | 2,065,572 | 4.09 |
| 5. | HALIKOS PTY LTD | 1,923,080 | 3.81 |
| 6. | ALLSTATE ASSET CORPORATION P/L | 1,829,034 | 3.62 |
| 7. | MR NICHOLAS THEODORE JAMES PASPALLEY | 1,291,667 | 2.56 |
| 8. | MR MARK ALAN ROWE & MRS CHRISTINE LEE ROWE | 433,290 | 0.86 |
| 9. | MIBRO (NT) PTY LTD | 430,000 | 0.85 |
| 10. | J P MORGAN NOMINEES AUSTRALIA PTY LIMITED | 372,125 | 0.74 |
| 11. | SAMBOR TRADING PTY LTD | 345,592 | 0.68 |
| 12. | COOROY ROCK PTY LTD | 322,215 | 0.64 |
| 13. | MR DONALD EDGAR HOAR | 312,500 | 0.62 |
| 14. | SHEMARIAH PTY LTD | 301,135 | 0.60 |
| 15. | SHEMARIAH PTY LTD | 300,692 | 0.60 |
| 16. | FOLEY SUPER PTY LTD | 265,635 | 0.53 |
| 17. | MICK LANG PTY LTD | 260,000 | 0.52 |
| 18. | MRS REBECCA SUE | 258,045 | 0.51 |
| 19. | TANUS FISHERIES PTY LTD | 255,000 | 0.51 |
| 20. | GRAHAM WELLS | 252,159 | 0.50 |
| | | 39,755,727 | 78.75 |

f. Unlisted options

Nil

2. Stock Exchange Listing

Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the Australian Stock Exchange Limited (ASX Code: AQC).