

## 1 Mt/yr coking coal, starting 2017

Cashed up; drilling started to upgrade Resource; and  
Exploration Target increased.

### Recommendation

**BUY; High Risk**

### Price

**4.8c**

### Valuation

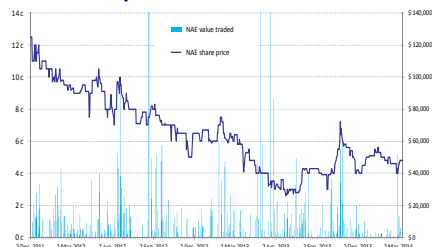
**18c**

- NAE has been granted an Exploration Licence and Conditional Underground Mining Licence for Lochinvar South, an area of 57km<sup>2</sup>, abutting NAE's Lochinvar tenement, to the south and south-west.
- Lochinvar South has an Exploration Target of 10Mt - 34Mt in the Nine Foot and Six Foot Seams to a max. depth of 1,000m.
- NAE has raised capital and has started a programme to upgrade its resource estimate.

### Snapshot

Market Cap	\$14.4m
Shares on Issue (pre issue)	300.9m
52 Week High	7.2c
52 Week Low	2.6c
1 month / 6 month VWAP	4.18c / 4.88c

### NAE Share price v. volume



Lochinvar is part of the Canonbie coal field, which was first drilled in the 1950s by the UK National Coal Board.

Lochinvar was explored intermittently until the mid 1980s, when it was shelved with much of the UK coal industry.

Lochinvar coal appears to be similar to Maltby, an English mine that was shut in 2013, which reportedly sold for about 80% of HQ HCC benchmark, FOB, but with a transport premium of up to \$20/t.

NAE expects a scoping study to be completed by July 2014.

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### NAE now has 112Mt in Resources, and is upgrading this estimate

NAE has started a drill programme of 4 infill holes to upgrade the estimate in the west and central portions of the deposit from Inferred to Indicated. The drilling will also provide further information on raw and clean coal quality, geotechnical testing and structural information, which will be incorporated into the Scoping Study to define primary mining method options.

### Lochinvar South increases the Exploration Target to 38 – 81Mt

In addition to the Inferred Resource, Lochinvar has an Exploration Target of 28Mt - 47Mt. NAE has acquired the Lochinvar South tenement, which abuts Lochinvar to south and south-west. Lochinvar South has an Exploration Target of 10Mt -34Mt to increase the overall Exploration Target to 39Mt – 81Mt in addition to the JORC Resource.

### NAE has successfully raised capital to complete the Scoping Study

NAE announced that it successfully raised \$1.7m in equity which will allow it to complete the scoping study and conduct further drilling later in 2014.

### Beer & Co's risked valuation remains 18c.

Beer & Co has made a number of estimates in our valuation, including :

- USD 236m in project development cost, including 3 continuous mining units and US\$39m in contingency;
- Over \$A10m in feasibility costs plus \$A 10m in corporate costs until Lochinvar generates net cash;
- Mine 1.35Mt/yr of RoM coal to produce 1.0Mt/yr of product coal;
- Project development is partly funded by the sale of a 30% stake in either the project or the company to a strategic investor;
- Total cash costs, delivered to the customer, is USD 68/t. All in Costs, including sustaining capital and periodic replacement of the CM units, totals US\$ 79/t.
- We assume benchmark, FOB, coking coal price is US\$ 175/t, or US\$ 200/t delivered to a customer in Europe, while Lochinvar achieves US\$ 152/t.

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## NAE acquires Lochinvar South

### Lochinvar South - Description

NAE announced, on 3 March 2014, that it had been granted an Exploration Licence and Conditional Underground Mining Licence by The Coal Authority. As shown in Figure 1, Lochinvar South covers an area of 57km<sup>2</sup> abutting Lochinvar, to the south and south-west.

Figure 1 shows that Lochinvar South contains the potential for continuation of coal seams from the Lochinvar Licence for up to 5km along strike to the south-west.

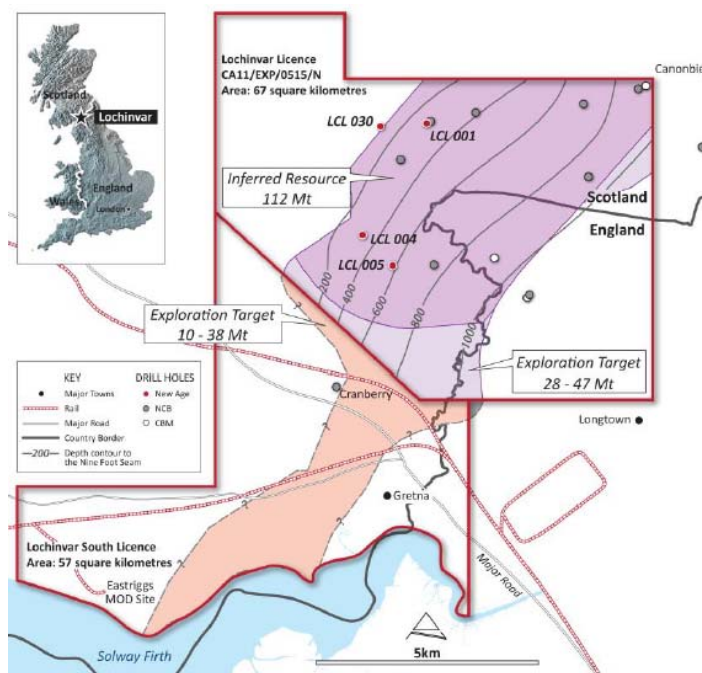
Figure 2 shows that Lochinvar South has an Exploration Target of 10Mt – 34Mt of coal. This target was estimated by Palaris Mining Pty Ltd for the Nine Foot and Six Foot seams, to a maximum depth of 1,000m.

Lochinvar has an Inferred Resource of 112Mt of good quality coking coal

NAE now has title to the continuation of the coal measures to the south and south-west.

Lochinvar South increases the Exploration Target by a further 10Mt to 34Mt

Figure 1 : Lochinvar South abuts Lochinvar



Source : NAE ASX announcement, 3 March 2014

Figure 2 : Lochinvar Inferred Resource estimate and coal analysis

Coal Seam	Inferred	Exploration Target	Ash - raw	Yield	Ash - product	Vol.	CSN	I M	S	P	Fluidity
Nine Foot seam	78 Mt	6 Mt - 10 Mt	10.4 %	84 %	3.5 %	34.5 %	7.5	2.4 %	2.1 %	2.1 %	3,400
Six foot seam	34 Mt	7 Mt - 13 Mt	11.0 %	77 %	4.0 %	34.7 %	7.0	3.0 %	3.5 %	3.5 %	1,400
Five foot seam		15 Mt - 24 Mt									
Lochinvar South		10 Mt - 34 Mt									
<b>TOTAL</b>	<b>112 Mt</b>	<b>38 Mt - 81 Mt</b>									

Sources : NAE ASX announcements, 1 October 2013 and 3 March 2014, Beer & Co

The Lochinvar South Exploration Target relate only to the Nine Foot and Six Foot seams, to a maximum depth of 1,000m.

Modelling of the Solway Basin by the British Geological Survey (“BGS”), combined with geophysical data, shows that the coal measures continue to the south-west. On this basis, the Middle Coal Measures, which contain the coal seams tested in the current Lochinvar Licence, have been interpreted to extend as shown in Figure 1. No boreholes have yet intersected coal seams of the Middle Coal Measures in the Lochinvar South area of the basin.

## Lochinvar – Now Drilling

On 5 March, NAE announced that it was starting a 4 hole drilling programme to upgrade part of the existing Resource, of 112Mt as shown in Figure 2.

**NAE has commenced a drill programme to upgrade part of the 112Mt of Inferred Resources to Indicated Status.**

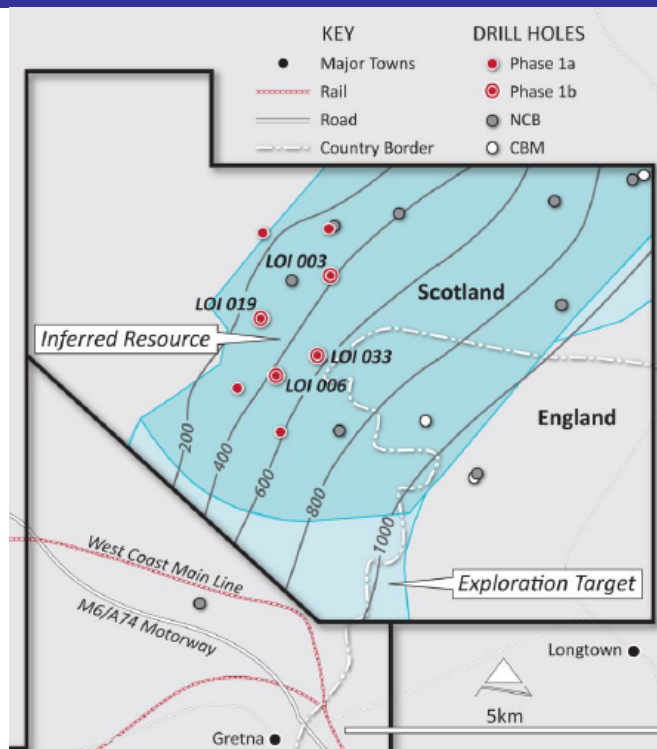
**The programme will also provide geotechnical information of coal seam floor and roof conditions to be used to define mining plans.**

Figure 3 shows the 4 holes in this Phase 1b programme, and shows that the programme is to infill the Inferred Resource in the western and central area of the licence to upgrade this part of the Resource from Inferred to Indicated status.

The programme will gather geotechnical data on coal seam roof and floor conditions which will be incorporated into the Scoping Study to define primary mining method options.

As well as obtaining geotechnical data, further metallurgical information on raw and clean coal quality will be obtained.

**Figure 3 : Phase 1b drill programme**



Source : NAE ASX announcement, 5 March 2014

## NAE - Funded

On 11 March, NAE announced that it had raised a further \$1.7m in equity. This should enable NAE to complete its scoping study and publish results and continue drilling during the second half of 2014.

**Beer & Co affirms our 18c/share risk weighted valuation of NAE.**

**Beer & Co affirms our BUY, High Risk recommendation.**

## Conclusions

Investors are referred to the research reports published 29 January 2014 (refer to <http://beerandco.com.au/all-research/> for all Beer & Co research).

Beer & Co affirms our risk weighted valuation of 18c/share, with a High Risk rating, with the risks relating overwhelmingly to execution.

Beer & Co Research		New Age Exploration (NAE)ASX							March 2014		
Year ended June		2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19			
<b>Section 1 - P&amp;L</b>											
Sales revenue	\$Am	0	0	0	0	19	117	127			
Interest revenue	\$Am	0	0	0	2	1	1	2			
Other revenue	\$Am	0	0	0	0	0	0	0			
<b>Total Revenue</b>	\$Am	<b>0</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>20</b>	<b>118</b>	<b>129</b>			
Cost of Goods Sold	\$Am	0	0	0	0	(12)	(52)	(55)			
Royalties	\$Am	0	0	0	0	(0)	(0)	(0)			
Exploration Expense	\$Am	(3)	(0)	(0)	0	0	0	0			
Corporate Costs	\$Am	(3)	(3)	(3)	(3)	(4)	(4)	(4)			
Other Operating Expenses	\$Am	0	0	0	0	0	0	0			
<b>Total Operating Expenses</b>	\$Am	<b>(6)</b>	<b>(3)</b>	<b>(3)</b>	<b>(3)</b>	<b>(16)</b>	<b>(56)</b>	<b>(59)</b>			
EBITDA	\$Am	(6)	(3)	(3)	(2)	3	61	69			
Dep'n & Amort'n	\$Am	0.0	0.0	0.0	0.0	(0.7)	(5.3)	(8.8)			
<b>EBIT</b>	\$Am	<b>(5.6)</b>	<b>(3.2)</b>	<b>(3.2)</b>	<b>(1.6)</b>	<b>2.5</b>	<b>56.1</b>	<b>60.4</b>			
Interest Expense	\$Am	0.0	0.0	0.0	0.0	(7.7)	(16.0)	(14.2)			
Other	\$Am	0	0	0	0	0	0	0			
<b>Pre-Tax Profit</b>	\$Am	<b>(5)</b>	<b>(3)</b>	<b>(3)</b>	<b>(2)</b>	<b>(5)</b>	<b>40</b>	<b>46</b>			
Tax Expense	\$Am	0.0	0.0	0.0	0.0	0.4	(8.7)	(9.7)			
<b>NPAT</b>	\$Am	<b>(5)</b>	<b>(3)</b>	<b>(3)</b>	<b>(2)</b>	<b>(5)</b>	<b>32</b>	<b>36</b>			
<b>Reported NPAT</b>	\$Am	<b>(5)</b>	<b>(3)</b>	<b>(3)</b>	<b>(2)</b>	<b>(5)</b>	<b>32</b>	<b>36</b>			
<b>Section 2 - Key Data</b>											
Ordinary shares - year end	m	258.3	300.9	586.5	936.8	936.8	936.8	936.8			
Fully diluted shares on issue	m	258.3	300.9	586.5	936.8	936.8	936.8	936.8			
Weighted # shares	m	258.3	279.6	503.4	761.5	936.8	936.8	936.8			
Earnings per Share		(3.0c)	(1.2c)	(0.6c)	(0.2c)	(0.5c)	3.4 c	3.9 c			
Dividends Per Share		0.0 c	0.0 c	0.0 c	0.0 c	0.0 c	0.0 c	0.0 c			
<b>Section 3 - Balance Sheet</b>											
Cash	\$Am	5	1	74	62	38	68	99			
Receivables	\$Am	0	0	0	0	5	16	16			
Other	\$Am	0	0	0	0	0	0	0			
<b>CURRENT ASSETS</b>	\$Am	<b>5</b>	<b>1</b>	<b>74</b>	<b>62</b>	<b>43</b>	<b>83</b>	<b>115</b>			
Receivables	\$Am	0	0	0	0	0	0	0			
P, P & E	\$Am	0	1	2	2	2	2	2			
Mining Properties / Explor	\$Am	5	5	5	62	81	80	75			
Other	\$Am	0	0	0	0	0	0	0			
<b>NON-CURRENT ASSETS</b>	\$Am	<b>5</b>	<b>6</b>	<b>7</b>	<b>64</b>	<b>83</b>	<b>81</b>	<b>76</b>			
<b>TOTAL ASSETS</b>	\$Am	<b>10</b>	<b>7</b>	<b>80</b>	<b>126</b>	<b>126</b>	<b>165</b>	<b>192</b>			
Payables	\$Am	1	0	0	0	(2)	(4)	(4)			
Debt	\$Am	0	0	0	0	19	21	22			
Other	\$Am	0	0	0	0	0	0	0			
<b>CURRENT LIABILITIES</b>	\$Am	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>17</b>	<b>17</b>	<b>18</b>			
Long Term Debt	\$Am	0	0	0	0	165	145	122			
Deferred Tax Liability	\$Am	0	0	0	0	0	0	0			
Other	\$Am	0	0	0	0	0	0	0			
Provisions	\$Am	0	0	0	0	0	0	0			
<b>NON-CURRENT LIABILITIES</b>	\$Am	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>165</b>	<b>145</b>	<b>122</b>			
<b>TOTAL LIABILITIES</b>	\$Am	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>182</b>	<b>161</b>	<b>141</b>			
<b>NET ASSETS</b>	\$Am	<b>9</b>	<b>7</b>	<b>80</b>	<b>126</b>	<b>(57)</b>	<b>3</b>	<b>51</b>			
Accumulated Profit (Loss)	\$Am	(13)	(16)	(20)	(21)	(11)	69	154			
Reserves	\$Am	1	9	58	55	(137)	(157)	(194)			
Contributed Equity	\$Am	21	23	42	91	91	91	91			
Minority Interest	\$Am	0	0	0	0	0	0	0			
<b>Total Equity</b>	\$Am	<b>9</b>	<b>16</b>	<b>81</b>	<b>126</b>	<b>(56)</b>	<b>4</b>	<b>51</b>			
<b>Section 4 - Cashflow</b>											
Net Cashflow from operatio	\$Am	(3)	(6)	(10)	(6)	(5)	36	44			
Hedging	\$Am	0	0	0	0	0	0	0			
Net Interest Paid	\$Am	0	0	0	0	(8)	(16)	(14)			
Taxes Paid	\$Am	0	0	0	0	0	(4)	(10)			
Change in Working Capital	\$Am	0	(1)	0	0	(7)	(13)	(0)			
Other	\$Am	0	0	0	0	0	0	0			
<b>OPERATING CASHFLOW</b>	\$Am	<b>(3)</b>	<b>(7)</b>	<b>(10)</b>	<b>(6)</b>	<b>(19)</b>	<b>3</b>	<b>20</b>			
Exploration Expenditures	\$Am	(4)	(1)	(1)	0	0	0	0			
Maintenance Capex	\$Am	0	0	0	0	0	(4)	(4)			
Expansion Capex	\$Am	0	0	0	(57)	(20)	0	0			
<b>PPE Acquisitions (Total Capex)</b>	\$Am	<b>(4)</b>	<b>(1)</b>	<b>(1)</b>	<b>(57)</b>	<b>(20)</b>	<b>(4)</b>	<b>(4)</b>			
PPE Divestments	\$Am	0	0	64	0	0	0	0			
<b>INVESTING CASHFLOW</b>	\$Am	<b>(4)</b>	<b>(1)</b>	<b>63</b>	<b>(57)</b>	<b>(20)</b>	<b>(4)</b>	<b>(4)</b>			
Change in Equity	\$Am	0	2	19	50	0	0	0			
Dividends Paid	\$Am	0	0	0	0	0	0	0			
Change in Debt	\$Am	0	0	0	0	184	(19)	(21)			
Other	\$Am	0	0	0	0	0	0	0			
<b>FINANCING CASHFLOW</b>	\$Am	<b>0</b>	<b>2</b>	<b>19</b>	<b>50</b>	<b>184</b>	<b>(19)</b>	<b>(21)</b>			
<b>Free Cashflow</b>	\$Am	<b>(6)</b>	<b>(8)</b>	<b>53</b>	<b>(63)</b>	<b>(39)</b>	<b>(1)</b>	<b>16</b>			
<b>Net Cashflow</b>	\$Am	<b>(6)</b>	<b>(7)</b>	<b>73</b>	<b>(13)</b>	<b>145</b>	<b>(20)</b>	<b>(5)</b>			
<b>Commodity price assumptions</b>											
Year ended June		2013-14	2014-15	2015-16	2016-17	2017-18	2018-19				
AUD-USD		0.892	0.850	0.850	0.850	0.850	0.850				
HQ HCC	US\$ / t	148	163	175	175	175	175				
GBP - USD		1.584	1.600	1.600	1.600	1.600	1.600				
Lochinvar blend	US\$ / t	131	143	153	153	153	153				
<b>Mine Production (100% basis)</b>											
RoM coal	000 t	0	0	0	0	270	1,316	1,350			
Coal sold	'000 t	0	0	0	0	149	930	1,013			
<b>NAE share</b>											
RoM coal	000 t	0	0	0	0	189	921	945			
Coal sold	'000 t	0	0	0	0	104	651	709			
<b>Resources</b>											
Coal Seam		Inferred	RoM Coal Analysis								
		Resource	IM	Ash	S	CSN					
Nine Foot seam	78 Mt	2.4 %	10.4 %	32.6 %	2.1 %	6.5					
Six foot seam	34 Mt	3.0 %	11.0 %	32.0 %	3.5 %	6.5					
Five foot seam											
<b>TOTAL</b>	<b>112 Mt</b>										
<b>Washed coal Analysis</b>											
Coal Seam		Yield	Ash	Vol.	S	CSN	P	Fluidity			
Nine Foot seam	89 %	3.1 %	33.8 %	1.26 %	7.0	0.003 %	T B A				
Six foot seam	77 %	4.0 %	34.7 %	1.82 %	7.0	0.034 %	1,400				
<b>Blend</b>	<b>85 %</b>	<b>3.4 %</b>	<b>34.1 %</b>	<b>1.43 %</b>	<b>7.0</b>	<b>0.012 %</b>					
<b>Assumed mining inventory (50% of coal shallower than 600m)</b>											
Coal Seam		RoM									
Nine Foot seam		25 Mt									
Six foot seam		13 Mt									
<b>TOTAL</b>		<b>38 Mt</b>									
<b>Asset based Valuation</b>											
discount rate = 12.0 %		30-Jun-13			13-Mar-14						
		risking	100%	Product	per share						
Lochinvar, NAE share	50 %	\$A 182m	90.8 c	9.6 c	12.9 c						
Asset sale	50 %	\$A 51m	25.6 c	2.7 c	2.7 c						
Corporate	100 %	(\$A 31m)	(30.7c)	(3.3c)	(3.3c)						
Exploration	75 %	(\$A 2m)	(1.3c)	(0.1c)	(0.4c)						
Cash / debt	100 %	\$A 5m	4.9 c	0.5 c	0.5 c						
Cash to be raised	100 %	\$A 52m	52.1 c	5.5 c	5.6 c						
<b>TOTAL</b>		<b>\$A 257m</b>	<b>141.3 c</b>	<b>15.0 c</b>	<b>18.1 c</b>						
Shares on issue		258.3m	FPO shares	22.6m	options						
		42.6m	issued 2014	0.6m	exercised						
		640.0m	issued 2015								
<b>Assumed Cash Costs, US \$/t</b>											
		LoM	2016-17	2017-18	2018-19	2019-20	2020-21				
Mining		20	22	19	19	19	19				
Processing		21	28	20	20	20	20				
Tech. Services		5	13	5	5	5	5				
Site Admin		5	12	5	5	5	5				
Transport		17	8	16	17	17	17				
Royalties		0.4	0.4	0.4	0.4	0.4	0.4				
<b>TOTAL</b>		<b>US\$ 68/t</b>	<b>US\$ 83/t</b>	<b>US\$ 66/t</b>	<b>US\$ 66/t</b>	<b>US\$ 66/t</b>	<b>US\$ 67/t</b>				
<b>Financial Ratios</b>											
Year ended June		2013-14	2014-15	2015-16	2016-17	2017-18	2018-19				
Revenue	\$Am	0	0	2	20	118	129				
EBITDA	\$Am	(6)	(3)	(3)	(2)	3	61				
EBIT	\$Am	(6)	(3)	(3)	(2)	2	56				
NPAT (reported)	\$Am	(5)	(3)	(3)	(2)	(5)	32				
Adjusted EPS (cps)		(3.0c)	(1.2c)	(0.6c)	(0.2c)	(0.5c)	3.4 c				
EPS Growth (%)				61 %	48 %	63 %	(136%)	754 %			
DPS (c)		0.0 c	0.0 c	0.0 c	0.0 c	0.0 c	0.0 c				
Dividend Yield (%)		0 %	0 %	0 %	0 %	0 %	0 %				
PE adj. (x)	x	(0.9)	(4.2)	(8.0)	(22.0)	(9.3)	1.4				
EV / EBITDA (x)	x	0.0	0.0	0.0	0.0	0.0	0.0				
EV / EBIT (x)	x	0.0	0.0	0.0	0.0	0.0	0.0				
Gearing (%)		0 %	0 %	0 %	147 %	100 %	76 %				
Return on Assets		(46%)	(4%)	(1%)	2 %	34 %	32 %				
Return on Equity		(20%)	(4%)	(1%)	9 %	815 %	71 %				
EBITDA Margin (%)		n/a	n/a	n/a	n/a	17 %	53 %				
Interest Cover (x)	x	n/a	n/a	n/a	n/a	0.3	3.5				
<b>Substantial Shareholders</b>											
Resource Capital Fund V LP		96,234,975		32.0 %							
Mr YAW Chee Siew		40,816,667		13.6 %							

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The analyst responsible for this research report certifies that all of the views expressed reflect his personal views about the securities and the issuer.

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