

1 Mt/yr coking coal, starting 2017

Two more holes to increase Indicated Resource, to be announced July; Scoping Study now September 2014.

Recommendation

BUY; High Risk

Price

2.8c

Valuation

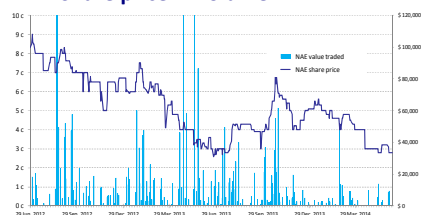
17.5c

- **NAE has completed its Phase 1b drilling program. NAE is now drilling 2 more holes to increase the size of the Indicated Resource, which is expected in July 2014.**
- **Due to extra drilling, the Scoping Study is now expected to be completed in September 2014.**
- **Recent coal capacity shut-ins have put a floor to the HQ HCC price around USD 120/t. We do not expect that NAE will begin production until 2017, when we expect benchmark coking coal prices will have recovered to USD 170/t.**

Snapshot

Market Cap	\$8.7m
Shares on Issue	312.25m
Cash on hand (15 May 2014)	\$3.3m
52 Week High	7.2c
52 Week Low	2.4c
1 month / 6 month VWAP	2.9c / 3.9c

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 September 2014.

Author : Pieter Bruinstroop
pbruinstroop@beerandco.com.au

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All four holes intersected coal as expected

NAE announced the results of the 4 boreholes drilled as part of its phase 1B program to upgrade the status of its Resource estimate.

All four boreholes intersected the nine foot seam, where expected, with thicknesses in line with expectations.

Program being extended to get bigger Indicated Resource

Having secured extra funding, NAE is now drilling 2 more holes, one about 1km to the south and the other to the north, so that the size of the reported Indicated Resource can be larger than otherwise. The total resource estimate, at present, is 112Mt, all in the Inferred category.

Capital raised and Scoping Study underway

As at 15 May, NAE has \$3.3m in cash, which will fund the increased drill program and completion of the Scoping Study, which is now delayed until September due to the drilling of the extra 2 holes.

Benchmark coking coal prices have bottomed

The NAE share price has been hurt by the falling coking coal price, which has been softer than expected. Recent mine closures, of up to 15Mt/yr, are estimated to bring the market nearly back into balance.

Beer & Co's risked valuation remains 17.5c.

We are confident that coking coal prices will be much higher when NAE gets Lochinvar into production.

Our valuation should increase when the scoping study is published and the project begins to be de-risked.

Our testing derives a heavily risked valuation higher than the current share price even at current, depressed coking coal prices.

We retain a BUY, High Risk recommendation.

NAE : To increase the Indicated Resources

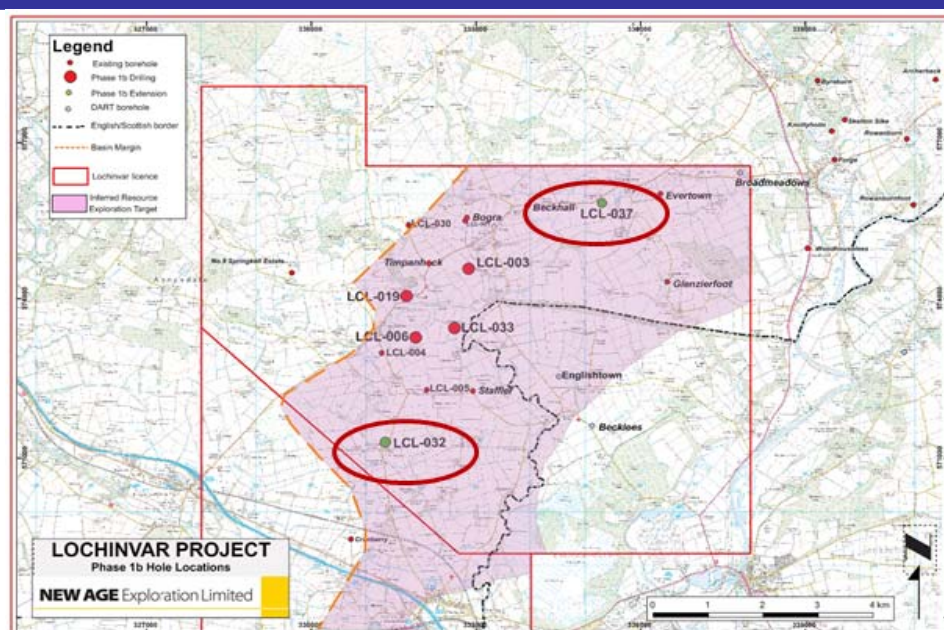
Expanding the Indicated Resource

NAE has finished its Phase 1B drilling programme.

NAE is now undertaking the drilling of 2 more bore-holes aimed at increasing the size of the Indicated Resources.

Figure 1 shows the location of the 4 holes that were drilled for the phase 1b programme. Each of these holes intersected coal, in the expected location and at the expected width.

Figure 1 : NAE's drill program at Lochinvar



Source : NAE's ASX announcement 20 May 2016, Beer & Co

Figure 1 also shows, highlighted by being circled in maroon, the 2 extra holes that are being drilled by NAE to expand the size of the Indicated Resource.

The previous drilling has indicated that the nine foot seam is thicker in the northern areas of the lease. This will be tested by the proposed bore-hole LCL-037.

Our analysis assumes that only 38Mt of the 112Mt Resource is extracted, at a rate of 1.35Mt/yr, to produce 1.0Mt/yr of product coal. The phase 1b drill results, and the two additional holes proposed increase our confidence that this will be achieved.

We understand that the six foot seam, which is not well developed in the central area, is expected to be much thicker in the northern area; the nine foot seam is also expected to be thicker.

These extra holes give upside potential to our assumed inventory, but our valuation is not sensitive to an increase in the mining inventory as we have a 30 year project life already.

This extra work is expected to delay, by about one month :

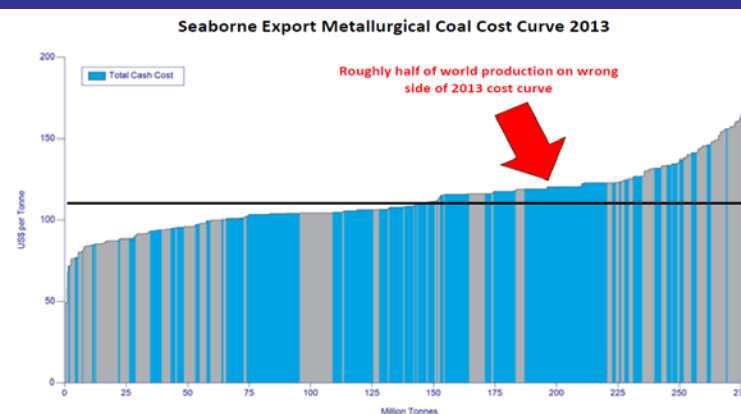
- The announcement of the updated Resource estimate and the clean coal quality test results, from June to July; and
- The completion of the Scoping Study, from August to September.

However, we have not changed our projection of first coal in early 2017.

Coal Prices

Figure 2 shows that, at \$120/t, many operations are losing cash, on an “All-In” basis (ie. after paying royalties, exploration, development and sustaining capital).

Figure 2 : Metallurgical coal cash costs, 2012



Source: Wood Mackenzie Ltd, Dataset: August 2013

Source : Tigers Realm Coal (TIG.ASX) presentation, May 2014

We understand that the projected over-supply for 2014 was in the range of 15Mt to 25Mt. We further understand that about 15Mt has either been shut or announced to be shut.

In our view, this represents the bottom of the coal price cycle.

Conclusions

Please refer to our note of 6 May (http://beerandco.com.au/wp-content/uploads/2014/05/NewAgeExploration_2014May06.pdf). There we revised our valuation to take into account lower medium term coal prices.

However, we also project that, the Lochinvar project is still viable at prices near current coal prices (though if there is a glut in supply, its funding maybe in doubt).

We are confident that coal prices have bottomed and will be much higher by the time Lochinvar is brought into operation.

Our valuation should rise over time as the project is progressively de-risked.

Beer & Co affirms out BUY, High Risk recommendation on NAE.

For further information on NAE, Investors are referred to the research reports published on our web-site (<http://beerandco.com.au/all-research/>).

Beer & Co Research							
New Age Exploration (NAE.ASX)							
June 2014							
Year ended June	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Section 1 - P&L							
Sales revenue	\$Am	0	0	0	0	18	114
Interest revenue	\$Am	0	0	0	2	1	2
Other revenue	\$Am	0	0	0	0	0	0
Total Revenue	\$Am	0	0	0	2	19	115
Cost of Goods Sold	\$Am	0	0	0	(12)	(52)	(55)
Royalties	\$Am	0	0	0	(0)	(0)	(0)
Exploration Expense	\$Am	(3)	(0)	(0)	0	0	0
Corporate Costs	\$Am	(3)	(3)	(3)	(3)	(4)	(4)
Other Operating Expenses	\$Am	0	0	0	0	0	0
Total Operating Expenses	\$Am	(6)	(3)	(3)	(3)	(16)	(59)
EBITDA	\$Am	(6)	(3)	(3)	(2)	3	58
Dep'n & Amort'n	\$Am	0	0	0	0	(1)	(5)
EBIT	\$Am	(6)	(3)	(3)	(2)	2	53
Interest Expense	\$Am	0	0	0	0	(6)	(7)
Other	\$Am	0	0	0	0	0	0
Pre-Tax Profit	\$Am	(5)	(3)	(3)	(2)	(4)	43
Tax Expense	\$Am	0	0	0	0	(9)	(10)
NPAT	\$Am	(5)	(3)	(3)	(2)	(4)	34
Reported NPAT	\$Am	(5)	(3)	(3)	(2)	(4)	34
Section 2 - Key Data							
Ordinary shares - year end	m	258.3	312.2	670.0	1,019.8	1,019.8	1,019.8
Fully diluted shares on issue	m	258.3	312.2	670.0	1,019.8	1,019.8	1,019.8
Weighted #shares	m	258.3	274.6	576.6	844.9	1,019.8	1,019.8
Earnings per Share		(3.0c)	(1.1c)	(0.5c)	(0.2c)	(0.4c)	3.3 c
Dividends Per Share		0.0 c	0.0 c	0.0 c	0.0 c	0.0 c	0.0 c
Section 3 - Balance Sheet							
Cash	\$Am	5	1	68	56	33	65
Receivables	\$Am	0	0	0	0	5	15
Other	\$Am	0	0	0	0	0	0
CURRENT ASSETS	\$Am	5	1	68	56	38	80
Receivables	\$Am	0	0	0	0	0	0
P, P & E	\$Am	0	1	2	2	2	2
Mining Properties / Explor	\$Am	5	5	5	62	81	80
Other	\$Am	0	0	0	0	0	0
NON-CURRENT ASSETS	\$Am	5	6	7	64	83	81
TOTAL ASSETS	\$Am	10	7	75	120	121	190
Payables	\$Am	1	0	0	0	(2)	(4)
Debt	\$Am	0	0	0	0	25	27
Other	\$Am	0	0	0	0	0	0
CURRENT LIABILITIES	\$Am	1	0	0	0	23	23
Long Term Debt	\$Am	0	0	0	0	93	65
Deferred Tax Liability	\$Am	0	0	0	0	0	0
Other	\$Am	0	0	0	0	0	0
Provisions	\$Am	0	0	0	0	0	0
NON-CURRENT LIABILITIES	\$Am	0	0	0	0	93	65
TOTAL LIABILITIES	\$Am	1	0	0	0	116	89
NET ASSETS	\$Am	9	7	75	120	5	129
Accumulated Profit (Loss)	\$Am	(13)	(16)	(20)	(21)	(13)	59
Reserves	\$Am	1	10	54	51	(72)	(95)
Contributed Equity	\$Am	21	22	41	90	90	90
Minority Interest	\$Am	0	0	0	0	0	0
Total Equity	\$Am	9	15	75	120	5	129
Section 4 - Cashflow							
Net Cashflow from operatio	\$Am	(3)	(6)	(10)	(6)	(4)	38
Net Interest Paid	\$Am	0	0	0	0	(6)	(10)
Taxes Paid	\$Am	0	0	0	0	(4)	(10)
Change in Working Capital	\$Am	0	(1)	0	0	(6)	(13)
OPERATING CASHFLOW	\$Am	(3)	(7)	(10)	(6)	(17)	12
Exploration Expenditures	\$Am	(4)	(1)	(1)	0	0	0
Maintenance Capex	\$Am	0	0	0	0	(4)	(4)
Expansion Capex	\$Am	0	0	0	(57)	(20)	0
PPE Acquisitions (Total Capex)	\$Am	(4)	(1)	(1)	(57)	(20)	(4)
PPE Divestments	\$Am	0	0	59	0	0	0
INVESTING CASHFLOW	\$Am	(4)	(1)	58	(57)	(20)	(4)
Change in Equity	\$Am	0	0	19	50	0	0
Dividends Paid	\$Am	0	0	0	0	0	0
Change in Debt	\$Am	0	0	0	118	(25)	(27)
FINANCING CASHFLOW	\$Am	0	0	19	50	118	(25)
Free Cashflow	\$Am	(6)	(8)	48	(63)	(36)	8
Net Cashflow	\$Am	(6)	(8)	67	(13)	81	(3)
Commodity price assumptions							
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	140	138	153	169	170	170
GBP - USD		1.584	1.600	1.600	1.600	1.600	1.600
Lochinvar blend	US\$ / t	125	123	135	148	149	149
Mine Production (100% basis)							
RoM coal	000 t	0	0	0	270	1,316	1,350
Coal sold	'000 t	0	0	0	149	930	1,013
NAE share							
RoM coal	000 t	100 %	93 %	70 %	70 %	70 %	70 %
Coal sold	'000 t	0	0	0	189	921	945
Coal sold	'000 t	0	0	0	104	651	709
Resources							
Coal Seam		Inferred Resource	I M	RoM Coal Analysis			
Nine Foot seam	78 Mt	2.4 %	10.4 %	Ash	Vol.	S	CSN
Six foot seam	34 Mt	3.0 %	11.0 %	32.6 %	2.1 %	2.1 %	6.5
Five foot seam				32.0 %	3.5 %		6.5
TOTAL	112 Mt						
Washed coal Analysis							
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
Blend	85 %	3.4 %	34.1 %	1.43 %	7.0	0.012 %	
Assumed mining inventory (50% of coal shallower than 600m)							
Coal Seam	RoM						
Nine Foot seam	25 Mt						
Six foot seam	13 Mt						
TOTAL	38 Mt						
Asset based Valuation							
discount rate = 12.0 %	30 June 2013						
	risking	100% Product		per share		10-Jun-14	
Lochinvar, NAE share	50 %	\$ 184m	\$ 92m	9.0 c	13.1 c		
Asset sale	50 %	\$ 47m	\$ 24m	2.3 c	2.3 c		
Corporate	100 %	(\$31m)	(\$31m)	(3.0c)	(3.0c)		
Exploration	75 %	(\$2m)	(\$1m)	(0.1c)	(0.3c)		
Cash / debt	100 %	\$ 5m	\$ 5m	0.5 c	0.5 c		
Cash to be raised	100 %	\$ 51m	\$ 51m	5.0 c	5.0 c		
TOTAL		\$ 254m	\$ 139m	13.6 c	17.5 c		
Shares on issue		258.3m	FPO shares	22.6m	options		
		54.0m	issued 2014	0.0m	exercised		
		710.0m	issued 2015				
Assumed Cash Costs, US \$t							
	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	
TOTAL	US\$ 68/t	US\$ 83/t	US\$ 66/t	US\$ 66/t	US\$ 66/t	US\$ 67/t	
Financial Ratios							
Year ended June		2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Revenue	\$Am	0	0	2	19	115	125
EBITDA	\$Am	(6)	(3)	(3)	(2)	3	58
EBIT	\$Am	(6)	(3)	(3)	(2)	2	53
NPAT (reported)	\$Am	(5)	(3)	(3)	(2)	(4)	34
Adjusted EPS (cps)		(3.0c)	(1.1c)	(0.5c)	(0.2c)	(0.4c)	3.3 c
EPS Growth (%)		62 %	54 %	60 %	(94%)		922 %
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	(1)	(2)	(5)	(13)	(7)	1
EV / EBITDA (x)	x	0	0	0	0	0	0
EV / EBIT (x)	x	0	0	0	0	0	0
Gearing (%)		0 %	0 %	0 %	98 %	58 %	34 %
Return on Assets		(48%)	(4%)	(1%)	2 %	33 %	30 %
Return on Equity		(21%)	(4%)	(1%)	(83%)	47 %	30 %
EBITDA Margin (%)	n/a	n/a	n/a	n/a	n/a	14 %	51 %
Interest Cover (x)	x	n/a	n/a	n/a	n/a	0.3	5.4
Substantial Shareholders							
Resource Capital Fund V LP		99,884,975	32.0 %				
Mr YAW Chee Siew		40,816,667	13.1 %				

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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.

Report prepared by : Pieter Bruinstroop pbruinstroop@beerandco.com.au

BEER & CO PTY LTD ABN 88 158 837 186,
AUTHORISED REPRESENTATIVE MELBOURNE VENTURE SECURITIES PTY LTD AFSL No. 224 313

Melbourne Office:
Suite 4, Level 2, Bank House
11 - 19 Bank Place,
Melbourne, Vic, Australia 3000
Telephone: (+613) 9600 3599
Facsimile: (+613) 9602 2291
Email: info@beerandco.com.au
Web: www.beerandco.com.au