

1.5 Mt/yr UK coking coal, from 2017

Indicated Resource announced.

Coal quality confirmed.

Recommendation

BUY; High Risk

Price

2.4c

Valuation

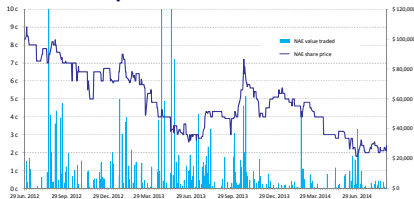
10.5c

- **NAE has announced its updated JORC Resource estimate of 111Mt, of which 49Mt is in the Indicated category.**
- **NAE has announced the results of coal quality analysis, confirming good coking coal.**
- **The results are in line with earlier published data, enhancing confidence in our modelling of Lochinvar.**
- **NAE is on track to produce its scoping study in October.**

Snapshot

Market Cap	\$7.5m
Shares on Issue	312.25m
Cash on hand (30 June 2014)	\$2.4m
52 Week High	7.2c
52 Week Low	1.8c
1 month / 6 month VWAP	2.3c / 2.4c

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 October 2014.

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Updated Resource in line with earlier Resource estimate

On 29 August 2014, NAE announced a revised Resource of 111Mt, of which 49Mt is in the Indicated category. This compares with the October 2013 Resource estimate of 112Mt of Inferred Resources.

Previously, NAE had an Exploration Target of 38Mt – 81Mt. NAE has revised this exploration target to 31Mt – 64Mt, though 15Mt – 27Mt of this new target comes from the Lochinvar South area which was not included in the previous target.

The increased confidence is the result of the infill drilling that NAE has executed. The fact that the total Resource is about the same gives us strong confidence in his resource estimate and Beer & Co's estimate of the mining inventory.

Coal quality confirmed

NAE also announced the results of coal quality testing which has been used for marketing of Lochinvar coal.

The results confirm that the Lochinvar coal washes to a good quality, low ash (5%), mid-vol (34%) coking coal, with good swell (CSN 7), at a yield of 75%. The only negative is that the Sulphur level is higher than desired, at 1.4%, but it is still a very saleable, blending coal.

Beer & Co has assumed that Lochinvar coal will sell for about 80% of the high quality, hard coking coal benchmark price; however, the quality suggests that this maybe conservative.

Beer & Co's risked valuation remains 10.5c.

Our base case valuation assumes that benchmark coking coal prices rise to US\$ 170/t by the time Lochinvar is in production, in early 2018.

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

We retain a BUY, High Risk recommendation.

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NAE : Indicated Resources

Revised Resource, 111Mt

NAE has announced a revised resource, of 111Mt

NAE announced its revised Resource estimate on 29 August, 2014. Figure 1 compares NAE's previous resource estimate, from October 2013, with the updated resources estimate and shows that the total is about the same, but the revised estimate now includes a significant proportion in the Indicated category.

Figure 1 : NAE's revised Resource estimate

NAE now has 49Mt in Indicated Resources

Coal Seam	October 2013	August 2014		
	Inferred	Indicated	Inferred	Total
Nine Foot seam	78 Mt	37 Mt	49 Mt	86 Mt
Six foot seam	34 Mt	13 Mt	13 Mt	26 Mt
TOTAL	112 Mt	49 Mt	62 Mt	111 Mt

Sources : NAE ASX announcements, 1 October 2013 and 29 August 2014, Beer & Co

NAE also announced an update of the exploration target for Lochinvar. As shown in Figure 2, the revised target is slightly lower than earlier target, with the low estimate now 31Mt compared with 38Mt and the high estimate now 64Mt compared with 81Mt.

Figure 2 : NAE's revised exploration target

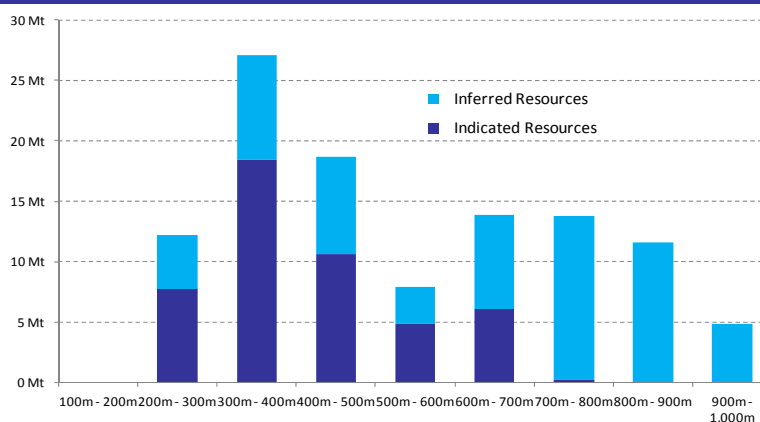
Coal Seam	Lochinvar		Lochinvar South		Total Exploration Target	
	October 2013	August 2014	March 2014	August 2014	Previous	Updated
Nine Foot seam	6 Mt - 10 Mt	2 Mt - 20 Mt	10 Mt - 34 Mt	15 Mt - 27 Mt	16 Mt - 44 Mt	17 Mt - 47 Mt
Six foot seam	7 Mt - 13 Mt	0 Mt - 0 Mt			7 Mt - 13 Mt	0 Mt - 0 Mt
Five foot seam	15 Mt - 24 Mt	14 Mt - 17 Mt			15 Mt - 24 Mt	14 Mt - 17 Mt
TOTAL	28 Mt - 47 Mt	16 Mt - 37 Mt	10 Mt - 34 Mt	15 Mt - 27 Mt	38 Mt - 81 Mt	31 Mt - 64 Mt

Sources : NAE ASX announcements, 1 October 2013, 3 March and 29 August 2014, Beer & Co

Figure 3 shows that the Indicated Resources are generally shallower, while the deeper coal is Inferred, demonstrating a successful outcome of the drilling.

The Indicated Resources are generally shallower and the Inferred Resources generally at greater depth

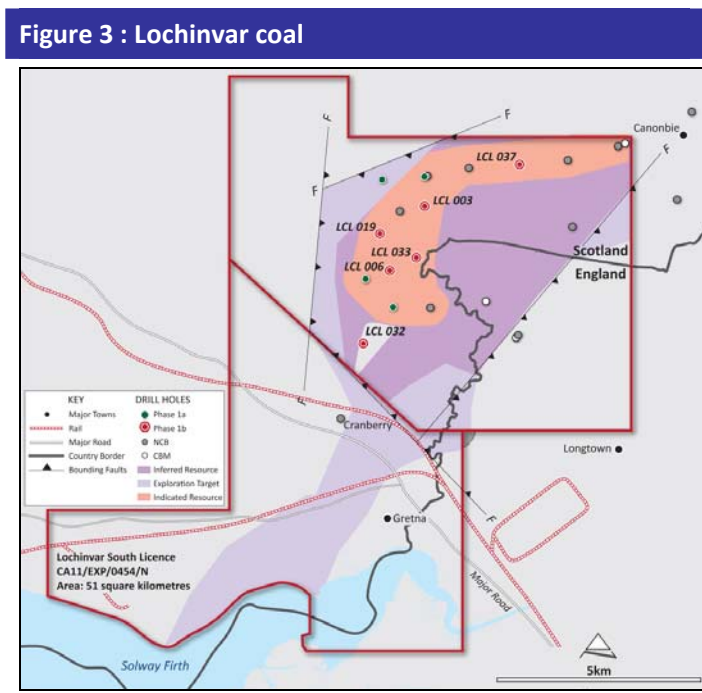
Figure 3 : Distribution of Resources by depth



Source : NAE ASX announcement, 29 August 2014, Beer & Co

Figure 4 shows the distribution of the Resources; it shows that the area with most drilling is in the Indicated category. It also shows a small area around LCL 032, in the south of the Lochinvar licence area, that is not included in the Resource. This hole intercepted a coal seam of a thickness of 700mm, with a coal thickness of about 590mm. This was deemed to be too thin to be included in the resources estimate, which has a minimum thickness of 1200mm.

NAE's Indicated Resources are defined by the recently completed infill drilling programme.



Source : NAE ASX announcement, 29 August 2014

Coal Quality

Lochinvar coal quality is confirmed

The Lochinvar coal has been classified (see earlier Beer & Co research - http://beerandco.com.au/wp-content/uploads/2014/01/NewAgeExploration_2014January.pdf) as a good quality, mod-vol coking coal, though with sulphur levels higher than benchmark.

Figure 4 shows the previous raw quality analysis, while Figure 5 shows the most recent raw coal analysis data. Figure 5 is very consistent with Figure 4, giving us confidence in the coal analysis and its quality.

Figure 4 : Lochinvar raw coal quality, October 2013, air dried

Coal Seam	Moisture	In Situ Analysis			CSN
		Ash	Volatiles	Sulphur	
Nine Foot seam	2.4 %	10.4 %	32.6 %	2.1 %	6.5
Six foot seam	3.0 %	11.0 %	32.0 %	3.5 %	6.5

Source : NAE ASX announcement 1 October 2013, Beer & Co

Figure 5 : Lochinvar raw coal quality, August 2014, air dried

Coal Seam	Moisture	In Situ Analysis			CSN
		Ash	Volatiles	Sulphur	
Nine Foot seam	2.5 %	13.2 %	31.9 %	2.2 %	6.0
Six foot seam	2.7 %	10.0 %	32.0 %	2.3 %	7.0

Source : NAE ASX announcement, 29 August 2014, Beer & Co

Figure 6 shows the quality of washed Lochinvar coal; ie the saleable product.

Figure 6 : Lochinvar washed coal quality

Yield	75 %	
Moisture	3.0 %	(air dried)
Ash	5.0 %	(air dried)
Volatile matter	34.0 %	(air dried)
Total Sulphur	1.4 %	(air dried)
CSN	7	
Gray_king Coke type	G6	
Phosphorous	0.007 %	(air dried)
Energy	7,775	kCal/kg (air dried)
Vitrinite content	70 %	
Vitrinite reflectance	0.84 %	R ₀ Max

Source : NAE ASX announcement, 29 August 2014, Beer & Co

Lochinvar washes to a good product, with low P, high vitrinite, good swell, low ash.

It's sulphur levels makes it saleable as a product used in a blend of coking coals

Figure 6 shows that the product coal is a mid vol coal, with good swell, low Phosphorous, high in vitrinite and low in ash.

Figure 6 also shows that while the sulphur level is above benchmark it is still a saleable product used in a blend of coking coals.

The results also show a good yield from Run of Mine, or raw, coal to product.

Valuation impact

Beer & Co's base case valuation remains 10.5c/share, as shown in Figure 7.

Scoping Study

The release of the Indicated Resource assessment confirms that NAE is on target to deliver the scoping study on Lochinvar in October.

At that time, Beer & Co will re-assess our cost assumptions, both capital and operating costs and revise our asset valuation.

We will also reduce the risk weighting that we have applied to our valuation, from taking only 40% of the derived NPV to 50% - 60%.

Mining Inventory

Beer & Co's valuation of NAE assumes 38Mty of run of mine coal is mined. This is equivalent to 50% if the Indicated Resource plus 20% of the Inferred Resource.

In our view, our estimates are likely to be conservative.

NAE is on track to publish the results of its scoping study in October

Beer & Co have assumed a mining inventory of 38Mty of raw coal.

The revised resource suggests we might be a little conservative.

Figure 7 : Beer & Co's base case valuation is 10.5c/share

Beer & Co's base case valuation remains 10.5c/share.

Our valuation is heavily risk weighted,.

Our risk weighting will be reduced when we have the results of the scoping study.

	discount rate = 12.0 %	risk :	30-Jun-13		3-Sep-14	
			100%	Product	per share	
Lochinvar, NAE share	40 %		\$ 152m	\$ 61m	4.5 c	7.6 c
Asset sale	40 %		\$ 75m	\$ 30m	2.2 c	2.2 c
Corporate	100 %		(\$ 21m)	(\$ 21m)	(1.6c)	(1.6c)
Exploration	100 %		(\$ 2m)	(\$ 3m)	(0.2c)	(0.2c)
Cash / debt	100 %		\$ 5m	\$ 5m	0.4 c	0.4 c
Cash to be raised	80 %		\$ 36m	\$ 29m	2.2 c	2.2 c
TOTAL			\$ 246m	\$ 101m	7.5 c	10.5 c
Shares on issue			258.3m	FPO shares	4.5m	options
			54m	issued 2014	0.0m	op. ex'd
			541m	issued 2015 & 16		
			489m	Issued 2017		

Source : Beer & Co estimates

Beer & Co have assumed that Lochinvar coal sells for about 80% of the premium quality benchmark.

The coal quality analysis suggests we could be a little conservative.

We have assumed a premium for location as the transport cost, especially to UK mills, will be much less.

The main risk factor is our assumed benchmark prime coking coal price, of \$170/t, though this is from 2017 and Lochinvar's first sales are projected for early 2018.

Coal Quality

In our analysis, we have assumed that the Lochinvar coal sells for 80% of the benchmark price. To this we have added a premium of \$12.50/t due to the lower transport cost form Lochinvar to its customers in the UK, and a smaller premium for mills in Europe.

Given the coal quality data, we feel that our estimate of 80% of benchmark may be conservative.

Conclusions

Beer & Co's analysis assumes that NAE gets Lochinvar into production early in 2018.

We are confident that coking coal prices will have recovered by that time and we have assumed that they will have reached US\$ 170/t by then.

In our view, this is the greatest risk in our valuation.

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

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

Beer & Co Research							
New Age Exploration (NAE.ASX)							
September 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	2	50
Interest revenue	\$Am	0	0	0	0	2	2
Other revenue	\$Am	0	0	0	0	0	0
Total Revenue	\$Am	0	0	0	0	4	52
Cost of Goods Sold	\$Am	0	0	0	0	(3)	(29)
Royalties	\$Am	0	0	0	0	(0)	(0)
Exploration Expense	\$Am	(3)	(0)	(0)	0	0	0
Corporate Costs	\$Am	(3)	(2)	(2)	(2)	(3)	(3)
Other Operating Expenses	\$Am	0	0	0	0	0	0
Total Operating Expenses	\$Am	(6)	(2)	(2)	(2)	(6)	(31)
EBITDA	\$Am	(6)	(2)	(2)	(2)	(2)	21
Dep'n & Amort'n	\$Am	0	0	0	0	(0)	(3)
EBIT	\$Am	(6)	(2)	(2)	(2)	(2)	18
Interest Expense	\$Am	0	0	0	0	(4)	(10)
Other	\$Am	0	0	0	0	0	0
Pre-Tax Profit	\$Am	(5)	(2)	(2)	(2)	(6)	8
Tax Expense	\$Am	0	0	0	0	1	(2)
NPAT	\$Am	(5)	(2)	(2)	(2)	(5)	7
Reported NPAT	\$Am	(5)	(2)	(2)	(2)	(5)	7
Section 2 - Key Data							
Ordinary shares - year end	m	258.3	312.2	588.8	853.8	1,343.1	1,343.1
Fully diluted shares on issue	m	258.3	312.2	588.8	853.8	1,343.1	1,343.1
Weighted #shares	m	258.3	274.6	519.9	787.6	1,098.5	1,343.1
Earnings per Share		(3.0c)	(0.9c)	(0.4c)	(0.2c)	(0.2c)	0.5 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	2	2	6	111	81
Receivables	\$Am	0	0	0	0	0	1
Other	\$Am	0	0	0	0	0	0
CURRENT ASSETS	\$Am	5	2	2	6	111	81
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	5	47	72
Other	\$Am	0	0	0	0	0	0
NON-CURRENT ASSETS	\$Am	5	6	7	7	49	74
TOTAL ASSETS	\$Am	10	8	8	13	160	171
Payables	\$Am	1	0	0	0	(0)	(3)
Debt	\$Am	0	0	0	0	0	22
Other	\$Am	0	0	0	0	0	0
CURRENT LIABILITIES	\$Am	1	0	0	0	(0)	19
Long Term Debt	\$Am	0	0	0	0	103	91
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	103	91
TOTAL LIABILITIES	\$Am	1	0	0	0	102	109
NET ASSETS	\$Am	9	8	8	13	160	53
Accumulated Profit (Loss)	\$Am	(13)	(16)	(18)	(20)	(21)	9
Reserves	\$Am	1	7	(1)	(7)	106	(1)
Contributed Equity	\$Am	21	22	28	41	75	75
Minority Interest	\$Am	9	13	9	13	160	53
Total Equity	\$Am	9	14	9	13	160	53
Section 4 - Cashflow							
Net Cashflow from operatio	\$Am	(3)	(5)	(6)	(8)	(7)	7
Net Interest Paid	\$Am	0	0	0	0	(4)	(10)
Taxes Paid	\$Am	0	0	0	0	0	1
Change in Working Capital	\$Am	0	(1)	0	0	(1)	(10)
OPERATING CASHFLOW	\$Am	(3)	(6)	(6)	(8)	(7)	(11)
Exploration Expenditures	\$Am	(4)	(1)	(1)	0	0	0
Maintenance Capex	\$Am	0	0	0	0	0	(2)
Expansion Capex	\$Am	0	0	0	(42)	(25)	0
PPE Acquisitions (Total Capex)	\$Am	(4)	(1)	(1)	0	(42)	(25)
PPE Divestments	\$Am	0	0	0	0	118	0
INVESTING CASHFLOW	\$Am	(4)	(1)	(1)	0	76	(2)
Change in Equity	\$Am	0	0	7	13	35	0
Dividends Paid	\$Am	0	0	0	0	0	0
Change in Debt	\$Am	0	0	0	0	103	9
FINANCING CASHFLOW	\$Am	0	0	7	13	35	9
Free Cashflow	\$Am	(6)	(7)	(7)	(8)	69	(13)
Net Cashflow	\$Am	(6)	(7)	(1)	4	104	(4)
Commodity price assumptions							
Year ended June		2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
AUD-USD		0.892	0.916	0.863	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	0	50	950
Coal sold '000 t	000 t	0	0	0	0	26	574
NAE share							
RoM coal	000 t	0	0	0	0	25	475
Coal sold '000 t	000 t	0	0	0	0	13	287
Resources							
Coal Seam		Inferred Resource	I M	Ash	Vol.	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	
TOTAL	112 Mt						
Washed coal Analysis							
Coal Seam		Yield	Ash	Vol.	S	CSN	P
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				3-Sep-14	
		risking	100% Product	per share			
Lochinvar, NAE share	40 %	\$ 152m	\$ 61m	7.1 c	7.6 c		
Asset sale	40 %	\$ 75m	\$ 30m	3.5 c	2.2 c		
Corporate	100 %	(\$21m)	(\$21m)	(2.5c)	(1.6c)		
Exploration	100 %	(\$2m)	(\$2m)	(0.2c)	(0.2c)		
Cash / debt	100 %	\$ 5m	\$ 5m	0.6 c	0.4 c		
Cash to be raised	80 %	\$ 36m	\$ 29m	3.4 c	2.2 c		
TOTAL		\$ 246m	\$ 102m	12.0 c	10.5 c		
Shares on issue		258.3m	FPO shares	4.5m	options		
		54.0m	issued 2014	0.0m	exercised		
		540.6m	issued 2015				
Assumed Cash Costs, US \$/t							
LoM	2016-17	2017-18	2018-19	2019-20	2020-21		
Mining	24	0	42	31	23	22	
Processing	13	0	42	17	12	12	
Tech. Services	5	0	50	11	5	5	
Site Admin	3	0	26	7	3	3	
Transport	20	0	8	12	19	20	
C1 Total	65	0	168	78	63	62	
Royalties	0.4	0.0	0.5	0.4	0.4	0.4	
Sustaining Capital	10	0	6	6	5	5	
Quality / Location	22	0	22	22	22	22	
TOTAL	US\$ 97/t	US\$ 0/t	US\$ 196/t	US\$ 106/t	US\$ 90/t	US\$ 89/t	
Financial Ratios							
Year ended June		2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Revenue	\$Am	0	0	0	1	4	52
EBITDA	\$Am	(6)	(2)	(2)	(2)	(2)	(2)
EBIT	\$Am	(6)	(2)	(2)	(2)	(2)	(2)
NPAT (reported)	\$Am	(5)	(2)	(2)	(2)	(2)	(5)
Adjusted EPS (cps)		(3.0c)	(0.9c)	(0.4c)	(0.2c)	(0.2c)	(0.4c)
EPS Growth (%)			71 %	52 %	40 %	34 %	(139%)
DPS (c)	0.0 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)	(3)	(6)	(10)	(15)	(6)
EV / EBITDA (x)	x	0	0	0	0	0	0
EV / EBIT (x)	x	0	0	0	0	0	0
Gearing (%)		0 %	0 %	0 %	0 %	66 %	66 %
Return on Assets	(29%)	(28%)	(16%)	(1%)	(1%)	11%	11%
Return on Equity	(18%)	(27%)	(16%)	(1%)	(10%)	11%	11%
EBITDA Margin (%)	n/a	n/a	n/a	n/a	n/a	n/a	(94%)
Interest Cover (x)	x	n/a	n/a	n/a	n/a	n/a	(0.6)
Substantial Shareholders							
Resource Capital Fund V LP		99.9m	31.9 %				
Mr YAW Chee Siew		40.8m	13.0 %				

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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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