

385kt/yr of high grade, strongly demanded anthracite

First product in early 2019; 18month pay-back

Recommendation

Strong BUY, High Risk

Price

0.6c

Risked, NPV based Valuation

1.5c

Commodity

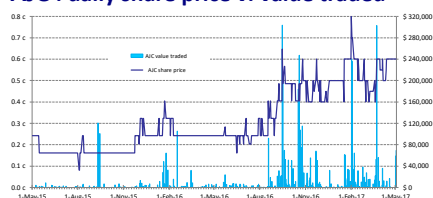
Anthracite

- **AJC announced the acquisition of the Riversdale Anthracite Colliery, in South Africa, in October 2016. A Feasibility had been completed on RAC in 2006.**
- **In March 2017, the promoters of RAC, who are very experienced in this area, became the management of AJC.**
- **On 1 May, AJC announced the results of its PFS. A decision to proceed with mine development is expected in early 2018, with first product early in 2019.**
- **Project capital cost is expected to be AUD 24m to produce 520kt/yr (100% basis) of high grade anthracite with an All-In Cost of just over \$A 70/t, compared with expected average revenue of \$A 150/t.**

Snapshot

Market Cap	\$9.6m
Cash on hand (31 March 2017)	\$1.46m
Shares on Issue	1,599m
52 Week High	0.8c
52 Week Low	0.2c
1 month / 6 month VWAP	0.59c / 0.58c

AJC : daily share price v. value traded



AJC announced the acquisition of Coalvent, which had an option to acquire RIO's 74% share of the Riversdale Anthracite Colliery (RAC), in South Africa, in October 2016. Consideration was 250m AJC shares plus a potential further 600m performance shares, and payments to RIO of ZAR 38m.

The Coalvent management team were Riversdale Mining when its focus was RAC and a similar project, leaving when RIV's focus became its Mozambique project.

Anthracite is high rank coal and good quality anthracite is used for metallurgical purposes, with a strong demand in South Africa for the production of ferro-chrome and similar products.

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AJC Acquires the Riversdale Anthracite Colliery (RAC)

The RAC was one of the original assets of Riversdale Mining (RIV.ASX). The intention was to bring RAC into production to provide cashflow and prove operational expertise that could be used to develop more significant assets. The original management left RIV when it made Mozambique its main focus. Following RIO's acquisition and then exit from RIV, the RAC project was "lost". The original management, which had come from RIO, reached agreement to acquire RAC from RIO, and then to vend it into AJC.

High quality anthracite; in demand

Anthracite is high rank coal, with volatiles below 10% for high value anthracite, and fixed carbon above 70%, up to 85%.

South African metallurgical processing, for ferro-chrome, ferro-manganese and titaniferous slag, consumes over 2Mt/yr. While supply is currently adequate, it is projected to fall significantly, especially for higher quality anthracites, due to resource depletion.

The alternative feed is blast furnace coke.

RAC is nearly ready to go

RAC has a granted Mining Lease. It requires a water licence to begin operations and AJC is about to apply for one. Grant is expected mid 2018. A feasibility study was completed on RAC in 2006. AJC is updating this study. AJC already has off-take as non-binding MoUs, and the final feasibility study, with metallurgical test-work and greater geological certainty, will convert the MoUs into agreements.

Project pay-back period just over 18 months

The RAC project is well known to AJC management. Costs are subdued due to mine closures in KwaZulu-Natal.

Beer & Co.'s risked valuation is 1.5c/share; Strong BUY.

There is significant upside potential to our valuation from successful execution and firmer product markets.

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Acacia Coal (AJC.ASX)

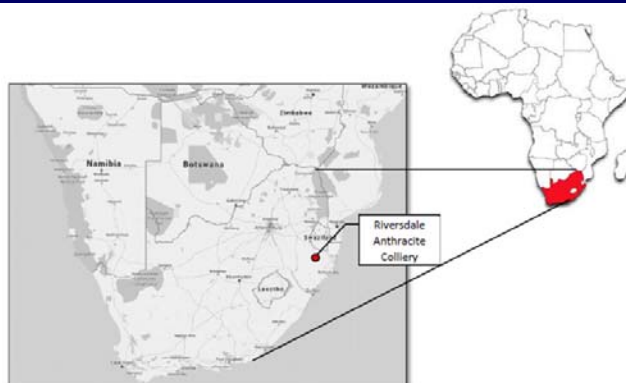
Riversdale Anthracite Colliery (RAC)

AJC announced the agreement to acquire a 74% stake in RAC in October 2016, which was then owned by Rio Tinto.

As shown in Figure 1, RAC is in KwaZulu Natal, in South Africa.

AJC's focus is the Riversdale Anthracite Colliery, which is in KwaZulu-Natal province, in South Africa

Figure 1 : Riversdale Anthracite Colliery - location



Source : Acacia Coal (AJC.ASX)

Consideration was :

- Payment of 250m fully paid AJC shares to Coalvent, the party that had reached agreement with RIO to acquire RAC and brought it to AJC;
- Payment of further tranches of performance shares, of 250m and 350m, when milestones were reached; and
- A total payment to RIO and its BEE partner of ZAR 38m (about \$A 3.5m) in 3 tranches, the first of which was a 10% deposit and the final payment after all approvals in place, including Ministerial approval for the change in ownership.

RAC is on a granted Mining Lease

RAC Project

RAC has a granted Mining Lease, but requires a Water licence before it can begin development.

The AJC management lead a feasibility study on this asset in 2006

RAC was part of Riversdale Mining, and a Bankable Feasibility Study was completed in 2006, influenced by RIV's nearby operating mine, Zululand Anthracite Colliery (ZAC).

An operated a very similar asset nearby

The management of RIV at that time, which left RIV when its focus shifted to Mozambique, is the Coalvent team that approached RIO to sell the asset in 2016.

Resources

AJC announced updated Mineral Resource Estimates on 19 April 2017, including most metallurgical qualities. This is shown in Figure 2.

Figure 2 : RAC Mineral Resource Estimate

	Gross coal	total coal	MJ/kg	Raw Coal Measures				
				Ash	Moisture	Volatiles	Fixed C	Sulphur
Measured	2,291,300 t	2,062,200 t	26.42	20.2 %	1.99 %	7.84 %	69.9 %	0.74 %
Indicated	5,953,500 t	5,034,900 t	25.10	22.1 %	2.50 %	7.92 %	67.5 %	1.03 %
M + I	8,244,800 t	7,097,100 t	25.48	21.5 %	2.35 %	7.89 %	68.2 %	0.95 %
Inferred	1,307,100 t	980,300 t	24.29	25.3 %	2.37 %	7.93 %	64.4 %	0.63 %
TOTAL	9,551,900 t	8,077,400 t	25.34	22.0 %	2.35 %	7.90 %	67.7 %	0.91 %

Source : AJC ASX announcement, 19 April 2017

Coal resources, JORC 2012 compliant, total 8.1Mt

Figure 2 shows total Resources of 9.6Mt. Figure 3 shows the MRE for product coal, including the washery yield, and this shows potentially saleable coal totalling 6.5Mt, of which 5.7Mt is in the Measured and Indicated categories.

Figure 3 : RAC Resources, product coal

	Gross coal	total coal	Yield	net coal	Product Coal Measures					
					MI/kg	Ash	Moisture	Volatiles	Fixed C	Sulphur
Measured	2,291,300 t	1,804,800 t	88.6 %	1,598,382 t	29.65	16.0 %	1.82 %	8.07 %	74.11 %	0.76 %
Indicated	5,953,500 t	4,761,700 t	86.1 %	4,098,463 t	28.70	16.0 %	2.12 %	8.37 %	73.51 %	0.62 %
M + I	8,244,800 t	6,566,500 t	86.8 %	5,696,845 t	28.97	16.0 %	2.03 %	8.29 %	73.68 %	0.66 %
Inferred	1,307,100 t	1,111,000 t	75.4 %	837,280 t	28.21	16.0 %	2.01 %	9.13 %	72.85 %	0.60 %
TOTAL	9,551,900 t	7,677,500 t	85.1 %	6,534,125 t	28.87	16.0 %	2.03 %	8.40 %	73.57 %	0.65 %

Source : AJC ASX announcement, 19 April 2017

Figure 3 shows that AJC expects to produce low volatile anthracite, with less than 10% volatiles, low sulphur, with over 70% fixed carbon.

Mining

Figure 4 show detail behind the resource estimate, showing the blocks included in the Resource estimate. The different colours show areas that are separated by geological features, such as faulting or thrusts.

Figure 4 : RAC Resource Estimate

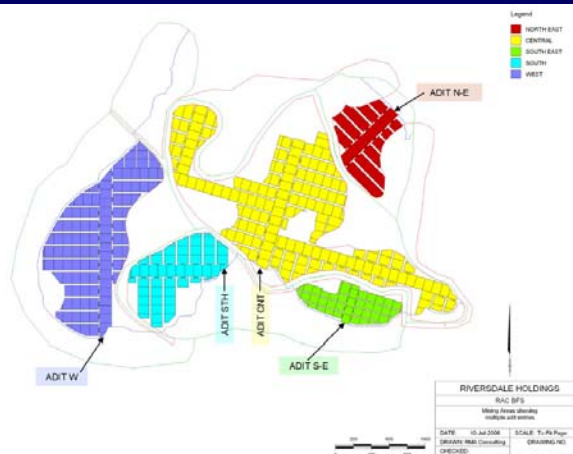
The resource estimate is based on blocks defined by geological features, dykes, sills and faulting.

Mining will be done by drill and blast

It has a highly competent sandstone roof

Drill & blast will enhance production of higher value lump, as opposed to fines

There is a wealth of operator experience in the area



Source : AJC Presentation, February 2017

The resource is based on seam height of at least 0.8m, but the seams average 1.2m over the resource.

The coal has a sandstone roof, making open cut mining difficult.

Mining will be done by drill and blast to ensure than the coal is not overly broken, given the premium for lump over fines.

Mining will be done using 3 adits, at any one time, as indicated in Figure 4, with 2 sections off each adit.

Anthracite - description

Anthracite is the highest rank of coal, with low volatile content, below 10% for high rank anthracite, and high fixed carbon, above 70%. It is clean and smokeless, with higher value applications as a reductant.

The geological conditions to produce anthracite are relatively rare, so global annual production of high grade anthracite is only about 25Mt.

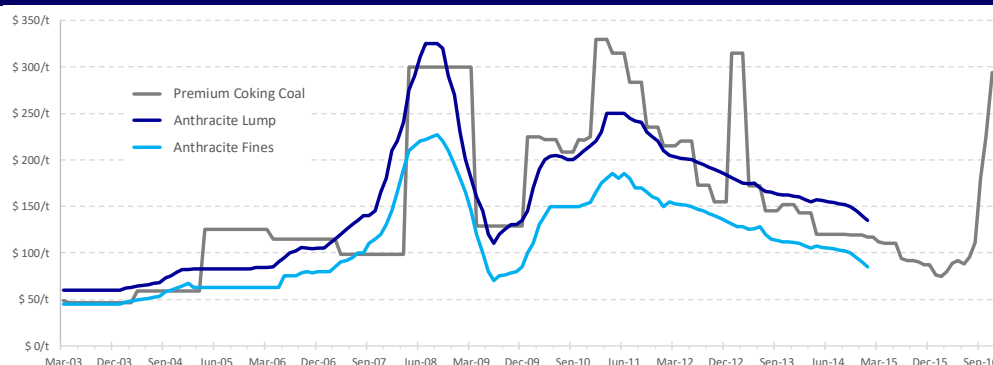
The alternative to high grade anthracite as a metallurgical reductant is coke.

High grade anthracite is used as an alternative to metallurgical coke

Metallurgical coke is produced from coking coal, so trades at a premium to High Quality Hard Coking Coal (HQHCC). Figure 5 shows that the price for anthracite lump is related to the price for HQ HCC. Analysis of the data shows that

- Over the period shown, lump anthracite has traded at a premium of 6% to HQ HCC, despite HQ HCC being more volatile with higher highs; and
- Anthracite fines have traded at 73% of the lump price, though it has tended to be lower in the later years for which we have data.

Figure 5 : Anthracite pricing v. High Quality hard Coking Coal



Source : Resource-Net, Acacia Coal, Beer & Co

Which is why the anthracite lump price moves with the HQ HCC price

Beer & Co project the Long Run price of HQ HCC to be US\$ 150/t (or \$A 200/t).

Given that RAC product will be 16% ash, compared with low ash product for HQ HCC and from the ZAC, Beer & Co assumes that the L-R price of RAC's lump anthracite product will be \$135/t, despite its low S, at 0.7% compared with 1.0% benchmark, and low P, at 0.007% compared with a limit of 0.02% (ie. 3x as much). Only a small proportion of south African production meets this limit.

There is strong demand in South Africa for anthracite in the production of ferro-chrome, ferro-manganese, titaniferous slag and aluminium.

Anthracite - demand

There are a range of demands in the South African metallurgical industry.

RAC's product is too high in ash to supply the titaniferous slag industry (Richards Bay Minerals, a subsidiary of RIO, and Tronox). However, especially with its low P and S levels, it is the best product for the ferro-chrome (FeCr) industry, which produces about 4.0Mt.yr of FeCr, consuming about 2.6Mtyr of anthracite.

Development of RAC

On 1 May 2017, AJC announced the summary results of its PFS to the ASX.

AJC will lodge their application for a water licence in the very near future. AJC maintains that this will be granted as RAC already has a granted Mining Licence, but it is expected it will be about June 2018 by the time the water licence is granted.

AJC expect to have completed their BFS well before June 2018, so that finance for development can be secured immediately upon the grant of the water licence.

RAC has a granted Mining Licence.

To begin development, a water licence is required

AJC is about to apply for a water licence and expects it will take about 12 months to be granted

Mining Inventory

Figure 3 showed the Mineral Resource Estimate for AJC's RAC project :

- 9.6Mt of total resources of which 8.2Mt is coal; for
- 8.2Mt of Measured plus Indicated resources, of which 5.7Mt is coal.

By definition, Ore Reserves are based on M+I Resources.

AJC based their PFS on Measured and Indicated Resources, adjusted for mining factors.

Beer & Co expects more material will be produced

Beer & Co.'s estimated mining inventory is based on RAC's M+I Resources, adjusted for

- AJC will be successful in bringing more coal into Measured plus Indicated resources, some from the present Inferred resources, with a greater density of drilling and some from the other seams at RAC; and
- Some allowance needs to be made for the material presently in Resources that is not able to be economically mined, due to factors such as seam height, continuity or distance from development.

Taking these factors into consideration gives Beer & Co.'s mining inventory which is shown in Figure 6.

Figure 6 : RAC Mining Inventory

	Resources	Blocked	ex Pillars	Product
Measured	1,805 kt	1,657 kt	1,515 kt	1,013 kt
Indicated	4,762 kt	4,371 kt	3,997 kt	2,672 kt
Inferred	1,111 kt	944 kt	864 kt	561 kt
Extensions	1,500 kt	1,238 kt	1,132 kt	736 kt
TOTAL	9,178 kt	8,209 kt	7,507 kt	4,981 kt

Source : Beer & Co estimates

Capital and Operating Costs

The PFS estimated total project capital cost, including the feasibility study, of \$A 24.4m

In their PFS, AJC estimated project capital cost of \$A 24.4m as shown in Figure 7.

This amount is constrained by out-sourcing the process plant and some mining.

Fig 7 : Cap.Ex

AUD m	Full Cost	Net Cost	Project	Sustaining
Feasibility	1.05	1.05	1.05	
Mining	31.93	21.95	14.10	7.85
Process	11.19	0.00		
Infrastructure	9.25	9.25	9.25	
TOTAL	53.42	32.25	24.40	7.85

Source : AJC PFS, May 2017

This is to produce 780kt/yr of Run of Mine (RoM) coal, which is washed to produce, on average, 520kt/yr of product coal, as shown in Figure 8.

Figure 8 : Beer & Co.'s expected production from RAC

	LoM	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Coal mined	8,209 kt	254 kt	781 kt	781 kt	781 kt	781 kt	781 kt	781 kt	781 kt	781 kt	781 kt	781 kt	144 kt
Coal processed	8,209 kt	225 kt	781 kt	781 kt	781 kt	781 kt	781 kt	781 kt	781 kt	781 kt	781 kt	781 kt	174 kt
Washery yield, primary	67 %	67 %	67 %	67 %	67 %	67 %	67 %	67 %	67 %	67 %	67 %	67 %	67 %
Product - Lump	2,871 kt	79 kt	273 kt	273 kt	273 kt	273 kt	273 kt	273 kt	273 kt	273 kt	273 kt	273 kt	61 kt
Product - Fines	2,616 kt	72 kt	249 kt	249 kt	249 kt	249 kt	249 kt	249 kt	249 kt	249 kt	249 kt	249 kt	55 kt

Source : Beer & Co estimates

Figure 9 shows Beer & Co.'s estimated operating costs for the RAC over time.

Figure 9 : Beer & Co.'s projected operating costs for RAC

	LoM	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
MINING	R 386/t	R 473/t	R 384/t	R 384/t	R 384/t	R 384/t	R 384/t	R 384/t	R 384/t	R 384/t	R 384/t	R 384/t	R 338/t
Overhead	R 14/t	R 26/t	R 14/t	R 14/t	R 14/t	R 14/t	R 14/t	R 14/t	R 14/t	R 14/t	R 14/t	R 14/t	R 16/t
PROCESSING	R 127/t	R 149/t	R 126/t	R 126/t	R 126/t	R 126/t	R 126/t	R 126/t	R 126/t	R 126/t	R 126/t	R 126/t	R 131/t
SITE G & A	R 32/t	R 53/t	R 29/t	R 29/t	R 29/t	R 29/t	R 29/t	R 29/t	R 27/t	R 27/t	R 27/t	R 27/t	R 176/t
TRANSPORT	R 6/t	R 6/t	R 6/t	R 6/t	R 6/t	R 6/t	R 6/t	R 6/t	R 6/t	R 6/t	R 6/t	R 6/t	R 6/t
C 1 Costs	R 565/t	R 707/t	R 560/t	R 560/t	R 560/t	R 560/t	R 560/t	R 560/t	R 557/t	R 557/t	R 557/t	R 557/t	R 667/t
ROYALTIES	R 92/t	R 92/t	R 92/t	R 92/t	R 92/t	R 92/t	R 92/t	R 92/t	R 92/t	R 92/t	R 92/t	R 92/t	R 92/t
SUSTAINING CAPITAL	R 22/t	R 0/t	R 20/t	R 26/t	R 26/t	R 26/t	R 26/t	R 26/t	R 26/t	R 26/t	R 26/t	R 0/t	R 0/t
All In Costs	R 678/t	R 857/t	R 706/t	R 713/t	R 713/t	R 713/t	R 713/t	R 713/t	R 707/t	R 707/t	R 707/t	R 681/t	R 940/t

Source : Beer & Co estimates

As the process plant is out-sourced, plant operating costs are higher than they might otherwise be.

Also, mining is to be drill & blast rather than by mechanical means. This saves on capital costs and produces a higher proportion of lump, boosting revenue. The competency of the sandstone roof coupled with generally thin seams and readily available skills also makes open cut mining comparatively less attractive.

Finally, Figure 8 shows a ramp up in mining and processing so that there is some material processed in the final year when there is no mining, and the final year reports a mine closure charge, of ZAR 17m, against Site G&A.

RAC Valuation

Figure 10 shows Beer & Co.'s projected cashflows for RAC, based on the pricing shown around Figure 5, production shown in Figure 8 and costs shown in Figure 9.

Figure 10 : Beer & Co financial projections for RAC

ZAR m	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Product - Lump	0 kt	79 kt	273 kt	273 kt	273 kt	273 kt	273 kt	273 kt	273 kt	273 kt	273 kt	273 kt	61 kt
Product - Fines	0 kt	72 kt	249 kt	249 kt	249 kt	249 kt	249 kt	249 kt	249 kt	249 kt	249 kt	249 kt	55 kt
Revenue	0	229	797	797	797	797	797	797	797	797	797	797	177
Cash Costs	0	(106)	(292)	(314)	(314)	(314)	(314)	(314)	(313)	(313)	(313)	(313)	(83)
Royalties	0	(14)	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(11)
Dep'n & Amort'sn	0	(10)	(36)	(47)	(50)	(50)	(50)	(50)	(42)	(14)	(14)	(14)	0
E B I T	0	99	421	389	385	385	385	385	395	423	423	423	83
Interest Expense	0	(3)	(10)	(6)	(2)	(0)	0	0	0	0	0	0	0
Tax Expense	0	(27)	(115)	(107)	(107)	(108)	(108)	(108)	(111)	(118)	(118)	(118)	(23)
N P A T	0	59	259	229	225	227	227	227	243	291	291	291	60
Feasibility / permitting	9	0	0	0	0	0	0	0	0	0	0	0	0
Project Cap. Ex	146	98	0	0	0	0	0	0	0	0	0	0	0
Sus Cap. Ex	0	0	10	14	14	14	14	14	14	14	14	0	0
Un-gear'd Net Cashflow	(155)	12	323	274	274	273	273	273	274	272	272	281	47
Net Cashflow to Equity	(131)	100	284	235	235	273	273	273	274	272	272	281	47

Source : Beer & Co estimates

Beer & Co estimate the NPV of the RAC project, discounting the after-tax cashflows at a rate of 12%, to be \$A 114m.

AJC has 74% of the project, with a BEE partner having the other 26%

The NPV, using a discount rate of 12% on the real, after-tax cashflows shown in Figure 10 is ZAR 1,150m, or \$A 114m (or \$A 115m using the geared cashflows).

Projected Cashflows for AJC

RAC is AJC's focus project. However :

- AJC has other assets and liabilities apart from the RAC project; and
- AJC has only a 74% economic interest in the RAC project, and is required to lend the capital required by its BEE partner the required funds.

Figure 11 shows the resulting cashflows for AJC projected by Beer & Co., in AUD terms.

Figure 11 : AJC projected cashflows

AUD m	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Sales revenue	0	0	17	58	58	58	58	58	58	58	58	58	58	13
Total Revenue	0	0	17	59	59	59	60	60	60	60	60	60	60	15
Cost of Goods Sold	0	0	(8)	(21)	(23)	(23)	(23)	(23)	(23)	(23)	(23)	(23)	(23)	(6)
Royalties	0	0	(1)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(1)
Corporate Costs	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(0)
EBITDA	(1)	(0)	7	33	32	32	33	33	33	33	33	33	33	8
Dep'n & Amort'sn	0	0	(1)	(3)	(3)	(4)	(4)	(4)	(3)	(1)	(1)	(1)	(1)	0
EBIT	(1)	(0)	6	30	28	28	29	29	29	30	32	32	32	8
Interest Expense	0	0	(0)	(1)	(0)	(0)	(0)	0	0	0	0	0	0	0
NPAT	(1)	(0)	4	21	20	20	21	21	22	23	23	23	23	6
Shares on Issue	903.9m	1,599m	5,253m	5,253m	5,603m	5,643m	5,643m	5,643m	5,643m	5,643m	5,643m	5,643m	5,643m	5,643m
Earnings per Share	(0.0c)	(0.0c)	0.1 c	0.4 c	0.4 c	0.4 c	0.4 c	0.4 c	0.4 c	0.4 c	0.4 c	0.4 c	0.4 c	0.1 c
Exploration + Feasibility	(0)	(1)	0	0	0	0	0	0	0	0	0	0	0	0
Maintenance Capex	0	0	0	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0
Expansion Capex	0	(11)	(7)	0	0	0	0	0	0	0	0	0	0	0
Repayment from BEE	0	0	3	1	0	0	0	0	0	0	0	0	0	0

Source : Beer & Co estimates

Figure 11 also shows Beer & Co.'s projected financing for AJC, including equity issued, both for new capital and also performance shares and options on issue.

Valuation of AJC

Figure 12 shows Beer & Co.'s risked, base case valuation of AJC.

Beer & Co.'s base case, risked valuation of AJC is 1.5c/share

Figure 12 : AJC base case, risked valuation

discount rate = 12.0 %		30 June 2016			3-May-17
	risk :	100%	Product	per share	
<u>Riversdale Anthracite Colliery</u>					
Measured Resources	85 %	\$ 19m	\$ 16m	0.3 c	0.4 c
Indicated Resources	85 %	\$ 44m	\$ 37m	0.7 c	0.8 c
Inferred Resources	70 %	\$ 7m	\$ 5m	0.1 c	0.1 c
Extensions	60 %	\$ 7m	\$ 4m	0.1 c	0.1 c
Secondary	60 %	\$ 0m	\$ 0m	0.0 c	0.0 c
Comet Ridge	nom	\$ 1m	\$ 1m	0.0 c	0.0 c
Corporate	100 %	(\$6m)	(\$6m)	(0.1c)	(0.1c)
Cash	100 %	\$ 1m	\$ 1m	0.0 c	0.0 c
Equity raisings	100 %	\$ 14m	\$ 14m	0.3 c	0.3 c
TOTAL		\$ 86m	\$ 72m	1.4 c	1.5 c
Shares on issue		903.9m	F P O share:	40.0m	Options
		695.2m	FY 17	40.0m	ex'd
		3,547.9m	FY 18		

Source : Beer & Co estimates

The risking applied by Beer & Co reflects uncertainty and this should be reduced over time as more work is done.

Comments

The RAC project is to produce a 16% ash, low volatile, high fixed carbon anthracite

The yield from raw coal to product is about 67%.

The tails can be treated to produce a high ash (30%) product that can be sold as a thermal coal (at an appropriate discount) into the export market

If done, this would then give an overall yield of about 87%

Comet Ridge

On 2 May 2017, AJC announced that Bowen Coking Coal Pty Ltd (BCC), a company that intended to list on the ASX, had advised AJC that it intended to exercise its option to acquire the Comet ridge project.

BCC had already paid a fee of \$50k to AJC and is to pay a further \$350k in cash, plus equity in BCC to the value of \$400k.

Secondary

The base case is a single stage wash to produce a 16% ash product, lump and fines. The tails of this process can be re-processed to produce a high ash (30%) product that can be sold into the thermal coal market, at an appropriate discount.

A single stage beneficiation (washing) of the raw coal achieves a recovery of only about 67% from raw coal to product, while a 2 stage process, producing 3 products (16% ash anthracite lump, 16% ash anthracite fines and a high ash thermal product) can a total recovery from raw coal to product of 85% - 87%, as shown in Figure 2.

Sensitivity Analyses

Figure 13 and 14 show the results of key sensitivities to Beer & Co.'s derived valuation.

Figure 13 : Sensitivities, risked

Anthracite price (lump)	PFS Case	Add Inferred	Add Extensions	Add secondary
US\$ 120/t	1.0 c	1.1 c	1.2 c	1.3 c
US\$ 135/t	1.3 c	1.4 c	1.5 c	1.6 c
US\$ 150/t	1.6 c	1.7 c	1.8 c	1.9 c

Source : Beer & Co estimates

Figure 14 : Sensitivities, Un-risked

Anthracite price (lump)	PFS Case	Add Inferred	Add Extensions	Add secondary
US\$ 120/t	1.1 c	1.2 c	1.4 c	1.5 c
US\$ 135/t	1.4 c	1.6 c	1.7 c	1.9 c
US\$ 150/t	1.7 c	1.9 c	2.1 c	2.2 c

Source : Beer & Co estimates

Discussion

The greatest sensitivity to our valuation is for the anthracite price.

Figure 12 showed that Beer & Co.'s analysis is based on projected cashflows for each asset, discounted to the present, which are then risked for uncertainty.

Figure 14 shows the value today if this risking is removed; in other words, the value if the project is executed as we expect.

In our base case, Beer & Co expect, as shown in Figure 6, that AJC will, over the life of the operations, extract more coal than is currently accounted for by Measured and Indicated Resources. Figures 13 and 14 show how this assumption adds to our base case valuation.

Extra mine life adds a little value, as does subsequent production of a high ash thermal product

Figures 13 & 14 show that commodity price is the key variable in our analysis.

We tested for other factors, including capital costs, operating cost estimates and exchange rates and the impact was less than for those shown.

Finally, our base case assumed 50% of the project cost is debt.

Increasing this to 65%, which we view as a high level given that \$A 20m of a \$A 45m project is already out-sourced, impacts on AJC's value by 0.17c in the base case, due to the lower number of shares that need to be raised.

Conclusions

Summary

The management of AJC knows this project well

The management of AJC is very familiar with this project, having managed secured the project previously, and, given their history with managing similar operations, investors can be confident in project delivery.

It has very relevant operating experience

The project has been bought from RIO, where it had been "lost", as its scale was too small to be part of RIO's consideration.

The product will be demanded as other anthracite supplies reach the end of mine life

The RAC will produce a moderate (16%) ash anthracite that is suitable for use in the production of ferro-chrome, which is a major industry in South Africa.

The project will come on-stream at a time when supply is tightening due to resource exhaustion.

Valuation

Beer & Co has modelled AJC's proposed operations for RAC, based on information in the PFS. After allowing for other assets and liabilities and also for financing, Beer & Co derives a base case risked valuation for AJC of 1.5c/share.

Beer & Co has tested our conclusion based on a range of sensitivities and we show significant upside potential. Also, our downside case still remains a significant premium to the current share price, with realistic upside much greater again.

Beer & Co is confident that AJC's management will be successful in investing the cashflows generated.

Investment Conclusion

Strong BUY

Beer & Co derives a valuation for AJC that is a multiple of the current share price, while there is good upside potential to Beer & Co.'s valuation.

High risk

Beer & Co initiates research on AJC with a Strong BUY recommendation.

Our risk rating is High, with our major risk concern being political risk.

Beer & Co is comfortable with all other risk parameters.

Strong BUY, High Risk.

AJC – Acquiring the RAC

Introduction

The company that is now Acacia Coal (AJC.ASX) has been listed on the ASX for more than 30 years, with differing names. The last name change was in December 2011, when the then Newlands Resources (NRL.ASX) changed to Acacia Coal.

Comet Ridge Coal Project

NRL was focussed on the Comet Ridge coal project, in the Bowen Basin, between Emerald and Blackwater, the acquisition of which it first announced in June 2010, with settlement in October 2010.

In October 2011, NRL announced a JORC 2004 compliant Mineral Resource Estimate of 150Mt, of which 50Mt was at a depth of 50m or less, and the balance no more than 150m below surface.

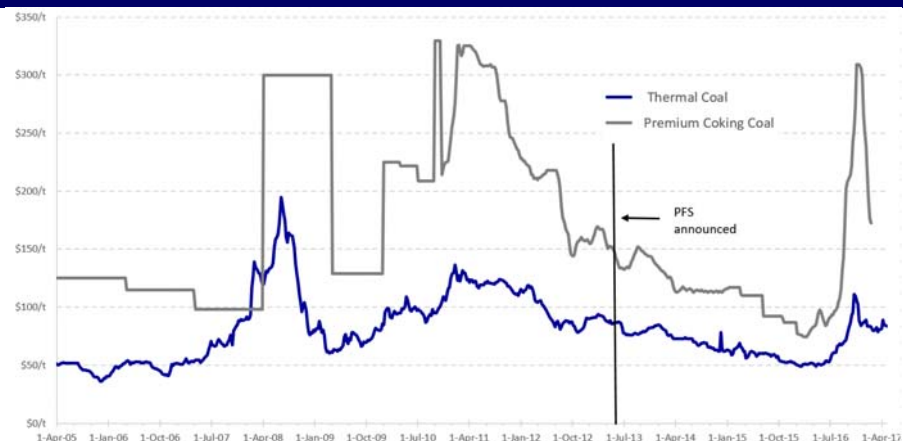
NRL then raised \$7m by way of a placement, supplemented by \$1.7m through a SPP.

On 6 March 2013, AJC announced the results of its Pre-Feasibility Study (PFS) on the Comet Ridge project. Key outcomes included :

- Resources of 66Mt within 50m of the surface, of which 16Mt was Indicated and the balance (50Mt) Inferred;
- Capital cost \$50m
- Produce 350kt/yr to 450kt/yr of product, with about 65% of the product being a semi-hard coking coal and the balance being a high ash, though otherwise benchmark, thermal coal
- Cash costs \$A 98/t loaded on the train, through a third-party loading facility; and
- \$A 120/t Free on Board cost.

However, as Figure 15 shows, coal prices softened after the PFS and it shows that the projected operations would not cover their FOB cash costs, given that each of the products would have sold at discounts of about 15% to the benchmark pricing shown in Figure 15, and that about a third of revenue was related to thermal coal prices.

Figure 15 : Weekly coal prices, 2005 to 2017



Source : Bloomberg, McCloskey, Beer & Co

Further, the third party whose loading facility AJC was to use (Bandanna Energy, BND.ASX), went into liquidation.

AJC lodged its Mining Lease Application on 27 March 2015, after 3 years of studies.

Riversdale Anthracite Colliery

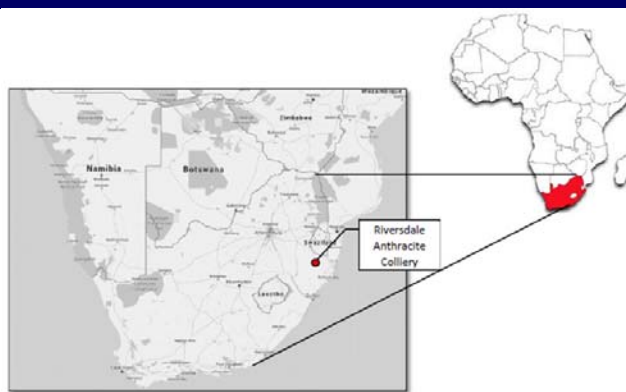
As the coal price was low and investor sentiment towards coal poor, in 2016 AJC focussed on conserving cash. In December 2015, a new Board was put in place and announced it was seeking a new project.

On 17 October 2016, AJC announced that it had entered a binding agreement to acquire a 74% interest in the Riversdale Anthracite Colliery (RAC) metallurgical coal project.

Background to RAC

As shown in Figure 16, RAC is in KwaZulu-Natal, South Africa. A condition of any South Africa project is that 26% is owned by black groups; this is referred to as Black Economic Empowerment (BEE).

Figure 16 : Riversdale Anthracite Colliery - location



Source : Acacia Coal (AJC.ASX)

The RAC project is owned by Riversdale Holdings, which was owned by Rio Tinto, acquired through their take-over of Riversdale Mining Limited (RIV.ASX) which was first announced in December 2010 and concluded in June 2011.

Coalvent, which was headed by the current management of AJC, approached RIO to purchase this asset. The management team of Coalvent had originally established Riversdale Mining, which was focused on the RAC project and a similar project (Zululand Anthracite Colliery), which is in the same region.

The Coalvent team left RIV when its focus shifted to the coking coal project in Mozambique that motivated RIO to bid \$A 3.9billion for RIV.

The same team had completed drilling and feasibility studies that demonstrated that RAC could produce a high grade, low impurity anthracite ideally positioned to service a South African anthracite market facing significant shortages in low impurity product, as well as product into the seaborne market for export.

RAC is situated in a granted Mining Lease. However, to begin production, it requires a Water Licence to be granted.

Details of Acquisition Agreement

The 26 October announcement included a number of conditions precedent for the acquisition, all of which have since been satisfied.

One condition precedent was that AJC raise \$2m. Of this, ZAR 3.4m was paid to RIO and its BEE partner as a deposit of 10%, with a further ZAR 7.5m to be paid upon Ministerial approval of the transfer in ownership, to acquire the asset.

The balance is to be paid on the sooner of 19 months from acquisition and grant of the final permit to begin development.

Further consideration included :

- Payment to the vendors 250m fully paid ordinary AJC shares (AJC was trading at 0.4c – 0.5c on the date of the announcement, given a value of \$1.0m to \$1.25m to the shares being issued);
- Issue to the vendors of a further 250m fully paid ordinary AJC shares upon the earlier of either :
 - (i) The necessary permits being granted to allow development to begin development, plus the completion of a Bankable Feasibility Study; or
 - (ii) The company selling its 74% interest in RAC for a value of at least \$A 50m; and
- Issue to the vendors of a further 350m fully paid ordinary AJC shares upon the earlier of either :
 - (i) RAC achieving three consecutive months of sales of at least 40,000t of product from RAC; and
 - (ii) The company selling its 74% interest in RAC for a value of at least \$A 70m;
- A payment of 16.67m new fully paid ordinary AJC shares to the parties that introduced this transaction.

Other agreements relevant to the acquisition include :

- Management of the vendor, Hugh Callaghan and Rob Scott are to be appointed to the Board of AJC as Managing Director and Executive Director, Finance, respectively; and
- AJC shall pay to RIO a final payment of ZAR 24m at the earlier of 19 months after receiving Ministerial approval for the transfer of ownership and grant of the water use licence.

Finally, AJC is to fund the new BEE partner, African Onca, for its share of capital and operating costs by way of a loan to be repaid out of the subsequent operating cashflows.

RAC Project

Description

Figure 16 showed that RAC is in KwaZulu-Natal, in South Africa. Figure 17 is a view of the project from the R34 highway, which is sealed, dual lane road. It shows that the project is contained in a hill, known as Kwa-Ntabankulu Mountain.

Figure 17 :The RAC project



Source : AJC Presentation, February 2017

The RAC is contained in the Vryheid Coalfield, which is one of three major coalfields in KwaZulu-Natal and one of the 19 coalfields found within the Karoo Sequence of South Africa.

The Karoo Sequence is a series of conformable sedimentary sequences deposited approximately 200 million years ago. Karoo sedimentary sequences are capped by a thick series of flood basalts referred to locally as the Drakensberg basalts.

Figure 18 shows a much close view of the project. The dark coal seams can be seen, capped a sandstone layer.

Figure 18 :The RAC project, close up



Source : AJC Presentation, February 2017

Geology

A total of 5 coal seams have been identified by the drilling of vertical boreholes as well as sampling and mining at other locations within the Vryheid Coalfield.

These seams are thin, generally less than 1.5m in thickness.

Coal qualities are impacted by the emplacement of post-Karoo age sills and dykes, which have de-volatilised the coals to varying degrees.

In the area of the RAC, faulting has horizontally displaced seams. As shown in Figure 18, while seams do not outcrop, but can be traced across the sides of the Kwa-Ntabankulu Mountain from previous mining and bulk sampling adits.

The five coal seams identified are :

(i) Coking Seam

The Coking Seam is found in only a single borehole at RAC, and then was only 0.35m in thickness, even though it has low ash and a good coking coal yield.

(ii) Dundas Seam

In the RAC area, the Dundas Seam is split into upper and lower seams by a 2m thick sandstone or siltstone parting. The upper and lower seams are each less than 0.5m in thickness, even though the coal is low in volatiles, at less than 8%, and low in ash, at less than 10%.

(iii) Gus Seam

The Gus Seam is the most well-developed seam in the RAC area. It ranges in thickness from 0.10m to 1.46m and is mostly over 0.80m in the RAC area.

The seam is clearly identified with a coarse-grained sandstone roof and a siltstone floor. In some places the roof de-laminates, giving a false roof.

The Gus Seam outcrops along the slopes of the Kwa-Ntabankulu Mountain and extends to 280m below the summit plateau.

The Gus Seam covers an area of about 1,200 ha.

(iv) Alfred Seam

The Alfred Seam is about 10m – 12m higher than the Gus Seam. It is split by a shale of siltstone internal parting, which varies from less than 1m thick in the west to 4m thick in the east.

The average seam widths are 0.52m for the lower Alfred and 0.78m for the upper Alfred seam. Both seams appear to be variable in width as well as in the roof and floor lithologies.

The coal quality is variable with sulphur levels generally higher than 1% and achieving good product leads to poor washery yields.

(v) Fritz Seam

The Fritz seam is generally less than 0.3m thick, with a sulphur level greater than 1.5%.

Resources

The AJC management, when they were the management of RIV, executed feasibility studies on the RAC, including estimates of the Mineral Resources. These estimates, which were compliant with the JORC Code at that time (2004 code) have since been updated to comply with the requirements of the 2012 Code.

On 19 April 2017, AJC announced the revised Mineral Resource Estimate.

Figure 19 shows the detail of the MRE for raw coal. It shows a total of 8.1Mt of raw coal, contained only in the Gus Seam.

Figure 19 : Mineral Resource Estimate, RAC, raw coal

Gus Seam Resources, 16% ash product					Raw Coal Measures						
		area	thickness	S G	MJ/kg	Ash	Moisture	Volatiles	Fixed C	Sulphur	
North block	Indicated	479,800 m2	0.84 m	1.51	517,200 t	25.74	19.2 %	3.06 %	6.94 %	70.8 %	0.63 %
North-West block	Inferred	142,060 m2	1.16 m	1.52	187,800 t	26.51	20.1 %	2.34 %	9.14 %	68.5 %	0.61 %
North-East 1	Indicated	206,330 m2	0.74 m	1.48	192,000 t	27.88	14.5 %	2.76 %	6.20 %	76.5 %	0.66 %
North-East 2	Indicated	304,840 m2	1.00 m	1.53	396,400 t	26.76	17.6 %	2.55 %	6.19 %	73.7 %	6.00 %
Central 1	Measured	1,005,120 m2	0.96 m	1.48	1,285,200 t	28.33	15.5 %	1.94 %	8.25 %	74.4 %	0.81 %
Central 2	Indicated	1,718,180 m2	0.80 m	1.64	1,799,200 t	26.23	20.7 %	2.21 %	8.25 %	68.8 %	0.62 %
West block	Indicated	1,510,590 m2	1.05 m	1.58	2,130,100 t	23.42	25.5 %	2.57 %	8.35 %	63.6 %	0.59 %
South block	Inferred	721,280 m2	0.91 m	1.61	792,500 t	23.77	26.5 %	2.38 %	7.64 %	63.5 %	0.64 %
South-East	Measured	552,800 m2	0.97 m	1.61	777,000 t	23.25	28.1 %	2.08 %	7.16 %	62.6 %	0.63 %
		6,641,000 m2		8,077,400 t							

Source : AJC ASX announcement, 19 April 2017, Beer & Co

Figure 20 shows the expected quantity of saleable coal and product quality characteristics. It shows Measured plus Indicated resources of 5.7Mt of product coal, within total resources of 6.5Mt.

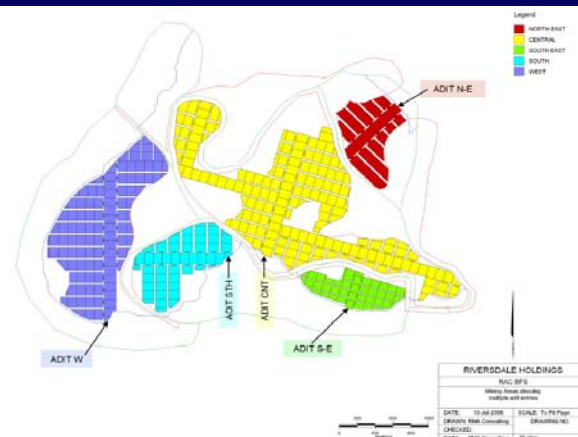
Figure 20 : Mineral Resource Estimate, RAC product coal

Gus Seam Resources, 16% ash product					Product		Product Coal Measures						
		area	thickness	S G		Yield		MJ/kg	Ash	Moisture	Volatiles	Fixed C	Sulphur
Measured	Central 1	1,005,120 m2	0.96 m	1.48	1,071,000 t	98.9 %	1,059,112 t	29.93	16.0 %	1.77 %	8.38 %	73.9 %	0.78 %
	South-East	552,800 m2	0.97 m	1.61	733,800 t	73.5 %	539,270 t	29.09	16.0 %	1.91 %	7.47 %	74.6 %	0.71 %
	Sub-Total				1,804,800 t	88.6 %	1,598,382 t			1.82 %	8.07 %	74.1 %	0.76 %
Indicated	North block	479,800 m2	0.84 m	1.51	517,200 t	95.5 %	494,133 t	28.74	16.0 %	2.32 %	7.10 %	74.6 %	0.68 %
	North-East	206,330 m2	0.74 m	1.48	169,400 t	99.7 %	168,909 t	29.12	16.0 %	2.23 %	6.33 %	75.4 %	0.73 %
	North-East	304,840 m2	1.00 m	1.53	396,400 t	90.5 %	358,623 t	27.73	16.0 %	2.67 %	5.86 %	75.5 %	0.55 %
	Central 2	1,718,180 m2	0.80 m	1.64	1,799,200 t	89.3 %	1,607,405 t	28.77	16.0 %	2.03 %	8.75 %	73.2 %	0.62 %
	West block	1,510,590 m2	1.05 m	1.58	1,879,500 t	78.2 %	1,469,393 t	28.8	16.0 %	2.00 %	9.23 %	72.8 %	0.60 %
	Sub-Total				4,761,700 t	86.1 %	4,098,463 t			2.12 %	8.37 %	73.5 %	0.62 %
M + I					6,566,500 t	86.8 %	5,696,845 t			2.03 %	8.29 %	73.7 %	0.66 %
Inferred	North-West	142,060 m2	1.16 m	1.52	212,800 t	95.6 %	203,330 t	29.07	16.0 %	1.68 %	10.70 %	71.6 %	0.51 %
	South block	721,280 m2	0.91 m	1.61	898,200 t	70.6 %	633,950 t	27.93	16.0 %	2.12 %	8.63 %	73.3 %	0.63 %
	Sub-Total				1,111,000 t	75.4 %	837,280 t			2.01 %	9.13 %	72.9 %	0.60 %
TOTAL					7,677,500 t	85.1 %	6,534,125 t			2.03 %	8.40 %	73.6 %	0.65 %

Source : AJC ASX announcement, 19 April 2017, Beer & Co

The resource estimates are made in terms of geological blocks, which are determined by geological features, such as thrusts and faults. Figure 21 shows the location of these blocks and the basis of the MRE.

Figure 21 : RAC Resource Estimate



Source : AJC Presentation, February 2017

Mining

Mining techniques are very different to those that would be employed in Australia, with the differences due to :

- The coal itself is much harder than typical Australian coals;
- The coal is shallow, and can be easily accessed by adits;
- The floor and roof are very competent stone, with the sandstone roof making open cut mining difficult and expensive;
- The seams are narrow, much narrower than can be mined in Australia by mechanical means; and
- There is a premium for lump (or nuts) product, while mechanical mining techniques promote the production of fines.

Instead of mechanical mining, the preferred method is drill and blast, with small scoops.

In addition, RAC is about 30km from Vryheid, which is an established mining town. However, many mines have shut so there is a readily available skills base for narrow seam mining.

Mining will be done from 3 adits, as shown in Figure 21, with 2 sections (ie. operating crews) from each adit (ie. one to the left and the other to the right).

Mining will operate using 3 shifts of 8 hours, with 2 shifts being production shifts and the third focussing on development, maintenance and any production catch-up required.

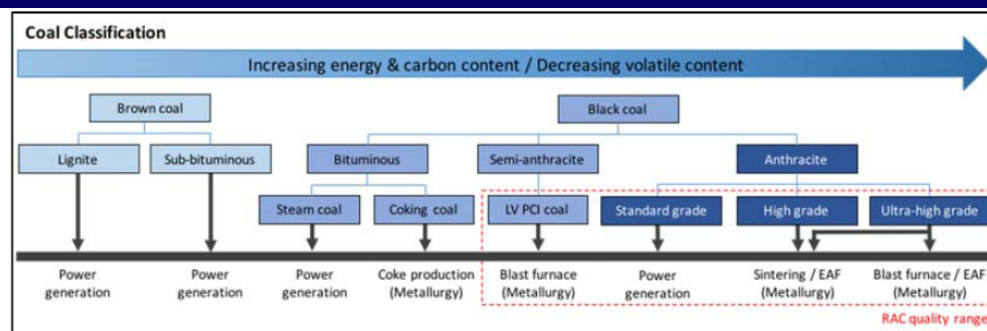
Anthracite

Description

As shown in Figure 22, Anthracite is the highest rank of coal, with high carbon content and low volatile matter content (<10%).

It is a clean, smokeless coal with a high heat value. Its higher value applications are as a reductant in the metallurgical extraction process.

Figure 22 : Coal classification



Source : AJC Presentation, February 2017

The high heat and pressure conditions required to produce semi-anthracite and anthracite are relatively rare, and its production is limited to a few countries, especially for higher grade anthracites.

Uses of Anthracite

Low grade anthracite

Low-grade anthracite is used in power generation where impurities such as ash, sulphur and phosphorous have limited impact. The consumption of low-grade anthracite for power generation is limited to those regions of the world with large reserves of anthracitic coal and limited alternate fuel sources, such as Vietnam, China, Korea, Ukraine, Eastern Russia (Black Sea region), Wales and Northern Spain.

Medium grade anthracite

Medium-grade anthracite is used primarily in sinter and pelletizing applications as well as a sized product in EAF smelting.

High grade anthracite

High-grade anthracite has the closest chemical properties to metallurgical coke of all the coal types, owing to its inherently high fixed carbon, low volatile matter and moisture content.

For this grade of anthracite, the sized product is therefore an attractive substitute for sized coke in both the blast furnace and EAF for a range of ferrous and non-ferrous smelting. Likewise, fine anthracite is an attractive substitute for coke breeze in a range of metallurgical applications.

The ability to convert anthracite into graphite at very high temperatures is the basis for the production of carbon electrodes and other specialised carbon uses.

Summary

Figure 23 : Uses of Anthracite

Size category	Grade	High-grade anthracite	Medium-grade anthracite	Low-grade anthracite
	Ash → Size range	<10%	15 – 20%	24 – 30%
Fines (Duff)	0 – 10mm	ULV PCI; Ilmenite; Filtration (niche)	Fine ore agglomeration (sintering & pelletizing)	Power generation
Peas	10 – 25mm	Electrode paste; Coke replacement in EAF (ferroalloy, scrap steel)	Coke replacement in EAF (ferroalloy); Steam boilers	Sponge Iron (DRI); EAF (ferroalloy); Steam boilers; Power generation
Nuts	25 – 100mm	Coke replacement in blast furnace & EAF (ferroalloy, scrap steel)	EAF (ferroalloy); Lime kilns (soda ash); Steam boilers	Steam boilers

Source : Acacia Coal PFS

Figure 23 summarises the various uses for anthracite.

Production and trade of anthracite

Global production of all grades (low and high ash) of anthracite, including semi-anthracite was in the order of 680Mt in 2014. Over 90% of this quantity is low-grade (i.e. high ash) anthracite produced for domestic consumption in China.

Total 2014 seaborne export of anthracite was estimated at 25Mt with supply dominated by Vietnam and Russia, though Vietnam has now become a major importer of anthracite.

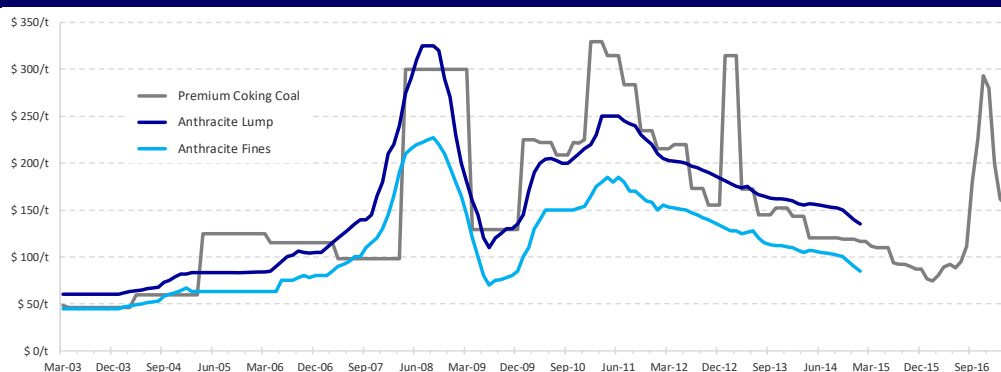
Anthracite Pricing

Nearly all high quality anthracite consumption is substitution for coke, so the price of coke and that of anthracite are closely related.

Resource-Net, a market research company, has tracked the price of low ash anthracite, both lump and fines, for more than 10 years although the series that Beer & Co has been able to source only covers the period from March 2003 to January 2015.

Figure 24 captures this data and compares it to a series of premium coking coal prices that Beer & Co has maintained from varying sources.

Figure 24 : Anthracite pricing v. High Quality hard Coking Coal



Source : Resource-Net, Acacia Coal, Beer & Co

It was stated earlier that anthracite prices can be expected to be related to the price of coke; Figure 24 shows the price of coking coal, from which coke is produced. In general terms, the price of coke is a premium, representing the conversion cost, of the price of coking coal.

Analysis of the data in Figure 24 shows :

- While there are significant short term deviations, the price of anthracite lumps is a small premium to the price of premium coking coal
 - The premium averages 6%;
 - The short term differences have mostly been due to squeezes on coking coal supply, with Figure 3 showing 3 supply squeezes, in 2011, 2013 and recently when the price of anthracite did not respond, or responded only weakly;
 - The price of anthracite is less volatile than that of coking coal, with a higher floor and a lower peak (except in 2008).
- The price of fines averages 73% of the price of lump, though the gap has tended to be wider in more recent times, with an average below 70%.

South African Anthracite

South Africa is a major global producer of

- Ferro-Chrome;
- Ferro-Manganese; and
- Titaniferous slag.

Each of these products sources raw materials locally and was originally developed to exploit South Africa's abundant (coal-power) electricity supply.

There is further local demand for anthracite in the production of steel and aluminium, where anthracite substitutes for petroleum coke and pitch in the production of carbon anodes used in the reduction of alumina.

Figure 25 shows the various user segments for South African anthracite.

Figure 25 : Uses for South African Anthracite

	Low Ash (9-11%)	Medium Ash (15-16%)	High Ash (18-20%)	Very high Ash (30-32%)
Duff (0 – 10mm)	Ilmenite	Steel (sinter) *Brazil/EU Ferroalloy (sinter)	Iron ore (pellet) *Brazil	Ferroalloy / Sponge Iron *India
Peas (10 – 25mm)	Electrode Paste Ferroalloy (EAF)	Ferroalloy (EAF)	Ferroalloy (EAF)	Ferroalloy/ Sponge Iron *India
Nuts (25 – 50mm)	Ferroalloy (EAF) Domestic Heating *EU	Ferroalloy (EAF)	Ferroalloy (EAF)	No market

Source : Acacia Coal PFS

RAC Product

RAC intends, at the start of the project, to produce a single product :

- 16% ash; and
- 0.66% Sulphur (average for Measured + Indicated Resources).

On 23 March 2017, AJC announced that product from the Gus seam is expected to have a phosphorous (P) content ranging from 0.004% to 0.009%. This will make it the lowest P anthracite in South Africa.

That same announcement explained that the general limit for the FeCr industry is 0.02% P which makes the RAC product particularly valuable as it can be used to blend other supplies.

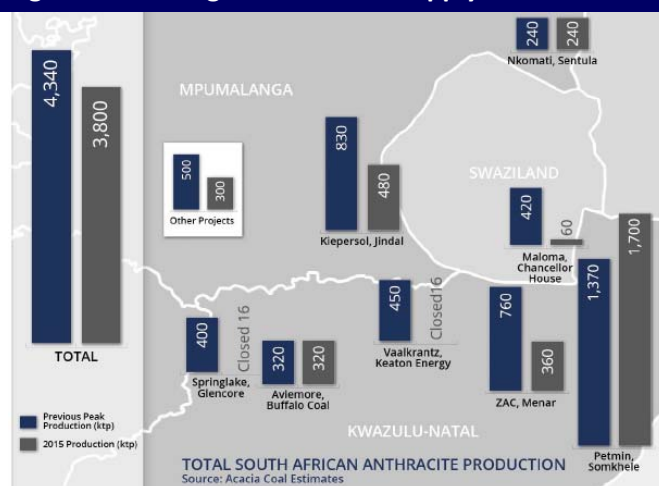
The FeMn industry, in contrast, is better able to cope with higher S and P.

South African Supply

Global supply of anthracite has been falling, as high quality sources have been exhausted and due to rising local consumption in Vietnam, and production in the Ukraine being sterilised by the civil war in Eastern Ukraine.

Figure 26 shows that supply in South African has fallen, from a peak of 4.3Mt to 3.8Mt in 2015. What it does not show so well is that the quality of the remaining supply has fallen, as the better quality seams have been exhausted.

Figure 26 : Falling South African supply

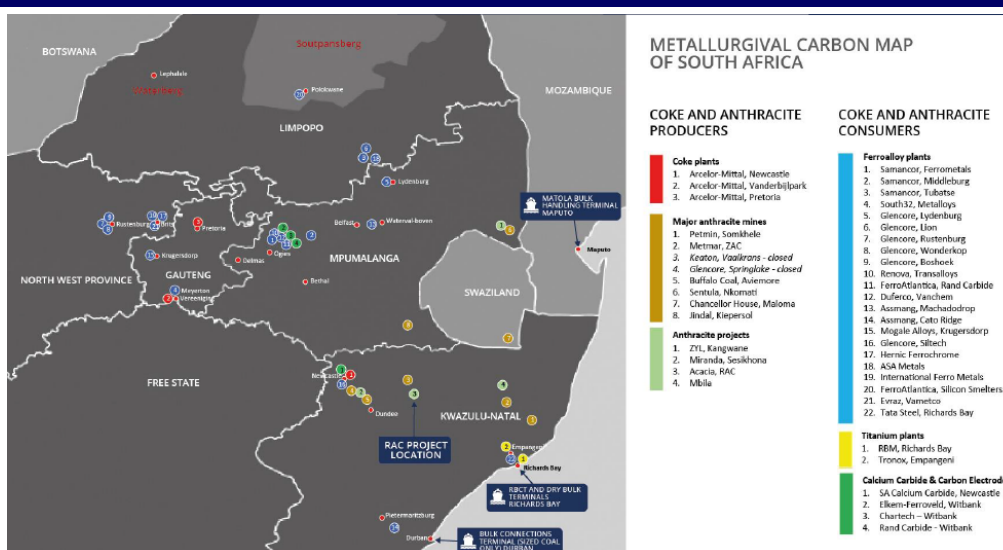


Source : AJC Presentation, February 2017

South African Demand

Figure 27 shows the metallurgical operations in South Africa that can be consumers of anthracite. AJC estimated that the demand potential is about 2.7Mt/yr.

Figure 27 : Metallurgical plants in South Africa



Source : AJC Presentation, February 2017

Development of the RAC project

Timing

On 1 May 2017, AJC announced to the ASX a summary of the results of its PFS.

AJC will now lodge their application for a water licence. AJC maintains that this will be granted as RAC already has a granted Mining Licence, but it is expected it will be about June 2018 by the time the water licence is granted.

AJC expect to have completed their BFS well before June 2018, so that finance for development can be secured immediately upon the grant of the water licence.

The development plan is to build up progressively, focussing on one adit at a time and bring each of the 3 adits into operation successively.

As a result, AJC expect to take about 5 month to produce first development coal, but expect it will be about 9 months, or March 2019, for first product.

Mining Inventory

Figure 20 showed that RAC has 7,678kt in total resources, within which 6,566kt is in the Measured and Indicated categories.

Figure 28 compares AJC's Resources and the mining inventory used by AJC in its PFS.

It shows product yield of about 67%, compared with 85% to 89% shown in Figure 20.

Figure 28 : RAC Mining Inventory

	Resources	Blocked	ex Pillars	Product
Measured	1,805 kt	1,657 kt	1,515 kt	1,013 kt
Indicated	4,762 kt	4,371 kt	3,997 kt	2,672 kt
TOTAL	6,567 kt	6,027 kt	5,512 kt	3,684 kt

Source : AJC ASX announcement, 1 May 2017

The reason for the difference is that yield shown in the MRE is a theoretical yield of product coal from raw coal. Included in this yield is some potential high ash product from a secondary washing stage.

In their project definition, AJC have excluded this secondary beneficiation and instead produce only a 16% ash product, both lump and fines. This comes with a saving in capital cost and operating cost, but the main advantage is in reducing operational complexity, especially at start-up.

Capital Cost

Figure 29 shows the capital cost estimate for the RAC project shown by AJC in its PFS announcement.

It shows that AJC intends to out-source a significant part of the mining cost and all of the processing.

Figure 29 : Capital Cost estimate

AUD m	Full Cost	Net Cost	Project	Sustaining
Feasibility	1.05	1.05	1.05	
Mining	31.93	21.95	14.10	7.85
Process	11.19	0.00		
Infrastructure	9.25	9.25	9.25	
TOTAL	53.42	32.25	24.40	7.85

Source : AJC ASX 1 May 2017; Beer & Co

Operating Costs

Figure 30 shows AJC's planned production from the RAC. It shows an average production of 780kt/yr of RoM coal, or 65kt/mth (270t a shift by 2 shifts a day, 20 days a month, for 2 sections in each of 3 adits).

Figure 30 : Expected mine production, RAC

	Total	2018	2019	2020	2021	2022	2023	2024	2025	average
RoM tonnes mined	5,512 kt	76 kt	720 kt	768 kt	770 kt	794 kt	858 kt	776 kt	749 kt	781 kt
Product										
Coarse	1,928 kt	26 kt	265 kt	281 kt	262 kt	279 kt	300 kt	252 kt	264 kt	272 kt
Fines (i)	1,421 kt	19 kt	195 kt	207 kt	193 kt	206 kt	221 kt	186 kt	194 kt	200 kt
Fines (ii)	335 kt	5 kt	46 kt	49 kt	46 kt	49 kt	52 kt	44 kt	46 kt	47 kt
TOTAL	3,684 kt	50 kt	506 kt	538 kt	500 kt	533 kt	573 kt	481 kt	504 kt	519 kt
Yield	66.8 %	65.0 %	70.2 %	70.0 %	64.9 %	67.1 %	66.8 %	62.0 %	67.3 %	66.5 %

Source : Acacia Coal, Beer & Co

Figure 31 shows Beer & Co.'s estimated production costs, if the mining inventory is based only on Measured + Indicated Resources.

Note that the processing costs include a charge for the capital cost of the plant, as this is out-sourced.

Also, the sustaining capital cost totals ZAR 78.5, which is shown in Figure 29.

Figure 31 : Beer & Co.'s estimated production costs

ZAR	LoM	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
MINING	R 386/t	R 473/t	R 384/t	R 384/t	R 384/t	R 384/t	R 384/t	R 384/t	R 384/t	R 358/t
Overhead	R 14/t	R 26/t	R 14/t	R 14/t	R 14/t	R 14/t	R 14/t	R 14/t	R 14/t	R 14/t
PROCESSING	R 127/t	R 149/t	R 126/t	R 126/t	R 126/t	R 126/t	R 126/t	R 126/t	R 126/t	R 133/t
SITE G & A	R 34/t	R 53/t	R 29/t	R 29/t	R 29/t	R 29/t	R 29/t	R 29/t	R 27/t	R 103/t
TRANSPORT	R 6/t	R 6/t	R 6/t	R 6/t	R 6/t	R 6/t	R 6/t	R 6/t	R 6/t	R 6/t
C 1 Costs	R 568/t	R 707/t	R 560/t	R 560/t	R 560/t	R 560/t	R 560/t	R 560/t	R 557/t	R 614/t
ROYALTIES	R 92/t	R 92/t	R 92/t	R 92/t	R 92/t	R 92/t	R 92/t	R 92/t	R 92/t	R 92/t
SUSTAINING CAPITAL	R 20/t	R 0/t	R 20/t	R 26/t	R 26/t	R 26/t	R 26/t	R 26/t	R 7/t	R 0/t
All In Costs	R 680/t	R 857/t	R 706/t	R 713/t	R 713/t	R 713/t	R 713/t	R 713/t	R 688/t	R 816/t

Source : Beer & Co estimates

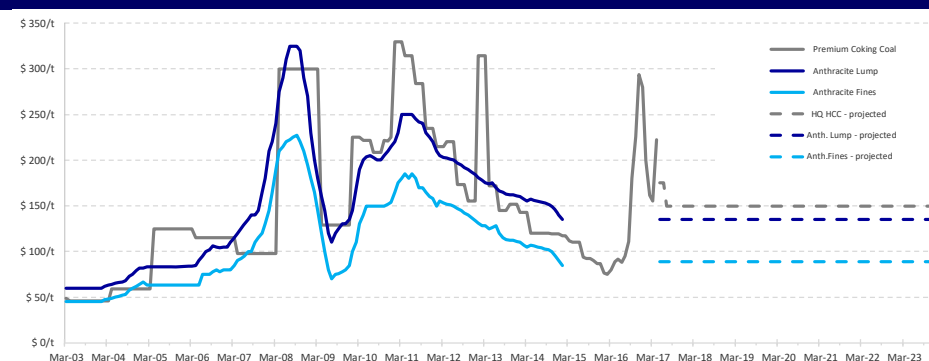
Valuation of the RAC project

Revenue

Figure 24 showed that Anthracite lump is a premium to premium coking coal.

RAC produces a 16% ash product, so will trade at a discount to low ash product (premium coking coal is 8% ash). However, RAC produces a very low P and low S product, so should trade at a premium to other 16% ash product.

Figure 32 is an extension of the data in Figure 24 with Beer & Co.'s projections.

Figure 32 : Projected anthracite prices

Source : Resource-Net, Acacia Coal, Beer & Co

Figure 32 shows that Beer & Co.'s view of the Long Run High Quality Hard Coking Coal (HQ HCC) price is \$150/t.

Beer & Co assumes that RAC's lump anthracite trades at a discount of 10% to this price, or \$135/t. Given a ZAR-USD rate of 13.5, this is ZAR 1,825/t.

Beer & Co further assumes, based on the earlier analysis, that fines trade at 70% of the lump price.

Figure 30 shows Beer & Co.'s projected production, which is the other part of revenue.

Projected Cashflows for RAC

Production volume was shown in Figure 30 and volumes in Figure 31 while the discussion around Figure 32 indicated pricing.

Using this data, Figure 33 shows Beer & Co.'s financial projections for the RAC operations, including project and sustaining capital expenditure. This data is based on Beer & Co.'s expected mining inventory.

Figure 33 : Beer & Co financial projections for RAC

ZAR m	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Product - Lump	0 kt	79 kt	273 kt	273 kt	273 kt	273 kt	273 kt	273 kt	273 kt	273 kt	273 kt	273 kt	61 kt
Product - Fines	0 kt	72 kt	249 kt	249 kt	249 kt	249 kt	249 kt	249 kt	249 kt	249 kt	249 kt	249 kt	55 kt
Revenue	0	229	797	797	797	797	797	797	797	797	797	797	177
Cash Costs	0	(106)	(292)	(314)	(314)	(314)	(314)	(314)	(313)	(313)	(313)	(313)	(83)
Royalties	0	(14)	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(11)
Dep'n & Amort'n	0	(10)	(35)	(45)	(49)	(49)	(49)	(49)	(41)	(14)	(14)	(14)	0
E B I T	0	99	422	390	387	387	387	387	396	423	423	423	83
Interest Expense	0	(3)	(10)	(6)	(2)	(0)	0	0	0	0	0	0	0
Tax Expense	0	(27)	(116)	(108)	(108)	(108)	(108)	(108)	(111)	(118)	(118)	(118)	(23)
N P A T	0	59	262	231	228	230	230	230	245	291	291	291	60
Feasibility / permitting	9	0	0	0	0	0	0	0	0	0	0	0	0
Project Cap.Ex	140	93	0	0	0	0	0	0	0	0	0	0	0
Sus Cap. Ex	0	0	10	14	14	14	14	14	14	14	14	0	0
Un-gear'd Net Cashflow	(149)	16	320	274	274	273	273	273	274	272	272	281	47
Net Cashflow to Equity	(126)	100	283	237	237	273	273	273	274	272	272	281	47

Source : Beer & Co estimates

In South Africa, company tax allows all capital expenditure to be deductible in the year it is incurred, with full carry forward. As a result, the tax line shown is for accounting purposes and bears no relation to the cash tax paid.

Similarly, depreciation and amortisation charges are shown for accounting purposes and have no impact on cashflows or valuation.

RAC Valuation

Discounting the cashflows shown in Figure 33, using a discount rate of 12% on the real, after-tax cashflows, gives a value for the RAC operations, as at 30 June 2017, of ZAR 1,156m, or \$A 114m for the un-gear'd cashflows.

Valuation of AJC

Introduction

RAC is AJC's focus project. However :

- AJC has other assets and liabilities apart from the RAC project; and
- AJC has only a 74% economic interest in the RAC project, and is required to lend the capital required by its BEE partner the required funds.

Figure 34 shows the mining inventory used by Beer & Co in our base case analysis. It shows that we have allowed for some conversion of Inferred Resources as drilling density is increased and we have also allowed for some extensions from areas that are not currently in Resources.

Fig. 34 : Beer & Co.'s mining inventory

	Resources	Blocked	ex Pillars	Product
Measured	1,805 kt	1,657 kt	1,515 kt	1,013 kt
Indicated	4,762 kt	4,371 kt	3,997 kt	2,672 kt
Inferred	1,111 kt	944 kt	864 kt	561 kt
Extensions	1,500 kt	1,238 kt	1,132 kt	736 kt
TOTAL	9,178 kt	8,209 kt	7,507 kt	4,981 kt

Source : Beer & Co estimates

AJC Projected Cashflows

Figure 35 shows the resulting cashflows for AJC from the RAC project, with the mining inventory as indicated in Figure 34.

Figure 35 also shows Beer & Co.'s projections for equity and debt, including the performance shares and options.

Figure 35 : AJC projected cashflows

AUD m	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
Sales revenue	0	0	17	58	58	58	58	58	58	58	58	58	58	13
Total Revenue	0	0	17	59	59	59	60	60	60	60	60	60	60	15
Cost of Goods Sold	0	0	(8)	(21)	(23)	(23)	(23)	(23)	(23)	(23)	(23)	(23)	(23)	(6)
Royalties	0	0	(1)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(1)
Corporate Costs	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(0)
EBITDA	(1)	(0)	7	33	32	32	33	33	33	33	33	33	33	8
Dep'n & Amort'n	0	0	(1)	(3)	(3)	(4)	(4)	(4)	(4)	(3)	(1)	(1)	(1)	0
EBIT	(1)	(0)	6	30	28	28	29	29	30	32	32	32	32	8
Interest Expense	0	0	(0)	(1)	(0)	(0)	0	0	0	0	0	0	0	0
NPAT	(1)	(0)	4	21	20	20	21	21	21	22	23	23	23	6
Shares on Issue	903.9m	1,599m	5,147m	5,147m	5,497m	5,537m	5,537m	5,537m	5,537m	5,537m	5,537m	5,537m	5,537m	5,537m
Earnings per Share	(0.0c)	(0.0c)	0.1 c	0.4 c	0.4 c	0.4 c	0.4 c	0.4 c	0.4 c	0.4 c	0.4 c	0.4 c	0.4 c	0.1 c
Exploration + Feasibility	(0)	(1)	0	0	0	0	0	0	0	0	0	0	0	0
Maintenance Capex	0	0	0	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0
Expansion Capex	0	(10)	(7)	0	0	0	0	0	0	0	0	0	0	0
Repayment from BEE	0	0	3	1	0	0	0	0	0	0	0	0	0	0

Source : Beer & Co estimates

Our base case assumed 50% of the project cost is debt. Figure 29 shows that the total project capital cost is \$A 44.5m, of which \$21.2m is out-sourced, which means that 50% could be a gearing level too high for the remaining assets.

AJC Valuation

Figure 36 shows Beer & Co.'s risked, base case valuation of AJC.

Figure 36 : AJC base case, risked valuation

discount rate = 12.0 %		30 June 2016		3-May-17	
risk :		100%	Product	per share	
<u>Riversdale Anthracite Colliery</u>					
Measured Resources	85 %	\$ 19m	\$ 16m	0.3 c	0.4 c
Indicated Resources	85 %	\$ 44m	\$ 37m	0.7 c	0.8 c
Inferred Resources	70 %	\$ 7m	\$ 5m	0.1 c	0.1 c
Extensions	60 %	\$ 7m	\$ 4m	0.1 c	0.1 c
Secondary	60 %	\$ 0m	\$ 0m	0.0 c	0.0 c
Comet Ridge	nom	\$ 1m	\$ 1m	0.0 c	0.0 c
Corporate	100 %	(\$6m)	(\$6m)	(0.1c)	(0.1c)
Cash	100 %	\$ 1m	\$ 1m	0.0 c	0.0 c
Equity raisings	100 %	\$ 14m	\$ 14m	0.3 c	0.3 c
TOTAL		\$ 86m	\$ 72m	1.4 c	1.5 c
Shares on issue		903.9m	F P O share:	40.0m	Options
		695.2m	FY 17	40.0m	ex'd
		3,547.9m	FY 18		

Source : Beer & Co estimates

The risking applied by Beer & Co reflects uncertainty and this should be reduced over time as more work is done.

Comments

Comet Ridge

On 2 May 2017, AJC announced that Bowen Coking Coal Pty Ltd (BCC), a company that intended to list on the ASX, had advised AJC that it intended to exercise its option to acquire the Comet ridge project.

BCC had already paid a fee of \$50k to AJC and is to pay a further \$350k in cash, plus equity in BCC to the value of \$400k.

Secondary

The base case is a single stage wash to produce a 16% ash product, lump and fines. The tails of this process can be re-processed to produce a high ash (30%) product that can be sold into the thermal coal market, at an appropriate discount.

A single stage beneficiation (washing) of the raw coal achieves a recovery of only about 67% from raw coal to product, while a 2 stage process, producing 3 products (16% ash anthracite lump, 16% ash anthracite fines and a high ash thermal product) can a total recovery from raw coal to product of 85% - 87%, as shown in Figure 2.

Sensitivities

Below, we show the sensitivity of Beer & Co.'s base case risked valuation for changes in

- Anthracite prices;
- Mining Inventory; and
- Risking.

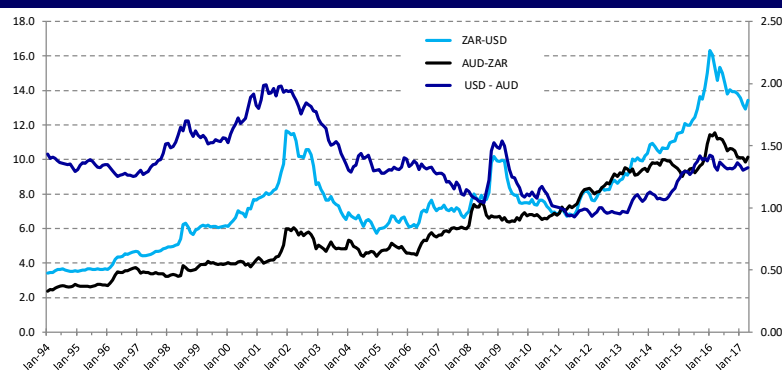
Beer & Co have sufficient confidence in capital and operating cost estimates due to the experience of the operators in the environment, coupled with the slack in supply, which means competitive pricing.

Exchange rate

Inflation is a significant problem in South Africa, with the RBNZ having a target rate of 6%, in contrast to RBA's 2% - 3% target, and South African inflation has generally been above the target rate.

Figure 37 shows daily exchange rates. It shows that the ZAR has, since early 2006, weakened steadily, at a rate of about 7% a year against the AUD.

Figure 37 : Exchange Rates



Source : Beer & Co estimates

This contrasts with a much more volatile pattern against the USD, some of which is due to the influence of commodity prices.

The weakening of the ZAR against the AUD is very close to the difference in actual inflation. This means that, as our valuation is in AUD terms, we do not need to worry about inflation in South Africa as it will be reflected in the AUD-ZAR rate.

Other Sensitivities

Figure 38 shows the sensitivity of Beer & Co.'s valuation to changes in assumptions on mining inventory and anthracite prices.

Comparing Figure 38 with Figure 39 shows the impact of Beer & Co.'s assumption on risking; the un-risked case shows the value that results if the project is delivered as expected in our cashflow projections.

Figure 38 : Sensitivities, risked

Anthracite price (lump)	PFS Case	Add Inferred	Add Extensions	Add secondary
US\$ 120/t	1.0 c	1.1 c	1.2 c	1.3 c
US\$ 135/t	1.3 c	1.4 c	1.5 c	1.6 c
US\$ 150/t	1.6 c	1.7 c	1.8 c	1.9 c

Source : Beer & Co estimates

Figure 39 : Sensitivities, Un-risked

Anthracite price (lump)	PFS Case	Add Inferred	Add Extensions	Add secondary
US\$ 120/t	1.1 c	1.2 c	1.4 c	1.5 c
US\$ 135/t	1.4 c	1.6 c	1.7 c	1.9 c
US\$ 150/t	1.7 c	1.9 c	2.1 c	2.2 c

Source : Beer & Co estimates

Discussion

Figure 36 showed that Beer & Co.'s analysis is based on projected cashflows for each asset, discounted to the present, which are then risked for uncertainty. Figure 39 shows the value today if this risking is removed; in other words, the value if the project is executed as we expect.

In our base case, Beer & Co expect, as shown in Figure 34, that AJC will, over the life of the operations, extract more coal than is currently accounted for by Measured and Indicated Resources. Figures 38 and 39 show how this assumption adds to our base case valuation.

Figures 38 & 39 show that commodity price is the key variable in our analysis.

We tested for other factors, including capital costs, operating cost estimates and exchange rates and the impact was less than for those shown.

Finally, our base case assumed 50% of the project cost is debt. Increasing this to 65%, which we view as a high level, increases AJC's value by 0.17c in the base case, due to the lower number of shares that need to be raised.

Conclusions

Summary

The management of AJC is very familiar with this project, having managed secured the project previously, and, given their history with managing similar operations, investors can be confident in project delivery.

The project has been bought from RIO, where it had been "lost", as its scale was too small to be part of RIO's consideration.

The RAC will produce a moderate (16%) ash anthracite that is suitable for use in the production of ferro-chrome, which is a major industry in South Africa.

The project will come on-stream at a time when supply is tightening due to resource exhaustion.

Valuation

Beer & Co has modelled AJC's proposed operations for RAC, based on information in the PFS. After allowing for other assets and liabilities and also for financing, Beer & Co derives a base case risked valuation for AJC of 1.5c/share.

Beer & Co has tested our conclusion based on a range of sensitivities and we show significant upside potential. Also, our downside case still remains a significant premium to the current share price, with realistic upside much greater again.

Beer & Co is confident that AJC's management will be successful in investing the cashflows generated.

Investment Conclusion

Beer & Co derives a valuation for AJC that is a multiple of the current share price, while there is good upside potential to Beer & Co.'s valuation.

Beer & Co initiates research on AJC with a Strong BUY recommendation.

Our risk rating is High, with our major risk concern being political risk.

Beer & Co is comfortable with all other risk parameters.

Strong BUY, High Risk.

Appendix 1 – Board and Management

Hugh Callaghan – Managing Director

Hugh was the founding Managing Director of Riversdale Mining which sold to Rio Tinto for \$3.9 billion. Hugh has a significant base of global resources experience with Rio Tinto and Xstrata that included roles in the USA, Canada, Chile, Brazil, and Australia. Subsequent to the sale of Riversdale Mining to Rio Tinto, Hugh has invested in, and developed copper projects in Chile, and potash projects in West Africa and the USA, and consulted to coal companies in the UK, USA, Canada, Australia, Zimbabwe and Columbia.

Rob Scott – Finance Director

Rob was formerly in the management team of TSX listed Uramin Inc. which was sold for US\$2.5bn to Areva. Rob has substantial expertise in corporate affairs and management with experience in a number of sectors including in senior commercial roles at UK listed Lonhro as country manager and with Africa Mining Management Company. Rob also served as Non-Executive Director of several other public companies and has worked in the offices of global accounting and other advisory firms. Rob holds a Chartered Degree in Accounting.

Peet Snyders

Peet is a mining engineer with 35 years of experience that has spanned coal, iron ore, chrome, diamonds, Platinum and Gold. He is currently a non-executive Director of Exxaro Resources Ltd, one of the largest South African diversified resources companies with operations spanning the globe with a market capitalisation of about \$4bn and more than 7,200 employees. Peet has held corporate and operational General Manager roles with a number of major companies, and more recently has held Chief Operating Officer roles with a number of junior coal mining companies. He was a key member of the founding Riversdale Mining team and led the successful expansion and turnaround of its anthracite business. His expertise includes all forms of mechanized coal mining including a specialization in narrow seam mining. Peet holds a BEng (Mining), a Diploma in Marketing Management and an MCom in Business Management together with a Mine Manager's Certificate of Competence.

Filippo Faralla

Filippo is a coal expert with over 20 years' experience in the mining industry, the majority of which have been in metallurgical coal and anthracite. He has held management and commercial roles across the coal resource value chain, including mining, processing and commodity trading companies. His roles have included General Manager of African Carbon, the largest metallurgical char producer in South Africa; Coal Investment Manager for Vitol; Commercial Manager and member of the founding Riversdale Mining team. Filippo was Global Coal Investment Manager for Gunvor, one of the world's largest independent commodities trading houses by turnover, and in that role established and developed Gunvor's global coal and anthracite trading business, including investments into Keaton Energy (South Africa) and Signal Peak Energy (USA). Filippo holds degrees in Chemical Engineering and Business Administration from the University of Witwatersrand.

Beer & Co. Research

Acacia Coal (AJC.ASX)

May 2017

Year ended June	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Section 1 - P&L								
Sales revenue	\$A m	0	0	0	17	58	58	58
Interest revenue	\$A m	0	0	0	0	1	1	2
Other revenue	\$A m	0	0	0	0	0	0	0
Total Revenue	\$A m	0	0	0	17	59	59	60
Cost of Goods Sold	\$A m	0	0	0	(8)	(21)	(23)	(23)
Royalties	\$A m	0	0	0	(1)	(3)	(3)	(3)
Corporate Costs	\$A m	(0)	(1)	(1)	(1)	(1)	(1)	(1)
Exploration Expense	\$A m	0	0	0	0	0	0	0
Other Operating Expenses	\$A m	(0)	0	0	0	0	0	0
Total Operating Expenses	\$A m	(0)	(1)	(1)	(10)	(26)	(27)	(27)
EBITDA	\$A m	(0)	(1)	(0)	7	33	32	32
Dep'n & Amort'sn	\$A m	(0)	0	0	(1)	(3)	(4)	(4)
EBIT	\$A m	(0)	(1)	(0)	6	30	28	29
Interest Expense	\$A m	(0)	0	0	(2)	(6)	(7)	(7)
Other	\$A m	(1)	(1)	(1)	5	29	27	28
Pre-Tax Profit	\$A m	(1)	(2)	(2)	10	54	49	50
Tax Expense	\$A m	(1)	(1)	(1)	5	29	27	28
NPAT	\$A m	(2)	(3)	(3)	15	83	76	77

Section 2 - Key Data

Ordinary shares - year end	m	903.9	1,599	5,147	5,147	5,497	5,537	5,537	5,537
Fully diluted shares on issue	m	903.9	1,639	5,187	5,187	5,537	5,537	5,537	5,537
Weighted # shares	m	903.9	1,545	4,322	5,147	5,497	5,527	5,537	5,537
Earnings per Share		(1.1c)	(0.0c)	(0.0c)	0.1 c	0.4 c	0.4 c	0.4 c	0.4 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	0.0 c

Section 3 - Balance Sheet

Cash	\$A m	1	1	2	11	34	52	69	90
Receivables	\$A m	0	0	0	4	5	5	5	5
Inventory	\$A m	0	0	0	1	1	1	1	1
Other	\$A m	0	0	0	0	0	0	0	0
CURRENT ASSETS	\$A m	1	1	2	16	40	58	76	96
Receivables	\$A m	0	0	0	0	0	0	0	0
P, P & E	\$A m	0	0	10	16	15	13	12	10
Mining Properties / Exploration	\$A m	1	1	2	2	2	1	1	1
Other	\$A m	0	0	0	3	1	0	0	0
NON-CURRENT ASSETS	\$A m	1	1	12	21	17	15	13	12
TOTAL ASSETS	\$A m	2	3	14	37	57	73	89	108
Payables	\$A m	0	0	0	3	4	4	4	4
Debt	\$A m	0	0	0	0	4	4	4	0
Other	\$A m	0	0	0	0	0	0	0	0
CURRENT LIABILITIES	\$A m	0	0	0	3	7	7	7	4
Long Term Debt	\$A m	0	0	2	11	7	4	0	0
Other	\$A m	0	0	0	0	0	0	0	0
Provisions	\$A m	0	0	0	0	0	0	0	0
NON-CURRENT LIABILITIES	\$A m	0	0	2	11	7	4	0	0
TOTAL LIABILITIES	\$A m	0	0	2	14	15	11	7	4
NET ASSETS	\$A m	2	3	12	23	42	62	82	104
Accumulated Profit (Loss)	\$A m	(40)	(40)	(41)	(37)	(15)	5	25	46
Reserves	\$A m	3	2	(4)	4	2	1	(0)	1
Contributed Equity	\$A m	38	40	56	56	56	56	56	56
Total Equity	\$A m	2	3	12	23	42	62	81	103

Section 4 - Cashflow

Net Cashflow from operations	\$A m	(0)	(1)	(0)	7	33	32	32	32
Net Interest Paid	\$A m	0	0	0	(0)	(0)	0	1	2
Taxes Paid	\$A m	0	0	0	0	(7)	(8)	(8)	(8)
Change in Working Capital	\$A m	0	(0)	0	(1)	(0)	(0)	0	0
Other	\$A m	0	0	0	3	1	0	0	0
OPERATING CASHFLOW	\$A m	(0)	(1)	(0)	6	25	24	25	26
Exploration + Feasibility	\$A m	0	(0)	(1)	0	0	0	0	0
Maintenance Capex	\$A m	0	0	0	0	(1)	(1)	(1)	(1)
Expansion Capex	\$A m	0	0	(10)	(7)	0	0	0	0
PPE Acquisitions (Total Capex)	\$A m	0	(0)	(11)	(7)	(1)	(1)	(1)	(1)
PPE Divestments	\$A m	0	0	0	3	1	0	0	0
INVESTING CASHFLOW	\$A m	0	(0)	(11)	(4)	(0)	(1)	(1)	(1)
Change in Equity	\$A m	0	2	16	0	0	0	0	0
Dividends Paid	\$A m	0	0	0	0	0	0	0	0
Change in Debt	\$A m	0	0	2	9	0	(4)	(4)	(4)
FINANCING CASHFLOW	\$A m	0	2	18	9	0	(3)	(4)	(4)
Free Cashflow	\$A m	(0)	(1)	(11)	2	25	23	24	25
Net Cashflow	\$A m	(0)	1	7	10	25	19	20	21

Commodity price assumptions

Year ended June	2016-17	2017-18	2018-19	2019-20	2020-21	L-R
AUD-USD	0.754	0.750	0.750	0.750	0.750	0.750
Anthracite - lump, ZAR/t	1,825	1,825	1,825	1,825	1,825	1,825
Anthracite - fines, ZAR/t	1,200	1,200	1,200	1,200	1,200	1,200
USD-ZAR	13.6	13.5	13.5	13.5	13.5	13.5

Product Sales, AJC share, '000t

Anthracite - Lump	0	0	58	202	202	202
Anthracite - Fines	0	0	53	184	184	184

Mine Production, 100% basis, '000t

Riversdale Colliery	0	0	254	781	781	781
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Resources, Reserves and assumed mining inventory ('000t), 100% basis

	Resources	Blocked	ex Pillars	Product
Measured	1,805	1,657	1,515	1,013
Indicated	4,762	4,371	3,997	2,672
Inferred	1,111	944	864	561
Extensions	1,500	1,238	1,132	736
TOTAL	9,178	8,209	7,507	4,981

Asset based Valuation

discount rate = 12.0 %	30 June 2016		3-May-17	
	risk :	100%	Product	per share
Riversdale Anthracite Colliery				
Measured Resources	85 %	\$ 19m	\$ 16m	0.3 c
Indicated Resources	85 %	\$ 44m	\$ 37m	0.7 c
Inferred Resources	70 %	\$ 7m	\$ 5m	0.1 c
Extensions	60 %	\$ 7m	\$ 4m	0.1 c
Comet Ridge	nom	\$ 1m	\$ 1m	0.0 c
Exploration	80 %	\$ 0m	\$ 0m	0.0 c
Corporate	100 %	(\$ 6m)	(\$ 6m)	(0.1c)
Cash	100 %	\$ 1m	\$ 1m	0.0 c
Equity raisings	100 %	\$ 14m	\$ 14m	0.3 c
TOTAL		\$ 86m	\$ 72m	1.4 c
Shares on issue	903.9m	F P O shares	40.0m	Options
	695.2m	FY 17	40.0m	ex'd
	3,547.9m	FY 18		

Financial Ratios

Year ended June	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Revenue	\$A m	0	0	17	59	59
EBITDA	\$A m	(1)	(0)	7	33	32
EBIT	\$A m	(1)	(0)	6	30	28
NPAT (reported)	\$A m	(3)	(3)	15	83	76
Adjusted EPS (cps)	(0.0c)	(0.0c)	0.1 c	0.4 c	0.4 c	0.4 c
EPS Growth (%)		69 %	784 %	382 %	(6%)	2 %
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	(16.0)	(51.5)	7.5	1.6	1.7
EV / EBITDA (x)	x	(14)	(68)	4	0	(0)
EV / EBIT (x)	x	(14)	(68)	5	0	(0)
Gearing (%)	0 %	17 %	30 %	19 %	10 %	4 %
Return on Assets	(22%)	(3%)	17 %	53 %	39 %	32 %
Return on Equity	(110%)	(22%)	66 %	195 %	123 %	93 %
EBITDA Margin (%)	n/a	n/a	n/a	42 %	56 %	54 %
Interest Cover (x)	x	n/a	n/a	n/a	3.6	5.0

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