

## Polish Coal : low cap.ex; low op.ex

BMB has acquired 3 Polish coal projects. First coal, 2Mt/yr at \$37/t from \$50m cap.ex, expected 2016

### Recommendation

**BUY; High Risk**

### Price

**6.5c**

### Valuation

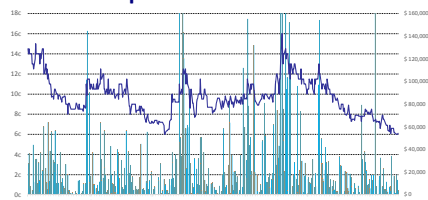
**27c**

- Mariola thermal coal will be the first project developed due to the infrastructure in place. Cap.ex of \$50m is expected for over 2Mt/yr of saleable coal at an all in cost of under \$40/t, with first sales late in 2016.
- Nowa Ruda will be next. The project contains both hard and semi-soft coking coal, with cap.ex of about \$150m for 1Mt/yr of saleable coal at an all in cost of under \$70/t.
- Sawin is a large exploration project. It is adjacent to PDZ's Lublin project and the operating Bogdanka mine.
- Even at current prices, these projects all give good returns.

### Snapshot

Market Cap	\$22.2m
Shares on Issue	357.6m
Cash on hand (30 Sept 2014)	\$2.2m
52 Week High	16.0c
52 Week Low	6.0c
1 month / 6 month VWAP	6.5c / 8.6c

### BMB Share price v. volume



BMB acquired Nowa Ruda in July 2013 by award of exploration rights. Nowa Ruda was an operating mine that was closed in 1996, having produced around 1Mt/yr of coking coal.

BMB acquired an initial 15% interest in the Mariola thermal coal project in July 2014. BMB is able to move to 100% of the project and will do that for scrip, following the maiden Mariola JORC resource report which is due in October 2014.

BMB acquired the Sawin exploration lease in July 2014. Sawin is adjacent to Prairie Mining (PDZ.ASX)'s Lublin project, which is adjacent to the operating Bogdanka mine.

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### Mariola : over 2Mt/yr of thermal coal at under \$40/t

BMB announced the acquisition of a 15% stake in Mariola for cash plus shares in July 2014. BMB is able to move to 100%. It is an advanced project that is expected to have a JORC Resource in October and a feasibility study early in 2015, for first coal late 2016.

The coal starts about 100m below surface in thick continuous seams. We expect capital cost of about \$50m for over 2Mt/yr of thermal coal at an all in cash cost of under \$40/t. Our estimated NPV, using a 10% rate, is US\$ 500m.

### Nowa Ruda : was producing over 1Mt/yr of coking coal to 1996

BMB acquired Nowa Ruda via an exploration lease in July 2013. As a previously operating mine, it is largely developed. Much of the steelwork and machinery has since been removed, but the development is still in place.

A re-developed mine is expected to have a capital cost of about \$150m to produce 1Mt/yr of saleable coal at an all in cash cost of under \$70/t, despite first coal being 600m below surface. Our estimated NPV, using a 10% rate, is US\$ 230m.

### Sawin : 132km<sup>2</sup> of exploration lease in the Lublin Basin

The coal is expected to be the same coal as the operating Bogdanka mine and PDZ's Lublin project. We expect it will take just over 5 years to bring Sawin into production. Our estimated NPV, using a 10% rate, is US\$ 590m.

### Beer & Co's risked valuation is 27c.

Capital and operating costs are low in Poland; average Wages are €681/mth, or AUD 1,000, compared with AUD 6,550 in Australia. Skilled labour is available.

Poland is an importer of thermal coal and a small exporter of coking coal.

Beer & Co's risked valuation is 27c/share, allowing for equity to be raised to bring the projects into production.

We retain a BUY, High Risk recommendation.

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## BMB : Three coal projects in Poland

**BMB now has 3 coal projects in Poland.**

**Poland has a long mining history and is now an importer of thermal coal.**

**Wages costs in Poland are low and skilled miners are available**

### Outline

BMB has been able to acquire 3 coal projects in Poland. The first, Nowa Ruda, was acquired in July 2013, while both Mariola and Sawin were acquired in July 2014.

Nowa Ruda has been a previously operated mine, closing in 1995. BMB acquired it as an exploration concession. Mariola is an advanced exploration project; BMB acquired a 15% stake for cash plus scrip, and is able to move to 100%. Sawin is an exploration project, adjacent to Prairie Mining's Lublin project, on which a scoping study was announced in April 2014, and near the 8Mt/yr Bogdandanka coal mine.

BMB is now focussed on these 3 projects and will divest of all other non-core assets in its portfolio. We expect that BMB will receive cash from the previously announced \$15m sale of its Balkan Metals projects and not spend more on the others.

Beer & Co estimated the cash costs for each project, starting from the mining units employed and the low wage rates in Poland. Low costs are supported by PDZ which advised C1 costs of \$37/t.

**Mariola is a thermal coal project.**

**First coal is only about 100m below surface, but it will mined as an under-ground mine.**

**Beer & Co projects low cap.ex of US\$50m for over 2Mt/yr of saleable coal.**

### Mariola

Mariola was recently acquired and while it will be the first project developed, as its coal begins only 100m from surface. It is likely to be a good quality thermal coal which will be sold to an existing operating power station adjacent to the mine.

Despite this, we have assumed that the coal sells at a discount to benchmark, though it should attract a premium.

Figure 1 shows the key data for Mariola. Figure 2 shows Beer & Co's estimated costs for Mariola if Australian wage costs were to apply.

**Figure 1 : Mariola : key data**

Capital Costs	US\$ 50 m
Run of Mine production	3.0 Mt/yr
washery yield	75 %
Saleable production	2.25 Mt/yr
Coal type	thermal
First sales	Sep. 2016
average revenue	\$ 82.5/t
C1 costs	US\$ 29.4/t
All In Costs	US\$ 36.8/t

Source : Beer & Co estimates

**Beer & Co's estimated cash cost is US\$ 37/t.**

**Figure 2 : Costs – Poland v. Australia**

	<u>Polish costs</u>		<u>Australian costs</u>	
C1 =	\$ 29.4/t	AUD 35/t	\$ 57.4/t	AUD 68/t
AISC	\$ 36.8/t	AUD 43/t	\$ 64.7/t	AUD 76/t

Source : Beer & Co estimates

**Beer & Co calculates that Mariola is valuable project EVEN AT CURRENT COAL PRICES.**

Figure 3 shows Beer & Co's projected financial outcomes for Mariola.

Figure 4 shows Beer & Co's calculated NPV of the after-tax cashflows and the sensitivity to a change in throughput rates and also in the relation between Mariola's achieved prices and benchmark prices.

It shows a base case valuation of over US\$ 500m, for an initial investment of \$50m. Mariola still indicates a strong value with benchmark thermal coal at \$70/t

**Figure 3 : Beer & Co's projected financial outcomes for Mariola**

USD m	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026
Coal sold	0 kt	383 kt	1,753 kt	2,250 kt	2,250 kt	2,250 kt	2,250 kt	2,250 kt	2,250 kt	2,250 kt	2,250 kt	2,250 kt
Revenue per tonne	\$ 71/t	\$ 79/t	\$ 80/t	\$ 80/t	\$ 80/t	\$ 80/t	\$ 80/t	\$ 80/t	\$ 80/t	\$ 80/t	\$ 80/t	\$ 80/t
Revenue	0	30	140	180	180	180	180	180	180	180	180	180
Total Cash Costs	0	(15)	(46)	(54)	(56)	(57)	(58)	(60)	(61)	(63)	(64)	(64)
Royalties	0	(2)	(7)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)
Dep'n & Amort'sn	0	(3)	(10)	(13)	(12)	(12)	(12)	(11)	(8)	(8)	(8)	(8)
E B I T	0	12	77	104	103	102	101	100	102	101	100	100
Interest Expense	(1)	(3)	(3)	(3)	(2)	(2)	(1)	(0)	0	0	0	0
Tax Expense	0	(2)	(14)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)
N P A T	(0)	7	60	82	82	81	81	81	83	82	81	81
Feasibility	(2)	0	0	0	0	0	0	0	0	0	0	0
Project Cap.Ex Cap.Ex	(50)	0	0	0	0	0	0	0	0	0	0	0
Sus. Cap. Ex	0	(2)	(6)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)
Net Cashflow	(52)	8	64	87	87	86	85	84	83	82	81	81

Source : Beer &amp; Co estimates

There is further upside to our valuation

**Figure 4 : Estimated NPV of Mariola and its sensitivity**

USD m	Base Case prices			Spot price = US\$ 70/t		
	(US\$5.0/t)	US\$ 0.0/t	US\$ 5.0/t	(US\$5.0/t)	US\$ 0.0/t	US\$ 5.0/t
3.0 Mt/yr RoM coal	517	577	638	336	397	457
3.0 Mt/yr Product coal	737	817	897	496	576	656

Source : Beer &amp; Co estimates

## Nowa Ruda

BM B acquired Nowa Ruda as an exploration project in July 2013

It was an operating mine until it was shut in 1995.

As a result, there is much information on the coal geology and quality

Nowa Ruda is coking coal and there are many coke plants within 100km

Nowa Ruda was acquired by BMB as an exploration project in July 2013, even though it had been an operating mine that was shut in 1995.

The mine has significant historical geological information and is extensively developed, though all the steel work, electrical and mechanical services will need to be replaced as most have been stripped.

Historical sales show a coking coal with low volatiles, moderate ash and low swell.

Figure 5 shows the key data.

**Figure 5 : Nowa Ruda key data**

Capital Costs	US\$ 149 m
Run of Mine production	1.4 Mt/yr
washery yield	70 %
Saleable production	0.98 Mt/yr
Coal type	coking
First sales	June 2018
average revenue	\$ 125.7/t
C1 costs	US\$ 51.3/t
All In Costs	US\$ 64.9/t

Source : Beer &amp; Co estimates

The coal is in 2 related deposits; one is 600m from the surface and the other 750m from the surface. As a result, we expect a longer development time-frame.

Figure 6 shows that the costs are much higher if Australian wage rates are used, such that the project becomes marginal. Low operating costs in Poland are key to success

**Figure 6 : Comparing Polish v. Australian costs**

	Polish costs		Australian costs	
C1 =	\$ 51.3/t	AUD 60/t	\$ 92.0/t	AUD 108/t
AISC	\$ 64.9/t	AUD 76/t	\$ 105.6/t	AUD 124/t

Source : Beer &amp; Co estimates

**Figure 7 : Beer & Co's projected financial outcomes for Nowa Ruda**

USD m	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Coal sold	0 kt	0 kt	21 kt	629 kt	968 kt	980 kt	980 kt	980 kt	980 kt	980 kt
Revenue per tonne	\$ 103/t	\$ 113/t	\$ 125/t	\$ 126/t	\$ 126/t	\$ 126/t	\$ 126/t	\$ 126/t	\$ 126/t	\$ 126/t
Revenue	0	0	2	74	121	123	123	123	123	123
Total Cash Costs	0	0	(2)	(34)	(48)	(49)	(49)	(49)	(50)	(50)
Royalties	0	0	(0)	(4)	(6)	(6)	(6)	(6)	(6)	(6)
Dep'n & Amort'sn	0	0	(1)	(17)	(24)	(24)	(24)	(24)	(24)	(18)
E B I T	0	0	(0)	19	43	44	44	43	43	49
Interest Expense	0	0	(5)	(9)	(8)	(7)	(5)	(3)	(1)	0
Tax Expense	0	0	1	(2)	(7)	(7)	(7)	(8)	(8)	(9)
N P A T	0	0	(5)	8	28	30	31	33	34	40
Feasibility	(1)	(0)	0	0	0	0	0	0	0	0
Project Cap.Ex Cap.Ex	0	(75)	(75)	0	0	0	0	0	0	0
Sus. Cap. Ex	0	0	(0)	(5)	(7)	(7)	(7)	(7)	(7)	(7)
Net Cashflow	(1)	(75)	(79)	20	45	48	49	50	51	51

Source : Beer &amp; Co estimates

**Due to its low costs, Nowa Ruda appears viable even at current prices**

Figure 7 shows Beer & Co's projected financial outcomes. The base case NPV, using 10%, is US\$ 229m, as shown in Figure 8. Figure 8 shows that our assumed coal price is modest compared with the benchmark, and also that the project is still viable at current coal prices.

**Figure 8 : Sensitivity of Beer & Co's valuation of Nowa Ruda**

Base Case prices			Spot price = US\$ 120/t		
71 %	75 %	80 %	71 %	75 %	80 %
<b>229</b>	260	299	67	89	116

Source : Beer &amp; Co estimates

## Sawin

**Sawin is an exploration tenement acquired in July 2014**

**It is in the Lublin Coal Basin, adjacent to PDZ's Lublin coal project, on which a scoping study was announced in April 2014.**

Sawin is an exploration concession acquired by BMB in July 2014.

Despite its very early stages, we can gain insights from the scoping study on the adjacent Lublin project, announced by Prairie Mining (PDZ) in April 2014, and also by the nearby Bogdanka coal mining operations

Figure 9 shows the key data. Figure shows that using Australian wage costs, the project would not be viable.

**Figure 9 : Sawin key data**

Capital Costs	US\$ 600 m
Run of Mine production	7.0 Mt/yr
washery yield	75 %
Saleable production	5.3 Mt/yr
Coal type	thermal
First sales	March 2020
average revenue	\$ 82.5/t
C1 costs	US\$ 35.2/t
All In Costs	US\$ 44.7/t

Source : Beer &amp; Co estimates

**Figure 10 : Comparing Polish v. Australian costs**

	Polish costs		Australian costs	
C1 =	\$ 35.2/t	AUD 41/t	\$ 57.0/t	AUD 67/t
AISC	\$ 44.7/t	AUD 53/t	\$ 66.5/t	AUD 78/t

Source : Beer &amp; Co estimates

Figure 11 shows Beer & Co's projected financial outcomes and Figure 12 shows our base case NPV of US\$ 590m.

**Figure 11 : Beer & Co's projected financial outcomes for Sawin**

USD m	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026
Coal sold	0 kt	0 kt	139 kt	1,094 kt	2,847 kt	3,783 kt	5,231 kt	5,250 kt	5,250 kt	5,250
Revenue per tonne	\$ 82.5/t	\$ 82.5/t	\$ 82.5/t	\$ 82.5/t	\$ 82.5/t	\$ 82.5/t	\$ 82.5/t	\$ 82.5/t	\$ 82.5/t	\$ 82.5
Revenue	0	0	11	90	235	312	432	433	433	4
Total Cash Costs	0	0	(8)	(38)	(78)	(100)	(132)	(135)	(138)	(14)
Royalties	0	0	(1)	(5)	(12)	(16)	(22)	(22)	(22)	(2)
Dep'n & Amort'sn	0	0	(4)	(27)	(61)	(80)	(105)	(98)	(81)	(6)
E B I T	0	0	(1)	21	84	116	173	179	193	2
Interest Expense	0	0	(4)	(22)	(35)	(38)	(34)	(29)	(23)	(3)
Tax Expense	0	0	1	0	(9)	(15)	(26)	(28)	(32)	(4)
N P A T	0	0	(4)	(0)	40	63	113	121	137	1
Feasibility	(4)	0	0	0	0	0	0	0	0	
Project Cap.Ex Cap.Ex	0	(200)	(200)	(200)	0	0	0	0	0	
Sus. Cap. Ex	0	0	(1)	(7)	(16)	(21)	(28)	(28)	(28)	(3)
Net Cashflow	(4)	(200)	(201)	(180)	86	123	189	191	190	1

Source : Beer &amp; Co estimates

**Figure 12 : Sensitivity of Beer & Co's valuation of Sawin**

Base Case prices			Spot price = US\$ 65/t		
(US\$2.5/t)	US\$ 0.0/t	US\$ 2.5/t	(US\$2.5/t)	US\$ 0.0/t	US\$ 2.5/t
<b>593</b>	642	690	207	255	303

Source : Beer &amp; Co estimates

## BMB Valuation

Figure 13 shows Beer &amp; Co's projected financials for BMB at a corporate level,

**Figure 13 : Beer & Co's projected financials for BMB**

AUD m	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024
Mariola	0 kt	0 kt	383 kt	1,753 kt	2,250 kt	2,250 kt	2,250 kt	2,250 kt	2,250 kt	2,250 kt	2,250
Now Ruda	0 kt	0 kt	0 kt	17 kt	587 kt	966 kt	980 kt	980 kt	980 kt	980 kt	980
Sawin	0 kt	0 kt	0 kt	0 kt	0 kt	139 kt	1,094 kt	2,847 kt	3,783 kt	5,231 kt	5,250
Sales Revenue	0	0	36	167	299	368	463	633	724	864	8
Cost of Goods Sold	0	0	(17)	(56)	(104)	(131)	(169)	(218)	(247)	(286)	(2)
Royalties	0	0	(2)	(8)	(15)	(18)	(23)	(32)	(36)	(43)	(1)
Corporate Costs	(2)	(2)	(3)	(3)	(4)	(5)	(6)	(6)	(6)	(6)	
EBITDA	(2)	(2)	14	100	177	214	268	382	439	533	5
Dep'n & Amort'sn	0	0	(3)	(13)	(35)	(48)	(74)	(114)	(135)	(160)	(1)
Interest Expense	0	(1)	(3)	(10)	(14)	(17)	(35)	(48)	(48)	(42)	(3)
Tax Expense	1	1	(2)	(23)	(39)	(45)	(48)	(66)	(77)	(99)	(1)
NPAT	(1)	(2)	6	54	90	105	111	153	179	232	2
Shares on Issue	841m	841m	1,494m	1,524m	1,865m	1,865m	1,865m	1,865m	1,865m	1,865m	1,865
Equity raised	19	0	46	3	48	0	0	0	0	0	
Total Debt	0	0	138	135	287	481	490	462	425	346	2
Feasibility	(4)	(2)	(2)	(1)	0	0	0	0	0	0	
Project Capital	0	(58)	(88)	(88)	(235)	(235)	(235)	0	0	0	
Sustaining Capital	0	0	(2)	(7)	(15)	(18)	(25)	(35)	(41)	(50)	(1)
Earnings per Share	<b>(0.3c)</b>	<b>(0.2c)</b>	<b>0.4 c</b>	<b>3.5 c</b>	<b>4.8 c</b>	<b>5.6 c</b>	<b>6.0 c</b>	<b>8.2 c</b>	<b>9.6 c</b>	<b>12.4 c</b>	<b>13.</b>

Source : Beer &amp; Co estimates

Figure 13 shows the Beer & Co allows for significant equity to be raised to bring the projects into production.

Figure 14 shows the detail of Beer & Co's base case valuation of BMB of 27c/share.

**Figure 14 : Beer & Co's base case valuation : 27c**

discount rate = 12.0 %		30-Jun-14		29-Sep-14	
	risk :	100%	Product	per share	
Mariola	40 %	\$ 495m	\$ 198m	10.7 c	11.0 c
Nowa Ruda	40 %	\$ 211m	\$ 84m	4.6 c	4.7 c
Sawin	30 %	\$ 494m	\$ 148m	8.0 c	8.2 c
Asset sale	100 %	\$ 13m	\$ 13m	0.7 c	0.5 c
Exploration	80 %	\$ 0m	\$ 0m	0.0 c	0.0 c
Corporate	100 %	(\$37m)	(\$37m)	(2.0c)	(1.6c)
Cash to be raised	100 %	\$ 79m	\$ 79m	4.3 c	4.1 c
Cash / debt	100 %	\$ 0m	\$ 0m	0.0 c	0.4 c
<b>TOTAL</b>		<b>\$ 1,255m</b>	<b>\$ 486m</b>	<b>26.3 c</b>	<b>27.4 c</b>
Shares on issue		342m	FPO shares	30.0m	perf shares
		484m	issued 2015		
		653m	issued 2016-17		
		341m	Issued 2018-19		

Source : Beer & Co estimates

Beer & Co projects that, despite the equity to be raised, BMB will generate strong eps growth.

Our base case valuation is 27c/share

There is significant upside potential as the projects are progressively de-risked.

## Sensitivity Analyses

Figure 15 shows that even at current prices and with 30% higher costs, our valuation is still above the current share price.

**Figure 15 : Sensitivity of Beer & Co's valuation**

Cost penalty :	0 %	10 %	20 %	30 %
Base Case coal prices	27.4 c	24.1 c	21.3 c	18.8 c
spot coal prices	13.7 c	12.0 c	10.4 c	9.0 c

Source : Beer & Co estimates

## Conclusions

Balamara Resources has three coal projects in Poland.

The projected capital and operating costs of these projects are low, due to low average wages in Poland.

Despite current low coal prices, Beer & Co's analysis shows that each project is a valuable project even at current prices.

In our analysis, Beer & Co showed that each project would be viable using Australian wage rates only with our base case coal prices and not viable at current prices.

Despite the fact that BMB will need to raise equity to develop each project, Beer & Co initiates research on BMB with a BUY, High Risk, recommendation.

Over time, the projects should be progressively de-risked and the valuation rise accordingly.

Beer & Co initiates research on BMB with a BUY, High Risk, recommendation.

Our valuation is fairly robust to current coal prices and higher costs.

## BMB : Three projects in Poland

### Why Poland ?

Derek Lenartowicz is the Executive Chairman of Balamara Resources (BMB). He is an Australian mining engineer, from a Polish family background.

Poland is part of the EU and has implemented market reforms. It has low sovereign risk.

Costs in Poland are low; with an average wage of €681, or about \$A 1,000, a month. The combination of low sovereign risks and low costs is very attractive.

Poland has a long mining history, so appropriate mining skills can be sourced.

Poland has generally good infrastructure and it is near major markets.

### Why Coal ?

BMB has been able to acquire 3 coal projects in Poland. The first, Nowa Ruda, was acquired in July 2013, while both Mariola and Sawin were acquired in July 2014.

Nowa Ruda, which was acquired as an exploration tenement, was a previously operating mine that closed in 1996. Mariola has never been mined, although is advanced in status.

Sawin is also an exploration tenement. It is in the Lublin coal basin, which hosts the Bogdanka coal mine which is producing 8Mt/yr of thermal coal, and increasing.

The acquisition costs of each of these 3 projects was low.

Figure 1 shows that while Poland is a major producer, especially of thermal coal, it is also a significant importer of thermal coal; Figure 16 shows that Poland is an exporter of coking coal.

**Figure 16 : Poland's coal**

	2009	2010	2011	2012	2013
<b>Production</b>					
Coking	8,541 kt	11,658 kt	11,435 kt	11,738 kt	12,200 kt
Thermal	69,524 kt	65,070 kt	63,943 kt	66,503 kt	64,300 kt
<b>Net Exports</b>					
Coking	974 kt	5,370 kt	2,220 kt	3,663 kt	7,673 kt
Thermal	(2,975kt)	(8,921kt)	(10,908kt)	(6,237kt)	(6,484kt)

Source : KTK Polska, 2013

BMB is expected to make good returns from producing coal in Poland :

- Acquisition costs are low;
- General costs are low; both capital and operating costs, reflecting low average wage costs and low power costs;
- Poland has a long mining history, so skilled operators are available.

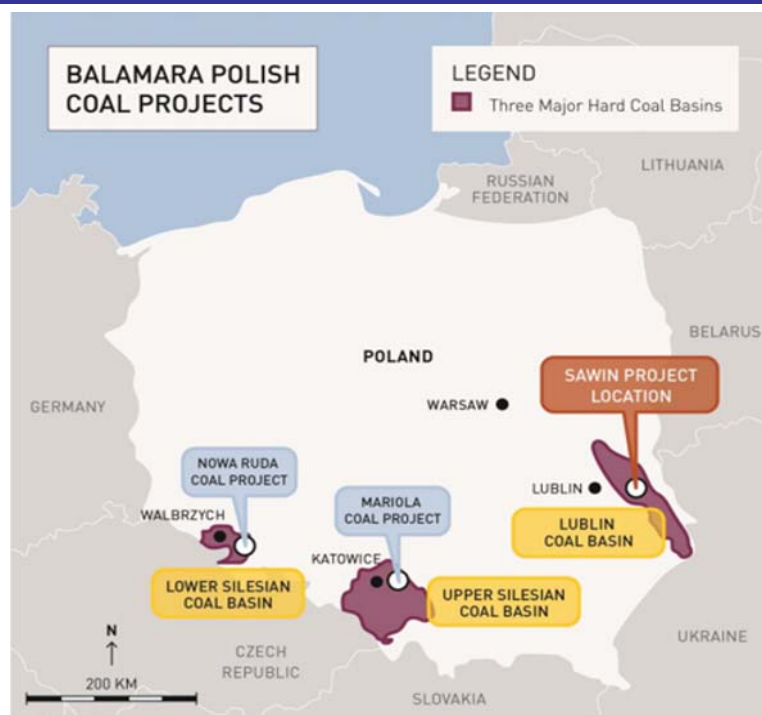
In our analysis, we show that even at current low prices, BMB will be able to generate good returns.



## Three Coal Projects

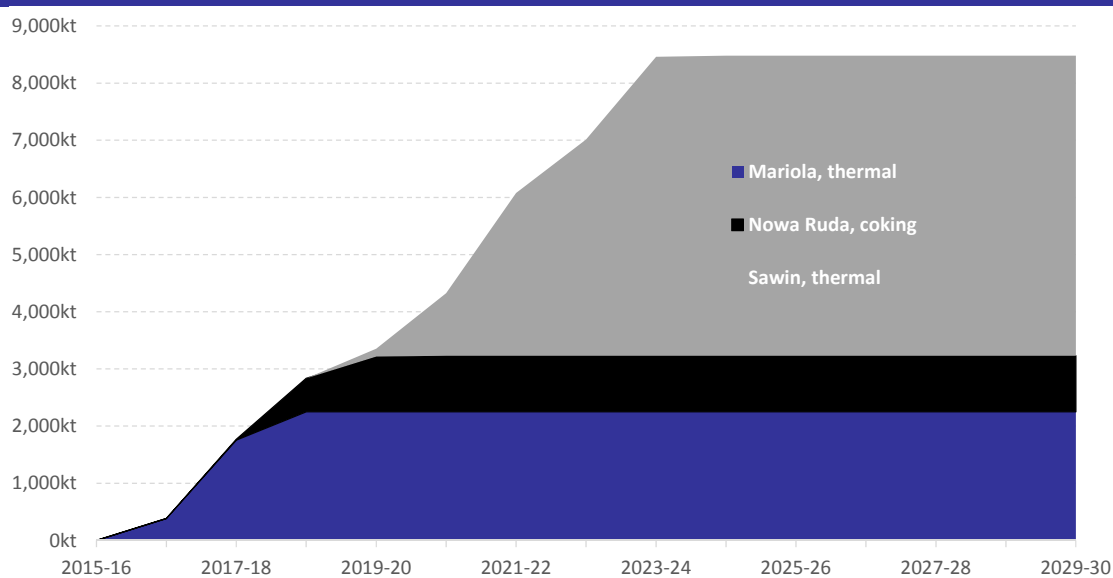
Figure 17 shows the location of BMB's 3 coal projects, in the different coal basins of Poland. Figure 18 shows Beer & Co's projected production of saleable coal, showing our assumptions on the timing of their development.

**Figure 17 : BMB's Three coal projects in Poland**



Source : BMB ASX announcement, 22 July 2014

**Figure 18 : Beer & Co's assumed production from BMB's 3 coal projects**



Source : Beer & Co's projections



## Other BMB Projects

In addition to these three coal projects, BMB also has :

- An agreement to sell its Balkans base metals projects, for \$15m,
  - Agreement to sell was reached in February 2014 and settlement has been delayed;
- A tender for a phosphate project in Togo,
  - Final tender offers were submitted in April 2014 and a series of meetings have been held with Togo Government officials
  - While BMB has assembled a consortium to execute the project, BMB has now down-graded its involvement reflecting the lack of progress;
- Bogdan copper-zinc project in Poland, which is along strike from KGHM
  - The results of the initial drill programme were not as strong as hoped for and BMB is reviewing next steps
- Peelwood Cu-Zn project in NSW, of which BMB has an 80% interest
  - BMB is farming down its interest
- Elsinora gold project in NSW of which BMB has a 100% interest
  - BMB is farming down its interest to Alkane Resources.

## Mariola Coal Project

### Background

BMB announced the acquisition of a 15% interest in the Mariola project on 24 July 2014. The acquisition price was valued at \$1.6m comprising \$0.5m in cash, of which \$0.4m was to be spent on project development, and 11.8m BMB shares.

The vendor is Carbon Investments, which was targeting first product by the end of 2016.

BMB expect to receive a maiden JORC Resource very soon.

We understand that the coal is a good quality thermal coal which can be sold to the operating power station that is 2km from the mine.

### Development

BMB expect that development capital will be about US\$ 50m, as BMB indicated it will be about 1/3 of the cost of the \$150m expected for Nowa Ruda.

It is expected to be developed as an underground mine even though the first major coal seam is only about 100m below surface.

We have assumed 2 continuous miner units, producing about 400kt/yr of RoM coal each, from development, plus a long wall for a total of 3.0Mt/yr of RoM coal.

We expect the yield to be about 75% from run of mine coal to saleable coal, as shown in Figure 19 below.

**Figure 19 : Expected production from Mariola**

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
RoM coal produced	0 kt	600 kt	2,478 kt	3,000 kt	3,000 kt	3,000 kt	3,000 kt	3,000 kt
Washery Yield	64 %	69 %	74 %	75 %	75 %	75 %	75 %	75 %
Product coal	0 kt	411 kt	1,837 kt	2,250 kt	2,250 kt	2,250 kt	2,250 kt	2,250 kt
Coal sold	0 kt	383 kt	1,753 kt	2,250 kt	2,250 kt	2,250 kt	2,250 kt	2,250 kt

Source : Beer &amp; Co estimates

Beer & Co's estimated cap.ex to the start of production at Mariola is \$50m as shown in Figure 20.

As shown in Figure 5, this estimate does not include the cost of the mining units.

The mining units are included as an operating cost. Assuming the capital costs shown, the mining rates assumed, a life of 6 years with zero residual value and an interest rate of 9%, this gives a cost of \$5.6/t for the CM units and \$2.5/t for the long-wall.

In any event, the capital costs are low. This is due to :

- Maroila is shallow with thick, continuous seams; and
- Polish labour costs are low, as the average wage is about \$A 1,000/month.

**Figure 20 : Expected Cap.ex**

Decline Access	US\$ 4.0 m
C H P P	US\$ 24 m
Mine development	US\$ 3.0 m
Ventilation	US\$ 1.5 m
Infrastructure	US\$ 3.5 m
vehicles, etc	US\$ 1.5 m
drill rigs	US\$ 1.0 m
E P C M	US\$ 5.0 m
Contingency	US\$ 3.5 m
Other	US\$ 3.0 m
<b>TOTAL</b>	<b>US\$ 50.0 m</b>
Feasibility	US\$ 2.0 m
2 CM units	US\$ 20 m
1 LongWall	US\$ 25 m

Source : Beer &amp; Co estimates

## Cost Estimates

Figure 21 show the detail of our estimated C1 cash costs for Mariola, of \$29.4/t, or \$A 34.6/t. On all-in basis, the costs are USD 36.8/t and \$A 43.3/t.

Figure 21 shows that we project that mining costs will rise over time as the coal face gets further from the washplant and transport times increase.

**Figure 21 : Estimated cash costs for Mariola**

	LoM	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Mining	<b>\$ 12.5/t</b>	11.4	9.4	9.6	10.1	10.7	11.3	11.9
Mining units	<b>\$ 4.5/t</b>	8.1	4.7	4.5	4.5	4.5	4.5	4.5
Processing	<b>\$ 8.9/t</b>	12.9	9.3	8.7	8.7	8.8	8.8	8.8
Site Admin	<b>\$ 1.5/t</b>	3.1	1.6	1.4	1.4	1.5	1.5	1.5
Transport	<b>\$ 2.0/t</b>	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Royalties	<b>\$ 4.0/t</b>	3.7	3.8	4.0	4.0	4.0	4.0	4.0
Sustaining Capital	<b>\$ 3.3/t</b>	3.6	3.4	3.3	3.3	3.3	3.3	3.3
Quality / Location	<b>\$ 5.0/t</b>	5.0	5.0	5.0	5.0	5.0	5.0	5.0
<b>TOTAL</b>	<b>US\$ 42/t</b>	<b>US\$ 49/t</b>	<b>US\$ 39/t</b>	<b>US\$ 38/t</b>	<b>US\$ 39/t</b>	<b>US\$ 39/t</b>	<b>US\$ 40/t</b>	<b>US\$ 40/t</b>

Source : Beer &amp; Co estimates

Figure 21 also shows that Beer & Co has assumed, in this analysis, that Mariola thermal coal sells for a discount of \$5/t to the benchmark. We have done this as we do not have any information on the coal quality, in particular on the Sulphur (and other impurities, such as Fluorine) levels in the washed product, which should be covered in the Resource.

The Mariola coal should sell at a premium to benchmark as much can be sold to nearby power stations so should attract a location premium to a free on board benchmark, capturing some of the savings to the power station of a lower transport cost.

Note also that we have allowed for a royalty of 5%. We have not been able to get useful information on royalty rates for Poland.

To emphasise the impact of the low cost structures in Poland, Figure 22 shows the costs that would result using Australian wage rates. Note that we have kept other costs the same, though these could also be higher, in particular transport.

**Figure 22 : Mariola estimated costs, using Australian wage rates**

	LoM	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Mining	<b>\$ 27.8/t</b>	31.1	20.5	20.6	21.9	23.3	24.6	26.0
Mining units	<b>\$ 4.5/t</b>	8.1	4.7	4.5	4.5	4.5	4.5	4.5
Processing	<b>\$ 19.1/t</b>	33.5	20.1	18.2	18.3	18.4	18.5	18.7
Site Admin	<b>\$ 4.0/t</b>	9.5	3.9	3.6	3.6	3.7	3.8	3.8
Transport	<b>\$ 2.0/t</b>	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Royalties	<b>\$ 4.0/t</b>	3.7	3.8	4.0	4.0	4.0	4.0	4.0
Sustaining Capital	<b>\$ 3.3/t</b>	3.6	3.4	3.3	3.3	3.3	3.3	3.3
Quality / Location	<b>\$ 5.0/t</b>	5.0	5.0	5.0	5.0	5.0	5.0	5.0
<b>TOTAL</b>	<b>US\$ 70/t</b>	<b>US\$ 96/t</b>	<b>US\$ 63/t</b>	<b>US\$ 61/t</b>	<b>US\$ 62/t</b>	<b>US\$ 64/t</b>	<b>US\$ 65/t</b>	<b>US\$ 67/t</b>

Source : Beer & Co estimates

## Mariola – Financial outcomes

Figure 23 shows Beer & Co's projected financial outcomes for Mariola.

**Figure 23 : Beer & Co's projected financial outcomes for Mariola**

USD m	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Coal sold	0 kt	383 kt	1,753 kt	2,250 kt	2,250 kt	2,250 kt	2,250 kt	2,250 kt	2,250 kt	2,250 kt	2,250 kt	2,250 kt
Revenue per tonne	\$ 71/t	\$ 79/t	\$ 80/t	\$ 80/t	\$ 80/t	\$ 80/t	\$ 80/t	\$ 80/t	\$ 80/t	\$ 80/t	\$ 80/t	\$ 80/t
Revenue	0	30	140	180	180	180	180	180	180	180	180	180
Total Cash Costs	0	(15)	(46)	(54)	(56)	(57)	(58)	(60)	(61)	(63)	(64)	(64)
Royalties	0	(2)	(7)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)
Dep'n & Amort'sn	0	(3)	(10)	(13)	(12)	(12)	(12)	(11)	(8)	(8)	(8)	(8)
<b>E B I T</b>	<b>0</b>	<b>12</b>	<b>77</b>	<b>104</b>	<b>103</b>	<b>102</b>	<b>101</b>	<b>100</b>	<b>102</b>	<b>101</b>	<b>100</b>	<b>100</b>
Interest Expense	(1)	(3)	(3)	(3)	(2)	(2)	(1)	(0)	0	0	0	0
Tax Expense	0	(2)	(14)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)
<b>N P A T</b>	<b>(0)</b>	<b>7</b>	<b>60</b>	<b>82</b>	<b>82</b>	<b>81</b>	<b>81</b>	<b>81</b>	<b>83</b>	<b>82</b>	<b>81</b>	<b>81</b>
Feasibility	(2)	0	0	0	0	0	0	0	0	0	0	0
Project Cap.Ex Cap.Ex	(50)	0	0	0	0	0	0	0	0	0	0	0
Sus. Cap. Ex	0	(2)	(6)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)
<b>Net Cashflow</b>	<b>(52)</b>	<b>8</b>	<b>64</b>	<b>87</b>	<b>87</b>	<b>86</b>	<b>85</b>	<b>84</b>	<b>83</b>	<b>82</b>	<b>81</b>	<b>81</b>

Source : Beer & Co estimates

The coal price shown is the price received for Mariola. It shows that Beer & Co expects coal prices to rise over time.

In our modelling, we have the costs of the feasibility study in the current financial year, but we have included the costs in the next year for the purposes of illustration only.

We understand that Mariola is expected to have a significant mine life, especially at the mining rate of 3.0Mt/yr of RoM coal.

The net cashflow line in Figure 8 does not include the impact of financing, though it does include the impact of tax payments. Note that the Polish company tax rate is 19%.

## Mariola - Conclusions

Beer & Co's modelling suggests that Mariola achieves the target set by BMB for a Tier One asset, of an annual EBIT of \$100m.

The NPV of the after tax and financing costs, using a 10% discount rate, is USD 517m and the IRR is over 100%.

Even if the benchmark coal price is \$70/t, then our modelling gives an NPV that is still many times the capital invested, as shown in Figure 24.

Figure 9 also shows significant upside potential to our valuation from :

- Higher production rates from the expected mine set-up
  - If Mariola produces 3.0Mt/yr of saleable coal, rather than 3.0Mt/yr of raw coal
- If Mariola is able to achieve the equivalent of benchmark pricing, rather than the discount we have assumed, or even a premium.

**Figure 24 : Sensitivity of Beer & Co valuation of Mariola**

USD m	Base Case prices			Spot price = US\$ 70/t		
	(US\$5.0/t)	US\$ 0.0/t	US\$ 5.0/t	(US\$5.0/t)	US\$ 0.0/t	US\$ 5.0/t
3.0 Mt/yr RoM coal	<b>517</b>	577	638	336	397	457
3.0 Mt/yr Product coal	737	817	897	496	576	656

Source : Beer & Co estimates

## Nowa Ruda Coal Project

### Background

On 24 July 2013, BMB announced that it had acquired the Nowa Ruda project as an exploration tenement.

It had been mined for some time, being closed in 1995 when High Quality Hard Coking Coal prices were about US\$ 50/t.

Figure 25 shows product coal quality data from Nowa Ruda sales. It shows ash at a good level with low volatiles. Coke Strength after Reduction is not shown so we cannot be sure of the hardness.

However, the Swell is modest.

**Figure 25 : Nowa Ruda product coal quality**

	Moisture	Volatiles	Ash	CSN / FSI
1979	1.34%	23 %	8.0 %	2
1980	1.31%	24 %	7.5 %	2
1981	1.33%	22 %	8.5 %	2.5
1982	1.26%	22.5 %	7.6 %	3
1983	1.33%	23 %	7.2 %	3
1984		22.5 %	7.3 %	
1985		21.5 %	7.5 %	
1986		22.0 %	7.5 %	
1987		22.5 %	7.5 %	
1988		22.5 %	9.0 %	
1989		23.5 %	9.5 %	

Source : Balamara Resources

BMB also advised that the Sulphur level is around 1%, as shown in Figure 29.

## Geology

Nowa Ruda comprises 2 deposits, Waclaw, the more northern deposit, and Piast.

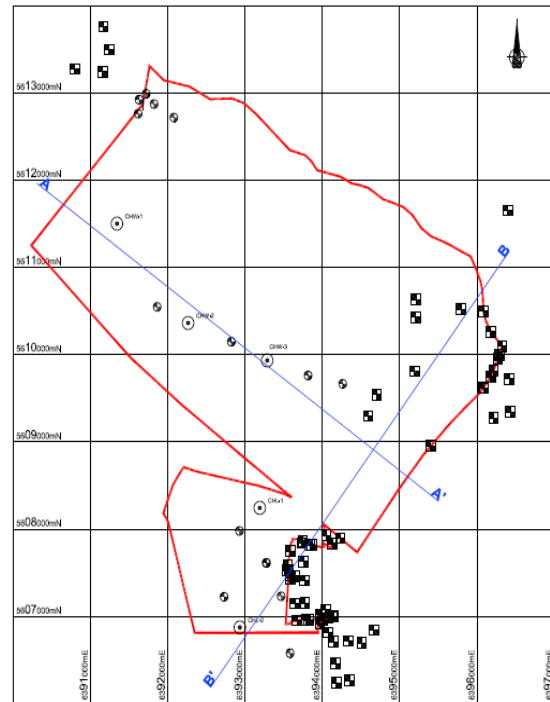
As shown in Figure 12, the deposit comprises a number of coal seams. The seams dip at about 20 degrees to 35 degrees to the southwest, although may locally steepen to around 70 degrees adjacent to faults.

Figure 27 also shows some faulting, though the seams do not appear to have a significant throw.

As the mine has been exploited, there is a significant amount of information from that time.

Figure 28 shows this information, with detail by coal type.

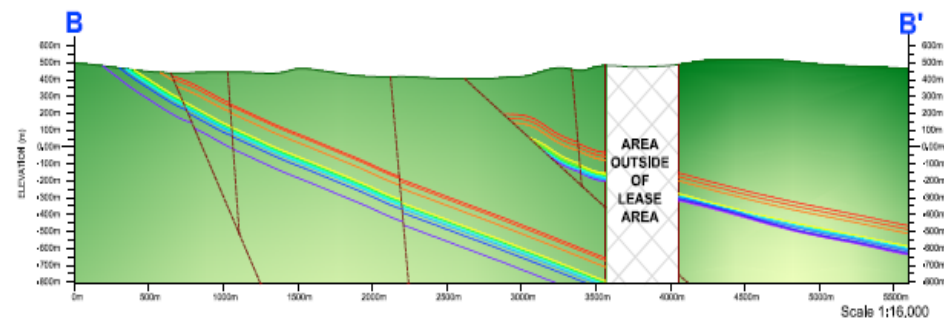
**Figure 26 : Now Ruda lease area**



Scale 1:30,000

Source : Balamara Resources

**Figure 27 : Cross Section, Nowa Ruda**



Source : Balamara Resources

## Resources

The detail in Figure 28 shows a range of coal types; the higher the number, the more valuable is the coal is a general rule. Also, A+B roughly relates to developed coal while C relates to Inferred Resources.

It shows a total of 105Mt. This compares with the Resource estimate announced by BMB in April 2014, as shown in Figure 14.

This was based on historical data and BMB has undertaken a drill programme to provide confirmatory data. A revised Resource estimate is expected in early 2015.

**Figure 28 : Polish geological information relating to Nowa Ruda**

Waclaw	A + B	C1	C2			
type 32		4,895 kt	3,374 kt	8,269 kt	gas-cannel coal	medium grade thermal coal
type 33		4,584 kt	595 kt	5,179 kt	gas coal	high grade thermal coal
type 34		9,889 kt	10,815 kt	20,704 kt	gas-coking coal	semi-soft coking coal
type 35		5,297 kt	10,680 kt	15,977 kt	ortho-coking coal	medium grade coking coal
type 37		11,005 kt	9,093 kt	20,098 kt	semi-coking coal	hard coking coal
type 41		13,078 kt	581 kt	13,659 kt	anthracite coal	anthracite coal
<b>Sub-Total</b>		<b>48,748 kt</b>	<b>35,138 kt</b>	<b>83,886 kt</b>		
<b>Piast</b>						
type 35	2,766 kt	347 kt	1,404 kt	4,517 kt	ortho-coking coal	medium grade coking coal
type 37	12,725 kt	1,026 kt	4,368 kt	18,119 kt	semi-coking coal	hard coking coal
<b>Sub-Total</b>	<b>15,491 kt</b>	<b>1,373 kt</b>	<b>5,772 kt</b>	<b>22,636 kt</b>		
<b>TOTAL</b>	<b>15,491 kt</b>	<b>50,121 kt</b>	<b>40,910 kt</b>	<b>106,522 kt</b>		

Source : BMB ASX announcement, 24 July 2013

**Figure 29 : JORC Resource and coal quality data**

		Moisture		Volatiles		Sulphur		Ash	
		As Received	Air Dried	As Received	Air Dried	As Received	Air Dried	As Received	Air Dried
Indicated	8.76Mt		1.10%	21.35%	22.78%	0.73%		29%	
Inferred	14.30Mt		1.10%	21.35%	22.78%	0.73%		29%	
<b>TOTAL</b>	<b>23.06Mt</b>								
Exploration	112.5Mt	9.4 %	1.02%	20%	22%	0.94%	1.16%	28%	22%
Target	160.7Mt								

BMB ASX announcements, 28 April 2014 and 2 May 2014

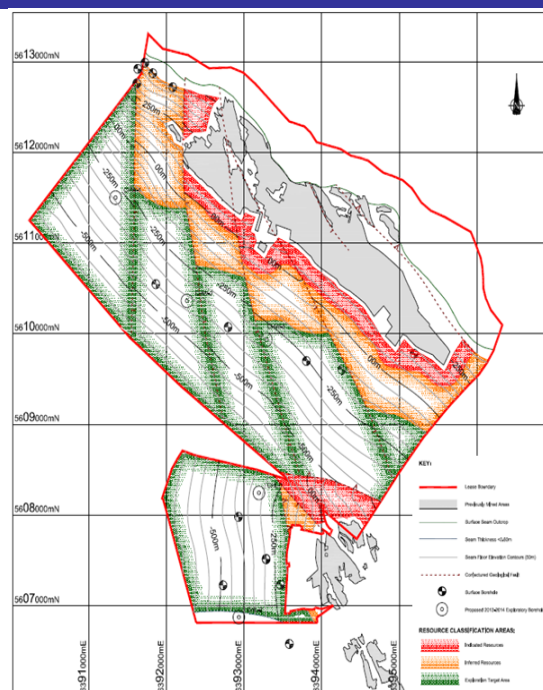
As shown in Figure 29, total Resources are estimated to be 23Mt, with a further Exploration Target of between 112Mt and 161Mt.

Even at the low end, this is greater than the 105Mt estimated by the previous miner using the Polish standard of 1995.

Figure 30 shows the location of these resources and shows that the Indicated Resources are immediately adjacent to areas that have been mined.

## Mining

The previous mining at Nowa Ruda has mined the shallower seams shown in Figure 27. The seams remaining to be exploited are about 650m below surface in the Lech deposit, which Figure 28 shows has some development and is also all coking coal, though by volume, the Waclaw deposit, which starts about 700m below surface, dominates.

**Figure 30 : Nowa Ruda Resources**

Source : Balamara Resources

Figure 31 shows that seam thicknesses in the Piast deposit are up to 7m, with most still a highly mineable width of more than 3.0m.

As shown in Figure 32, the seams in the Wacław deposit are generally thinner, with most in the range of 1.5m to 2.5m (ie. Shown in green in Figure 32).

In our estimation, Beer & Co assumes that the deposit is mined using 4 continuous miner units, progressively introduced, with 2 in each deposit.

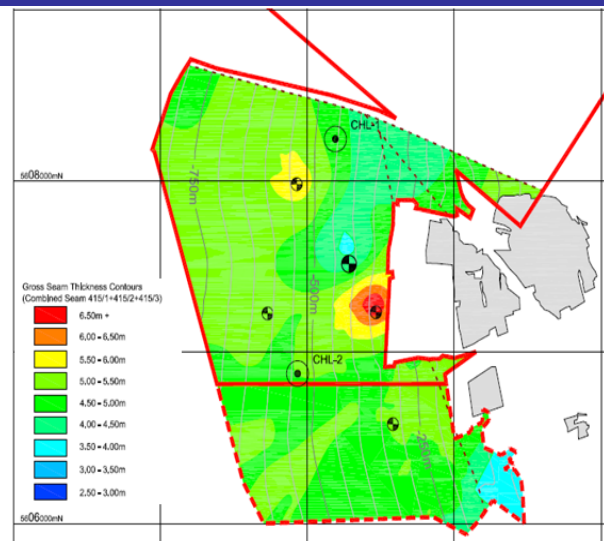
## Development

BMB have indicated an expected capital cost of about US\$ 150m.

BMB have been expecting an initial concept study on Nowa Ruda at about this time, but progress has been delayed, at least in part as BMB has acquired the Mariola project.

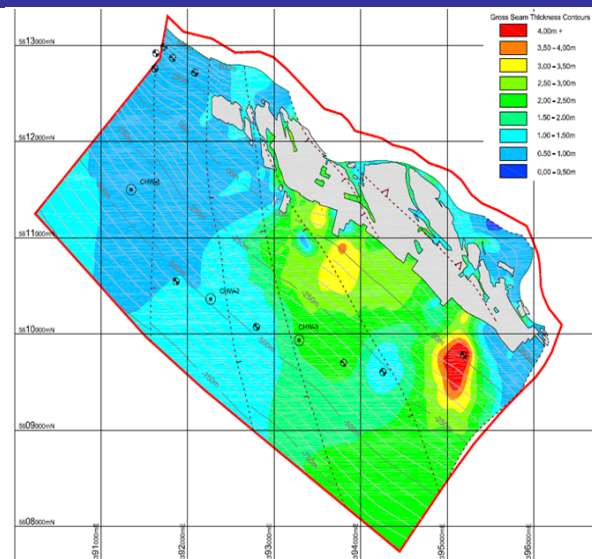
In our analysis, Beer & Co has allowed for an extended feasibility period, to end 2015. This allows the focus to be on the development of Mariola to generate some cash from operations.

**Figure 31: Nowa Ruda coal seam thicknesses**



Source : Balamara Resources

**Figure 32 : Nowa Ruda coal seam thicknesses**



Source : Balamara Resources

Nowa Ruda has considerable infrastructure in place, including extensive underground development, including :

- Production and ventilation shafts
  - the main shafts are in place but require regeneration work as they were capped and stripped of equipment;
- Horizontal underground development work, including cross-cuts and access drives between the two main deposits; and
- Surface infrastructure such as roads, rail, power and water are all available at the mine gate.



## Expected Production

In our analysis, we allow for an extended construction period of 18 months. First coal is expected in mid –2018. We also allow for an extended ramp up period, introducing one new CM unit each quarter.

As shown in Figure 33, Beer & Co projects that each CM unit will produce about 350kt/yr of Run of Mine coal. We allow for a 70% washery yield for just under 1.0Mt/yr of saleable, product coal.

**Figure 33 : Beer & Co's projection of coal produced from Nowa Ruda**

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026
RoM coal produced	35 kt	980 kt	1,400 kt	1,400 kt	1,400 kt	1,400 kt	1,400 kt	1,400 kt	1,400 kt	1,400
Washery Yield	60 %	64 %	69 %	70 %	70 %	70 %	70 %	70 %	70 %	70
Product coal	21 kt	629 kt	968 kt	980 kt	980 kt	980 kt	980 kt	980 kt	980 kt	980
Coal sold	17 kt	587 kt	966 kt	980 kt	980 kt	980 kt	980 kt	980 kt	980 kt	980

Source : Beer & Co estimates

## Cost Estimates

The basis of our costs was outlined in the discussion relating to Mariola. The detail of our cost estimates is shown in Figure 19. It shows estimated C1 costs of USD 51/t and All-In cash costs of USD 65/t.

**Figure 34 : Detail of cost estimates for Nowa Ruda**

	LoM	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Mining	\$ 16.6/t	27.7	16.7	15.2	15.3	15.6	15.9	16.2
Mining units	\$ 9.2/t	10.7	9.9	9.2	9.1	9.1	9.1	9.1
Processing	\$ 12.1/t	19.6	13.3	12.0	11.9	11.9	11.9	11.9
Site Admin	\$ 3.1/t	0.2	1.0	1.3	1.3	1.3	1.3	1.3
Transport	\$ 10.4/t	10.4	10.4	10.4	10.4	10.4	10.4	10.4
Royalties	\$ 6.3/t	5.0	5.9	6.3	6.3	6.3	6.3	6.3
Sustaining Capital	\$ 7.2/t	8.4	7.8	7.2	7.1	7.1	7.1	7.1
<b>TOTAL</b>	<b>US\$ 65/t</b>	<b>US\$ 82/t</b>	<b>US\$ 65/t</b>	<b>US\$ 62/t</b>	<b>US\$ 61/t</b>	<b>US\$ 62/t</b>	<b>US\$ 62/t</b>	<b>US\$ 62/t</b>

Source : Beer & Co estimates

The costs of the CM units in Figure 34 is much higher than it was Figure 7 as we have assumed lower productivity.

As shown in Figure 35, if Australian wage rates were to be used, then the costs would be significantly higher.

**Figure 35 : Comparing Polish v. Australian costs**

	Polish costs		Australian costs	
C1 =	\$ 51.3/t	AUD 60/t	\$ 92.0/t	AUD 108/t
AISC	\$ 64.9/t	AUD 76/t	\$ 105.6/t	AUD 124/t

Source : Beer & Co estimates

## Nowa Ruda – Financial Outcomes

Figure 36 shows Beer & Co's projected financial outcomes for Nowa Ruda.

**Figure 36 : Beer & Co's projected financial outcomes for Nowa Ruda**

USD m	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024
Coal sold	0 kt	0 kt	21 kt	629 kt	968 kt	980 kt	980 kt	980 kt	980 kt	980 kt
Revenue per tonne	\$ 103/t	\$ 113/t	\$ 125/t	\$ 126/t	\$ 126/t	\$ 126/t	\$ 126/t	\$ 126/t	\$ 126/t	\$ 126/t
Revenue	0	0	2	74	121	123	123	123	123	123
Total Cash Costs	0	0	(2)	(34)	(48)	(49)	(49)	(49)	(50)	(50)
Royalties	0	0	(0)	(4)	(6)	(6)	(6)	(6)	(6)	(6)
Dep'n & Amort'sn	0	0	(1)	(17)	(24)	(24)	(24)	(24)	(24)	(24)
E B I T	0	0	(0)	19	43	44	44	43	43	43
Interest Expense	0	0	(5)	(9)	(8)	(7)	(5)	(3)	(1)	(1)
Tax Expense	0	0	1	(2)	(7)	(7)	(7)	(8)	(8)	(8)
N P A T	0	0	(5)	8	28	30	31	33	34	34
Feasibility	(1)	(0)	0	0	0	0	0	0	0	0
Project Cap.Ex Cap.Ex	0	(75)	(75)	0	0	0	0	0	0	0
Sus. Cap. Ex	0	0	(0)	(5)	(7)	(7)	(7)	(7)	(7)	(7)
Net Cashflow	(1)	(75)	(79)	20	45	48	49	50	51	51

Source : Beer &amp; Co estimates

Figure 36 shows that we assume revenue of \$126/t of product coal for Nowa Ruda.

Over the two decades up until its closure in 1995, Nowa Ruda produced about 1Mt/yr of coking coal of which over 90% of this coal was sold to local coke plants. There are three existing coke plants in operation, all within a 100km radius of the Project, all of which are linked to Nowa Ruda by rail. At present some of these coke plants are sourcing coal from the USA and Australia.

Assessing the value of a coking coal is difficult as it depends on the other brands in the market and the qualities of the particular brand being offered.

As the swell is 2 to 3, we have assumed a semi-soft price of 71% of our assumed benchmark price for premium hard coking coal. Figure 37 shows that this is a conservative estimate given the recent history of coking coal prices.

**Figure 37 : Coking coal prices, 2014**

USD/t	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4
HQ HCC	143	120	120	119	100 %	100 %	100 %	100 %
ULV PCI	116	100	100	99	81.1 %	83.3 %	83.3 %	83.2 %
LV PCU	100	90	89	88	69.9 %	75.0 %	74.2 %	73.9 %
SS CC	103.5	90	89	?	72.4 %	75.0 %	74.2 %	

Source : Beer &amp; Co, various

We have also allowed for a location premium of \$5/t.

Given the volume of the coking coal mineralisation, as shown in Figure 13, and our assumed mining rate, we expect that the mine will have many years of operation.

Figure 38 shows that Beer & Co's base case valuation of Nowa Ruda is US\$ 229m.

**Figure 38 : Sensitivity of Beer & Co's valuation of Nowa Ruda**

Base Case prices			Spot price = US\$ 120/t		
71 %	75 %	80 %	71 %	75 %	80 %
<b>229</b>	260	299	67	89	116

Source : Beer &amp; Co estimates

## Nowa Ruda Conclusions

Figure 38 also shows that

- There is significant upside to Beer & Co's valuation if the achieved coal price is higher than we expect, and there is good reason to expect it could be; and
- Even at current coal prices, the Nowa Ruda project adds good value.

## Sawin

### Background

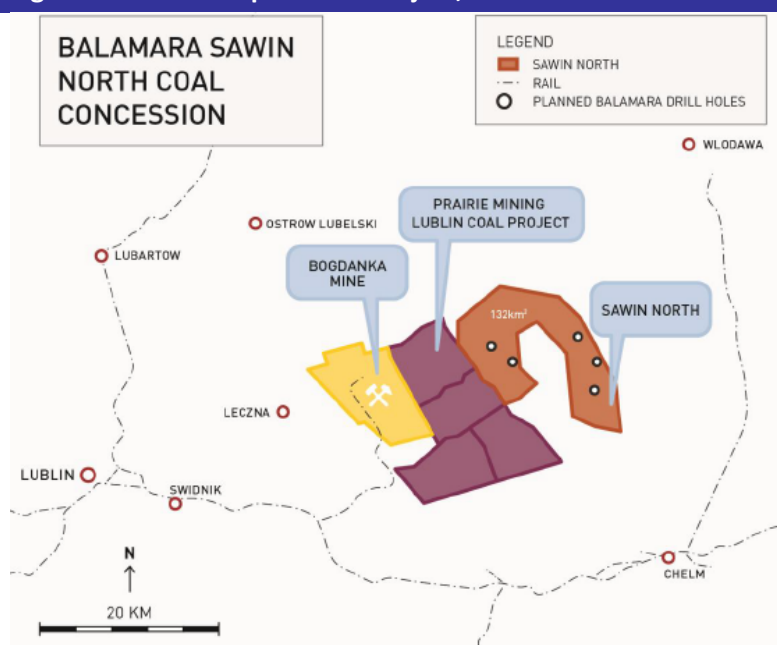
On 22 July 2014, BMB announced that it had been awarded the concession rights, for no acquisition cost, for the Sawin North Thermal Coal Project, located in the Lublin Basin of south-eastern Poland.

Sawin is a coal exploration licence covering an area of 132km<sup>2</sup>. BMB has been awarded the exploration tenements for an initial period of 3½ years.

The location of the Sawin project, in eastern Poland, was shown in Figure 1.

Figure 39 shows that the Sawin project is adjacent to ASX listed Prairie Mining's (PDZ) Lublin coal project.

**Figure 39 : Sawin Exploration Project, Lublin Basin**



Source : BMB ASX announcement, 21 July 2014

## Sawin - Mineralisation

### Sawin

BMB has yet to start drilling its Sawin property. It has been collecting available information to digitalise in order to deliver a maiden JORC resource, including that shown in Figure 40 which shows a total “foreign reserve” of 1,387Mt.

Figure 40 shows that the energy level is good and the ash level is moderate, but the coal will need washing to reduce its Sulphur levels.

**Figure 40 : Sawin Mineralisation**

		kCal/kg	dry ash	Sulphur
seam >1.0m	530.8Mt	6,488	11.66%	1.64%
seam >0.6m	856.2Mt			
<b>TOTAL</b>	<b>1,387Mt</b>			

Source : BMB ASX announcement, 21 July 2014

### Bogdanka

Bogdanka is listed on the Polish stock exchange. It has a market capitalisation of about \$1.6B. It produces about 8Mt/yr, with projections to over 9Mt/yr, of thermal coal. The coal has an average sulphur content of 1.1%, energy of 6,200kCal/kg and ash 8.4%.

### Prairie Mining (PDZ.ASX) – Lublin Coal Project

As shown in Figure 41, PDZ has a market capitalisation of \$59m, based on the Lublin Coal Project.

PDZ announced the results of a scoping study on Lublin on 30 April 2014. PDZ is now executing a pre-feasibility study which is expected to be completed by mid-2015.

PDZ stated that much of their costings were modelled on the operation at Bogdanka; note the low C1 cash cost.

Also, PDZ stated that royalties are about \$1.3/t.

PDZ expect to sell about half of their coal as a semi-soft coking coal, which will be exported, and the balance as a premium thermal coal, that can be consumed within Poland.

**Figure 41 : PDZ and Lublin**

Share price	43.5 c
Shares on Issue	134.7m
Market Capitalisation	\$A 59m
<b>Lublin Coal Project</b>	
C1 Cash costs	\$ 37/t
Capital Costs	US\$ 684m
Average saleable coal	6.0Mt
Resource	1,559Mt
<b>Lublin Coal</b>	
Energy (kCal/kg)	7,526 - 7,800
Coal Swell	4.0 - 6.0
Ash	2.0% - 2.7%
Volatiles	33.2% - 36.7%
Washery Yield	77.3%

Source : IRESS, Beer & Co

## Sawin -Development

In this analysis, Beer & Co has assumed that Mariola and Nowa Ruda are developed first, so development of Sawin is not rushed, but is developed properly.

We assume that BMB spend over \$4m on feasibility studies to mid-2018.

Given the significant volume of mineralisation, and high production volumes currently from Bogdanka and expected from PDZ's Lublin project, Beer & Co has assumed 7.0Mt/yr of RoM coal from 2 sets of 2 CM units and a Long-Wall, each producing 3.5Mt/yr.

We allow for a lengthy ramp-up period, as each mining unit is introduced and to allow time for the CM units to have achieved sufficient development for the LW to commence.

Figure 42 shows the projections that Beer & Co has used in this analysis.

**Figure 42 : Beer & Co's projected production from Sawin**

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028
RoM coal produced	250 kt	1,656 kt	3,875 kt	5,156 kt	7,000 kt	7,000 kt	7,000 kt	7,000 kt	7,000 kt	7,000
Washery Yield	66 %	71 %	75 %	75 %	75 %	75 %	75 %	75 %	75 %	75
Product coal	164 kt	1,180 kt	2,895 kt	3,867 kt	5,250 kt	5,250 kt	5,250 kt	5,250 kt	5,250 kt	5,250
Coal sold	139 kt	1,094 kt	2,847 kt	3,783 kt	5,231 kt	5,250 kt	5,250 kt	5,250 kt	5,250 kt	5,250

Source : Beer & Co estimates

## Sawin - Cost Estimates

The estimated capital cost for PDZ's Lublin project is US\$ 684m.

BMB believes they are able to develop the project for less. Beer & Co understands that PDZ's capital costs includes all the mining units. BMB is acquiring its mining units on a finance lease basis. Based on our earlier estimates, this leaves us with a capital cost of US\$ 600m to develop Sawin to 7.0Mt/yr of RoM.

Figure 43 shows the cash costs estimated by Beer & Co.

**Figure 43 : Beer & Co's estimated operating costs for Sawin**

	LoM	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Mining	<b>\$ 13.4/t</b>	14.7	12.6	12.0	11.9	12.1	12.6	13.1	13.6
Mining units	<b>\$ 4.0/t</b>	6.8	5.8	4.5	4.1	3.8	3.8	3.8	3.8
Processing	<b>\$ 8.3/t</b>	18.0	11.2	8.8	8.5	8.0	8.0	8.0	8.0
Site Admin	<b>\$ 1.3/t</b>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transport	<b>\$ 8.2/t</b>	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3
Royalties	<b>\$ 4.1/t</b>	3.5	3.8	4.1	4.0	4.1	4.1	4.1	4.1
Sustaining Capital	<b>\$ 5.4/t</b>	6.1	5.6	5.4	5.3	5.3	5.3	5.3	5.3
Quality / Location	<b>\$ 2.5/t</b>	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
<b>TOTAL</b>	<b>US\$ 47/t</b>	<b>US\$ 58/t</b>	<b>US\$ 48/t</b>	<b>US\$ 43/t</b>	<b>US\$ 43/t</b>	<b>US\$ 42/t</b>	<b>US\$ 43/t</b>	<b>US\$ 43/t</b>	<b>US\$ 44/t</b>

Source : Beer & Co estimates

The total costs shown in Figure 43 are low. As shown in Figure 44, these low costs are due to low costs in Poland and the costs would be much higher if Australian wage rates were to be paid.

**Figure 44 : Comparing Polish v. Australian costs**

	Polish costs		Australian costs	
C1 =	\$ 35.2/t	AUD 41/t	\$ 57.0/t	AUD 67/t
AISC	\$ 44.7/t	AUD 53/t	\$ 66.5/t	AUD 78/t

Source : Beer & Co estimates

## Swain – Financial Outcomes

Figure 43 shows that for the purposes of this analysis, Beer & Co has assumed that Sawin sells a thermal coal that sells at a discount of \$2.5/t to the FOB benchmark.

As Poland is a net importer of thermal coal, it is likely that the thermal coal will be sold at premium reflecting the cost of importing coal. We allowed a discount as we have little information on the quality of the coal, even though Lublin looks like a premium coal.

Figure 45 shows the cashflows projected by Beer & Co for Sawin.

**Figure 45 : Beer & Co's projected financial outcomes for Sawin**

USD m	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026
Coal sold	0 kt	0 kt	139 kt	1,094 kt	2,847 kt	3,783 kt	5,231 kt	5,250 kt	5,250 kt	5,250
Revenue per tonne	\$ 82.5/t	\$ 82.5/t	\$ 82.5/t	\$ 82.5/t	\$ 82.5/t	\$ 82.5/t	\$ 82.5/t	\$ 82.5/t	\$ 82.5/t	\$ 82.5/t
Revenue	0	0	11	90	235	312	432	433	433	4
Total Cash Costs	0	0	(8)	(38)	(78)	(100)	(132)	(135)	(138)	(14)
Royalties	0	0	(1)	(5)	(12)	(16)	(22)	(22)	(22)	(2)
Dep'n & Amort'sn	0	0	(4)	(27)	(61)	(80)	(105)	(98)	(81)	(8)
E B I T	0	0	(1)	21	84	116	173	179	193	2
Interest Expense	0	0	(4)	(22)	(35)	(38)	(34)	(29)	(23)	(2)
Tax Expense	0	0	1	0	(9)	(15)	(26)	(28)	(32)	(4)
N P A T	0	0	(4)	(0)	40	63	113	121	137	1
Feasibility	(4)	0	0	0	0	0	0	0	0	0
Project Cap.Ex Cap.Ex	0	(200)	(200)	(200)	0	0	0	0	0	0
Sus. Cap. Ex	0	0	(1)	(7)	(16)	(21)	(28)	(28)	(28)	(2)
Net Cashflow	(4)	(200)	(201)	(180)	86	123	189	191	190	1

Source : Beer & Co estimates

As shown in Figure 46, the base case valuation for Sawin estimated by Beer & Co is US\$ 593m

**Figure 46 : Sensitivity of Beer & Co's valuation of Sawin**

Base Case prices			Spot price = US\$ 65/t		
(US\$2.5/t)	US\$ 0.0/t	US\$ 2.5/t	(US\$2.5/t)	US\$ 0.0/t	US\$ 2.5/t
<b>593</b>	642	690	207	255	303

Source : Beer & Co estimates

## Sawin - Conclusions

Figure 46 shows that the Sawin project has good upside potential from the price received for the product coal.

Figure 46 also shows that Sawin is still a valuable project at current coal prices.

Sawin has the potential to be a much larger project, as its peers are.

## Balamara Valuation

### Background

BMB has a large number of projects.

In this analysis, we have assumed that BMB :

- is able to complete the sale of its Balkans Metals project for \$15m;
- continues to farm down its interests in its base metals exploration projects in NSW;
- does not spend any more time or capital on its Bogdan Cu-Zn project in Poland; and
- spins out the Togo phosphate project, if BMB should be successful in the tender it has lodged.

In combination, this leaves BMB as comprising 3 coal projects in Poland.

Our analysis has shown base case NPVs for each of these projects, as shown in Figure 47.

**Figure 47 :Valuation of BMB assets**

USD m	Mariola	Nowa Ruda	Sawin
Capital Invested	50	149	600
NPV generated	517	229	593

Source : Beer & Co estimates

### BMB Financials

In order to achieve the values in its assets, BMB needs to raise equity.

In this analysis, Beer & Co assumes that BMB receives \$15m from the sale of Balkan Mining and this funds the feasibility study for Mariola.

However, Beer & Co projects that to fund the \$50m development of Mariola, BMB needs to raise equity in addition to debt funding.

Figure 48 shows Beer& Co's projected financial outcomes for BMB.

It shows BMB raising both equity and debt to finance its successive projects.

Figure 48 also shows significant growth in earnings per share, despite the increase in equity on issue.

The small raising in 2017 is due to the exercise of granted performance shares by BMB management. There are three other raisings, one for each of the projects. Note that the amount raised, in AUD terms, is significantly less than capital cost of each project.

If coal prices for each of the projects is stronger than Beer & Co projects over the medium term, then the amount of equity raised may be significantly less.



**Figure 48 : Beer & Co's projected financials for BMB**

AUD m	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024
Mariola	0 kt	0 kt	383 kt	1,753 kt	2,250 kt	2,250 kt	2,250 kt	2,250 kt	2,250 kt	2,250 kt	2,250 kt
Now Ruda	0 kt	0 kt	0 kt	17 kt	587 kt	966 kt	980 kt	980 kt	980 kt	980 kt	980 kt
Sawin	0 kt	0 kt	0 kt	0 kt	0 kt	139 kt	1,094 kt	2,847 kt	3,783 kt	5,231 kt	5,250 kt
Sales Revenue	0	0	36	167	299	368	463	633	724	864	864
Cost of Goods Sold	0	0	(17)	(56)	(104)	(131)	(169)	(218)	(247)	(286)	(286)
Royalties	0	0	(2)	(8)	(15)	(18)	(23)	(32)	(36)	(43)	(43)
Corporate Costs	(2)	(2)	(3)	(3)	(4)	(5)	(6)	(6)	(6)	(6)	(6)
EBITDA	(2)	(2)	14	100	177	214	268	382	439	533	533
Dep'n & Amort'sn	0	0	(3)	(13)	(35)	(48)	(74)	(114)	(135)	(160)	(160)
Interest Expense	0	(1)	(3)	(10)	(14)	(17)	(35)	(48)	(48)	(42)	(42)
Tax Expense	1	1	(2)	(23)	(39)	(45)	(48)	(66)	(77)	(99)	(99)
NPAT	(1)	(2)	6	54	90	105	111	153	179	232	232
Shares on Issue	841m	841m	1,494m	1,524m	1,865m	1,865m	1,865m	1,865m	1,865m	1,865m	1,865m
Equity raised	19	0	46	3	48	0	0	0	0	0	0
Total Debt	0	0	138	135	287	481	490	462	425	346	346
Feasibility	(4)	(2)	(2)	(1)	0	0	0	0	0	0	0
Project Capital	0	(58)	(88)	(88)	(235)	(235)	(235)	0	0	0	0
Sustaining Capital	0	0	(2)	(7)	(15)	(18)	(25)	(35)	(41)	(50)	(50)
Earnings per Share	<b>(0.3c)</b>	<b>(0.2c)</b>	<b>0.4 c</b>	<b>3.5 c</b>	<b>4.8 c</b>	<b>5.6 c</b>	<b>6.0 c</b>	<b>8.2 c</b>	<b>9.6 c</b>	<b>12.4 c</b>	<b>13.3 c</b>

Source : Beer &amp; Co estimates

## BMB Valuation

Figure 49 shows the detail of Beer &amp; Co's base case valuation of BMB of 27c/share.

**Figure 49 : Beer & Co's base case valuation : 27c**

discount rate = 12.0 %		30-Jun-14		29-Sep-14	
	risk :	100%	Product	per share	
Mariola	40 %	\$ 495m	\$ 198m	10.7 c	11.0 c
Nowa Ruda	40 %	\$ 211m	\$ 84m	4.6 c	4.7 c
Sawin	30 %	\$ 494m	\$ 148m	8.0 c	8.2 c
Asset sale	100 %	\$ 13m	\$ 13m	0.7 c	0.5 c
Exploration	80 %	\$ 0m	\$ 0m	0.0 c	0.0 c
Corporate	100 %	(\$37m)	(\$37m)	(2.0c)	(1.6c)
Cash to be raised	100 %	\$ 79m	\$ 79m	4.3 c	4.1 c
Cash / debt	100 %	\$ 0m	\$ 0m	0.0 c	0.4 c
<b>TOTAL</b>		<b>\$ 1,255m</b>	<b>\$ 486m</b>	<b>26.3 c</b>	<b>27.4 c</b>
Shares on issue		342m	FPO shares	30.0m	perf shares
		484m	issued 2015		
		653m	issued 2016-17		
		341m	Issued 2018-19		

Source : Beer &amp; Co estimates

Note that Beer &amp; Co's valuation :

- uses a 12% real discount rate on the after-tax cashflows, while the asset valuation used a 10% discount rate
  - equity markets use higher discount rates than assets tend to trade at
  - this is higher than academic literature, but equity markets are currently demanding higher rates
- risk weights each of the projects, due to the amount of further work to be done on each, each step should de-risk the project and cause an uplift in valuation.

## Sensitivity Analyses

There are three key factors in Beer & Co's valuation

- the low cash costs, due to low wage costs in Poland;
- the projected rise in coal prices; and
- the discount to benchmark assumed in Beer & Co's analysis.

Our analysis earlier showed that the projects appeared marginal if Australian wage costs are assumed.

Figure 50 shows that, even assuming current "spot" prices (\$120/t for premium coking coal and \$70/t for thermal coal), and with significant cost penalties, Beer & Co's derived valuation is still greater than the current share price.

**Figure 50 : Sensitivity of Beer & Co's valuation**

<b>Cost penalty :</b>	<b>0 %</b>	<b>10 %</b>	<b>20 %</b>	<b>30 %</b>
Base Case coal prices	27.4 c	24.1 c	21.3 c	18.8 c
spot coal prices	13.7 c	12.0 c	10.4 c	9.0 c

Source : Beer & Co estimates

Note that our analysis suggested that each project should achieve better prices than we have assumed for location and quality.

## BMB - Conclusions

Balamara Resources has three coal projects in Poland.

The capital and operating costs of these projects are low, due to low average wages in Poland.

Despite current low coal prices, Beer & Co's analysis shows that each project is a valuable project even at current prices.

In our analysis, Beer & Co showed that each project would be viable using Australian wage rates only with our base case coal prices and not viable at current prices.

Despite the fact that BMB will need to raise equity to develop each project, Beer & Co initiates research on BMB with a BUY, High Risk, recommendation.

Over time, the projects should be progressively de-risked and the valuation rise accordingly.

## Board and Management

### Derek Lenartowicz

### Executive Chairman



Mr Lenartowicz has been with the company since the 2nd of May 2007 as an Executive Director, and recently appointed as Executive Chairman from 1 August 2011. He brings to the company extensive project development and mining experience, from previous positions within major Australian resources companies at a senior management level. As an Executive Chairman, he will focus primarily on bringing new projects into the company and assisting with the development of these projects moving forward.

Mr Lenartowicz is a mining engineer with significant experience in developing and operating large scale resource projects such as Western Mining's flagship nickel operation at Mt Keith in Western Australia (1.7 million tonnes of nickel). Prior to his engagement with Western Mining, he held senior positions at North Limited and Dominion Mining. Previously, Mr. Lenartowicz was the Managing Director of View Resources Limited.

### Mike Ralston



### Managing Director




Mr Ralston was appointed to the board as a Non-Executive Director on 1 March 2011, and quickly became Managing Director as of the 1st of August 2011. Mike has been a Senior Executive Manager with extensive international experience over the last 20 years, working in both private and public companies in Australia, Africa and the United Kingdom. He has spent the past 10 years living in Australia, and he is now an Australian citizen, residing in Perth with his family. He has worked as Chief Finance Officer for four junior ASX-listed resource companies over that period, covering both senior management and board roles. Mr Ralston has 15 years' experience working in senior corporate and finance roles across the world and has held both executive management and Director positions with several ASX-listed resource companies since his move to Australia. As CFO of Kangaroo Resources, Mr Ralston was part of the management team which helped drive the company in the space of two years from a \$5 million shell company with minimal value or assets to a company with a current market capitalisation of \$600 million when it was sold in 2011 to one of Indonesia's big coal producers.

Mike is an aggressive, ambitious and energetic driver of the business with a strong delivery record and he is most suited to a dynamic growth environment. He is a team player but is also entrepreneurial by nature and he has wide commercial and management experience, particularly in the mining sector.

He can fulfil a wide scope of executive management functions including general management, financial management, corporate and strategy, reporting, fund raising, business development, company secretarial and shareholder relations.

<b>Milos Bosnjakovic</b>	<b>Executive Director</b>
	<p>Mr. Bosnjakovic was co-founder of Sultan Corporation Limited which became Balamara Resources, and has been with the Company as Executive Director since the 2nd of June 2009. Prior to emigrating to New Zealand in 1996, Mr. Bosnjakovic served as a lawyer in the Government of former Yugoslavia. During his time in New Zealand, he was the Managing Director of Globe Trade, a company whose value tripled under his leadership.</p> <p>Currently, Mr. Bosnjakovic is the Managing Director of the family run residential development company MBL Construction, as well as the founder and Executive Chairman of the building construction company MB Point Pty Ltd. He has developed MBL Construction from ground level into a multimillion dollar property development company, and has lead MB Point to become one of the state's most successful boutique residential building companies which employees over 100 contractors and permanent staff. Mr. Bosnjakovic possesses extensive knowledge in project management and development, financial control, and contract negotiation. As a former practising lawyer, he has a high level of competency in all aspects of business law, and laws relating to private and public companies. Thanks to considerable business experience within Australia and overseas, Mr. Bosnjakovic has strong managerial skills which often encompass the running of numerous projects at one time. Extensive travel and ability to speak multiple languages has helped him build a wide and influential business and political network.</p>
<b>Michael Hale</b>	<b>Independent Non-Executive Director</b>
	<p>Mr Hale was appointed as the Independent Non-Executive Director on the 12th of April 2011. Michael is a former public servant within the Cabinet Office for the state Government of Western Australia, with strong public and administration skills and experience. His role at Balamara is primarily with governance, strategy and other corporate office affairs. He also plays a key role as an independent Director on the board. Mr Hale is currently Managing Director of boutique capital and advisory firm Western Capital Limited.</p>

<b>Kevin Alexander</b>		<b>Chief Geologist</b>
	Mr Alexander is a geologist with 25 years' experience in the exploration and mining of base metals, gold and diamonds in Australia, Indonesia, Russia, Kazakhstan and Armenia. He has held a number of senior geological management positions and has considerable exposure to projects ranging from pre-feasibility stage through to advanced development and operating mines.	

<b>Daniel Kendall</b>		<b>Financial Controller/Company Secretary</b>
	Mr Kendall is a Chartered Accountant with a background in finance derived from his time in audit during his career at BDO Perth, along with international experience working in London as a Financial Controller within the Royal Bank of Scotland. His focus is on all financial matters, including treasury, systems, procedures, budgeting and forecasting, financial reporting and controls.	
	His experience in developing appropriate financial controls and cash management within the Company is critical as Balamara grows into a larger and more mature resource company over the medium term. Mr Kendall is also studying to becoming a member of the Chartered Secretaries of Australia	

## Beer &amp; Co Research

Balamara Resources (BMB.ASX)

September 2014

Year ended June		2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Section 1 - P&L								
Sales revenue	\$A m	0	0	0	36	167	299	368
Interest revenue	\$A m	0	0	0	0	0	2	1
Other revenue	\$A m	0	0	0	0	0	0	0
<b>Total Revenue</b>	\$A m	0	0	0	36	168	300	369
Cost of Goods Sold	\$A m	0	0	0	(17)	(56)	(104)	(131)
Royalties	\$A m	0	0	0	(2)	(8)	(15)	(18)
Exploration Expense	\$A m	(8)	0	0	0	0	0	0
Corporate Costs	\$A m	(2)	(2)	(2)	(3)	(3)	(4)	(5)
Other Operating Expenses	\$A m	(2)	0	0	0	0	0	0
<b>Total Operating Expenses</b>	\$A m	(13)	(2)	(2)	(22)	(68)	(123)	(155)
<b>EBITDA</b>	\$A m	(13)	(2)	(2)	14	100	177	214
Dep'n & Amort'sn	\$A m	0	0	0	(3)	(13)	(35)	(48)
<b>EBIT</b>	\$A m	(13)	(2)	(2)	11	87	142	167
Interest Expense	\$A m	0	0	(1)	(3)	(10)	(14)	(17)
Other	\$A m	0	0	0	0	0	0	0
<b>Pre-Tax Profit</b>	\$A m	(13)	(2)	(3)	8	77	129	150
Tax Expense	\$A m	1	1	1	(2)	(23)	(39)	(45)
<b>NPAT</b>	\$A m	(12)	(1)	(2)	6	54	90	105
<b>Reported NPAT</b>	\$A m	(12)	(1)	(2)	6	54	90	105

**Section 2 - Key Data**

Ordinary shares - year end	m	341.7	840.9	840.9	1,493.7	1,523.7	1,864.9	1,864.9
Fully diluted shares on issue	m	371.7	870.9	870.9	1,523.7	1,553.7	1,894.9	1,894.9
Weighted # shares	m	335.5	499.7	840.9	1,493.7	1,516.2	1,864.9	1,864.9
Earnings per Share	(3.9c)	(0.3c)	(0.2c)	0.4 c	3.5 c	4.8 c	5.6 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	

**Section 3 - Balance Sheet**

Cash	\$A m	0	27	2	1	64	15	91
Receivables	\$A m	0	0	0	5	21	33	38
Other	\$A m	1	0	0	0	0	0	0
<b>CURRENT ASSETS</b>	\$A m	1	27	2	6	85	48	129
Receivables	\$A m	0	0	0	0	0	0	0
P, P & E	\$A m	0	0	58	145	227	437	636
Mining Properties / Exploration	\$A m	2	6	8	10	11	10	9
Other	\$A m	0	0	0	0	0	0	0
<b>NON-CURRENT ASSETS</b>	\$A m	2	6	66	154	238	447	645
<b>TOTAL ASSETS</b>	\$A m	3	33	68	161	323	495	774
Payables	\$A m	1	0	0	3	8	14	16
Debt	\$A m	0	0	0	3	9	23	25
Other	\$A m	0	0	0	0	0	0	0
<b>CURRENT LIABILITIES</b>	\$A m	1	0	0	6	17	37	42
Long Term Debt	\$A m	0	0	0	135	126	264	456
Deferred Tax Liability	\$A m	0	0	0	0	0	0	0
Other	\$A m	0	0	0	0	0	0	0
Provisions	\$A m	0	0	0	0	0	0	0
<b>NON-CURRENT LIABILITIES</b>	\$A m	0	0	0	135	126	264	456
<b>TOTAL LIABILITIES</b>	\$A m	1	0	0	141	143	301	498
<b>NET ASSETS</b>	\$A m	2	33	68	20	180	194	277
Accumulated Profit (Loss)	\$A m	(63)	(65)	(67)	(61)	(7)	83	188
Reserves	\$A m	3	16	53	(47)	56	(68)	(91)
Contributed Equity	\$A m	63	81	81	128	131	179	179
	\$A m	2	33	68	20	180	194	277
Minority Interest	\$A m	0	0	0	0	0	0	0
<b>Total Equity</b>	\$A m	2	33	68	20	180	194	277

**Section 4 - Cashflow**

Net Cashflow from operations	\$A m	(2)	(2)	(2)	14	100	176	213
Net Interest Paid	\$A m	0	0	(0)	(3)	(9)	(12)	(16)
Taxes Paid	\$A m	0	0	0	(2)	(15)	(25)	(29)
Change in Working Capital	\$A m	(1)	0	0	(3)	(11)	(6)	(2)
<b>OPERATING CASHFLOW</b>	\$A m	(3)	(2)	(3)	7	64	132	166
Exploration Expenditures	\$A m	(3)	(4)	(2)	(2)	(1)	0	0
Maintenance Capex	\$A m	0	0	0	(2)	(7)	(15)	(18)
Expansion Capex	\$A m	0	0	(58)	(88)	(88)	(235)	(235)
<b>PPE Acquisitions (Total Capex)</b>	\$A m	(3)	(4)	(60)	(91)	(97)	(250)	(254)
PPE Divestments	\$A m	0	14	0	0	0	0	0
<b>INVESTING CASHFLOW</b>	\$A m	(3)	10	(60)	(91)	(97)	(250)	(254)
Change in Equity	\$A m	6	19	0	46	3	48	0
Dividends Paid	\$A m	0	0	0	0	0	0	0
Change in Debt	\$A m	0	0	0	0	0	0	0
<b>FINANCING CASHFLOW</b>	\$A m	6	19	0	46	3	48	0
<b>Free Cashflow</b>	\$A m	(6)	8	(63)	(85)	(32)	(118)	(88)
<b>Net Cashflow</b>	\$A m	0	27	(63)	(38)	(29)	(69)	(88)

**Commodity price assumptions**

Year ended June		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
HQ HCC	US\$ / t	138	153	169	170	170	170
Semi-Soft	US\$ / t	98	108	120	121	121	121
Thermal	US\$ / t	71	76	84	85	85	85
AUD-USD		0.916	0.863	0.850	0.850	0.850	0.850

**Mine Production and prices**

<b>Mariola</b>							
coal price	US\$ / t	66	71	79	80	80	80
Run of Mine	000 t	0	0	600	2,478	3,000	3,000
Saleable	000 t	0	0	383	1,753	2,250	2,250
<b>Nowa Ruda</b>							
coal price	US\$ / t	103	113	125	126	126	126
Run of Mine	000 t	0	0	0	35	980	1,400
Saleable	000 t	0	0	0	17	587	966
<b>Sawin</b>							
coal price	US\$ / t	68	74	81	83	83	83
Run of Mine	000 t	0	0	0	0	0	250
Saleable	000 t	0	0	0	0	0	139

**Minimng Inventory**

	Indicated	Inferred	Target	TOTAL
<b>Nowa Ruda</b>				
Coking	8.8Mt	14.3Mt	70.0Mt	93.1Mt
Thermal			42.5Mt	42.5Mt
<b>Mariola</b>				
Thermal			200Mt	200Mt
<b>Sawin</b>				
Thermal			531Mt	531Mt

**Asset based Valuation**

discount rate = 12.0 %	30 June 2014	30-Sep-14
	risking	100% Product per share
Mariola	40 %	\$ 495m \$ 198m 10.7 c 11.0 c
Nowa Ruda	40 %	\$ 211m \$ 84m 4.6 c 4.7 c
Sawin	30 %	\$ 494m \$ 148m 8.0 c 8.2 c
Asset sale	100 %	\$ 13m \$ 13m 0.7 c 0.5 c
Exploration	80 %	\$ 0m \$ 0m 0.0 c 0.0 c
Corporate	100 %	(\$37m) (\$37m) (2.0c) (1.6c)
Cash to be raised	100 %	\$ 79m \$ 79m 4.3 c 4.1 c
Cash / debt	100 %	\$ 0m \$ 0m 0.0 c 0.4 c
<b>TOTAL</b>		\$ 1,255m \$ 486m 26.3 c <b>27.4 c</b>
Shares on issue		341.7m FPO shares 30.0m perf shares
		483.8m issued 2015
		652.8m issued 2016-17
		341.2m Issued 2018-19

**Estimated Cash Costs, US \$/t**

	LoM	2016-17	2017-18	2018-19	2019-20	2020-21
<b>Mariola</b>						
C1	29	37	42	31	23	22
AISC	37	44	34	33	34	34
<b>Now Ruda</b>						
C1	51	0	69	51	48	48
AISC	65	0	82	65	62	61
<b>Sawin</b>						
C1	35	0	0	0	46	36
AISC	45	0	0	0	55	45

**Financial Ratios**

Year ended June		2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Revenue	\$A m	0	0	36	168	300	369
EBITDA	\$A m	(13)	(2)	(2)	14	100	177
EBIT	\$A m	(13)	(2)	(2)	11	87	142
NPAT (reported)	\$A m	(12)	(1)	(2)	6	54	90
Adjusted EPS (cps)		(3.9c)	(0.3c)	(0.2c)	0.4 c	3.5 c	4.8 c
EPS Growth (%)			93 %	17 %	271 %	824 %	36 %
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	(2)	(23)	(28)	16	2	1
EV / EBITDA (x)	x	(2)	(13)	(24)	16	2	2
EV / EBIT (x)	x	(2)	(13)	(24)	20	2	3
Gearing (%)		0 %	0 %	86 %	42 %	58 %	62 %
Return on Assets		(6%)	(3%)	7 %	27 %	29 %	22 %
Return on Equity		(4%)	(3%)	29 %	30 %	46 %	38 %
EBITDA Margin (%)		n/a	n/a	n/a	40 %	60 %	59 %
Interest Cover (x)	x	n/a	n/a	(3.5)	3.5	8.9	10.4

**Substantial Shareholders**

Ample Skill	126.0m	35.2 %
Dereł Lenartowicz	16.7m	4.7 %
MBL Construction	16.6m	4.6 %
CEB Resources	11.8m	3.3 %

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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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