

NAE Managing Director's Update – 27 October 2014

I am delighted to provide this update on the results of the Lochinvar Scoping Study announced today. The Scoping Study has confirmed robust economics, low costs and a long life for the Lochinvar project based on an annual saleable coking coal production of 1.4 Mt over a 26-year mine life from an underground longwall mine.

A low operating cost of US\$70/t is expected for Lochinvar, placing it in an enviable position in the lowest quartile of the global seaborne coking coal cost curve. Lochinvar's low costs are a result of short rail transport distances to domestic customers and ports, low UK labour costs and royalties. These factors differentiate Lochinvar from other coking coal projects, making it an attractive development.

Our Scoping Study economics assume a realised sale price of US\$143/t for Lochinvar which represents an 87% quality and freight discount from a Hard Coking Coal (HCC) Benchmark price of US\$165/t. This HCC price is within the range of long term forecasts published by major investment banks and market analysts.

Based on these price assumptions, Lochinvar has an NPV₉ of US\$263M (after tax, unleveraged), an Internal Rate of Return (IRR) of 20% and a Payback Period of 4.9 years (undiscounted) which are very robust economics for the project.

Sensitivity analysis shows the project is breakeven at a US\$123/t HCC Benchmark price (US\$107/t realised Lochinvar price). The Lochinvar breakeven price is only slightly above the current benchmark contract coking coal price of US\$119/t, currently at an 8 year cyclical low. This provides NAE management with confidence that Lochinvar will significantly benefit from the forecast recovery in coking coal prices.

Lochinvar also has a relatively low project construction capital cost of US\$284M (including 13% contingency) as a result of its immediate access to existing rail and port infrastructure and local utilities required for project development.

Based on these positive Scoping Study results, an infill drilling program, seismic surveys, first ore reserve estimate and Pre-Feasibility study are planned for Lochinvar during 2015. Construction is planned to commence in 2017 with first coal production planned in 2018.

Please find enclosed a copy of today's announcement and a new investor presentation on the Lochinvar Scoping Study results which was also released today.

The NAE team is excited about developing a major new coal project in the UK, an excellent investment destination with low risk, an attractive fiscal regime and a rich coal mining history. It would be our pleasure to discuss the Scoping Study results with you, either in person or by phone, if you would like further information.

Kind regards

Gary Fietz
Managing Director