

RESEARCH NOTE

JAMESON RESOURCES LTD

24 September 2013



ALL SEAMS SHOWING COKING COAL CHARACTERISTICS

EVENT

- JAL has reported initial coal quality and washability results for the first of seven large diameter core (LDC) holes drilled at its Crown Mountain project.

ANALYSIS

- First hole averages an FSI of 6.7 and washability of 71% across all seams.**
The results from hole CM11-11-CH, drilled in the North Block, show coking coal characteristics across all coal seams with an average FSI of 6.7. Additionally, the washability numbers exceeded expectations with an average of 71% for an 8.5% ash product. While results from the remaining six LDC holes are yet to be returned, these initial results support our view that Crown Mountain's coal quality is likely to be comparable to the premium quality coking coals being produced by Teck's surrounding mines.
- Washability numbers support our assumption of a 50% washing yield.**
JAL completed a Preliminary Economic Assessment (PEA) for Crown Mountain in April 2013. This estimated the project could produce circa 1.6Mtpa of metallurgical coal over a 24 year mine life. We derive an NPV_{10%} of \$298m, based directly on the PEA and assuming a washing yield of 50%, being the mid-point of the 40% to 60% range provided in the PEA. Importantly, we believe these initial washability numbers support the assumptions in our current valuation.
- Crown Mountain remains on a fast-track to development.**
The Company expects to formally commence a Pre-Feasibility Study (PFS) in late 2013. We believe the coal quality and washability data produced over the coming months will provide robust support for the variables used in the PFS. Additionally, baseline environmental studies are well advanced with the collection of two years of water quality data having started back in April 2012.
- Q4-2013 hard coking coal settlement announced at US\$152/t FOB.**
Recent news reports suggest a settlement has been reached between BHP-BMA and Nippon Steel at US\$152/t FOB Australia. This reflects an increase of 4.8% Q-on-Q and is in-line with the current spot price of US\$151/t FOB.

EARNINGS IMPACT

- No impact.

RECOMMENDATION AND PRICE TARGET

- Maintain our BUY and a Price Target of \$0.70/share.
- Canadian coking coal mines become significantly more competitive.
Western Canada is becoming the premier jurisdiction for developing new coking coal mines. These coalfields offer established rail and port infrastructure, a low sovereign risk environment and have moved significantly down the cost curve.

24 September 2013

Company Information

Code	JAL
Last Price	\$0.26
12 Month Price Target	\$0.70
Total Shareholder Return	169.2%
NAV	\$0.87
Shares on Issue	211.4m
Market Capitalisation	\$55.0m
Free Float	81.1%
Monthly Turnover	\$0.5m

Financial Summary

	FY13e	FY14e	FY15e	FY16e
Revenue (\$m)	0.0	0.0	0.0	0.0
EBITDA (\$m)	-4.6	-3.9	-6.0	-2.3
D&A (\$m)	0.0	0.0	0.0	0.0
EBIT (\$m)	-1.6	-4.6	-3.9	-6.0
Net Interest (\$m)	0.1	0.1	0.4	1.1
Tax (\$m)	0.0	0.0	0.0	0.0
Underlying NPAT (\$m)	-1.5	-4.5	-3.5	-4.9
Abnormals (\$m)	0.0	1.0	2.0	3.0
Reported NPAT (\$m)	-1.5	-4.5	-3.5	-4.9
EPS (\$/sh)	-2.8	-1.7	-1.2	-1.1
EPS Growth (%)	n/a	n/a	n/a	n/a
DPS (\$/sh)	0.0	0.0	0.0	0.0
Cash (\$m)	2.9	8.1	45.1	44.7
Debt (\$m)	0.0	0.0	0.0	87.3
Debt/Equity (%)	0.0	0.0	0.0	77.3
Interest Cover (x)	n/a	n/a	n/a	n/a
ROE (%)	-10.7	-46.7	-18.7	-5.4
ROA (%)	-10.5	-45.6	-18.5	-5.4
NTA Per Share (\$/sh)	7.2	6.1	9.2	21.5
P/E (x)	n/a	n/a	n/a	n/a
EV/EBITDA (x)	n/a	n/a	n/a	n/a

Share Price Performance



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CROWN MOUNTAIN PROJECT

- **Resources**

In September 2012, JAL completed its maiden 25 hole RC drilling program at Crown Mountain. In February 2013, the Company reported an open pit coal resource of 90Mt, comprising 66Mt of Measured & Indicated and 24Mt of Inferred.

The resource is limited to a depth of 180m. It contains seven major coal seams with a combined average thickness of 35m in the North Block and 15m in both the South Block and Southern Extension.

In April 2013, a PEA determined a robust development case for Crown Mountain. The preliminary mine design captured 76Mt of the total 90Mt resource, representing an 84% conversion. Given the thick coal seams and favourable geometry of the deposit, the PEA estimated a very low raw coal strip ratio of 4.3:1 (waste BCM to raw coal tonne).

Figure 1. Crown Mountain In-Situ Coal Resource

Domain	Measured & Indicated (Mt)	Inferred (Mt)	Total (Mt)
North Block	15.0	0.0	15.0
South Block	51.3	0.0	51.3
Southern Extension	0.0	23.7	23.7
Total	66.3	23.7	90.0

Source: Jameson Resources

- **Coal quality and washability**

As with all of the metallurgical coal produced from the Elk Valley, the Crown Mountain raw coal will require processing through a wash plant. However, the RC drill samples collected in 2012 were considered unreliable to provide a definitive conclusion on washability and coal quality. As a result, the PEA made two key assumptions:

- A range of washing yields from 40% to 60% (our model is based on a 50% yield, being the mid-point)
- A clean coal product mix of 89.9% hard coking coal, 6.3% PCI coal and 3.8% thermal coal

In September 2013, JAL completed a 13 hole drilling program at Crown Mountain. This included seven LDC holes which will provide sufficient bulk samples to obtain a definitive conclusion on washability and coal quality.

These samples are currently undergoing initial tests at Birtley Coal & Minerals Laboratory in Calgary. The results from the first hole (CM11-11-CH), which was drilled in the centre of the North Block, showed washability is higher than expected and all seams have coking coal characteristics. For a targeted clean coal product with 8.5 to 9.5% ash, the average results across all seams indicate:

- Washability of 71.1% (ranging of 21% to 94%)
- FSI of 6.7 (ranging from 2 to 9)
- Ash of 8.57%

The analyses of the remaining six LDC holes are in progress at Birtley.

In addition to Birtley, specialised coking coal evaluations will be subsequently performed at CoalTech, CanMet, and SGS, giving JAL a full suite of coking coal quality data.

CASH FLOW FORECASTS

- Valuation and sensitivity analysis**

We derive an NPV_{10%} of \$298m for 100% of the Crown Mountain project. JAL has a 90% ownership and an option to purchase the remaining 10% for C\$2m at any time.

Our forecast capital and operating costs are based directly on the PEA and we assume a washing yield of 50%, being the mid-point of the 40% to 60% range provided in the PEA. On this basis, our DCF model has an average production rate of 1.6Mtpa of clean coal over a 24 year mine life.

Our revenue forecasts are based long term hard coking coal price of US\$175/t FOB and a USD/CAD exchange rate of 0.90.

The two largest sensitivities to our Crown Mountain valuation are coking coal price and washing yield. We have presented the results of our sensitivity analysis on these two variables below.

Figure 2. Sensitivity Analysis – Crown Mountain NPV (\$m)

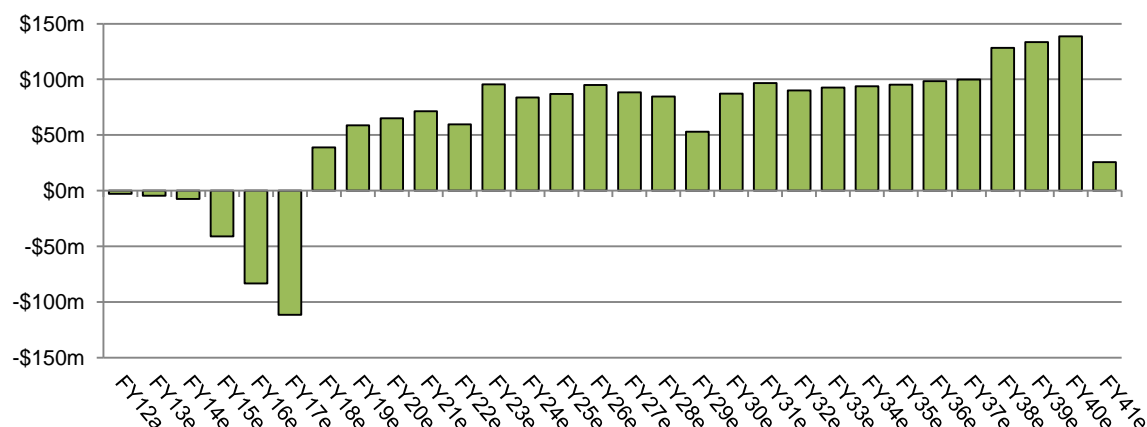
		Washing Yield				
		40%	45%	50%	55%	60%
Hard Coking Coal Price	US\$140/t	(113.9)	(34.5)	44.2	121.3	199.0
	US\$158/t	(9.8)	80.9	171.5	261.7	351.3
	US\$175/t	92.8	195.3	298.3	400.3	503.0
	US\$192/t	194.1	310.0	424.9	540.4	655.6
	US\$210/t	295.8	423.7	552.1	680.1	807.4

Source: Blackswan Equities

- Free cash flow forecasts**

We expect the Crown Mountain operation to commence production in late 2017. Over its 24 year mine life we forecast the project to generate an average after-tax free cash flow of \$89m per year.

Figure 3. Free Cash Flow Profile of JAL



Source: Blackswan Equities

Jameson Resources Ltd (JAL)

Shares on Issue	211.4m
Market Capitalisation	\$55.0m
Year End	30-June

Recommendation: BUY

Date	24 September 2013
Share Price	\$0.26/share
12 Month Target Price	\$0.70/share

Equity Valuation, Price Target, 12 Month Return

Equity Valuation (\$Am)	Pre-Financing:	Post-Financing:
Crown Mountain NPV(10%)	298.3	298.3
Project Financing Net Cash/(Debt)	0.0	76.5
Dunlevy Exploration	9.2	9.2
Corporate	(18.6)	(18.6)
Cash	4.1	4.1
Debt	0.0	0.0
Unpaid Capital	1.8	1.8
Total NAV	\$294.7m	\$371.2m
Shares Outstanding	211.4m	427.7m
NAV Per Share	\$1.39/sh	\$0.87/sh

12 Month Price Target (A\$)	
P/NAV Ratio: 0.8x	\$0.70/sh

12 Month Return	
Capital Return	169.2%
Dividend Yield	0.0%
12 Month Total Return	169.2%

Production & Commodity Prices (Real Terms)

Key Assumptions	FY12a	FY13e	FY14e	FY15e
Coking Coal Price (US\$/t)	261	183	165	174
Ave. Realised Price (US\$/t)	0	0	0	0
USD/CAD Rate (USc)	1.03	0.95	0.97	0.96
Ave. Realised Price (C\$/t)	0	0	0	0

Crown Mountain Production Summary (100%)	FY12a	FY13e	FY14e	FY15e
Coking Coal (kt)	0	0	0	0
PCI Coal (kt)	0	0	0	0
Thermal Coal (kt)	0	0	0	0
Total Clean Coal (kt)	0	0	0	0
Total Cash Cost (C\$/t)	0	0	0	0

Financial Ratios

Earnings & Cash Flow Multiples	FY12a	FY13e	FY14e	FY15e
EPS	(\$0.01)	(\$0.03)	(\$0.02)	(\$0.01)
EPS Growth	n/a	n/a	n/a	n/a
P/E	n/a	n/a	n/a	n/a
EV/EBIT	n/a	n/a	n/a	n/a
EV/EBITDA	n/a	n/a	n/a	n/a
P/FCF	n/a	n/a	n/a	n/a

Balance Sheet Ratios	FY12a	FY13e	FY14e	FY15e
Shares on Issue	196.5	159.5	204.3	427.7
Gearing (Debt/Equity)	0.0%	0.0%	0.0%	0.0%
EBIT Interest Cover	n/a	n/a	n/a	n/a
ROE	-10.7%	-46.7%	-18.7%	-5.4%
ROA	-10.5%	-45.6%	-18.5%	-5.4%
NTA Per Share	\$0.07	\$0.06	\$0.09	\$0.22

Dividends	FY12a	FY13e	FY14e	FY15e
Dividend Per Share	\$0.00	\$0.00	\$0.00	\$0.00
Dividend Yield	0.0%	0.0%	0.0%	0.0%
Dividend Franking	0.0%	0.0%	0.0%	0.0%
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%

Income Statement

Full Year Summary (\$m)	FY12a	FY13e	FY14e	FY15e
Revenue	0.0	0.0	0.0	0.0
Cost of Sales	0.0	0.0	0.0	0.0
Corporate Overheads	(1.6)	(1.3)	(1.7)	(3.8)
Exploration	(0.1)	(3.3)	(2.1)	(2.2)
EBITDA	(1.6)	(4.6)	(3.9)	(6.0)
Depreciation	(0.0)	0.0	0.0	0.0
EBIT	(1.6)	(4.6)	(3.9)	(6.0)
Interest Income	0.1	0.1	0.4	1.1
Interest Expense	(0.0)	0.0	0.0	0.0
Profit Before Tax	(1.5)	(4.5)	(3.5)	(4.9)
Income Tax	0.0	0.0	0.0	0.0
Net Profit After Tax	(1.5)	(4.5)	(3.5)	(4.9)

Cash Flow Statement

Full Year Summary (\$m)	FY12a	FY13e	FY14e	FY15e
EBITDA	(1.6)	(4.6)	(3.9)	(6.0)
Working Capital	0.0	0.0	0.0	0.0
Other Adjustments	0.7	3.3	2.1	2.2
Operating Cash Flows	(0.9)	(1.3)	(1.7)	(3.8)
Capital Expenditures	0.0	0.0	(3.9)	(36.3)
Exploration	(1.4)	(3.3)	(2.1)	(2.2)
Interest Received	0.1	0.1	0.4	1.1
Other	(0.7)	0.0	0.0	0.0
Investing Cash Flows	(1.9)	(3.2)	(5.6)	(37.4)
Free Cash Flow	(2.8)	(4.5)	(7.4)	(41.2)
Debt Drawdown	0.0	0.0	0.0	0.0
Debt Repayments	0.0	0.0	0.0	0.0
Interest Paid	0.0	0.0	0.0	0.0
Equity Raised	8.5	0.0	12.6	78.2
Dividends Paid	0.0	0.0	0.0	0.0
Financing Cash Flows	8.5	0.0	12.6	78.2
Movement in Cash	5.7	(4.5)	5.2	36.9
Exchange Rate Adjustments	0.0	0.1	0.0	0.0

Balance Sheet

Full Year Summary (\$m)	FY12a	FY13e	FY14e	FY15e
Cash	7.2	2.9	8.1	45.1
Exploration	6.6	6.6	6.6	6.6
Mine Development	0.0	0.0	3.9	40.2
Other	0.4	0.4	0.4	0.4
Total Assets	14.3	9.9	19.0	92.2
Debt	0.0	0.0	0.0	0.0
Other	0.2	0.2	0.2	0.2
Total Liabilities	0.2	0.2	0.2	0.2
Net Assets	14.1	9.7	18.8	92.0
Shareholders' Equity	22.2	22.2	34.8	113.0
Reserves	0.9	1.0	1.0	1.0
Retained Profits	(9.0)	(13.5)	(17.0)	(22.0)
Total Shareholders' Equity	14.1	9.7	18.8	92.0

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