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ASX Market Announcements
ASX Limited

Via E lodgement

ASSET IMPAIRMENT AND MARKET UPDATE

Further to the announcement made by Coal Fe Resources Limited (**Coal Fe**) on 14 April 2014 title "Managing Director Update", in which Managing Director Robert Swarbrick undertook a review of the company's assets, Coal Fe has undertaken a further review of the existing assets.

In that announcement, Mr Swarbrick commented *"The Abadi project royalty stream provides the Company with access to the local coal market, but the lower calorific nature of the coal will provide limited returns to shareholders."*

The board of Coal Fe Resources Ltd (**Coal Fe**) advises that it has conducted a preliminary review of the carrying value of non-current assets as a result of the proposed acquisition of PT Mineral Saksur Makmur ("MSM") and PT Tunngal Putra Nusantara ("TPN").

As part of that review, the board has resolved to impair the Abadi project royalty stream asset by approximately \$1.7 million (pre-tax) which will result in the writing down of the carrying value for the Abadi project royalty stream to approximately \$320,000.

The impairment of this asset to this approximate value reflects, and is consistent with:

- (a) the recent production reported by Coal Fe for the Abadi project over the last year, where production has been minimal as a result of weak coal prices;
- (b) the board's view that coal prices for the low grade Abadi product are likely to remain depressed moving forward thereby affecting the likely production levels from 2015 to 2024. In the 31 March 2014 quarterly report, Coal Fe flagged to the market that it thought coal prices would remain range bound for the Abadi product, with production likely to be affected by an escalation in fuel prices and local wages, and that a review of operations and production was ongoing; and
- (c) increased and ongoing costs in recovering delays of payment in royalties by the royalty payer.

The board's assessment is therefore that production is expected to be limited to similar levels as recent production in recent years before decreasing further, and that therefore the royalty stream to be paid to the company for the remaining years of tenure is expected to be limited.

Coal Fe receives a US\$1/ton royalty on the Abadi project coal under the current royalty agreement for coal sold at the current FOB price.

Whilst this board review suggests that the project can remain viable if there were to be a significant increase in coal prices, the board has decided that the potential return on investment at the current time and at the current forecast coal prices, coupled with the ongoing difficult and cost in recovering the royalty payments from the joint venture partner, means that the asset needs to be written down.

Additionally, the Company will continue to monitor its obligations under the Listing Rules (in particular with reference to ASX Guidance Note 31) in relation to JORC Code disclosures should any material change occur for the Abadi project tenement.

Implications of Impairment

The board advises that the impairment charge will have no cash flow consequences.

MARKET UPDATE

The board is pleased to announce that it is finalising the notice of meeting for shareholders to consider the acquisition of MSM and TPN, with despatch in the near term.

CLARIFICATION

Coal Fe also refers to the 7 May 2014 announcement regarding the proposed acquisition of MSM and TPN. In that announcement, Coal Fe stated that it planned to increase production from 30,000 Mt per month to 60,000 Mt per month for the MSM project, and to increase historical production from 300,000 Mt per annum to 500,000 Mt per annum for the TPN project.

The purpose of these statements was to provide investors with an insight into the objectives of the board of Coal Fe to increase and generate additional revenue for greater shareholder returns.

Investors are advised that Coal Fe does not present these production objectives as being production forecasts or production targets, and further, Coal Fe retracts the specific numbers cited in the 7 May 2014 announcement. They are simply management goals and are not statements implying economic viability which require a reasonable basis otherwise they may be taken as misleading to shareholders. There is a concern that investors may be relying on the production objectives or the suggested figures used, as a basis of economic viability.

Coal Fe advises that investors should not rely on the statements to form investment decisions, and retracts the various statements. They were intended to be statements of management goals and objectives.

Regards

Robert Swarbrick
Managing Director